

**MARKET REFORM AND THE EMERGENCE  
OF THE ENTREPRENEURIAL STATE IN CHINA**

THE CASE OF STATE COMMERCIAL AND  
REAL ESTATE DEPARTMENTS IN TIANJIN

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A thesis submitted in accordance with the requirements for the degree of PhD in the Department of Political Studies, The School of Oriental and African Studies, University of London.

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## Abstract

China's post-Mao reforms have gradually introduced markets and transformed the planned economy. This dissertation investigates the impact of those market-oriented reforms on state bureaux that administered the planning system. It does this through a study of departments that allocated consumer goods and housing in the north-eastern city of Tianjin. It argues that markets have resulted in the emergence of state entrepreneurialism in these sectors. The introduction of commodity markets has compelled state commerce bureaux to become entrepreneurial by rendering them obsolete. In the property sector, limited real estate markets have provided bureaux with opportunities to do real estate development business. Contrary to the expectations in current thinking on market reform, the Chinese state entrepreneurialism shows that states do not have to resist change and can embrace markets. In the context of a world-wide trend toward marketisation, the Chinese state's adaptive activities are of wider relevance. The key features of the entrepreneurial state are outlined as a model to aid future comparative research.

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## Abbreviations

CCP	Chinese Communist Party
ES	Entrepreneurial state
ETDZ	Economic and Technological Development Zone
FBIS	Foreign Broadcast Information Service, <i>China: Daily Report</i>
LDS	Local developmental state
PRC	People's Republic of China
REM	Real estate management
SMC	Supply and Marketing Co-operative
SWB	British Broadcasting Corporation, <i>Summary of World Broadcasts: Far East</i>
NPC	National People's Congress
SOE	State-owned enterprise
TURCC	Tianjin Urban and Rural Construction Commission

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J.D.

## Chapter 1 Market Reform and the State

### Introduction

Since 1992, many departments of the state administration in the People's Republic of China have been setting up profit-seeking businesses.<sup>1</sup> The Chinese state was created in the 1950s on a Stalinist model of centralised control over a planned economy.<sup>2</sup> After over a decade of market-oriented reform it has begun to become entrepreneurial. It has set up new businesses that operate in emergent markets, seek opportunities and take risks. These businesses earn income for state bureaux, employ their former officials, and enable departments to cut their staff and restructure their operations for the market economy.

Chinese state entrepreneurialism is a new phenomenon with implications for current approaches to understanding market reform. It demonstrates state adaptation to market reform that is unanticipated in thinking on the politics of economic liberalisation, especially work within the neo-classical political economy. This school forms part of the neo-liberal paradigm that promotes market rather than state regulation of the economy, and a minimal state in social and economic life. This paradigm has been dominant in the West, particularly the United States and United Kingdom, since the early 1980s. Its proponents have been influential in international lending organisations that advise policy makers in both developing countries and the transitional economies of Eastern Europe and the former Soviet Union.<sup>3</sup> Questioning of its assumptions therefore has practical as well as theoretical implications.

Neo-classical economics, which pre-dates but also forms part of the neo-liberal paradigm, urges that market economies be administered by minimal, efficient states, and yet has neglected to study how states react. While neo-classical political economy has attempted to supply political analysis to support neo-classical economic theory, its conclusions imply that states will simply

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<sup>1</sup> Li Qin, "'Shiti re" chutan' (Initial study of 'craze for economic entities'), *Liaowang*, 10 August 1992, pp.9-11; excerpts translated in *SWB*, FE/1504, 6 October 1992. Marc Blecher and Gordon White have discussed early cases of this phenomenon in the late 1980s, but it has proliferated after 1992. Marc Blecher, 'Development State, Entrepreneurial State: The Political Economy of Socialist Reform in Xinju Municipality and Guanghan County', in Gordon White (ed), *The Chinese State in an Era of Economic Reform* (London: Macmillan, 1991), pp.265-291, Gordon White, 'Basic-Level Government and Economic Reform in Urban China', *ibid.*, pp.215-242. See also Jude Howell, *China Opens its Doors: The Politics of Economic Transition* (Hemel Hempstead: Harvester Wheatsheaf, 1993).

<sup>2</sup> I use 'state' to refer to the whole governmental administrative bureaucracy at the central and local levels. In China, where the central government administration penetrates local government with its vertical functional organisations, this wide definition is necessary. However 'the state' is often ill-defined in the literature I will review.

<sup>3</sup> Merilee S. Grindle, 'Positive Economics and Negative Politics', in Gerald M. Meier (ed), *Politics and Policy Making in Developing Countries: Perspectives on the New Political Economy* (San Francisco: ICS Press, 1991), pp.41-67.

obstruct change. It warns us to expect resistance to reform and distortion of markets by 'rent-seeking', 'predatory' and conservative states and officials whose interests will be threatened by any change in the status quo.<sup>4</sup> This view is difficult to refute for several reasons. First, it is supported by commonly-accepted generalisations about bureaucratic inflexibility and preferences for established working practices. Second, it is apparently affirmed by studies that show state officials, particularly those in developing countries, enmeshed in clientelistic relationships or neo-patrimonial networks. Although this work is often accurate and founded on empirical research, and is not necessarily sympathetic to neo-liberal analysis, it adds credence to neo-classical political economy's expectation that states will obstruct change: whether bureaucratic or rooted in society vested interests are expected to be static and therefore hostile to change of any kind.<sup>5</sup> This work, together with neo-classical political economy, leads analysts to anticipate resistance to the implementation of economic liberalisation and development projects.<sup>6</sup> In states with command economies, where the state has been enmeshed in the economy and interests would therefore be expected to be particularly entrenched, prospects for the implementation of economic liberalisation strategies seem dim.<sup>7</sup>

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<sup>4</sup> Key texts include J.M. Buchanan, R.D. Tollison and G. Tullock (eds), *Toward a Theory of the Rent-Seeking Society* (College Station, Texas: A & M University Press, 1980); David C. Colander, *Neo-Classical Political Economy* (Cambridge, Mass.: Ballinger, 1984. See also Jagdish N. Bhagwati, 'Directly Unproductive, Profit-seeking (DUP) Activities', *Journal of Political Economy*, Vol.90, No.5 (October 1982), pp.988-1002. In relation to developing countries this has been taken up by Deepak Lal, *The Hindu Equilibrium* (Oxford: Clarendon Press, 1988, two volumes). In the study of command economies, János Kornai, is taken as a key proponent of the view that the state bureaucracy will resist market change. See for example his 'The Hungarian Reform Process: Visions, Hopes, and Reality', *Journal of Economic Literature*, Vol.XXIV (December 1986), pp.1687-1737. For an introduction to and critical review of such writing in relation to developing countries, see Grindle, 'Positive Economics and Negative Politics', and John Toye, 'Is There a New Political Economy of Development?', in Christopher Colclough and James Manor, *States or Markets? Neo-Liberalism and the Development Policy Debate*, (Oxford: Clarendon Press, 1991), pp.321-338. Note that there are difficulties categorising this large and diffuse body of literature and both Grindle and Toye see neo-liberalism and the neo-classical or 'new political' economy as virtually synonymous. I have chosen to distinguish the neo-classical political economy from the wider neo-liberal paradigm. I call it 'neo-classical' (adopting Colander's term) rather than 'new' political economy to distinguish this school from others claiming to be the latest brand of political economy.

<sup>5</sup> See for example, The World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth* (Washington D.C.: World Bank, 1989), pp.55-6.

<sup>6</sup> Tony Killick, 'The Problems and Limitations of Adjustment Policies', *ODI Working Paper 36* (October 1990), pp.39-41.

<sup>7</sup> Thomas Callaghy and John Toye note pessimism in the literature. See Callaghy, 'Lost Between State and Market: The Politics of Economic Adjustment in Ghana, Zambia and Nigeria', in Joan M. Nelson (ed), *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World* (Princeton, N.J.: Princeton University Press, 1990), pp.257-320; Toye, 'Is There and New Political Economy of Development?', p.321.

The appearance of state entrepreneurialism in the process of China's market reforms runs counter to expectations of state resistance to reform in the literature of the neo-classical political economy. State entrepreneurialism is a form of adaptation in which the state accommodates the constraints produced in the reform process by taking advantage of the emergent markets. However, it is significant not only because of its theoretical implications but also because the Chinese market-oriented reforms are part of a global trend toward economic liberalisation and marketisation that has become evident over the last decade and a half.<sup>8</sup> Market-oriented strategies of development have also been adopted by developing countries attempting structural adjustment under the 'guidance' of the World Bank and other lending organisations since the 1980s. Following the collapse of the Soviet Union and Eastern European socialist states, marketisation has been thoroughly embraced with the encouragement of Western bilateral donors and international lending organisations. Similar reforms have been adopted in the more endogenous initiatives in Communist Party-ruled China and Vietnam where market-oriented reforms have begun to transform their state planned economies.<sup>9</sup> That state entrepreneurialism should emerge in China, which had a command economy and a highly interventionist state, is particularly instructive. If adaptation is possible there, then it may also be possible in other countries with states less involved in economic management.<sup>10</sup>

This dissertation shows that neo-classical political economy's expectation of resistance is based on a methodology that reduces the state to either a unitary bureaucratic entity or a 'thin' rational official who has been isolated from his or her context. Critiques of this neo-classical political economy often reject its individualist methodology and opt for a structuralist explanation of the benefits of state intervention. But in doing so they have been unable to deal

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<sup>8</sup> By marketisation I refer to the introduction of market mechanisms to replace administrative allocation. I use 'markets' and 'market regulation' as shorthand to refer to the market mechanism or to economic systems in which market mechanisms are significant. Although such markets rarely work perfectly, there is a clear qualitative difference between a command economies and economies where markets are the dominant means for allocating goods. By economic liberalisation I refer to the reduction of state or administrative controls over economic activity. In China this has meant, for example, allowing non-state enterprises to do business where they were restricted before or state enterprises more autonomy. I use both terms here because the marketisation trend includes countries with market economies further liberalising by, for example, privatising state or public enterprises.

<sup>9</sup> In their study of the relationship between China and the major international lending organisations, Harold K. Jacobsen and Michel Oksenberg conclude that those organisations influenced but were not the source of the Chinese reforms. Jacobsen and Oksenberg, *China's Participation in the IMF, the World Bank and GATT: Toward a Global Economic Order* (Ann Arbor: University of Michigan Press, 1990), especially pp.140-141.

<sup>10</sup> This will of course be dependent on other factors. See Chapter 8.

directly with arguments, based on claims about the behaviour of officials, that are against intervention and anticipate state resistance to reform.<sup>11</sup> Rather than rejecting the individualist method out of hand this dissertation has accepted that state policy implementation is in the hands of individual officials and has instead chosen to criticise neo-classical political economy's neglect of the context in which those officials operate.

This dissertation documents and analyses the state entrepreneurialism as it emerged in 1992 and 1993 in the northern city of Tianjin. It looks at how agencies of the state administration<sup>12</sup> that allocated consumer goods and managed public property in the pre-reform, centrally planned economy have responded to economic liberalisation and the creation of markets in their spheres of operation. It explains state entrepreneurialism as the response of the officials in those agencies to a range of structural constraints and opportunities in the context of changing attitudes in the reform period. Finally it presents a model of the *entrepreneurial state* against which future research can assess state reactions to economic liberalisation. This chapter will begin by discussing in more depth the mainstream expectation of state resistance to economic reform. It will then outline the defining elements of state entrepreneurialism and the entrepreneurial state.

### **Approaches to the State under Market Reform**

The trend toward economic liberalisation and marketisation in both the former socialist command economies and the Third World has been supported and promoted in the Western industrialised world where neo-classical economics, now supported by 'neo-classical political economy', has made a come back. Such thinking has displaced structuralist 'development economics' that in the 1950s and 1960s challenged the neo-classical economic orthodoxy by arguing that state intervention was necessary for 'late development'.<sup>13</sup> Neo-classical economics has been

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<sup>11</sup> Miles Kahler, 'Orthodoxy and its Alternatives: Explaining Approaches to Stabilization and Adjustment', in Nelson, *Economic Crisis and Policy Choice*, pp.33-61.

<sup>12</sup> 'State agencies' refers to administrative departments within the governmental system, and *not* to state-owned enterprises.

<sup>13</sup> 'Development economics' has been used to refer to this approach because it argued for the first time that the situation of late developing economies differ from that of the first countries to industrialise. While the term 'state' was not always used (often 'planning or 'domestic policy' was recommended), state intervention was still at the heart these approaches. Key texts that initiated this approach include W.W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge: Cambridge University Press, 1960), Ragnar Nurkse, *Problems of Capital Formation in Underdeveloped Countries* (Oxford: Blackwell, 1953). For a good introduction to the mainstream development economics literature and the range of positions on

strengthened again by the disappointing results of state-led development strategies in many parts of the Third World and bolstered by the collapse of the Soviet Union and the Communist Party regimes of Eastern Europe and their turn toward capitalist market economics in the early 1990s. It, and the overtly politicised 'neo-classical political economy' have returned to dominate economic theorising and have been influential in forming policy both in the industrialised and developing worlds. In the 1980s and 1990s, pro-market strategies of development have been encouraged in the Third World, most notably by via World Bank's structural adjustment loans,<sup>14</sup> and in the Eastern European transitional economies by the International Monetary Fund.

There have always been sceptics of the neo-classical economic orthodoxy. The mixed results of market-oriented 'structural adjustment programmes' in the Third World, together with recent arguments that sustained East Asian economic growth has been due to a significant state role in directing market economies, have sustained this scepticism.<sup>15</sup> As a result, although few now deny a role for markets and their importance as an engine of technological innovation<sup>16</sup>, the idea that the 'right' kind of state can play an effective developmental role has become more widely accepted.<sup>17</sup> The neo-classical position that the state can play a limited role in the market

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state intervention, see Tony Killick, *Development Economics in Action: A Study of Economic Policies in Ghana* (London: Heinemann, 1978), Chapter 2, especially pp.23-24. Early neo-classical critiques of such strategies included P.T. Bauer, *Dissent on Development: Studies and Debates in Development Economics* (London: Weidenfeld and Nicholson, 1971), and H. Myint, *The Economics of Developing Countries* (London: Hutchinson, 1964). For a later critique see Deepak Lal, *The Poverty of Development Economics* (London: Institute of Economic Affairs, 1983).

<sup>14</sup> See for example, The World Bank, *Accelerated Development in Sub-Saharan Africa* (Washington D.C.: World Bank, 1981); The World Bank, *World Development Report 1987* (Oxford: Oxford University Press, 1987), p.2, and The World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth*, pp.10-11, which notes that 59 countries had received structural adjustment loans from the World Bank between 1980 and 1988.

<sup>15</sup> The economic successes of the East Asian NICs were initially used by neo-classicalists in support of their arguments for free markets. For example, Bela Balassa, *The Newly Industrialising Countries in the World Economy* (New York: Pergamon, 1981).

<sup>16</sup> J. Dearlove and G. White, 'The retreat of the state? Editorial introduction', *IDS Bulletin*, 18(3), July 1987, p.2, cited in Killick, *A Reaction Too Far: Economic Theory and the Role of the State in Developing Countries* (London: Overseas Development Institute, 1989), p.17. Even the work of avowed socialists has turned to examining the possibilities for new forms of public ownership within market economies. See for example John Roemer, *A Future for Socialism* (London: Verso, 1993). In Britain the Labour Party has now abandoned its traditional commitment to state ownership of the means of production and advocates greater 'co-operation' between private business and the state.

<sup>17</sup> See for example, Jeffrey Henderson and Richard P. Appelbaum, 'Situating the State in the East Asian Development Process', in Appelbaum and Henderson (eds), *States and Development in the Asia-Pacific Rim* (London: Sage, 1992). The state-role argument is now widely accepted, but for one critique see Gary Saxonhouse, 'What is all this about 'Industrial Targeting' in Japan?', *The World Economy* 6 (September 1983), pp.253-73.

economy by providing essential infrastructure is now sometimes broadened to acceptance of monetarist and other incentives for private business. In sum, there has been a rapprochement between the structuralist and neo-classical approaches as the view that a combination of market economy and effective state are best for sustained economic growth has gained credence.<sup>18</sup> However, as attention has turned to introducing markets and liberalising economies, pessimism has grown over the possibility of such reforms, particularly in countries where the state plays a significant role in the economy.<sup>19</sup> This is because although the state and its economic role have been the focus of renewed attention since the 1980s, understanding of how states have been or might be affected by economic liberalisation and market reform is still limited. Where it is considered at all, it is expected to resist economic reform.

The lack of understanding about how states might 'react'<sup>20</sup> to economic reform has both practical and epistemological foundations.<sup>21</sup> Since many liberalisation strategies were begun only in the 1980s, it could be argued that there has hardly been time for significant developments or their investigation. (Though this argument is weakening as time passes.) Empirical study of state reactions to economic reform may also have been inhibited because neo-classical economists, the most vocal advocates of market liberalisation, have traditionally focused solely on economic policy and expected states to conform to market systems by a simple process of retreat from the economy.<sup>22</sup> However, while this school has been criticised for its neglect of the state and political context<sup>23</sup>, other approaches have so far offered only bleak scenarios for market reform. The most important of these, the rent-seeking and public choice analyses<sup>24</sup>, seek to inject a political

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<sup>18</sup> Miles Kahler outlines other areas of agreement. Kahler, 'Orthodoxy and its Alternatives', pp.33-61. See here too for his useful discussion of the evolution of the neo-classical 'orthodoxy' and its structuralist 'alternatives' over the last fifty years.

<sup>19</sup> Callaghy, 'Lost Between State and Market', pp.257-320; Toye, 'Is There and New Political Economy of Development?', p.321.

<sup>20</sup> Obviously 'states' cannot 'react', and this is a convenient shorthand for the collective outcome(s) of the reactions of state officials in different parts of the state system. I return to this issue below.

<sup>21</sup> Peter Nolan has similarly written of the ideological barriers during the Cold War to consideration of market transition in Eastern Europe and the former Soviet Union. Nolan, *China's Rise, Russia's Fall: Politics, Economics and Planning in the Transition from Stalinism* (Basingstoke: Macmillan, 1995), p.55.

<sup>22</sup> As argued by Kahler, 'Orthodoxy and its Alternatives'. For an influential example of this approach see The World Bank, *Accelerated Development in Sub-Saharan Africa*. Recent World Bank Reports have since adjusted to the criticism that they neglect the political and administrative contexts in which economic policy is implemented. See below.

<sup>23</sup> See for example, James Manor, 'Politics and the Neo-Liberals', in Colclough and Manor, *States or Markets?*, pp.306-320.

<sup>24</sup> The term 'neo-liberalism' is sometimes used in the literature on development and market reform as virtually synonymous with theories of rent-seeking and 'directly unproductive profit-seeking activities' as

dimension into neo-classical economic arguments.<sup>25</sup> Yet as I will argue below, the 'political analysis' in this literature is superficial and ultimately portrays the state as simply predatory or inflexible. It therefore anticipates bureaucratic resistance to economic reform.

Structuralist' critiques of both neo-classical economic theory<sup>26</sup> and its new political refinements are ill-equipped to refute assertions about officials' self-interested defence of the status quo. Though they reject the notion of the predatory state, they have been forced to acknowledge that economic reform policy is likely to be inhibited by 'political factors'. This is because they reject neo-classical political economy's<sup>27</sup> assumptions, but lack the method and empirical evidence to substantiate their own point of view. They therefore continue to advocate a greater role for the state than the neo-classicalists, but 'side-step the question of how to turn state action that hinders economic growth into state intervention that forwards economic and social goals'.<sup>28</sup>

It is partly because structuralism has been unable to directly challenge neo-classical political economy's assumptions, that notions of the predatory state have become so influential. But expectations of state resistance have led to a dead-end for theories of states in economic transition. Left with generalisations about the negative outcomes of state intervention, analysts are gloomy about the prospects for market reform.<sup>29</sup>

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well as other 'public choice' theories. While neo-liberalism may find support among monetarist or rational expectation explanations for its arguments against state intervention, those theories are not directly relevant to the question of state entrepreneurialism in state agencies and so are not discussed here. For a comprehensive account of the different strands of the wider literature that has challenged Keynesianism and other post- Second World War arguments for state intervention see Killick, *A Reaction Too Far*.

<sup>25</sup> See John Toye, 'Is There a New Political Economy of Development?' For discussion of neo-classical political economy's heritage in classical and neo-classical economics by one of its advocates, see David C. Colander, 'Introduction', in Colander, *Neo-Classical Political Economy*, pp.1-7.

<sup>26</sup> Structuralist critiques of neo-liberalism have continued to question the neo-classical position by arguing for example that markets in the real world are distorted by factors such as supply-side bottlenecks and foreign exchange constraints and that state intervention is necessary to correct these problems. I adopt here the conventional term 'structuralist' to refer to those who question the dependence of neo-classical economics on markets to achieve growth and argue that 'distortions', or departures from general equilibrium in the economy cannot be avoided and therefore state intervention and adjustment is necessary. The divide between structuralism and neo-classical economics (and more recently its close relative the neo-classical political economy) is conventional. The two categories do of course encompass a wide range of sophisticated arguments that I cannot do justice to here. For more detailed discussions see Miles Kahler, 'Orthodoxy and its Alternatives', and Christopher Colclough, 'Structuralism versus Neo-liberalism: An Introduction', in Colclough and Manor (eds), *States or Markets?*, pp.1-25.

<sup>27</sup> As some proponents call it. See for example Colander, 'Introduction'.

<sup>28</sup> Kahler, 'Orthodoxy and its Alternatives', p.56.

<sup>29</sup> As noted by Kahler, 'Orthodoxy and Its Alternatives', and Callaghy, 'Lost Between State and Market'.

*Theories of Rent-Seeking and the Predatory State*

In the 1980s, neo-classical political economy emerged to remedy the shortcomings of neo-classical economics while supporting its arguments that state intervention in national economies is harmful. This school encompasses extensive and varied work, mainly by economists, that include theories of 'rent-seeking' or 'directly unproductive, profit-seeking activities', and some work within the 'public choice' school.<sup>30</sup> These theories have in common the application of some of the methods of neo-classical micro-economics, particularly its methodological individualism and foundation on theories of 'rational choice'.<sup>31</sup> They attempt a synthesis of economic and political analysis, using the notion of the utility-maximising individual borrowed from economic theory, and their arguments that state intervention is damaging to national economies have contributed to the wider neo-liberal agenda of marketisation and the minimal state.<sup>32</sup> Yet the logic of their conclusions that rent-seeking creates vested interests, is that state officials will obstruct change.

Though economic 'rent-seeking' literature is large and heterogeneous, its basic claim is that state intervention in the economy will encourage 'unproductive' economic activity. In the earliest writing on this subject it was argued that the result of state restrictions on access to economic activity is that utility maximising entrepreneurs waste resources by competing for unproductive 'rents'.<sup>33</sup> Theories of rent-seeking have been elaborated first and most extensively in

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<sup>30</sup> The categories are defined and delimited in different ways in reviews of the literature, but these are the most common groupings. See for example Killick, *A Reaction Too Far*, Bhagwati, 'Directly Unproductive Profit-seeking (DUP) Activities', Colander, 'Introduction'. 'Public choice theory' covers a wide body of writing, most of which, relating to the activities of politicians in representative liberal democracies, is not pertinent to the discussion of state reactions to economic reform. I will discuss below those variants which are relevant.

<sup>31</sup> This was not explicit in the earliest writing on rent-seeking, and has been more clearly stated since the 1980s as this school has grown. For clear statements see for example James M. Buchanan, 'Rent Seeking and Profit Seeking', in Buchanan et al, *Toward a Theory of the Rent-Seeking Society*, pp.3-15, and Colander, 'Introduction', p.2.

<sup>32</sup> This support may be claimed by the neo-liberals and not necessarily intended by individual economists contributing to this literature.

<sup>33</sup> For authoritative statements of rent-seeking theory see Anne O. Krueger, 'The Political Economy of the Rent-Seeking Society', *American Economic Review* 64 (June 1974), pp.291-303, reprinted in Buchanan et al, *Toward a Theory of the Rent-Seeking Society*, pp. 51-70; Buchanan, 'Rent Seeking and Profit Seeking'. For a review of this literature see Bhagwati, 'Directly Unproductive, Profit-seeking (DUP) Activities'. The term 'rent' as developed in this literature differs in meaning from the everyday usage, though its meaning in 'rent-seeking' theory is often ambiguous. For a discussion and clarification of this, see Buchanan, 'Rent Seeking and Profit Seeking'.

relation to international trade.<sup>34</sup> In this literature it is argued that state controls on trade through tariffs and other barriers leads to wasteful competition for import licences, tariff-seeking, tariff evasion, and lobbying by private entrepreneurs.<sup>35</sup> These activities are considered wasteful because they entail entrepreneurs using resources merely to gain access to markets rather than for directly productive purposes. As Tony Killick notes, the common and essential feature of these rent-seeking or DUP activities is that, 'although they consume real resources and may well be highly profitable, they contribute nothing to output'.<sup>36</sup>

Rent-seeking is not confined to the realm of international trade. Anne Krueger has argued that '[w]hile import licences constitute a large and visible rent resulting from government intervention, the phenomenon of rent seeking is far more general'<sup>37</sup>, and she and others have extended the theory to other spheres of state involvement in the economy. Krueger suggests for example that other forms of intervention, such as fair trade laws and minimum wage legislation, lead to waste by making economic enterprises operate at 'less than optimal' size or 'non-optimal equilibrium levels of unemployment'.<sup>38</sup> Buchanan has similarly named a wide range of state-created restrictions leading to rent-seeking activities, including: '[g]overnmental licenses, quotas, permits, authorisations, approvals, [and] franchise assignments'.<sup>39</sup> Jagdish Bhagwati argues that rent-seeking, which focuses on licensing, quotas and their consequences, forms a 'subset' of 'directly unproductive profit-seeking' (DUP) activities that can also encompass the much more general categories of 'price-distortion-triggered activities' and 'distortion-triggering' activities.<sup>40</sup> Efforts to gain protection against competition or to obtain budgetary subsidies are also commonly seen as rent-seeking by this school.<sup>41</sup>

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<sup>34</sup> Both of the earliest notable and most frequently-cited papers on rent-seeking were concerned with international trade. See Gordon Tullock, 'The Welfare Costs of Tariffs, Monopolies and Theft', *Western Economic Journal* (now *Economic Enquiry*) 5 (June 1967), pp.224-232, reprinted in Buchanan et al, *Toward a Theory of the Rent-Seeking Society*, pp.39-50, and Krueger, 'The Political Economy of the Rent-Seeking Society'. Note that this early writing on 'rent-seeking' did not clearly state its basis on rational choice theory, nor its attempt to contribute to a new political economy.

<sup>35</sup> See for example Bhagwati, 'Directly Unproductive, Profit-seeking (DUP) Activities', p.988.

<sup>36</sup> Killick, *A Reaction Too Far*, p.13. For such an arguments, Killick cites T.N. Srinivasan, "International trade and factor movements in development theory, policy and experience", in G. Ranis and T.P. Schultz, *The State of Development Economics: Prospects and Perspectives* (Oxford: Basil Blackwell, 1988), pp.556-7.

<sup>37</sup> Krueger, 'The Political Economy of the Rent-seeking Society', p.301.

<sup>38</sup> *Ibid.*

<sup>39</sup> Buchanan, 'Rent Seeking and Profit Seeking', p.9.

<sup>40</sup> Bhagwati, 'Directly Unproductive, Profit-Seeking (DUP) Activities', pp.989-90.

<sup>41</sup> Killick, *A Reaction Too Far*, p.13.

In much of economic rent-seeking (or DUP) theory, the state figures only on the sidelines. It is most commonly treated as a unitary bureaucratic actor that encourages rent-seeking activities by creating administrative restrictions to trade. Sometimes, however, state officials are implicated in the rent-seeking activities and are the recipients of rents. Krueger argues, for example, that this is the case if officials receive bribes in exchange for giving access to import licences.<sup>42</sup> Both Krueger and Buchanan have also argued that competition for government or state jobs that provide access to rents is a form of rent-seeking activity.<sup>43</sup> In such cases, the utility-maximising individual is not the private entrepreneur but the state official. However, the negative economic effects are the same: the wasteful use of economic resources in competition for access to economic activity, rather for directly productive ends.

It is particularly this latter strand of neo-classical political economy that has fostered expectations of state resistance to change. And in this, economic rent-seeking theory has been influenced by a growing body of 'public choice' literature that applies the methods of economic analysis to the study of politics. Although it focuses primarily on politicians operating in representative democracies, the public choice school has contributed to a general shift toward depicting 'the state as an institution, the government as a collectivity, and politicians, bureaucrats and other individual actors' as serving their own interests.<sup>44</sup> Economic theories of rent-seeking are given an added political dynamic as state intervention in the economy is portrayed as a means of purchasing political support: 'Incumbents may either distribute resources directly to supporters through subsidies, loans, jobs, contracts, or the provision of services, or use their rule-making authority to create rents for favoured groups by restricting the ability of market forces to operate'.<sup>45</sup> This analysis has been extended to influence the study of the developing world where writers such as Deepak Lal, Stanislaw Wellisz and Ronald Findlay have taken adopted a notion of the state and

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<sup>42</sup> Krueger, 'The Political Economy of the Rent-seeking Society', p.292.

<sup>43</sup> Ibid., and Buchanan, 'Rent Seeking and Profit Seeking', pp.12-14.

<sup>44</sup> Killick, *A Reaction Too Far*, pp.14-15. Key texts in public choice theory are Anthony Downs, *An Economic Theory of Democracy* (New York: Harper and Row, 1957), W.A. Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine-Atherton, 1971), James M. Buchanan and Gordon Tullock, *The Calculus of Consent: The Foundations of Constitutional Democracy*, (Ann Arbor: University of Michigan Press, 1962).

<sup>45</sup> Peter B. Evans, 'The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change', in S. Haggard and R.R. Kaufman (eds), *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State* (Princeton: Princeton University Press, 1992), p.143. Evans accepts these arguments, but questions their generalisation. Bates is another example of this kind approach to the political economy of developing countries. See for example Robert H. Bates, *Markets and States in Tropical Africa* (Berkeley: University of California Press, 1981). Note that this view of the states (though supporting very different policies) is not unlike Marx's.

its officials there as similarly self-interested and utility-maximising.<sup>46</sup> The result, as Lal has remarked approvingly, is that the field of economics ‘has begun to substitute the notion of a “predatory” State which maximises the profits of government for that of a benevolent State’ formerly found in the literature on developing countries.<sup>47</sup>

In relation to our discussion of the importance of Chinese state entrepreneurialism, the most important conclusions emerging from this growing body of literature are that where there is state intervention in the economy, it will create vested interests—either within the state itself or in society—and that these interests will resist all attempts at change of the status quo. The logic of the neo-classical political economy’s rent-seeking theory is therefore that states will resist economic reform.<sup>48</sup> Bennett and Dilorenzo argue for example that reform of ‘the rent-seeking society’ and reduction of the state’s role in the economy is unlikely because politicians who benefit from rent-seeking will avoid the destruction of rents.<sup>49</sup> Their argument is based on study of the United States, but similar arguments can be found in discussions of economic liberalisation in the developing world. The World Bank, for example, has recently argued that ‘government intervention creates vested interests which make it difficult to change the policy.... Protection creates rents... [and] ...industrial interests. These then become a formidable obstacle to liberalization’.<sup>50</sup>

Such views also underpin the widespread anticipation of problems with market reform that have pervaded the recent literature on economic transformation in the former Soviet Union, Eastern Europe and China as well as that on the problems of structural adjustment in the developing world. János Kornai, writing on the reform of the state planned economy in Hungary, was an early advocate of the view that bureaucrats will resist the encroaching market and ‘deprive’ it of ‘energy’.<sup>51</sup> In his later work Kornai notes that along with many other analysts, he

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<sup>46</sup> Deepak Lal, *The Hindu Equilibrium*, esp. Vol.1, pp.294-306; Stanislaw Wellisz and Robert Findlay, ‘The State and the Invisible Hand’, *The World Bank Research Observer*, Vol.3, No.1 (January 1988), pp.59-80.

<sup>47</sup> Lal, *The Hindu Equilibrium*, Vol.1, pp.294-306. Here he relates his notion of the predatory state back to the rent-seeking literature, citing Colander, *Neo-Classical Political Economy*.

<sup>48</sup> For this interpretation, see Evans, ‘The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change’, p.140, Toye, ‘Is There a New Political Economy of Development?’, and Grindle, ‘Positive Economics and Negative Politics’.

<sup>49</sup> James T. Bennett and Thomas J. Dilorenzo, ‘Political Entrepreneurship and Reform of the Rent-Seeking Society’, in Colander, *Neo-Classical Political Economy*, pp.217-227. Quotation from pp.217-8.

<sup>50</sup> World Bank, *World Development Report 1991* (Oxford: OUP, 1991), p.131.

<sup>51</sup> Kornai, ‘The Hungarian Reform Process’. See especially pp.1729-30.

anticipates bureaucratic resistance to market reform.<sup>52</sup> Though Kornai's focus is on the obstacles to enterprise reform, others take such arguments and apply them more generally. For example, Anders Åslund, writing in the late 1980s on economic reform in the Soviet Union, argued that 'a large share of the [state] administration has a vested interest in nullifying any attempt at reform'.<sup>53</sup>

Accounts of state resistance can be found in the literature on economic reform in China. This is most common in discussions of industrial enterprise reform, where local officials are portrayed as unwilling to surrender control of their state enterprises.<sup>54</sup> These individual accounts of certain spheres of activity may be accurate, but they have been used by others to formulate more generalised expectations of resistance. As Jean Oi has noted recently, there is an 'image of Communist cadres as likely opponents to reform'.<sup>55</sup> However, some observers have begun to revise that image. While Susan Shirk, for example, accepts that in both the Soviet Union and China there will be central state resistance to change, she argues that local officials in China are less 'conservative' than those in the central government, and indeed that the reformist leader Deng Xiaoping has been able to use them as a 'counterweight' and thereby push through reform.<sup>56</sup> Oi, too, as I will discuss below, is among those who have recently begun to challenge this image in China, arguing that changing incentives for officials have transformed their behaviour since the end of the Mao period.<sup>57</sup>

Rent-seeking and other expectations of state resistance to economic reform have been difficult to refute at least partly because their generalised negative conclusions about the state seem intuitively correct: to deny that state officials seek to make gains from their official positions or defend their interests would seem naïve. In relation to states in the developing world,

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<sup>52</sup> János Kornai, *The Socialist System: The Political Economy of Communism* (Oxford: Clarendon Press, 1992), p.498.

<sup>53</sup> Anders Åslund, *Gorbachev's Struggle for Economic Reform* (London: Pinter Publishers, 1989), p.187. Note that this expectation is derived from some experience of reform in the Soviet Union, but is generalised in this way to the state bureaucracy as a whole.

<sup>54</sup> For example Yves Chevrier, 'Micropolitics and the Factory Director Responsibility System, 1984-87', in Deborah Davis, and Ezra Vogel, (eds) *Chinese Society on the Eve of Tiananmen* (Cambridge: Harvard University Contemporary China Series, 1990). See also Gordon White, *Riding the Tiger: The Politics of Economic Reform in Post-Mao China* (Basingstoke: Macmillan, 1993). Chapter 4, on the various sources of opposition to industrial reform.

<sup>55</sup> Jean Oi, 'The Role of the Local State in China's Transitional Economy', *The China Quarterly*, No.144 (December 1995), pp.1132-49. Quotation from p.1135.

<sup>56</sup> See Shirk, *The Political Logic of Economic Reform in China* (Berkeley: University of California Press, 1993), especially pp.11-14.

<sup>57</sup> Oi, 'The Role of the Local State in China's Transitional Economy'.

for example, a considerable amount of work has documented pervasive systems of patrimonialism in which officials have vested interests.<sup>58</sup> Ronald Findlay, a proponent of the new political economy's relevance for developing countries describes the literature on Third World patrimonialism and notes that 'many widely-noted aspects of Third World experience fall into place in the light of this fruitful characterization'.<sup>59</sup> As Peter Evans has argued, '[i]t would be foolish to deny that the [neo-classical political economy's] vision captures a significant aspect of the functioning of most states, perhaps the dominant aspect of the functioning of some states. Rent-seeking conceptualized more primitively as corruption has always been a well known facet of the operation of Third World states'.<sup>60</sup> The view that personal gain guides bureaucratic decision making and will be economically damaging has also gained acceptance among those outside neo-classical political economy.<sup>61</sup> As John Waterbury notes: 'From different disciplinary origins there has been a conflation of assumptions about the likely behaviour of public bureaucracies that yields powerful insights into their pathologies but little that would explain why they might change'.<sup>62</sup> Tony Killick, for example, fears that corruption, patrimonialism or entrenched bureaucratic interests will obstruct the implementation of adjustment strategies that seek to enlarge the private sector and create market economies.<sup>63</sup> Thomas Callaghy similarly puts inefficiency and obstructionism down to bureaucrats' limited room for manoeuvre within what he calls 'crony statism'.<sup>64</sup> In another strand of literature on the politics of development, discussions of 'weak states' also link poor records of implementing development strategies to governments' lack of autonomy from certain sectors of society, usually urban workers, landed elites or business

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<sup>58</sup> See Robin Theobald, *Corruption, Development and Underdevelopment* (Basingstoke: Macmillan, 1990), pp.87-92 for a discussion and review of this literature.

<sup>59</sup> Ronald Findlay, 'The New Political Economy: its explanatory power for LDCs', *Economics and Politics*, Vol.2, No.2 (July 1990), pp.193-221(quotations from p.198) reprinted in Deepak Lal (ed), *Development Economics*, Vol.IV (Aldershot: Edward Elgar, 1992), pp.481-509.

<sup>60</sup> Evans, 'The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change', p.144. As Evans notes here, the idea that state policies reflect vested interests in society is also related to Marxian views on bias in state policy.

<sup>61</sup> See for example, R. Sandbrook, 'The State and Economic Stagnation in Tropical Africa', *World Development* 14, 3 (1986), pp.319-332; Bates, *Markets and States in Tropical Africa*; Robert Wade, 'The Market for Public Office: Why the Indian State is not Better at Development', in *World Development* 13 (4) (1985), pp.467-97.

<sup>62</sup> John Waterbury, 'The Heart of the Matter? Public Enterprise and the Adjustment Process', in Haggard and Kaufman, *The Politics of Economic Adjustment*, pp.182-217. Quotation from p.188.

<sup>63</sup> Tony Killick, 'Problems and Limitations of Adjustment Policies', p.41; E.A. Brett, 'State Power and Economic Inefficiency: Explaining Political Failure in Africa', *IDS Bulletin* 17, 1 (January 1986), pp.22-29.

<sup>64</sup> Callaghy, 'Lost Between State and Market'.

interests.<sup>65</sup> Common expectations that state officials will obstruct or resist economic reform because they are enmeshed in societal networks of vested interests thus overlap with widely accepted views that state involvement in the economy creates large state bureaucracies with vested bureaucratic interests.<sup>66</sup> Such arguments are now commonplace in assessments of economic adjustment policies and their implementation.<sup>67</sup>

For many states, particularly those established to implement centrally planned economies, adaptation is imperative if market reform is to be carried through. In the countries of the former Soviet bloc, Africa, and Asia the introduction of markets implies a radical shift in the functions and structures of the state. As Jeffrey Herbst has noted of the African case, the adoption of policies to this end may mean 'redefining the scope of the state's role (for example, by relaxing state monopolies), requiring public enterprises to perform according to private sector criteria of efficiency and profitability, or in other ways reducing the impact of governmental regulations upon the workings of the market economy'.<sup>68</sup> But while programmes geared toward economic liberalisation require changing the way in which the state operates, neo-classical economists who advocate economic liberalisation have typically left aside political issues and expected states to simply adjust and conform to the minimalist ideal.<sup>69</sup> The related neo-classical political economy is caught in a negative and static conception of the state and its officials as corrupt and resistant to change and provides no answers to how a 'better' state role would be

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<sup>65</sup> See for example, Christopher Clapham, *Third World Politics: An Introduction* (London: Routledge, 1992), Paul Cammack, 'States and Markets in Latin America', in Michael Moran and Maurice Wright, *The Market and the State: Studies in Interdependence* (London: Macmillan, 1991), pp.138-156; Joel S. Migdal, 'Strong States, Weak States: Power and Accommodation', in M. Weiner and S. Huntington (eds), *Understanding Political Development* (Harper-Collins, 1987), pp.391-434; Brett, 'State Power and Economic Inefficiency'; Thomas Callaghy, 'Lost Between State and Market'.

<sup>66</sup> This is especially evident in Brett, 'Adjustment and the State: the Problem of Administrative Reform', *IDS Bulletin*, Vol.19, No.4 (October 1988), pp.4-11; Brett, 'State Power and Economic Inefficiency'; Killick, 'Problems and Limitations of Adjustment Policies'.

<sup>67</sup> See also for example, James Manor, 'Politics and the Neo-liberals', especially p.311.

<sup>68</sup> Jeffrey Herbst, *The Politics of Reform in Ghana, 1982-91* (Berkeley: University of California Press, 1993).

<sup>69</sup> Brett, 'State Power and Economic Inefficiency', *IDS Bulletin*, Vol.17, No.1 (January 1986), pp.22-23. Both Jeffrey Herbst and Ramesh Ramsaran note that little is known about how economic liberalisation programmes will work out in practice. See Herbst, *The Politics of Reform in Ghana*, p.2 and Ramesh F. Ramsaran, *The Challenge of Structural Adjustment in the Commonwealth Caribbean* (New York: Praeger, 1992), p.174. Brett, 'State Power and Economic Inefficiency', *IDS Bulletin*, Vol.17, No.1 (January 1986), pp.22-23.

achieved.<sup>70</sup> As Merilee Grindle has noted, the neo-classical political economy, is ‘...most useful for explaining stasis rather than change, and “bad” policy choices rather than good ones’.<sup>71</sup>

Contrary to those forecasts, the emergence of state entrepreneurialism in China appears to demonstrate that a state bureaucracy geared to the administration of a planned economy *can* adapt to a programme of market reform. After a decade and a half of economic liberalisation, departments in the state have begun to adjust to the emergent markets.<sup>72</sup> Counter to the expectations of neo-classical economists, the state has not simply withdrawn to abstain from playing a role in the economy.<sup>73</sup> But neither has it resisted and obstructed reform as predicted by neo-classical political economy. Instead, departments in the state administration have begun to engage independently in profit-seeking, risk-taking business in the new market environment. They, or more accurately, their officials, are no longer just plan implementors; they are (among other things) now also entrepreneurs. Chinese officials have begun to adapt to economic reform and in doing so they may be enabling the transition to a market economy. Although they are still involved in the economy, their involvement is qualitatively different from that in the pre-reform system, and may contribute to processes of marketisation by allowing bureaux to restructure their plan-oriented institutions.

Chinese state entrepreneurialism shows that expectations of resistance to reform are based on the abstraction of individual actors from their political context or on a simplistic view of states as unitary actors. State officials need not only seek to maintain the status quo to preserve vested interests; they may have an interest in promoting reform if they can exploit the opportunities reform generates.<sup>74</sup> To resolve the question of whether they will seek to promote or hinder reform, we need to look at officials’ activities in context.

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<sup>70</sup> As pointed out by Toye, ‘Is there a New Political Economy of Development?’

<sup>71</sup> Grindle. ‘Positive Economics and Negative Politics’, p.45.

<sup>72</sup> Although the transition to a ‘socialist market economy’ was only formally endorsed at the 14th Congress of the Chinese Communist Party held in October 1992, the reforms did from the beginning include a role for commodity markets. For the official statement of the content and aims of socialist market economic strategy, see Jiang Zemin’s report to the Congress, published in *Beijing Review* (October 26-November 1, 1992), pp.9-32.

<sup>73</sup> The neo-classical economic theory’s expectation of a minimalist market-conforming state also seems to have been adopted by some of China’s policy makers. See below.

<sup>74</sup> As well as portraying officials as resistant to reform neo-classical political economy gives the impression that entrepreneurial activities by state officials would be inefficient or suboptimal from an economic point of view. Whether or not this is true, state officials might still have an interest in economic reform simply because new types of activities it facilitates are a better source of revenue than old rent-seeking ones. I will address the question of whether or not their activities are efficient or productive in Chapter 8.

### **The Local Developmental or Corporatist Chinese State**

State entrepreneurialism first emerged in China in the late 1980s.<sup>75</sup> Marc Blecher coined the term entrepreneurial state (ES) to describe the business activities of departments in a county government he had discovered in the late 1980s in Sichuan.<sup>76</sup> But with this exception ES activity has gone largely uninvestigated and Blecher's concept of the ES has not been taken up or developed analytically. References to entrepreneurialism have crept into accounts of rural politics and government since the late 1980s, but the focus has been on the idea of a local developmental state which co-ordinates economic activity. Such work has begun to challenge the formerly dominant view in the China field of the state bureaucracy as resistant to reform. But in focusing on 'local government' as a unitary actor that promotes development, it cannot accommodate the potentially competitive entrepreneurial activities of individual departments that may exist alongside co-ordinated government work and constitute a separate dynamic in the reform process.

Marc Blecher draws a distinction between the ES and the 'local developmental state' (LDS).<sup>77</sup> In his account of the LDS in Xinji Municipality in the early to mid-1980s, Blecher describes how the municipal government promoted economic development by setting up local development projects in which 'the primary emphasis ... was not on making ... profits, but on expanding developmental horizons.'<sup>78</sup> In the Maoist period this local government had played a flexible developmental role, and it continued into the reform period to:

[maintain] its horizontal, co-ordinative function, its primary commitment to developmental promotion rather than profit-making, its concern with balance in development, and its combination of planning, markets and indirect economic levers to guide development.'<sup>79</sup>

Xinji Municipal Government had adapted to the new market environment and worked to promote local development within it by taking care of infrastructural tasks such as setting up a large local market, developing the local road network, and assisting local enterprises. The essence of Blecher's LDS is therefore non-profit-seeking co-ordination by local government to promote local balanced

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<sup>75</sup> Blecher, 'Development State, Entrepreneurial State'; White, 'Basic-Level Government and Economic Reform in Urban China'; Li, "Shiti re' chutan"; Howell, *China Opens its Doors*, Chapter 5; T.J. Bickford, 'The Chinese Military and its Business Operations: The PLA as Entrepreneur', *Asian Survey* Vol. 34, No.5, (May 1994), pp.460-474.

<sup>76</sup> Blecher, 'Development State, Entrepreneurial State'.

<sup>77</sup> Ibid.

<sup>78</sup> Ibid., p.270.

<sup>79</sup> Ibid., p.276.

development. In this model, local government operates as a unified entity, bringing in other local players, negotiating with higher levels of the state, and drawing on common resources for the overall benefit of the locality. Blecher contrasts this developmental state with the entrepreneurial one he has identified in Sichuan, and explains their different modes of operation in historical terms, seeing them as mutually exclusive forms of government activity.

Jean Oi's recent work on rural China develops the idea of a 'local corporatist state'.<sup>80</sup> In this model, officials in the countryside are portrayed as heavily involved in promoting the development of the local economy. Oi sees this local corporatist state as a kind of 'decentralised developmental state' that maximises 'local interests'.<sup>81</sup> But promotion of local economic development seems to be confined to assisting local collective rural industrial enterprises and to redistributing and pooling both the resources and debts of those enterprises rather than promoting local collective or infrastructural projects.<sup>82</sup> Oi's local corporatist state therefore straddles Blecher's entrepreneurial/developmental distinction. For example, Oi states that:

'the corporate good is defined more broadly than mere economic interests and profits, and may include such social interests as providing employment, but increasingly this hinges on profitability, competitiveness and growth.'<sup>83</sup>

In Oi's account several layers of local government (county, township and village) run the local economy in the manner of 'a large multi-level corporation', which she likens to a 'decentralized developmental state'.<sup>84</sup> While Oi sometimes describes local governments as entrepreneurial<sup>85</sup>, and emphasises the profit motive for officials, her notion of the 'intimately connected'<sup>86</sup> levels of local government in rural China implies co-operation rather than competition among constituent bureaux. Her overall focus is on the local government as a whole and her picture of it is similar to Blecher's 'developmental' model.

Both Blecher's and Oi's work implicitly portrays the Chinese state's adaptation to economic reform. But the LDS and local corporatist state models focus on governments as the

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<sup>80</sup> See Jean C. Oi, 'Fiscal Reform and the Economic Foundations of Local State Corporatism', *World Politics*, 45 (October 1992), pp.99-126; and also Oi, 'The Role of the Local State in China's Transitional Economy'.

<sup>81</sup> Oi, 'The Role of the Local State in China's Transitional Economy', p.1145.

<sup>82</sup> Ibid. pp.1140-1, and 'Fiscal Reform and the Economic Foundations of Local State Corporatism', p.118. However, Oi does not detail just how and by what mechanisms reinvestments are made.

<sup>83</sup> Oi, 'The Role of the Local State in China's Transitional Economy', p.1142, footnote 28.

<sup>84</sup> Ibid., p.1138.

<sup>85</sup> Ibid., p.1137. She does not elaborate on this element of local government activity.

<sup>86</sup> Ibid., p.1138.

crucial actors co-ordinating and promoting balanced local economic development. In contrast, a defining element of the ES is that it disaggregates local government into its constituent departments and describes their separate and autonomous profit-seeking economic activities, explaining them as undertaken for individual bureaux' interests rather than for the development of the locality as a whole. As ideal types, the LDS and ES are polar opposites, but they may serve to characterise different localities, as Blecher suggests. Entrepreneurial activities may also take place within developmental local governments, as Oi implies. In this case, there will be tension between the two and the key question is whether state entrepreneurialism hinders or promotes the achievements of balanced local economic development. It may also be necessary to revise the view of the Chinese state in the localities as developmental or corporatist.

### **The Entrepreneurial State**

In China in the early 1990s, state bureaux' business activities were many and varied, and their economic enterprises differed in size and scope, sphere of activity, investment levels, ownership, relationship with the state, and profitability. Some of these new business operations may involve profiteering or corruption by officials. However, others constitute a new and distinctive dimension of state economic activity that is best termed entrepreneurial and can be distinguished from rent-seeking, corruption and speculation, as well as from developmentally-oriented government work. To illustrate its distinctiveness, a model of state entrepreneurialism and of the ES is developed below. This model builds on Marc Blecher's characterisation of the ES. Blecher's ES involved the individual, profit-seeking business activities of state bureaux.<sup>87</sup> I elaborate and expand on these characteristics below to clarify the analytical status of the ES and state entrepreneurialism so that these concepts can be used in comparative research.

The ES refers to local government (or other parts of the state) characterised by entrepreneurial activities undertaken by state officials to produce profits for their bureaux.<sup>88</sup> The key features of state entrepreneurial activity are direct, profit-seeking, risk-taking business on the

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<sup>87</sup> Blecher, 'Development State, Entrepreneurial State'.

<sup>88</sup> The Chinese state is partly made up of levels of government, from the centre down through several levels in the localities. The ES model is developed from a study of local government at the municipal and urban district levels, but there are indications that it also exists at the central level as well as in other localities. See for example, John Wong, 'Power and Market in Mainland China: The Danger of Increasing Government Involvement in Business', *Issues and Studies*, Vol.30, No.1 (January 1994), pp.1-12.

part of individual bureaux that is adaptive and potentially productive. I outline these features in brief below.

First, state entrepreneurialism refers to cases where bureaux and other state agencies (hereafter, 'bureaux' or 'departments') are *directly* involved in business.<sup>89</sup> Leading bureau officials are creating new business ventures that involve making business decisions on their bureaux' behalf and investing bureau funds in the same way as private entrepreneurs or the managers of economic firms.

Second, state entrepreneurial activities are *profit-seeking*. The state bureaux' new businesses are set up to generate profits shared with the bureau. Entrepreneurship commonly connotes profit-seeking business activities, and the activities of state agencies in the newly emergent markets accords with this.

Third, state entrepreneurialism refers to the direct business activities of *individual* state bureaux and their subordinate agencies. It is in this way that local government is disaggregated into its constituent bureaux in the ES model. It is important to emphasise the individual nature of the bureaux' entrepreneurial activities because this distinguishes the ES analytically from the local developmental and local corporatist models of the Chinese state. Those models portray local governments as unitary actors. But a local government is comprised of functional bureaux together with a government office and its head (for example mayor or district chief).<sup>90</sup> The bureaux are simultaneously part of vertical functional systems headed by ministries on the one hand, and local governments on the other.<sup>91</sup> The ES highlights the activities of those separate bureaux, and shows that although they are part of territorial 'governments', they do business in an individual capacity and for their own individual ends rather than as part of a co-ordinated development strategy.<sup>92</sup> They may therefore often be competition between different bureaux' businesses.

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<sup>89</sup> Note that this is using the same specification that Marc Blecher outlined in 1991, when he said that '[b]ureaux of the state themselves undertake entrepreneurial activity', Blecher, 'Development State, Entrepreneurial State', p.267.

<sup>90</sup> This will be explained in more detail in Chapter 2. It is also formally constituted by a local people's congress, though in fact this has little real influence on local governance.

<sup>91</sup> The concept of the ES is based on a definition of the 'state' as the institutions of central government and its agencies in the localities. In the highly centralised Chinese state, the bureaux and agencies are both constituent parts of local government and part of a highly organised state administrative system. See Chapter 2.

<sup>92</sup> As discussed in Chapter 2, governments are found at different levels of the state system in China from the centre to municipalities and rural counties. To the extent that government departments are under Party

Fourth, profit-seeking, involves an element of *risk* that is essential to the notion of entrepreneurship in economic theory. Departments that establish and invest in enterprises are taking economic risks in the sense that they stand to lose their investment; success and optimum profitability are not guaranteed. For the officials who have left their bureau to run the enterprises there is also the risk that they lose this lucrative employment. However, in cases where departments would allow their officials to return to their bureaucratic posts should the company fail, the risk for the officials leaving to join the company is reduced.

Fifth, state entrepreneurialism is *adaptive* in that it entails officials changing their behaviour and embracing markets. It can also re-deploy state officials and staff, and therefore has the potential to facilitate state restructuring. In this way it may promote the transition from a bureaucratically-dominated command economy to one in which markets are influential in economic production and allocation.

Finally, state entrepreneurialism does not include simple speculation or profiteering. Although it may involve bureaux manipulating the economy or taking advantage of opportunities presented to them as part of the state system, it refers to *potentially productive* economic activity of a kind not envisaged in economic theories of rent-seeking. Rent-seeking denotes state manipulation by the creation of bureaucratic restrictions to economic activity which results in entrepreneurs using resources to merely gain access to markets rather than for business that results in output or services. State entrepreneurialism is qualitatively different because it involves state bureaux in economic activity that is directed toward production, distribution of goods, or service provision, rather than in the distribution of licences to private entrepreneurs. This is the case whether or not that activity is optimally productive according to economic rent-seeking theory's definition of economic involvement that is efficient in an economy at equilibrium.

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control, through the Party cells within them and the personnel control system, I discuss the state in the sense of 'Party-state'. However, I am concerned primarily with state agencies (*guojia jiguan*) or government (*zhengfu*), rather than Party institutions, such as Party Committees, that exist separately in their own right. In practice, in China, official departments are usually referred to as 'agencies of party and government' (*dang zheng jiguan*). In this way, the distinction is acknowledged though the two are referred to together.

### Methodology

This dissertation is based on empirical research in state bureaux and other state agencies in China. The 'level of analysis' is that of the individual state bureau and takes into account the influences on the officials that staff it. It is important to remember that the so-called 'activities' of state bureaux are the result of decisions taken (or not taken) by the officials within them bureaux. Nevertheless, the institutional and social constraints within which those decisions are taken are all-important. States must be seen as staffed by officials who have their own interests in a given situation and are constrained in their desires and options by a complex economic, political and social context and the structures of the organisation in which they work. The approach is adopted here is therefore institutional, but with attention to wider societal influences and how they affect the behaviour of officials.

This methodology is important for two reasons. First, empirical analysis of the constraints on officials and the context of their preferences is able to demonstrate that under some circumstances they can adapt to market reform rather simply resist it. This counters neo-classical political economy's narrow view of individuals which ignores context and assumes that their behaviour will preserve the status quo. It offers an alternative to structuralist critiques unable to directly deal with the issue of the behaviour of officials.

Second, by studying particular departments within the state administration I also attempt to overcome the shortcomings of portrayals of the state as a single entity. The unitary state sometimes appears in neo-classical political economy in the guise of a bureaucracy that limits the operation of markets and has been useful for highlighting the pitfalls of state intervention. The unitary state is also found in structuralist accounts that support state intervention to promote economic growth and development. While influential structuralist models of the state such as that of developmental states have drawn our attention to the importance of states in the processes of economic development, they have tended to focus on political elites and policy makers or central government.<sup>93</sup> A local level approach is adopted here to facilitate scrutiny of policy implementation and the experiences of officials at all levels of the state system. As I hope this

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<sup>93</sup> Chalmers Johnson, 'Political institutions and economic performance: the government-business relationship in Japan, South Korea, and Taiwan', in Frederick Deyo, (ed) *The Political Economy of the New Asian Industrialism* (Ithaca: Cornell University Press, 1987), pp.135-164; Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); Gordon White and Robert Wade, 'Developmental States and Markets in East Asia', in Gordon White, (ed) *Developmental States in East Asia* (Basingstoke: Macmillan, 1988), pp.1-19.

study reveals, concentrating exclusively on the state as a unitary actor or on central level government can mean ignoring politically and economically significant developments.

This study focuses on a single city, Tianjin, for several reasons. First, there is a dearth of information on urban political economy in China. Second, although it would have been preferable in some ways to have studied more than one city, the difficulties facing foreign social scientists in collecting information on Chinese political economy and time limits on fieldwork made it necessary to concentrate on just one. A comparative study of several cities might have indicated differences in types or extent of state entrepreneurialism, but only at the expense of depth of understanding. Moreover, in a country with over 400 cities, all varying hugely, even comparison of state bureaux in half a dozen urban governments would not have made the findings representative of Chinese cities in general.

No claims are made that Tianjin is typical of other cities. As a former treaty port and a provincial level city located on the coast where economic change is most rapid, both its historical and current experience is very different from that of cities in the interior of the country. But as a northern city far from Hong Kong and Taiwan, Tianjin has not been at the very forefront of change in China in the reform period. Developments there can be expected to have already been pioneered elsewhere. Certainly the state entrepreneurialism I discuss in Tianjin seems more widespread, not only in cities throughout China of all sizes and economic profiles, but also in the countryside. However, the precise forms and their causes may vary. The aim of this dissertation is to give an account of its emergence in Tianjin.

In Tianjin I studied departments in two different parts of the state administration. This allows differentiation within the concept of the state even within local government, and close examination of the impact of market-oriented reform on some of its constituent parts through a consideration of marketisation in specific sectors of the economy. In this way the context of officials' activities can also be better specified. Each case study looks at economic liberalisation and marketisation in one sector of the economy and at the effects on the departments that administered it. This highlights the varied experiences of reform in different parts of the state.

The first case study examines the 'real estate management departments' in charge of public property, including Tianjin's public housing, and until the mid-1980s, land. This was chosen because it involves the state provision of a social good and because property markets have emerged more slowly than markets for many other goods. Moreover, it is likely that market reform will change but not altogether remove the need for these departments. This study shows

how a nascent but still limited market for land and housing has contributed to the specific forms of state entrepreneurialism in real estate management departments.

The second case study looks at state commerce departments that distributed manufactured consumer goods in the planning system. This was chosen because in contrast with the first study, the work of these departments is left to the market in capitalist economies. It is distinctive because this is a sector of the economy where markets might be expected to remove the need for state bureaux altogether. Indeed, this is a sector where markets have been introduced earliest in China and this case study therefore deals with departments most urgently being required to accommodate change. It shows how the introduction of markets for those commodities has removed some of the key functions of commerce departments and increased their incentives to undertake entrepreneurial activities.

Further research is needed to show that the experiences of these two parts of the state administration are representative, and that state entrepreneurialism has emerged similarly in other types of administrative departments. However, there are several reasons why state entrepreneurialism is likely to be more widespread. First, bureaux in these two sectors, despite the differences between them, have shown remarkably similar degrees and kinds of entrepreneurial activity. Second, the factors that have induced these departments to become entrepreneurial are likely to obtain elsewhere in the state. These are: (1) availability of markets and an environment of economic growth; (2) access to capital; (3) access to business contacts and market information; (4) lack of prohibitions at local and central level against this activity; (5) central government pressure to cut staff and costs; and (6) financial constraints including loss (or anticipated loss) of sources of income. Such factors are equally likely to be found in, for example, the industrial sector of the economy. The similarity in the activities in the two very different sectors analysed in this dissertation suggests that there is also an element of 'copycatting' in the state businesses. Entrepreneurialism may have spread because of perceptions that everyone else is doing business, and those who do not feel that they are missing opportunities. State entrepreneurialism is therefore likely in other sectors of the state. Indeed, other studies and anecdotal evidence indicate that such activities are found throughout the state system, at higher levels of government, in villages and the army.<sup>94</sup>

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<sup>94</sup> See footnote 75 above.

The study is based on 15 months' fieldwork in China (1992-3). I spent two months in Hong Kong and then thirteen months based in the Politics Department of Nankai University in Tianjin in the People's Republic. In Tianjin I conducted qualitative interviews, using a purposive sample of 60 officials in selected municipal and sub-municipal departments in Tianjin, Beijing and Shanghai.<sup>95</sup> I carried out library research in Beijing and Tianjin, the Universities Service Centre in Hong Kong, and SOAS library, London. Documentary sources included national and local newspapers, journals, and other mainland Chinese and Hong Kong publications (all in Chinese); BBC and Foreign Broadcast Information Service publications.

### **Outline of the Dissertation**

Chapter 2 describes the organisation and economic role of the pre-1980s Chinese state with a special focus on urban state agencies, and discusses the transformed state envisioned in the economic reform package of the late 1980s and early 1990s. Chapter 3 then provides the remaining background required to understand the context of state entrepreneurialism in Tianjin, with a historical profile of the city, its government, and its experience of the reforms.

Chapters 4-7 form the core of the dissertation. They describe and explain the emergence of the ES in Tianjin's public property management and commercial administration sectors. Each case study is covered in two chapters. Chapters 4 and 5 deal with the public property management system, Chapters 6 and 7 with the commercial administration system. The first chapter of each pair (Chapters 4 and 6) describes the state organisations for the administration of each sector under the state planning system, the problems that emerged in that sector, and pre-1979 attempts to solve those problems. This is necessary background for understanding the context and evolution of the post-1979 reform programme in each sector. These two chapters then describe the reforms in the respective sectors since 1979. The second chapter of each case study (Chapters 5 and 7) describes and explains the state entrepreneurialism in each sector.

The concluding chapter will develop, and discuss in greater depth, the concepts of state entrepreneurialism and the ES, the wider logic of state entrepreneurialism's emergence in the early 1990s, and its comparative significance for current analyses of both market reform and of the Chinese state in the reform period.

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<sup>95</sup> See Appendix 1 for details of interviewing methods and the interview sample.

## Chapter 2 The Chinese State From Plan To Market

### Introduction

In late 1978, the leadership of the Chinese Communist Party (CCP, the Party) embarked on a series of market-oriented economic reforms. In the earliest stages, the objective of these reforms was the 'socialist modernisation' of agriculture, industry, science and technology, and defence.<sup>1</sup> Since then, liberalising reform has evolved in a piecemeal fashion, new initiatives being found in response to emergent political and economic needs and constraints, a method the leadership has called 'crossing the river by feeling for stones'. Edging forward in this way, the role of markets in the Chinese economy has gradually expanded and state planning has been scaled down. The rationale behind this economic liberalisation strategy has been that for modernisation to be achieved rapidly, foreign investment and technology transfer are necessary. To pay for this China has to be able to export and compete on international markets, and it was decided that economic liberalisation was needed to increase efficiency and competitiveness. At first, though the early agricultural reforms included permission for small scale rural market trading, there was no official discussion of fundamental change to the state planning system. But by the mid-1980s the shortcomings of the command economy had become increasingly apparent and openly acknowledged in China, and greater modification, including marketisation, was begun. A 1984 Party Central Committee decision noted that 'it is necessary...to discard the traditional idea of pitting the planned economy against the commodity economy. We should clearly understand that the socialist planned economy is a planned commodity economy based on public ownership.'<sup>2</sup> From that point on, commodity markets were introduced as administrative and price reforms gradually de-regulated an ever wider range of products.

There were clear differences of opinion among central leaders in the 1980s over the extent to which markets should be embraced, with leaders like Chen Yun and Wang Zhen preferring to retain a greater role for the plan and only product markets. But by the late 1980s, the idea of a labour market had been accepted, and stock exchanges were opened in Shanghai and Guangdong. Finally, in October 1992, almost 14 years into the reforms, the leadership endorsed its commitment

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<sup>1</sup> The so-called 'four modernisations' (*sige xiandaihua*). For a statement of this programme see the Communiqué of the Third Plenum of the 11th Central Committee, held in December 1978, that is conventionally recognised as having launched the reforms. Text in *Peking Review*, 52 (29 December) 1978, pp.6-16.

<sup>2</sup> The 'Decision of the Central Committee of the CCP on the reform of the economic structure' adopted by the Third Plenum of the 12th Central Committee, and which launched the urban reforms in 1984. For a text of this document see *Beijing Review*, 44 (29 October) 1984, p.VII. See Chapter 1 for my definition of the market.

to the priority of market regulation over state planning, and to the achievement of a mixed system that it termed the 'socialist market economy'.<sup>3</sup> Differences appear to have been resolved or suppressed and policy makers have come out in favour of a clear commitment to the dominance of the market. Of the former fundamental tenets of the socialist system in China, only commitment to the predominance of publicly-owned enterprise remains.

For China's state, embedded from the mid-1950s in the economic system of central planning, economic liberalisation and the introduction of markets imply significant change. The way in which the state changes is conditioned by that earlier system, the policies to reform it and the complex and rapidly changing political and social context in which those reforms are implemented. State entrepreneurialism, just one new form of state activity to have emerged under market reform, can be traced in particular to the dominant state bureaucracy and its penetration of the former command economy.

This chapter provides the background necessary to understand this important dimension of the context in which state entrepreneurialism has been produced. The first part describes the organisation of the Chinese state under the planning system established after 1949. The focus is on the national system and then on local, particularly urban, government. The second part of the chapter discusses the post-Mao reforms and the new official vision of the state and its role in the market economic system. It then looks at the implications of the reforms for urban government and provides a picture of the urban context in which state entrepreneurialism has emerged. Finally, the chapter examines the official central government reaction to state entrepreneurialism to show why, although it many ways contradicts central policy makers' vision of the state's role in the economy it has been tolerated. This provides the context for the rest of the dissertation, which describes and explains the emergence of entrepreneurialism in the state institutions of one large city, Tianjin.

### **The Organisation of the State in the PRC**

The post-1949 Chinese state has borne many traces of the preceding imperial and Republican systems, most notably, a similarly hierarchical system of political authority and a bureaucratic tradition.<sup>4</sup> Certain pre-1949 institutions and practices were also taken over and modified by the Communists. These include the '*baojia*' system of urban administration, and the control of

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<sup>3</sup> At the 14th Party Congress. See Jiang Zemin's speech to that congress, *Beijing Review*, 35 (9-15 November) 1992, pp.9-32. For an official Chinese account of the evolution in economic policy, see p.4.

<sup>4</sup> See for example, James R. Townsend and Brantly Womack, *Politics in China* (Boston: Little, Brown and Company, Third Edition, 1986), Chapter II.

'bureaucrat-capitalist' industry, ownership of which had been centralised under the Nationalist government in the war era, so that it was relatively easy to nationalise after 1949.<sup>5</sup> The state in the PRC also reflects its foundation on the Soviet model in the 1950s. This influence is particularly evident in its role in the economy.<sup>6</sup> From 1950, when a Sino-Soviet treaty on co-operation was signed, industrialisation was promoted with the help of aid and advisers from the Soviet Union in a strategy the Chinese called 'leaning to one side'. Emphasis was placed on building heavy industry, and investment was concentrated in this sector at the expense of agriculture and light industry. The CCP, itself based on Leninist structures, also adopted a Soviet-style centralised state administration that controlled a large public sector economy.<sup>7</sup> The administration was organised into 'branches' at the centre according to different spheres of administration.<sup>8</sup> At the central level, ministries (under the State Council) headed these hierarchical branch organisations that extended down through provincial and sub-provincial governments. These vertical branches were co-ordinated by commissions and leadership small groups, and cross-cut by 'horizontally'-organised territorial governments at different levels.

Once economic control had been gained and power consolidated, growing numbers of industrial and commercial enterprises were brought under state control. But soon the centralisation that had helped the CCP rein in the economy in the early 1950s was felt to have gone too far. The 'Soviet model' was therefore modified under the influence of Mao's ideas on decentralisation and the CCP's experience in Yan'an in the 1930s and 1940s.<sup>9</sup> Particularly during the Great Leap Forward (1958-60) and the Cultural Revolution (1966-76), the Maoist leadership made several attempts to solve problems of bureaucratism and rigidity in the centralised system through administrative decentralisation and mass mobilisation. Administrative decentralisation transferred powers to lower levels of the state system, but retained micro-economic state control.<sup>10</sup> As a result,

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<sup>5</sup> According to Riskin, *China's Political Economy: The Quest for Development Since 1949* (Oxford: Oxford University Press, 1987), p.43. See below for a discussion of the 'baojia' system.

<sup>6</sup> See Franz Schurmann, *Ideology and Organization in Communist China* (Berkeley: University of California Press, enlarged second edition, 1970), especially Parts 4 and 5.

<sup>7</sup> On the elements of the CCP's revolutionary experience carried on into economic policies in the PRC, see Peter Schran, 'On the Yanan Origins of Current Economic Policies', in Dwight H. Perkins (ed), *China's Modern Economy in Historical Perspective* (Stanford: Stanford University Press, 1975), pp.279-302.

<sup>8</sup> Schurmann, *Ideology and Organization in Communist China*, p.177.

<sup>9</sup> See Mark Selden, *The Yanan Way in Revolutionary China* (Cambridge, Mass.: Harvard University Press, 1971), for a study of the CCP in the 1930s and 1940s in Shaanxi.

<sup>10</sup> It contrasts with the alternative strategy of 'economic decentralisation' according to which controls are transferred to economic enterprises. Some limited economic decentralisation was practised briefly in the early 1960s under the leadership of Liu Shaoqi and Deng Xiaoping, but this was short-lived and they were to be attacked as 'capitalist roaders' for promoting this economic liberalisation during the Cultural Revolution. For

the Chinese state became less centralised than its Stalinist counterpart in the USSR, with local Party committees at times (especially in 1958) wielding considerable power and co-ordinating the activities of the vertically-organised functional administration.<sup>11</sup> Nevertheless, that administration remained as a legacy of the Russian model and, except briefly during the Great Leap Forward and at the height of the Cultural Revolution, was crucial to the system of central planning in the Mao era.

The CCP is an important actor in the state system. Although Party and state are separate organisations, it is often difficult to distinguish their roles, and the term 'Party-state' best conveys their indivisibility.<sup>12</sup> The Party's organisation has dominated the governmental process via its committees that parallel governments at all levels of the system at the apex to the Party cells in all government and quasi-governmental institutions, organisational units, enterprises and other workplaces. The discussion below will focus on the state administration and its role in the economy rather than on Party organisation, but the Party's penetration of that system should not be forgotten.

#### *The Structures of the State Administration*

The state in the PRC is made up of levels of government cross-cut by functional administrative systems that run from vertically through those governments.<sup>13</sup> Governments partially consist of and yet are analytically distinct from the system of functional bureaux and agencies (hereafter, 'bureaux') that run from the central commissions and ministries through provincial government and into urban districts and rural townships<sup>14</sup>; while arms of the central Party-state, the bureaux are part of the local government at each level.<sup>15</sup> Although formally elected by the People's Congress at the

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an early discussion of these two forms of decentralisation in China, see Schurmann, *Ideology and Organization in Communist China*, pp.175-8.

<sup>11</sup> *Ibid.*, pp.176-7.

<sup>12</sup> The Preamble to the 1982 State Constitution refers to 'leadership' by the Party, but the Party is not referred to at all in the body of the Constitution itself. National People's Congress, *The Constitution of the People's Republic of China* (Beijing: Foreign Languages Press, 1983). For a discussion of the distinction in the Soviet Union and the PRC between Party and State, see Schurmann, *Ideology and Organization in Communist China*, pp.109-111.

<sup>13</sup> Although there have been informal modifications to the organisation of the state in the Deng era, many of the formal features of the pre-1978 system remain in the early 1990s. I will therefore discuss those features in the present tense.

<sup>14</sup> See Figure 2.1.

<sup>15</sup> In the 1982 revised 'Organisation Law of the PRC on local peoples congresses at all levels and local people's governments at all levels' (*Zhonghua renmin gongheguo difang ge ji renmin daibiao dahui he difang ge ji renmin zhengfu zuzhi fa*) states that people's governments are executive organs of the people's congresses and have to be responsible and report to both the congress and the (central) State Council. Li Shunjie and Wang Zhenhai, *Shengji xingzheng guanli* (Provincial level administrative management) (Beijing: Zhongguo guangbo chubanshe, 1991), chapter 9. Although there is little real accountability to the people's congress, this law does stipulate that governments have local responsibilities as well as a duty to higher levels of the state system.

same level, bureau chiefs were during much of the Mao period appointed by the government at the level above. More senior district chiefs were appointed by the government at two levels above.<sup>16</sup> Yet at the same time, these chiefs were answerable to the next superior level of the vertical functional hierarchy in their 'professional' work (*yewu guanxi*), and funds and materials were allocated to them vertically.<sup>17</sup> In spite of formal separation of vertical systems and horizontal local government, in practice the boundaries between the two are unclear. This cross-cutting organisational structure has created what is known as 'dual' or 'double-layered' leadership (*shuangceng lingdao*), referring to simultaneous leadership by authorities in both the same level of government and a higher level. Despite recent attempts at reform, local officials still speak critically of the conflicting demands and responsibilities that these 'vertical and horizontal cleavages' (*tiaokuai fenge*) produce.

There are territorial governments from the centre to local governments at different levels throughout the country.<sup>18</sup> The supreme central government executive in China is the State Council (set up in 1954), under which there is an array of commissions and ministries. It is government, together with the central Party organisations, that forms the highest levels of the Chinese Party-state. 'Local' government can refer to levels of government from the provinces, down through several levels of territorial government, each of which has its own People's Congress.<sup>19</sup>

The 'provinces' (*sheng*) are the level of government immediately subordinate to the centre. There are 'autonomous regions' at the same administrative level in areas with high concentrations of minority nationalities. These regions are in many ways treated as provinces, though they are allowed more autonomy in some matters. In recent years this autonomy has had more substance than it did in

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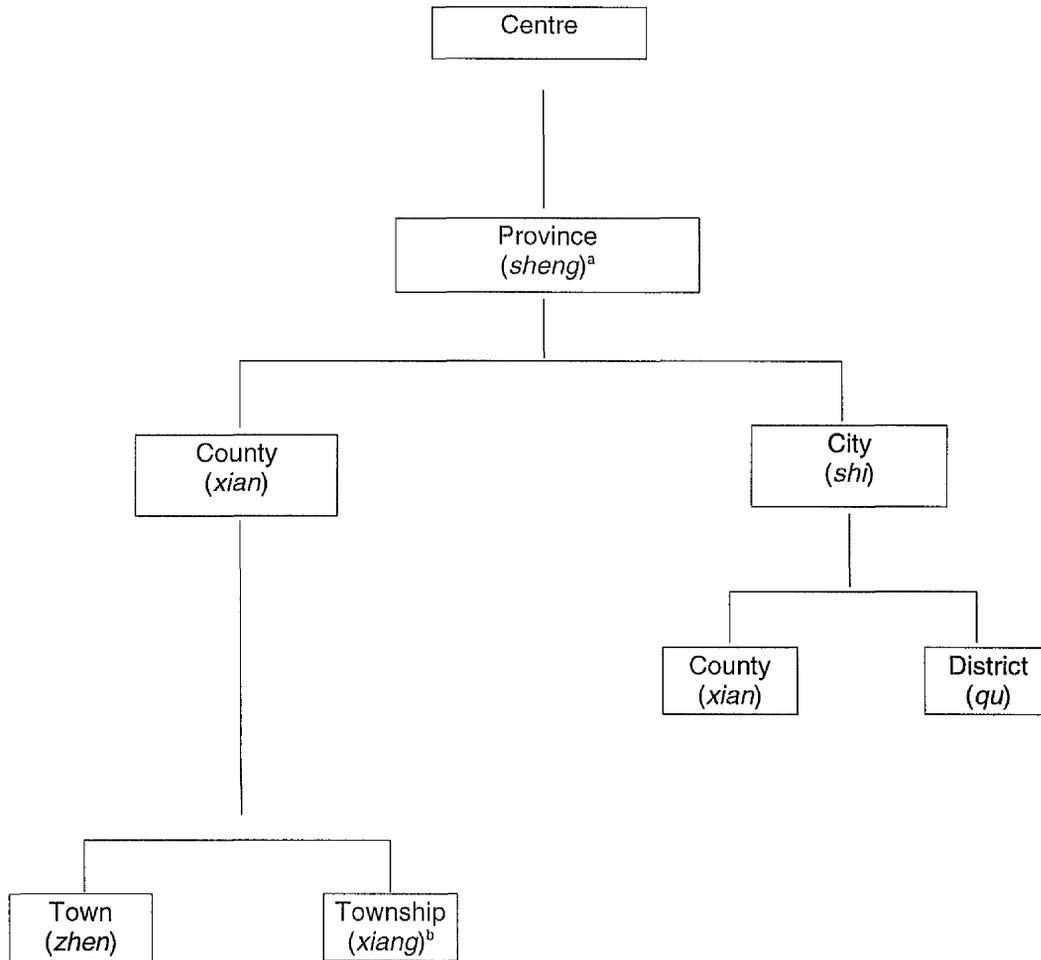
<sup>16</sup> Until the early 1980s appointments were approved two levels above. On the reform of this system, see John Burns, *The Chinese Communist Party's Nomenklatura System: A Documentary Study of Party Control of Leadership Selection, 1979-1984* (Armonk: M.E. Sharpe, 1989). Interviewee 14, an official in one of Tianjin's district Organisation and Staffing (*bianzhi*) bureaux confirmed that appointments were decentralised in 1984 in Tianjin. This means for the urban districts that the district bureau chiefs are no longer appointed by the Municipal Government, but instead by the district Party Committee. The Municipality still appoints the district chief and the head of the district people's congress. Appointments are decided by the Party Committee with a two-thirds majority, which then 'recommends' the appointee to the appropriate level people's congress.

<sup>17</sup> For an early discussion of vertical and dual leadership, see Schurmann, *Ideology and Organisation in Communist China*, pp.188-194.

<sup>18</sup> In Chinese, '*Guojia jiguan*' (state organs or state agencies) can include Party or purely administrative state organs, and '*zhengfu*' (government) is conventionally used to refer to the state administration as distinct from the Party, as well as to refer more specifically to the territorially divided central and local governments.

<sup>19</sup> For a recent basic introduction to local government in Chinese see Xie Qingkui (ed), *Dangdai Zhongguo zhengfu* (Government in contemporary China) (Shenyang: Liaoning renmin chubanshe, 1991), Chapter 8. On the People's Congress system see for example, Kevin O'Brien, *Reform Without Liberalization: China's National People's Congress and the Politics of Institutional Change* (New York: Cambridge University Press, 1990), and more recently, his 'Agents and Remonstrators: Role Accumulation by Chinese People's Congress Deputies', *The China Quarterly* 138 (June 1994), pp.359-380.

Figure 2.1 The Structures of Government in China



*Notes*

<sup>a</sup> The five Autonomous regions (*zizhiqu*) and the three cities directly under central control (*zhixiashi*, Beijing, Tianjin, Shanghai) are also at this level. In the early years of the PRC there were six 'Greater Administrative Regions' between the Centre and the Provinces. They were under military control and were set up to help the CCP gain control from 1949.

<sup>b</sup> Composed of administrative villages which may include several natural villages.

Sources: Carl Riskin, *China's Political Economy*, p.41, Gordon White, "Basic Level Local Government and Economic Reform in Urban China", p.219.

the Mao period. Also ranked at the provincial level are three 'cities directly administered by the centre' (*zhixiashi*). Since Tianjin is one of these, I will discuss them in more detail below.

Beneath the provinces are several other layers of government and state administration. In the countryside, prefectures, not in themselves a level of government, are immediately subordinate to the provinces. Beneath the prefectures are the important county (*xian*) governments. There are approximately 2000 counties in China, and their governments are in charge of the towns (*zhen*) and townships (*xiang*) within their jurisdictions. Townships are composed of administrative villages that can include several natural villages.<sup>20</sup> The structures of the urban state administration are quite different. Since this dissertation focuses on the state in the cities I will discuss those structures in more detail below before going on to look at the implications of the economic reforms for the Chinese state.

### *Urban Government*

There were 479 cities in the People's Republic in the early 1990s.<sup>21</sup> The urban population was officially 323.72 million people, just over 27 per cent of the total population, and an increase of over 250 million since 1949.<sup>22</sup> Increases over the reform period have been due partly to continued industrialisation, and partly to the redesignation of certain administrative areas, such as counties, as cities.<sup>23</sup>

Cities in China are to be found at several levels of the national government hierarchy. Since the 1950s, China has designated its three largest municipalities (Beijing, Shanghai, and Tianjin) as directly administered by the centre (*zhixiashi*) and therefore of equal rank with the provinces. In the 1980s, 14 cities were also designated '*jihua danlie shi*', meaning that for the purposes of economic

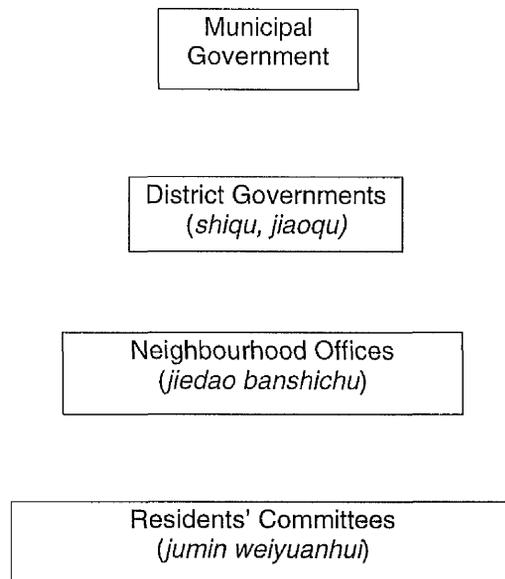
<sup>20</sup> See Figure 2.1.

<sup>21</sup> Figure for 1992. Guowuyuan fazhan yanjiu zhongxin (State Council Development Research Centre), *Zhongguo jingji nianjian 1993* (China Economic Yearbook 1993) (Beijing: Jingji guanli chubanshe, 1993), p.317. In 1991, there were nine with populations of over two million, 22 with populations of between one and two million, 30 with populations of between 500,000 and one million, and 121 with populations between 200,000 and 500,000. Guojia tongji ju (State Statistical Bureau), *Zhongguo tongji nianjian 1992* (China Statistical Yearbook 1992) (Beijing: Zhongguo tongji chubanshe, 1992), p.671.

<sup>22</sup> Figure for 1992 from Guojia tongji ju (State Statistical Bureau) *Zhongguo tongji zhaiyao 1993* (Summary of China Statistics 1993) (Beijing: Zhongguo tongji chubanshe, 1993). The urban population was 57.65 million (10.64 per cent of the total population) in 1949, and 172.45 million (17.92 per cent of the total) in 1978. Zhongguo tongji ju, *Zhongguo tongji nianjian 1992*, p.77.

<sup>23</sup> 38 cities were 'newly approved' in 1992. Guowuyuan fazhan yanjiu zhongxin, *Zhongguo jingji nianjian 1993*, p.317. For a discussion of the statistical problems involved in measuring urbanisation in China see R.J.R. Kirkby, *Urbanization in China: Town and Country in a Developing Economy, 1949-2000 AD* (New York: Columbia University Press, 1985). See also Lawrence C. Ma and Edward W. Hanten, *Urban Development in Modern China* (Boulder: Westview Press, 1981), and R. Yin-wang Kwok, William Parish et al, *Chinese Urban Reforms: What Model Now?* (Armonk: M.E. Sharpe, 1990).

**Figure 2.2 The Levels of Urban Administration**



calculation they were not subordinate to the province but were directly under the central government.<sup>24</sup> In the mid-1990s these 14 cities were given vice-provincial status.<sup>25</sup> Other cities are subordinate to provincial level governments.

The internal administrative structures of cities depend on the size of their population. All cities have a 'municipal government' (*shi zhengfu*).<sup>26</sup> Large cities are divided into districts (*qu*), and very large ones have sub-district divisions, called neighbourhood offices (*jiedao banshichu*).<sup>27</sup> The Party hierarchy permeates government organisation right down to this level, as it does at the centre.

<sup>24</sup> Examples include, Wuhan and Shenyang. For discussions of this status for cities, see Dorothy Solinger, 'City, Province and Region: The Case of Wuhan', mimeo, and Gordon White and Robert Benewick, 'Urban Government Reform in China: The Case of Wuhan', Field Trip Report, 1993.

<sup>25</sup> Personal communication, Gordon White. See for example, BBC, *Summary Of World Broadcasts: Far East (SWB/FE)*, 25 May 1994.

<sup>26</sup> Since the late 1970s both municipal governments and municipal party committees have run cities in China, but this has not always been the case. There were 'municipal people's governments' at different levels nationwide from 1949. In 1955, they changed their names to 'municipal party committees', and in the Cultural Revolution (roughly, 1966-76) they 'municipal revolutionary committees' governed, in which former Party and government organs were combined. Gradually, after 1971, Party committee work organisations were revived, and then the revolutionary committees of the *zhixiashi* became purely administrative organs. Only after 1979 were the pre-1955 'municipal people's governments' revived. See Li and Wang, *Shengji xingzheng guanli*, p.195.

<sup>27</sup> See Figure 2.2.

Party committees, each headed by a Party secretary, are to be found at all levels of the urban system of government, with Party cells in all administrative departments, and state enterprises.

(a) Municipal Government

Municipal governments are formally composed of the Mayor, deputy mayors and the heads of functional departments, usually called 'bureaux' (*ju*). The mayor's office and the deputy mayors have the job of overseeing government work in the city, co-ordinating the work of different departments and, where necessary, reconciling their different and sometimes conflicting needs and interests. This is partly necessary because departments within the urban government are almost always branches of a functional 'system', and look to their immediate superior in all their 'professional' work. This means for example that a municipal Labour Bureau in a city directly administered by the centre will be answerable to the central Ministry of Labour while a similar bureau in a prefectural level city would be subordinate to a provincial Labour Bureau. Before modification in the 1980s, the higher level department provided investment and sent down plans to be implemented at the lower level. Though there is still some planning of this kind, much of the detail in planning work has been decentralised to lower levels and is often handled by the municipality, rather than dictated by plans formulated higher up. However, there are still sometimes conflicts between 'systemic' interests and needs and those of the locality and it is the job of the mayor's office to deal with them.<sup>28</sup>

(b) Urban District Government

Large cities in China establish district governments. Whether or not cities have districts and neighbourhood offices is largely dependent on the size of the population.<sup>29</sup> The creation of districts in all cities, including cities directly administered by the centre, must have the approval of the central State Council. Urban districts, unlike other administrative areas, are established by State Council decree and not according to legislation. However, these districts are 'under the leadership' of the city governments rather than the central government.<sup>30</sup> In the three cities directly administered by the centre, district governments can be either urban or suburban. Urban districts (*shiqu*) are set

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<sup>28</sup> Chapter 3 will discuss the organisation of municipal government in more detail.

<sup>29</sup> Districts cannot, constitutionally, be established in cities below the 'diji' or 'prefecture level'. Such cities do, however, always have relatively small populations.

<sup>30</sup> Zheng Dingquan, 'Shilun chengqu gaige de tupokou he zhongxin huanjie' (Exploratory essay on the lacuna and crux in urban district reform), Wu Fayu (ed), *Chengshi zhengfu zhineng yu tizhi* (The functions and system of urban government) (Wuhan: 1991, no publisher given), p.296.

up in the central urbanised parts of the city, and suburban districts (*jiaoqu*) in the outlying rural or semi-rural areas. Districts are designated 'suburban' if the majority of the population is registered as rural, though some residents may also be registered as urban dwellers. Although technically at the same level, urban and suburban district governments are often quite different in their work, organisation and relationship with the municipal government. For example, suburban districts can have township (*xiang*) and town (*zhen*) governments beneath them.<sup>31</sup>

District level administration dates back to the Republican period when it was created as part of the revamped Qing dynasty system of urban organisation commonly known as '*baojia*'.<sup>32</sup> According to the Republican 'Urban Organisation Law' (*shi zuzhifa*), between ten and 30 households were to be organised into a '*jia*', between ten and 30 *jia* were to make up a *bao*, and between ten and 30 *bao* were to make up a district. Under this system, large cities might have many districts. Shanghai, for example, had 30 districts on the eve of take-over by the CCP in 1948.<sup>33</sup> The Republican system was quickly replaced by the CCP after 1949. The *bao* was replaced first by a system of 'take-over' offices (*jieguan banshichu*), staffed by the CCP, and formed on the basis of three to five *bao*.<sup>34</sup> The districts were then gradually reorganised during the 1950s to create a more centralised urban administration.<sup>35</sup>

The territorial demarcation of districts in the largest cities for which information is readily available appears to have changed little after the 1950s, though there may have been greater changes in those smaller places which have been 'promoted' to city status.<sup>36</sup> At any rate, by the late 1980s,

<sup>31</sup> Xie, *Dangdai Zhongguo zhengfu*, p.328.

<sup>32</sup> It existed in Tianjin from 1848. See Zhu Qihua et al, *Tianjin quanshu* (Encyclopaedia of Tianjin) (Tianjin: Tianjin renmin chubanshe, 1991), p.93. The Chinese does not translate well into English, and so I adopt the common practice of using the original Chinese. The character '*bao*' has many uses, but usually connotes the meaning to protect, guard, preserve, conserve or maintain. '*Jia*', can mean armour, but is used in this administrative context probably in its other sense of a tithe (ten households making up a *jia*, and ten *jia* making a *bao* in the original model for this system).

<sup>33</sup> Shanghai shi bianzhi weiyuanhui bangongshi (Shanghai Municipal Organisation Commission Office) (ed), *Shanghai dangzheng jigou yange, 1949-1986* (The evolution of party and government structures in Shanghai, 1949-1986), (Shanghai: Shanghai renmin chubanshe, 1988), p.22. Tianjin had 11 districts in January 1949 when the city was 'liberated' by the CCP. Zhu, *Tianjin quanshu*, p.3.

<sup>34</sup> Zhonggong Shanghai shiwei bangongting shiqu chu (Chinese Communist Party Shanghai Municipal Committee Office, Urban district Section), *Chengshi jiedao banshichu, jumin weiyuanhui gongzuo shouce* (Handbook of urban neighbourhood office and residents' committee work) (Shanghai: Shanghai renmin chubanshe, 1988), pp.3-4.

<sup>35</sup> The commune system, introduced into the cities in the late 1950s devolved many controls to the commune level. The urban communes were dismantled much more quickly than agricultural ones, from as early as 1960-61. I do not therefore discuss them here. See Janet Salaff, 'Urban Communes and Anti-City Experiment in Communist China', *China Quarterly*, 29 (January-March 1967), pp.82-110, for more details of the urban commune movement.

<sup>36</sup> The CCP leadership has consistently preferred to encourage the growth of smaller towns and cities, particularly those in the interior, rather than allowing the largest cities to expand. See Clifton Pannell, 'Recent

there was a total of 651 sub-municipal districts nationally in China. The largest cities, Beijing, Tianjin and Shanghai had 10, 13 and 12 respectively, and the other 616 districts were all to be found in the 185 *diji* cities, 90 per cent of which had districts. These smaller cities therefore had an average of between three and four districts each.<sup>37</sup>

Since the 1950s, districts (*qu*) have been considered the lowest level of government in the cities, and called in China the 'basic level authorities' (*jiceng zhengquan*).<sup>38</sup> They are so designated because they are the lowest level of the state to have a People's Congress. District governments are similar in structure to municipal governments: they are each formed of a chief (*quzhang*), several deputy chiefs, a secretary (*mishuzhang*) and the heads of the each functional department (usually a bureau, *ju*). The district chief is appointed by the municipal government and department heads are selected by the district chief.<sup>39</sup> The formal rules stipulate that the district chief proposes these department heads and the district level people's congress approves and appoints them.<sup>40</sup> However the congress is commonly seen as a body without much authority that merely rubber stamps decisions by the executive leadership.

Districts also have commissions that are subordinate to corresponding municipal level commissions and similarly co-ordinate work in certain spheres. There might for example be an Economic Commission or Construction Commission in a district to facilitate work that requires the involvement and co-operation of several bureaux in these areas. Districts also have a Party committee, which 'leads' the district government in several ways. It is in overall control of the district government, people's congress and economic and ideological (*yishi xingtai*) work<sup>41</sup>, and manages personnel issues relating to the district's officials.<sup>42</sup> However, according to one local official, though the Party committee still leads economic work in name, this function of the

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Growth in China's Urban System', in Ma and Hanten, *Urban Development in Modern China*. See the 1979, 'Zhonghua renmin gongheguo difang ge ji renmin daibiao dahui he difang ge ji renmin zhengfu zuzhifa' (The Organisation Law of the People's Republic of China for Local People's Congresses at all levels and People's Governments at all levels), in Wang Huai'an et al. (eds), *Zhonghua renmin gongheguo falü quanshu* (Encyclopaedia of the Laws of the PRC), (Changchun: Jilin renmin chubanshe, 1989), pp.33-41.

<sup>37</sup> See Zheng, 'Shilun chengqu gaige de tupokou he zhongxin huanjie', pp.296-303.

<sup>38</sup> Districts can only be established in cities directly under the central government (*zhixiashi*), cities independent of provinces for planning purposes (*jihua danlie shi*) and local level cities (*dijishi*). They cannot be established in county level cities. See Xie, *Dangdai Zhongguo zhengfu*, p.328.

<sup>39</sup> Interviewee 14. See also Footnote 16 above.

<sup>40</sup> Xie, *Dangdai Zhongguo zhengfu*, p.328.

<sup>41</sup> This latter area is less important at the district than at the municipal level since the former do not have their own television channels, radio stations, or newspapers.

<sup>42</sup> The Party's Organisation Department at the municipal level keeps control of personnel matters, working in the districts through its subordinate departments in the district party committee.

committee has been weakened in the 1990s: in practice, it is less and less common to need the Party committee's stamp of approval on economic projects.<sup>43</sup>

Urban district governments carry out many management functions: for example, managing water, electricity, gas and public transport within the city, and handling other urban construction work and facilities, such as building and repair work in the streets, parks, zoos, museums and other public places. They also are charged with environmental and sanitation work (waste water, rubbish collection and nightsoil), environmental protection work, and the management of urban planning and construction. In the counties and suburban districts this is either less important or handled by lower levels.<sup>44</sup> Because of the high population densities, the social services provided by urban districts are also more complex and demanding than in suburban districts or rural counties. Urban district governments handle, for example, public security (*zhi'an*), fire fighting, care of the aged, orphaned, disabled and unemployed. They also provide leisure facilities, local shops selling basic necessities, and crematoriums and cemeteries. Suburban districts have the same basic functions and structures but also some extra departments handling rural or agricultural matters.<sup>45</sup>

In some spheres, the municipal government in cities directly administered by the centre directly handles work in the districts. For example, municipal tax and public security bureaux have closely controlled district 'branches' (*fenju*) rather than more autonomous bureaux. In all matters, however, the relationship between city and urban districts is close. One Chinese analyst has argued that in spite of their formal status as the executive of the district people's congress, the crucial nature of urban government work means that districts function as 'assistants' of the municipal government. They have much less autonomy than their counterparts in the countryside, the counties. As Xie notes, however, the precise division of labour between city and districts is problematic, and an important issue in the urban structural reforms under discussion in the 1980s and early 1990s.<sup>46</sup> Discussion of district and sub-district level government reform is ongoing.<sup>47</sup> In 1992, there were two views on the best way to reform the urban districts. One said that the present system should be maintained, but with some decentralisation of powers to the districts where possible, to 'facilitate vertical and horizontal relations'. This refers, albeit vaguely, to the need to solve the problem of

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<sup>43</sup> Interviewee 1.

<sup>44</sup> Xie, *Dangdai Zhongguo zhengfu*, pp.328-9.

<sup>45</sup> *Ibid.*, p.329. For a list of the different departments in a typical Shanghai district in 1986, see Shanghai shi bianzhi weiyuanhui bangongshi, *Shanghai dangzheng jigou yange, 1949-1986*, p.191. Xie cites this Shanghai source and also lists the government departments in a suburban district in Beijing, pp.329-330.

<sup>46</sup> Xie, *Dangdai Zhongguo zhengfu*, p.330.

<sup>47</sup> See White, 'Basic-Level Local Government and Economic Reform in Urban China', for the discussion in the late 1980s.

conflicting duties of district bureaux to both the district government and local needs on the one hand (the 'horizontal' line of command<sup>48</sup>), and to their professional superior in the functional system (the 'vertical' line of command running from the Ministry) on the other. The second view was that the district governments should be made an arm of the municipal government, and neighbourhood offices made a level of government, possibly combining one or two neighbourhoods together to do this. The more radical latter opinion is the minority one.<sup>49</sup>

(c) Neighbourhood Offices

Beneath the district governments in the largest cities, are 'neighbourhood offices'.<sup>50</sup> Since there is no People's Congress at this level, neighbourhood offices are not formally considered a level of government. They are technically the formal bureaucratic 'arms' (*paichu jiguan*) of the district governments, and are set up by them with the approval of the municipal government.<sup>51</sup> Even so, neighbourhood offices can be responsible for providing for a large population: a neighbourhood in a large urban district may have 30 or 40 thousand residents. Departments within neighbourhood offices carry out the practical business of implementing plans and policies formulated at higher levels and are each answerable to a department within the district government. They play an important role in not only economic matters and policing, but also providing basic health care, for example by setting up health stations, ensuring sanitation provisions and by mobilising residents during health campaigns.<sup>52</sup> Overall the neighbourhood offices have been operating more and more like government departments in their own right.<sup>53</sup>

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<sup>48</sup> Interviewee 1 noted that when this horizontal authority is strong, it is the Party that is in control.

<sup>49</sup> Interviewee 1.

<sup>50</sup> On 31 December 1954, the 4th meeting of the Standing Committee of the First national People's Congress passed the 'Chengshi jiedao banshichu zuzhi tiaoli' (Rules on the organisation of urban neighbourhood offices), see Wang et al. *Zhonghua renmin gongheguo falü quanshu*, p.56. For an English translation see Jerome A. Cohen, *The Criminal Process in the People's Republic of China, 1949-63* (Cambridge: Harvard University Press, 1968), pp.109-110. According to these Rules, neighbourhood offices could be established in cities with populations of over 100,000 (whether or not they had district governments), and in cities with between 50,000 and 100,000, neighbourhood offices could be established 'if necessary'. 'Cities with less than 50,000 inhabitants should not normally have neighbourhood offices'. All offices are said to be set up with the approval of the next highest level of People's Congress. According to Xie Qingkui, cities at the county level that do not have districts nevertheless still have neighbourhood offices. See Xie, *Dangdai Zhongguo zhengfu*, p.330.

<sup>51</sup> *Ibid.*, p.293.

<sup>52</sup> Martin K. Whyte and William L. Parish, *Urban Life in Contemporary China* (Chicago: University of Chicago Press, 1984), p.71. In some cities such work might also be shared with, or carried out by residents' committees (see below).

<sup>53</sup> Personal communication, Gordon White. Also argued by Interviewee 49.

## (d) Residents' Committees

The CCP also set up a system of residents' committees (*jumin weiyuanhui*) from the early 1950s. According to rules promulgated in 1954, these committees were to be, 'self-governing mass organisations' (*qunzhongxing zizhi zuzhi*), that is, bottom-up organisations run by the people, rather than 'top-down' structures that are part of the formal organisations of Party and state.<sup>54</sup> However, the 1954 rules also stipulated that the committees should be 'under the guidance' of the city or district people's committees, or their other agencies (*paichu jiguan*, such as the neighbourhood offices).<sup>55</sup> In practice, they were 'led' and financed by the neighbourhood offices, and have become an arm of the top-down administration.<sup>56</sup> According to the 1954 rules, there should typically have been one committee for between one hundred and six hundred households, with each committee staffed by between seven and 17 people. They were often retired, and many were women. The functions of the residents' committees when they were first established in the 1950s were mainly the maintenance of public order and basic welfare provision.<sup>57</sup> But they gradually acquired more tasks, from the provision of basic services to increasing the participation of the population in urban administration.<sup>58</sup> They were also used for mobilising people during political, economic, or social movements.<sup>59</sup> Residents' committees were attacked and paralysed during the Cultural Revolution<sup>60</sup>, and then revived again from the early 1980s.<sup>61</sup> In 1989, following the suppression of the 'Tiananmen' protests, they were made a focus of attention as leaders sought ways to reassert social control and appease widespread discontent with the Party-state.

<sup>54</sup> 'Chengshi jumin weiyuanhui zuzhi tiaoli' (Rules for the organisation of urban residents' committees) passed as the 4th Meeting of the Standing Committee of the National People's Congress on 31 December, 1954. Text in Wang et al., *Zhonghua renmin gongheguo falü quanshu*, pp.56-7. For an English translation, see Cohen, *The Criminal Process in the People's Republic of China, 1949-1963*, pp.110-112.

<sup>55</sup> See Article 1 of the 'Chengshi jumin weiyuanhui zuzhi tiaoli'.

<sup>56</sup> White, 'Basic-Level Local Government and Economic Reform in Urban China', pp.224-5.

<sup>57</sup> Ibid.

<sup>58</sup> Schurmann, *Ideology and Organisation in Communist China*, p.374, says there were residents' committees from 1951. See here for an early description of their creation and role.

<sup>59</sup> Salaff, 'Urban Communes and Anti-City Experiment in Communist China', p.85.

<sup>60</sup> Zhonggong Shanghai shiwei bangongting shiqu chu, *Chengshi jiedao banshichu, jumin weiyuanhui gongzuo shouce*, p.7. See also Salaff, 'Urban Residential Committees in the Wake of the Cultural Revolution', in John W. Lewis (ed), *The City in Communist China* (Stanford: Stanford University Press, 1971).

<sup>61</sup> The Party Central Committee circulated a document, 'Proceedings of the National Meeting on Political and Legal Work' on 28 August 1982, in which it was proposed (among other things) that residents committees be revived. See appendix to Diao, *Zhongguo difang gaiyao*, p.558.

## **The State Administration of the Command Economy**

### *Administrative Management*

Since the 1950s, the centralised and hierarchical Chinese state administration has penetrated and controlled almost all spheres of social and political life, providing police and social services and organising cultural activities. But much of the state bureaucracy has been given over to the enormous task of administering and managing the economy. In a command economy state administration<sup>62</sup> is firmly embedded in a system of administrative decision and allocation according to long term, five year, and one year plans. In the system created in the 1950s, administration of the economy is divided, as with all other administrative organisation, into a range of vertical functional 'systems' (*xitong*). These 'systems' are headed at the central level by ministries under the State Council, with branches at provincial and sub-provincial level, and are co-ordinated at all levels by 'commissions' that oversee departments in different but related systems.

Public economic enterprises (both industrial and commercial) form the basis of this system of economic organisation. They are always subordinate to one of the 'systems' in the state administration, though they are found beneath state agencies at different levels from the centre to the localities; the largest are usually directly answerable to the central government. Such enterprises are known in China as 'enterprises owned by the whole people' (*quanmin suoyou qiye*) or state-owned enterprises (*guoyou qiye*, hereafter SOEs). Most large and medium-sized SOEs are administered by central or provincial level government departments. Collective enterprises (*jiti qiye*) are usually smaller in scale, subordinate to lower levels of government, and subject to slightly different financial regulation. Larger collectives are for all practical purposes controlled in the same way as SOEs, though their profit retention and submission system differs. In the Mao era, these were the two key types of enterprise, most of which were single factory organisations. The economic reforms have led to much greater diversity in the types, organisation, investment and ownership-management relations of economic enterprises. Multi-factory enterprises, corporations and conglomerates, domestic and foreign-invested joint ventures have mushroomed in the last decade.<sup>63</sup>

The economic role of the state involves planning and plan implementation and can be divided for analytical purposes into (1) industrial management, that is, the administrative allocation

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<sup>62</sup> I shall not discuss the role of the Party here, but bear in mind the point made in the preceding section, that the Party does in practice penetrate the 'government' administration in all sectors, including the economy. There are party committees in all SOEs and state agencies at all levels.

<sup>63</sup> Joseph Y. Battat, *Management in Post-Mao China: An Insider's View* (Ann Arbor, Michigan: UMI Research Press, 1986).

of inputs into industrial production and control of industrial enterprises, (2) agricultural management, including the allocation inputs into agricultural production and management of rural enterprises, (3) management of commercial activities, primarily the administrative allocation of industrial and agricultural output, wholesale and retail distribution of all goods; (4) finance; and (5) labour allocation.<sup>64</sup>

The role of the state in industry has developed since the early 1950s.<sup>65</sup> A 'materials balance' system was adopted under the influence of the USSR, in which materials were allocated and distributed administratively according to state plans. The General Bureau for the Supply of Materials was set up to oversee this work. Industrial enterprises were state-owned, and subordinate to one of the various functional systems established for industry, each headed by a ministry at the centre.<sup>66</sup> Production was determined by state planning, controlled at the top by the central State Planning Commission. Broad five year plans and more detailed annual plans were formulated according to predicted needs and available investment. Agencies and enterprises at all levels supplied the information needed to draw up these plans. Industrial enterprises received materials and implemented their part of the plan, parcelled out as production quotas. Lower level administrative agencies were charged with ensuring that quotas were implemented and setting prices at which products were bought and sold. Administrative control was possible because of enterprises' dependence on their administrative 'department in charge' (*zhuguan bumen*). Enterprises submitted their profits to that department, which then allocated funding for enterprises to use in accordance with the plan. This investment was earmarked, with a certain amount designated for reinvestment, some as circulating capital, and some to be spent on the wages, bonuses and benefits of the enterprise's employees.<sup>67</sup> Operational practices and policies were controlled so that enterprises were instructed in what and how much to produce, and the prices at which to sell their goods. Even the appointment of the management and the long-term strategy of the firm was in the hands of the state. Only day-to-day operations were the business of the enterprises alone.

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<sup>64</sup> Riskin, *China's Political Economy*, pp.100-1.

<sup>65</sup> For a good description of the economic system see Riskin, *China's Political Economy*. For similarly comprehensive, but earlier accounts, see Audrey Donnithorne, *China's Economic System* (London: George Allen and Unwin, 1967), and Dwight H. Perkins, *Market Control and Planning in Communist China* (Cambridge, Mass.: Harvard University Press, 1966), especially Chapter 5.

<sup>66</sup> In the early 1960s, for example, there were ministries for Metallurgical Industry, Chemical Industry, Coal Industry, Petroleum Industry, Textile Industry, Light Industry, and six for Machine Building. See Schurmann, *Ideology and Organization in Communist China*, p.185.

<sup>67</sup> For a discussion of the system of material allocation in industry and the aims and early consequences of industrial reform in the early 1980s, see Christine Wong, 'Material Allocation and Decentralization: Impact of the Local Sector on Industrial Reform', in Elizabeth J. Perry and Christine Wong (eds), *The Political Economy of Reform in Post-Mao China*, (Cambridge, Mass.: Harvard University Press, 1985), pp. 253-78.

The Ministry of Commerce headed the administrative system responsible for distributing industrial goods to consumers, mainly urban dwellers. This was done via a complex hierarchical wholesale and retail system. The urban state commerce system was connected with the rural system of 'supply and marketing co-operatives' that supplied industrial inputs for agriculture, such as fertilisers, pesticides and farm implements or machinery. This system is the subject of the second case study in this dissertation, and will be described in more detail in Chapters 6 and 7. The point to bear in mind here is that it distributed goods administratively. All goods produced by state industry and many in the agricultural sector were distributed through administrative structures in line with state plans on the quantities of goods exchanged, their destinations and prices.

SOEs in both the industrial and the commercial sectors paid corporate tax, but more importantly, submitted all after-tax profits to their department in charge, who then reallocated funds for reinvestment in accordance with state plans. This collection of revenues and allocation of funds were similarly handled according to plans rather than demand, quality, or business viability. A highly centralised financial organisation supported this system. The central bank, The People's Bank of China (PBC), with its branches in all localities controlled the distribution of almost all funds. Most SOEs and government entities had only one bank account, with a local branch of the PBC. The bank monitored and supervised all transactions and also had a credit monopoly, though its control over cash plans and cash circulation was dictated by the overall credit plan and state budgets.<sup>68</sup> Thus, through the formal planning system the government administration dominated industry, agriculture and commerce with a penetrative institutional structure of state agencies that had close control over the detailed management of both state and 'collective' enterprises,.

The above discussion is confined to the administration of the urban economy. I shall not discuss the organisation of the rural economy though it is of course in many ways closely connected with the urban one.<sup>69</sup> For the purposes of the present discussion it is sufficient to note that in the pre-1980s system the state administration of the rural economy was also pervasive.<sup>70</sup> The Party

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<sup>68</sup> William Byrd, *China's Financial System: the Changing Role of Banks* (Boulder: Westview Press, 1983). See also, Paul Bowles and Gordon White, *The Political Economy of China's Financial Reforms: Finance in Late Development* (Boulder: Westview Press, 1993), and Reetsu Kojima, 'The growing fiscal authority of provincial level governments in China', *The Developing Economies*, XXX-4 (December 1992), pp.315-346.

<sup>69</sup> As I will discuss in Chapter 6, the system of administration of urban and rural commerce has at times been unified. The pervasive and all-encompassing commercial and administrative system encountered organisational problems precisely because of difficulties in drawing the line between the two.

<sup>70</sup> See William Parish and Martin Whyte, *Village and Family in Contemporary China* (Chicago: University of Chicago Press, 1978). On rural political economy of see for example, Jean C. Oi, *State and Peasant in Contemporary China: The Political Economy of Village Government* (Berkeley: University of California Press, 1998), and Robert Ash, 'The Peasant and the State', *China Quarterly* 127 (September 1991), pp.493-526.

committee system extended into the villages, and government ministries at the centre, such as the Ministries of Agriculture, Food, and Forestry, had branches at the district, county and township levels as well as the rural communes that were set up from winter 1957-8.<sup>71</sup>

### *The Cadre System*

The state administration was staffed by a cadre of officials in a system based on life tenure, where promotion was slow and determined by length of service rather than ability. Official posts were filled by administrative allocation of graduates, rather than competitive exam. Though suitability and qualifications for a post might be taken into account, this was by no means the norm. Often, a combination of personal connections and bureaucratic allocation according to quota filled low level posts. Colleges often allocated a certain number of graduates to local government departments each year. Retirement was not institutionalised.

Party control over the state's administrative personnel was ensured by a centralised *nomenklatura* system for appointments to key leadership posts.<sup>72</sup> This meant greater importance was attached to political credentials and loyalty to the Party than to ability or level of education: the famous preference for personnel to be 'red' rather than 'expert'. As a result, the Party had a loyal, but not especially well-educated or highly-trained body of administrators. This was at times driven by necessity, given the shortage of educated people, but it was also sometimes politically motivated, particularly during the Cultural Revolution. Salaries were relatively low in this system, though higher level cadres benefited from perks of various kinds. Party ideology, 'serving the people' and a relatively ascetic morality, as well as 'mass supervision' (especially effective in the Cultural Revolution) limited corruption in officialdom.

The formal system of planning, administration and cadre control is of course imbedded in, and modified by many informal practices. As studies in the 1980s began to reveal, the whole system was characterised by bargaining between political leaders and administrators, rather purely by top-

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<sup>71</sup> In first years of the commune movement, townships, the lowest level of rural administration, were subsumed into the communes, which thus became not only collective production organisations, but also administrative units. In the early phase, the commune itself was the accounting unit, but this status was soon transferred down to the production brigades and then production teams within the communes. See Riskin, *China's Political Economy*, pp.123-5. On agriculture and the state, see for example Jack Gray, 'The state and the rural economy in the Chinese People's Republic', in Gordon White (ed), *Developmental States in East Asia* (Basingstoke: Macmillan, 1988), pp.193-234.

<sup>72</sup> For a study of the pre-reform cadre system see Harry Harding, *Organizing China: The Problem of Bureaucracy, 1949-1976* (California: Stanford University Press, 1981).



down decree.<sup>73</sup> But this system is very different from that in a market system where many planning, pricing and allocative tasks are given over to markets.

### **The Post-Mao Reforms and New Vision of the State's Role in the Economy**

The achievements of the Maoist development strategy within this central planning system were considerable, and heavy industrial and agricultural output kept pace with the rapidly growing population.<sup>74</sup> But these accomplishments came with a price. By the late 1970s the long-term concentration of investment in capital-intensive heavy industry had resulted in a limited light industrial sector, and a rural economy still committed to grain production and unable to diversify into cash crop production.

The post-Mao economic reforms have been aimed at stimulating agricultural and industrial productivity using consumption-led growth that would also improve standards of living. Right from the start, however, the reform strategy has contained a new vision of the state administration and its role in the economy.<sup>75</sup> Since the establishment of the central planning system and the construction of the new Chinese state went hand in hand in the 1950s, the command economy and the state were tailored to each other. Reform of one therefore has implications for the other, and since the beginning of the reform period leading reformers have proposed and implemented a series of measures aimed at adjusting the state administration and making it more efficient. Both economic and administrative reform initiatives date from the early post-Mao years, and the connection between economic performance and the need for a revamped state administration has been stated more and more clearly as the reforms have progressed.<sup>76</sup> The reforms that imply most change for the state are discussed below. They include decentralisation measures, which have given more economic control to local governments and bureaux and enterprise and price reforms that have

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<sup>73</sup> Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures and Processes* (Princeton: Princeton University Press, 1988) and David Bachman, *Bureaucracy, Economy and Leadership in China: The Institutional Origins of the Great Leap Forward* (New York: Cambridge University Press, 1991).

<sup>74</sup> See Riskin's Introduction to his, *China's Political Economy*, for a positive assessment of economic policy in the Mao period.

<sup>75</sup> The Communiqué of the Third Plenum of the 11th Central Committee of the CCP, the first official statement of the reform programme (See Footnote 1), stated that achievement of these economic goals 'requires changes in all methods of management, actions and thinking which stand in the way of such growth', and recommended decentralisation of economic decision making to lower levels of the administration and to agricultural and industrial enterprises. For the text of the Communiqué see *Peking Review*, No.52, 29 December 1978, pp.6-16.

<sup>76</sup> Note that state reform in this sense is different from reform of the *political* system in an institutional sense. Gordon White has noted that only in 1986 was the issue of the relationship between 'economic system reform' and 'political system reform' given a significant profile in the official agenda. See White, 'Basic-Level Local Government and Economic Reform in Urban China', in White, *The Chinese State in the Era of Economic Reform: The Road to Crisis* (Basingstoke, Macmillan, 1990), p.218.

meant redrawing the boundaries of acceptable state intervention in micro-economic decision making. I also discuss those administrative reforms that have explicitly redefined the functions of the state.

### *Decentralisation*

Overcentralisation of state control has been identified in the post-Mao period as one of the most important causes of inefficiency in the command economy. The centralised system was unable to handle a complex economy, and in any case, some jobs were quite simply better done by lower levels. Moreover the duties of bureaux not only to the government at their own level, but also to superior levels of their functional system, had produced conflict and bureaucratism. Decentralisation measures were introduced to remedy these problems.

Administrative decentralisation, that is, devolving powers to lower level branches and local governments, has according to White been regarded 'with suspicion' by reformist leaders because it was the method adopted in the Mao era (when the problems of centralisation were already being tussled with), but also because of fears that it would lead to the creation of 'local kingdoms'.<sup>77</sup> Nevertheless, some administrative decentralisation has occurred in the reform period. This has been primarily from centre to provincial level and in the spheres of control over public finance, material allocations, foreign trade, and personnel management. As well as decentralisation of control between territorial governments, there has also been decentralisation between bureaux in the vertical functional systems.<sup>78</sup> Despite periodic reassertion of central controls in some spheres since 1978, the broad trend has been toward administrative decentralisation.<sup>79</sup> The autonomy of local governments and the individual bureaux within them have increased in some spheres of work.

### *Enterprise Reform and the Transformation of Government Functions*

The reduction of the state's role in micro-economic management was a key measure in the so-called 'urban' economic reforms, begun in the latter half of 1984.<sup>80</sup> These reforms were aimed at

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<sup>77</sup> White, 'Basic-Level Local Government and Economic Reform in Urban China', p.216.

<sup>78</sup> Ibid., pp.215-7.

<sup>79</sup> See for example, Bill Brugger and Stephen Reglar, *Politics, Economy and Society in Contemporary China* (Basingstoke: Macmillan, 1994), p.88. Also, John Burns, 'China's administrative reforms for a market economy', *Public Administration and Development*, Vol.13 (1993), pp.345-60; Kojima, 'The growing fiscal authority of provincial level governments in China'; and Susan Shirk, 'Playing to the Provinces', *Studies in Comparative Communism* 23 (1990), pp.227-258 (p.230) on the decentralisation to provinces of management of financial revenue from 1980. I also found this to be the case in Tianjin. See Chapter 3.

<sup>80</sup> The urban reforms were officially sanctioned at the Third Plenum of the 12th Party Central Committee in October 1984, though some changes were initiated in the early 1980s to introduce enterprise reforms. See the

stimulating industrial production and making the industrial sector more efficient and competitive. The most important policy initiative in this realm was 'enterprise reform'. It was recognised that the key to improving state and collective enterprise efficiency was to allow enterprises more autonomy. Enterprise reform was therefore promoted under the slogan of 'separating government and enterprises' (*zheng qi fenkai*) and has comprised a series of measures.

First, attempts were made to give enterprises more control over their assets. From 1979, enterprises were allowed to retain a portion of their profits<sup>81</sup> and were given increasing autonomy in deciding how it should be spent. The profit submission scheme, in place since the 1950s, was then reformed and a new tax system introduced from 1983.<sup>82</sup> The transition from a system of profit submission to a tax system has been made in stages, and is referred to as 'substituting taxes for profits' (*ligaishui*). However, progress has been slow. This policy was reversed in the late 1980s and replaced with a half-way 'contract responsibility system' (CRS) according to which enterprises made a contract with their department in charge. According to Gordon White, this CRS constituted a compromise forced by parts of the state bureaucracy resistant to giving state enterprises full autonomy.<sup>83</sup> In a renewed effort at reform in this area a revised taxation system was introduced in 1994.<sup>84</sup>

Enterprise reform as presented in 1984 also included establishing an 'economic responsibility system' within enterprises to define more clearly the duties and roles of different workers. The most important element in this was the 'factory manager responsibility system'. This meant replacing the system created in the Cultural Revolution whereby revolutionary committees

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'Decision of the Central Committee of the Communist Party of China on Reform of the Economic Structure' adopted by the Third Plenum on 20 October 1984, in *Beijing Review*, 44 (29 October) 1984, pp.I-XVI.

<sup>81</sup> Trial enterprise reforms began in 1978 six industrial enterprises in Sichuan under Zhao Ziyang. See *Beijing Review* No. 14 (6 April 1981), pp.21-4. For Zhao's role in this reform while in Sichuan see 'Zhao Ziyang's "Sichuan Experience": Blueprint for a Nation', *Chinese Law and Government* (October 1982). For an early account of enterprise reform and its implications for the relationship between the state and enterprises, see Gordon White, 'Changing Relations Between State and Enterprise in Contemporary China: Expanding Enterprise Autonomy', in Neville Maxwell and Bruce McFarlane (eds), *China's Changed Road to Development* (Oxford: Pergamon Press, 1984), pp.43-60.

<sup>82</sup> Before it was introduced, other measures were also experimented with: from 1978-9 there were experiments in profit retention in Sichuan, then in 1981-2, profit contract systems were begun. Elizabeth J. Perry and Christine Wong, 'The Political Economy of Reform in Post-Mao China: Causes, Content and Consequences', in Perry and Wong, *The Political Economy of the Post-Mao Reforms*, pp.1-27, and Barry Naughton, 'False Starts and Second Wind: Financial Reforms in China's Industrial System', *ibid.*, pp.223-252. See also David Bachman, 'Implementing Chinese Tax Policy', in David Lampton (ed), *Policy Implementation in Post-Mao China* (London: University of California Press, 1987), pp.119-153; see pp.124-127 for a description of the pre-reform system; and pp.133-145 on the *ligaishui* reform.

<sup>83</sup> Gordon White, *Riding the Tiger: The Politics of Economic Reform in Post-Mao China* (Basingstoke: Macmillan, 1993).

<sup>84</sup> For a discussion of the 1994 tax reforms and its aims, see *SWB*, FE/2195, 7 January 1995.

made up of Party cadres, PLA representatives and enterprise staff, led factories. The new system made a single manager responsible for performance, though he or she was still subject to the 'leadership' of the enterprise's Party Committee.<sup>85</sup> One of the unsolved problems of the enterprise reforms has been the role of the Party. In the pre-reform system, the Party secretary would have been a key decision maker. In the late 1980s, trial reforms were begun to reduce the influence of the Party over enterprise decision making. This reform has proved difficult to carry out. In many factories and other state enterprises a half-way situation now prevails, with the role of the Party having effectively declined, but without the factory director responsibility system being fully implemented. Often the situation in any given factory is entirely dependent on the status and power of the personalities involved.<sup>86</sup> The problem of Party power in enterprises is particularly problematic in those state enterprises that are now stock companies, and have a board of directors. Since the board is technically in charge of company policy, the Party committees that still exist within the enterprises are now anomalous.<sup>87</sup>

By the late 1980s, enterprise reform was being promoted using the slogan of 'transforming functions' (*zhuanbian zhineng*). The functions referred to here include both those of the enterprises and those of the state administration. Enterprise managers were to make business decisions according to commercial criteria of efficiency and quality. They were no longer to simply carry out detailed plans passed down by the administration stipulating the amounts of goods to be produced or bought, to whom they should be sold, and at what price. For this to be possible, the state administration had to also change its functions and shift from detailed intervention in the business of enterprises to 'macro regulation' or 'management' (*hongguan tiaozheng, guanli*). The link between transforming the way government functioned in the economy and successful reinvigoration of state enterprises was increasingly stressed as the sluggish progress of enterprise reform was argued to be due to the unwillingness of some state agencies to divest themselves of their micro-economic decision making role.<sup>88</sup>

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<sup>85</sup> The army representatives had been gradually phased out of the revolutionary committees during the 1970s. See Battat, *Management in Post-Mao China*, pp.36-42. The economic responsibility system was introduced into the factories along with other elements of the urban reforms, from 1984. For an official statement of its principles and aims, see the Decision of the Third Plenum of the 12th Central Committee (October 1984), pp.XI-XII. For an early, critical, study of the new system, see Yves Chevrier, 'Micropolitics and the Factory Director Responsibility System, 1984-87', Deborah Davis and Ezra Vogel (eds), *Chinese Society on the Eve of Tiananmen* (Cambridge: Harvard University Contemporary China Series, 1990), p.109.

<sup>86</sup> Interviewee 1.

<sup>87</sup> Interviewee 5.

<sup>88</sup> See SWB, FE/1454 B2/1, 8 August 1992, from *Renmin ribao* (People's Daily), 5 August 1991, and Jiang Zemin, 'Report to the 14th Party Congress', p.19, for details of government functions.

### *Price Reform*

Enterprise reforms are closely connected with price reform and the two together are the foundation of the transition to a commodity economy. Price reform, meaning the introduction of a system whereby the prices of goods are determined by supply and demand rather than by administrative decision, was introduced with the aim of stimulating production in both agriculture and industry. Administrative pricing was one of the mechanisms by which enterprises, both industrial and commercial (as well as agricultural producers) were administratively controlled in the pre-reform system. Industrial bureaux set the prices of goods produced by industrial enterprises, while state commerce bureaux determined the wholesale and retail prices for which industrial goods were exchanged by commercial enterprises after they had left the factory.<sup>89</sup> Removal of those controls was therefore an important element of the efforts to give enterprises more autonomy and allow them to make market-based business decisions. Two initiatives aimed at reforming the old system were begun in the 1980s. First, price-setting for goods under state control was unified in a single Price Bureau, instead of being dispersed throughout the system. Then the number of goods for which the state set prices was gradually reduced.

### *Post-Mao Administrative Reforms*

From the beginning, the post-Mao modernisation strategy has included explicit measures to reform the state administration. In 1980 Deng Xiaoping presented his views on the changes needed in Party and state, and these became a blueprint for reform of political and administrative organisation.<sup>90</sup> His early statement has since been developed, but its original aims have remained unchanged. According to Deng, thorough reorganisation of Party and of the state was necessary if economic management was to be made more efficient and productive forces to be successfully developed. He identified lack of separation between Party and government functions, overstaffing, duplication of posts, lack of a responsibility system, and an aged and poorly educated cadre of officials as key sources of inefficiency, and a series of reforms was initiated to deal with these problems.

Deng's proposal to separate Party from government (*dang zheng fenkai*) was an attempt to define and distinguish between the functions of Party organs and those of the state administration.<sup>91</sup>

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<sup>89</sup> For the pre-reform administrative pricing system and a detailed study of this aspect of the economic reforms, see Jiann-Jong Guo, *Price Reform in China, 1979-86* (Basingstoke: Macmillan, 1992).

<sup>90</sup> Deng Xiaoping, 'On the reform of the system of party and state leadership', speech to an enlarged meeting of the CCP Central Committee's Political Bureau on 18 August, 1980 (and endorsed by it on 31 August), in Deng Xiaoping, *Selected Works of Deng Xiaoping* (Vol.1) (Beijing: Foreign Languages Press, 1984), pp.302-325.

<sup>91</sup> White, G. *Riding the Tiger*, pp.43-44, notes that the tasks that the reformers have undertaken since 1978 have broadly involved separating politics, administration and economy. This is one element of that triad.

Henceforth, Party work was to be confined to the ideological sphere and was no longer to include interference in economic management work. To this end, he proposed the separation of Party and government posts, and an end to concurrent tenure in Party and government posts. This was a clear attempt to both depoliticise economic decision making, and reduce the influence of leftists who had dominated decision making in the 1970s.

Efforts to increase efficiency were linked with a need to reduce the size of the administrative apparatus. A streamlining drive was initiated in 1982 that combined structural reorganisation with attempts to reduce absolute staffing levels. It began at the central level with the State Council and was subsequently implemented in the provincial governments. It aimed to reduce overlaps in jurisdiction that impeded decision making, but may have been driven most urgently by a need to reduce state expenditures.<sup>92</sup> This is indicated by nature of the streamlining recommendations, which were crudely devised as blanket instructions for all departments to cut staff by, for example, 20 per cent. Despite initial successes, however, staffing levels soon rose again. This was partly because some streamlining had been faked by merging departments but without real cuts in overall size. In 1988 and then again from 1991 it was reported that state organs at all levels had expanded even beyond pre-1982 levels, and new streamlining drives were initiated. Another round of streamlining, combined with more organisational restructuring, beginning in the departments and organs under the State Council, was carried out from 1988-89 and then again from 1993.<sup>93</sup>

The 1993 restructuring drive seems to have been more thoroughgoing. As in the past, staffing levels have been reduced and departments reorganised, and those whose functions overlapped have been merged. However, for the first time the abolition of ministries and central bureaux has been implemented not by merging them into other existing departments, but by removing them from the government system and turning them into 'councils' or large corporations. The 14th Party Congress announced that this was to be the fate of five central agencies, and by June 1993 the China National Textile Council and the China Light Industry Council had replaced the

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<sup>92</sup> John Burns points out that streamlining drives in 1982 and 1988 followed years of government budget deficits. John Burns, 'China's administrative reforms for a market economy'. The 1993 streamlining drive was preceded by reports of the excessive burden of administrative costs on the state budget. See *Jingji ribao* (Economy Daily), 8 May 1991, and *Qunyan*, 7 August 1991, translated in *SWB*, FE/1173, 10 September 1991. Also see Shangye bu shangye jingji yanjiusuo (Commercial Economic Research Institute of the Ministry of Commerce) (ed), *Xin Zhongguo shangye shigao (1949-82)* (A history of commerce in new China (1949-82)), (Beijing: Zhongguo caizheng jingji chubanshe, 1984), pp.339-40 on the State Council's reforms of state structures in 1981-2.

<sup>93</sup> Burns, 'China's administrative reforms for a market economy'; and 'Big Cuts in Government Employees', *Beijing Review*, 29 March-4 April 1993, p.8.

former ministries of textiles and light industry.<sup>94</sup> The primacy of markets over planning endorsed at that conference meant that certain departments were now superfluous. It was decided that the best way to abolish them while avoiding massive redundancies, was to transform them into business entities.<sup>95</sup> Note, however, that an official report on the new councils states that they 'will focus on making industrial plans, implementing industrial policies, and providing macro direction and services for enterprises.' This is not markedly different from current descriptions of government department functions.<sup>96</sup>

The constant efforts at streamlining have been accompanied by attempts to lower the average age of officials at all levels of the Party and state hierarchy. This is consistent with Deng's 1980 call for a younger and better educated technocratic cadre of officials. Deng argued that one of the obstacles to this was the absence of a retirement system and of regulations for removing, recruiting and rewarding officials.<sup>97</sup> In 1982, retirement policy and policies to bring in younger, better educated officials and promote them more quickly were introduced.<sup>98</sup> These were followed, from 1985, with a more ambitious plan to introduce a civil service system (literally, 'public servant system', *gongwuyuan zhidu*), separating political civil servants from professional ones.<sup>99</sup> Civil service reforms were announced in 1987, and regulations to introduce such a system were drawn up and then subsequently redrafted many times without being promulgated. They were apparently shelved after June 1989, but were put back on the agenda in 1993, when administrative reform received a high profile, and salary increases were promised in conjunction with this reform.<sup>100</sup> Implementation eventually began in 1995.<sup>101</sup>

#### *A New Vision of the State's Role in the Economy*

In 1993, as government reform was given a high profile, streamlining, introduction of the civil service system and the enterprise reform measures were explicitly connected in the statements of leaders and policy makers. A package of ideas had emerged embracing notions of a smaller more

<sup>94</sup> See 'Councils set up to replace old Ministries', *Beijing Review*, 21-27 June 1993, p.7.

<sup>95</sup> See Jiang's Report to the Congress, *Beijing Review*, 26 October -1 November 1992, p.24.

<sup>96</sup> 'Councils set up to replace old Ministries', p.7.

<sup>97</sup> Deng, *Selected Works of Deng Xiaoping*, p.311.

<sup>98</sup> Hong Yung Lee, *From Revolutionary Cadres to Party Technocrats in Socialist China* (Berkeley: University of California Press, 1991). Melanie Manion, 'Politics and Policy in Post-Mao Cadre Retirement', *The China Quarterly* 129 (March 1992), pp.1-25.

<sup>99</sup> See John Burns, 'The Chinese Civil Service Reform: the 13th Party Congress Proposals', *The China Quarterly* 120 (1989), pp.739-770; Jean-Pierre Cabestan, 'The Reform of the Civil Service', *China News Analysis*, No.1437, 15 June, 1991.

<sup>100</sup> See *SWB*, FE/1553, 9 November 1992.

<sup>101</sup> See for example, Foreign Broadcast Information Service, *Daily Report: China*, 7 August 1995, pp.24-5.

efficient government that used only 'macro-intervention' and was removed from the detailed management of the economy through planning, distribution and the running of state enterprises. The vision of the state as a macro-economic manager was connected with the need for a smaller and more efficient state administration. Significantly, the official adoption of the strategy of moving to a 'socialist market economy' was accompanied by a new streamlining push, including the transformation of the functions of some central government ministries and bureaux. The acceptance of the primacy of the market has allowed for a clearer articulation of the role of the state and more definitive policy making toward actually achieving the broad vision that has been taking shape.

However, state reform is part of a complex economic and administrative environment and dependent on progress in other areas. State reforms have not therefore gone entirely to plan. One unintended outcome of the reform process is state entrepreneurialism, which entails a continued state role in micro-economic activity that in many ways undermines central policy makers' new vision of the state in the market economy. This state entrepreneurialism is in part the response of individual departments to lack of progress in other areas of reform and the constraints produced in the process of market transition. Because state entrepreneurialism offers a way around certain other problems in the reforms, it has been tolerated by China's leadership even though in the short term it undermines achievement of the idealised state role. The central leaders' ambivalence toward the new state businesses, is discussed in the final section of this chapter. First, I describe the impact of economic reform on urban government departments which forms the background to the spread of state entrepreneurialism in the cities.

### **The Impact of Reform on Urban Government in the 1980s**

The post-Mao economic reforms have had an enormous impact on economic and social life in the cities and therefore also on urban government work. The per capita consumption of the urban population has risen from 383 *yuan* per annum in 1978 to 1,686 *yuan* in 1991.<sup>102</sup> Both disposable income and the range of consumer goods has increased, and lifestyles have been visibly transformed. Skylines have been distorted beyond recognition by scaffolding, shiny office blocks and towering hotels. All restaurants used to be state-run, but now there are small private cafés, neon-lit bars and coffee houses everywhere. Instead of shopping at state stores with ration coupons, urban dwellers these days are more likely to make a short trip to the nearby free market where they can buy Filipino bananas, and eggs, fish, meat and a wide range of vegetables. Joint ventures have

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<sup>102</sup> Guojia tongji ju, *Zhongguo tongji nianjian 1992*, p.276.

brought in foreign products and new fashions, and taxis clog streets that just ten years ago teemed with only bicycles and trolleybuses.

Demographic changes have also altered China's cities. Many of the new street markets are filled with farmers from the surrounding countryside who arrive daily to sell their produce. The household registration system that together with grain rationing prevented rural dwellers from migrating to the cities has been undermined by the liberalisation of grain prices and rising incomes. Unemployed rural dwellers now venture in to seek employment, not only as construction workers, a long-standing phenomenon, but also to ply other trades. These migrants of different kinds form just one part of the so-called 'floating population' that is an indicator of the new geographical mobility in China.<sup>103</sup> The downside of such mobility in the cities is not only rising crime, prostitution and growing numbers of beggars on the streets, but in some areas also re-emergent slavery and drugs trades.

The reforms of the economy and administrative system entail great changes in the work of urban state agencies.<sup>104</sup> The changes wrought in the 1980s have already been documented.<sup>105</sup> The reform strategy of improving living conditions and encouraging consumer-led growth, has turned the spotlight on improving the provision of basic social services and housing. This is the domain of local governments and their tasks have increased as a result. The 1984 Decision of the 12th Central Committee stated that urban governments were to concentrate on urban planning and construction, the building of public facilities, ecological work, guiding and assisting enterprises, promoting the 'rational' circulation of commodities and materials, and cultural, public health, welfare and services work.<sup>106</sup> Some of the welfare tasks, for example, had been carried out by the SOEs in the pre-reform system, but because the employment profile in cities is changing and many more people are employed in collective, private, or individual enterprises that provide little or no welfare, this responsibility is now falling on urban governments. In some places and sectors, SOEs are also in financial difficulty, and having problems maintaining good welfare coverage.

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<sup>103</sup> Dorothy J. Solinger, *China's transients and the state: A form of civil society?* (Hong Kong: Hong Kong Institute of Asia-Pacific Studies, Chinese University of Hong Kong, 1991).

<sup>104</sup> Even though the urban reform strategy did not include measures to formally change the organisation of city government or the system of political representation. Some changes have been made to the People's Congress system, but no fundamental reorganisation. See Footnote 11.

<sup>105</sup> Particularly by Gordon White. In the following discussion I draw especially on his, 'Basic-Level Local Government and Economic Reform in Urban China', in G. White (ed), *The Chinese State in the Era of Economic Reform: The Road to Crisis* (Basingstoke: Macmillan, 1990).

<sup>106</sup> 'Decision of the 12th CCP Central Committee's Third Plenum', p.X.

Initiatives to decentralise the administration were promoted in official statements launching the urban reforms.<sup>107</sup> There has been a trend toward the decentralisation from the centre to the provinces of financial and personnel controls, and controls over state enterprises. There has also been an increase in the income of local governments beyond that allocated (together with planning quotas) by the centre. This 'extra-budgetary' income is derived, for example, from collective enterprises that are owned by the lower levels of government and have increased in numbers and often in profitability in reform period.<sup>108</sup> Other sources of extra-budgetary revenue include fees charged by government departments, and the depreciation funds of their enterprises. However, while increases in extra-budgetary revenue might have gone to sub-provincial as well as provincial local governments, as White notes, the indications are that the devolution of controls over public finance and materials allocation between the centre and provinces since 1979 has been much more limited below that level, and urban district governments have had fewer significant controls transferred to them.<sup>109</sup>

At the same time, the tasks of urban governments have become more complex in ways not predicted in the reform proposals. For example, private businesses have proliferated since the mid-1980s and the tasks of registering them and collecting taxes have fallen on state agencies in the cities. Emphasis on raising living standards has resulted in a switch to concentration from heavy industrial production to light industry and consumer-led growth. This too has increased the workload of local level state agencies because the 'tertiary' and 'service' sectors<sup>110</sup> that have grown most rapidly in the 1980s are typically controlled and managed by lower levels of government. While this may have increased the income of municipal and district governments in the cities, it has also strained administrative capabilities. District officials are feeling increasingly under pressure and complain that their powers and authority must be made commensurate with their duties if they are to carry them out effectively.

In response to the expansion in their functions, district governments have grown in size. This started before the reform period. In 1954 it was stipulated that sub-municipal districts could set up Sections for Civil Affairs, Production Co-operation, Industrial and Commercial Management, Construction, Labour, Education and Cultural Affairs, Sanitation, as well as branch offices of

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<sup>107</sup> The 1984 Decision, which lays out the next stage of the reforms as reforming enterprises (by changing the internal management of enterprises) and the price system, and changing the relationship between state and enterprises, streamline government and decentralise administration. See footnote 2.

<sup>108</sup> See SWB FE/1512, 15 October 1992.

<sup>109</sup> White, 'Basic-Level Local Government and Economic Reform in Urban China', p.229.

<sup>110</sup> '*Disan chanye*' in Chinese. This includes light industrial enterprises, retailers and restaurants.

Municipal Public Security and Tax Bureaux.<sup>111</sup> By the 1980s, such district governments largely replicated government at the municipal level, and the 1980s' reforms have continued to induce organisational proliferation.<sup>112</sup>

The growing pressures and burdens on district governments have put their reform on the agenda since the mid-1980s. Since then, both local officials and Chinese social scientists have argued that local governments need to be given greater authority if they are to be able to carry out their work effectively.<sup>113</sup> Neighbourhood offices and residents' committees have similarly grown in size and importance since they were established in the 1950s. Such is the increased burden falling to the neighbourhoods, that the possibility of making them a level of government, by setting up People's Congresses there, was discussed in the mid-1980s. Experiments in neighbourhood reform were begun in some cities in the mid-1980s.<sup>114</sup>

Urban governments have felt the impact of the economic reforms in many ways. Especially after 1984, many of the established practices of government and its role in the economy, work practices and norms of official behaviour, have been under attack. Yet, while the central leadership envisages a leaner state to accompany its market economy, state departments in the cities are feeling the burden of new tasks and responsibilities. As a result of these constraints, urban state agencies, like those in other parts of the state system<sup>115</sup>, have taken up opportunities provided by market reform and created new enterprises to earn income for themselves and to allow them to conform with streamlining policies.

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<sup>111</sup> 'Zhonghua renmin gongheguo difang ge ji renmin daibiao dahui he difang ge ji renmin weiyuanhui zuzhi fa' (Law of the People's Republic of China for the organisation of Local Peoples' Congresses at all levels and Local People's Committees at all levels), in *Zhonghua renmin gongheguo xingzhengfa ziliao xuanbian* (Selected Documents on Administrative Law of the People's Republic of China) (Beijing: 1984), pp.131-140.

<sup>112</sup> White, 'Basic-Level Urban Government and Economic Reform in Urban China', p.231.

<sup>113</sup> See for example Zheng, 'Shilun chengqu gaige de tupokou he zhongxin huanjie'.

<sup>114</sup> For an account of the proposals for reform in the mid-1980s, and the experiments carried out, see White, 'Basic Level Government and Economic Reform in Urban China', pp.221-2, 224. See also Zhonggong Shanghai shiwei bangongting shiqu chu, *Chengshi jiedao banshichu, jumin weiyuanhui gongzuo shouce*, p.7.

<sup>115</sup> Li, "'Shiti re" chutan', p.9; Liu D. 'Xingban jingji shiti ying zhuyi xie shenme: shi gongxiazongshe de zuofa zhide jiejian' (Things deserving attention when setting up economic entities: lessons from the experience of the Municipal SMC) *Tianjin shangye jingji*, 1993.2, pp.26-7.

### Central Policy on State Entrepreneurialism

State entrepreneurialism has not been prescribed in central policies or directed by central government. It also runs counter to reforms promoting the minimal, macro-managing state, since it means that the state is still involved in micro-economic activity. But because of the problems that they solve, central leaders seem to have been in a dilemma over whether or not to permit state entrepreneurial activities. They approve of officials leaving their departments to 'plunge into the sea' and since late 1992 official statements have explicitly linked it with the streamlining drive.<sup>116</sup> But, the official line on whether officials may do business while still employed in, or attached to, government (or Party) organs has been less clear.

From the 1950s officials were forbidden to do business.<sup>117</sup> In any case, this was made virtually impossible when the state planning system was fully established and market allocation of goods eliminated. However, the issue has emerged again as that system has been dismantled since 1979. Since then, central leaders' responses to the new state businesses has been inconsistent. At first, they ordered a clear separation between state bureaux or agencies and the companies they had established.<sup>118</sup> In August 1988 a central Party and government issued a 'Decision' stipulating that no official Party or state organs should use official budgets to set up companies, and that:

'Those companies that have already been set up with such funds or loans must have their fiscal affairs and assets completely separated from the Party or other organs within a specific period. All capital invested in these companies shall be considered state property, to be controlled by financial departments at all levels. No Party or other organs shall in any name collect money or anything from these companies and use it to defray financial expenses or workers' welfare services, or pay for their bonuses or subsidies'.<sup>119</sup>

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<sup>116</sup> See for example, *Jin wan bao*, 5 October 1992, which mentions Jiang Zemin recently encouraging officials to engage in tertiary, service industry work.

<sup>117</sup> Lu Xiaobo, "'Small Public' Economy: The Revolutionary Origins of the Danwei', in Lü and Perry (eds), *Between State and Society: The Chinese Work Unit in Historical and Comparative Perspectives* (forthcoming). This was done through directives from central government, rather than stipulated in law. Hence the lack of definition mentioned above.

<sup>118</sup> One Chinese analyst has claimed that the state businesses in the late 1980s were qualitatively different from those which emerged again in 1992. In the 1980s officials set up false companies for speculation and profiteering purposes. Li Qin, "'Shiti re" chutan' (Initial study of the 'craze for establishing economic entities'), *Liaowang*, 10 August 1992, p.10. For an English language translation of parts of this article see *SWB*, FE/1504, 6 October 1992.

<sup>119</sup> *SWB*, FE/0285, 18 October 1988.

The Decision emphasised that 'regulations of the CCP Central Committee and the State Council forbidding cadres of Party and state organs to engage in commercial activities must be strictly enforced'. It initiated a policy of 'screening' all companies established since 1986 to ensure that these rules were implemented.<sup>120</sup>

In February 1989 the central Party and government issued a joint circular reiterating that officials were forbidden to be concurrently employed in enterprises.<sup>121</sup> The screening policy was promoted throughout early 1989, though apparently making slow progress. In mid-August 1989 another central 'Decision' stated that the problem was:

'The lack of resolution in recent years in enforcing the central authorities' decision that Party and government organs are not permitted to do business or operate enterprises, and the unscrupulous policy of encouraging government organs and institutions to 'increase revenues'.'

The document went on to offer reassurances that this did not mean all companies would be closed down, noting that companies had a positive role to play in the nation's economy, and that the screening campaign was aimed at correcting 'the operational and development problems of companies and eliminating the current chaos so that our economy can be further enlivened and developed.'<sup>122</sup> Not all companies were the target, but a tougher stance was being taken toward enterprises set up by state agencies. It stated that 'the overwhelming majority' of companies set up with the 'administrative budgets, operating budgets, special appropriated funds, non-budgetary funds, bank loans, private funds or funds raised by various means to set up companies' of Party, state, administrative, judicial, procuratorial or mass organisations 'including those that have been financially dissociated from organs and organisations during the course of screening and consolidation, should be closed'. Only the small number of well-run firms that meet public needs were to be allowed to continue operations, and only on condition that they were dissociated from the organs they were formerly connected with. A national leading group had been set up under the State Council to oversee the screening of companies.<sup>123</sup>

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<sup>120</sup> Ibid.

<sup>121</sup> *SWB*, FE/0385, 15 February 1989.

<sup>122</sup> *SWB*, FE/0548, 30 August 1989. This official text mentions corruption in connection with the companies.

<sup>123</sup> Ibid., 30 August 1989.

The campaign to screen companies continued until at least January 1990, but little more was heard on this subject until mid-1992. This may be because the campaign was successful<sup>124</sup>, particularly in the stifling political atmosphere that followed the June 1989 Tiananmen crackdown. The economic retrenchment at this time would also have limited state business activities. However, the issue re-emerged in mid-1992, soon after Deng Xiaoping gave the go-ahead for renewed economic liberalisation. The Hong Kong press reported a central Party and State Council circular in July 1992 that forbade official units at the county level or above (which includes the district level) from setting up or running enterprises. The circular is said to have stipulated that all economic entities established by them must be severed from Party and government organs, in name and in terms of finances and personnel.<sup>125</sup> It stated that income from such enterprises must not be spent on increasing the wages, bonuses and subsidies of Party and government organ cadres or other welfare expenditures.<sup>126</sup>

The July 1992 Circular is reported to have contradicted another central Party document of May 1992 which had permitted official departments and officials to run businesses though it did not explicitly abrogate the earlier document or recent lower level regulations permitting business activities by officials and state agencies.<sup>127</sup> The line seemed to harden in the summer. On 7 June, the Secretary-General of the State Council, Luo Gan, 'reiterated the relevant regulations that Party and government organs and Party and government cadres cannot run businesses'.<sup>128</sup> In September 1992, Liu Minxue, director of the State Administration for Industry and Commerce, noted that rules applied in 1987-88 to close down enterprises set up by government officials still applied, and that Party and government institutions and officials must dissociate themselves (in name, financially and in terms of personnel/employment status) from their administrative organisation before getting involved in 'economic activities'. However, Liu noted that this was difficult to effect, and 'therefore, some localities are allowed to experiment for a 'transitional period' of one to three years, but they should eventually effect a thorough dissociation'.<sup>129</sup> A vital get-out clause had been inserted.

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<sup>124</sup> One central ministry chief remarked in September 1992 that 'between 1987 and 1988, China checked the craze for establishing business companies by closing down over 100,000 companies, suspending or changing their operations, or merging them into other enterprises'. *SWB*, FE/1512, 15 October 1992. State agencies in Tianjin began setting up new enterprises in large numbers from summer 1992. Very few seemed to have been established before this. This may either be because earlier ones had been closed down in the period of retrenchment, or because this phenomenon simply reached Tianjin later.

<sup>125</sup> *South China Morning Post*, 16 July 1992, and *Ta Kung Pao*, on 15 July 1992, see *SWB*, FE/1453, 7 August 1992.

<sup>126</sup> *SWB*, FE/1453, 7 August 1992.

<sup>127</sup> *South China Morning Post*, 16 July 1992.

<sup>128</sup> Li, "'Shiti re" chutan', pp.9-11.

<sup>129</sup> *SWB*, FE/1512, 15 October 1992.

There are also indications that some central leaders were approving state businesses in the early 1990s. One official report states that from 1991 to late 1993 400 companies were established by Party and government departments with the approval of the Central Party Committee. This report also notes that enterprises have been set up under the that Committee, and also under people's congresses, courts and the military. It justifies this by saying that claims that most 'have played a positive role in separating government and enterprises, changing government functions, resettling government functionaries and developing tertiary industries'. But the report also admits that other businesses have not severed links.<sup>130</sup>

Central Party and government regulations issued in October 1993 and calls again in late November for ties between new enterprises and government offices to be severed indicate at least some within the central leadership still concerned about this phenomenon.<sup>131</sup> It is clear that the central government prefers officials going into business to become completely independent of the government departments for which they formerly worked, but that it is reluctant to ban such companies altogether because they perform a positive function in absorbing officials from state agencies and streamlining the state administration.

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<sup>130</sup> *SWB*, FE/1857, 27 November 1993, from Xinhua News Agency, 23 November. Li Peng also refers to screening companies at the central Party and state levels (though the precise nature of the companies is not discussed). See *SWB*, FE/0601, 31 October 1989.

<sup>131</sup> *SWB*, FE/1829, 26 October 1993, and *SWB*, FE/1857, 23 November 1993.

## Conclusion

China's market reforms mean readjustments for the state planning system that had operated in the PRC for almost forty years. In the cities this has led to an increase in many functions, and a shortage of revenues (despite decentralisation measures). Urban government bureaux have responded to these constraints and the opportunities that market reform has provided by setting up businesses. In doing so they retain a role in the economy that seems to run counter to the Chinese leadership's vision of the state as only a macro-economic manager. However, the central government has been unwilling to wholly condemn the new practices because of they provide employment for officials and thus allow departments to be streamlined. In the absence of a clear ban, local governments are, for similar reasons, hesitant to forbid them.<sup>132</sup> One central leader noted as early as October 1989 that the problem in separating new enterprises from the departments that established them was the 'wait-and-see attitude' in many localities.<sup>133</sup> Apparently local leaders did not want to be the first to prohibit such practices if all other areas are benefiting from them. Tianjin's municipal government, like other local governments, has not openly promoted such new state business practices, but it may have tacitly approved them. The next chapter will discuss this and the wider context of state entrepreneurialism in Tianjin.

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<sup>132</sup> China's weak legal system means that the definitions and boundaries of official activities are blurred and dependent on central government decree. This is commonly noted as a problem in China. One newspaper article in early 1993 reported a local academic saying that because of the 'company craze' there is urgent need for a national company law, otherwise 'ownership rights are not clear'. *Jin wan bao*, 17 March 1993.

<sup>133</sup> There were said to be four kinds of wait-and-see attitudes: 'People in the west are waiting to see what people in the east are doing; those in the north are waiting to see what those in the south are doing; those in the interior are waiting to see what those in the coastal areas are doing; and the local governments are waiting to see what the central authorities are doing'. *SWB*, FE/0601, 31 October 1989.

## Chapter 3

### Tianjin: The Government of a City Under Reform

#### Introduction

##### *Early Tianjin*

Tianjin is a large, industrial city in Northeast China. It sits on the coast where the Hai river flows into the Bohai gulf 130km south-east of Beijing. There are records from the 12th century of a settlement on the banks of that river near present day Tianjin.<sup>1</sup> This settlement (then called Zhiguzhai) became a transport centre during the Yuan dynasty (1280-1368) when the capital was established at 'Dadu', present-day Beijing. As a coastal port and because of its proximity to the grand canal that brought grain from the south, Tianjin was a natural gateway to the capital and became the place from which grain was transported to Dadu.<sup>2</sup> By the early 15th century the name Tianjin was in use, and the settlement had become a walled city and military base from which the capital, now under the Ming dynasty, was protected. In the 18th century the settlement grew rapidly and was an important centre for commerce, finance and salt distribution.<sup>3</sup>

From 1860, following the Treaty of Beijing that declared Tianjin an open trading port, Britain, the United States and France established concessions in the heart of the city.<sup>4</sup> Germany and Japan did the same after the Sino-Japanese war ended in 1894, and in 1900 Russia, Belgium, Italy and Austria-Hungary brought the number of foreign countries with concessions in Tianjin to nine. Some of these remained until the end of the second world war.<sup>5</sup> Today the centre of Tianjin is a museum of early 20th Century Japanese and European architecture.

Commerce developed rapidly in Tianjin from the mid-19th century onwards as the foreign presence stimulated import-export trade, modern industries were established, and banks, shops and hotels sprang up.<sup>6</sup> At the turn of the 20th century the growth of the railway system

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<sup>1</sup> Tianjinshi lishi bowuguan (Tianjin Municipal History Museum) et al (eds), *Jindai Tianjin tuzhi* (A Pictorial History of Modern Tianjin) (Tianjin: Tianjin guji chubanshe, 1992), p.2.

<sup>2</sup> Zhu Qihua et al (eds), *Tianjin quanshu* (Encyclopaedia of Tianjin) (Tianjin: Tianjin renmin chubanshe, 1991), p.16.

<sup>3</sup> Sen-dou Chang, Xu-wei Hu, and Jun-jie Sun, 'Tianjin: North China's Reviving Metropolis', in Yue-man Yeung and Xu-wei Hu, *China's Coastal Cities: Catalysts for Modernization* (Honolulu: University of Hawaii Press, 1992), p.42.

<sup>4</sup> The 1958 Treaty of Tianjin authorised the establishment of British and French concessions in the city. Chang et al, 'Tianjin: North China's Reviving Metropolis', pp.42-3.

<sup>5</sup> Tianjinshi lishi bowuguan, *Jindai Tianjin tuzhi*, p.50. The Japanese and German concessions were yielded in 1919, the Russian concession in 1924, and the Belgian concession in 1931. Zhu, *Tianjin quanshu*, pp.19-20.

<sup>6</sup> Tianjinshi lishi bowuguan, *Jindai Tianjin tuzhi*, pp.72,102; Chang et al, 'Tianjin: North China's Reviving Metropolis', pp.42-3. For an evocative description of Tianjin in the first half of the 20th century, see Gail Hershatler, *The Workers of Tianjin, 1900-1949* (Stanford: Stanford University Press, 1986), chapter 1.

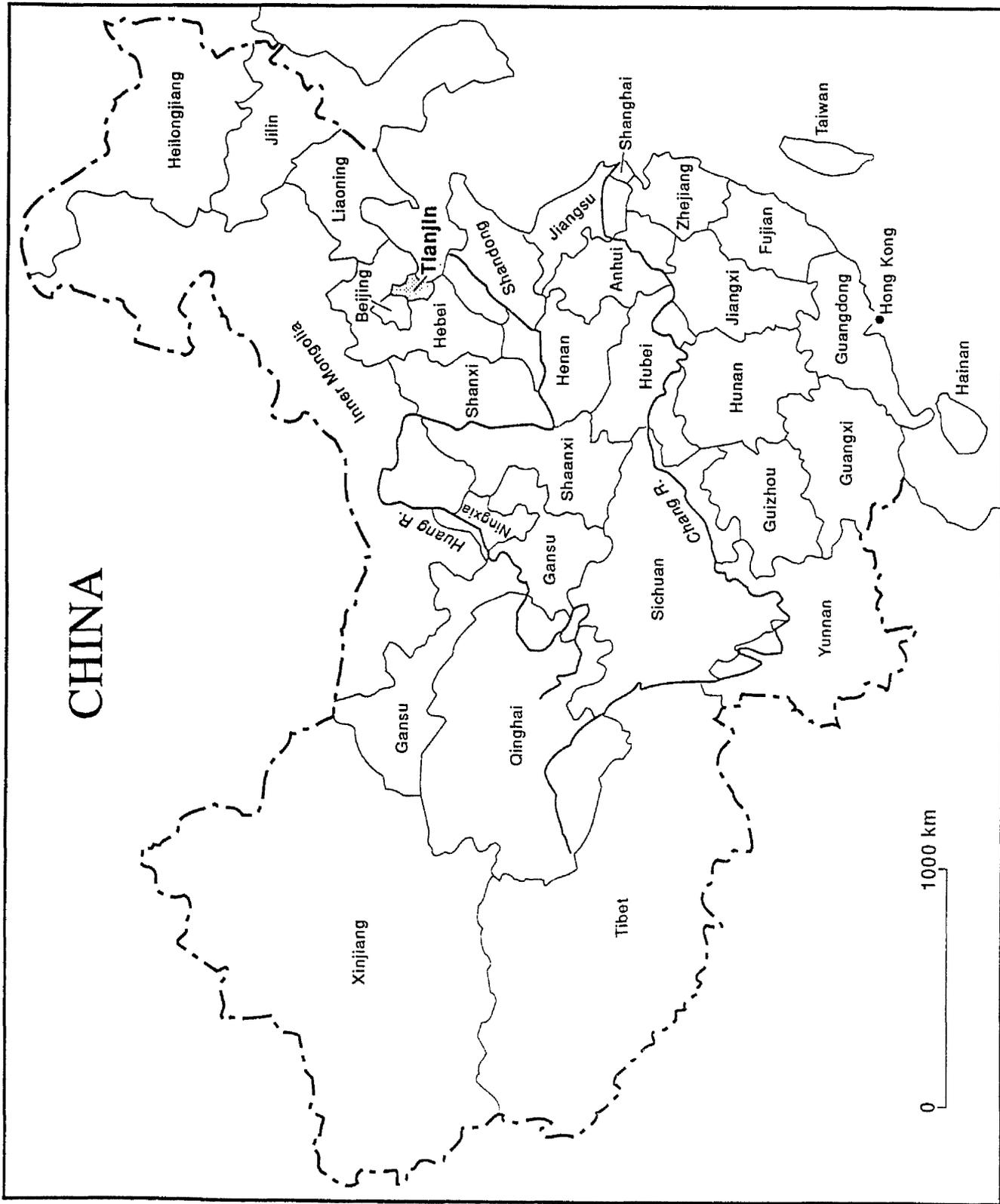


Figure 3.1 Map of China

began to extend Tianjin's hinterland, and the city had become an important shipping centre in the western Pacific. During the Republican period (1911 to 1949) import-export trade, particularly in cotton, leather and woollens, continued to grow. Industry also expanded in the early part of that period, though foreign-dominated trade was the backbone of Tianjin's economy.<sup>7</sup> A military industry was developed in Tianjin by the Japanese during their occupation in the Second World War, though other industries declined rapidly during the Civil War that raged between the Nationalist government and the Chinese Communist Party from 1945 to 1949.<sup>8</sup>

### *Tianjin, 1949-79*

Tianjin was taken by the CCP in January 1949 as its armies swept southwards in the final phase of the civil war against Chiang Kaishek's Nationalist government.<sup>9</sup> Since then, it has retained its name as an industrial city. Indeed industry's contribution to the city's economy increased from 69 per cent in 1949 to 82 per cent in 1977.<sup>10</sup> The pre-1949 bias toward small-scale, light industry has declined. Large-scale heavy industry was developed in the post-1949 period and by 1975 light and heavy industry accounted for equal shares of industrial production value.<sup>11</sup> From 1949 to 1979 average annual industrial growth was nine per cent for Tianjin, though this was behind the national average of 11.1 per cent.<sup>12</sup> Service industries, out of favour in the Mao period, declined in relation to the overall size of the city's economy. In 1949 it contributed almost 12 per cent of the city's production value. The proportion rose for the first few years of CCP rule, reaching almost 17 per cent in 1953 but then dropped again. In the 1970s it consistently contributed just over five per cent.<sup>13</sup>

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<sup>7</sup> Ibid., p.39.

<sup>8</sup> Chang et al, 'Tianjin: North China's Reviving Metropolis', p.43.

<sup>9</sup> Kenneth Lieberthal, *Revolution and Tradition in a Chinese City: the Case of Tientsin, 1949-52* (Stanford: Stanford University Press, 1980), describes the early years of the CCP rule in the city.

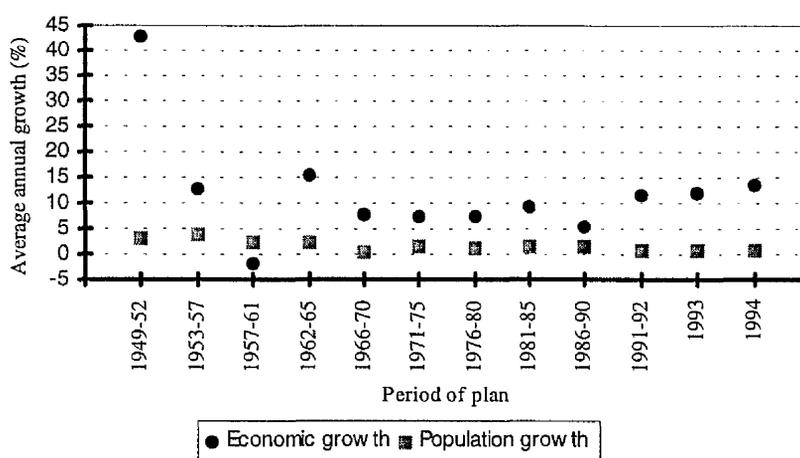
<sup>10</sup> It had reached 84 per cent in 1969 and 85 per cent between 1969 and 1971. Tianjin sishinian bianji bu, Tianjinshi tongji ju (Editorial department of Tianjin's Last Forty Years and Tianjin Statistical Bureau) (eds), *Tianjin sishi nian, 1949-89* (Tianjin's Last Forty Years, 1949-1989) (Beijing: Zhongguo tongji chubanshe, 1989), p.207.

<sup>11</sup> In 1949 light industry accounted for 88 per cent of the city's industrial output value. By 1978 this had been reduced to 51 per cent. Tianjin sishi nian bianji bu, tongji ju, *Tianjin sishi nian, 1949-89*, p.419.

<sup>12</sup> Chang et al, 'Tianjin: North China's Reviving Metropolis', p.44.

<sup>13</sup> Tianjin sishi nian bianji bu, tongji ju, *Tianjin sishi nian, 1949-89*, p.207. Commerce's contribution to the city's income also fell, from 26.7 per cent in 1949 to 12.6 per cent in 1978.

Figure 3.2 Economic and Population Growth in Tianjin, 1949-94



Sources: Tianjin sishinian bianji bu, Tianjinshi tongji ju, *Tianjin sishinian, 1949-89*, p.191; Tianjinshi tongji ju, *Tianjin tongji nianjian 1993*, p.33; FBIS, 8 April 1994; FBIS, 28 April 1995. For full figures see Appendix 3, Table 3.1.

Tianjin's economy grew over the Mao period, from a 0.4 billion *yuan* in 1949 to 9.3 billion *yuan* by the end of 1979.<sup>14</sup> However, as shown in Figure 3.2, growth rates have fluctuated enormously during this period. The city's economy grew rapidly immediately after the CCP took power, in the so-called 'Period of Reconstruction', attaining a recorded average annual growth rate of 42.6 per cent between 1949 and 1952 that slowed to a still very good 12.8 per cent during the period of the first five year plan (1953-7).<sup>15</sup> While negative growth was registered in the period of the second five year plan that included the disastrous years following the Great Leap Forward, recovery was rapid in the early sixties. Through the late sixties and the seventies, a steady average of around 7 to 8 per cent was recorded.<sup>16</sup> Tianjin's contributions to central

<sup>14</sup> Figure for 1949 from Tianjin sishi nian bianji bu, tongji ju, *Tianjin sishi nian*, p.191, and figure for 1979 from Tianjinshi tongji ju, *Tianjin tongji nianjian 1993*, p.33.

<sup>15</sup> Tianjin sishi nian bianji bu, tongji ju, *Tianjin sishi nian*, p.191.

<sup>16</sup> Tianjinshi tongji ju, *Tianjin tongji nianjian 1993*, p.33. Figures are all gross annual growth rates. As can be seen in Figure 3.2, the city's population growth has been at a steady rate of approximately 1.5 per

government finances also rose steadily from almost 146 million *yuan* in 1950 to 2.3 billion in 1978.<sup>17</sup> At the same time, the population of around 4 million in 1949 (with 1.9 million in the central urban districts<sup>18</sup>) had increased to almost 7.5 million by 1979.<sup>19</sup> In terms of population Tianjin was (and still is) the third largest urban centre in China. But despite the city's size, importance as a port, and steady economic growth, it was eclipsed in the Mao era by the nearby national capital, Beijing.

#### *Tianjin in the 1980s and Early 1990s*

In the post-Mao era, Tianjin has remained the second city to nearby Beijing. Tianjin is one of the 14 designated 'coastal cities' and part of the rapidly changing eastern littoral, and its economy has grown steadily over the 1980s and into the 1990s.<sup>20</sup> The gross production value of the city rose from 9 billion *yuan* in 1979 to 50.3 billion in 1993.<sup>21</sup> But Tianjin is located in the north of China far from the most dynamic provinces reaping the rewards of their proximity to Hong Kong and Taiwan and has not matched the performances of cities like Guangzhou and Shanghai.<sup>22</sup> Tianjin has not attracted the same volume of foreign investment and trade, and its industrial enterprises have been struggling in the reform period. Its share of the national economy dropped from 2.1 per cent in the mid-1980s to 1.7 per cent in the early 1990s.<sup>23</sup> It is still seeking a way to develop its own comparative advantage, for example by developing its port and garnering trade

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cent for most of that period, revealing that the average per capita increase in the city's economy has been steady. The data is in Table A3.1 in Appendix 3.

<sup>17</sup> Tianjin sishi nian bianji bu, tongji ju, *Tianjin sishi nian, 1949-89*, p.903.

<sup>18</sup> Zhu et al, *Tianjin quanshu*, pp.9-10.

<sup>19</sup> Tianjinshi tongjiju, *Tianjin tongji nianjian 1993*, p.33. See Figure 3.2 for Tianjin's average annual population growth since 1949.

<sup>20</sup> See Figure 3.2. The latest figures cited here, as elsewhere in the dissertation, are where possible for 1993, the year in which fieldwork was carried out. Where figures are not available for 1993 I have used the latest available. Where new statistical information has been published and become available in the UK for years after 1993, it is also cited for comparison.

<sup>21</sup> In 1994, this rose to 72 billion *yuan*, Foreign Broadcast Information Service, *Daily Report: China* (hereafter, FBIS), 28 April 1995. Figure for 1979, Tianjinshi tongjiju, *Tianjin tongji nianjian 1993*, p.33; figure for 1993 from FBIS, 10 March 1994.

<sup>22</sup> In 1991, Tianjin's gross production value (*guonei shengchanzhi*) was 33.7 billion *yuan*, whereas Beijing's was 55.9 billion, and Guangzhou's 38.7 billion. Guojia tongji ju chengshi shehui jingji diaocha zongdui (The urban social and economic investigation team of the state statistical bureau) (ed), *Zhongguo chengshi tongji nianjian 1992* (Statistical yearbook of China's cities, 1992) (Beijing: Zhongguo tongji chubanshe, 1992), pp.126-134.

<sup>23</sup> Figures for 1985 and 1992 respectively, from Tianjinshi tongjiju, *Tianjin tongji nianjian 1993*, p.43.

with nearby countries such as South Korea and Japan.<sup>24</sup> There are also ambitious plans to develop the city's chemical and pharmaceutical industries by expanding on marine chemicals and petrochemicals that are facilitated by Tianjin's coastal location and oil fields.<sup>25</sup>

The city's textile industries are also being developed. Tertiary industry has begun to reassert itself after the emphasis on building productive capacity during the first thirty years of the PRC.<sup>26</sup> Small-scale commerce has flourished in Tianjin, and the shops and thriving street markets are now filled with a wide range of agricultural produce and consumer goods. Yet, while there has been a shift in the balance between different industrial sectors, industry as a whole has continued to grow.<sup>27</sup>

Tianjin was for many years relatively deprived of investment in urban infrastructure and construction. This meant that the city's housing stock deteriorated. In 1976 the Tangshan earthquake exacerbated existing problems, damaging almost two thirds of the city's buildings.<sup>28</sup> Eventually, however, the central government provided injections of cash to remedy the situation, and during the early 1980s serious efforts were made to repair and rebuild the buildings, utilities and infrastructure that had been damaged or destroyed.<sup>29</sup> Economic growth since then has meant that new buildings, usually office blocks, department stores or houses, have continued to spring up throughout the city.

Life in Tianjin has changed dramatically in the post-Mao period. First of all, the city's population has grown from 7.5 million in 1980 to 9.3 million in 1994.<sup>30</sup> For many people in Tianjin living standards have been raised. Average annual per capita income for residents has increased from 1252 *yuan* in 1980 to 3931 *yuan* in 1992.<sup>31</sup> Tianjin is now China's fourth city in terms of per capita income, behind Guangzhou, Shanghai and Beijing.<sup>32</sup> Many of its residents are

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<sup>24</sup> For Tianjin Mayor Nie Bichu's plans to make the city into the mainland's Hong Kong, see *Beijing Review* (23-29 November 1992), p.30.

<sup>25</sup> Chang et al, 'Tianjin: North China's Reviving Metropolis', p.52.

<sup>26</sup> *Ibid.*, pp.48-9.

<sup>27</sup> Total industrial output value grew at an annual rate of 14.6 per cent per year between 1979 and 1989. Guojia tongji ju chengshi shehui jingji diaocha zongdui, *Zhongguo chengshi jingji shehui nianjian*, 1990, p.312.

<sup>28</sup> Zhu, *Tianjin quanshu*, p.1.

<sup>29</sup> See Chang et al, 'Tianjin: North China's Reviving Metropolis', pp.52-4.

<sup>30</sup> Figure for 1980 from Tianjinshi tongjiju, *Tianjin tongji nianjian 1993*, p.33; figure for 1994 from FBIS, 28 April 1995.

<sup>31</sup> Approaching £400. This was an increase of 381.4 *yuan* on the previous year. Figures from Tianjinshi tongjiju, *Tianjin tongji nianjian 1993*, p.43.

<sup>32</sup> *Jin wan bao*, 24 May 1993.

prospering, as revealed in a variety of ways. One local newspaper article noted that the new flea markets for second hand goods that appeared for the first time in Tianjin in late 1992 had been made possible by people's rising incomes and surplus possessions, unimaginable in the Mao years.<sup>33</sup>

There is now much greater mobility in China, both social and geographical. In the Mao era jobs were allocated by the state and rural-urban migration was controlled. Increased wealth and business opportunities together with a nascent labour market have enabled many urban dwellers to work outside the state sector and change jobs more easily. A city like Tianjin also attracts rural migrants who come to the city to either sell goods on the many street markets, or find work. Greater mobility and opportunity bring problems, however. Many migrant workers in Tianjin live in makeshift huts that resemble the shanty towns common to large cities in the developing world. The rise in organised crime, violence, prostitution and gambling reflect the problems of policing a more mobile urban society. New and commonly-publicised crimes are often connected with the city's flourishing trade and commerce.

The economic and social environment is becoming increasingly complex in Tianjin. There is now a much wider variety of economic organisation. State-run and collective industrial and commercial enterprises have been joined by private companies and foreign invested joint ventures. All kinds of new institutions and companies are being established to serve new needs. In one Tianjin district, for example, a retired official had set up an office for investigating incidents relating to the private economy (*siren jingji shijian diaochasuo*). This office represented private individuals and investigated economic crimes and disputes, and provided legal advice as well as finding missing friends and relatives.<sup>34</sup>

The dominant economic and social trends during the 1980s and into the 1990s were toward growth and mobility, though this proceeded in phases or cycles. In 1986, and again in late 1988, the central government cut back on investment in attempts to slow inflation, and in early 1992 Tianjin, like the rest of the country, emerged from three years of economic austerity.<sup>35</sup> Deng Xiaoping's 'talks in the south' in spring that year signalled a new push in the economic reform

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<sup>33</sup> *Jin wan bao*, 1 November 1992. The English term 'flea market' is translated literally into Chinese as 'tiaozao shichang'.

<sup>34</sup> *Tianjin ribao*, 19 March 1993. A retired (*lixiu*) official from a district branch of the public security bureau had set up the office 'with the approval of the department concerned'. Five people were involved in the office, all 'old comrades' who had backgrounds in civil law (*sifa*) work.

<sup>35</sup> Called '*zhili zhengdun*' in China; characterised by close control over and reductions in investment.

programme, and by late summer Tianjin was once again a thriving bustle of street markets and business activity. New shops and restaurants opened daily, and 'business fever' was taking hold. Everyone, from academics and students to retired industrial workers, was capitalising on his or her assets.

Rapid economic and social change in the 1980s and 1990s has of course had an enormous impact on Tianjin's urban government. Chapters 4-7 will elaborate on one important way in which that government has been transformed since the late 1980s, in an examination of the emergence of 'state entrepreneurialism' in its commerce and 'real estate management' departments. This chapter introduces Tianjin's government at both the municipal and district levels, and indicates some of the other ways in which it has been affected by the post-Mao economic reforms. This provides the context of the organisation and work of the departments studied in the following chapters.

### **The Government and Administration of Tianjin**

Tianjin (along with Beijing and Shanghai) is one of the three 'cities directly under central administration' (*zhixiashi*), that is, directly subordinate to the State Council.<sup>36</sup> This means that for administrative purposes, Tianjin is equal in rank to a province, and that its municipal level bureaux are directly under the central ministries.<sup>37</sup> Municipal bureaux in most of the other large cities are subordinate to provincial bureaux.<sup>38</sup> This has important implications for relations between the centre and the city, and also for intra-city relations. The municipal government in Tianjin has closer connections with the central Party and government than do lower level cities. This increases its influence and lobbying power enormously. As a result of this close relationship, Tianjin can also be more closely monitored by the centre. Control is enhanced by

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<sup>36</sup> Xie Qingkui (ed), *Dangdai Zhongguo zhengfu* (Government in Contemporary China) (Shenyang: Liaoning renmin chubanshe, 1991), p.318. Tianjin has been a provincial level city for most of the post-1949 period, but was subordinate to Hebei province between February 1958 and January 1967. See Dangdai Tianjin chengshi jianshe bianji bu (Editorial department of Urban Construction in Contemporary Tianjin) (ed), *Dangdai Tianjin chengshi jianshe jianshe* (Urban Construction in Contemporary Tianjin) (Tianjin: Tianjin renmin chubanshe, 1987), pp.313, 340.

<sup>37</sup> There is no formally stipulated difference between the functions of governments in provinces and cities directly under central administration. Differences arise from the environments in which the functions are carried out. Li Shanjie and Wang Zhenhai, *Shengji xingzheng guanli* (Provincial-level administrative management) (Beijing: Zhongguo guangbo dianshi chubanshe, 1991), pp.195-6.

<sup>38</sup> This is no longer the case for those cities designated '*jihua danlie shi*', or cities with special planning status. See Chapter 2.

Tianjin's physical proximity to Beijing, the seat of central government. Tianjin's top leaders are (like provincial leaders) appointed by the centre, whereas in sub-provincial cities they would be appointed by the provincial government. Urban district governments in these cities are also at a correspondingly higher level than districts in lower level cities. However, the formal structures and relationships between municipal government and district government and neighbourhoods are the same in all large cities.<sup>39</sup>

Tianjin's relationship with the central government and its internal government and politics are partly a result of the city's large area, population and economy. The municipality now covers a total area of 11,305 square kilometres<sup>40</sup>, and Tianjin in 1992 had a population density of 779 people per square kilometre, rising to 1363 people in the central urban districts.<sup>41</sup> The total population by 1994 was 9.35 million.<sup>42</sup> The tasks of the municipal and sub-municipal governments in providing for and controlling such a large geographical area and concentration of people are enormous. Before discussing government work, I will outline the structures of Tianjin's Party and government.

#### *Tianjin's Municipal Party Committee and Government*

The Communist Party (CCP, the Party) is the key organisation in Tianjin's political life. It permeates and influences the government through a variety of organisations and mechanisms. The most important Party organisation in the city is the Municipal Party Committee (*shi dangwei*). In 1985, Tianjin had a total of 18 party departments within its Municipal Party Committee. As Table 3.2 indicates, there are nine 'work departments' that deal with spheres of work administered by departments in the Municipal Government. There were departments for science and technology, education and sanitation, industry and communications, commerce, urban construction, planning, foreign economic relations and trade.<sup>43</sup> These work departments and commissions duplicate the commissions within the Municipal Government, and often leaders

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<sup>39</sup> See Figure 3.3.

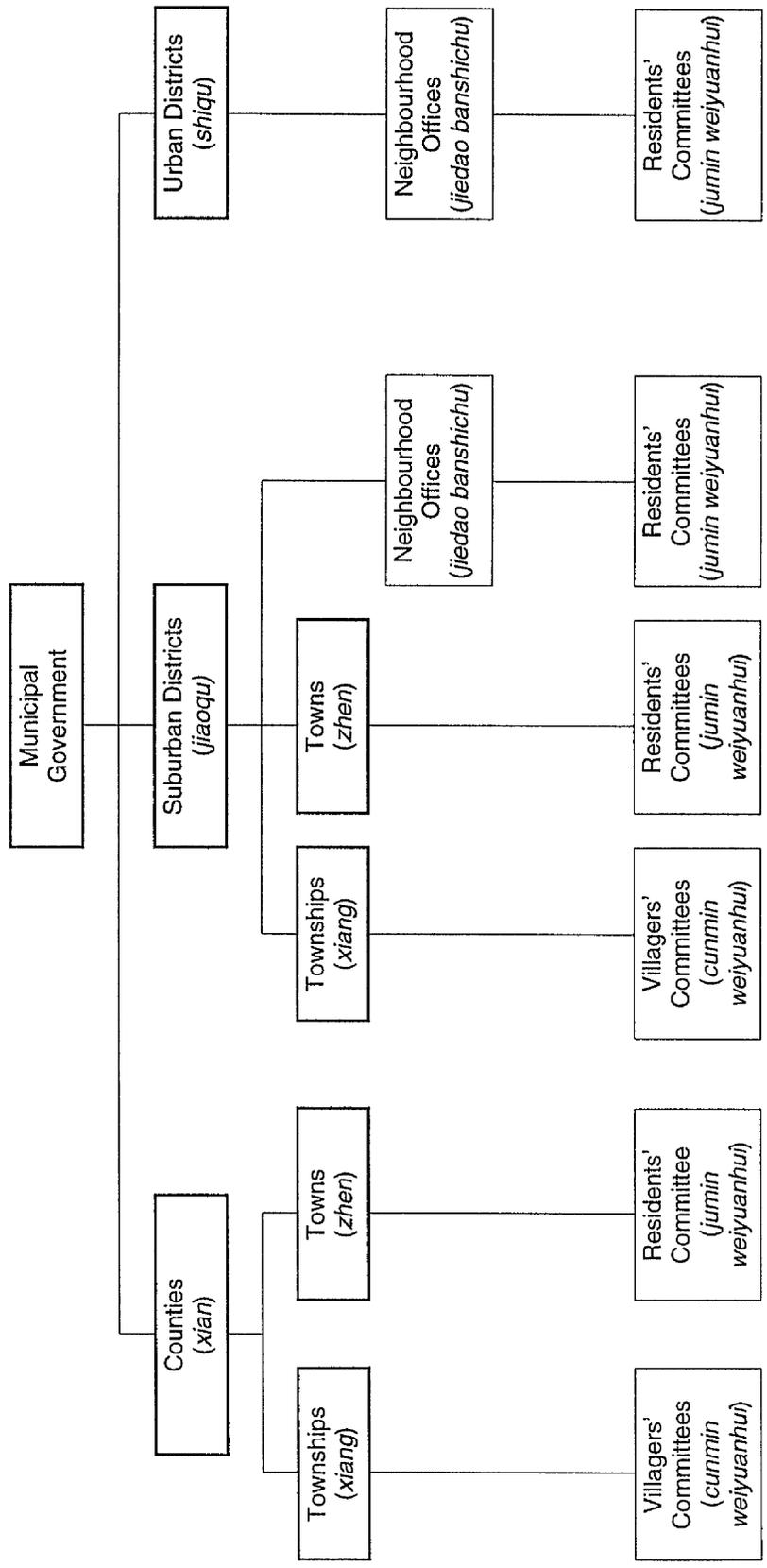
<sup>40</sup> Zhu et al, *Tianjin quanshu*, p.1.

<sup>41</sup> It was 424 people per square kilometre in the rural counties under Tianjin's jurisdiction. Tianjinshi tongjiju, *Tianjin tongji nianjian 1993*, p.64.

<sup>42</sup> FBIS, 28 April 1995. See Table A3.2 for figures on the distribution of the population.

<sup>43</sup> See Appendix 3.2 for a list of the Departments within the Tianjin Municipal Party Committee in 1985.

Figure 3.3 The Structures of Government in China's Largest Cities



of the two sets of organs, party and government, are the same people.<sup>44</sup> This is partly because the government commissions were originally Party departments (established in the 1950s), and only became part of the government in the 1980s.<sup>45</sup> The duplication has also probably endured because the Party sees its work departments as, ensuring that policy is implemented.<sup>46</sup>

Key Party and government posts have, particularly before the 1980s, also often been held by the same person. In many cities, the mayor (the titular head of the municipal government) and the municipal party secretary were the same person. In Tianjin, one person, Jie Xuegong, was concurrently First Party Secretary and Head of the Municipal Government (*zhuren*) from 1967 to 1978, as were his immediate successors between 1978 and 1980.<sup>47</sup> From the early 1980s, however, the policy of separating of Party and government was introduced,<sup>48</sup> and in many cities, different people were appointed Municipal Party Secretary and Mayor, the head of the Municipal Government. In Tianjin, these two positions were held by different people between 1980 and 1987, though from 1987-9 Li Ruihuan held both concurrently.<sup>49</sup> Other measures were also taken to separate party and government. Some Party departments were moved into the government, and certain party groups (*dangzu*) within municipal government bureaux were abolished.<sup>50</sup>

Members of the Municipal Party Committee (that is the party secretary and deputy party secretary and the leaders of the departments) are formally chosen by the Municipal Party Congress. In recent years at least, there have been around one hundred candidates for only 20 seats in this election. The Municipal Party Congress also used to select the leaders of the Advisory Commission (abolished in December 1992) and the Discipline Inspection Commission

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<sup>44</sup> 'Jigou gaige' keti diaoyan xiaozu (Investigation and research small group on 'structural reform'), 'Guanyu Tianjinshi shiji dangzheng jiguan jigou gaige yidian yijian' (Some opinions on the reform of the structures of Tianjin city's municipal level party and government organs), Mimeo, Tianjin Government, 1987), p.4.

<sup>45</sup> Interviewee 1.

<sup>46</sup> One Tianjin official noted that the Party 'leads' in two ways. First by determining the line and policy, and secondly through the control of appointments. Interviewee 14.

<sup>47</sup> The title '*zhuren*' was used for the head of the municipal government during the Cultural Revolution. The title 'mayor', (*shizhang*), had been used from 1949 to 1966, and was reintroduced Tianjin in 1980. Similarly, the head of the Municipal Party Committee was called Party Secretary (*shuji*) from 1949 to 1956, and thereafter, 'First Party Secretary' (*di yi shuji*) until 1984, when the title of Secretary was reintroduced. During the period in which there was a First Party Secretary, there was also a second and sometimes a third party secretary, as well as several secretaries and deputy secretaries. From 1984 the system was simplified to one secretary and several deputy secretaries, and the total number was reduced.

<sup>48</sup> See Chapter 2.

<sup>49</sup> See Table 3.1.

<sup>50</sup> Li and Wang, *Shengji xingzheng guanli*, p.201.

that exist separately from the Party Committee but are also Party organisations.<sup>51</sup> Despite increased room for choice in local selection of candidates for these posts, it is certain that the central Party leadership retains the prerogative to approve (or override) selections.

**Table 3.1 Tianjin's Top Leaders, 1967-1993**

Municipal Party Secretary		Mayor	
1978	Lin Yujia	1978	Lin Yujia
1978-84	Chen Weida	1978-80	Chen Weida
1984-7	Er Zhifu	1980-82	Hu Qili
1987-9	Li Ruihuan	1982-89	Li Ruihuan
1989-93	Tan Shaowen	1989-93	Nie Bichu

Source: Zhu et al, *Tianjin Quanshu*, pp.49-51, 61.

The Party also exercises influence over government through its control of appointments to key posts. This is done through the its 'organisation departments'<sup>52</sup>, which work via the Party cells (*dangwei* or *dangzu*) within each government department (and within every work unit). These cells, which are subordinate to the Municipal or District Party Committee, propose or recommend personnel for appointments. Although some cells within Tianjin's administrative departments shrank in size after 1992<sup>53</sup>, they still play an important role in ensuring Party supervision and control. Finally, the Party Committee also influences government and administration through its members. One in ten urban dwellers and the vast majority of government officials, are Party members.

The Mayor heads the Municipal Government.<sup>54</sup> This government, in its formal and narrow definition, includes the government standing committee (*zhengfu changwuhui*) which

<sup>51</sup> Interviewee 1. These two commissions would probably have been established in the 1980s, as were their superiors at the central level.

<sup>52</sup> See Appendix 3.2.

<sup>53</sup> Interviewees 15 and 49.

<sup>54</sup> On the distinction between 'urban' (*chengshi*) and 'municipal' (*shi*) government, the former referring to government of urban areas, the latter to the government of administratively-designated municipalities that

consists of the mayor, deputy mayors and secretary (*mishuzhang*), and the government plenary committee (*zhengfu quanti huiyi*), which consists of these same people plus the municipal-level bureau and commission chiefs.<sup>55</sup> Formally, the Municipal Government is the executive body of the Municipal People's Congress. According to the constitution, the Congress formally nominates the mayor and deputy mayors, and its standing committee appoints them, notifying the State Council of this. The mayor nominates the head of the Secretariat and bureau chiefs, and again the People's Congress formally appoints them. Each government's term is five years. In practice, appointments to the higher positions are made by the higher level government and Party organs, and the People's Congress merely rubber stamps them. During the Cultural Revolution, when the Congresses did not function at all, even this formality was not observed. The government standing committee and plenary committee make most of the major decisions affecting the city, which they report to the People's Congress and to the State Council. The bureaux then carry out their work within the scope of those broader decisions.<sup>56</sup> Under the reform era's 'mayoral responsibility system' the mayor has supreme policy making authority in the city and the authority to direct administrative work.<sup>57</sup> One of the most important functions of the mayor's office is to co-ordinate and conciliate among the different bureaux over policies that involve a range of departments and sectors. As if to mark a clear departure from the pre-reform dominance of the Party in the political life of the city, Li Ruihuan enhanced the mayor's role in Tianjin during his period of tenure from 1982-1989.<sup>58</sup> Li was a prominent and popular mayor, perceived by the city's inhabitants to be actively promoting the good of the locality and its people.<sup>59</sup> He was promoted to the Standing Committee of the CCP's Politburo at the centre in October 1989 for his judicious handling of the protest movement in Tianjin earlier that year.<sup>60</sup> Li was replaced in

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may include rural areas and inhabitants, see Tian Suisheng, 'Chengshi zhengfu yu shi zhengfu', in Wu Fayu (ed), *Chengshi zhengfu zhineng yu tizhi* (Wuhan: 1991 [No publisher given]).

<sup>55</sup> See for example Tian Huisheng, 'Zhixiashi' (Cities directly under the centre), Chapter 10, in Diao Tianding (ed), *Zhongguo difang guojia jigou gaiyao* (An outline of China's local state structures) (Beijing: Falü chubanshe, 1989), p.182. Often, 'municipal government' refers collectively to all municipal level departments and their subordinate organs within the municipality.

<sup>56</sup> Li and Wang, *Shengji xingzheng guanli*, p.195.

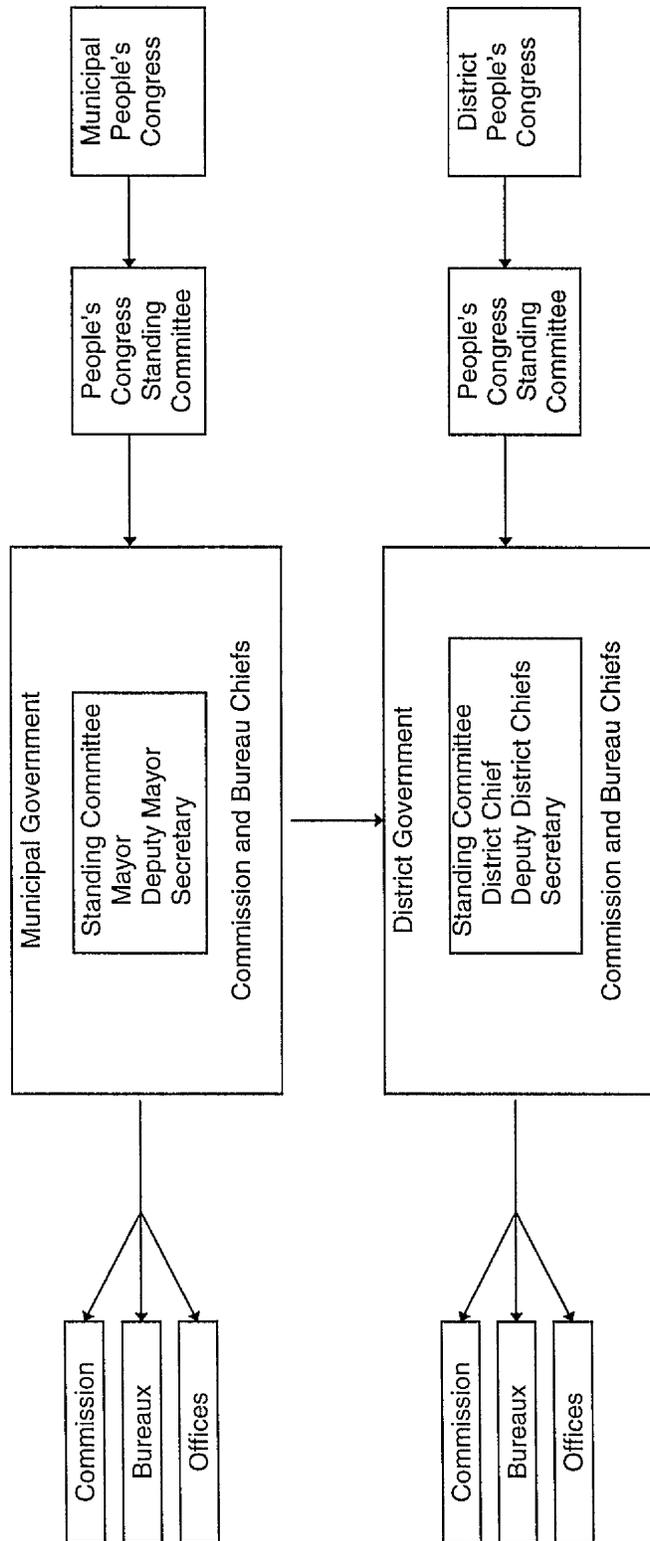
<sup>57</sup> *Ibid.*, p.197.

<sup>58</sup> Zhu, *Tianjin quanshu*, p.61.

<sup>59</sup> A two-volume book of his speeches and writings on urban development and construction has even been published. Li Ruihuan, *Chengshi jianshe suitan* (Talks on urban construction) (Tianjin: Tianjin shehui kexue chubanshe, 1989).

<sup>60</sup> The same promotion had been given to his predecessor, Hu Qili, who was mayor of Tianjin from 1980-82.

Figure 3.4 Tianjin Municipal Government



Tianjin by Nie Bichu, then 61 years old, a native of Hunan province with a long history in Tianjin's Party and government.<sup>61</sup>

The municipal level government is composed of departments that are subordinate to ministries or bureaux in the central government.<sup>62</sup> It is because these departments are all branches of central ministries that they can also be called 'state agencies'. There are many more of these departments in the cities directly under central administration than in provincial governments<sup>63</sup> and they have increased in number over the years. In 1949 Tianjin had a total of 20 departments. By 1957, the number had already grown to 57<sup>64</sup>, and by 1992 there were 78: 16 commissions (*wei*), six 'offices' (*bangongshi*), and 56 bureaux (*ju*).<sup>65</sup>

Government departments can be differentiated according to the kind of work they do.<sup>66</sup> Some are specific functional organs, some 'comprehensively' handle work that covers a cross-section of sectors and other departments, and some supervise the work of other departments. Bureaux, offices, and some commissions (such as the sports commission) are designated specific spheres of work, usually economic, social or cultural. Commissions are often comprehensive in scope and are meant to co-ordinate bureaux and departments within a given sphere. Examples of these are the planning commission, economic commission and urban construction commission. The finance bureau, tax bureau, personnel bureau and construction industry bureau are also 'comprehensive' in scope. Departments that deliver certain urban services are also included in this category. Examples include the environment and sanitation bureau, the public utilities

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<sup>61</sup> Guojia tongji ju chengshi shehui jingji diaocha zongdui (Urban social and economic investigation team of the state statistical bureau) (ed) *Zhongguo chengshi jingji shehui nianjian 1990* (Yearbook of China's urban economy and society) (Beijing, Zhongguo tongji chubanshe, 1990), p.312.

<sup>62</sup> I translate the general term '*bumen*' in Chinese into 'department'. The Chinese word covers official government or Party organs at any level.

<sup>63</sup> Xie, *Dangdai Zhongguo zhengfu*, p.319.

<sup>64</sup> Figures for 1949 and 1957 cited from a personal communication, Tianjin Municipal Government.

<sup>65</sup> Tianjin jingji nianjian bianji bu (Editorial department of Yearbook of Tianjin's Economy) (ed), *Tianjin jingji nianjian 1992* (Yearbook of Tianjin's Economy 1992) (Tianjin: 1992 [No publisher given]), pp.5-6. See Appendix 3.1 for a full list of Tianjin's Municipal Government departments in 1985 and 1992. Shanghai municipal government grew comparably, from a total of 23 departments in 1949, to 51 in 1957, and 77 by 1986. See the appendix to Shanghai shi bianzhi weiyuanhui bangongshi (Shanghai Municipal Staffing Committee Office), *Shanghai dangzheng jigou yange, 1949-86* (The evolution of party and government structures in Shanghai, 1949-86) (Shanghai: Shanghai renmin chubanshe, 1988). Information in this volume on Shanghai during the Cultural Revolution (not available for Tianjin) shows that numbers of departments dropped suddenly to 18 in 1967, reached an all time low of 15 in 1968 and 1977. It rose again in 1978, to 66.

<sup>66</sup> The following classification follows Tian, 'Zhixiashi', pp.181-2.

bureau, and the planning bureau (*guihua ju*). Tianjin had a total of 24 'comprehensive' departments in 1985.<sup>67</sup>

Supervisory departments include the auditing bureau, the statistical bureau, which collects information from different departments, enterprises and institutions, the materials bureau that supervises and manages the distribution of key industrial inputs and products, and the environmental protection bureau. Tianjin had seven supervisory departments in 1985.<sup>68</sup> There are also economic management departments, for example in the commercial sector, the first and second commerce bureaux, grain and foodstuffs bureau, and in the industrial sector bureaux for petroleum and chemical industries, textile industry, hydroelectrics, light industry, medicine, and handicrafts. In 1985 Tianjin had 22 of these, and a further 10 bureaux for handling social, cultural and educational work, including the cultural bureau, the education bureau, the higher education bureau, the sanitation (*weisheng*) bureau, the family planning commission, the sports commission, and the radio and television bureau.<sup>69</sup>

The relationships between these departments and their central level superiors are defined primarily as either 'leadership' (*lingdao guanxi*) or 'professional' (*yewu guanxi*). Leadership relations mean that the higher level organ can issue orders that are binding on the subordinate department. Municipal departments such as the public security organs and auditing bureaux are 'led' by State Council ministries or bureaux.<sup>70</sup> Professional relations can be between departments of equal rank or between departments of different rank. Where it is between superiors and subordinates, the subordinates are said to be 'professionally directed' (*shou yewu zhidao*) which means that they are answerable to their superiors in professional matters and are also responsible to the territorial government of which they are a part. Departments such as those for textiles or civil affairs are governed by this kind of relationship.<sup>71</sup>

Commissions are at the same level in the hierarchy as the bureaux. They were established to help mayors co-ordinate the work of all the many government departments<sup>72</sup>, through a system

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<sup>67</sup> Beijing had 16 and Shanghai had 19 at this time. Ibid.

<sup>68</sup> Ibid.

<sup>69</sup> Tian then lists 'other', miscellaneous, organs, such as the civil affairs bureau, the nationalities and religious affairs commission, the tourism bureau, the dossier bureau, and the bureau for managing the affairs of the state organs (*jiguanshiwu guanliju*). Ibid.

<sup>70</sup> As described by Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures and Processes* (Princeton, N.J.: Princeton University Press, 1988), pp.148-9.

<sup>71</sup> Li and Wang, *Shengji xingzheng guanli*, p.197.

<sup>72</sup> Xie, *Dangdai Zhongguo zhengfu*, p.320.

of sectoral management (*guikou guanli*). In this system, several broad sectors (*kou*) are defined, such as finance and trade, industry and communications, culture, education and sanitation, and political legal work. A commission or office is set up to co-ordinate all the departments (usually bureaux) that handle different kinds of work within each broad category. Often, a deputy mayor is assigned to take charge of a particular sector. While commissions may aid co-ordination between different vertical functional departments, they have also created problems. They are supposed to 'manage' bureaux, but in practice have had a tendency to exert more authority than is usually implied by the term 'manage'.<sup>73</sup> They have been cited as a source of inefficiency in Tianjin's government because their work overlaps with that of the bureaux. This has increased procedures and paperwork in the system, since the lower levels need to gain approvals for certain tasks from both bureaux and commissions.<sup>74</sup> The leaders of the commissions and bureaux are also ranked at the same level, which creates problems. For this reason it is expected that the commission system will be abolished in the next few years.<sup>75</sup>

Key laws on the structures of government in cities directly under central administration were issued in 1950, 1954 and 1979. The 1979 law was revised in December 1982 in accordance with the new state constitution of that year. According to both the 1954, 1979, and 1982 laws, new organs can be established by the municipal governments in accordance with their needs, and their decision must merely be reported (*baoqing*) to the State Council for approval.<sup>76</sup> Some Chinese analysts have argued that this system has allowed governments at this level to grow excessively large, and cite Tianjin as an example. By 1985, the number of permanent municipal-level government departments in Tianjin had grown to 77. There are also many 'temporary' organs that are set up for specific tasks and which often endure.<sup>77</sup> As well as having too many management organs, horizontally, municipal governments also have too many layers of

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<sup>73</sup> 'Jigou gaige' keti diaoyan xiaozu, 'Guanyu Tianjinshi shiji dangzheng jiguan jigou gaige yidian yijian', p.6.

<sup>74</sup> Ibid.

<sup>75</sup> Interviewee I.

<sup>76</sup> On 6 January 1950, the 'Shi renmin zhengfu zuzhi guize' (Municipal People's Government Organisation Rules) were passed by the Government Affairs Council (*zhengwuyuan*). This set up the basic structures. On 21 September, 1954, 'Zhonghua renmin gongheguo difang geji renmin daibiao dahui he difang geji renmin weiyuanhui zuzhi fa' (Organisation law of the PRC for local people's congresses at all levels and local people's committees at all levels), was passed by the first session of the National People's Congress. A new law of the same name was passed by the NPC on 1 July 1979 and revised by the fifth session of the Fifth NPC on 10 December 1982. Li and Wang, *Shengji xingzheng guanli*, pp.198-9.

<sup>77</sup> Shanghai had approximately 50 of these in 1985. Xie, *Dangdai Zhongguo zhengfu*, pp.319-320.

management, vertically. Further problems exist within government departments because there are too many offices for party affairs and administration and too few for professional work. This has made them inefficient.<sup>78</sup>

Post-Mao structural reforms have begun to affect urban governments. According to Li and Wang, government reforms in cities directly administered by the centre after 1982 'simplified', 'regulated leading bodies' and improved efficiency. However, any successful streamlining in the 1980s had been negated by the early 1990s as departments staffing levels had continued to expand.<sup>79</sup> Tian Huisheng notes that after the 1983 structural reforms, some commissions were abolished and remaining commissions and offices no longer constituted a functional level of government, but instead merely performed a co-ordinating role. Tian notes that this removed one level within the municipal government, but still left four: the mayor, the deputy mayors, the bureau level, and the section level, within the bureaux.<sup>80</sup> I shall discuss the impact of economic reform on Tianjin's municipal government later in this chapter.

#### *Tianjin's District Governments*

Below the Municipal government in Tianjin, there are six urban districts, four suburban districts and five rural counties (called Ji, Baodi, Wuqing, Jinghai and Ninghe). The government and administration of the rural counties is the same as for other rural areas and does not fall within the scope of this study of urban government. Tianjin's six urban districts are called Heping, Hebei, Hedong, Hexi, Nankai and Hongqiao.<sup>81</sup> By the end of 1991 there were between 490,000 and 700,000 people living in each of these districts, and the density of the central urban districts was over 23 thousand per square kilometre.<sup>82</sup>

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<sup>78</sup> Li and Wang, *Shengji xingzheng guanli*, chapter 9, p.201.

<sup>79</sup> For a general discussion of structural reform, see Chapter 2. I was unable to obtain documentation detailing streamlining in Tianjin in either 1982 or the later drive in 1987. This may indicate that it was not implemented. In 1992-3, there were reports of streamlining in some (usually district) bureaux in Tianjin, both in newspapers and in interviews, but no comprehensive documentation on the city. I discuss streamlining in more detail in the following chapters.

<sup>80</sup> Tian, 'Zhixiashi', p.183. See also Xie, *Dangdai Zhongguo zhengfu*, p.319.

<sup>81</sup> See Table A3.2 (Appendix 3) for a profile of districts and counties in Tianjin. See Figures 3.5 and 3.6 for maps showing Tianjin's urban and suburban districts.

<sup>82</sup> Tianjin jingji nianjian bianji bu (Editorial Department of Tianjin Economic Yearbook), *Tianjin jingji nianjian 1992* (Economic Yearbook of Tianjin, 1992) (Tianjin: 1992), pp.1 & 10.

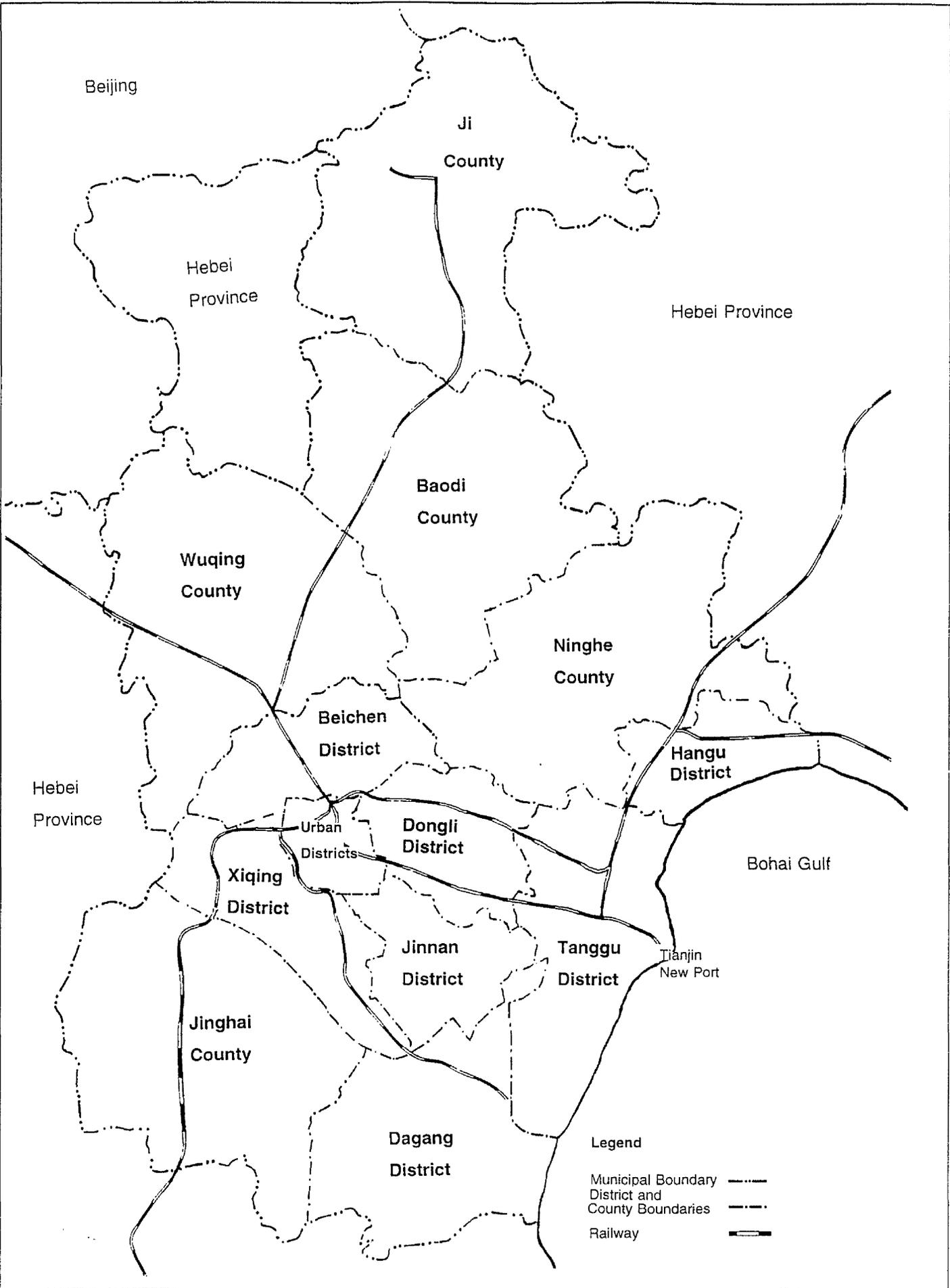


Figure 3.5 Map of Tianjin Municipality

Heping (meaning 'peace') district, the smallest in terms of area (10km<sup>2</sup>), lies at the heart of the city. This is the city's commercial centre, and the location of its main stores and shops. Heping district has a population of 490,000, 12 neighbourhood offices, and 261 residents' committees.<sup>83</sup> In this densely inhabited area, living conditions are cramped, and housing is often old and dilapidated. This district was part of the French quarter for over eighty years, and many old colonial buildings remain. Recently, free-markets selling trinkets, clothes and antiques have sprung up in its narrow, busy streets. In the evenings a food market emerges, where night-time strollers can buy anything from fried dumplings to 'Italian-style pasta'.

Heping district is surrounded by five other urban districts, all of which are larger in area and in terms of population. To the north lies Hebei district, to the west, Hongqiao. Hexi district lies in the south of the city, and as its name indicates, on the west bank of the Huaihai river. Nankai district is largely residential, with a relatively large proportion of new residential areas (*xin jumin qu*). It is dominated by the presence of the city's two largest universities, Nankai University and Tianjin University, though they are administered separately by the city and are not under the jurisdiction of the district. Nankai has an area of 30 km<sup>2</sup>, and is the largest of the districts in terms of population, with 690,000 residents. It has 20 neighbourhood offices and 425 residents' committees.<sup>84</sup>

Hedong is one of the city's most industrialised districts. At 36km<sup>2</sup>, it is also the largest and home to 620,000 people. It lies in the eastern part of the city on the east bank of the Huaihai river. It is the site of 825 large and medium scale enterprises in the metallurgy, textiles, machinery, light industry, chemical and pharmaceutical industries. The total industrial output value of these enterprises constituted one fifth of the total output value of the city in 1992.<sup>85</sup> However, though physically in the district, these enterprises are typically under municipal government control and their profits are not part of district revenues.

There are three coastal districts that are treated for administrative purposes in the same way as the six urban districts at the heart of Tianjin city. These are called Tanggu, Hangu and Dagang, and despite the similarities in administrative arrangements, these districts differ in several important ways from the urban districts. They are larger, geographically, and have much lower population density. This is because they contain a high proportion of rural dwellers. These

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<sup>83</sup> Tianjin jingji nianjian bianji bu, *Tianjin jingji nianjian 1992*, p.1.

<sup>84</sup> Ibid.

<sup>85</sup> *Tianjin ribao*, 13 October 1992.

districts therefore have townships (*xiang*), within their jurisdictions, and villagers' committees within their townships, unlike the urban districts. Dagang also has two towns within its geographical area and beneath it administratively.

Tanggu is the largest of the three central districts in terms of population. It has been the focus of much attention during the reform period and emphasised as an important part of the city's overall development. This is because of Tanggu's location near the city's port. In the 1980s a railway and motorway have been built linking Tanggu to Beijing. The hope has been to develop Tianjin by enhancing its traditional function as the gateway to Beijing and benefiting from Beijing's development and attraction of foreign investment and trade. An 'Economic and Technological Development Zone' (ETDZ) has been set up in Tanggu. This is designed to encourage foreign investment by offering low tax and tariffs, cheap land, and good infrastructure and facilities, including proximity to the port.<sup>86</sup> Although the ETDZ is administered by the Municipal Government and not the district, Tanggu benefits from the spillover from investment and economic growth there.

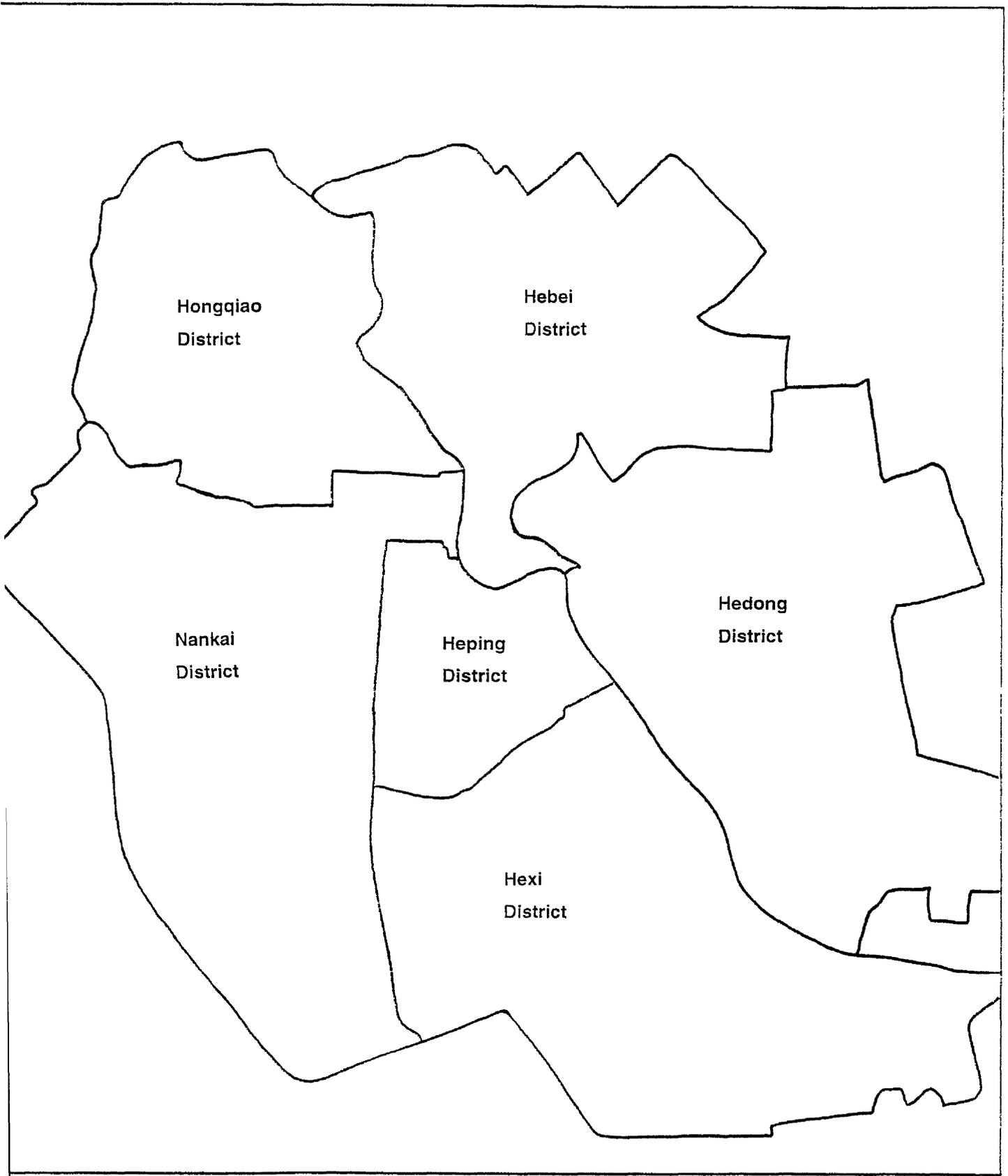
Dagang district covers a large area and contains one of China's most productive oil fields. Dagang oil field's oil is high quality, better than that of the more famous Daqing fields. The city's leaders have plans to develop Dagang on the basis of oil and petrochemical industries. Hangu is a large district on the coast to the north-east of the city centre. It is the site of salterns that produce the famous Changlu salt, and future plans include developing Hangu as a centre of chemical and biological industries.<sup>87</sup>

Between the urban and coastal districts in the east, and the counties in the north and west are Tianjin's four suburban districts, named, respectively, the northern, southern, eastern and western suburbs. The status of these districts has changed as a result of economic developments in the reform period. As Tianjin's economic profile has changed, more and more suburban residents have been employed in industrial or commercial work instead of in agriculture. This has changed the work of some suburban government departments. As a result, the names of these districts has changed in the 1990s. The 'eastern suburb' (*dong jiaoqu*) is now called Dongli district (*dongli qu*). The 'suburb' element has been dropped from its name. Similarly, the

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<sup>86</sup> Chang et al, 'Tianjin: North China's reviving Metropolis', pp.57-8.

<sup>87</sup> Ibid., pp.47-8.



Hongqiao  
District

Hebei  
District

Hedong  
District

Nankai  
District

Heping  
District

Hexi  
District

Figure 3.6 Map of Tianjin's Urban Districts

'northern suburb' (*bei jiaoqu*) is now called Beichen district, the 'western suburb' (*xi jiaoqu*) has been renamed Xiqing district, and the 'southern suburb' is known as Jinnan (southern Tianjin) district. Although these districts were technically still suburbs in 1993, the change in name reflected changes within them and in their relationship with the municipal government. The suburban districts have traditionally had greater autonomy from the municipal government than their urban counterparts. For example, their departments were given more control over income.<sup>88</sup> But in recent years suburban districts have become more like the urban districts. Departments traditionally involved in agricultural work are now handling industry-related tasks. However some important differences remain. The suburbs still cover a much larger area, a significant rural population.<sup>89</sup> They therefore have towns and villages within their jurisdiction like the larger rural counties.

Of the four suburban districts, the fastest changing is Dongli. Located in the east of the city, Dongli is benefiting from attempts to develop the city's economic potential as a port.<sup>90</sup> Tianjin's port area lies to the east, and is now connected to Beijing with a railway and motorway, recently built to facilitate transportation and enhance Tianjin's traditional role as gateway to the capital. Tianjin's Tanggu district and the Economic and Technological Development Zone also lie in the east of the city, on the way to the port. Dongli is well-positioned to benefit from the investment pouring into this area. Jinnan and Xiqing in the south and west are being comparatively left behind. Whereas Dongli is being rapidly and visibly transformed in the early 1990s, for example, Xiqing remains predominantly agricultural.

The investment bias toward the east of the city has begun to affect not only the local economy and appearance of Dongli, but also the workings of the government there. Officials there are more innovative and experimental in their activities in comparison with their counterparts in the less economically dynamic and vibrant parts of the city. Changes in day-to-day government work in the departments in the southern and western parts of the city is less marked, and some officials there have expressed frustration at the lack of opportunities for change. One noted that his department had set up a real estate company, but it was limited to small-scale housing projects because the land in that district was not viable for commercial

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<sup>88</sup> Suburban real estate management bureaux did not submit their rental revenues to the municipal government.

<sup>89</sup> That is residents officially registered as rural residents (*nongcun hukou*).

<sup>90</sup> Tianjin actually has three ports near the mouth of the Huaihai river, Xingang, Tanggu, and Tianjin port itself.

investment, and it could not get access to more valuable land for redevelopment in the centre of the city.<sup>91</sup>

Structural reforms have begun to affect Tianjin's district as well as municipal government. To enhance the role of its urban districts, Tianjin has decentralised certain controls to them in the reform period. The aim was to resolve problems over the division of labour, responsibility and power between municipal and district governments, and to encourage districts to more actively promote economic reform.<sup>92</sup> The decentralisation of recent years has strengthened the hand of the horizontal, territorial governments at the expense of the vertical functional systems, but conflicts persist. Moreover, the precise extent of decentralisation can be difficult to determine. One Tianjin district official noted in mid-1993 that there was a continued tendency toward decentralisation to the districts in all spheres except tax submission. However in his sphere of work, real estate management, he noted that there had only been decentralisation in terms of 'professional work' (for example, in decision making about the details of repair work), and that authority over materials and funding allocations and appointments had not changed and was unlikely to.<sup>93</sup>

Tianjin's district government work has been transformed by reformist policies of economic liberalisation. At the same time, many district departments were being told in the 1990s that they would no longer be subsidised by higher levels and must fend for themselves. The decentralisation of decision making powers and fiscal controls from the centre to the provincial level during the 1980s and 1990s has increased the sources of income to governments at lower levels. However, the increasing tasks of municipal governments have often been passed on to the districts, and they are still short of funds.

### **Reform Era Changes in Municipal and District Government Work**

The economic reforms have increased the complexity of the environment in which urban governments work, and as a result, their functions have become more complex.<sup>94</sup> Tasks can be

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<sup>91</sup> Interviewee 28.

<sup>92</sup> In July 1984 the city decentralised urban management functions and powers to the nine urban and coastal districts, issuing 'Ten Opinions' to this effect. Xie, *Dangdai Zhongguo zhengfu*, p.330.

<sup>93</sup> Interviewee 64.

<sup>94</sup> Gordon White, 'Basic-Level Local Government and Economic Reform in Urban China', in White (ed), *The Chinese State in an Era of Economic Reform* (London: Macmillan, 1991), p.231.

divided into three kinds: urban development and planning, social services provision and economic management.<sup>95</sup> I shall discuss the changes in each of these spheres in turn.

### *Urban Planning and Development*

The importance of urban planning and development has been officially recognised since the mid-1980s. The leadership is geared toward rapid economic growth and this is dependent on infrastructural capacity. Roads, rail links, and better communications systems are important to regional economic growth, as is the setting up of development zones. With the emphasis on raising living standards through consumption, there is pressure for housing conditions, public facilities, and the urban environment more generally, to be improved. Migration from rural areas and towns to large cities like Tianjin have exacerbated already strained urban services.

In the 1980s, the first national urban planning conference laid down new tasks for urban planning. This reflected the central government's recognition of the importance of urban management after years of neglect. The conference discussed the need to improve housing and increase basic infrastructural investment, especially in coastal cities.<sup>96</sup>

Urban planning and construction is co-ordinated in Tianjin by the Urban and Rural Construction Commission (TURCC), which oversees the work of the planning, construction, real estate management, and land bureaux. The effects of the increasingly complex environment are demonstrated by TURCC's problems. Its co-ordinating role has been made difficult during the reform period, particularly since markets have been introduced for housing, construction and land.<sup>97</sup> The commission has in particular had problems in its dealings with the Planning (*guihua*) Bureau, which is enormously powerful and closely allied with the Land Bureau. The Land Bureau was established independently of the Planning Bureau in Tianjin in 1986 (mirroring the creation of a Land Ministry at the centre), though it remained in the same building as the Planning Bureau, with the two have continued to work closely together. According to one source,

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<sup>95</sup> Officially, the brief is broken down further. The 'Decision of the Party Central Committee Concerning Reform of the Economic Structures' (December 1978) stipulated the duties and powers of urban governments as to centralise powers to carry out urban planning, construction and management, to 'direct and promote' the technological improvement and modernisation of enterprises, and the materials and commodities circulation system, and handle education, sanitation and social services and public security, as well as plan medium and long term economic and social development. Xie, *Dangdai Zhongguo zhengfu*, p.319.

<sup>96</sup> *Renmin ribao*, 11 September 1991.

<sup>97</sup> Although land in China's cities can still not be bought or sold, since it is owned by the state, land use rights can now be purchased. I discuss this in more detail in Chapter 4.

the URCC had investigated the possibility of having the Land Bureau established within the Real Estate Management Bureau, which the Commission believed might make it more manageable.<sup>98</sup>

One important sphere of work within the urban development and planning sector is housing provision. In Tianjin much more effort has gone into this work in the reform period. Tianjin urgently needed improvements in housing conditions by the late 1970s. Construction and maintenance had been hindered by the turmoil of the Cultural Revolution.<sup>99</sup> And although the city's construction commission, re-established after four years in 1972, was able to begin co-ordinating unified planning, construction and management, until the late 1970s revolutionary correctness dictated that raising industrial output took priority, and departments were still not able to fully carry out their functions. They lacked control, and illegal (*weizhang*) and uncoordinated use of land and construction continued.<sup>100</sup> From the late 1950s until the early 1970s there was a decline in housing construction in Tianjin, while the city's population continued to grow.<sup>101</sup> Pressing housing problems became ever more serious.

The municipal government, led by its revolutionary committee did begin to address the problems and construct some new housing from the early 1970s. But any achievements were wiped out when in July 1976 the Tangshan earthquake struck Tianjin. The epicentre of the earthquake was only 120km away, and it damaged 61 per cent of the municipality's buildings, including 66 per cent of its residential housing, leaving almost 700,000 people homeless.<sup>102</sup> Large-scale housing construction became more urgent than ever. The catastrophe might have galvanised the local leadership into action, but whether for political reasons or simple lack of resources, the response to rehousing much of the population after the destruction of the earthquake was slow. Many residents remained in makeshift constructs for several years, and serious attempts to rebuild and rehouse did not begin until the early 1980s when a large injection

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<sup>98</sup> Interviewee 3.

<sup>99</sup> The Municipal Construction Commission had been abolished in 1968 and its staff sent down to the countryside to work (*xiafang laodong*). Construction units (*jianshe danwei*) 'demonstrated and rebelled' against the planning departments, demanding the allocation of land and issuance of licences in accordance with their wishes, and urban planning management was paralysed. See Dangdai Tianjin chengshi jianshe bianji bu, *Dangdai Tianjin chengshi jianshe*, pp.206-8.

<sup>100</sup> Ibid.

<sup>101</sup> At an average of 200,000 people each year in the 1960s. Zhu, *Tianjin quanshu*, p.9.

<sup>102</sup> The earthquake struck on 28 July, and measured 7.8 on the Richter scale. There was a second earthquake on 15 November 1976, in Ninghe County, Tianjin, 55km away, 6.9 on the scale. Zhu, *Tianjin quanshu*, pp.1, 113.

of funding from central government was received.<sup>103</sup> Even so, the central government support was able to do little more than solve the most urgent housing problems. Only in the 1980s did the Municipal Government take steps to improve housing conditions for the population. In addition to the housing construction funded by central government investment between 1980 and 1985, efforts were made to find local sources of investment for construction and inexpensive ways of improving people's housing situations.<sup>104</sup>

### *Provision of Social Services*

A second important function of municipal governments is to provide social services. During the 1980s, Tianjin's municipal government began to develop projects to 'improve the lives of the people of the city. Annually, since the mid-1980s, it has announced a programme of 'Ten Projects to Improve the Lives of the Urban Population'.<sup>105</sup> Much of this social service work is passed onto the district governments (and their neighbourhood offices). As the lowest level of government in large cities, districts are most directly involved in both regulating urban life and providing for city dwellers. For this reason, they are a crucial part of the national system of government.<sup>106</sup> The central government is highly sensitive to urban discontent since protest is much easier to organise, and spreads more rapidly in cities. In 1989 the CCP Central Committee felt its most serious challenge from urban dwellers not only in Beijing, but also in many other cities throughout the country. In the aftermath of those protests and their suppression in Beijing, the CCP leadership urged an improvement of the Party and government's relationship with 'the masses'. In Tianjin this translated into, among other things, a focus on the district level of government and its subordinate arms, the neighbourhood offices. In August 1990, a conference was held in the city on district level work with the explicit aim of maintaining social stability and

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<sup>103</sup> 720 million *yuan* per year from 1981 to 1985 according to Interviewee 5. Official statistics indicating investment in 'property, public institutions and residents' between 1981 and 1985, though much higher than for the years before or after, was just over half the figure quoted to me—between 411 million and 570 million *yuan*. See Tianjinshi tongji ju (ed), *Tianjin sishi nian, 1949-89*, p.61.

<sup>104</sup> Between 1980 and 1992, 34, 700,000m<sup>2</sup> of housing was constructed in Tianjin, and the average per capita living space of residents increased from 3.58m<sup>2</sup> in 1980 to 6.86m<sup>2</sup> in 1992. Tianjinshi chengxiang jianshe weiyuanhui, shi tudi guanli ju, shi tongji ju (Tianjin Municipal Urban and Rural Construction Commission, Municipal Land Management Bureau and Municipal Statistical Bureau) (eds), '93 *Tianjin fangdichan shichang* (Tianjin's real estate market, '93) (Tianjin: Nankai daxue chubanshe, 1993), p.11.

<sup>105</sup> There was a similar project for improving the living conditions of the rural population.

<sup>106</sup> See Chapter 2.

improving the party's prestige. As part of this, district governments were urged to improve service provision.<sup>107</sup>

District governments in Tianjin deliver a wide range of social services. In winter, for example, they provide for the populations special needs during this cold season.<sup>108</sup> Key tasks at this time of year include, delivering coal and repairing the stoves that provide heating in the city's oldest buildings. Certain tasks, such as providing cheap cabbages to residents have become unnecessary as living standards have been raised. In the winter of 1992-3, the government had huge consignments of cabbage brought in from the countryside, but found that there was no demand. Whereas this vegetable had been a staple in winter for many years, Tianjin residents now had much greater choice at this time of year. Leaders in the city decided that this work was now unnecessary, and would be abandoned.<sup>109</sup>

Enduring tasks include providing for the families of servicemen, for the aged and orphans, and running small shops that sell basic goods. Districts also handle much of the work involved in the housing renovation programme that has been promoted in Tianjin since the early 1980s. This is an ongoing programme to replace the old single-storey housing in the city with new and improved housing. District governments are increasingly establishing real estate development companies to handle these kinds of projects, and even where they are not involved in the actual redevelopment work, they are charged with organising the temporary rehousing of people while they wait for their new apartments.

### *Economic Management*

Economic work was an important part of government in the Mao period. As the economic reforms have continued, the nature of economic work has changed for urban governments. While development of the local economy is still important, all departments are in having to adapt to the emergent markets as planning is decreased and direct micro-economic control of the state and collective enterprises reduced. Before 1979, many municipal and district government departments

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<sup>107</sup> *Tianjin ribao*, 6 August 1990.

<sup>108</sup> In 1992, the Municipal Government held a special meeting of district leaders to look into organising this work. *Jin wan bao*, 13 October 1992.

<sup>109</sup> This would have implications for the producers of this crop. One Tianjin resident, a university lecturer, told me that his family bought a large quantity of the cabbages as usual, even though they did not want them and would not eat them all, because they feared for the livelihood of farmers who had produced them.

were charged with the management of enterprises within their sphere.<sup>110</sup> Their work involved control and direction of state and collective enterprises in line with centrally and locally-formulated plans. 'Administrative management departments' (*xingzheng guanli bumen*) made almost all the 'business decisions' of their enterprises, and it is this kind of micro-level state intervention in the economy that the enterprise reforms, often promoted under the slogan of 'separate government and enterprise', are intended to change. As indicated in Chapter 2, this reform has proved difficult to implement. In some cases a kind of halfway situation has been created, bringing its own problems. One report on structural reform in Tianjin noted, for example, that a 'dual track' system has emerged, under which the Municipal Electrical Instruments Industry Bureau is now in charge of managing the whole city's electrical instruments trade (in the emergent market economy), but still wants to control enterprises in this sector that were formerly subordinate to it.<sup>111</sup> Although the policy of separating government and enterprises in order to give enterprises more autonomy to respond to market signals has met with some resistance from governments, the central leadership has persisted in exhorting them to loosen their grip.

Some departments' scope of work has increased and become more complex. The industrial and commercial administration bureau (*gongshang xingzheng guanli ju*) handles the registration and supervision of enterprises. As the economy has been liberalised and commerce in the city has flourished, the work of this bureau has increased dramatically. New companies are being set up daily, and their forms and business activities are diverse. Monitoring and registration work for this department is many times more complex than it was in the Mao period, when SOEs and collectives were the only forms of enterprises permitted. There is now a multitude of very small private businesses in Tianjin: everyone, from academics and officials to state factory workers are making the most of whatever assets they have to 'plunge into the sea' of business (*'xia hai'*). As well as the plethora of private or 'individual' consultancy firms, restaurants and market stalls and shops, there has been a rapid increase in the numbers of collective enterprises, often set up by district governments, neighbourhood offices and residents committees. Economic liberalisation has also allowed foreign investment in various permutations: usually referred to as enterprises with three kinds of (foreign) investment (*sanzi qiye*). These include wholly foreign-

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<sup>110</sup> See Chapter 2 for a discussion of enterprise reform and its implications for the state administration. Since almost all departments had subordinate enterprises in the planning system, this affects many.

<sup>111</sup> 'Jigou gaige' keti diaoyan xiaozu, 'Guanyu Tianjinshi shiji dangzheng jiguan jigou gaige yidian yijian', p.6.

owned businesses, joint ventures, and other kinds of co-operative ventures with different proportions of Chinese and foreign capital investment. All of these enterprises have to be registered and designated a particular status for tax purposes, and have therefore increased the work of the Bureau for Industrial and Commercial Administration.

Government taxation work has also expanded. Between 1953 and 1979, the nationally implemented tax system was relatively simple. Reforms of the tax system began in 1980 and have gradually increased the number and complexity of taxes paid.<sup>112</sup> This has led to an expansion of tax-related government work in the city. A municipal tax bureau was set up in the late 1980s<sup>113</sup>, and in 1990, Tianjin announced the creation of a tax network to support the existing Municipal Finance Bureau and its district branches. This was to include personnel specially assigned to take care of tax matters in all work units (enterprises and state institutions), and 'small groups' in the district governments, neighbourhood offices and residents committees to 'assist and support tax work'.<sup>114</sup>

Tianjin's district government departments and their agencies, the neighbourhood offices, in have long had economic functions. These include running their own collective enterprises. Some district bureaux have also traditionally been involved in running enterprises for the vertically-organised administrative systems of which they are also a part. Throughout the 1980s there were attempts to separate government and enterprises and eliminate district governments' micro-management of the economy. In 1992-3 this was still high on the agenda in Tianjin. Hedong district was publicised for its success in streamlining its government and conforming to the ideal 'small government, big service'. There were continuous exhortations to 'transform government functions'.

However, much of the new work of district governments involves either regulating or taking advantage of the new market environment. In Tianjin, the Municipal Government has been

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<sup>112</sup> The system was generally simplified after 1953 and was modified several times between 1953 and 1979. It was at its leanest during the Cultural Revolution and has increased in complexity in the post-Mao period. For details of the evolution of the tax system from 1949 to 1991 in Tianjin, see Zhu, *Tianjin quanshu*, pp.329-331.

<sup>113</sup> There had been a tax bureau in Tianjin's municipal government until as late as 1965. Sources in Tianjin government indicated that there had not been such a bureau in 1985, but references to it can be found after 1991. Its chief in the municipality is also the chief of the Municipal Finance Bureau. See Tianjin jingji nianjian bianji bu (Editorial department of the yearbook of Tianjin economy) (ed), *Tianjin jingji nianjian 1991* (Yearbook of Tianjin's economy 1991) (Tianjin: 1991).

<sup>114</sup> *Tianjin ribao*, 18 February 1990.

encouraging the districts to engage in economic activities.<sup>115</sup> District and neighbourhood-run collective enterprises have been established in growing numbers in the reform period. This has meant an increase in work related to these enterprises, particularly in setting up, registering, taxing and auditing them. As the national policy since the early 1980s has been to reduce the role of governments in enterprises, involvement in their day-to-day business activities ought to have decreased. Many enterprises are being reformed, with implications for the role of the government. For example a co-operative stock system was started in 70 district and street collectives in 1993.<sup>116</sup> This means, in theory, that district governments will have a less direct role in running these businesses. It is commonly acknowledged by leaders that governments have been slow to give up their control of enterprises. However, the trend is toward separation. Hexi district government in Tianjin announced in early 1993, for example, that its enterprises no longer needed the approval of the district personnel bureau in order to make personnel changes.<sup>117</sup>

District governments are now involved in many new kinds of economic work, such as management of the street markets that have flourished in Tianjin since the late 1980s. Hexi district, for example, decided that one of its projects in 1993 would be to establish and promote free markets. It set up eight markets within the year, including wholesale markets for fruit, edible and travel goods, and several flea markets.<sup>118</sup> Many districts are also getting involved in real estate development work. This is particularly the case in the more economically dynamic parts of the city. By September 1992, one of Tanggu district's leaders had already signed six real estate development contracts and leased 200,000m<sup>2</sup> of land.<sup>119</sup>

In May 1992, Tianjin Municipal Government announced the creation of small development zones in the four suburban and three outlying districts, and in the five counties. The stated aim was to help strengthen their economies and take advantage of the 'activism and creativity' of the districts and counties that has been facilitated by the decentralisation of powers and their resultant increased autonomy and flexibility.<sup>120</sup> This, too, added more work to the load of the districts.

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<sup>115</sup> *Jin wan bao*, 28 September 1992.

<sup>116</sup> *Jin wan bao*, 2 April 1993.

<sup>117</sup> The staff of these enterprises include low-ranking state officials (*ganbu*). Prior to this change in rules, all transfers of such people would have to be approved by the district personnel bureau. *Jin wan bao*, 2 February 1992.

<sup>118</sup> *Jin wan bao*, 25 February 1993.

<sup>119</sup> *Jin wan bao*, 28 September 1992.

<sup>120</sup> *Tianjin ribao*, 27 May 1992.

The growth in the scope and complexity of urban government work noted by White in 1991 continues.<sup>121</sup> In the context of the new market environment, the increased autonomy of Tianjin's district governments and constituent departments has led to innovation in both their organisational structures and practices. In Heping district, this has resulted in the creation of new organisational structures to better co-ordinate the many different tasks. In early 1993, the district set up a 'service network' among 19 administrative departments. Run from a central office, this network aims to provide more efficient service in a range of spheres, and is reported to have set up systems for regular meetings among departments, and to handle work that involves their joint participation.<sup>122</sup>

### **Conclusion: Local Government and State Entrepreneurialism in Tianjin**

The most striking change is the emergence of business activities in Tianjin's municipal bureaux, districts and neighbourhood offices. This takes many forms in many different sectors of urban government work. In Tianjin, newspaper reports indicate the creation of 'new enterprises' by state agencies in many sectors and at all levels of the state administrative system. In Hongqiao district, Party and government organs had set up 71 new enterprises by March 1993.<sup>123</sup> In Hedong district, a total of 124 had been created.<sup>124</sup> Yangliuqing the town that is the seat of the suburban district of Xiqing had set up over 30 between 1990 and late 1992.<sup>125</sup> Neighbourhood offices and residents' committees have also been establishing new enterprises.<sup>126</sup> In many cases, social services, some of them new, are now provided for a fee or on a commercial basis. Between late

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<sup>121</sup> White, 'Basic-Level Local Government and Economic Reform in Urban China', p.231.

<sup>122</sup> The industrial and commercial administration bureau, tax office, and sanitation, fire prevention and planning bureaux were part of this network. *Tianjin ribao*, 25 May 1993.

<sup>123</sup> Officials were described approvingly as having 'broken the fetters of old ways of thinking' ('*dapo jiu yishi de shufu*'). Here it is also revealed that 'since last year' the district Party committee and district government have supported the setting up of these economic entities (where it does not interfere with the formal work of the organs/agencies), and have 'formulated some relevant measures encouraging them'. *Tianjin ribao*, 21 March 1993.

<sup>124</sup> Its sanitation bureau (*weisheng ju*) had set up three, including a medicine wholesaling company (in a county in Hebei Province), and the personnel bureau's new tyre and rubber products trading company had been so successful that it was contributing to the bureau's office costs and staff benefits. *Tianjin ribao*, 24 December 1992.

<sup>125</sup> *Jin wan bao*, 28 December 1992.

<sup>126</sup> This is more clearly a departure for the committees since neighbourhood offices have long had their own small-scale collectives. However the most recent ones are referred to as 'economic entities' (*jingji shiti*) rather than collective enterprises (*jiti qiye*). See for example, a neighbourhood office in Hebei district, Tianjin. *Jin wan bao*, 13 December 1992. The income from the new entities is said to have reached over 100,000 yuan in the six months since they were set up. Interviewees 66 and 67.

1992 and early 1993, Hedong district Civil Affairs Bureau set up a fee-charging nursery for the care of children and the elderly, a family kindergarten, a milk station, and a launderette, a repair shop for household electrical goods, a breakfast stand, and a small corner shop selling non-staple foods.<sup>127</sup> State entrepreneurialism has also emerged in the urban planning and construction and commercial sectors of Tianjin's government, and it is those sectors that are the subject of the rest of this dissertation.

As the following chapters show, state entrepreneurial activities are not prescribed in official policy and have been adopted by individual state departments because of the problems they solve. Chapter 2 has described how for this same reason central policy makers appear to have wavered over whether or not to fully ban these activities and suggested that in the absence of a clear ban, local governments have also tolerated or even tacitly encouraged them. Certainly in 1992 and the first part of 1993 Tianjin city's leaders' were making no visible attempt to prevent state agencies at the district level from establishing enterprises. District governments and Party committees were often said to support the establishment of new enterprises by Party and government organs<sup>128</sup>, and officials spoke openly and often proudly of these activities. Officially, though, there was supposed always to be a clear separation between enterprises and state bureaux. Furthermore, the creation of new enterprises to employ officials and generate revenues for state agencies bears a clear resemblance to the policy of 'diversifying the business' of enterprises promoted in Tianjin's construction sector from the early 1980s, and this may have been tacitly extended to include state agencies in the early 1990s. But the Tianjin municipal government did not have a clearly-articulated or publicised policy of promoting new enterprises, and while some of Tianjin's district governments have encouraged officials to leave their departments to set up enterprises, they too have officially stressed that all links with the former departments must be severed. In practice, as we will see, this has not been the case. But it seems that the Tianjin government has overlooked breaches of the 'rules'.

The only public regulations in Tianjin forbidding officials to hold second jobs and departments to establish enterprises were issued in January 1993, and applied only to police and judicial organs (*zhengfa jiguan*).<sup>129</sup> Prior to this, district governments and Party committees had

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<sup>127</sup> *Jin wan bao*, 2 February 1993. The bureau also conducted a survey of a thousand local households to see how these services were being received.

<sup>128</sup> *Tianjin ribao*, 20 October 1992.

<sup>129</sup> *Jin wan bao*, 12 January 1993. Note that 'political and legal organs' refers to the judiciary and Party cells. The Municipal Party Committee is said to have discovered that the financial departments of some

been reported as supporting the creation of new enterprises by Party and government organs.<sup>130</sup> And in May 1993, one district chief openly recommended encouraging officials to 'lead' and contract out businesses (*jingying shiti*). He advocated that state agencies gradually set up service centres, making them independent businesses when they had 'matured'.<sup>131</sup> This was explained as part of the reform of government structures and the transformation of government functions. However, local newspaper reports often stressed that the officials leaving to set up enterprises are completely leaving their departments.<sup>132</sup> In early August 1993, an internal document was reported to have been sent to district governments in Tianjin ordering them to tell officials in their new enterprises that they must decide whether or not they wished to stay with the enterprise. It was to be made clear to those who did so that they would not be able to return to their department in the future. It is unlikely that this directive will have been stringently implemented. Later the same month a discussion of the issue in one local government journal reported the ongoing debate over whether or not state agencies should be allowed to establish new enterprises. The author of one critical article appeared to believe himself in the minority that opposed this phenomenon.<sup>133</sup>

Tianjin Municipal Government is apparently unwilling to crack down on entrepreneurial activities because they help solve financial problems, offer an alternative to making officials redundant, and contribute to the dynamism of the local economy. Moreover, the gradual decentralisation of decision making powers and fiscal controls since 1979 has given local governments greater controls over 'extra-budgetary' income, such as taxes on enterprises within their areas.<sup>134</sup> Governments therefore now benefit from the tax contributions of the new enterprises, as well as seeing entrepreneurial activity as also generally good for the local economy.<sup>135</sup> Despite this, the enterprises most benefit the individual departments that set them up. The following

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counties and districts have stopped paying such officials their bonuses and subsidies, and told them to go out and earn it for themselves. The Party Committee has said that finance departments must now guarantee the wages and welfare of officials and police (*gan jing*)

<sup>130</sup> Hangu district Party committee in Tianjin, for example. See *Tianjin ribao*, 20 October 1992.

<sup>131</sup> *Tianjin ribao*, 10 May 1993.

<sup>132</sup> For example the report on Hexi districts streamlining initiative. See *Jin wan bao*, 30 January 1993.

<sup>133</sup> Liu Dongshou, 'Dangzheng jiguan ban shiti de nixiang sikao' (Opposing thoughts on the creation of [economic] entities by Party and government organs), *Tianjin shangye jingji*, August 1993, pp.25-7.

<sup>134</sup> Christine Wong, 'Material Allocation and Decentralization: Impact of the Local Sector on Industrial Reform', Elizabeth J. Perry and Christine Wong (eds), *The Political Economy of Reform in Post-Mao China* (Cambridge, Mass.: Harvard University Press, 1985), pp.253-278.

<sup>135</sup> *Tianjin ribao*, 20 October 1992.

chapters will show in more detail just why they have been attractive to bureaux in Tianjin's real estate management and commerce departments.

## Chapter 4

### The State Administration of Real Estate and its Reform

#### Introduction

The real estate management (REM) system within the Chinese government is a key provider of urban public buildings and housing.<sup>1</sup> As the state planned economy was set up in the 1950s, buildings were taken under state control, the market for housing was scaled down, and private housing ownership and private renting of property decreased. Gradually a system was created through which public buildings and the housing of most urban dwellers were provided by state administrative distribution. REM departments were set up to handle this work, and from the 1950s they constructed, distributed and maintained public buildings not according to market-determined prices, but in line with state plans and budgets. A sum was set aside for the construction of new buildings according to estimates of need and within wider budget constraints. Similarly, the rents charged were unconnected with construction costs and there was no differentiation between rents on the basis of location. This was possible because the public buildings provision system was closely connected with the system of state land ownership and allocation. Land markets were eliminated in the 1950s as more and more land in the cities became the property of the state. Thereafter it was allocated for use by the state in accordance with larger development plans, and urban construction was subsumed within centralised national plans. Tracts of land were allocated for new housing in accordance with perceived needs and notions of urban spatial development. The absence of real estate markets meant that land in the centre of the city would have the same 'value' as land in the outer suburbs, or rather, no commercial value at all. Rents were calculated simply according to floor space and were kept low.

The post-Mao economic reforms have begun to change that property system. Since the late 1980s, resource constraints partly due to the low rental income have forced policy makers to seek new sources of investment for the maintenance, renovation and construction of buildings, especially housing. The result has been reforms to increase local capital investment by making construction, real estate development and housing provision profitable and attractive businesses. Since the mid-1980s, these reforms have begun to create real estate 'markets'. Although urban land is still state-owned, rights to use and develop it can now be leased, and as prices for buildings have risen, this industry has boomed. In the early 1990s, as the need by foreign and

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<sup>1</sup> I use the terms 'real estate' (*fangdichan*) and 'real estate management system' (*fangdichan guanli xitong*) because it is under this rubric that the state administration of public property has been discussed and reformed in the 1980s. The actual names of government departments handling such property have varied with policy shifts and organisational changes over the years, as I will show below.

domestic investors, for new office space, hotels and factories became apparent, a real estate development 'craze' swept China's cities. The housing reforms that have begun to raise rents and promote the notion of private home ownership have also led developers to build commercial housing estates and a housing market has begun to appear.

The emergence of markets for housing and real estate development, where there had been for forty years a near state bureaucratic monopoly over allocation and construction, has transformed the state REM departments that handled this work and has led them to become entrepreneurial. This chapter provides the necessary background for understanding the particular context in which state entrepreneurialism has emerged in the REM sector by showing the institutional arrangements for the bureaucratic control of real estate within the state planned economy. It then explains why and through what measures market-oriented reforms have been introduced in this sector. This provides the background for Chapter 5, which describes the state entrepreneurial activities of Tianjin's municipal and district REM departments in the early 1990s and traces their emergence to a combination of opportunities and constraints that have appeared in the transition from bureaucratic to market control in this sector.

### **The Real Estate Management System**

Until 1978, the system for the provision of urban public buildings was highly centralised. The central state contributed 90 per cent of total investment in construction and controlled both construction and allocation of buildings in the cities through the 'urban construction' sector.<sup>2</sup> As well as REM departments, this sector included departments charged with urban planning, building design and construction. All were co-ordinated by the Ministry of Construction at the central level through commissions (*jianshe weiyuanhui*) in the provinces, cities and urban districts. Construction was planned by urban government planning departments and actual building was done by construction units under their own separate bureau. Real estate 'management' work within this sector covered a wide range of tasks that accrued over the years, but at its heart was the allocation of buildings, collection of rents, maintenance and repairs. REM departments assigned housing and buildings for public use<sup>3</sup>, and kept tenancy and occupation records. They collected rents on the buildings under their control and used the rental income to repair and

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<sup>2</sup> See Chapter 2 for a discussion of the vertical organisation of the state administration into 'systems'.

<sup>3</sup> Christopher Howe notes that they were under great pressure in the mid-1950s to solve problems of overcrowding in the cities of Shanghai and Guangzhou as urban populations expanded. See Howe, 'The Supply and Administration of Urban Housing in Mainland China: The Case of Shanghai', *The China Quarterly* 33 (January-March 1968), pp.73-97.

maintain those buildings. These departments and the functions they perform have been adjusted and readjusted frequently since the 1950s according to the changing priorities and economic strategies of the central leadership. Many were abolished during the Cultural Revolution and then re-established in the early-1970s. But except for this hiatus, the original tasks and operational principles remained the core of REM work into the 1990s.

Since the mid-1950s REM departments have been organised in a hierarchical administrative structure within the government.<sup>4</sup> For most of the period there were departments at the central level under the State Council, provincial, city and district level bureaux, and sub-district, or 'basic level' offices. The structures of the REM system have differed in the localities, often according to the size of a city and the amount of property under its control. The remit of REM departments covered a wide range of state-owned buildings. These included buildings used by government departments and state institutions, as well as other public buildings such as museums, cinemas and libraries. REM departments also managed all public housing provided directly by the state (through local governments) to urban dwellers. Nationally, this constituted one third of the total housing stock on the eve of the reform period.<sup>5</sup> The rest was provided indirectly by the state through state-owned enterprises and other work units. REM departments registered this work-unit housing and oversaw repair work, but did no more. The ratio between housing provided directly by the state and indirectly through work units varied from city to city. Since state housing included that taken over in 1949, as well as housing built by urban governments since, there tends to be more of this in older cities where more housing had existed before 1949.<sup>6</sup> Tianjin is an old city of this type, and according to a 1985 survey, buildings managed by REM departments in the city constituted 31.8 per cent of the total, higher than the national average of 24.1 per cent.<sup>7</sup> In cities like Beijing that have grown rapidly since 1949, there

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<sup>4</sup> The state planning system was brought gradually into existence during the 1950s. Since 1979, it has been reformed and gradually dismantled. The creation and reform of the system therefore cannot be precisely dated. Many elements of the planning system remained in the early 1990s when this research was conducted. But there had by then also been major changes to the old system. Although many elements of the former system remained, it was changed enough that it is best described in the past tense.

<sup>5</sup> Zhang Yueqing, Yan Zhongqiu and Lu Xiangyun (eds), *Chengshi zhuzhai guanli gailun* (An outline of urban housing management) (Beijing: Beijing jingji xueyuan chubanshe, 1989), p.29. See Table A4.1, Appendix 4.

<sup>6</sup> Martin K. Whyte and William Parish, *Urban Life in Contemporary China* (Chicago: University of Chicago Press, 1984), p.82.

<sup>7</sup> Dangdai Tianjin chengshi jianshe bianji bu (Editorial department of Urban Construction in Contemporary Tianjin) *Dangdai Tianjin chengshi jianshe* (Urban Construction in Contemporary Tianjin) (Tianjin: Tianjin renmin chubanshe, 1987), p.231. The national figure is for 1984, the nearest date available. See Table A4.1, Appendix 4.

has tended to be more work-unit housing<sup>8</sup> and less housing managed by REM departments. Nationally, the housing construction boom in the early 1980s produced a trend toward a higher ratio of work-unit housing. However, though the proportion owned and managed directly by the cities declined in this period, the total area under their purview increased.<sup>9</sup>

*The Creation of the System for Managing Public Property and Housing, 1948 to the mid-1950s*

The REM system as it exists today has evolved from departments established in the early years of the PRC to take over and redistribute public buildings. The control of public buildings and housing was one of the first tasks undertaken by many new urban governments as the CCP gained control of cities nation-wide between 1948 and 1950. The CCP leadership issued its first document on the management of public property in 1948 as its armies swept to victory in the final stage of the civil war.<sup>10</sup> This 1948 document urged the Military Affairs Control Commissions (*junshi guanzhi weiyuanhui*), the provisional local authorities that took control from the defeated Nationalist government, to quickly establish an orderly system for the control of public buildings. The new leaders in the cities were ordered to set up Public Property Management Commissions (*gonggong fangchan guanli weiyuanhui*) to handle the 'unified management' and distribution of all public buildings. Public Property Management Sections (*chu*) were to be established below the Commissions to take over, register, and reallocate public buildings, and then collect rents and do repair work.<sup>11</sup> All such buildings were to be reallocated as offices and dormitories to the new government departments, to the army, or to urban dwellers in need of housing.<sup>12</sup> This work was considered vital for re-establishing order in cities once the CCP had taken them militarily.

In this early period there were no specially designated central level structures to oversee or co-ordinate urban public property management nation-wide, and cities handled this work

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<sup>8</sup> Whyte and Parish, *Urban Life in Contemporary China*, p.82.

<sup>9</sup> See Table A4.1, Appendix 4.

<sup>10</sup> 'Zhonggong zhongyang guanyu chengshi zhong gonggong fangchan wenti de jue ding' (Decision of the Chinese Communist Party Central Committee concerning the problem of urban public property), 30 December 1948, Zuigao renmin fayuan minshi shenpan ting (Supreme People's Court Civil Affairs Hearings Office) (ed), *Fangdichan shenpan shouce* (Handbook of real estate hearings), Vol.1 (Beijing: Falu chubanshe, 1992), pp.155-158.

<sup>11</sup> 'Zhonggong zhongyang guanyu chengshi zhong gonggong fangchan wenti de jue ding', pp.156-7.

<sup>12</sup> Legally, the only buildings that could be taken over were those that had belonged to the Nationalist Party (Guomindang) or had been taken by the Nationalists from the Japanese puppet government at the end of the war against Japan. Private property could not be seized. See Cheng Xi, 'Fangdichanfa de zhiding yu fazhan' (The formulation and development of real estate law), *Tianjin fangdichan* (Tianjin real estate), 1992.6, pp.42-44.

individually.<sup>13</sup> But between 1950 and 1952, the Ministry for Domestic Affairs appears to have taken charge of matters relating to public property.<sup>14</sup> Policy and matters involving private property were initially controlled from the centre by the Ministry of Civil Affairs, and then later by a department under the Ministry for Domestic Affairs (*neiwu bu dizheng si*). From 1952, public and private property was handled together, but property management work was divided among three ministries, the Second Ministry of Commerce (*di'er shangye bu*), the Ministry of Urban Construction (*chengshi jianshe bu*) and the Construction Project Ministry (*jiangong bu*). Only in 1961 was a single Property Management Bureau (*guojia fangchan guanli ju*) established at the centre, though it was abolished soon after, during the Cultural Revolution.<sup>15</sup>

The organisation of public property management differed from city to city, and Tianjin's appears to have been better co-ordinated at the municipal level than many. Tianjin's Municipal Military Affairs Control Commission was set up in January 1949. It immediately took over the Land Administration Section (*dizheng chu*) of the former Nationalist government and gave it the job of registering property and determining property rights after more than a decade of war and occupation. A separate commission was then established to carry on taking over old property from the Nationalist government and Japanese collaborators, the so-called 'enemies, puppets and traitors'.<sup>16</sup> In all, almost 1.6 million square metres of such property was appropriated, of which approximately 1.2 million square metres were reallocated to new government departments, the army and enterprises, while 400 thousand square metres was set aside as housing for urban dwellers.<sup>17</sup> While this work continued, the Tianjin leadership also began to set up new public building management departments, and by February a unified system was in place to handle this work.<sup>18</sup>

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<sup>13</sup> Zhang, Yan and Lu, *Chengshi zhuzhai guanli gailun*, p.15, who state that this lack of central co-ordination allowed property management to become disorganised.

<sup>14</sup> It issued documents in 1950 and 1952 on urban property management, see the Zuigao renmin fayuan, *Fangdichan shenpan shouce* (Vol.1), pp.167-178, and urged the cities to establish public property management departments. Public Property Management Commissions had been abolished in some cities once the initial tasks of taking over and then allocating buildings for use by the new governments were completed.

<sup>15</sup> Zhang, Yan and Lu, *Chengshi zhuzhai guanli gailun*, pp.15-16.

<sup>16</sup> The *fangwu tiaozheng weiyuanhui* (Commission for the Reallocation of Buildings), established on 24 January 1949. Hou Shumin and Li Zhenqun, 'Tianjinshi gongyong gongfang guanli tizhi de fazhan, 49.1-66.5' (The development of Tianjin city's public buildings management system, January 1949-May 1966), *Tianjin fangdichan*, 1989.3, p.29.

<sup>17</sup> Chen Jun, 'Gongyong gongfang de jingying guanli ji gaige' (The business management and reform of public buildings), *Tianjin fangdichan*, 1993.8, pp.43-46.

<sup>18</sup> On 4 February 1949, a Public Property Management Commission (*gonggong fangchan guanli weiyuanhui*), was set up, and under this a Public Property Management Section (*gonggong fangchan guanli*

From 1949 the organisational structures of the property management sector in Tianjin's new government were constantly readjusted. For about two and a half years, taking-over property and sorting out of property ownership questions remained key tasks, but property management departments at the municipal level gradually accumulated new administrative duties. In Spring 1949, repair work and the resolution of serious housing problems were taken on.<sup>19</sup> By October, work was being extended to deal with newly emergent problems such as profiteering, speculation and fraud in the purchase of private housing by government departments (*jiguan*), and public property management departments began issuing licences to 'strengthen control' over these transactions.<sup>20</sup> Property management work increased and in January 1952 a Municipal Property Company (*shi fangchan gongsi*) was set up to deal with it.<sup>21</sup> The Municipal REM Bureau (*shi fangdichan guanli ju*) was created in the middle of that year.<sup>22</sup>

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*chu*) responsible for the regulation and management of all public buildings. See Hou and Li, 'Tianjinshi gongyong gongfang guanli tizhi de fazhan', p.29. This was unusual; many other cities did not establish this 'overall management' (*tongyi guanli*) until later this decade or even into the 1960s, despite central level leadership urging (see 'Zhonggong zhongyang, guowuyuan di'er ci chengshi gongzuo huiyi jiyao (jielu)' (Summary of the Second Urban Work Meeting of the CCP Central Committee and State Council (Extracts)), *Zhongfa* [63] No.699, 12 October 1963, in Zuigao renmin fayuan, *Fangdichan shenpan shouce*, pp.203-6. Tianjin also established a Municipal Construction Commission in September 1949, creating an urban construction sector of which the property management departments were one part. See Dangdai Tianjin chengshi jianshe bianji bu, *Dangdai Tianjin chengshi jianshe*, p.204.

<sup>19</sup> By the Public Property Reorganisation and Management Bureau (*gongchan qingguan ju*) set up on 1 April 1949. This Bureau consisted of three sections to handle public property, civil property, and repairs. This new bureau continued take-over work. In early 1950, the Property Reorganisation and Management Bureau was divided into the Public Property Management Bureau (*gongchan guanli ju*), and the Enemy and Puppet Property Reorganisation Bureau (*diwei chanye qingli ju*). See Dangdai Tianjin chengshi jianshe bianji bu, *Dangdai Tianjin chengshi jianshe*, p.279.

<sup>20</sup> This work was initially handled by the Public Property Reorganisation and Management Bureau, and then, from March 1950, by a the Tianjin City Government Buildings Management Commission (*Tianjin shi jiguan fangwu guanli weiyuanhui*) established within that Bureau specifically to take charge of this work. This was abolished in 1956, when it was replaced by the Tianjin Buildings Management Commission (*fangwu guanli weiyuanhui*). Hou and Li, 'Tianjinshi gongyong gongfang guanli tizhi de fazhan', pp.29-30.

<sup>21</sup> Dangdai Tianjin chengshi jianshe bianji bu, *Dangdai Tianjin chengshi jianshe*, p.287. After the Municipal REM Bureau was established, its Public Property Section personnel were transferred to the Municipal Property Company's administrative group (*xingzheng zu*), where they continued to handle public housing management. In 1956 the Bureau revived its own Public Property Section. Hou and Li, 'Tianjinshi gongyong gongfang guanli tizhi de fazhan', p.30. The property company appears to have been separate from the Bureau at this time, but by the 1980s the municipal and district 'property companies' were part of the REM bureaux and had become administrative companies that handled government work (rather than merely businesses). In the 1980s and early 1990s, they handled the practical business of housing repair and maintenance and were in charge of the REM 'stations'. See below.

<sup>22</sup> Formed after the merging of the Tianjin Municipal Public Property Management Bureau was and the Land Administration Section. Dangdai Tianjin chengshi jianshe bianji bu, *Dangdai Tianjin chengshi jianshe*, p.288. See also Hou and Li, 'Tianjinshi gongyong gongfang guanli tizhi de fazhan', p.29, for a corroborative account of the above reorganisations.

The work of the Municipal Bureau in the 1950s included allocating public buildings to state enterprises and non-profit making institutions, checking and verifying ownership documents, registering property and tenancy, handling transfers of private property rights, allocating housing, charging rent for privately-let housing, public buildings and housing repairs, and arranging district shopping facilities (*shangye wangdian*).<sup>23</sup> It also handled tasks relating to land use such as land requisitioning (*zhengyong*), surveying, issuing (*fafang*) land use certificates and determining boundaries, though it did not actually control the allocation of land.<sup>24</sup> REM departments were not involved in construction work. The construction of new housing during this period was planned, co-ordinated and carried out by other departments in the urban planning and construction sector.<sup>25</sup> REM departments provided housing from the existing stock at this time, and may have been involved in the allocation of new housing but rarely in actual construction.

#### *Adjustments to the System during the Great Leap Forward and the Cultural Revolution*

Urban public property management came under central level scrutiny during the drive to achieve socialism with the creation of the communes and 'socialist reconstruction' (*shehuizhuyi gaizao*). In March 1956 the Party Central Committee began its initiative to 'socialise' industry, commerce and property, including private buildings in the cities, and in that same year the Ministry of Urban Services (*chengshi fuwu bu*) was established.<sup>26</sup> In 1957 the new Ministry issued a series of directives calling for the cities to establish the 'unified management' of public property now necessary for co-ordinating the take-over of private buildings and property.<sup>27</sup> REM departments

<sup>23</sup> Hou and Li, 'Tianjinshi gongyong gongfang guanli tizhi de fazhan', pp.29-30.

<sup>24</sup> These land use-related tasks were handed over to the Planning Management Section in the Municipal Government in 1954. Dangdai Tianjin chengshi jianshe bianji bu, *Dangdai Tianjin chengshi jianshe*, p.205. In the early 1980s the REM departments once again handled land until in 1986 a Land Administration Bureau was established. See below.

<sup>25</sup> In April 1952 construction of the first workers' housing estates (*gongren xincun*) was started. Between 1953 and 1957, the period of the first five year plan and a time of national large-scale basic construction, more estates were built. See Zhu Qihua (ed), *Tianjin quanshu* (Encyclopaedia of Tianjin) (Tianjin: Tianjin renmin chubanshe, 1991), p.113. Five million yuan was given to work units for construction of the buildings (for productive purposes) they needed. This may or may not have included housing. See Hou and Li, 'Tianjinshi gongyong gongfang guanli tizhi de fazhan', pp.29-30.

<sup>26</sup> See the Dangzhongyang shujichu di'er bangongshi (Party Central Committee Secretariat, Second Office), 'Guanyu muqian chengshi siyou fangwu jiben qingkuang ji jinxing shehuizhuyi gaizao de yijian' (Opinions concerning the present basic situation of urban private housing and the implementation of socialist reconstruction) of 16 December 1955, approved and circulated by the Party Central Committee in January 1956. Text in Zuigao renmin fayuan, *Fangdichan shenpan shouce* (Vol.1), pp.950-3.

<sup>27</sup> 'Chengshi fuwu bu guanyu jiaqiang chengshi fangchan guanli gongzuo de yijian' (Opinions of the Ministry of Urban Services Concerning Strengthening Urban Property Management Work), February 1957, Zuigao renmin fayuan, *Fangdichan shenpan shouce*, pp.178-84; 'Chengshi fuwu bu guanyu zhaoji chengshi fangchan gongzuo zuotanhui gei guowuyuan diwu bangongshi de baogao' (Report of the Ministry of Urban

were heavily involved in nationalising private property under the urban private property redevelopment offices, and their work subsequently increased as the property under their control expanded.<sup>28</sup> It is probably because of this increase that district-level administrative ‘property companies’ (*fangchan gongsi*) were established in Tianjin in 1956.<sup>29</sup> These were the first permanent district level departments to handle public property management; in the early 1950s in Tianjin this work had been handled by the Municipal Bureau alone.<sup>30</sup>

However, the Great Leap Forward soon disrupted the city’s urban planning system and the work of the new district property companies. In the second quarter of 1958, powers to allocate and requisition land, together with control over planning management personnel were decentralised to each district.<sup>31</sup> Area governments (such as districts and communes) now had more autonomy (*yi kuai wei zhu*) as comprehensive urban planning arrangements were almost abandoned, and land was allocated for projects on an ad hoc basis.<sup>32</sup> This decentralisation and disarray was short-lived. From 1960 there was a three year period of ‘readjustment’ (*tiaozheng*) as the country recovered from the economic and social disaster that followed the Great Leap Forward. Many of the powers given to the lowest levels during the Great Leap were now

Services to the Fifth Office of the State Council Concerning the Convening of a Discussion Meeting on Urban Property Work), 26 July 1957, *ibid.*, pp.184-92; ‘Chengshi fuwu bu Zhang Yongli fubuzhang zai di’er ci quanguo tingjuzhang huiyishang guanyu chengshi fangchan guanli gongzuo de jianghua’ (Speech by Zhang Yongli, deputy Minister of the Ministry of Urban Services at the Second National Meeting of Bureau Chiefs Concerning Urban Property Management Work), 28 October 1957, *ibid.*, pp.192-201.

<sup>28</sup> ‘Chengshi fuwu bu guanyu jiaqiang chengshi fangchan guanli gongzuo de yijian’, p.178.

<sup>29</sup> They were established on 4 October 1956 according to *Dangdai Tianjin chengshi jianshe bianji bu*, *Dangdai Tianjin chengshi jianshe*, p.308, though one district REM Bureau official said that the district Property Companies and REM Bureaux were established after 1958 because of the increase in public property (private property that had been ‘socialised’) in 1956 and 1958. Interviewee 64. Departments were established later in this sector in the coastal and suburban districts. Dongli, a suburban district, was one of the earliest of these. It set up an office for this work in 1965 that became a Bureau in 1982. Interviewee 15. In Tanggu a District REM Section (*chu*, the predecessor of the current Bureau) was set up in 1979, according to one of its officials, interviewee 11. I have been unable to find documentary references indicating when district bureaux were established in this sector elsewhere in the country.

<sup>30</sup> Toward the end of 1949, there had briefly been five property management offices (*gongyong fangwu guanli suo*) in the districts to measure and make maps of the housing taken over, and help make arrangements for the housing of the neighbourhood offices and public security offices (*gong’an paichusuo*). When this task was achieved, the property management offices were abolished. These offices were established under the Public Property Section (*gongyongke*) of the Public Property Reorganisation and Management Bureau. Hou and Li, ‘Tianjinshi gongyong gongfang guanli tizhi de fazhan’, p.29.

<sup>31</sup> Christopher Howe notes that in Shanghai, too, day-to-day housing repair, maintenance and rental collection work was decentralised from the Municipal Land and Buildings Management Bureaux to district departments. See Howe, ‘The Supply and Administration of Urban Housing in Mainland China: the Case of Shanghai’, p.87.

<sup>32</sup> *Dangdai Tianjin chengshi jianshe bianji bu*, *Dangdai Tianjin chengshi jianshe*, September 1987, pp.205-6. Soon after the end of the Great Leap Forward there were investigations and repossession of land allocated during the period of chaos.

recentralised in a central level attempt to reassert control and direct the recovery. Control was regained in Tianjin's urban planning sector from the latter half of 1959, when authority over land allocations reverted to the Municipal Construction Commission.<sup>33</sup> There are indications that the district property companies set up in 1956 had been dismantled during the Great Leap: their establishment was announced again in January 1961.<sup>34</sup>

A central Property Management Bureau (*fangchan guanli ju*) was established under the State Council in 1961, and the central leadership now began to address problems in the housing provision and maintenance system, particularly lack of finance for the repair and construction of property. Overcrowding and deteriorating housing stock had been officially recognised as early as 1957.<sup>35</sup> But these problems had not been solved by the early 1960s<sup>36</sup>, and from 1962 limited measures were taken to raise revenues for this work. In that year, new taxes were created, primarily a real estate tax (*fangdichan shui*) which was to contribute to urban construction and building repairs.<sup>37</sup> At a central conference on urban work in 1963, it was decided to allow cities to set aside between five and ten per cent of their annual surplus revenue for such work. It was also agreed that rents needed to be raised, though no detailed figures were given, and cities were directed to issue their own measures on this.<sup>38</sup>

By 1964, the work of property management departments in the localities had been broadened. For the first time, it seems, they were given a role in the construction of buildings. First, they were assigned the task of doing research on housing design standards. Second, in an apparent attempt to increase the construction of new buildings, they were also allowed to undertake construction work if they had the funds to do so.<sup>39</sup> By this time, the tasks of the basic

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<sup>33</sup> Land requisitioning was still handled by the districts. See Dangdai Tianjin chengshi jianshe bianji bu, *Dangdai Tianjin chengshi jianshe*, p.206. Note that it is not specified just which department in the bureau handled the land requisitioning. It may not have been the property companies.

<sup>34</sup> Dangdai Tianjin chengshi jianshe bianji bu, *Dangdai Tianjin chengshi jianshe*, p.323. They may have become part of the communes briefly during the Great Leap Forward.

<sup>35</sup> See 'Chengshi fuwu bu guanyu jiaqiang chengshi fangchan guanli gongzuo de yijian', p.80, and 'Chengshi fuwu bu guanyu zhaoji chengshi fangchan gongzuo zuotanhui gei guowuyuan diwu bangongshi de baogao', p.192. Christopher Howe also notes discussions of such housing problems in Shanghai in 1956-7. Howe, 'The Supply and Administration of Urban Housing in Mainland China: the Case of Shanghai', pp.73-97.

<sup>36</sup> This may have been because such concerns were sidelined during the industrially-oriented Great Leap Forward. Note, however, that according to Howe housing construction continued steadily in Shanghai between 1958 and 1965, though still falling short of the city's needs. *Ibid.*, pp.73-97.

<sup>37</sup> 'Zhonggong zhongyang, guowuyuan di'er ci chengshi gongzuo huiyi jiyao (jielu)', p.204.

<sup>38</sup> *Ibid.*

<sup>39</sup> 'Guojia fangchan guanli ju guanyu jiachang quanmin suoyou zhi fangchan guanli gongzuo (jielu)' (State Property Management Bureau Report Concerning Strengthening the Management Work of Property Owned

level 'stations' and 'offices' were also broad, including not only repair work and rent collection from tenants, but also helping the Public Security departments, Neighbourhood Offices and 'the workers'.<sup>40</sup>

The problems addressed by the central leadership in the early 1960s were never fully solved because implementation of the new measures was interrupted by the Cultural Revolution.<sup>41</sup> From 1966-69 this movement brought disorder and destruction across the whole country. Documentary material on government in this period is scant and historical accounts of work in the urban construction sector usually gloss over these years, merely noting that the situation was chaotic and little was done. As Party and government structures came under attack, the central Property Management Bureau was abolished and management of this work decentralised throughout the country.<sup>42</sup> Construction or work related to the management of public buildings was no longer co-ordinated from the centre, and indications are that in the cities there was either de facto decentralisation to the district level or quite simply no planning or control over construction work at all. Housing conditions and building stock is commonly said to have deteriorated over this period.<sup>43</sup>

In Tianjin during the first years of the Cultural Revolution, the story was the same. municipal government departments were crippled or abolished. First, urban planning and management work ceased and leadership control was lost when the Municipal Construction Commission was abolished in 1968. Then in October 1970, Tianjin's Municipal REM bureau was merged into the Public Utilities bureau.<sup>44</sup> While sub-municipal institutions were retained, plans for reform in this sector were dropped as consumption was subordinated to the more important task of promoting industrial and agricultural production.<sup>45</sup>

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by the Whole People (Extracts)), 13 July 1964, *Zuigao renmin fayuan, Fangdichan shenpan shouce*, p.231. This Report specified that these departments should not build office blocks and hotels.

<sup>40</sup> *Ibid.*, pp.234-5.

<sup>41</sup> Christopher Howe describes a scheme to promote private construction of new housing with state assistance that first appeared in Shanghai in 1956-7 and was revived in 1966 on the eve of the Cultural Revolution. It was presumably not implemented since little government work of this kind was done in the Cultural Revolution. Howe, 'The Supply and Administration of Housing in Mainland China', pp.84-6.

<sup>42</sup> Zhang, Yan and Lu, *Chengshi zhuzhai guanli gailun*, p.16.

<sup>43</sup> For a discussion of the problems of urban construction resulting from the Cultural Revolution and a critique of the Gang of Four, see 'Guowuyuan guanyu jiaqiang chengshi jianshe gongzuo de yijian (jielu)' (State Council Opinions Concerning the Strengthening of Urban Construction Work (Extracts)), March 1978, *Zuigao renmin fayuan, Fangdichan shenpan shouce* (Vol.1), pp.206-221.

<sup>44</sup> *Dangdai Tianjin chengshi jianshe bianji bu, Dangdai Tianjin chengshi jianshe*, p.343.

<sup>45</sup> There is very little documentation available on sub-Municipal level departments. But one Tianjin REM system official indicated that work had continued at this level and below, and said that there was an increase

Government and Party structures were gradually rebuilt from the early 1970s and with them the system of public property management. So-called 'construction' (*jianshe*) work, which includes all infrastructural planning and construction in urban areas, from public utilities to the construction of buildings and roads, was one of first areas of government work to be revived. A Ministry of Urban Construction was set up, and attempts were made to unify property management work at the central level by creating a Property and Housing Bureau beneath it.<sup>46</sup> Tianjin's Municipal REM Bureau was re-established in September 1972. The property under its control had increased with the seizure of private property during the late 1960s<sup>47</sup>, but throughout the 1970s its work was limited to maintenance of the buildings under its control and the collection of rent.<sup>48</sup>

#### *The Real Estate Management System on the Eve of the Reforms*

None of the adjustments to the REM system after the mid-1950s fundamentally changed way that public buildings and land were controlled by the state. While the state planning system remained in place public buildings of all kinds were treated as a good to be allocated administratively rather than distributed according to market mechanisms. However, because of minor changes and reorganisations to the system during the 1970s and 1980s it is necessary here to clarify the institutional organisation of the urban construction sector and its REM departments on the eve of 1980s and 1990s market-oriented reforms. Much of the discussion below will be in the past tense since although the basic institutions are still the same today, their relationships, financial circumstances and work have been changed by the market reforms and their new entrepreneurial activities.

Throughout their history, REM departments have been part of what is called the urban construction and planning sector.<sup>49</sup> At the central level this sector has been reorganised many

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in personnel from the late 1960s to early 1970s because of the increase in private property that was seized at that time. Interviewee 64.

<sup>46</sup> Zhang, Yan and Lu, *Chengshi zhuzhai guanli gailun*, p.16.

<sup>47</sup> Interviewee 64, a Tianjin official.

<sup>48</sup> Dangdai Tianjin chengshi jianshe bianji bu, *Dangdai Tianjin chengshi jianshe*, pp.206-7. This is said to have been the case nation-wide. Zhuang, Mu, Zhang, Dezhong and Jiang Wanrong, *Fangdichan zhidu* (The real estate system) (Beijing: Beijing jingji xueyuan chubanshe, 1993), p.3.

<sup>49</sup> The Chinese term '*jianshe*', translated here as 'construction', is often used broadly in the sense of to 'build up' or improve rather than simply physically construct. In Chinese there is another word, *shigong*, which refers to physical construction and would be translated into English as 'construction' in phrases like 'construction site' and 'construction worker'. There are departments in charge of '*shigong*' inside the urban '*jianshe*' system in China.

times since 1949, but it has always consisted of a range of Construction Commissions or Ministries, and bureaux, in charge of planning, design and building. Among these there has usually been a department (*si* or *ju*) responsible for the management of public property, including housing. Since 1988, this sector has been headed at the centre by the Ministry of Construction.<sup>50</sup> This Ministry's tasks are to oversee and formulate policy in the spheres of architectural design, engineering construction, urban, village and township construction, and real estate business.<sup>51</sup> Beneath the Ministry of Construction (as below its predecessors) are many departments, including one to handle property and public buildings and housing. From 1988 this has been called the Real Estate Business Bureau (*fangdichanye si*).<sup>52</sup>

Corresponding departments are established in the localities. Here, too, REM work falls within the urban construction and planning sector. In Tianjin, this sector is directed by the Tianjin Urban and Rural Construction Commission (TURCC), which has since 1983 been responsible for the physical planning and development of the city.<sup>53</sup> TURCC oversees the

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<sup>50</sup> In 1973, the State Basic Construction Commission (*guojia jiben jianshe weiyuanhui*), sometimes referred to as the 'Revolutionary' Construction Commission (*geming jianshe weiyuanhui*), was established as the successor to Construction Commission that had existed from 1954 until its abolition during the Cultural Revolution. Below this was a State Urban Construction General Bureau (*guojia chengshi jianshe zongju*), and below this General Bureau a Property and Housing Bureau (*fangchan zhuzhai ju*). In 1982 the Ministry of Urban and Rural Construction and Environmental Protection (*chengxiang jianshe huanjing bao hu bu*) was created, and beneath it an Urban Housing Bureau (*chengshi zhuzhai ju*). This later became the REM Bureau. Zhang, Yan and Lu, *Chengshi zhuzhai guanli gailun*, p.16. In September 1988, the first session of the Seventh National People's Congress abolished the Ministry of Urban and Rural Construction and Environmental Protection and established in its place the Ministry of Construction. (A separate bureau was established undertake environmental protection work.) Xia Ji, Rui Mingchun, Xu Yunpo (eds), *Jigou bianzhi guanli shouce* (A handbook of the management of government structural arrangements) (Beijing: Zhongguo renshi chubanshe, 1989), p.105.

<sup>51</sup> 'Jianshe bu 'san ding' fang'an (gaiyao)' (The Ministry of Construction's Programme to 'Determine Three Things' (draft)) (26 September 1990), *Zhongguo fangdichan* (China real estate) 1991.1, p.5. Some of these tasks had formerly been handled by the Planning Commission, which was also reorganised in 1988, see Xia, Rui and Xu, *Jigou bianzhi guanli shouce*, p.105.

<sup>52</sup> 'Jianshe bu 'san ding' fang'an (gaiyao)', p.6. According to this 1990 document, which was a draft programme to reorganise the work of the Ministry of Construction, there were to be 15 departments below the Ministry of Construction, including the Real Estate Business Bureau. It is not clear when this draft document, which was approved by the central Staffing Complement Commission (*bianzhi weiyuanhui*) in October 1990, would take effect.

<sup>53</sup> Tianjin's Basic Construction Commission (*jiben jianshe weiyuanhui*) was re-established after the Cultural Revolution in September 1972, and became the Urban and Rural Construction Commission in June 1983, following organisational changes at the centre. See Dangdai Tianjin chengshi jianshe bianji bu, *Dangdai Tianjin chengshi jianshe*, p.388. This Commission is answerable to the central Construction Commission, and the Ministry of Construction, based in Beijing. Before the 1983 reforms of the urban construction sector, the planning commission (*jihua wei*) formulated the plans and the urban construction departments organised their implementation. After 1983, the Urban and Rural Construction Commission was given the work of formulating plans as well as organising their implementation. Tianjinshi tongji ju (Tianjin

Municipal REM Bureau and a range of related municipal bureaux<sup>54</sup>, and co-ordinates urban planning projects city-wide. It has subordinate organs in the districts that in the early 1990s were called either 'construction commissions' or 'construction bureaux' and co-ordinated the same range of departments and work as their superior at the city level. TURCC's control over the various municipal bureaux has been possible primarily through its control of the city's construction budget, which it allocates according to city's overall construction plans.<sup>55</sup>

On the eve of the reforms the REM system consisted of a central level Real Estate Business Bureau (*fangdichanye si*) and REM bureaux (*fangdichan guanli ju*) in the provinces and cities.<sup>56</sup> In cities with districts, each district had a REM bureau, and below each of these were REM offices and 'stations' (*suo, zhan*). In cities without districts, the offices and stations were directly below the Municipal REM Bureau. After its revival in 1972, there were many 'sections' (*chu*) within Tianjin's Municipal REM Bureau, each one responsible for different aspects of its work. These sections can be grouped according to type of work they did: there were sections in charge of administrative work, sections that managed enterprises under the Municipal REM bureau, and sections that managed its non-profit making institutions.<sup>57</sup> The administrative work of the bureau was sometimes referred to as government work, and distinguished from the other, 'professional' or enterprise functions, even though in terms of the bureau's accounting system the work of all the different parts was usually handled together.<sup>58</sup> In 1972, Tianjin's Municipal REM

Municipal Statistical Bureau) (ed), *Tianjin sishi nian, 1949-89* (Forty Years in Tianjin, 1949-89) (Beijing: Zhongguo tongji chubanshe, 1989), p.61.

<sup>54</sup> These include the Planning, Public Utilities, Environmental Management, Construction Management, and Communications, Transport and Land Management Bureaux. The Land Management Bureau was established in 1986 at the same time as the central Bureau of the same name. This took over much land transaction supervision and registration work (and the revenue from the fees charged for this work) from the Real Estate Management Bureau.

<sup>55</sup> Interviewee 3.

<sup>56</sup> Smaller cities usually had a provincial level bureau between them and the central ministry. In provincial level cities like Tianjin, the Municipal REM Bureau was directly subordinate to the central bureau. As noted above, although this description is presented in the past tense, many of the basic institutional structures are probably little changed today.

<sup>57</sup> Some of the long-standing administrative sections include the REM Section (*fangguan chu*), Property Rights Section (*chanquan chu*) and the Finance Section (*caizheng chu*). The Municipal Real Estate General Company (*fangchan zonggongsi*) is considered a section that manages non-profit making institutions, such as the 'property companies' in the district bureaux that carry out repair and maintenance work. The Building Project Section (*xiujian gongcheng chu*) is in charge of companies in the district that undertake construction work and is an example of a section that oversees enterprises. Interviewee 4. In the early 1990s new sections appeared and some old ones were renamed. I discuss this in Chapter 5.

<sup>58</sup> Interviewee 4 noted that this was still the case in early 1993, though it would probably be changed in the future. This city government official likened the Municipal Bureau to a large company. According to some Chinese analysts, there has long been a debate over whether the unified method is best or whether it is more appropriate to separate the spheres of government administration, construction and repairs. See Zhang, Yan

Bureau resumed its tasks of co-ordinating and directing rent collection, registration, and maintenance of public buildings and also became involved in construction work, as had been proposed in the early 1960s. By the 1980s it formulated local rules and regulations in line with central policy, and was responsible for handling land use rights for land on which housing is built.<sup>59</sup>

The Municipal REM Bureau in Tianjin was at the apex of the city's public property management hierarchy and in overall control of its publicly owned and administered property.<sup>60</sup> It was the hierarchical superior of district bureaux of the same name, and 'led' them via the General Property Company within the bureau. This Property Company was in charge of rent collection and repair work, the core of the work handled by the district bureaux before the reforms, and was formally the administrative superior to the companies of the same name within the district bureaux.<sup>61</sup> This Company is usually referred to as the 'non-profit making' (*shiyè*) part of the bureau, which means that it is not technically a business enterprise and therefore does not register at the Industrial and Commercial Administrative Management bureau and pay enterprise tax.<sup>62</sup>

There is one REM bureau in each of the six urban districts of Tianjin.<sup>63</sup> These district bureaux have the same organisational form as the municipal bureau. For example they all have a property company within them. But, the district bureaux could vary enormously in size. The Dongli bureau, in a suburban district had a total of 230 staff, including those in its REM Stations.<sup>64</sup> Nankai district's bureau, which handles much more property, had 1700.<sup>65</sup> Prior to the reforms, the section chiefs in these district companies were appointed by the Municipal Bureau.<sup>66</sup>

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and Lu, *Chengshi zhuzhai guanli gailun*, pp.18-19. There was a trial separation of these functions in Hongqiao District REM Bureau from 1983 onwards. This was said to have caused problems in this bureau and was being resisted by other district bureaux in Tianjin. Interviewee 7, a district official.

<sup>59</sup> Some of the Municipal REM Bureau's land related work was given to the Land Management Bureau when it was created in 1986. See Footnote 54, above.

<sup>60</sup> This included 19 million square metres of 'municipally controlled housing' in Tianjin in the late 1980s. World Bank, *China: Implementation Options for Urban Housing Reform* (Washington D.C.: The World Bank, 1992), p.69. Although REM departments do not actually repair private and enterprise property, they are charged with making sure that this work is done.

<sup>61</sup> In some districts, particularly the suburban ones, these companies existed long before the bureaux were established. It is this part of a district bureau that is in charge of the work of the REM stations.

<sup>62</sup> Interviewee 9, a district official.

<sup>63</sup> REM bureaux were set up for the first time in the suburban districts in Tianjin in the late 1980s because public buildings, primarily housing, has increased there. This is a reflection of the urbanisation of these districts. Most housing in the countryside is privately owned and not subject to REM bureau management. Interviewee 15.

<sup>64</sup> In 1993. Interviewee 15.

<sup>65</sup> In 1993. Interviewee 9.

<sup>66</sup> Interviewee 4.

Key appointments were made at the city level, but by the Party and personnel departments.<sup>67</sup>

On the eve of the reforms the district bureaux looked to the Municipal Bureau for policy, finances and materials. Until the late 1980s, district level bureaux were the arms of the Municipal Bureau and did little or no construction-related work. Their work was essentially the same as that of the Municipal Bureau, since it consisted of implementing the specific orders and detailed plans sent down by that bureau in the spheres of rent collection, repair work, construction and property registration.<sup>68</sup>

Revenue from rents paid the wages and running costs of the municipal and district bureaux and the repair of the buildings in their charge. The amount of repair work done in the city was determined by the investment available from rental revenue. Finances were centralised and controlled by the Municipal Bureau which received all the rents collected by the urban district bureaux, kept a proportion for its own needs and then redistributed the rest among the districts.<sup>69</sup> Some districts, for example those that controlled a smaller proportion of residential property and a higher concentration of commercial buildings, would have a higher income, but would be reallocated a smaller amount for repairs. By comparison, a district with a high density of old residential areas would be allocated a greater amount by the municipal bureau, possibly more than it earned in rent.<sup>70</sup> Suburban district bureaux have always retained control over their own rental income, not submitting it to the municipality.<sup>71</sup>

Below the district bureaux were REM 'stations' in charge of housing, and 'public buildings offices' (*gongfangsuo*) in charge of buildings used by government departments and other state institutions. The number of these within a district varied according to the housing profile of the district. An urban district with a high proportion of public housing and buildings had more stations, while a suburban district with much less (because it has a predominantly rural population in private housing) had fewer. In 1993, Hongqiao, a large, residential urban district

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<sup>67</sup> Interviewee 14, a district official.

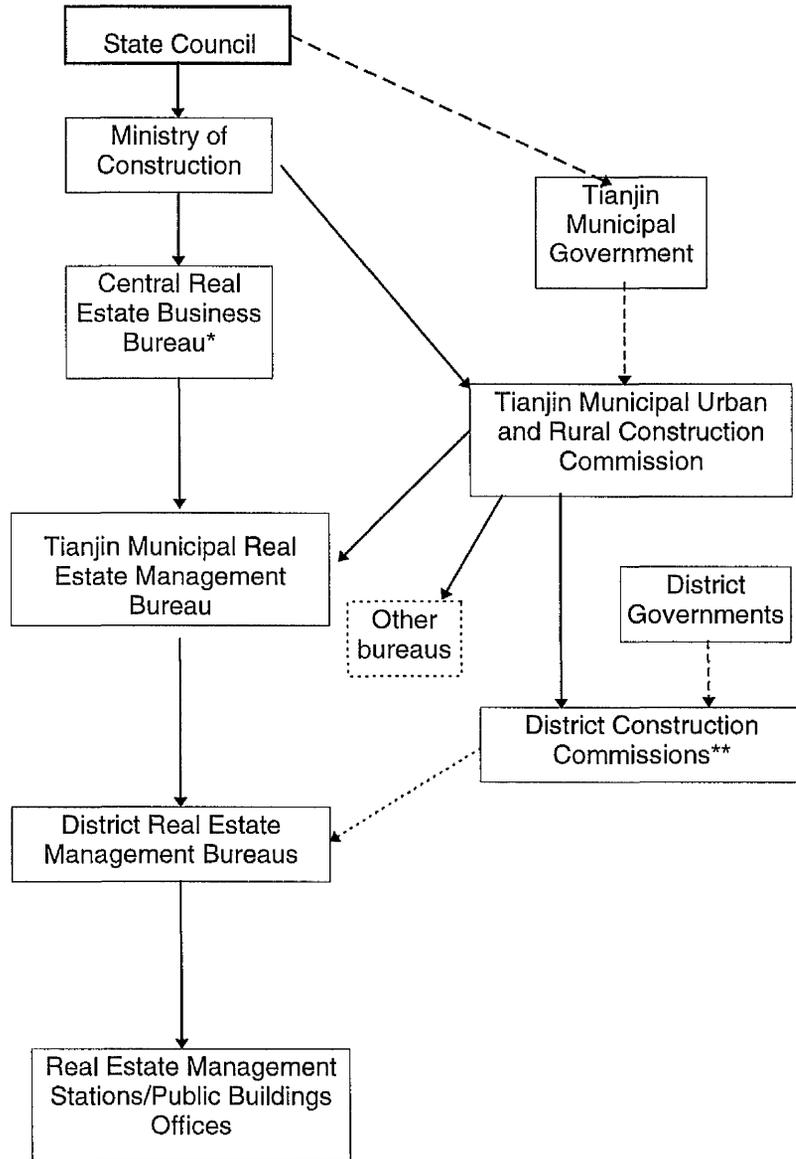
<sup>68</sup> Interviewee 7.

<sup>69</sup> Interviewee 64. The money given by the Municipal REM Bureau was described by one district bureau official as 'rice' or staple food (*fan*).

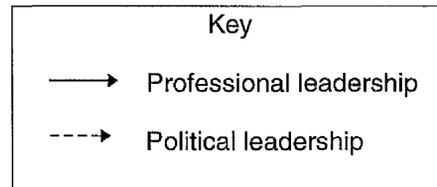
<sup>70</sup> District bureaux like Heping's in the commercial centre of the city had a higher rental income (because businesses pay more than residents) than repair cost allocation. In 1993, Heping District REM Bureau submitted all rents (26 million *yuan*) to the city. Of this, 15 million came from industrial and commercial enterprises and 11 million from housing rental. The bureau was reallocated 21 million *yuan* from the municipal bureau and shared this among its stations (Interviewee 64). In Nankai, another urban district with a high density population, the REM bureau submitted 14 million *yuan* in rents to the Municipal Bureau and received 12 million *yuan* (Interviewee 20). This was higher than it had been in the pre-reform period. Interviewee 10.

<sup>71</sup> Interviewees 28, 15.

**Figure 4.1 The Real Estate Management System (Tianjin)**



\*From 1988  
 \*\*From mid-1980s



Source: Wang Jianmin, *Chengshi guanli* (Urban management), Shanghai: Renmin chubanshe, 1987, p.154.

had 13 REM Stations, while Dongli, a suburban district, had three stations and one public buildings office. The three coastal districts also had less public housing and fewer REM offices below their district bureaux.<sup>72</sup> In 1993, there were approximately 80 stations in Tianjin's central urban districts.<sup>73</sup> They varied in scope and size: a station might have between 200,000 and 400,000 square metres of housing under its control.<sup>74</sup> One small suburban REM station had 44 staff, including officials and workers, while another in a central urban district had over 200 employees.<sup>75</sup>

These stations and offices organised and carried out the actual work of maintenance and repairs. District bureaux parcelled out the repair plans to the stations below them, together with a portion of the redistributed rental income that had been allocated to the district. Some of this paid the wages of the staff, the rest would be used to carry out repair work.<sup>76</sup> The management and leadership relations in the pre-reform system were the same as those between the district and municipal bureaux. The stations looked to the Municipal REM Bureau (via the district bureau) for policy, materials and finance, but to the district government in Party and personnel matters.

### **Reform Policies and the Real Estate Management System, 1978-1993**

Before the mid-1980s, the only real estate transactions were the trading and renting of private housing (in small quantities by the 1970s), and even then housing was not traded as a commodity and exchanges were carried out with the intervention of administrative management departments. Deng era reforms liberalising the real estate ownership, management and development system in Tianjin have transformed the state administration in this sector and have been important in the emergence of state entrepreneurialism in REM departments. These reforms include measures aimed at improving housing conditions, which began in the late 1970s with attempts to expand housing construction by creating new sources of income and widening participation in construction. These were soon followed by programmes to reform the housing provision and maintenance system and introduce a housing market. Measures to liberalise land use and commercialise real estate development have also been promoted to raise local government revenues and generate new sources of investment for the construction of housing and other buildings. Some of these market-oriented policies have created new administrative tasks that have

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<sup>72</sup> Interviewee 4.

<sup>73</sup> Interviewee 11.

<sup>74</sup> Interviewee 10.

<sup>75</sup> Interviewees 26 & 64.

<sup>76</sup> Interviewee 64.

also contributed to state entrepreneurialisation in this system. It is worth discussing these more fully.

### *Housing Reforms*

In the Mao period concentration on industrial construction left few resources for non-productive investment in housing, and housing stocks deteriorated.<sup>77</sup> The new concern with raising living standards, and the switch to consumption-led growth under Deng Xiaoping's leadership included turning attention to urban renewal, infrastructural investment, and improving housing.<sup>78</sup> Deng himself put housing system reform on the central government's agenda in 1980<sup>79</sup>, and sanctioned the purchasing and construction of housing by individual urban residents, the sale of old and new houses, and adjustment of rents. But there was at first quite simply an attempt to increase the quantity of housing stock. A drive to construct new housing began in many large cities from 1978.<sup>80</sup> Central investment increased, but at the same time there were proposals to supplement this with investment by local governments, enterprises and individuals.<sup>81</sup> Local governments were encouraged to invest in housing construction. In 1978 it was decided that the practice of local

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<sup>77</sup> See Table A4.2, Appendix 4, for the balance between productive and non-productive state investment between 1949 and 1976. Chinese accounts of the housing system reforms also commonly contrast the system before the Third Plenum of the 11th Central Committee that marks the start of the reforms, with the policies and situation since. Some accounts do also break down the pre-reform period, for example, 1949-55, when the new system was created and control over housing was established; 1956-65, when much private property was 'socialised' by the state; and 1966-78 when the property management system disintegrated. See for example, Zhongguo chengshi jingji shehui nianjian lishihui (Board of the Almanac of China's urban economy and society), *Zhongguo chengshi jingji shehui nianjian 1990* (Almanac of China's urban economy and society, 1990) (Beijing: Zhongguo chengshi jingji shehui chubanshe, 1990), p.200.

<sup>78</sup> Reflecting this concern, a Property and Housing Bureau (*fangchan zhuzhai ju*) was set up under the General Urban Construction Bureau after the Cultural Revolution. And when the Ministry of Urban and Rural Construction and Environmental Protection was established in 1982, an Urban Housing Bureau (*chengshi zhuzhai ju*) was set up, the first time there had been a department at the centre specifically to handle housing. This later became the Real Estate Business Management Bureau. See Zhang, Yan, Lu, *Chengshi zhuzhai guanli gailun*, p.16.

<sup>79</sup> In 'Guanyu jianzhuye he zhuzhai wenti de jianghua' (Talks on the problems of the construction industry and housing), 2 April 1980, referred to in Zhang, Yan and Lu, *Chengshi zhuzhai guanli gailun*, pp.228-9. For the English language text of this talk by Deng see 'Comrade Deng Xiaoping's Talk on the Construction Industry and Housing Problems', in *Chinese Law and Government* Vol.26, No.1 (January-February 1993), pp.24-5. The editor of this special issue of the journal on China's housing reforms, Peter Nan-shong Lee, argues that Deng was personally the 'chief engineer' of the housing system reforms.

<sup>80</sup> Whyte and Parish, *Urban Life in Contemporary China*, p.104. See Table A4.3, Appendix 4, for a breakdown of state investment between 1978 and 1990.

<sup>81</sup> See for example, 'Guowuyuan pizhuan guojia jianwei guanyu 'Jiakuai chengshi zhuzhai jianshe de baogao' (jielu)', (The State Council approves and circulates the Construction Commission's 'Report concerning the acceleration of urban housing construction' (Extracts)), 25 September 1978, *Zuigao renmin fayuan, Fangdichan shenpan shouce* (Vol.1), pp.263-268.

governments retaining five per cent of industrial and commercial profits for investment in urban construction that had been tested in Shenyang and Guangzhou should be extended to all 47 cities with populations of over 500,000 people. These local taxes were designed to encourage urban governments to engage in more comprehensive management of urban construction and renewal, including housing development.<sup>82</sup>

Soon the rental system came under scrutiny as a way of tapping other sources of revenue for construction and maintenance. Revenue for the maintenance of public buildings and housing came solely from rents during the Mao era. State institutions paid little rent on the public buildings they used, and public housing (both that provided directly to residents via the REM departments and that provided through state-owned enterprises) was let for a low national average of 0.13 *yuan* per square metre per month, around one per cent of the average basic wage.<sup>83</sup> After deductions for administrative costs, such as the running of the REM departments (or housing management offices in state enterprises) this income was insufficient for even the basic repair and maintenance of housing, let alone for reinvestment in construction. To improve housing conditions while continuing the state provision of housing at such low rents would have entailed enormous investment by the already indigent central government. The reformist argument of the 1980s and 1990s has therefore been that the low rent system caused stagnation in housing construction and redevelopment, and the deterioration of urban housing<sup>84</sup>, and must be changed.<sup>85</sup> Raising rents has become a fundamental element of what is now known as 'housing system reform'.

A second strand of housing system reform was the sale of housing, both existing stocks of public housing and newly-built apartments. Old housing stock was to be sold because this would generate more revenue than continued rental.<sup>86</sup> New stock purpose-built for sale to either enterprises or individuals became known as 'commodity housing' (*shangpin fang*). The sale of

<sup>82</sup> Guowuyuan, 'Guowuyuan guanyu jiaqiang chengshi jianshe gongzuo de yijian (jielu)'.

<sup>83</sup> This was found in a survey of over 40 cities in 1979. See Zhang, Yan and Lu, *Chengshi zhuzhai guanli gailun*, p.228. See also Jan Middelhoek, 'Urban Housing Reforms in the People's Republic of China', *China Information*, Vol.IV, No.3 (Winter 1989-90), pp.56-71.

<sup>84</sup> Christopher Howe's account of the housing supply system in the 1950s and 1960s reveals that analysts in China first argued in 1956-7 that the low rent system was unable to provide for adequate housing regeneration. See Howe, 'The Supply and Administration of Housing in Mainland China', pp.88-9.

<sup>85</sup> See for example Wang Guoting and Song Changjun (eds), *Tianjinshi chengzhen zhufang zhidu gaige fang'an shishi zhinan* (Guide to the Implementation of the Tianjin Municipal Urban Housing system Reform Programme) (Tianjin: Tianjin renmin chubanshe, 1992), pp.2-3.

<sup>86</sup> Sale of existing public housing began in cities such as Xi'an and Liuzhou from 1979. Zhang, Yan and Lu, *Chengshi zhuzhai guanli gailun*, p.228.

public housing, together with rent reform, aimed to introduce a housing 'market' in which rents and purchasing prices reflected the costs of housing production and maintenance. These measures were promoted under the slogan of 'commodifying' or 'commercialising' housing (*zhufang shangpinhua*). In Spring 1982 several cities were selected to carry out pilot trials of the sale of publicly-owned housing.<sup>87</sup> They were experiments with a system of sharing the costs of housing purchases between the state, enterprises and individuals, each paying one third of the cost. However, this strategy was soon shelved as housing was found to be too expensive for people to buy and for the state and enterprises to subsidise.<sup>88</sup>

With the failure of the commodity housing strategy, the focus returned to reform of the rental system. It was argued that the low rent system was itself hindering the sale of housing because while rents are low and housing purchasing prices relatively high in proportion to earnings, there are few incentives for people to buy.<sup>89</sup> Rent reform was therefore necessary not only to generate revenue for public housing maintenance but also to begin the 'commodification' of housing by making rents reflect inputs and costs (maintenance, interest on investment, property tax, management fees).<sup>90</sup> Though this did not entail a radical departure from the public housing provision system that existed prior to 1978, it was the first move toward introducing the notion of the value of buildings. Rent reform was increasingly promoted from 1984 and was high on the agenda in 1985 when Zhao Ziyang gave it his open support. Trials were begun in eight cities to raise rents to 1.05 *yuan* per square metre, though these soon halted because of shortages of the resources needed to implement them.<sup>91</sup>

But efforts were soon redoubled. In 1986 the State Council established a Housing System Reform Leading Small Group and a Housing System Reform Office to handle the Group's day-to-day work, and work began devising new reform policies.<sup>92</sup> Efforts were made to solve resource

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<sup>87</sup> In April 1982 the State Council approved the State General Construction Bureau's 'Guanyu chengshi chushou zhuzhai shidian gongzuo zuotanhui qingkuang de baogao' (Report of the Work Conference Concerning the Trial Sale of Housing), cited in Zhuang, Zhang and Jiang, *Fangdichan zhidu*, p.4. The trials were to take place in Changzhou, Zhengzhou, Shashi and Siping. The sale of housing to individuals was first discussed in 1978. See 'Guowuyuan pizhuan guojia jianwei guanyu 'jiakuai chengshi zhuzhai jianshe de baogao' (jielu)', pp.263-267.

<sup>88</sup> *Zhongguo chengshi jingji shehui nianjian 1990*, p.200.

<sup>89</sup> Either old public housing or new commodity housing. 'Urban Housing Reform', *China News Analysis* No.1517, 1 September 1994, p.2. See for example, 'Housing Prices discourage potential buyers', Foreign Broadcast Information Service, *Daily Report: China (FBIS)*, 22 February 1989, p.32.

<sup>90</sup> This was proposed at a national meeting on housing rents held in Chongqing in May 1980. Zhang, Yan and Lu, *Chengshi zhuzhai guanli gailun*, p.229. It is said that for rents to cover housing maintenance and renewal they need to be 2.57 *yuan* per square metre. Interviewee 10.

<sup>91</sup> *Zhongguo chengshi jingji shehui nianjian 1990*, p.200.

<sup>92</sup> *Ibid.*

problems and combine adjustments in wages with the promotion of housing commodification.<sup>93</sup> New reform programmes were devised, and in January 1988 a national housing reform conference was held which set out a proposal for the stage-by-stage introduction of reforms nation-wide over the next three years.<sup>94</sup> Housing system reform programmes were begun in the cities of Yantai (in Shandong province), Bengbu (in Anhui province) and Tangshan (near Tianjin, in Hebei province), experimenting with different measures to raise rents, sell old public housing and newly-built 'commodity' housing, and set up 'co-operative funds' for housing construction and improvements.<sup>95</sup>

Central level approval was also given for other cities to formulate their own reform programmes.<sup>96</sup> These programmes, which were to be introduced in batches, included the same range of measures as those in Yantai and the other cities that had begun the latest pilot programmes.<sup>97</sup> Once again, progress was slow<sup>98</sup>, and in some places programmes failed to get off the ground at all.<sup>99</sup> Urban governments were still reluctant to raise rents because of fears that this would be unpopular with residents and that some people would be unable to afford them. For this reason, rent increases in many cities were accompanied by subsidies to workers as part of a measure known as 'raising rents and subsidies' (*tizu butie*), according to which workers in public housing were compensated for the rise with a subsidy calculated at two per cent of their wages.

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<sup>93</sup> See for example Premier Zhao Ziyang's 'Guanyu diqige wunian jihua de baogao' (Report on the Seventh Five Year Plan), 25 March 1986, cited in Zhang, Yan and Lu, *Chengshi zhuzhai guanli gailun*, p.233. The term 'commodification' (*shangpinhua*) was commonly used in reference to the sale of housing and raising rents from 1985-6.

<sup>94</sup> Guowuyuan zhufang zhidu gaige lingdao xiaozu (State Council Housing System Reform Leading Small Group), 'Guanyu zai quanguo chengzhen fenqi fenpi tuixing zhufang zhidu gaige de shishi fang'an' (Programme for the implementation of housing system reform in phases and batches in cities and towns nation-wide). For text see Dai Xiang and Sun Wuzhi, *Fanggai mubiao, moshi yu yunxing* (The aims, models and progress of the housing reforms) (Beijing: Zhongguo jingji chubanshe, 1991), pp.174-182. Text also published in full in *Renmin ribao*, 10 March 1988. For an English language version, see *Chinese Law and Government* (January-February 1993), pp.26-30.

<sup>95</sup> See Guowuyuan zhufang zhidu gaige lingdao xiaozu bangongshi (The State Council Housing System Reform Leading Small Group Office) (ed), *Zhufang zhidu gaige fang'an yu xize xuanbian* (Selected Housing System Reform Programmes and Detailed Rules) (Beijing: Zhongguo guoji guangbo chubanshe, 1992), which contains the reform programmes of Yantai, Bengbu, Tangshan, Shanghai and Beijing, and new housing-related measures in Chengdu and Shenzhen. These cities' trial programmes were ratified in mid to late 1987 and begun in 1988.

<sup>96</sup> With the State Council's 'Guanyu zai quanguo chengzhen fenqi fenpi tuixing zhufang zhidu gaige shishi fang'an de tongzhi' (Notice Concerning the Promotion of Trial Programmes for the Housing System Reform in Batches and at Intervals in Cities and Townships Nation-wide), 25 February 1988, *Guofa* [1988], No.11, see Zuigao renmin fayuan, *Fangdichan shenpan shouce*, p.1072.

<sup>97</sup> Zhuang, Zhang and Jiang, *Fangdichan zhidu*, pp.4,5.

<sup>98</sup> Noted in late 1989, for example, in 'Beijing mayor urges reviving housing reform', in *FBIS*, 18 December 1989, pp.35-6.

<sup>99</sup> 'Collapse of major housing schemes seen'. *FBIS* (Supplement), 5 January 1990, pp.24-5.

Even so there was continued reluctance to raise rents significantly, and while the housing reform programme planned continued incremental rent increases, this strategy was commonly recognised to be insufficient and unable to raise the revenue needed for renovation and renewal of housing stock. It was therefore overtaken by a new push for the 'commodification' of housing.<sup>100</sup>

A further attempt to boost housing reform was evident in 1990 and 1991.<sup>101</sup> In October 1991, a second national conference was held,<sup>102</sup> and from late that year housing system reform programmes were encouraged nationally by a State Council document that directed cities directly under central administration, provincial capitals and coastal cities begin putting theirs into action. Other cities were to begin preparing programmes.<sup>103</sup> In late 1991, Guangzhou and Beijing were the first to publish programmes. Tianjin's was issued in January 1992. At the same time, the development of 'co-operative funds' that pool state, local government, enterprise and individual assets for investment in housing were given full approval as the central leadership issued measures on their management. Plans for these housing funds had been included in the programmes of Yantai and other cities were thus given another push. They can take a variety of forms, but usually consist of contributions from workers and employers (and sometimes governments too). In Guangzhou, for example, each party contributed five per cent of a worker's wages.<sup>104</sup> Like the sale of publicly-owned housing, an initiative that has been retained despite earlier failures, the co-operatives have been slow to take off.<sup>105</sup> A third national housing conference took place in December 1993 in an attempt to address these persistent problems.

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<sup>100</sup> According to the State Council's 'Guanyu zai quanguo chengzhen fenqi fenpi tuixing zhufang zhidu gaige shishi fang'an de tongzhi', the intention was to raise rents so that within three to five years rental revenue should cover repair costs, management costs, interest on investment and property tax as well as demolition costs. See Wang and Song, *Tianjinshi chengzhen zhufang zhidu gaige fang'an shishi zhinan*, p.8. There is also a fear that many state industries are unable to bear the burden of further wage subsidies.

<sup>101</sup> See for example 'Major Urban Housing Policy Reform Announced', in *FBIS* (Supplement), 13 April 1990, pp.18-19; 'Housing Reform Programme revitalised', *FBIS*, 13 June 1990, p.31; 'State Council to press urban housing reforms', *FBIS*, 13 June 1991, pp.17-18.

<sup>102</sup> 'Urban Housing Reform', *China News Analysis* (No. 1517), 1 September 1994, p.2.

<sup>103</sup> 'Guanyu quanmian tuijin chengzhen zhufang zhidu gaige de yijian' (Opinions Concerning the Full Promotion of the Urban and Town Housing System Reform), State Council Office, November 1991, cited in Zhuang, Zhang and Jiang, *Fangdichan zhidu*, p.5.

<sup>104</sup> 'Chengzhen zhuzhai hezuoshe guanli zanxing banfa' (Provisional Measures for the Management of Urban and Township Housing Co-operatives), issued on 14 February 1992 by the State Council Leading Small Group for Housing System Reform, the Ministry of Construction, and the State Council Tax Bureau, cited in Zhuang, Zhang and Jiang, *Fangdichan zhidu*, p.4. See also 'Urban Housing Reforms', *China News Analysis*, 1 September 1994, p.8.

<sup>105</sup> One per cent of public housing was sold in 1988, and in 1993 only 7 per cent was sold in Beijing where the reform has been vigorously promoted. Because of the increase in construction, public housing stocks have increased. 'Urban Housing Reform', *China News Analysis*, 1 September 1994, p.3.

At the same time as trying to increase sources of revenue for housing construction and renewal, central government encouraged the improvement of housing conditions by other means. In 1990 the Ministry of Construction and the All China Workers' Union issued 'Opinions' setting standards for dealing with the problems of the most needy.<sup>106</sup> Some cities have also been renovating their oldest housing (a policy often referred to as *pingfang gaizao*). This was widely publicised in Tianjin in the 1980s and 1990s, as were housing swaps. Housing swaps have long been encouraged as a means of finding appropriate apartments for families, and are obviously popular with governments since they can solve some housing problems with minimal expense. With the focus on living conditions since the early 1980s, urban governments have promoted this more actively, for example setting up centres to help potential 'swappers' find each other.

#### *Liberalisation of Land Use and the Limits of Land Markets*

The commercialisation of housing is closely tied to the reforms of the system of land use that have become a prominent part of the overall post-Mao reform project in the late 1980s and early 1990s. The housing reforms have encouraged the sale of residential property and rent increases for public housing as a means of increasing revenues, and have laid the foundations of a market for housing and other buildings by introducing the notion that rents and sales prices should reflect capital investment. Land use reforms, also introduced to increase government revenues from the sale of land use rights,<sup>107</sup> have similarly created the notion value for real estate by allowing the purchase of land use rights and the commercial development of land. In conjunction with housing reforms, this means that developers can now obtain land and develop it commercially for both residential and non-residential purposes.

Real estate markets were eradicated in the 1960s as the state became the sole owner of land in the cities. Private ownership of buildings and land had endured until the 'socialisation'

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<sup>106</sup> 'Jiejue chengzhen juzhu tebie kunnan hu zhufang wenti de ruogan yijian' (Several opinions on solving the housing problems of urban and town households with particular problems), 11 September 1990, cited in Zhuang, Zhang and Jiang, *Fangdichan zhidu*, p.5.

<sup>107</sup> Revenues from land use sales were by the early 1990s a significant proportion of income for some local governments. See Li, 'New Real Estate Industry Craze', p.14, who reports that income from these sales has constituted an average of 25 per cent of the total in some areas, rising to 80 per cent in some years. However, in mid-1992 the Land Management Bureau announced the need to improve the use of compensated land use because the state was still losing income through inefficient allocation of land. It was estimated that this cost the country 80 billion *yuan* each year, and more was being lost through low rates of compensation and illegal transfers, so that if compensated land use was carried out properly it could generate another 100 billion *yuan* per year. *Renmin ribao*, 23 May 1992 [158]. In July 1994, the 'Law of the PRC on the Management of Urban Real Estate' was adopted. For text, see *Summary of World Broadcasts*, FE/2068, 8 August 1994.

movement that began in 1956. Over the next decade private companies and property were slowly taken over until by 1964 property markets had disappeared. From this point on, land was allocated in accordance with state plans (or at the whim of officials) without money changing hands<sup>108</sup>, and no longer had a market value.<sup>109</sup> This was changed in the 1980s by land use reforms that came in two key stages.<sup>110</sup> At first a system of 'compensated land use' was introduced, according to which land was still administratively allocated but for the first time fees were charged for its use. This was initiated from 1982 in the southern cities of Guangzhou, Shenzhen and Fushun<sup>111</sup>, and extended in 1984 to other cities.<sup>112</sup>

The second key stage in the land reforms was the introduction of land use rights transfers by auction.<sup>113</sup> In June 1986 a key new land law was introduced which for the first time permitted the 'transfer' of land use rights.<sup>114</sup> Urban land would remain state-owned, but rights to use the land for a designated period could be bought, and at market prices.<sup>115</sup> However transfers were begun cautiously, with the first auction of land held in Shenzhen in 1987. In November that year, the State Council approved the trials of this new practice in Shanghai, Zhuhai, Guangzhou,

<sup>108</sup> This was known as the system of non-compensated allocation (*wuchang huabo zhidu*).

<sup>109</sup> Yang Jirui, *Zhongguo fangdichan shichang* (The Chinese real estate market) (Chengdu: Chengdu keji daxue chubanshe, 1992), pp.13-15; Zhuang, Zhang and Jiang, *Fangdichan zhidu*, p.3.

<sup>110</sup> For an official discussion of the fundamental nature of the reforms of the real estate system since 1979 see *Renmin ribao*, 25 June 1993.

<sup>111</sup> Li Ning, 'New Real Estate Industry Craze', *Beijing Review* (9-15 November 1992: 14-16), p.14. Shenzhen, as the most favoured Special Economic Zone in the 1980s, was often ahead of other cities in the reforms, particularly those in the real estate development sector. It was advantaged in this by its proximity to wealthy and land-starved Hong Kong.

<sup>112</sup> Zhou Zhiping, Chen Zhangxi and Zou Zijie, *Zhongguo fangdichanye toushi* (Perspective on the Chinese real estate business) (Guangdong: Guangdong jiaoyu chubanshe, 1992), p.6. In October 1984 the State Planning Commission and Ministry of Urban and Rural Construction and Environmental Protection issued a document allowing municipal governments to establish general real estate development companies. This and a State Council Notice in May 1987 laid the foundation for urban development system. 'Chengshi jianshe zonghe kaifa gongsi zanxing banfa', (Provisional Measures on Comprehensive Urban Construction and Development Companies), cited by Zhuang, Zhang and Jiang, *Fangdichan zhidu*, p.3.

<sup>113</sup> *Ibid.*

<sup>114</sup> 'Zhonghua renmin gongheguo tudi guanli fa' (Land management law of the PRC). It was revised in December 1988, and followed in February 1991 by a set of regulations on the implementation of that law (which add more detail on precisely how the law is to be effected). For the text of the 1986 laws (with 1988 revisions) see Zuigao renmin fayuan, *Fangdichan shenpan shouce* (Vol.2), pp.1117-26. For the implementing regulations, see pp.1136-1142.

<sup>115</sup> Land use rights are leased (*churang*) when the state sells those rights to companies, the transaction is called a 'transfer' (*zhuanrang*) when those rights are then re-sold to another developer or user. In 1988 the State Constitution was revised to allow for this. Most official Chinese accounts distinguish between compensated land use and land leasing, saying that only the second stage constituted a significant break with the former system of land allocation. See for example, *Renmin ribao*, 25 June 1993, and Gao Shangquan and Ye Sen (eds), *China Economic Systems Reform Yearbook 1990* (Beijing: China Reform Publishing House, 1991), who state that land leasing and transfer can take three forms: (1) signed agreement; (2) public bidding; and (3) auction. See pp.206-7.

Xiamen, Fuzhou and Hainan.<sup>116</sup> The new system generates revenue for the state and allows it to control land use while retaining, at least nominally, state ownership of land in line with its claims to be adhering to the socialist path.<sup>117</sup> However, together with the heavy promotion of compensated land use in other cities from 1990<sup>118</sup>, it also began to create a real estate market based on the sale of land use rights.

#### *Real Estate Reforms and REM Department Work*

Although REM departments do in name deal with 'real estate', they do not, and never did, control land use. In the pre-reform system, land use was in the hands of planning bureaux, both the overall long-term planning bureaux (*jihua ju*), and the short-term planning bureaux (*guihua ju*), which would allocate land as required by larger plans. Moreover, in 1986, when the law on land use was being liberalised, a new Ministry of Land Management (*tudi guanli bu*) was set up under the State Council, and corresponding bureaux were established at lower levels of the government system.<sup>119</sup> Though allocation of land remained the domain of the planning bureaux<sup>120</sup>, these new departments took over from the REM departments some land-related administrative tasks such as registration of land use rights.<sup>121</sup> Despite this, REM departments have been affected by the market-oriented housing and real estate reforms.

<sup>116</sup> *Renmin ribao*, 25 June 1993 [166].

<sup>117</sup> The length of leases differ according to the uses to which the land is to be put. Leases are usually 70 years for housing development, 40 years for cultural and leisure facilities, and 50 years for industrial or other development. See 'Zhonghua renmin gongheguo chengzhen guoyou tudi shiyongquan churang he zhuanrang', Clause 12.

<sup>118</sup> In early 1990 the State Council also issued the 'Zhonghua renmin gongheguo chengzhen guoyou tudi shiyongquan churang he zhuanrang' (Provisional rules of the PRC for the leasing and transfer of urban land use rights) and the 'Waishang touzi kaifa jingying chengpian tudi zanxing guanli banfa' (Provisional measures for the management of the business of developing plots of land with foreign investment), cited in Zhuang, Zhang and Jiang, *Fangdichan zhidu*, pp.4-5. Texts in Zuigao renmin fayuan, *Fangdichan shenpan shouce* (Vol.2), pp.1164-71 and pp.1788-92 respectively.

<sup>119</sup> Xia, Rui and Xu, *Jigou bianzhi guanli shouce*, pp.120-1.

<sup>120</sup> In the use of urban land, the overall planning departments (*jihua bumen*) approves the project and the urban short-term planning bureau (*guihua ju*) then selects a site. The land management departments are then responsible for going out to check and verify the precise boundaries of the site and for issuing land use certificates. The real estate management bureaux would issue certificates for the use of buildings on the land if relevant. Yang Zongguang and Li Weixin, *Zhongguo fangdichan jingji yanjiu* (Research on the Chinese Real Estate Economy) (Zhengzhou: Henan renmin chubanshe, 1991), p.296.

<sup>121</sup> In Tianjin, the real estate management bureaux also lost the income on some real estate transactions to the land management bureaux, and so this was not a popular restructuring move. For one district bureau official's criticisms and calls for the land and real estate management bureaux to be combined, see Hepingqu fangdichan guanli ju, 'Guanyu tudi jingying guanli tizhi de tantao' (A discussion of land business management structures), *Tianjin fangdichan* 1993.3, pp.10-12. It is noted here that in Guangzhou these two bureaux have been merged.

The housing and land use reforms have both created new tasks and expanded the burden of old administrative duties, often simply by increasing the sheer amount of activity in those areas, introducing more actors, and making the context of that work more complex. The official duties of the central Real Estate Business Bureau in the early 1990s indicate the range of work the system handled by this time. It formulated the 'line', policies, laws and regulations, and development plans relating to real estate business management and housing construction work. It was in charge of handling urban housing property rights and repairs, the real estate market, the use and development of urban land, and the arbitration of real estate disputes. It guided and promoted housing construction and co-operated with Land Management Departments in proposing a programme for transferring land use rights. The bureau also had enterprise-related tasks, including formulating standards to determine the level in the hierarchy of urban construction and comprehensive development enterprises (*zonghe kaifa qiye*), housing repair enterprises, and real estate business enterprises, and the approval of the establishment of such enterprises when they come under its jurisdiction. Housing system reform also fell within the bureau's remit: it participated in the formulation and implementation of urban housing system reform programmes and handled the day-to-day work of the State Council's Housing System Reform Office set up in 1988.<sup>122</sup> In the cities, municipal and district bureaux handled the implementation of this range of work from property registration, rent collection, repair and construction, through implementation of housing system reform, to supervising emergent real estate markets. New development projects have also made the business of registering property rights and overseeing exchanges of buildings property rights much more complex and have led to a proliferation of administrative structures within REM departments. In the late 1980s and early 1990s, for example, these bureaux often created 'real estate transaction offices' to deal with this growing sphere of work.<sup>123</sup>

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<sup>122</sup> Official tasks of the Bureau are stated in 'Jianshe bu 'san ding' fang'an (gaiyao)', p.6.

<sup>123</sup> These '*fangdichan jiaoyisuo*' are also apparently sometimes established independently of real estate management bureaux. For the different organisational forms and duties of these offices nation-wide, see Zhang Yueqing and Yang Xiaoze, *Zhongguo fangdichan shichang* (China's real estate market) (Beijing: Zhongguo jingji chubanshe, 1991), pp.108-222. The Ministry of Construction began setting up these real estate transaction offices in 1988, the year that the 'commodity economy' was officially accepted as appropriate for China. In August 1988 the Ministry of Construction and the Price Bureau issued a notice on strengthening management of real estate transaction markets and in July 1992 the Ministry of Construction issued the '*Chengshi fangdichan shichang gujia guanli zanxing banfa*' (Provisional measures for the management of urban real estate market price evaluations). At this time the Price Bureau, Ministry of Construction and the Construction Bank also issued the '*Shangpin zhuzhai jiage guanli zanxing banfa*' (Provisional measures for the management of commodity housing prices). See Zhuang, Zhang and Jiang, *Fangdichan zhidu*, pp.5-6.

Certain specific short-term tasks associated with the real estate reforms have also been assigned to REM departments since the early 1980s. From 1982, bureaux were busy 'clearing up' property rights and registration, which meant returning property now deemed wrongfully seized during the Cultural Revolution.<sup>124</sup> Tightening up the registration of property rights was continued thereafter as part of the larger task of establishing a legal system to provide a foundation for market reform.<sup>125</sup> Similarly, when a national survey of buildings was carried out in 1985, the first of its kind in the PRC, REM bureau officials were charged with much of this work.<sup>126</sup>

There were also attempts as early as 1980 to reform REM work and bring it into line with improvements in urban construction and development by making it more comprehensive and putting REM departments in overall control of all housing, including work-unit housing.<sup>127</sup> REM departments became involved in the post-1978 housing construction. A Construction Commission report of September 1978 recommended that state, locality and enterprise investment in housing construction be unified under urban REM bureaux.<sup>128</sup> In 1980, the Construction Commission reiterated this, and also recommended that REM bureaux organise enterprises to collect funds for construction and take control of construction in enterprises having particular difficulties in this work.<sup>129</sup> REM bureaux were to organise the sale of old public housing and take the lead in promoting construction of housing by individual workers (by getting unions and other

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<sup>124</sup> Called the '*qingcha huanzheng*' movement. This was begun in March 1982. See 'Guojia chengshi jianshe zongju guanyu jiaqiang chengshi (zhen) fangdichan chanquan, chanji guanli gongzuo de tongzhi' (Notice of the State Urban Construction General Bureau concerning strengthening urban (town) property rights and property construction work). For this and the text of the Provisional Implementation Measures, both issued on 27 March 1982, see Zuigao renmin fayuan, *Fangdichan shenpan shouce* (Vol.1), pp.548-551. There have subsequently been other changes in property rights registration work. In April 1987 the Ministry of Urban and Rural Construction and Environmental Protection issued its '*Chengzhen fangwu suoyouquan dengji zanxing banfa*' (Measures on the Registration of Building Ownership Rights). Zhuang, Zhang and Jiang, *Fangdichan zhidu*, pp.3-4.

<sup>125</sup> Fang Xuan, '*Zhongguo fangdichanye de fazhan*' (The development of China's real estate business), *Zhongguo fangdichan*, 1989.10, pp.7-10,14.

<sup>126</sup> 630,000 investigators were trained for this survey work nation-wide. Fang, '*Zhongguo fangdichanye de fazhan*', pp.7-10.

<sup>127</sup> '*Guojia chengshi jianshe zongju guanyu jiaqiang chengshi gongfang guanli gongzuo de yijian (jielu)*' (Opinions of the State Urban Construction Bureau concerning strengthening urban public buildings management work (extracts)), 19 July 1980, Zuigao renmin fayuan, *Fangdichan shenpan shouce* (Vol.1), pp.258-262.

<sup>128</sup> '*Guowuyuan pizhuan guojia jianwei guanyu 'Jiakuai chengshi zhuzhai jianshe de baogao' (jielu)*'.

<sup>129</sup> See '*Guojia chengshi jianshe zongju guanyu jiaqiang zhuzhai jianshe gongzuo de yijian*' (Opinions of the State Urban Construction General Bureau concerning strengthening housing construction work), issued by the State Construction Commission, 20 May, 1980. For text, see Zuigao renmin fayuan, *Fangdichan shenpan shouce* (Vol.1), pp.269-74, and also '*Zhonggong zhongyang, Guowuyuan pizhuan Guojia Jianwei Dangzu guanyu quanguo jiben jianshe gongzuo huiyi huibao tigang (jielu)*' (The Party Central Committee and the State Council approve and circulate the Construction Commission Party Cell's Outline Report to the national work meeting on urban basic construction (extracts)), 22 June 1980. *Ibid.*, pp.275-77.

government departments together), and formulating regulations.<sup>130</sup> There have been problems implementing some of the above policies, however. Although REM bureaux have become more involved in urban housing construction, they have failed to achieve the degree of control over this sphere of work desired by the higher levels since the late 1970s.<sup>131</sup> But if they have not gained overall control of construction of housing in the cities they have still accrued tasks in connection with this work. The construction drive and other measures have also made the environment more complex as new actors and relationships have appeared in this sphere. For example bureaux now have to 'manage' (that is oversee and administer) the construction of housing by individuals and non-state construction companies.<sup>132</sup>

Other measures have been introduced to improve the efficiency of the system. For example, attempts have been made to rationalise and tighten up repair and housing allocation work. In an apparent effort to circumvent bottlenecks in the supply of materials for maintenance, construction and repairs, bureaux have also been permitted to set up factories to produce their own tools and materials.<sup>133</sup> Along with other parts of the state administration, the REM system has been urged to 'streamline its structures' and rationalise its practices, and has been included in drives to cut staffing levels and departments. Leadership structures within departments were also reformed when in 1988 the 'bureau chief responsibility system' was introduced to try and improve bureaucratic performance.<sup>134</sup>

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<sup>130</sup> See 'Guojia chengshi jianshe zongju Qin Zhongfang fu zongjuzhang zai quanguo chengzhen zuzhi zhigong, jumin jianzao zhuzhai jingyan jiaoliuhui shang de jianghua' (Speech of Qin Zhongfang, deputy Chief of the State Urban Construction General Bureau at the National Meeting to Exchange Experiences on Organising Workers and Residents to Construct Housing), 1 December 1980, in Zuigao renmin fayuan, *Fangdichan shenpan shouce*, pp.283-291.

<sup>131</sup> Zhang, Yan and Lu, *Chengshi zhuzhai guanli*, pp.17,19-20, note in 1989 that this has not been achieved partly because the bureaux did not want to have even more public housing on their hands since it generated so little income and increased the burden of repair and rent collection. Fang, 'Zhongguo fangdichanye de fazhan', p.14, also notes the difficulties in effecting this reform.

<sup>132</sup> In May 1983 the State Council approved and issued the Ministry of Urban and Rural Construction and Environmental Protection's 'Chengzhen geren jianzao zhuzhai guanli banfa' (Measures for the management of housing constructed by individuals). Cited in Zhuang, Zhang and Jiang, *Fangdichan zhidu*, p.3. For text see Zuigao renmin fayuan, *Fangdichan shenpan shouce*, pp.292-3.

<sup>133</sup> 'Guojia chengshi jianshe zongju guanyu jiaqiang chengshi gongfang guanli gongzuo de yijian' (Opinions of the State Urban Construction General Bureau concerning strengthening urban public buildings management work (extracts)), 19 July, 1980. For text see Zuigao renmin fayuan, *Fangdichan shenpan shouce* (Vol. 1), pp.258-261.

<sup>134</sup> See for example accounts of several real estate management bureau chiefs in Zhang and Yang, *Zhongguo fangdichan shichang*, pp.108-222.

### **Conclusions**

The REM system was established to collect rents and repair public housing in the 1950s when housing and real estate markets were being dismantled. The post-Mao reforms in this sector have begun to recreate those markets. Housing and urban buildings are no longer goods to be allocated by the state within the central planning system; they are now increasingly commodities to be exchanged according to laws of supply and demand. As a result, the work of REM departments has been transformed as they have had some tasks and sources of income taken from them and have been given new market-related tasks. However, one of the most significant new dimensions of state activity in this sector in the early 1990s in Tianjin was the new entrepreneurial business being done by these departments, something that had not been prescribed as part of the reforms of this sector. As we shall see in the next chapter, entrepreneurialism in REM departments is an unintended consequence of market-oriented reform. In the face of constraints created by the reforms discussed above, state agencies in this sector have been able to make use of their position in the state bureaucracy in general and in the construction sector in particular to take advantage of the emergent markets for housing and other commodities. The REM system's pre-reform bureaucratic administration of public buildings has, in the context of market transition, provided both opportunities and constraints that have led to the emergence of state entrepreneurialism. Chapter 5 will document that entrepreneurial activity in Tianjin's REM departments and explain its emergence in the context of the market-oriented real estate system reforms described above.

## Chapter 5

### Market Reform and its Limits: Entrepreneurialism in State Real Estate Management Departments

#### Introduction

Tianjin's real estate management (REM) departments began their entrepreneurial activities in the late 1980s but they became especially prominent again from 1992. In this sector state entrepreneurialism mainly involves state bureaux and their subordinate agencies setting up enterprises in spheres connected with the buildings and real estate sector and is a consequence of post-Mao market-oriented reforms in general and in the housing and real estate sector in particular. These reforms, implemented in the context of bureaucratically controlled system, low rent public housing provision system and continued state ownership of urban land, have produced opportunities and constraints for entrepreneurialism. The reforms have also created conditions that further facilitate entrepreneurial activities by REM departments. These include changing attitudes in wider society toward profit-seeking business, and tacit local and central government approval.<sup>1</sup> This chapter will first describe the forms of state entrepreneurialism in this sector, and then elaborate on the reasons behind them. Those businesses that are unrelated to the real estate sphere will not be dealt with in depth, because although they are the result of the same structural constraints, they are partly due to relaxation in trading restrictions that will be dealt with in the second case study in Chapters 5 and 6.

#### *State Bureaux Setting up New Enterprises*

Since the mid-to-late 1980s, but especially since 1992<sup>2</sup>, bureaux in Tianjin's REM system have been setting up new enterprises.<sup>3</sup> Many of these enterprises are real estate development companies, though some bureaux have also set up trade companies and one has opened a large department store. The extent of these business activities varies from department to department. Some had, by 1993, several such enterprises; others had only one.

The Municipal REM Bureau had set up the Tianjin Real Estate Trust Company (*fangdichan xintuo gongsi*) in 1984. This finances real estate development and was described as doing 'service-type business' (*fuwuxing jingying*) as well as real estate trading, development and investment work.

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<sup>1</sup> Described in Chapters 2 and 3.

<sup>2</sup> District real estate management bureau officials repeatedly said that they had begun such activities in early to mid-1992. One noted that his bureau had wanted to do this for some time, but had only then been given permission. Interviewee 8. Interviewee 64 also said that this was when permission had been given and noted that at that time officials were also allowed to take on second jobs.

<sup>3</sup> Usually referred to as 'new economic entities' (*xin jingji shiti*). I will discuss the extent to which they are really 'new' below.

By 1993 the municipal bureau also had three real estate development companies and was one of the city's biggest players in the real estate development business.<sup>4</sup> In 1992 the REM Section (*fangguan chu*) of the municipal bureau, which is primarily an administrative department responsible for policy formulation, established a housing demolition company (*chaifang gongsi*) and a heating provision company (*tigong re gongsi*).<sup>5</sup> The Municipal Property Company within the bureau had also set up a 'branch company' that bought and sold housing and did real estate development work.<sup>6</sup>

In the districts, some bureaux had set up a range of companies while others had only one. The Tanggu district REM bureau had, in 1988, created a 'real estate market' (*fangdichan jiaoyisuo*) as an administrative department to regulate property prices, housing transactions and do broadly designated 'service' work. In 1992, this new department had its 'non-profit making' (*shiye*) status removed and became Tanggu Real Estate Construction and Development Company, a new enterprise.<sup>7</sup> This new company had three local projects under way. For each project, the company had created a separate joint venture company with Hong Kong investment. Another project had been planned and was to start imminently.<sup>8</sup> Tanggu district bureau's property company was also doing real estate development as a supplement to its traditional work of rental collection and housing repairs.<sup>9</sup> It had also created a 'heating provision company' (*gongre gongsi*).

Dongli district bureau, also in the north-eastern part of the city, had set up several real estate development companies. The first and largest, with a staff of 51, had been established in May 1992. One was a joint venture with a Guangdong company, while another was staffed mainly with officials retired from the bureau. The Dongli bureau had also created two trade companies. The first of these, established in May 1992 had a staff of 28 and the second, created in August 1992, had a staff of ten. Both dealt in construction and interior decoration materials. A car repair workshop had also been set up to repair not only the department's cars but those of other units. It was staffed by five managers and six mechanics.<sup>10</sup>

In Xiqing, a suburban district in the city's economic backwater far from the development zone, the REM bureau had set up one small real estate development company with a staff of four

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<sup>4</sup> Along with other departments under the Municipal Urban and Rural Construction Commission. Interviewee 29.

<sup>5</sup> Interviewee 9.

<sup>6</sup> Interviewee 9.

<sup>7</sup> This would mean that it had to register as a business and would now have to pay taxes.

<sup>8</sup> Interviewee 11.

<sup>9</sup> Interviewee 11.

<sup>10</sup> Interviewee 15.

people in August 1992. It had so far undertaken one small project to replace some of the district's old slum housing with new apartments.<sup>11</sup> Leading officials in the bureau expressed frustration at their lack of access to profitable projects: real estate development was not considered a viable investment proposition in their district, and they had been unable to secure projects in the city proper where more profitable development business was possible.<sup>12</sup>

In Hongqiao district, officials from the administrative sections of the bureau had been involved in various business ventures since 1992. They had set up trading businesses with companies in Hunan province and had 'co-operative investment' in several businesses and factories producing or trading a range of goods such as wood, metals, chemicals and water pipes. According to officials in the bureau, they had been permitted to do this kind of 'tertiary' business in 1992, and these extra business activities were supposed to be connected in some way with housing work.<sup>13</sup> The aim of this work was 'to increase income and accommodate people who have retired'.<sup>14</sup>

Heping district lies in the central commercial area of Tianjin, and its REM bureau was making the most of its access to land in this advantageous location. The Heping bureau had established a real estate development company<sup>15</sup>, but had also built one of the city's biggest department stores.<sup>16</sup> The general manager of the department store was a deputy leader of the bureau, and had not retired from his government post.

Relations between the new enterprises and the district bureaux are close. The enterprises are staffed with officials from the bureaux and company managers are often senior bureau officials, or recently retired from senior positions. The Dongli bureau chief was the head of the bureau's largest real estate development company, and staff were still considered employees of the bureau.<sup>17</sup> Neither were the staff of Xiqing bureau's real estate development company considered to have left their official posts.<sup>18</sup> There were sometimes exceptions to this type of arrangement, however. For example, Tanggu REM bureau's officials had been told by the bureau chief that they would not be

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<sup>11</sup> What is called in Chinese 'redevelopment of single-storey housing' (*pingfang gaizao*).

<sup>12</sup> Interviewee 28.

<sup>13</sup> Interviewees 7 and 8. 'Tertiary' industry or business (*disan chanye*) refers, formally, to the service sector, but it is commonly used loosely to refer to any work that is done in addition to a person, department or enterprise's main work. In this case it was stressed that the officials were doing this business in their official capacities, and not in their private time.

<sup>14</sup> *Ibid.*

<sup>15</sup> Interviewee 64.

<sup>16</sup> The *Binjiang Shangsha*. Interviewee 64.

<sup>17</sup> Interviewee 15.

<sup>18</sup> Interviewee 28.

taken back into the bureau should the new business ventures fail.<sup>19</sup> In another variation on this kind of staffing arrangement, one of Dongli bureau's development companies had also been used to employ older officials: the Xiahui Real Estate Development Company, set up in December 1992, had a staff of 14, most of whom were retired officials from the bureau.<sup>20</sup>

The new enterprises usually also have a close financial relationship with their parent bureau. The Xiqing bureau's sole real estate development company had perhaps the closest links and still used the bureau's accountants. However, even where this was not the case, enterprises were still financially very closely connected with their bureaux. Indeed this financial relationship is often crucial to the existence of the enterprises. They had usually been established with capital investment by the bureau or with loans that it had secured. In many cases the capital was minimal, but occasionally it was a substantial amount. Heping District bureau's department store had been financed with a loan of 100 million *yuan*, as well as some investment by bureau personnel.<sup>21</sup> Because they had invested in the companies the bureaux invariably had access to the earnings of the enterprises. In Tanggu district, officials openly acknowledged that the relatively new real estate development companies were contributing financially to the bureau. In most other cases the new companies were said to be independent budgetary units (*duli hesuan danwei*).<sup>22</sup> This means that the enterprises keep their own accounts, though it does not preclude a close relationship between bureau and enterprise.<sup>23</sup> For example, all the new enterprises created by Dongli REM Bureau gave a proportion of their income to the bureau: the largest real estate development company gave 30 per cent of its profits (*chun lirun*), and the others gave varying amounts depending on how well they were doing. All were said to be otherwise economically independent.<sup>24</sup> However, the new companies were usually given tax breaks and time to establish themselves before they began submitting profits to the bureaux. Neither the Tanggu nor Dongli bureaux' new enterprises submitted profits to their bureau during the first year.<sup>25</sup> Similarly, the Heping bureau's department store was exempt from business tax for one year and from income tax for two years. Tax would

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<sup>19</sup> Interviewee 11.

<sup>20</sup> These officials were from the property company within the bureau. Interviewee 15.

<sup>21</sup> Interviewee 64.

<sup>22</sup> All of the municipal bureau's companies were independent budgetary units or soon to become them. Interviewee 4.

<sup>23</sup> For example, although the municipal bureau's Real Estate Trust Company was already independent for budgetary purposes, it was still 'managed' by the municipal bureau, and was expected to become fully independent in the near future. Interviewee 9.

<sup>24</sup> Interviewee 15.

<sup>25</sup> Interviewees 11 and 15.

thereafter be paid to the district tax bureau, and in the future it would contribute a share of its profits to the REM bureau, though it was not yet doing so.<sup>26</sup>

These enterprises are usually prefixed with the word 'new', and are often referred to as 'new economic entities' rather than simply enterprises in discussions of them in China. This is because they are considered to be different from the 'traditional' state-owned enterprises and collectives. However it is difficult to determine the ownership relations and status of the new enterprises, partly since they vary in form and apparently also in relationship with the department that established them. As noted above, they were sometimes established by the department with a bank loan, sometimes with department funds, and sometimes partially with investment from employees. In some cases they had even formed a foreign-invested joint venture. While some are technically registered as collectives,<sup>27</sup> many new enterprises were said to be (or described as if they were) owned by the bureaux, and were often still considered to be part of them. The status of the enterprises is particularly difficult to determine in the REM system where the separation of government from enterprises has been limited. Certainly, given that they were established in the mid-1980s before 'new entities' proliferated, it is likely that the municipal bureau's earliest enterprises were more orthodox. However many of the new entities, particularly those in the districts, do clearly differ from the traditional SOEs, lacking the large administrative structures typical of older state enterprises. This distinction between the 'old' and 'new' enterprises stated explicitly in accounts of similar entities in the commerce system (see Chapter 7), and seems to apply in this sector too. For example, the Xiqing bureau's company did not have its own accountants (as a state enterprise would), and relied on the bureau's finance section. Whatever their registered status, it was unorthodox for the new enterprises to have such close financial relations with the bureaux at a time when enterprise reform was encouraging state enterprises to cease pay profits to their departments in charge.

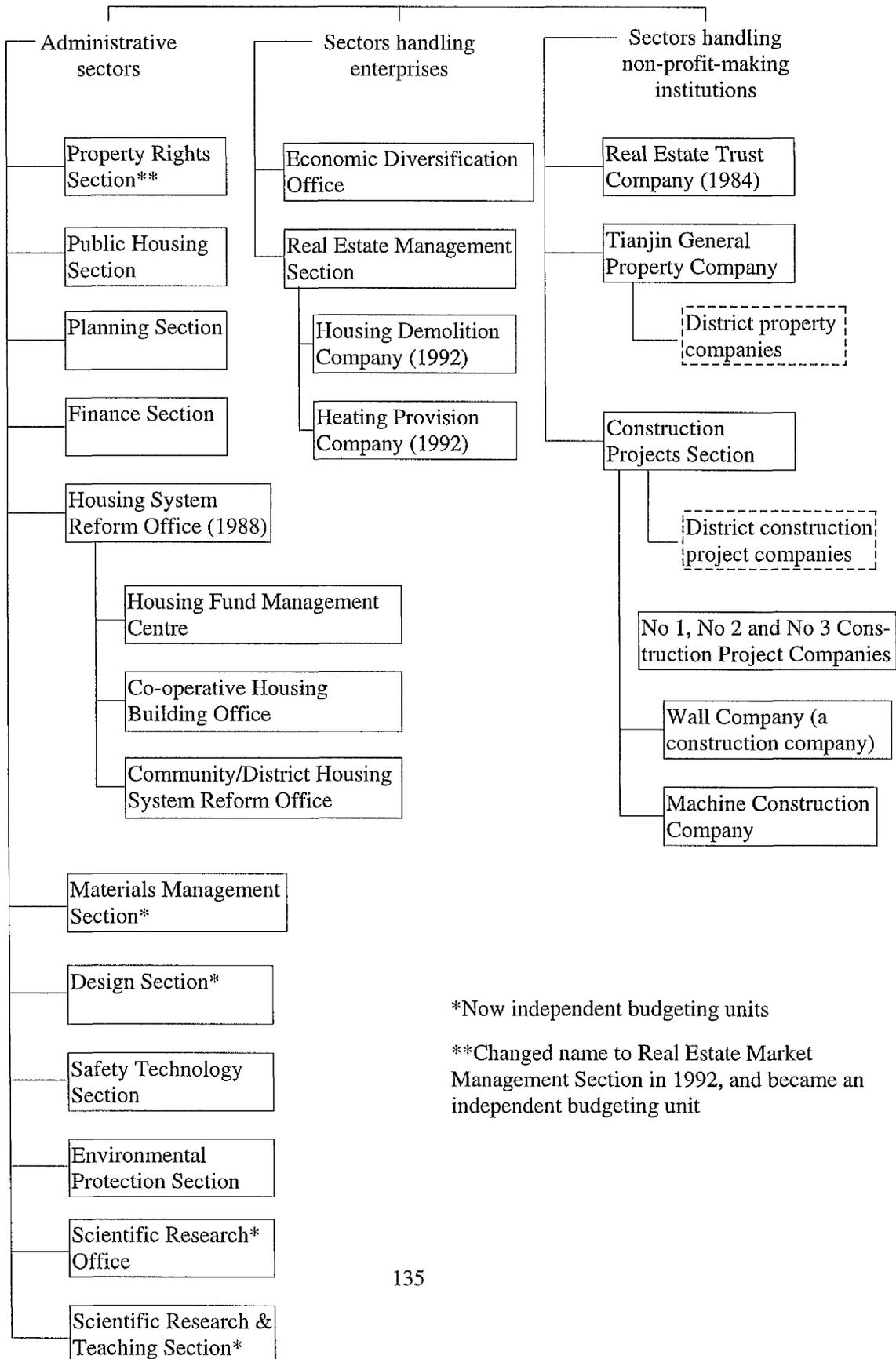
#### *Independent Administrative Sections*

In a variant of the above entrepreneurial activity, bureaux are making some of their administrative sections economically independent (*duli hesuan*) and allowing them to earn their own income, so that the wages and benefits of their personnel are derived from that income rather than from the

<sup>26</sup> Interviewee 64. This was the stated plan. Further research is needed to see if this is actually carried out.

<sup>27</sup> Interviewee 6.

Figure 5.1 Tianjin Municipal Real Estate Management Bureau



\*Now independent budgeting units

\*\*Changed name to Real Estate Market Management Section in 1992, and became an independent budgeting unit

bureau. Yet these sections still carry out their administrative functions and remain under bureau leadership. Several sections in the Municipal REM Bureau had this status by 1992. These included the Materials Management Section and the Scientific Research Education Section. Some, such as the Engineering Project Section and the Design Group, had been given this status when they were created in the early 1980s. The Scientific Research Office received 50 per cent of its income from the bureau. In September 1992 the Property Rights Section of the Municipal Bureau changed its name to the Real Estate Market Management Section (*fangdichan shichang guanli chu*) and became an independent accounting unit within the bureau.<sup>28</sup> The Public Housing Management Section had been similarly transformed from a pure administrative department into one that had to provide for itself. In current terminology these sections are said to have 'dual functions', and there is a division of labour within them between economic work and government functions.<sup>29</sup>

Some newly independent administrative sections in the district bureaux had begun to set up 'service companies' in 1992. In Hongqiao district, the Property Rights Administration section had set up two service companies and staffed them with its officials. These companies charged fees to handle certain administrative procedures, and to 'help manage things that could not be managed before'.<sup>30</sup> Officials claimed that the new companies offered 'better service' than the bureau had been able to provide before. All the income from these companies was given to the bureau.<sup>31</sup> I did not investigate these service companies in depth, and therefore although they are profit-seeking, they may not constitute another form of 'entrepreneurial' activity. I will discuss in Chapter 8 the extent to which they accord with the entrepreneurial state model.

#### *REM Stations Setting Up New Enterprises*

REM stations have also been getting involved in various kinds of business activities. Since the late 1980s and especially since 1992 these stations have been setting up their own 'new' enterprises in much the same way as their superiors in the district and municipal bureaux. This has changed both their internal structures and their relationship with the district bureaux. Some stations are now financially independent and have contractual relationships with their bureau.

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<sup>28</sup> Interviewee 4. It now had the new task of helping every district and county set up real estate 'markets'. Interviewee 9.

<sup>29</sup> Interviewee 4.

<sup>30</sup> Interviewee 7.

<sup>31</sup> Interviewee 7.

The amount and type of enterprises that the stations have been setting up have varied, often according to the opportunities or perceived opportunities for successful business in the area of the station. Thus the difference between the type and scope of business undertaken by them is often related to the economic profile of the district. In Heping district, the commercial centre of the city, some stations had first set up textile factories in the late 1980s for their female staff. But thereafter the trend had been toward creating service sector enterprises. In 1988, one station turned its meeting room into a dance hall. By 1992, each station in this district had two or three smaller scale commercial enterprises—usually restaurants, shops and bars.<sup>32</sup> In Tanggu where real estate business was relatively dynamic in 1992-3, stations were doing small scale real estate development work and the redevelopment of old slum housing.<sup>33</sup> In districts without such obvious advantages to exploit, stations set up enterprises when any opportunity arose. One Hongqiao district station had set up both a small real estate development company and two small shops, one selling tea and one selling spare car parts. These businesses together employed 20 of the 130 people in the station. The real estate company had been formally established in early 1993, but it had carried out one project before this, in early 1992. Its only project so far had been to build extra floors on top of an existing apartment block in the area. This entrepreneurial activity had not reached the suburban districts. There the stations were often few and only recently established. Neither Xiqing nor Dongli's stations had begun to set up other businesses, though officials in Dongli said they were contemplating this.<sup>34</sup>

The enterprises are established by and closely integrated with the stations. Most new businesses are 'independent budgeting units' and keep their own separate accounts. However some have been first created within the bureau and made independent when they have proved themselves viable. One Hongqiao station real estate company had not been a separate business entity when it had begun its first project, and had given all its income from the project to the station.<sup>35</sup> The independent enterprises register with the bureau of Industrial and Commercial Administration and Management and pay tax. But after-tax profits stay with the stations.

In personnel terms, too, connections between the new enterprises and the stations that set them up are close. The head of the station is the 'economic legal person' of the enterprises, which

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<sup>32</sup> Interviewee 64.

<sup>33</sup> Real estate development projects could be for plots of land between several thousand square metres to ten thousand square metres in size. Interviewees 11, 2 and 42.

<sup>34</sup> Interviewees 26 and 28.

<sup>35</sup> Interviewee 24.

are staffed by station employees.<sup>36</sup> Although in at least one case enterprise employees were not considered to have left the station, the enterprises were usually seen as a way of finding alternative employment for staff. I will discuss this in more detail below.

### **Why State Entrepreneurialism has Appeared in REM Departments**

Entrepreneurial activities in Tianjin's REM bureaux and stations are the consequence of a combination of opportunities and constraints created by the emergence of real estate and commodity markets, the structures of the pre-reform system, and changing attitudes toward profit-seeking business activities. I will explain these key factors below and then conclude on how they have together led their officials to set up businesses in their departments.

#### *Marketisation and its Limits*

Market-oriented reforms in the sphere of real estate development have relaxed controls over who can develop land and introduced limited markets for property. This is the most fundamental contextual factor contributing to state entrepreneurialism in Tianjin's REM departments. Rising property prices have made development work profitable and encouraged REM bureaux and stations to set up real estate development companies. However, real estate markets are limited by continued local government control over allocation of land, and REM departments, as part of the urban construction system within those governments, have been well placed to win projects. They also have control of housing and thereby, direct access to some land. Reforms in the real estate sphere have therefore provided opportunities for business in this sector of the state.

The real estate reforms are the result of two separate but converging initiatives. The first of these, to improve housing conditions, includes a range of measures referred to broadly as 'housing system reform'. The second initiative, aimed at generating income for local governments and improving urban development, has involved the liberalisation of land use and prices for property. I have discussed these reforms in Chapter 4, but will show below how they have affected REM departments in Tianjin and provided them with the opportunity to undertake real estate development work. Some REM bureaux and stations have set up trading companies and department stores. In doing this they are taking advantage of the opportunities provided by market-oriented reforms in the commercial system that are described in my second case study below.<sup>37</sup> I will therefore not discuss

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<sup>36</sup> Interviewee 64.

<sup>37</sup> See Chapters 6 and 7 for a discussion of liberalisation in this sphere.

those market reforms here, but many of the other factors contributing to state entrepreneurialism in this sector set out below also apply to the REM departments setting up trade and service sector enterprises.

In Tianjin, housing system reforms, particularly the raising of rents on public housing, have been introduced cautiously<sup>38</sup>, and Tianjin's Urban Housing System Reform Programme was published in January 1992 after more than a decade of research.<sup>39</sup> However certain measures officially adopted in the Programme had been implemented earlier, in the 1980s. Some of these contributed to the emergence of a real estate development market in the later years of that decade. Of them, the most significant are the 'commodity buildings' and slum redevelopment projects.

The construction of so-called 'commodity buildings', meaning buildings to be sold at 'market' prices, began in Tianjin in 1982.<sup>40</sup> This includes both housing and other buildings such as office blocks and factory buildings.<sup>41</sup> Sale of housing to individuals has been limited because rents and wage levels have been low in relation to the cost of buying housing.<sup>42</sup> Although a high

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<sup>38</sup> The municipality was involved in the national level research and discussions and was often the organiser of national meetings on housing reforms from the early 1980s, but it was nevertheless careful and hesitant about introducing them. See Zhang Yueqing, Yan Zhongqiu and Lu Xiangyun (eds), *Chengshi zhuzhai guanli gailun* (An outline of urban housing management) (Beijing: Beijing jingji xueyuan chubanshe, 1989), 'Zhufang zhidu gaige dashiji, 1978-87' (Chronology of major events in the housing system reform, 1978-87), pp.228-37. The Tianjin government and local experts accepted that the key to improving housing conditions was raising rents on public property to generate income for reinvestment, but this reform was delayed because of fears that it would be badly received by urban dwellers. It was discussed and researched at length in the 1980s, and rents were finally raised uniformly throughout the city in 1991 from 0.13 *yuan* per square metre, to 0.3 *yuan* per square metre per month. This is approximately two per cent of the average wage. The rent is calculated according to the area of living space (*shiyong mianji*). Interviewee 11.

<sup>39</sup> This Programme promotes many housing system reform measures that had been tested elsewhere in the 1980s. It consists of measures to continue raising rents and channel savings into housing production. The measures are (1) to create a public accumulation funds system whereby all work units pay a percentage of employees' wages into bank accounts in the name of employees, for those employees to use for the purchase or construction of housing; (2) to continue to raise rents and while at the same time paying subsidies to workers to compensate for the increases; (3) to sell bonds to new tenants; (4) to encourage employees to buy newly-built or old public housing; (5) to develop co-operative housing construction, whereby work units and individual co-operate by investing together in housing construction projects; (6) to establish housing funds (to be run by the municipal government and work units and to be deposited with specially designated financial institutions) to be used for the building, purchase, repair of housing and reform of the system. Wang Guoting and Song Changjun, *Tianjinshi chengzhen zhufang zhidu gaige fang'an shishi zhinan* (Guide to the implementation of the Tianjin Municipal Urban Housing System Reform Programme) (Tianjin: Tianjin renmin chubanshe, 1992), pp.5-9. These policies are being implemented city-wide, in the urban and suburban districts, and in county towns. The only work-units excluded are joint ventures with foreign investment (*sanzi qiye*).

<sup>40</sup> See *Dangdai Tianjin chengshi jianshe*, p.383.

<sup>41</sup> One element of the 'commodity housing' policy is the sale of old public housing at special low prices (as well as of newly constructed housing). I shall not discuss this at length here because it is not directly connected with the emergence of the real estate development business.

<sup>42</sup> World Bank, *China: Implementation Options for Urban Housing Reform* (Washington D.C.: The World Bank, 1992), p.73.

proportion of buildings sold in the 1980s were residential, most housing has been sold to enterprises who provide housing for their workers. This is partly because enterprises have been prevented from obtaining land on which to build themselves.<sup>43</sup> While there was also some construction of buildings for commercial use, such as office blocks, hotels, and department stores, this did not take off in Tianjin until after 1992.<sup>44</sup>

'Commodity buildings' are sold at 'market-regulated prices under state guidance'.<sup>45</sup> The real estate development company negotiates the prices at which it sells the buildings it has constructed with the planning and REM bureaux beneath the construction commission. These prices are allowed to reflect the costs of construction, 'the market and [the building's location], outlook and number of floors'.<sup>46</sup> A profit margin is allowed, but the state caps prices. Although prices are not allowed to float freely, the cost of commodity housing rose by a total of 85 per cent between 1987 and 1992.<sup>47</sup> Housing construction and real estate development had become a profit-making business by the early 1990s.<sup>48</sup>

Projects to redevelop the city's single storey slum housing have also become potentially profitable in the reform period.<sup>49</sup> In Tianjin this redevelopment work has been encouraged by the municipal government as another way of improving housing conditions. Many of the city's urban residents live in closely-packed, low-roofed 1950s housing that is in bad condition and often without running water or central heating. There are deaths every winter from asphyxiation because of faulty flues carrying the smoke from their coal-burning stoves. Redevelopment projects involve the temporary re-housing of residents while these old buildings are demolished and apartment blocks

<sup>43</sup> Ibid., p.71.

<sup>44</sup> Tianjinshi chengxiang jianshe weiyuanhui et al, '93 *Tianjin fangdichan shichang*, p.71.

<sup>45</sup> 'Guojia zhidaoxia de shichang tiaoji jiage'. Ibid., p.81.

<sup>46</sup> Ibid.

<sup>47</sup> Ibid., p.80. This is a promotional publication printed in the 'longform' Chinese characters used in Taiwan and Hong Kong but not in mainland China. It is clearly aimed at encouraging foreign investment in real estate development in Tianjin and provides practical information on how to do this. Different price ranges are given for housing of different types in different locations in the city (in 1993). They vary from between 1400 and 1600 *yuan* per square metre for housing without gas and central heating in one part of the city, to between 2700 and 2900 *yuan* per square metre for housing with those amenities in another part. See p.81.

<sup>48</sup> According to Interviewee 29, a local specialist in housing and land reforms, real estate development had only really taken off in Tianjin in 1992. In July that year a total of 265 million *yuan* had been invested in 1.6 million square metres of commodity housing in Tianjin. These figures constituted rises of 25.4 per cent and 29 per cent respectively on the previous year, 1991. *Renmin ribao*, 15 September 1992. Another local specialist in housing and real estate development has argued that there has been gradual marketisation of the real estate system despite price controls. See Lu Wei, 'Woguo fangdichan shichang fazhan de taishi, tezheng yu wenti' (The situation, characteristics and problems in the development of our country's real estate market), mimeo.

<sup>49</sup> This type of redevelopment is commonly called '*pingfang gaizao*'.

five or six storeys high are built in their place. Apartments in these new blocks are larger, have running water and central heating, and because they are multi-storey, can house many more families. This redevelopment began in the mid-1980s, and was given a boost in 1987 when Mayor Li Ruihuan publicly lent his support.<sup>50</sup> It was also taken up more readily when combined with the commodity housing policy. If developers can build enough apartments on the site of the slum housing they can both re-house the former residents and sell the extra apartments. This has allowed the redevelopment of single storey housing to become profitable and encouraged the take-up of real estate development projects.

Real estate development business has been given a boost in Tianjin in the 1990s by reforms liberalising land use. Though these reforms have been introduced more slowly in Tianjin than in Shenzhen and other cities in South China, Tianjin is still ahead of many other places.<sup>51</sup> In 1985 the municipal government began to charge fees for the use of land in the city's Economic and Technological Development Zone. Then in 1987 it began to charge land use fees from foreign-invested joint ventures for land use elsewhere in the city.<sup>52</sup> The city first permitted land leases in its Economic and Technological Development Zone (ETDZ) in mid-1988, and leased its first tract of land in August 1989.<sup>53</sup> Although leasing was permitted elsewhere in the city from 1989, leases outside the ETDZ have been fewer.<sup>54</sup> They only really began to increase, both inside and outside the it, in 1992-3, when the economy nation-wide began to boom again after three years of retrenchment. In those two years a so-called 'real estate craze' (*fangdichan re*) suddenly swept Tianjin and other major cities as people realised prices for land were sure to rise and the profitability of real estate

<sup>50</sup> Lü Chengyou, 'Gaizao pojiu pingfang tansuo kaituo xinjing' (Explorations into the redevelopment of single-storey slum housing open up new avenues), *Tianjin fangdichan* 1989.1, p.17.

<sup>51</sup> Compensated land use was introduced first (in 1982) in Shenzhen, Guangzhou and Fushun. *Renmin ribao*, 25 June 1993. See Chapter 4.

<sup>52</sup> Tianjinshi chengxiang jianshe weiyuanhui et al, '93 *Tianjin fangdichan shichang*, p.42.

<sup>53</sup> 'Tianjinshi jingji jishu kaifabu tudi shiyong quan youchang churang zhuanrang guanli guiding' (Management Regulations of Tianjin Municipality's Economic and Technological Development Zone for the compensated lease and transfer of land use rights). By the end of 1992 the Zone had leased 7.9 million square metres of land. Of this, 1.6 million square metres had been leased in 1992. Tianjinshi chengxiang jianshe weiyuanhui, '93 *Tianjin fangdichan shichang*, pp.33.

<sup>54</sup> It is noted by Li Ning in 1992 that the city had recently begun to lease land outside the economic and technological development zone. 'Lease contracts have been signed for more than 5 tracts [of land], totalling an area of 80,000 square metres of downtown's Heping and Hexi districts', at a total lease price of 71 million yuan. Li Ning, 'A Glance at China's Real Estate Market', *Beijing Review*, November 9-15 1992, pp.18-20. Figures from p.20. By the end of July 1992, land leases in the Zone had totalled 3.07 million square metres, while land leased in the nearby Bonded Zone totalled 600,000 square metres. *Renmin ribao*, 15 September 1992.

development.<sup>55</sup> In Tianjin there were 73 registered real estate development firms at the end of 1991.<sup>56</sup> By April 1993 the number had risen to just over 300.<sup>57</sup>

However, there were still limits to the real estate market in the early 1990s. Not only were building prices regulated, the municipal government (via the planning and land management bureaux) controlled the leasing of land in the city. A local economist specialising in this area noted that banks were still not permitted to lend freely to real estate companies and that the municipal government was retaining control because it was afraid that land would be sold too cheaply.<sup>58</sup> Despite (or perhaps because of) the trend toward de-regulation of prices and the popularity of real estate development, the land market in Tianjin had still not been allowed to take off.<sup>59</sup> Of the 300 real estate development companies registered in Tianjin in 1993, only 60 had actually secured a project and much of the leasing still took place in the ETDZ.

Still, the 'commodity housing' policy has encouraged construction of housing (or redevelopment of the oldest slum housing) and created the beginnings of a small property market in housing and other buildings. At a time when land markets had still not developed, the market in buildings was an important factor in the emergence of the most common forms of state entrepreneurialism in REM departments. As long as land allocations were decided administratively rather than competitively, REM departments could take advantage of their position within the construction sector to gain access to cheap land. Though not actually in control of land allocations, they are still part of the urban planning and construction sector and have always worked closely with the planning and construction departments. As real estate business has become profitable they have been well-placed to secure land allocations for their own housing or commercial real estate development projects and use their access to construction materials. The REM bureaux (together with the civil construction project bureaux that are also part of the Construction Commission's sector) were among the most actively involved in real estate development work in the city in 1992-

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<sup>55</sup> Li Ning, 'New Real Estate Industry Craze', *Beijing Review*, 9-15 November 1992, pp.14-18. In Tianjin, prices for land did rise in the 1980s, and then again in both 1992 and 1993. In 1993 some prime land cost between US\$300 and US\$400 per square metre. *Renmin ribao*, 4 June 1993.

<sup>56</sup> Li, 'A Glance at China's Real Estate Market', p.20.

<sup>57</sup> These were leasing land and some were building commodity housing. *Renmin ribao*, 15 September 1992.

<sup>58</sup> Interviewee 5.

<sup>59</sup> This may be changing. Until February 1993, land was 'leased by agreement' (*xieyishang churang*), but in that month Tianjin held its first 'public bid' for a land lease (*toubiao churang*). The public bidding method (and the similar method of auctioning land rights) are generally considered to have created more competitive 'markets' for land.

3.<sup>60</sup> While the Municipal REM Bureau's real estate development companies were given some of the largest, most desirable projects, the district bureaux and REM stations were awarded smaller ones. These smaller projects, like those to redevelop slum housing, are usually aimed at improving housing conditions. They are taken on by smaller state development companies that are allocated land administratively<sup>61</sup> because although they are less prestigious and lucrative, they are still profitable since they usually replace single storey housing with four or five storey blocks of flats that can be sold.

The limited market-oriented reforms for real estate have provided opportunities for both REM bureaux and stations to win development projects, but they have also brought constraints that have compelled departments to set up businesses. This is particularly the case for the stations; the business activities of some REM stations have been premised upon the possibility that the housing system reform may result in all public housing being sold off.<sup>62</sup> Were this to happen, the stations would no longer have housing to manage and would become redundant. Though this eventuality is unlikely or at least distant, some station officials did present their entrepreneurial ventures as part of a long-term strategy to make the stations self-sufficient and thereby protect themselves in case of future change.<sup>63</sup> In Tanggu district, stations were setting up enterprises not only to generate income now, but also as a safeguard in case all public housing was sold off and they were rendered obsolete.<sup>64</sup> Another station's officials anticipated that REM stations would soon be made independent of the bureaux and because the stations would then depend for income on the (low) rents on public housing, this station was preparing for the change by accumulating capital. Leaders envisaged the station eventually being taken over by the real estate development enterprise they had set up.<sup>65</sup> Similarly, officials in Tanggu District REM Bureau's Property Company (which oversees

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<sup>60</sup> Interviewee 4. One senior local analyst noted that real estate development projects were virtually monopolised by the real estate companies of bureaux under the city's Urban and Rural Construction Commission, though their monopoly was now under threat as the public tender and auctioning methods of leasing land became more common (see Footnote 57 above). Interviewee 29.

<sup>61</sup> There are some interesting parallels here with the development of Edwardian London, done mainly through the lease of land from large freeholders. In that case, the cheaper leasehold land encouraged housing construction. In China there are at present not enough housing buyers because it is still much cheaper to rent and purchasing power is low.

<sup>62</sup> See Chapter 4 for more details on this measure.

<sup>63</sup> In current debate (among central level officials and academic advisors) over housing policy there were some who favoured selling off all state-provided housing. However, there were also many experts opposed to this. Interviewee 29. This analyst also noted that nationally, private housing had risen from 14 per cent of the total in 1985 to 30 per cent in 1993.

<sup>64</sup> Interviewee 11.

<sup>65</sup> Interviewee 25.

the REM stations) said that they had set up new enterprises as a safeguard; the new enterprises ensure income to the property company in case the public housing that now (through rents) provides its income is all sold.<sup>66</sup>

An official in one REM station said that all stations were preparing to become enterprises, and saw their entrepreneurial activities as part of a process of 'entrepreneurialisation' (*qiyehua*).<sup>67</sup> This may already have begun: in 1992 and 1993, though the scale of business activities was still small, some stations' relationships with their district bureaux had begun to change. Before the latest developments in the early 1990s, the stations had simply been the administrative arms of the district REM bureaux and as such had carried out the practical work of rent collection and housing repairs. As stations began to generate their own income from new enterprises they also began to establish contractual relations with the district bureaux, signing contracts (*jingying chengbao hetong*) that stipulated how much of the rent collected by the station is given to the bureau.<sup>68</sup> The reforms had apparently produced very real constraints for these stations and were inducing them to become entrepreneurial.

#### *Financial Constraints and Incentives*

Financial constraints and incentives have also contributed to the emergence of state entrepreneurialism in REM bureaux and stations in Tianjin. One of the legacies of the pre-reform REM and public buildings provision system has been a chronic shortage of resources. In recent years, district REM bureaux have found that the rental income on which they depend to repair and maintain housing and pay the wages of their staff has become less and less adequate.<sup>69</sup> The financial burden stemming from low rental income has also been passed on to the REM stations.<sup>70</sup> One bureau official explained that in his district each station was given 1.4 million *yuan* annually. With around 200 people working in each station, and each person earning a total of around 400 *yuan* per month, almost one million *yuan* went in wages alone. Besides this, the station had to pay the

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<sup>66</sup> Interviewee 11.

<sup>67</sup> Interviewee 9.

<sup>68</sup> Officially the bureaux were not to interfere in the economic affairs of the stations, which were to be left to their own devices to set up businesses. Interviewee 10. Despite this, some leading officials in the stations complained in 1993 that the bureaux were now arbitrarily demanding a cut of the earnings generated by the stations from their business activities. Interviewees 25 and 10.

<sup>69</sup> One official said that the REM bureau in his district had wanted to be able to establish enterprises ('economic entities') for some time, but had not been allowed to do so until 1992. Interviewee 7.

<sup>70</sup> See Chapter 4 for an explanation of how finances are distributed between municipal and district REM bureaux and their subordinate stations.

pensions of retired employees and buy materials for repair work.<sup>71</sup> The revenue shortages had been exacerbated by the rising expectations and demands of residents. As incomes increased, people were able to better decorate and furnish their homes and fill them with consumer goods, and the building stock seemed comparably shabby and overcrowded. Increases in administrative tasks may have also strained REM bureau finances. Whereas the stations had previously been able to buy extras, such as paint for decorating houses, they were now unable to satisfy demands for repair work.<sup>72</sup>

The increased workload of REM bureaux in the reform period may also have added to their financial problems by requiring them to spend more on staff, facilities and running costs. However, in some cases this has been offset by the extra revenues generated by some of the new work. There was a significant increase in revenues in the early 1980s, but this has fallen off again since, as I will explain in more detail below.

Before the late 1980s, the key administrative work of property ownership, and the registration and certification of tenancy and transfer were conducted in an almost static property system. This changed in the 1980s, and by the early 1990s much of the day-to-day work at all levels of the REM system in Tianjin was devoted to handling the administration of new, market-related policies and measures. Bureaux at the municipal and district levels in Tianjin now have to administer and supervise a vastly increased number of property transactions (including the lease and transfer of land use rights)<sup>73</sup>, and implement key elements of the housing system reforms, as well do as their traditional work of housing maintenance and rent collection.<sup>74</sup>

Measures to improve housing have also increased the work of district bureaux. In the case of slum housing redevelopment, for example, although separate departments have been specially created to co-ordinate the work<sup>75</sup>, district REM bureaux are in charge of temporarily re-housing

<sup>71</sup> In another station earnings were also said to be going to pay the pensions and benefits of retired station staff. These could be administrative officials or technical staff and workers—those who actually do the repair work. Pension payments constitute a significant burden, and one that grows over the years. Interviewee 24.

<sup>72</sup> Interviewee 64.

<sup>73</sup> The emphasis placed on this work is demonstrated by the creation of 'real estate exchange offices' within district REM bureaux since the late 1980s. Interviewee 11.

<sup>74</sup> As described in Chapter 4, these new tasks have been formally delineated by the central Ministry of Construction. When land management bureaux (*tudi guanli ju*) were created at the municipal and district levels in Tianjin in 1986 they took certain tasks relating the administration of land use transactions away from the REM bureaux. Nevertheless, REM bureaux are still involved if the land has (or will have) buildings on it. See Tianjinshi chengxiang jianshe weiyuanhui et al, '93 *Tianjin fangdichan shichang*, p.56.

<sup>75</sup> The Municipal Housing Redevelopment Office (*shi pingfang gaizao bangongshi*) via corresponding offices in the districts. These and the other special (and usually temporary) offices are usually set up separately from the bureaux, and have their own staff, whose wages are not paid from the department's budget. Lü Chengyou, 'Gaizao pojiu pingfang tansuo kaituo xinjing', *Tianjin fangdichan* 1989.1, p.18.

residents, reallocating newly-built housing, and related administration from tenancy registration to collection of rents. The same can be said of the swaps work.<sup>76</sup> Though 'swap stations' have been created for this task, they must also work closely with the REM bureaux.<sup>77</sup> The REM bureaux in the districts have been involved in keeping records of property transactions, and registering and producing certification for tenancy changes.

Tianjin's housing system reforms have been hesitant, but have also occupied REM officials in many ways. They have been active first in researching the reforms and then, since the reforms were introduced, in implementing them. The work of administering rent increases has, for example, fallen to the REM system: the municipal bureau drew up the local measures to implement this and the district REM bureaux and stations have implemented those measures.<sup>78</sup> District REM bureaux have also established offices or designated officials to deal with housing system reform work such as setting up housing construction co-operatives or housing funds.<sup>79</sup> This may significantly increase in the workload of officials.

At certain times REM bureaux have also been given specific new administrative tasks. They were involved in the national movement to set the property ownership and registration system in

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<sup>76</sup> An early measure aimed at improving people's housing situation encouraged housing swaps whereby, under the supervision of administrative departments, citizens could improve their housing situation (particularly their proximity to their workplace) by exchanging their homes with others. See Chapter 4. Swaps were introduced in 1980, and between 1980 and 1988, 354,000 households are said to have swapped and exchanged (*huan, tiao*) 439,000 rooms, solving the problems of travelling long distances to work and housing of 1,400,000 people. *Dangdai Tianjin chengshi jianshe*, p.377.

<sup>77</sup> The municipal government first set up municipal level department to handle such transactions by promulgating Municipal Measures in 1989, and then in 1990 establishing a Municipal 'swap market' and corresponding 'housing swap stations' (*huanfangzhan*) in the districts. For the 'Tianjinshi fangwu huhuan banfa' (Tianjin Municipal Measures for Housing Swaps), effective from 10 April 1989, see *Tianjin fangdichan* 1989.1, pp.4-5. On the 29 August, 1981 the municipal government had approved the Municipal Real Estate Management Bureau's 'Guanyu jianli Tianjinshi huanfang zongzhan jigou de baogao' (Report concerning the creation of urban housing swaps stations), *Dangdai Tianjin chengshi jianshe*, p.377.

<sup>78</sup> Again the workload has increased despite the fact that special departments have been set up to co-ordinate this work. Housing reform is led in Tianjin by the Municipal Urban Housing System Reform Leading Small Group (*shi chengzhen zhufang zhidu gaige lingdao xiaozu*), and the day to day business and work of this Group is handled by the Municipal Urban Housing System Reform Office (*shi zhufang zhidu gaige bangongshi*). This is a large department that has established below it a Housing Funds Management Centre (*fangwu zijin guanli zhongxin*), a Co-operative Housing Building Office (*hezuo jianfang bangongshi*) and county and district level Housing System Reform Offices. Although its leaders are from the Municipal REM bureau and still on its payroll, and offices are in the bureau's building, new staff have also been recruited and are paid from a separate budget. In the district bureaux there has been similar organisational expansion at the sub-municipal level. Interviewee 9.

<sup>79</sup> In Tanggu District REM Bureau a Housing Reform Office and Real Estate Exchange Office (*fangdichan jiaoyi suo*) have both been set up. Interviewee 11. In Xiqing district REM Bureau a Housing Reform Office had been set up, one of the few changes in this slower-changing bureau.

order.<sup>80</sup> This work began in 1983 and was completed in 1991. It was an attempt to set property records straight after more than 30 years of negligence and the mayhem of the Cultural Revolution.<sup>81</sup> Special teams were set up at municipal and district levels in Tianjin's REM system to carry out or supervise the work.<sup>82</sup> However, in this case the new task brought an opportunity for departments to generate income by charging fees for the issuance of certificates, registration of ownership, and other administrative 'services'. In Hongqiao district, for example, the income of the bureau had increased with the property registration work that started in 1983. From a low of 150,000 *yuan*, income rose to 2.7 million *yuan* during the property registration movement. However, this source of income ran dry when the work finished in 1991. As a result of this and the loss of sources of revenue to the Land Management Bureau (established in 1986)<sup>83</sup>, REM bureaux were feeling particularly impoverished in the early 1990s.

As further evidence that new enterprises are being set up to increase departmental revenues because of financial constraints, it seems that the same practices are appearing in individual sections of bureaux once they have been made independent for budgeting purposes. In 1982 Hongqiao District REM Bureau was selected for a trial structural reorganisation. It was divided into three distinct parts for accounting and revenue calculation purposes, and its administrative sections were separated from the Property Company and the bureau's construction company.<sup>84</sup> All three parts were made financially independent of each other and the administrative sections were now cut off from the rental income collected through the Property Company. At first, these sections were able to operate by using the income from the property registration movement. Following the end of this work, these sections had set up two 'service companies' in 1992.<sup>85</sup> In contrast, in Tanggu REM Bureau, where there has been no such separation between administrative parts of bureaux and those

<sup>80</sup> The movement was referred to as '*qingcha huanzheng*' in Chinese. See Chapter 4.

<sup>81</sup> Zhao Guangren, 'Dui wo shi jinnian dichan xingzheng guanli gongzuo de huigu' (A review of the city's REM work in recent years), *Tianjin fangdichan*, 1991.2, p.16, and Interviewee 7.

<sup>82</sup> See Zhao, 'Dui wo shi jinnian dichan xingzheng guanli gongzuo de huigu', p.16. In Hongqiao district the income of the bureau increased substantially during this movement, and the REM Section handling this work also grew unusually large, from a staff of ten to 57 people. Interviewees 7 and 8.

<sup>83</sup> Before that it had collected fees for land use and for handling land transactions. Interviewee 7.

<sup>84</sup> This was an attempt to rationalise and increase efficiency by delineating functions more clearly, though cadres in Hongqiao itself and elsewhere have said that the financial segmentation of the bureau constrained already limited resource distribution options. This trial reform had therefore not been extended to other districts. This was confirmed in interviews in other district bureaux. Reform measures begun in the 1990s were said to have been less successfully implemented in the Hongqiao district bureau because of this structural division. Interviewees 7 and 11.

<sup>85</sup> The real estate development company is said to have suffered from lack of free resource transfers within the bureau as a whole. Interviewees 7 and 11.

parts collecting rents and doing repairs, this kind of revenue-seeking activity on the part of administrative sections has not been evident. There, officials noted that the whole bureau had benefited from the income earned by the new real estate development companies.<sup>86</sup>

The financial burden on REM departments has grown because of the decreasing value of rental income and the rising expectations of residents. REM bureaux and stations have less income and more maintenance and construction work to do. On top of this, their administrative workload has increased in the reform period and this has added to their running costs. Although this work has sometimes raised revenues, there has probably been a net fall in income. In particular, the *ad hoc* tasks that had generated income in the 1980s had finished by 1992, making departments feel relatively poverty-stricken.<sup>87</sup> There has also been a growing burden on such departments from the pensions and benefits that are paid to the personnel who have retired over the years.

The new enterprises have in many cases been created to alleviate this financial burden. Raising revenues was a commonly-stated reason for the creation of the new enterprises. One station official noted that the purpose of the enterprises was to earn income and 'help solve the station's economic problems'.<sup>88</sup> In some cases it was specified that this new income was to go toward helping the REM department do its work better. For example it was claimed that the profits given to one bureau by its new enterprises were to be used for housing repair work.<sup>89</sup> However, some of the benefits were felt by officials: in one district some of the income from the enterprises was being used to raise the bonuses of bureau officials.<sup>90</sup> One of the most actively entrepreneurial bureaux was housed in a new and relatively luxurious suite of offices, complete with carpets and new furniture; the bureau as a whole was clearly benefiting from its new business ventures.

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<sup>86</sup> One official considered the Hongqiao pilot reform to have been unsuccessful because of the accounting and financial divisions it had created. He made a direct comparison between the Tanggu and Hongqiao bureaux, and said that Tanggu had benefited from a homogenous organisation in which revenues were shared among all. Interviewee 11.

<sup>87</sup> Current new tasks were not said to be lucrative. While this may reflect a tendency to articulate (financial) difficulties (rather than gains or improvements) it is likely that those difficulties are very real, for the other reasons given here. Given the extent of the revenue shortfall from rents, new sources of income (for example from fees charged for handling property transactions, are unlikely to have been sufficient to make the bureaux feel adequately financed.

<sup>88</sup> Interviewee 24, a REM station official.

<sup>89</sup> Interviewee 15.

<sup>90</sup> Interviewee 28.

*Central Policy of Streamlining Government*

The latest central government initiative to streamline (*jingjian*) the state administration has also contributed to the emergence of state entrepreneurialism in the REM system. There have been attempts to cut staffing levels and reduce the size of the bureaucracy at different periods since 1949. These have been difficult to effect, and any successful cuts have always been negated by subsequent expansion.<sup>91</sup> Streamlining can be difficult because it is hard to enforce retirement,<sup>92</sup> and even when cuts are made, low staffing levels are hard to sustain because new graduates are constantly being allocated to state bureaux.<sup>93</sup> Thus, in 1992 there was another national streamlining drive.

The new streamlining drive coincided with the proliferation of new enterprises by REM bureaux and stations. Indeed, this is one of the most clearly and often stated reasons for the new enterprises. Some departments entrepreneurial reported cuts in staffing levels of around one third, in line with the requirements made by central policy makers, and those officials who left had almost invariably moved into the new enterprises. Although some reductions were due to retirements, officials often also retired to set up businesses or to staff those created by the bureaux.

There was a clear correlation in 1993 between the scale of streamlining in the bureaux and the extent to which those bureaux had engaged in new business activities and established new enterprises. In the bureaux which were most innovative and where there was greatest optimism for success in the new market economy, the tendency was to streamline the administrative departments of the bureau, combining sections and reducing the numbers of staff within them. In the Tanggu bureau there were seventy people in administrative sections of the bureau after reductions of one third had been carried out in 1992. Thirty per cent of officials from administrative sections had gone to work in the bureau's three new real estate development companies in the year since they had been established.<sup>94</sup> In contrast, in Xiqing district REM bureau, where there has been relatively little entrepreneurial activity, staffing levels remained the same in 1992 and 1993. And according to a leading official in the bureau, the four staff of the small new real estate development company 'do not feel streamlined'.<sup>95</sup>

However, there are indications that the streamlining drive alone is not a sufficient reason for state entrepreneurialism. In the Hongqiao bureau, entrepreneurial activities had actually thwarted

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<sup>91</sup> See Chapter 2.

<sup>92</sup> Liu Kegang, *Dangzheng jigou gaige yanjiu* (Research into the Reform of Party and Government Organisation) (Beijing: Renmin chubanshe, 1988), pp.50- 51. See Chapter 2.

<sup>93</sup> Interviewee 64.

<sup>94</sup> Interviewee 11.

<sup>95</sup> Interviewee 28.

the streamlining drive: the REM section that had been cut off from both the new and the old enterprises in the rest of the bureau had grown rapidly, increasing its staff from 10 to 57 since the early 1980s as it expanded those areas of 'service provision' for which fees could be charged.<sup>96</sup> However, streamlining has apparently not been a factor in the entrepreneurial activities of the REM stations. Although both the stations' workers and officials were working in the new businesses, they were not considered to have left their posts within the stations. Unlike the entrepreneurialism in the bureaux, the recent business activities in the stations were less connected with the streamlining drive. In at least one the enterprises were established as a way of keeping staff rather than streamlining them. Leaders said they had fought off attempts by their district superiors (the property company in the bureau) to lay off staff by increasing their income with this entrepreneurial work. This is now possible because the authorised staffing quota for the stations has also officially been abandoned. The staffing quota used to be strict, but the stations now decide for themselves how many personnel they need.<sup>97</sup>

The streamlining drive may have provided an extra impetus for leading officials in the bureaux to set up new businesses, because this was a way of complying relatively easily and painlessly with central policy. However as the examples above (and the failure of previous similar drives) demonstrate, it is possible for such policies to be ignored. It may even have been used to justify or legitimise the creation of new enterprises and provide shelter from criticism. Indeed, sometimes the term 'streamlining' was used when officials staffing the enterprises were clearly still part of the bureau. In many other cases the status of the officials who had joined the new enterprises was ambiguous. Their wages were paid from enterprise profits (and in some very new enterprises even this was not yet happening<sup>98</sup>) but they had retained their former post and close connections with the bureau.<sup>99</sup>

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<sup>96</sup> Interviewee 8.

<sup>97</sup> Interviewee 10.

<sup>98</sup> For example the real estate development company established by retired officials from Dongli bureau. Interviewee 15.

<sup>99</sup> Interviewee 15. In these cases the sustainability of the streamlining achieved so far hinges on the success of the enterprises, and may also depend on reducing the allocation of new staff by the state. In one district REM bureau, even streamlining of people out into the economic ventures of the bureau only just managed to keep staffing levels steady. Interviewee 64. This leading district officials complained more than officials elsewhere about the problems reducing staff in his bureau.

*The Policy of Diversifying Business*

Increased scope for profit-making business and the threat of redundancy arising from a nascent property market have combined with liberal interpretation of the policy to 'diversify business' (*duozhong jingying*) to aid the emergence of state entrepreneurialism in Tianjin's REM departments. This policy was introduced in enterprises in Tianjin in the early 1980s.<sup>100</sup> Before discussing how it relates to REM bureaux and stations, I will describe briefly the origins and content of the policy.

Under the pre-reform state planning system, every enterprise had its designated role in the economy and a clearly defined sphere of economic activity. The 'business diversification' policy encourages enterprises to develop new business activities to supplement their 'core work' by taking advantage of their access to materials and equipment.<sup>101</sup> These enterprises generate income, absorb people underemployed in the system and pay their wages and other benefits, as well as sometimes creating jobs for the unemployed.<sup>102</sup>

The policy has evolved over the 1980s and passed through three distinct phases.<sup>103</sup> It was introduced in Tianjin's REM system enterprises in 1981 to 'make arrangements for' (*anzhi*) underemployed, or 'excess' (*fuyu*) workers. Female employees, and sometimes 'the aged and weak', were identified as those for whom alternative arrangements were to be made. In many cases textile factories were set up for this purpose.<sup>104</sup> In the second stage, which began in 1983, business diversification was also used to provide employment for the children of REM system staff. In 1984 the third stage began, as the policy was extended and used to simply to develop and expand REM work. Disused property was to be converted, for example into hostels, restaurants or shops selling

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<sup>100</sup> It was introduced in the Urban and Rural Construction Commission's 'system', particularly into the construction enterprises. *Tianjin ribao*, 27 October 1992. There are such enterprises under the Bureau of Construction and also those under the Municipal REM Bureau. It may also have been introduced into enterprises in other systems. Though I have no evidence of this, the city formulated measures on this policy in 1989 that apparently applied to all enterprises in the city. See 'Tianjinshi qiye kaizhan duozhong jingying zaxing banfa' (Measures for the development of business diversification in the enterprises of Tianjin municipality). The text of the measures was published in *Tianjin fangdichan*, 1990.12, pp.2-4. Available information does not indicate whether enterprises in Tianjin outside the Urban and Rural Construction Commission's system were implementing this policy before the measures were issued.

<sup>101</sup> Promoted under the slogan of 'yi ye wei zhu, duo zhong jingying'.

<sup>102</sup> Zhao Guangren, 'Kaizhan duozhong jingying wei fangdichanye de fazhan zuochu gongxian' (Developing multiple businesses contributes to the development of the real estate business), *Tianjin fangdichan*, 1990.12, pp.14-16.

<sup>103</sup> Liu Peixin suggests this three-stage understanding of the policy. See Liu, 'Qiantan duozhong jingying de gonggu yu fazhan', pp.20-23. See also Li Guoqiang, 'Fangdichan xitong duozhong jingying qiye de fazhan' (The development of multiple business enterprises in the real estate system), *Tianjin fangdichan*, 1990.10, p.48.

<sup>104</sup> See 'Guanyu anpai nügong kaizhan duozhong jingying de yijian' (Opinions concerning arrangements for female workers to develop multiple businesses), issued in 1981, and reprinted in *Tianjin fangdichan*, 1990.12, pp.12-13.

paint and decorating materials. Between 1980 and June 1990 the Tianjin REM system established a total of 331 such enterprises, employing 8080 people (5486 of whom came from surplus labour within the system).<sup>105</sup> These new enterprises covered a broad range of business, including housing repairs, construction and decoration (70), commerce (152), industry and industrial processing (57), food and catering (11), and hotels and hostels (20).<sup>106</sup>

Reports indicate that the policy was applied primarily to construction enterprises within the REM system, but was also extended to include the REM stations. Documentary discussions describe implementation of the policy in construction enterprises and there is a single account in Tianjin's REM system's journal which reveals that a Heping District station had adopted the same strategy as early as 1982. It had set up a factory and a shop for its female workers, and then subsequently made arrangements for the children of its personnel.<sup>107</sup> Although there are no accounts of other REM stations doing this, it is unlikely that it was confined to Heping district. However, station officials in 1993 usually dated their enterprises back to the late 1980s at the earliest.<sup>108</sup> In the early stages (phases one and two), the new enterprises were not set up for profit-seeking purposes but to create employment, and would not therefore be considered strictly entrepreneurial. Only in phase three, in the late 1980s, did this work really become profit-oriented.

Most new enterprises were set up by the stations in the early 1990s at the time of a renewed push to introduce this policy of business diversification. From late 1990, the REM system's Tianjin journal encouraged stations to get involved in business activities and promoted the establishment of contractual relationships between the stations and their respective district bureaux.<sup>109</sup> Here the policy was clearly being extended to the stations. However, REM stations are not usually considered to be enterprises; they are arms of the bureaux (or their property companies) and therefore part of the government administration. Yet because they are sub-district departments they are treated

<sup>105</sup> Zhao, 'Kaizhan duozhong jingying wei fangdichanye de fazhan zuochu gongxian', p.14.

<sup>106</sup> Ibid.

<sup>107</sup> Wan Wenju, 'Chuangban disan chanye de tihui' (Experiences of setting up tertiary industry), *Tianjin fangdichan*, 1991.11, p.38, 20-1.

<sup>108</sup> An official in the Municipal REM Bureau's Multiple Business Office notes that these enterprises suffered (but survived) during the period of austerity that began in late 1988. Liu Peixin, 'Qiantan duozhong jingying de gonggu yu fazhan' (A preliminary discussion of the consolidation and development of multiple business), *Tianjin fangdichan*, 1990.12, pp.20-23.

<sup>109</sup> Following the issuance of Municipal Measures on this in 1989, see Footnote 98 above. The REM system published its own Measures in March 1990. For the text of this document see *Tianjin fangdichan*, 1990.12, pp.4-10. Note that this took place during the retrenchment period of 1989-92. The documents note this and say that the 'weak' economy needs this kind of flexibility and entrepreneurial activity. In 1990 50 new enterprises of this type were established in the REM system, though many were probably in other enterprises. *Tianjin fangdichan*, 1990.12, pp.16-20.

differently from the higher level bureaux. Their status is that of a basic-level unit on a par with the many sub-district bureau enterprises in this and other sectors of government. The staff of these stations are low-ranking officials or technical personnel, and so there is not considered to be any conflict of interest between their governmental and entrepreneurial roles as there might be for officials at higher levels. In fact reports on the subject in China only ever discuss reallocating workers, or sometimes 'staff and workers'; officials are never specifically mentioned.<sup>110</sup> The stations have an ambiguous status, and so if their officials are doing business this is less problematic.<sup>111</sup> Here, more than in the districts, the distinction between being an extension of the government that provides a service to residents and a part of the state that simply operates as an enterprise is blurred. For this reason, Tianjin's government has been able to openly encourage the stations to do business.

Even more interestingly, the 'business diversification' strategy devised for enterprises seems to have been adopted surreptitiously by the REM bureaux. In its early stages, business diversification was used to employ 'surplus' labour and as we have seen above, many bureaux' new enterprises have similarly been established to absorb officials. In its later stages 'business diversification' was used to generate income for the enterprises that set them up, just as the bureaux' new entities have been. However, the extension of this strategy to the bureaux has not been officially promoted in government departments.<sup>112</sup> At most, official reports portray the bureaux as merely allowing their officials to leave and set up business. It is therefore not clear if the practice was officially adopted or has simply been allowed to happen with the tacit approval of leaders in the districts and the cities.<sup>113</sup> There is no doubt that there has been some complicity at the municipal level, since the Municipal REM Bureau's 'business diversification office' (*duozhong jingying bangongshi*) oversaw the department store set up by the Heping district bureau.<sup>114</sup> The rules may have been bent by having an 'enterprise' in the bureau (for example the administrative 'property

<sup>110</sup> See for example Wang Zuowen and Li Hong, 'Yige xinde feiyue: ji Minyuan fanguanzhan Xingye gongchengdui' (A new leap: an account of Minyuan REM station's Xingye team), *Tianjin fangdichan*, 1993.2, pp.34-5, on the 'business diversification' in one Tianjin station.

<sup>111</sup> For evidence that the central government sees officials doing business as problematic, see Chapter 2.

<sup>112</sup> In interviews in 1992-3, officials in the district bureaux and stations did not discuss or refer to 'business diversification'.

<sup>113</sup> The term 'business diversification' may never have been mentioned in connection with the entities established by the bureaux because the bureaux are not business (*jingying*) units in the first place.

<sup>114</sup> Interviewee 9. One official said that the store was most definitely subordinate to the district bureau, though the municipal government had tried to put it under the control of the Municipal Bureau so that its profits and taxes would all be given to the municipal government. The Municipal Bureau's Business Diversification Office may even have been created in an attempt to assert control over such new enterprises.

company') formally create the entity<sup>115</sup>, but officials from the Heping bureau clearly described the store as set up by the *bureau* to earn income and its manager was a leading official from the bureau. Nevertheless, the municipal government appears to have refrained from openly adopting business diversification as a strategy for state bureaux. The municipal government may have tacitly approved and even encouraged bureaux to establish economic entities because of the problems they solve. But it may have been prevented from actually making this a clear and open policy. This is because while they undoubtedly have many advantages and are an innovative solution to pressing problems, the new companies also contravene the official policy of separating government from enterprises.<sup>116</sup> It is for these reasons that the central government has been ambiguous in its policy on the new entities and officials doing business.<sup>117</sup>

### *Changing Attitudes Toward Doing Business*

State entrepreneurialism in REM departments has also been encouraged by changing attitudes in urban society toward doing business. After 1949, private business in all spheres of the economy was gradually reduced and taken over by the expanding state sector. Although there were periods when small scale private trade and business was allowed (principally in 1956-7 and 1962-4), the Cultural Revolution eradicated almost all vestiges as anything that smacked of capitalism was denounced and people learned to shun and condemn profit-seeking business. Under Deng Xiaoping's leadership this has been gradually changed. First of all in the countryside the 'household responsibility system' created the institutional framework for rural dwellers to work for personal (or family) benefit rather than for the collective more widely. Markets also spread visibly to the cities. First there were free

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<sup>115</sup> If the new enterprises are set up beneath the bureaux' property companies it might be argued that these are enterprises and so this is a legitimate extension of the business diversification policy. However as explained in Chapter 4, these companies often existed in the districts before the bureau proper was set up there, and in most places had eventually become a part of those bureaux. Thus they have traditionally been and to a large extent remain 'administrative companies', or non-profit making units that carry out administrative functions for the government bureau. Since 1987, there has been a move in Tianjin to reform administrative companies throughout the city's government. In the real estate management system, this has sometimes led to the separation of the companies from the bureau, but they usually retain their administrative tasks (collecting rents and organising repairs). They are now technically not government offices (*jiguan*) and their staff are not government officials (*jiguan ganbu*). However, since these companies were formerly (and still are to a large extent) part of the government's administration, I classify their entrepreneurialism as state entrepreneurialism.

<sup>116</sup> One Chinese analyst noted that this is particularly a problem in the REM system where most real estate development companies are still not really separated from their parent departments. Qi Zhaozhen, 'Shilun shehuizhuyi de fangdichan shichang jingji' (Discussion of the socialist real estate market economy), *Tianjin fangdichan*, 1993.5, pp.15-20. This journal is the official publication of the Tianjin REM system and produced for internal consumption by officials in the system.

<sup>117</sup> See Chapter 2.

markets where farmers sold their produce, and then urban residents began to set up stalls and sell consumer goods. The contract system encouraged individuals or collectives to lease small shops or parts of large department stores. By the late 1980s small private or 'individual' businesses and free markets were flourishing. Though some of this was stifled when austerity measures were introduced from late 1988, it resumed again with renewed vigour once the economic reforms were given a boost in early 1992.

Indeed in 1992-3 such was the popularity of leaving the traditional state work-unit to set up business that this began to be popularly recognised as a 'craze' or 'fever' that had swept through urban society.<sup>118</sup> People in all professions and spheres of work were leaving their jobs to do business. Workers left their state enterprise to set up restaurants or run market stalls<sup>119</sup>, university chemistry departments set up companies to work with industry, and academics set up market research and consultancy companies. In this atmosphere it is hardly surprising that officials would become entrepreneurial. The Cultural Revolution stigmatisation of doing business and persecution of 'capitalist roaders', had been quickly abandoned, and now 'taking the plunge' and going into business was widely admired as adventurous and resourceful.<sup>120</sup> Certainly, doing business was no longer taboo.<sup>121</sup> Officials who had been successful in their business dealings and successes spoke proudly of their achievements and even tended to exaggerate their business activities, while those not so well placed to set up high-earning companies expressed frustration.<sup>122</sup> Even in departments in the less economically vibrant parts of the city, entrepreneurialism was prestigious. Attitudes had changed rapidly since the days when officials were valued for their asceticism, and capitalism was taboo. In the context of the 'craze' for doing real estate development work (*fangdichan re*) that spread through China's largest cities in mid-to late 1992<sup>123</sup>, it is not

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<sup>118</sup> Commonly called the 'craze for plunging into the sea' of business (*xiahai re*) or the 'craze for setting up companies' (*gongsi re*).

<sup>119</sup> Some were reported to be doing this out of necessity. The SOEs in which they worked could no longer pay full wages, or those wages were not enough as inflation rose, and so workers supplemented their basic wage with other work of this kind.

<sup>120</sup> The 'bold entrepreneur' image meant that business was soon seen as a male domain. In some state agencies the proportion of women in some sections had risen as many of the men had left to work in the new business entities. More widely there was talk of 'one family, two systems' (a pun on the one country, two systems slogan used in the PRC to promote reunification with both Hong Kong and Taiwan), in which the wife would remain in her state-provided job (and retain the accompanying benefits such as child care) while the husband would leave his work unit to set up business.

<sup>121</sup> It was confirmed to me by one local social scientist that the term '*xia hai*' had positive connotations and people who did this were generally admired. Interviewee 5.

<sup>122</sup> For example one suburban REM bureau official. Interviewee 28.

<sup>123</sup> Again, widely discussed, and commonly reported in the press.

surprising that REM bureaux, well-placed to win property development projects<sup>124</sup>, have often focused their entrepreneurial energies on this line of work.

*The Calculus of REM Department Officials*

How have these factors worked together to induce officials in the REM bureaux and stations to set up new enterprises? To consider this we need to differentiate between leading officials who make key decisions in the bureaux, including decisions to set up new enterprises, and the lower level officials who are leaving their departments to work in those enterprises.

First of all, why have REM bureau and station chiefs taken up the opportunities created by liberalisation of real estate markets and their access to real estate development projects? The key reasons are financial: the burden on departments in the REM system has grown in the reform period. But why should leading officials want to solve the financial problems of their departments? There are several reasons, but perhaps the most plausible is that they themselves will gain materially from the new businesses. As mentioned above, some officials said that the income from their new enterprises would contribute to raising the bonuses of bureau officials.<sup>125</sup> If they themselves are managers of the new enterprises, those leading officials may receive certain perquisites, such as access to mobile phones and invitations to banquets by clients and business partners.<sup>126</sup> Officials might also benefit in many other small ways from their new sources of income. For example, Tanggu District REM bureau had been transformed by the entrepreneurial activities of its officials. The bureau was housed in new, modern offices that were well-furnished, quite unlike most district offices in bureau.

Secondly, leading officials may also be motivated by their own personal ambitions to make their departments entrepreneurial. There are indications that entrepreneurialism is looked on favourably by local leaders and that it can therefore raise the status and influence of officials and win them early promotion. For example, in one particularly entrepreneurial district bureau the leading official was forty years old. This is young for a bureau chief, and he had been promoted quickly. This official claimed that he had extremely good relations (and by extension, influence) with his district leaders and also with superiors in the city, and he explicitly stated that those good

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<sup>124</sup> Even if only small ones. See above.

<sup>125</sup> Increases in earnings would be made by raising bonuses because the basic salary is fixed nationally for state employees and cannot be changed by individual bureaux.

<sup>126</sup> Such perks also come with simply being a state official. It is something that central leaders have tried to discourage in recent years in order to cut state expenditures. Business may therefore provide an alternative or extra source of such benefits.

connections were due to the fact that some of the income earned through his bureau's entrepreneurial activities were being given to the district and city governments.<sup>127</sup>

Businesses may also win approval with the local government for leading bureau officials if (as was often claimed) profits were invested in improving local housing conditions. Particularly in this sphere, where work has a direct bearing on the welfare of the urban population and is politically important<sup>128</sup>, reinvesting earnings from entrepreneurial activities into work that benefits urban residents is also likely to win higher level approval. In addition, in the context of the central policy of cutting the state bureaucracy and streamlining departments, leading bureau officials may win the approval of their local leaders by using the enterprises to absorb staff from the bureaux.<sup>129</sup>

Besides these personal incentives, department chiefs might also have professional reasons for becoming entrepreneurial. They may for example want to generate revenues for the department not only to provide for their staff but because they see their job as a providing a public service that benefits society and want the income to carry out their work and improve the housing conditions of the local population. It was claimed in several departments that money earned was to be used directly for housing construction and repairs. Some officials emphasised the social contribution of their work, combining this with the argument that their entrepreneurialism was justified because the profits it earned could be channelled back into providing good housing for the public. They apparently saw their enterprises as part of the new market-oriented system of housing provision that they maintained could benefit urban residents and raise living standards.<sup>130</sup>

Finally, leading and lower level officials may be motivated by the challenge and excitement of doing business. This is connected with connected with the changing attitudes and popularity of entrepreneurialism in society more widely. Business was considered something of an adventure, even the phrase '*xia hai*' (to plunge into the sea) having a ring of daring about it. Some officials were clearly enjoying their new business role. Many bureaux were buzzing with business activity,

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<sup>127</sup> He stated (and a local social scientist confirmed) that his bureau had contributed eight million *yuan* to the municipality that year. It was not clear whether this had taken the form of a donation of some kind or was paid as tax contributions. Interviewees 11 and 5.

<sup>128</sup> As discussed in Chapter 3, providing for urban dwellers is seen as important for preventing urban unrest that might threaten CCP rule. This is even more important in the reform era when the CCP has increasingly based its claims to rule on economic performance rather than the longer term attainment of ideologically-determined goals.

<sup>129</sup> And while officials often do, of course, have good connections with leaders in the district or city for other than reasons of ability, even for officials with good personal connections, being seen to be doing one's job well is still important.

<sup>130</sup> Interviewee 11.

and in 1993 real estate development and trade had become the focus of attention in many REM bureaux.

Lower level officials are affected and motivated differently to become involved in their departments entrepreneurial activities. It is these officials, often the ordinary section staff, who go to work in the new enterprises. I spoke to fewer officials at this level, but it seems that they move to the enterprises voluntarily, and do so both because they expect to earn better salaries and because they think that business will be more interesting or stimulating than bureau work.

All of the above points are relevant to officials in both REM bureaux and stations. But in the stations there is an added factor that may have encouraged both leading officials to set up new enterprises, and their subordinates to work in them: the threat that the stations might become obsolete in the future making their officials and workers redundant. In this case, the market-oriented reforms were providing not merely the opportunity to do business, but making it necessary. The new enterprises were a safeguard for these officials (and the workers in the stations) against that possibility. Leading officials were protecting themselves and their subordinates by creating alternative employment, and the lower level officials were willing to staff these enterprises for the same reasons.

### **Conclusion**

Tianjin's REM bureaux, their individual administrative sections and their subordinate agencies, the REM stations were setting up new enterprises in 1992-3. Some were involved in trading goods and others were engaged in real estate development. In doing this, these departments are becoming entrepreneurial. They are individually creating and often running profit-seeking businesses that involve an element of financial risk as a way of earning income for their own use. These departments have taken up entrepreneurial activities as a result of a combination of factors, some of which are specific to the REM system and its changing sphere of work, and some of which are related to wider institutional and structural change. In this chapter I have discussed those factors which were identifiable in interviews as closely related to changes in the immediate context of REM work. Most important among these are the market-oriented real estate reforms have produced opportunities for REM bureaux to do business by making real estate development work profitable. However continued state ownership of all urban land together with limits on real estate reform have also presented opportunities by providing privileged access to development projects. Entrepreneurialism in this system is also partly due to the legacy of the low cost housing provision

system set up in the 1950s. The financial burden on departments has increased as the pre-reform system of low rent buildings provision (and problems raising rents) has been unable to meet the rising demands of urban residents for better housing. This, together with pressures to cut the size of departments and changing attitudes to doing business have made entrepreneurialism acceptable and even glamorous have induced leading officials to take up the opportunities to go into business on their departments' behalf. In the REM stations, there have been added pressures. For these departments, the anticipated spread of the housing market has added urgency to the creation of new enterprises because it threatens their work and existence. Their enterprises form part of a strategy to dismantle or entrepreneurialise in that eventuality. In Chapter 8 I will discuss the wider systemic context within which these sector-specific factors are best understood.

## Chapter 6

### The State Administration of Commerce and its Reform

#### **Introduction**

This and the following chapter examine the impact of market-oriented reform on the state agencies that administered commerce in the planning system. They show how those agencies have adapted to the introduction of commodity markets by becoming entrepreneurial. Under the central planning system administrative agencies in China distributed almost all agricultural and industrial goods in accordance with national and local economic plans. A comprehensive system of commerce administrative departments (*shangye bumen*) and state and collective enterprises purchased goods from producers and distributed them nation-wide at prices fixed by the state. This state commerce system was the keystone of the whole economy and the bridge between producers and consumers. When it was established in the 1950s, it accorded with both the ideological commitment of the CCP leadership to state ownership and the eradication of capitalism, and the practical need to gain control of a war-ravaged economy. However, since the late 1970s the state commerce system has been criticised by economic reformers as an important cause of sluggish economic growth and its reform has become an integral part of the post-Mao economic development project. Reformers have argued that production can be increased and made more efficient if producers are brought closer to their consumers and have to respond to the market demand. Implementing this has therefore meant abolishing state administrative allocation, relaxing trading controls and allowing prices to be influenced by supply and demand.

The post-Mao economic reforms have in this way liberalised China's domestic trade system. Previous restrictions on the kinds of goods in which companies could trade have been eased, and commodity markets have been gradually introduced to replace the planned administrative distribution of producer goods handled by urban commerce departments. Commodity markets in these (and other goods) have emerged ahead of both labour and capital markets and it is therefore in the commercial sector that the transition from state planned to market economy has been most thoroughgoing. It is here, therefore, that state agencies have been first and most pressingly required to accommodate change. State entrepreneurialism in this sector, though taken up by commerce departments as by real estate management departments, in the context of market opportunities and financial constraints, is also partly induced by a more urgent need for state adaptation as the market encroaches on its administrative tasks.

This chapter provides the background needed to understand these reform processes in the state commerce system. It begins by describing the organisational structures of the state commercial administration and the way it operated in the planning system. It then outlines the structures as they

evolved up to the 1980s reforms and discusses early attempts to address their inadequacies. The final part of the chapter outlines post-Mao commercial system reform policies. Chapter 7 will then describe the state entrepreneurialism that has emerged in the commercial sector of the administration and explain how this demonstrates the adaptation of state agencies to marketisation and economic liberalisation.

## **State Planning and the Administration of Commerce, 1949-1980s**

### *Defining the Commerce System*

Private commerce was gradually scaled down in the first decade of the PRC and a state-dominated distribution system was set up as part of the new command economy. That commerce system consisted of a complex hierarchy of administrative departments and business enterprises running from ministries at the centre through an enormous network of state bureaux and enterprises that purchased from producers, distributed wholesale and then retailed to consumers through state shops.<sup>1</sup> For most of the 1949-79 period, this system contained separate hierarchies and management structures for the urban and rural sectors. A 'state-run' (*guoying*) system distributed consumer goods in the cities through a system of commerce bureaux (*shangye ju* or *ting*). In the countryside a 'collective'-based system of supply and marketing co-operatives (SMCs, *gongxiao hezuoshe*) bought produce from farmers and supplied them with consumer goods and farm inputs such as fertilisers, pesticides and machinery.<sup>2</sup> This case study focuses on the urban commerce bureaux at the municipal and district level that distributed manufactured goods and non-staple foods to urban dwellers and were in charge of catering and service industries. SMCs feature in this study because at certain times they have been merged with the state-run, city-oriented commercial system<sup>3</sup>, and also

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<sup>1</sup> Some administrative structures and functions created in the 1950s do still exist in the 1990s, but there have been many changes and this cannot be assumed. I will therefore discuss the system here in the past tense. The final section of this chapter will elaborate on attempts since 1979 to change that system.

<sup>2</sup> The All-China Federation of Supply and Marketing Co-operatives was established in 1954 and charged with the supervision of collective commerce. See Audrey Donnithorne, *China's Economic System* (London: Allen and Unwin, 1967), p.274. See also pp.277-9 for a good description of the SMC system in the 1950s. See Vivienne Shue, *Peasant China in Transition: the Dynamics of Development Toward Socialism, 1949-56* (Berkeley: University of California Press, 1980), pp.202-14 for a discussion of the SMC structures and functions. For a description of the rural purchasing system see Dorothy J. Solinger, *Chinese Business Under Socialism: The Politics of Domestic Commerce, 1949-1980* (Berkeley: University of California Press, 1984), pp.45-6.

<sup>3</sup> The division of labour between these two hierarchies has been adjusted several times, particularly in the 1950s. SMCs were first established in the cities as well as the countryside, but their urban structures were then handed over to state-run commerce departments. In the period of the first five year plan (1953-57) the division of labour was changed three times, sometimes to make the division accord with control of urban and rural markets, sometimes to make it accord with different kinds of products. But essentially the distinction has been urban-rural, with SMCs secondary to the state-run commerce system and handling non-staple agricultural

because they have handled commerce in suburban districts. In the early 1990s Tianjin's four suburban district governments began to resemble those of urban districts<sup>4</sup>, and their commerce departments combined the functions of both commerce bureaux and SMCs, and used both names.<sup>5</sup>

In the command economy, urban commerce departments and rural SMCs handled the trade of a wide range of goods but by no means all. These agencies must be distinguished from several other administrative systems that also had (and still have) some trading and distribution functions. For example there has been a separate system of grain bureaux to distribute staple grains (*liangshi xitong*), and a 'materials' system (*wuzi xitong*) to distribute key materials to industrial enterprises for use in the production process. These 'materials' are distinguished from goods for public consumption and handled separately.<sup>6</sup> Neither the grain nor the materials departments within the state administration are dealt with below.

Other administrative systems also sometimes handled a limited amount of trade relating to their own work or produce that remained outside the scope of the commerce bureaux and SMCs. For example New China Bookstores were part of the system of cultural departments (*wenhua bumen*). Other administrative systems had their own small shops selling certain basic commodities, primarily for their employees (for example within the railway system and in schools and universities). Some industrial departments also handled the distribution of some of their own products, usually for promotional purposes.<sup>7</sup> In addition, factories often had small retail outlets (*menshibu*) selling seconds or plan-surplus goods.<sup>8</sup> Again, these departments are not dealt with in this dissertation. In the following account, only departments subordinate to the Ministry of Commerce and central level All-China Federation of Supply and Marketing Co-operatives, or their earlier equivalents, are discussed.

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products and the supply to farmers of certain industrial products. The SMC and urban commerce systems were also merged in the 1982 reforms in this sector.

<sup>4</sup> See Chapter 3.

<sup>5</sup> Interviewees 34 and 35. See also discussion of SMC reform since 1979 below.

<sup>6</sup> For a discussion of this sector and its reform in the 1980s see Christine Wong, 'Material Allocation and Decentralization: Impact of the Local Sector on Industrial Reform', in Elizabeth J. Perry and Christine Wong (eds), *The Political Economy of Reform in Post-Mao China* (Cambridge, Mass.: Harvard University Press, 1985), pp.253-278.

<sup>7</sup> Guo, Jinwu (ed), *Dangdai Zhongguo shangye (shang)* (Commerce in Contemporary China, Vol.1 of two) (Beijing: Zhongguo shehui kexue chubanshe, 1988), pp.16-17.

<sup>8</sup> Solinger, *Chinese Business Under Socialism*, p.42.

*Creation of the Commerce System in the 1950s*<sup>9</sup>

A Ministry of Trade (*maoyi bu*) was formed in November 1949 to handle all forms of trade and commerce, domestic and foreign.<sup>10</sup> In March 1950, the Government Administration Council (*zhengwuyuan*), the central government executive organ in the early PRC<sup>11</sup>, issued two 'Decisions' that were to form the basis of the highly centralised commerce system that has persisted right into the 1990s.<sup>12</sup> According to these two Decisions, the Ministry of Trade was to take control of the distribution of all goods by state-run commerce agencies in all localities, and to have control of all revenues and expenditures in this sphere of business.

In September 1952 the Ministry of Trade was abolished and its work divided among the new Ministries for Commerce, Grain, and Foreign Trade.<sup>13</sup> The Ministry of Commerce has usually had, since then, several bureaux and departments (*ting, ju*) within or below it at the central level responsible for different tasks or types of goods.<sup>14</sup> In 1952, the new Ministry of Commerce had 16

<sup>9</sup> Dorothy Solinger has produced the best depiction of the pre-1980 commerce system. Solinger, *Chinese Business Under Socialism*, pp.33-47. I cannot better hers, but the structures of the system need to be introduced and explained here. The following description benefits from her work and adds information gleaned from interviews and recent documentary sources.

<sup>10</sup> *Zhongguo zhengfu guanli baikeshu bianji bu, Zhongguo zhengfu guanli baikeshu* (Encyclopaedia of Chinese government management) (Beijing: Jingji ribao chubanshe, 1992), p.621.

<sup>11</sup> It was succeeded by the State Council (*guowuyuan*) in 1954.

<sup>12</sup> The two documents were 'Guanyu tongyi guojia caizheng jingji gongzuo de jue ding' (Decision concerning the unification of state financial and economic work), passed on 3 March 1950, and 'Guanyu tongyi quanguo guoying maoyi shishi banfa de jue ding' (Decision concerning the implementing measures for the unification of national state-run trade), passed on the 10 March 1950. The second Decision set out the relationships between all the different departments and enterprises in state-run commerce, stipulating duties and powers of each and the basic principles of state-run trade capital management and materials distribution. This document was then 'clarified' on 9 March 1951, when the Ministry of Trade issued a document called 'Guanyu zhengwuyuan tongyi quanguo guoying maoyi shishi banfa zhong shuangchong lingdao wenti de buchong shuoming' (Supplementary explanations concerning the problem of dual leadership in the implementing measures of the Government Administration Council to unify state-run trade). See *Dangdai Zhongguo shangye bianji bu, Shangye dashiji (Vol.1, 1949-57)*, p.18. See also Guo, *Dangdai Zhongguo shangye*, p.25.

<sup>13</sup> Trade structures were adjusted accordingly at all levels. This was ordered by a decision of the central People's Government Committee, 'Guanyu tiaozheng zhongyang renmin zhengfu jigou de jueyi' (Decision concerning the readjustment of central People's Government structures), 7 August 1952, cited in Guo, *Dangdai Zhongguo shangye*, pp.33-4. In 1956 the Ministry of Commerce shared out some of its tasks with the newly-established (and short-lived) Ministry of Urban Services (*chengshi fuwu bu*). Both these Ministries were merged with the All-China Federation of SMCs to form a single Ministry of Commerce in 1958. *Ibid.*, pp.34-5. See also Donnithorne, *China's Economic System*, pp.274-276 for a description of the central commercial administration in the 1950s.

<sup>14</sup> The Ministry of Trade in 1949 had beneath it the following departments: a General Office (*bangongting*), a Domestic Trade Bureau (*guonei maoyi si*), a Foreign Trade Bureau (*duiwai maoyi si*), a Personnel Bureau, an Economic Planning Bureau (*jingji jihua si*), a Transportation Section (*yunshu chu*), a Finance Section (*caiwu si*), an Accounts Section (*kuaiji chu*). (These last two were combined into a Finance and Accounts section in August 1951). There was also a Secretariat, a General Affairs Section (*zongwu chu*), a Trademarks Bureau (*shangbiao ju*, transferred to the central Private Enterprises Bureau, *zhongyang siying qiye ju*, in August 1950). Beneath the Domestic Trade Bureau were many sections, including sections for: industrial commodities,

bureaux and sections, including sections for transportation, prices, local trade, retail trade, finance and auditing, economic planning, trade in industrial commodities, and industrial machines and materials. These sections were staffed by a total of 700 people.<sup>15</sup> The Ministry was responsible for line and policy formulation for commerce nation-wide. It also drafted and oversaw implementation of general purchasing and marketing plans for state-run commerce, managed state commercial capital and stocks, fixed the prices of wholesale goods for certain commodities<sup>16</sup>, and oversaw lower level commerce departments. It was also responsible for 'guiding' private trade and could issue national regulations relating to the commercial system's accounting practices.<sup>17</sup>

Below the central Ministry was a hierarchy of subordinate bureaux extending into the cities.<sup>18</sup> These departments were to 'lead commercial work at each level of government'. This meant they were in charge of all commercial activity within their jurisdiction (including remaining private business in the pre-1958 period). They were answerable to both the trade or commerce bureau above, and the people's government of the same level.<sup>19</sup> The commerce bureau above supervised and directed 'professional work', approving plans and materials allocations and handling the departments' revenues and expenditures. Local governments at the same level were in charge of personnel and welfare matters, and the pricing of certain goods.<sup>20</sup> Provincial level trade bureau work included gathering information and statistics and drawing up plans to submit to the Ministry for approval, overseeing the work of subordinate departments and enterprises in the co-ordinated implementation of these plans, and making rules for the implementation of policy in their locality. All bureaux were also in charge of private trade within their locality.<sup>21</sup>

In 1950, 'general specialising companies' (*zhuan ye zonggongsi*) were created at the central level under the Ministry of Trade. Specialising companies were then similarly set up under the trade bureaux in the general administrative regions, provinces, cities and counties.<sup>22</sup> Each specialising

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planning, market management, commercial organisation, grain, the management of private commerce, prices. Dangdai Zhongguo shangye bianji bu, *Shangye dashiji* (Vol.1, 1949-57), p.5.

<sup>15</sup> *Ibid.*, pp.139-140.

<sup>16</sup> The pricing system will be discussed below.

<sup>17</sup> See Donnithorne, *China's Economic System*, p.275.

<sup>18</sup> *Zhongguo zhengfu guanli baikeshu*, p.621. This hierarchy was created beneath the Ministry of Trade in 1949 and then adapted to conform with the central level reorganisations that followed. Initially there were departments in each of the six General Administrative Regions (*da xingzheng qu*), and below them, bureaux in the provinces, cities and counties. The Regions were abolished in 1954.

<sup>19</sup> Guo, *Dangdai Zhongguo shangye*, p.21, and Shangye bu shangye jingji yanjiusuo (Commercial economic Research Institute of the Ministry of Commerce) (ed), *Xin Zhongguo shangye shigao (1949-82)* (A history of commerce in new China (1949-82)), (Beijing: Zhongguo caizheng jingji chubanshe, 1984), p.5.

<sup>20</sup> See Barry M. Richman, *Industrial Society in Communist China* (New York: Vintage Books, 1969), p.879.

<sup>21</sup> Donnithorne, *China's Economic System*, p.276.

<sup>22</sup> Also provided for in the two 1950 Decisions.

company took care of a particular type of commodity or sector, such as cotton yarn and cloth, general merchandise (*baihuo*), salt, coal industry, or petroleum.<sup>23</sup> These companies within the state commerce system supplied manufactured goods and some foodstuffs in the cities. In the countryside they worked through the SMCs to procure agricultural produce.<sup>24</sup> Initially the companies actually handled wholesale trade themselves, buying from private industrial firms and gradually replacing private wholesaling companies.<sup>25</sup> When state wholesale enterprises were established in the commerce system from 1953, the companies handed over their business (*jingying*) tasks to them.<sup>26</sup> The work of the companies from that point on was administrative; they oversaw the wholesale enterprises, organised their distribution of goods and controlled their finances. They also supervised work in the retail shops within their administrative area, setting their profit and sales targets as well as handling personnel matters. For these 'services' they charged management fees from both the wholesale and retail enterprises below them.<sup>27</sup> By 1956, after the 'socialist transformation' movement, there was little private commerce or industrial production, and the companies arranged the purchase of all produce from factories, distributing those goods through the state wholesale enterprises.

Although called 'companies', these entities had administrative, and were organised and integrated into the state commerce hierarchy. They, like the commerce bureaux, were subject to 'dual leadership'. In 'professional' matters they were subordinate to the company at the next highest level in the system. A municipal company would receive orders relating to planning, supply, allocation, and financial controls from the provincial companies. But in matters such as personnel management and welfare provision it would be subordinate to the municipal government.<sup>28</sup>

The system was highly centralised. The central (or regional level in the early 1950s) companies were to assume the 'direct leadership' (*zhijie lingdao*) of state-run wholesale trade in large cities. While companies at all levels were independent accounting units, the central level

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<sup>23</sup> Six were initially set up. See Donnithorne, *China's Economic System*, p.275. Not all of these would come under the Ministry of Commerce when it was created in 1952. Some were put under ministries in charge of, for example, the coal and petroleum industries. Several companies had been set up prior to their official approval in the 10 March 1950 Decision. See Dangdai Zhongguo shangye bianji bu, *Shangye dashiji (Vol.1, 1949-57)*, p.18. There were 17 central level companies by the end of 1950, see Guo, *Dangdai Zhongguo shangye*, p.25. See the Shangye bu shangye jingji yanjiusuo, *Shangye shigao*, pp.26-7, for the companies under the Ministry of Commerce between 1952 and 1956.

<sup>24</sup> Solinger, *Chinese Business Under Socialism*, p.36.

<sup>25</sup> Ibid.

<sup>26</sup> See Guo, *Dangdai Zhongguo shangye*, p.38.

<sup>27</sup> Interviewee 6.

<sup>28</sup> Richman, *Industrial Society in Communist China*, p.879; Shangye bu shangye jingji yanjiusuo, *Shangye shigao*, pp.5-6.

companies co-ordinated a unified accounting system for those below them.<sup>29</sup> The companies were responsible for drawing up and supervising the implementation of distribution plans for their particular specialisation, but the Ministry approved all transfers and distribution of goods between provinces, regions and specialising companies as laid out in plans submitted to it by the national level companies. The provincial level bureaux of commerce 'supervised and co-ordinated' the work of the companies, and fixed the prices at which goods were traded by the companies beneath them.

Wholesale enterprises (*pifa zhan*) below the specialising companies handled the real business of wholesale trading after 1953.<sup>30</sup> They were state-owned enterprises under the direction of the companies, and ultimately under the Ministry of Commerce, and as such, they were also enmeshed in the administrative system. Like specialising companies, wholesale enterprises were responsible for the distribution of a single product or group of products, such as cotton or general merchandise. There were wholesale enterprises operating at three levels of the state commerce hierarchy. At the highest level, under the general specialising companies, were the 'first level' enterprises (*yi ji zhan*), that were physically located in Tianjin, Shanghai, and Guangzhou, the country's largest ports and trading centres.<sup>31</sup> These were responsible for purchasing industrial products within their region, usually from the largest producers.<sup>32</sup> For example, the Tianjin-based 'first level enterprises' would purchase goods produced in the three northern regions (North, Northeast and Northwest). They would then sell these goods to 'second level' wholesale enterprises (*er ji zhan*) nationally.<sup>33</sup>

The second level wholesale enterprises were established beneath the provincial level specialising companies and located in the prefectures.<sup>34</sup> There could be from several tens to a hundred such enterprises in a province in 1953, and they were usually situated in places where there were concentrations of producers or at key transport junctions. Like the specialising companies and first level wholesale enterprises, these too were divided according to the goods they dealt with. Wholesale enterprises at this level bought most of their goods from the first level enterprises, though

<sup>29</sup> Donnithorne, *China's Economic System*, p.276. This economic accounting system was set up in many spheres of the economy from 1953.

<sup>30</sup> These stations are formally called 'purchasing and supply depots' (*caigou gongying zhan*). Guo says they were promoted from 1953. Ibid. Donnithorne says that state wholesale depots (enterprises) only appeared in 1956-7. *China's Economic System*. p.292.

<sup>31</sup> Interviewee 6.

<sup>32</sup> There were 36 such enterprises by 1957, Shangye bu shangye jingji yanjiusuo, *Shangye shigao*, p.104.

<sup>33</sup> Wang Qi (ed), *Jianming shangye jingji cidian* (A dictionary of simple explanations of commercial economy (Changchun: Jilin renmin chubanshe, 1986), pp.1-2. For a discussion of the different kinds of methods of purchasing industrial and agricultural products see Guo, *Dangdai Zhongguo shangye*, pp.39-55.

<sup>34</sup> Solinger, *Chinese Business Under Socialism*, p.38, Donnithorne, *China's Economic System*, p.277.

they would also sometimes buy from smaller local factories, usually those that did not sell to the first level enterprises.

Second level wholesale enterprises sold these goods to 'third level' enterprises (*san ji zhan*) established beneath specialising companies at the county level or in cities. In Tianjin they were controlled by the municipal commerce bureaux (of which there were two) until 1986, when they were decentralised to the districts.<sup>35</sup> It was the job of these enterprises to supply goods to the retail outlets and rural basic level SMCs in their area. Third level enterprises also bought goods from small factories within their area (via their specialising company) and supplied them to retailers. They were responsible for unified planning and organisation of supply work in their county or city, and were also permitted to obtain goods from other third level enterprises in nearby regions, regardless of administrative divisions.<sup>36</sup>

The expenditures of wholesale enterprises, the amounts of goods they purchased, and prices at which goods were bought and sold, were all decided according to plans drawn up at higher levels and approved at the centre, and earnings were submitted daily, via the companies, to the state's coffers. In 1953, companies and wholesale and retail enterprises at every level were under the 'dual leadership' of the next highest level company and the local commerce department, with the company having the last say in professional business matters. Each level of company and subordinate wholesale enterprises had its own budgeting arrangements, all of which were overseen by the general company at the centre. From 1950 to 1953, commerce system finance was handled internally with all transfers conducted within the system. In 1953 new accounting arrangements were introduced according to which all finances were handled through the central bank. The new system stipulated that there were to be 'trade' (*maimai*) relations between all enterprises (wholesale and retail), which were to sign supply and marketing contracts (up and down the hierarchy) for all transactions at commodity provision meetings held at fixed times each year. However, even though the specialising companies and wholesale enterprises were independent accounting units, all profits earned in the system were still submitted upwards to the central level.<sup>37</sup> Once ratified, wholesale (and retail) enterprises could open a bank account, depositing and withdrawing funds in accordance with agreed plans.<sup>38</sup> Income was submitted to the Ministry via the People's Bank which was

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<sup>35</sup> Interviewee 6.

<sup>36</sup> Wang, *Jianming shangye jingji cidian*, pp.4-5.

<sup>37</sup> See Guo, *Dangdai Zhongguo shangye*, p.39.

<sup>38</sup> This was part of a larger economic programme to set up an 'economic accounting system' (*jingji hesuan zhi*). Proposed in 1951, it was delayed and then implemented nation-wide between 1953 and 1957. See Guo, *Dangdai Zhongguo shangye*, p.33-38, and Shangye bu jingji yanjiusuo, *Shangye shigao*, pp.103-4.

empowered to supervise the companies in this. All specialising companies paid their income into their local branch of the People's Bank each day. The Bank also controlled the supply of finance to the companies for the Ministry. The companies' revenue and expenditure plans had to be approved by the Ministry, which would then authorise the release of funds by the trade treasury through the Bank.<sup>39</sup>

Retail enterprises formed the 'basic level' of the state commerce system in the cities.<sup>40</sup> Retail trade was led by the respective city governments' trade departments and the specialising companies.<sup>41</sup> When these departments established their retail shops in 1949-50, they were limited in the products they could sell, so as not to stunt the growth of co-operative and private retail trade that was deemed important in reviving the post-war economy.<sup>42</sup> But private retail trade was phased out after 1953, and state-run retail trade constituted an ever-growing proportion of the total.<sup>43</sup> With the exception of the 'general merchandise stores', most retail outlets, like their superior companies, specialised in a limited range of goods.<sup>44</sup> The companies saw to it that their retail stores were supplied by their wholesale enterprises, and collected their profits.<sup>45</sup> When district commerce bureaux were established in the late 1950s, they also set up smaller retail outlets, usually providing basic daily necessities.

The lower level wholesale enterprises and retail outlets were run by low-ranking officials, and although called 'enterprises', they had little or no autonomy in determining the scope and size of their business. They received goods as decided by higher levels in accordance with state plans,

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<sup>39</sup> 'Zhongyang jinku tiaoli' (Central treasury rules), issued by the Government Affairs Council, 3 March 1950, and the 'Zhongyang maoyi bu weituo renmin yinhang zonghang daili maoyi jinku hetong' (The central Ministry of Trade entrusts the central branch of the People's Bank to sign contracts for the trade treasury), cited in Guo, *Dangdai Zhongguo shangye*, p.25.

<sup>40</sup> There are other enterprises within the commerce system, most notably some industrial producers, but these are marginal to its functioning. Under the SMCs in the countryside there are co-operatives and retail outlets (SMC *menshibu*) at the basic level.

<sup>41</sup> Solinger, *Chinese Business Under Socialism*, p.38.

<sup>42</sup> From 1950, state-run retail shops could only deal in cotton yarn and cloth, flour, and important everyday industrial products, though this was to change as private retail trade decreased, see Guo, *Dangdai Zhongguo shangye*, p.28.

<sup>43</sup> The squeezing out of private retail business began with a directive from the Party Central Committee in July 1954, 'Guanyu jiaqiang shichang guanli he gaizao siying shangye de zhishi' (Directive concerning strengthening market management and transforming private commerce), cited in Shangye bu shangye jingji yanjiusuo, *Shangye shigao*, pp.107-8.

<sup>44</sup> For an early discussion of the organisation of the department stores see Richman, *Industrial Society in Communist China*, especially pp.884-9. For a later account see Kenneth Lieberthal, 'Beijing's Consumer Market', *China Business Review*, September-October 1981, pp.36-41.

<sup>45</sup> Solinger, *Chinese Business Under Socialism*, p.41. Solinger also describes smaller co-operative retail stores that were initially independent budgetary units but became *de facto* state enterprises and part of the commerce system sometime after 1956. *Ibid.*, p.42.

buying and selling them at prices that were administratively determined. Their staffing levels were also fixed, and their profits were submitted to the company (in the case of wholesale stations) and to the bureau (in the case of some retail shops).<sup>46</sup> A business tax (*yingye shui*) was paid to the tax bureau.<sup>47</sup>

The SMC system was headed by the All-China Federation of SMCs at the central ministry level under the State Council. Below this there were SMCs at all levels of the government administration down to the 'basic level' in the countryside<sup>48</sup>, with many of the lower level SMCs set up between 1950 and 1954. This system was based on rural collectives of agricultural producers, which were intended in the early 1950s to both help state trading companies and serve their localities. For example, they supplied the companies with agricultural produce needed in the cities, and set up retail outlets to supply local inhabitants with the industrial goods they needed. However, the SMCs were initially intended to be 'semi-socialist' in nature and depend on peasant members for funding and business initiative. They were not intended to be profit-making, but were to facilitate the supply of goods.<sup>49</sup> The SMCs operated as enterprises (*qiye*) with capital derived from the membership payments of the farmers who formed them, rather than from the state. Unlike state enterprises, SMC profits were not handed over to the state. However, regulations on the financial relationship between SMCs and government changed over the years, and the rural SMC system gradually assumed a role similar to that of the urban state-run system in terms of hierarchical organisation and operational mechanisms, and took on many state administrative tasks.<sup>50</sup>

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<sup>46</sup> Solinger states that the companies were also in charge of retail trade. But in Tianjin the bureaux at the district level appeared to be in charge. The discrepancy may be due to changes over time or differences between localities.

<sup>47</sup> For more detail on the retail system see Donnithorne, *China's Economic System*, pp.309-10.

<sup>48</sup> A North China Supply and Marketing Co-operative Commission had been established early during the CCP take-over. This was abolished on 31 October 1949, and a Central Co-operative Business Management Bureau (*zhongyang hezuo shiye guanli ju*) was set up in its stead on 1 November. Within the new Bureau, there were among others, sections for: the guidance of supply and marketing co-operatives (*gongxiao hezuo zhidao chu*), the guidance of producer co-operatives (*shengchan hezuo zhidao chu*), finance, inspection, planning (*jihua*), and cadres (*ganbu*). Dangdai Zhongguo shangye bianji bu, *Zhonghua renmin gongheguo shangye dashiji* (Chronology of key events in Commerce in the People's Republic of China) (Vol.1, 1949-57) (Beijing: Zhongguo shangye chubanshe, 1989), pp.5-6. A Provisional Board of the All China Federation of Co-operatives preceded the creation of the All China Federation proper, which was set up in 1954. During the Great Leap Forward local units of SMCs were merged into local communes and during the Cultural Revolution the Federation was disbanded and did not reappear until 1976. Solinger, *Chinese Business Under Socialism*, p.34.

<sup>49</sup> For an excellent description of the SMCs and their organisation and functions, see Shue, *Peasant China in Transition*, pp.203-14.

<sup>50</sup> They began remitting most of their profits to the state after 1958. Donnithorne, *China's Economic System*, pp.277-9, 315.

Consequently, SMCs developed an increasingly bureaucratic structure and came to function as the rural equivalent of the urban commerce bureaux at the same level.

The above account outlines the key structures and allocation of functions in this large and intricate system.<sup>51</sup> But there was a great deal of variation from place to place. In Tianjin the arrangements were especially complex, and deserve a little more elaboration. There, key agencies in the 1949-1979 period were the municipal commerce bureaux, of which there were two for most of that period.<sup>52</sup> The 'first' commerce bureau (*diyi shangye ju*) handled manufactured consumer goods, the 'second' (*di'er shangye ju*) was responsible for foodstuffs (except grain and edible oils, which had their own separate system).<sup>53</sup> Tianjin also had a municipal SMC because there were rural counties within the jurisdiction of the municipality; smaller cities without subordinate counties might not have this agency. The structures in Tianjin were complicated partly because the city was the site of the 'first level' wholesale enterprises that handled trade for the northern parts of China and were under the control of the central specialising companies and the Ministry. In addition to this, because Tianjin is a provincial level city, it was the location of provincial level specialising companies and second level wholesale enterprises as well as of the third level wholesale enterprise found in most cities. Both the second and third level enterprises were beneath the municipal government. The city also of course had many retail shops, most of which purchased from the wholesale enterprises. Tianjin's urban districts had commerce bureaux and its suburban districts and rural counties had SMCs, all of which were in charge of retail outlets within their areas.

Through the state commerce system commercial activity was highly circumscribed and administratively controlled. This control was enhanced during the 1950s by an increasingly comprehensive system of state purchasing, pricing and supply of goods. Under this system state commerce agencies at different levels often had monopsonistic relations with producers and set

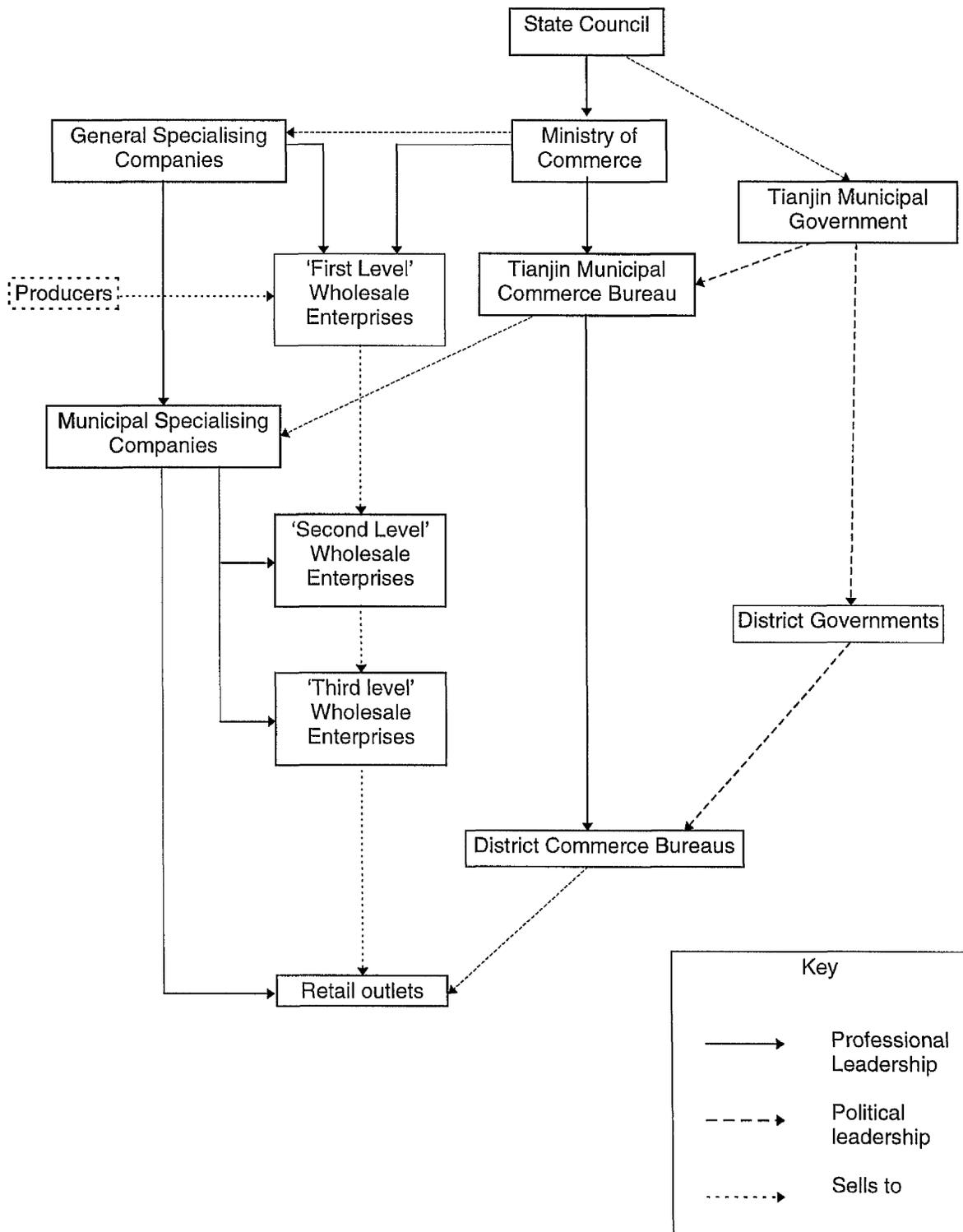
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<sup>51</sup> Barry Richman has admitted that he found it confusing, for example. Richman, *Industrial Society in Communist China*, p.880. But it is not only foreign analysts that have difficulty in establishing its structures and the relationships between different agencies. Dorothy Solinger has recounted the tale of Chinese commerce officials themselves being confused by the system's variants elsewhere. Solinger, *Chinese Business Under Socialism*, p.44.

<sup>52</sup> For a diagram of the pre-reform commerce system in a city like Tianjin, see Figure 6.1. In 1949, Tianjin had a Finance and Economy Commission and a Bureau of Industry and Commerce in the sphere of commercial administration. By 1957 there were three Ministries of Commerce, but this had been reduced to two by 1962. Personal communication, Tianjin Municipal Government.

<sup>53</sup> The two commerce bureaux were created in 1958 when a division was similarly created at the centre. See below. The central bureaux were merged together again soon after, but this apparently did not happen in all localities. In Tianjin there was still a first and a second commerce bureau at the municipal level in the early 1990s.

**Figure 6.1 The Urban Commerce System in China's Command Economy (Tianjin)**



Source: Interviews in Tianjin, 1993

purchase, wholesale and retail prices.<sup>54</sup> The system was complex, with various classifications of goods and different rules about their purchase and supply.<sup>55</sup> Important agricultural produce, much of which fell within the scope of the SMCs, was generally subject to 'unified purchase and marketing' (*tonggou, tongxiao*) which meant that the state bought up all that was produced at fixed prices. Manufactured goods, usually handled by urban commerce departments, were divided into two main categories. Key products, in the first category, were purchased and then distributed by the Ministry of Commerce, which set prices in co-ordination with pricing departments.<sup>56</sup> Other less important goods, in the second category, were purchased, distributed and priced by local authorities.<sup>57</sup> The allocation of particular goods to these categories changed over time.<sup>58</sup> This purchasing system meant that producers were compelled to sell to the state commerce departments and then the products were transferred through the wholesale system to the retail outlets that were required to buy whatever they were allocated. At each stage, the administratively-determined prices were marked up.<sup>59</sup> This made for a slow-moving and rather inflexible commodity circulation system in which producers were far removed from their markets and usually produced not for consumers, but according to the plans and constraints of the commerce system.<sup>60</sup>

#### *Adjustments to the Commerce System, 1956-1978*

By 1956, the state-run commerce system was well-established. Wholesale trade had quickly become dominated by state companies after 1949 and by early 1954, almost 84 per cent of wholesale trade was carried out by state enterprises.<sup>61</sup> Though private retail commerce continued to exist, and indeed

<sup>54</sup> The specialising companies would often handle issues of who bought from whom, while the commerce bureaux were usually in charge of setting prices. Richman has shown that state retail stores were often given some leeway in altering retail prices. Richman, *Industrial Society in Communist China*, pp.884-9.

<sup>55</sup> At certain times producers, particularly in rural areas, were permitted to sell above quota surpluses on free markets, but these markets were relatively small, and the state remained the key purchaser.

<sup>56</sup> In 1962, a Price Commission was established at the centre to oversee pricing in all sectors of the economy.

<sup>57</sup> Most industrial products (the number grew during the 1950s) were bought by the state (*baogou, baoxiao*) and distributed through the state commerce (or other) system.

<sup>58</sup> For example, price-setting authority was decentralised in 1958. See below. Donnithorne explains in more detail the pricing system that operated in the 1950s; *China's Economic System*, pp.283-6.

<sup>59</sup> Centralisation of the pricing system was achieved gradually between 1953 and 1957, with the aim of maintaining price stability. See Jiann-Jong Guo, *Price Reform in China (1979-86)* (Basingstoke: Macmillan, 1993), p.15. Pricing was handled by the relevant administrative system, so that commerce departments set prices for industrial consumer products, but other departments would set prices for goods such as grain, oil and industrial materials.

<sup>60</sup> There were attempts in the 1950s to monitor consumer opinion. See Donnithorne, *China's Economic System*, pp.313-4, Richman, *Industrial Society in Communist China*, p.888.

<sup>61</sup> Donnithorne, *China's Economic System*, p.277.

was encouraged in the early years of the PRC<sup>62</sup>, it was gradually squeezed out from 1953. It declined in proportion to state trade during the 1950s,<sup>63</sup> enjoying a brief resurgence after 1956 when free markets were reopened.<sup>64</sup>

However, problems had begun to emerge in this state-dominated system. By 1956 it was already being criticised, as it has been since the 1980s<sup>65</sup>, as too cumbersome, and attempts were made to improve the flow of commodities. The state commerce system's control over purchasing and supply of goods was loosened. Although state-run commerce retained sole rights to purchase and distribute certain important commodities (and rationed the supply of some to consumers), after 1956 some less important goods could be purchased outside the state wholesaling system. Some factories were encouraged to sell goods themselves and retail stores were encouraged to buy certain commodities directly from producers.

These readjustments in the commerce system coincided with broader changes being introduced in the economy in the late 1950s.<sup>66</sup> As part of an extensive decentralisation of administrative powers, controls were passed down to lower level departments within the commerce system.<sup>67</sup> This was done in several ways. First, the specialising companies were abolished or merged

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<sup>62</sup> *Zhongguo zhengfu guanli baikeshu*, p.621.

<sup>63</sup> See Solinger, *Chinese Business Under Socialism*, pp.307-324, for a discussion of 'socialist transformation' as carried out in commerce from 1955. See Tables A6.1, A6.2, A6.3 for trends in the relative size of state, private and collective retail sectors. These figures show underlying trends, but not the short-term (though often extreme) deviations from those trends in the late 1950s and mid-1960s. 'Collective trade' refers primarily to rural trade handled by the supply and marketing co-operatives (discussed below), and some small-scale, urban trade.

<sup>64</sup> Though trade carried out by licensed private traders had still fallen considerably, from 25.6 per cent in 1954 to 2.7 per cent in 1957. Donnithorne, *China's Economic System*, p.277. There was another period of relaxation in 1961-5 when rural free markets and small-scale private vending were permitted. For a discussion see Solinger, *Chinese Business Under Socialism*, Chapters 4 and 6.

<sup>65</sup> Donnithorne and Richman, writing in the 1960s both note these earlier criticisms, and so this is not a rewriting of history on the part of 1980s critics.

<sup>66</sup> The first readjustment to affect the commercial system can be traced back to a section of Mao's April 1956 speech 'On the Ten Major Relationships' (*lun shi da guanxi*) in which he advocated giving more autonomy to the localities. See [Mao Zedong], *Selected Works of Mao Tsetung*, Vol.5 (Beijing: Foreign Languages Press, 1977), pp.292-5.

<sup>67</sup> In May and August of that year, the State Council twice convened meetings on the reform of the government administration system, and in October circulated for opinion, its 'Guowuyuan guanyu gaijin guojia xingzheng tizhi de jueyi' (Decision of the State Council concerning the improvement of the state administrative system). Commercial reform was introduced in line with this initiative. In March 1957, the State Council approved the Ministry of Commerce's 'Guanyu gaijin shangye bu xitong zuzhi jigou shezhi he lingdao guanxi de baogao', (Report concerning the improvement of the organisational structures and leadership relations of the Ministry of Commerce system). Several counties were selected to conduct experimental reforms. On 14 November, the Standing Committee of the National People's Congress approved three sets of State Council regulations, for the reform of industrial, commercial and financial management. The regulations for commerce were called 'Guanyu gaijin shangye guanli tizhi de jue ding' (Regulations concerning the improvement of the commercial management system) and took effect from the beginning of 1958. *Shangye bu shangye jingji yanjiusuo*,

into existing administrative departments. At the central level the general companies were transformed into special trade bureaux; at lower levels, companies were merged into the commerce bureaux at the same level, becoming specialising trade sections (*zhuan ye maoyi chu*) within provincial bureaux and 'business departments' (*jingying bu*) within county level bureaux. This has been described as a decentralisation measure in Chinese accounts because it dismantled the vertical company system and increased the control exercised by local bureaux.<sup>68</sup> The abolition of the company hierarchy meant that commerce bureaux more closely controlled wholesale enterprises.

At the same time, controls over wholesale enterprises were decentralised to lower levels. In early 1958, first level wholesale enterprises, which had been under the sole control of the Ministry were now also put under provincial control. Similarly, second level wholesale enterprises were brought under the provincial level commerce bureaux, with 'secondary leadership' by the local government of the place where they were located.<sup>69</sup> This meant that local governments (via their commerce bureaux) now directly managed wholesale as well as retail enterprises.

Administrative departments were also streamlined. At the central level, the Ministry of Commerce and SMCs merged.<sup>70</sup> And most provinces and cities directly under central administration followed suit.<sup>71</sup> Many counties also merged their commerce departments into the finance and trade sections of their county committees (*xian wei caimao bu*). Then, to facilitate the establishment of the rural communes from November and December 1958, rural SMCs were reformed; basic level grain, commerce, finance and banking departments in the countryside were all decentralised to the communes, which were put in charge of managing the structures, personnel and assets of these systems at this level. Communes were put in charge of all the tax-related and finance tasks of these departments, including the payment of profits to higher levels. All state commerce structures, from the former commerce departments to co-operative shops and small groups, were unified within the

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*Shangye shigao*, p.133. For the content of these regulations see, *Dangdai Zhongguo shangye bianji bu, Shangye dashiji* (Vol.2, 1958-78), pp.546-8.

<sup>68</sup> Even though the bureaux are also part of a vertically organised 'xitong' they are still considered to be more a part of the locality than the companies. *Zhongguo zhengfu guanli baikeshu*, p.624.

<sup>69</sup> Measures to this effect were published in November 1957. See Donnithorne, *China's Economic System*, p.28. The decentralisation was actually effected in January 1958. There were further decentralisations of second level enterprises to the city and prefectural level in the latter half of 1958 after the Great Leap Forward got under way. See *Zhongguo zhengfu guanli baikeshu*, p.624;

<sup>70</sup> The reorganisation actually passed through several stages. In February 1958 the Ministry of Commerce became the First Ministry of Commerce and the Ministry of Urban Services (created in 1956) joined with the All-China Federation of SMCs to become the Second Ministry of Commerce (though it this new body also retained its SMC name). In September the First and Second Ministries joined to become a single ministry. *Shangye bu shangye jingji yanjiusuo, Shangye shigao*, p.135. Guo, *Dangdai Zhongguo shangye*, p.80.

<sup>71</sup> *Zhongguo zhengfu guanli baikeshu*, p.624.

communes so that distinctions between government and enterprises were removed. This lasted until early 1960.<sup>72</sup>

Management controls over planning and pricing were also decentralised from 1958. The centre still set four planning quotas (for purchases, marketing, total numbers of employees, and profit), but permitted the localities more flexibility in attaining those targets. The centre also began to share the profits of enterprises in the localities with the local governments, with 80 per cent going to the centre while 20 per cent was retained by the localities.<sup>73</sup> Price controls were decentralised, initially to the provincial level<sup>74</sup> and then later in the year to lower levels. By October 1958, central departments only controlled the purchasing prices of 10 kinds of agricultural produce and the sales prices of 13 kinds of products in key markets. All other purchasing and marketing prices were regulated and managed by the localities.<sup>75</sup>

Many other powers were also decentralised to the provincial level at this time. The most important of these were powers to set staffing quotas (*bianzhi*) of local level commerce departments, purchase industrial and agricultural commodities, allocate production materials, use credit for commerce-related basic construction, and adjust the allocation of industrial and commercial profits.<sup>76</sup>

When economic disaster and widespread famine followed the Great Leap Forward, state domination of trade was reinforced because shortages meant that retailers had fewer alternative suppliers. At the same time, the centre reasserted control and decentralisation measures were reversed.<sup>77</sup> First, SMCs at the local level were revived, and they became independent of the communes from March 1961. Central level administrative departments that had been merged in 1958 reverted to their former (1957) structures and division of labour, as the All-China Federation of SMCs and the Ministry of Commerce became separate entities again from January 1962. The specialising companies were re-established in mid-1962<sup>78</sup>, and following this, management of

<sup>72</sup> See Guo, *Dangdai Zhongguo shangye*, pp.80-2.

<sup>73</sup> *Ibid.*, p.81. Enterprises were also allowed to keep a small percentage, between 2.92 per cent and eight per cent at this time, dependent on the type of product.

<sup>74</sup> Provinces had already had some powers to set prices on certain less important goods. Now these were extended to others in a set of regulations issued on 11 April, 1958. See *Dangdai Zhongguo shangye bianji bu, Shangye dashiji* (Vol.2, 1958-78), p.21.

<sup>75</sup> Pricing powers were recentralised to central and provincial (*zhixiashi*) level after February 1959, Guo, *Dangdai Zhongguo shangye*, p.81.

<sup>76</sup> *Shangye bu shangye jingji yanjiusuo, Shangye shigao*, p.136.

<sup>77</sup> For more detail on this period see Donnithorne, *China's Economic System*, pp.280-7.

<sup>78</sup> The State Council's 'Guanyu shangye bu xitong huifu he jianli ge ji zhuanye gongsi de jue ding' (Decision concerning the revival and establishment of specialising companies at all levels), issued in May 1962. For an account of the contents see *Dangdai Zhongguo shangye bianji bu, Shangye dashiji* (Vol.2, 1958-78), p.298.

second level wholesale enterprises reverted to provincial governments.<sup>79</sup> As powers were recentralised, most cities abolished their district level commerce bureaux and specialising companies, as well as various district-run retail enterprises, and all retail work was brought once again under the leadership of city governments.<sup>80</sup>

These administrative measures were combined with the recentralisation of controls over economic management, finance and personnel to the Party centre, central bureaux and the provincial levels.<sup>81</sup> Financial recentralisation meant that the central ministry and the provinces gained control over financial planning and management in state commerce. From 1962, the centre was in charge of capital allocations for enterprises at all levels. Finances were allocated by the Finance Ministry to the Ministry of Commerce and then distributed via the specialising companies and provincial level commerce bureaux. Bank loans were obtained by enterprises at all levels via approved loan quotas. Methods for submission of profits upwards through the system were also changed from 1962 so that the profits on all expensive goods and of all first level wholesale enterprises went to the centre, and profits from most other types of commercial activity were shared between centre and localities.<sup>82</sup> As the country's leadership struggled to revive the economy in the early 1960s, it combined administrative centralisation with limited economic liberalisation. The centre took control of production plans and prices, but in order as to stabilise the economy and ensure the production of key commodities, it attempted to stimulate agricultural production by allowing rural free markets and individual sideline agricultural production.<sup>83</sup>

The measures were apparently effective, and the economy recovered remarkably quickly. But within the commerce system recentralisation recreated some of the problems identified and addressed in 1956. According to analysts in China in the 1980s, there were few incentives to

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<sup>79</sup> *Zhongguo zhengfu guanli baikeshu*, p.624.

<sup>80</sup> Guo argues in the 1980s that recentralisation was necessary because while old economic relations were broken new ones had not been established. Commerce became increasingly segmented with administrative areas that were cut off from each other. The specialising companies had to be revived because without them there was too much interference by the government through the commerce bureaux in the activities of wholesale enterprises, and second level enterprises in particular were increasingly established according to administrative divisions, rather than economic need, and were increasing in number unnecessarily. Guo acknowledges that the problem of government interference was not solved by putting the companies back in charge of the enterprises. Guo, *Dangdai Zhongguo shangye*, pp.84-5.

<sup>81</sup> In January 1961, the Party Central Committee issued regulations to effect this: 'Guanyu tiaozheng guanli tizhi de ruogan zanxing guiding' (Some provisional measures concerning the readjustment of management structures), see *Dangdai Zhongguo shangye bianji bu, Shangye dashiji* (Vol.2, 1958-78), p.212.

<sup>82</sup> In a 7:3 ratio. From January 1962, rural communes no longer had a share in the profit of state-run commerce. Guo, *Dangdai Zhongguo shangye*, pp.85-6.

<sup>83</sup> This is sometimes called 'economic decentralisation' because powers are transferred from administrative state agencies to enterprises or other economic actors. It is distinguished from administrative decentralisation between levels of administration.

develop trade in the localities that now once again lacked autonomy.<sup>84</sup> New reforms were being considered to tackle these problems in the mid-1960s but were overtaken by the Cultural Revolution.<sup>85</sup> At first, the political turbulence, especially between 1966 and 1969, disrupted government work. Then from 1969, departments were harshly cut, merged or abolished and powers again decentralised throughout the system.<sup>86</sup> Many of the measures adopted within the commerce system at this time repeated those of the Great Leap Forward. Again there was massive streamlining of personnel and departments as Commerce and Grain Ministry structures were merged with those of the SMCs.<sup>87</sup> The central specialising companies were abolished and 12 professional groups (*yewu zu*) established in their stead (becoming bureaux in 1972). There were similar mergers and abolitions in provincial level commerce agencies. Once again, control over enterprises under the centre was decentralised to the localities. First level wholesale enterprises were either decentralised or abolished, as were the 22 factories, 16 institutes and 244 warehouses under the Ministry.<sup>88</sup> From the second half of 1970, planning, finance and management of basic construction, as well as powers to allocate materials and set up second level enterprises, were transferred down to the localities.<sup>89</sup> Within the localities, these management and enterprise controls were further decentralised. Some wholesale enterprises at the second level were decentralised to the prefectures.<sup>90</sup>

As in the 1950s, the decentralisation measures were subsequently reversed, though this time with less urgency. Government structures were rebuilt and powers gradually recentralised between 1972 and 1978. In 1975, the All-China Federation of SMCs and the Ministry of Commerce were again divided, and revived their separate systems in the localities.<sup>91</sup> There was resistance to

<sup>84</sup> *Zhongguo zhengfu guanli baikeshu*, p.624.

<sup>85</sup> *Ibid.*

<sup>86</sup> During the Cultural Revolution the bureaucracy came under fierce attack, hence the cuts. See *Renmin ribao*, 19 October 1970, for an influential article written by the Ministry of Commerce's 'Revolutionary Big Criticism Writing Small Group' (*shangye bu geming da pipan xiezu xiaozu*) called 'Woguo shehuizhuyi shangye de fangxiang' (The direction of our country's socialist commerce) which stressed the centrality of the class struggle and criticised commercial policy since 1949, cited in *Dangdai Zhongguo shangye bianji bu, Shangye dashiji (Vol.2, 1958-78)*, p.661.

<sup>87</sup> This time these ministries were also merged with the State Bureau for the Administrative Management of Industry and Commerce. These ministries began working together from September 1969, and formally became a single Ministry in June 1970. *Dangdai Zhongguo shangye bianji bu, Shangye dashiji (Vol.2, 1958-78)*, pp.649, 656.

<sup>88</sup> Guo, *Dangdai Zhongguo shangye*, pp.86-7.

<sup>89</sup> The centre retained the right to make proposals in discussions of the line, policies and planning; the right to examine personnel and finances; the right to make proposals in implementation work. *Zhongguo zhengfu guanli baikeshu*, p.624.

<sup>90</sup> Guo, *Dangdai Zhongguo shangye*, p.87.

<sup>91</sup> The State Administration for Industry and Commerce was made independent of the Ministry of Commerce on 25 September 1978. See *Dangdai Zhongguo shangye bianji bu, Shangye dashiji (Vol.2, 1958-78)*, p.853.

recentralisation of enterprise controls. This was discussed in 1975, but not implemented until late 1977, allegedly because the Gang of Four opposed the 'vertical dictatorship' (*tiaotiao zhuanzheng*) they claimed this created.<sup>92</sup> But in the late 1970s, control over wholesale enterprises was shifted to higher levels of the administration.<sup>93</sup> By 1978, the system once more resembled that which had been in place in 1957.<sup>94</sup> Once again, the functions of state commerce departments at the central level included primarily the formulation of 'the line', policy and national rules and regulations. They also controlled, via centralised plans, the purchasing of goods from producers and their distribution via state wholesale enterprises to state retail enterprises, as well as the setting of prices and state enterprise funds.

According to Chinese analyses in the 1980s, the problems of the highly centralised state commerce system had been recognised as early as the Eighth Party Congress in 1956, and initiatives had been devised to improve it both then and in the early 1960s. Reforms had been derailed first by the Great Leap Forward and then by the Cultural Revolution, when the system had been decentralised for political reasons. Each time this had resulted in malpractice and disorder as the centre lost control, purchasing and sales quotas were not fulfilled, and the leadership was forced to accept a greater degree of centralised control again. Adjustments to the system in this period had been conceived within the framework of the state planning system, and though administrative controls were decentralised, a fundamentally different economic model was not adopted. The principles of administrative allocation of goods and state control of retail and wholesale enterprises remained. Even in 1962-4, when some rural free market trading was permitted, the administration

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<sup>92</sup> This measure was announced in a Ministry of Commerce Notice issued in October 1977, to take effect from January 1978. *Ibid.*, pp.797-8.

<sup>93</sup> This was done in three stages. In the first stage, in 1977, first level wholesale enterprises were put under the dual leadership of the Ministry of Commerce and the provincial (city) level government, and the second level wholesale enterprises were put under the dual leadership of the province (city) and the next lower level. In both cases, the highest level retained the ultimate say on professional matters, while administrative leadership, political and personnel work remained the responsibility of the locality (in which the station was located). See the State Council's 'Guanyu tiaozheng shangye caigou gongying zhan tizhi de tongzhi' (Notice concerning the readjustment of the commercial purchasing and supply station structures) issued in October 1977. This was adjusted again from 1 January 1978, when the central Ministry gained control of the planning of commodity circulation, finances, basic construction, and wages of first level enterprises. Their profits became part of the central financial budget. Subsequently, control over the numbers of such enterprises and of the departments within them also came under the Ministry. In the third stage, second level wholesale enterprises were put more closely under the leadership of the provinces according to arrangements that varied from place to place. Departmental supervision of wholesale enterprises was sometimes via the specialising companies, though departments did not have full 'leadership' of these companies: they were also led by the company at the next higher level. *Shangye bu shangye jingji yanjiusuo, Shangye shigao*, pp.340-1. This was decided by a Ministry of Commerce Notice issued on 2 September, 1978. See *Dangdai Zhongguo shangye bianji bu, Shangye dashiji* (Vol.2, 1958-78), p.848.

<sup>94</sup> Guo, *Dangdai Zhongguo shangye*, p.88.

system based on central control and planning was adhered to. The administratively dominated system and the role of the state in domestic trade were not challenged. It is only in the post-Mao period that reform of the commerce system has gradually departed from the old organisational system. Not only has there been renewed administrative decentralisation, the latest round of reforms has begun to undermine the whole notion of administrative allocation by steadily introducing commodity markets.

### Commerce System Reforms in the 1980s

The pre-reform commerce system has been criticised since the late 1970s in China for being administratively and financially over-centralised, segmented and inflexible.<sup>95</sup> It is argued that while a centralised system might have been necessary in the early years of the PRC because of shortages of goods, and the need to halt inflation and stabilise the economy, it has since caused sluggishness in commerce. As the system became increasingly bureaucratised and trade confined by administrative divisions and jurisdiction, the flow of goods was limited by those artificial boundaries. This was especially true of the state-dominated wholesale system, organised into a three-level hierarchy of wholesale enterprises through which many goods had to pass on their way from producer to consumer. It is primarily for this reason that the state commerce system has been blamed for contributing to the low quality of manufactured goods. Not only were producers separated from retailers and consumers by as many as three wholesale enterprises, they were assured of a buyer (the state wholesale enterprise) and were therefore not compelled to respond to consumer opinion. Sale to the state commerce companies and retailers was guaranteed.<sup>96</sup>

Discussion and trial reform began in 1978, and was promoted heavily from 1984.<sup>97</sup> Central policy addressed the rigidities in commerce under the slogan of 'reform the commodity circulation system', and several interrelated measures were adopted. These included reforms of the wholesale

<sup>95</sup> A January 1978 meeting of commerce bureau chiefs defined the main problems in commerce as rigidities such as (a) wholesale and retail enterprises not being able to go outside their administrative area to buy goods, and (b) too many levels in the wholesale system hierarchy. Shangye bu shangye jingji yanjiusuo, *Shangye shigao*, p.357. See also an early statement of the need to reform the commercial system, an editorial in *Renmin ribao*, 20 September 1980, titled 'Xianxing de shangye tizhi yiding yao gaige' (The present commercial system must be reformed).

<sup>96</sup> See for example Zhao, Erlie, 'Shangye guanli tizhi gaige jigou shezhi' (The institutional arrangements in the reform of the commerce management system), in Liu, Kegou (ed), *Dangzheng jigou gaige yanjiu* (Research on the reform of Party and government structures) (Beijing: Renmin ribao chubanshe, 1988), pp.247-255, and Guo, *Dangdai Zhongguo shangye*, pp.21-2 and p.33. For a discussion of the conflict between producers and commerce system distributors see Solinger, *Chinese Business under Socialism*, Chapter 5.

<sup>97</sup> Given impetus after the 3rd Plenum of the 12th Central Committee that year, which launched the urban reforms.

system, commercial enterprises, the SMCs, pricing and purchasing methods, and streamlining and reorganisation of administrative state agencies. I will discuss each briefly in turn.

### *Reform of the Wholesale System*

The hierarchy of state wholesale enterprises was targeted as one of the key causes of inflexibility in the trading system as early as 1978 and its reform ranked consistently highly in commerce reforms in the 1980s.<sup>98</sup> The decentralisation of the second level enterprises from 1970 had resulted in many more being set up according to the administrative levels of government. According to 1980s accounts, this made the wholesale system even more unwieldy than it had already been. Early reform period measures were therefore first aimed at reducing the numbers of wholesale enterprises and establishing them according to economic need rather than administrative area.<sup>99</sup> Following this, reforms were aimed at overhauling the system itself. They have taken two forms. First, the former three-tier wholesale hierarchy has been dismantled as commodity markets have been introduced. Second, the wholesale enterprises have been included in the broader enterprise reforms.

From 1979, following the trials of enterprise reform (in Sichuan) restrictions were lifted in some areas on the purchase of goods by third level wholesale and retail enterprises.<sup>100</sup> For example, although these enterprises were still often compelled to buy through the state wholesalers at some level, they were permitted to circumvent certain levels within the wholesale hierarchy and buy outside their administrative region. Dismantling of the hierarchy was aided by decentralisation of administrative controls over wholesale enterprises. In 1983 some provinces decentralised their second level enterprises to the cities and allowed the cities to merge them with the third level enterprises and specialising companies. The new 'wholesale companies' created out of the mergers were to be independent business entities.<sup>101</sup> In 1984, this was approved by the Ministry and

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<sup>98</sup> See Footnote 91.

<sup>99</sup> This was attempted from 1978 and was difficult to effect. The 1980 Outline Report suggested that wholesale enterprises should be abolished to remove duplications within the same area. Shangye bu shangye jingji yanjiusuo, *Shangye shigao*, pp.357-9. This account notes that the abolition of duplicate wholesale enterprises was the most difficult to effect 'because [this] impinged on local finances'. In 1978 the Ministry of Commerce recommended that two hundred of the country's 900 second level wholesale stations should be abolished. But by the end of 1980 only 70 had been cut. Numbers were more successfully reduced when combined with decentralisation measures. See below.

<sup>100</sup> A 1980 Outline Report by the Ministry of Commerce also laid out some of these reforms. The third level wholesale enterprises to buy from producers in some areas, by-passing second level wholesale enterprises and cutting out one level. 'Quanguo shangye juzhang zuotanhui huibao tigang' (Outline report on the national meeting of commerce bureau chiefs) on 4 April, 1980. Shangye bu shangye jingji yanjiusuo, *Shangye shigao*, pp.357-9.

<sup>101</sup> *Zhongguo zhengfu guanli baikeshu*, p.625.

implemented more widely for both first and second level wholesale enterprises.<sup>102</sup> First level enterprises were similarly merged with specialising companies dealing in the same line of goods and put under the control of the cities in which they were located.<sup>103</sup> In Tianjin, for example, the municipal government was put in charge of the first level enterprises that had previously been under central control. Both professional and political 'leadership' over these enterprises now came from the Municipal Government and Party. Third level enterprises were decentralised to the districts in 1986 in Tianjin. Following this, the levels were 'removed' in the sense that all the enterprises were to operate independently and could now buy from and sell to whomever they chose rather than being compelled to sell on to the next level or designated retail outlets.<sup>104</sup>

The reform of the specialising companies was rarely discussed in detail in commerce system reform programmes. This may be because the general specialising companies at the central and provincial levels were merged with the wholesale enterprises that they had formerly managed.<sup>105</sup> However in 1993 in Tianjin, the companies were seen as separate entities, and attempts were being made to transform these administrative companies into real economic enterprises.<sup>106</sup> As we shall see in the next chapter, the introduction of markets and reform of their subordinate enterprises have meant great change for these companies.

At the same time as the wholesale system was being dismantled, a policy of creating less restrictive 'trade centres' (*maoyi zhongxin*) and 'wholesale markets' (*pifa shichang*) was promoted. Trade centres were first advocated within the commerce system in 1980 at a meeting of commerce bureau chiefs and the first centre was created in Guangzhou in March 1981. Another, established in Chongqing in 1984 was visited by Zhao Ziyang that year and given his seal of approval. The centres then appeared in large cities throughout the country and by the end of 1985 there were 1,630 nationwide. There are different types of centres. Some are primarily wholesale companies that deal in a

<sup>102</sup> Guo, *Dangdai Zhongguo shangye*, p.145. The document permitting this was the Ministry of Commerce's 'Guanyu dangqian chengshi shangye tizhi gaige ruogan wenti de baogao' (Report concerning certain problems in the current reform of the urban commercial system reforms), Guofa [1984] No.92, issued on 14 July 1984. See *Renmin Ribao*, 22 July 1984. Decentralisation of the first level enterprises had been proposed at a meeting of the central Finance and Economics leading group on 11 May 1984. Zhao Ziyang recommended in his report to the Second Session of the 6th NPC on 15 May 1984 that all three levels of wholesale enterprises become autonomous business entities. There were trials in Shenyang, Dalian and Nanjing in 1984. And the first level stations were decentralised in Tianjin, Shanghai and Guangzhou on 1 January 1985. See *Dangdai Zhongguo shangye bianji bu, Shangye dashiji* (Vol.3, 1979-85), pp.513, 516, 575-6, respectively.

<sup>103</sup> In the case of the first level stations, they were temporarily jointly run by the Ministry of Commerce and the city, but with the city taking prime control. *Zhongguo zhengfu guanli baikeshu*, p.625.

<sup>104</sup> Interviewee 6.

<sup>105</sup> Tao Bei and Li Cuifang, 'Zhongguo shangye qiye jituan fazhan de lilun he shijian' (Theory and practice in the development of Chinese commercial enterprise groups), *Shangye jingji yu guanli*, 1992.6, pp.3-11.

<sup>106</sup> Interviews in Tianjin, 1993. This is discussed in more detail in Chapter 7.

certain range of goods, such as industrial goods or agricultural produce though they also often offer services to other wholesalers or producers (providing information or space for trade fairs). They may be former wholesale enterprises. Their novelty lies in that they are centres of trade for all types of businesses, whether state, collective or private and are subject to no restrictions according to administrative boundaries.<sup>107</sup>

The decision to give more control over wholesale enterprises to the cities and allow cities to set up trade centres was part of a policy advocated from late 1980 of creating 'economic regions'. This was an attempt to break through the administratively dominated commerce system and allow trade to be more free-flowing. Large cities were to become the centres of these economic regions and the aim was to integrate them with their rural hinterland to stimulate trade between the cities and countryside.<sup>108</sup>

### *Enterprise Reform*

Enterprise reform has been an important element of the reforms in all sectors of the economy. It has sought to increase the efficiency of enterprises by allowing them greater autonomy from the state agencies that used to direct them in their day-to-day activities. This has been promoted under the slogan of 'separate government and enterprise' (*zhengqi fenkai*).<sup>109</sup> Although western studies of the enterprise reforms have concentrated largely on industry and industrial producers, these reforms were actually begun first in the commerce system. Trial enterprise reforms were begun in 40 state commercial enterprises in Sichuan in 1979.<sup>110</sup> In these trials, enterprises were allowed greater autonomy in buying commodities, recruiting workers, personnel management, distribution of profits and use of bonuses.<sup>111</sup> In early 1980, the reforms were broadened and implemented in 264 enterprises in 18 provinces. Most of the trials were conducted in retail stores, but some were also

<sup>107</sup> Guo, *Dangdai Zhongguo shangye*, pp.146-7.

<sup>108</sup> This was first proposed at a conference of city commerce bureau chiefs held in Wuhan, 1-7 November 1980. Bureau chiefs from Beijing, Tianjin, Shanghai, Wuhan, Nanjing, Guangzhou, Chongqing, Shenyang, Harbin and Xi'an participated. This conference also advocated the trade centres described above, which would facilitate this economic role. See *Dangdai Zhongguo shangye bianji bu*, *Shangye dashiji* (Vol.3, 1979-85), p.189. For an early statement of the policy see 'Chongfen fahui zhongxin chengshi de zuoyong' (Bring fully into play the function of central cities), *Renmin ribao* (editorial) 31 March 1981.

<sup>109</sup> See Chapter 2.

<sup>110</sup> This was part of the wider enterprise reform programme discussed in Chapter 2.

<sup>111</sup> *Dangdai Zhongguo shangye bianji bu*, *Shangye dashiji* (Vol.3, 1979-85), p.83. From the late 1980s enterprises autonomy was promoted in Tianjin under the slogan of '*si fang huo*' (which translates roughly into the 'four liberalisations to enliven'). The four liberalisations refers to the spheres of work in which enterprises were given autonomy. These were: business (*jingying*, meaning business decision making), pricing, distribution (*fenpei*, of assets within the company), and labour use.

begun in third level wholesale enterprises.<sup>112</sup> Zhao Ziyang then promoted the broadening of enterprise autonomy when, in a speech at a State Council plenary session in April 1981, he said that commercial enterprises should gradually become independent budgeting units, responsible for their own profits and losses.<sup>113</sup>

At the same time, trials of the 'contract responsibility system' were begun in retail stores. This responsibility system has taken several forms, but all were based on the idea that contractual relationships should replace the system whereby enterprises were the administrative subordinates of the departments. It was hoped that this would reduce bureaucratic interference in enterprise management, as well as encourage enterprise managers to run their businesses efficiently: contracts usually stipulated the division of profits between enterprises and the state. The early contract system thus merely modified the former state-enterprise relationship by stipulating the enterprises' profit submissions to their departments in charge. Although the relationship was contractual and enterprises now kept a proportion of their profits, they still submitted some profits to those departments. Soon this was altered as a new taxation system was introduced.<sup>114</sup> The taxation system was an attempt to allow enterprises to more radically change their connections with the state and cut administrative ties.<sup>115</sup> Once the system was in place, enterprises could contribute to state revenues independently of their department in charge. Taxes would be paid to the tax bureau established in the locality rather than profits being submitted to the state agency in the same vertical system.<sup>116</sup> In practice, however, as noted in Chapter 2, tax reform encountered problems and the contract system persisted into the 1990s.

The contract system was, however, modified during the reform period. Soon, enterprises were being leased to individual workers or to workers' collectives within the enterprise.<sup>117</sup> In

<sup>112</sup> Reported in *Caimao zhanxian* (Finance and trade front-line), 28 March 1980, cited in Dangdai Zhongguo shangye bianji bu, *Shangye dashiji* (Vol.3, 1979-85), p.129.

<sup>113</sup> Dangdai Zhongguo shangye bianji bu, *Shangye dashiji* (Vol.3, 1979-85), pp.233-4.

<sup>114</sup> See for example, 'Ba lingshou shangye fuwuye jingying zerenzhi tuiguang kailai' (Broaden and open up the business responsibility system for retail commerce and service industry), *Renmin ribao*, 20 January 1983. See also Dangdai Zhongguo shangye bianji bu, *Shangye dashiji* (Vol.3, 1979-85), p.387. I have discussed the contract system in the past tense above, but it still used in modified forms in commercial and other enterprises in many places. It is often difficult, both here and in descriptions of many other reform (and pre-reform) situations to know which tense is most appropriate. What may have been superseded in one place may still be practised elsewhere.

<sup>115</sup> The policy of changing from a profit submission system to a taxation system (*ligaishui*) was implemented in stages between 1982 and 1985. See Chapter 2.

<sup>116</sup> The tax reforms are discussed in more detail in Chapter 2.

<sup>117</sup> 'Shangye fuwuye jingying guanli shang de zhongda gaige' (A great reform in the business management of commerce and service industry), *Renmin ribao* (editorial), 26 July, 1981.

another variation, the enterprises were transformed into collectives.<sup>118</sup> The system was also extended to larger state commercial enterprises, which were to have contractual relations among their different internal sections and departments.<sup>119</sup> For example employees in a large department store could sign a contract to lease a 'counter' (*guitai*) or department within the store.<sup>120</sup> In a further development, some of the larger department stores have also begun to issue shares and become stock companies. There were test cases of this in 1992 in Tianjin, where one large store issued several million shares at 1.5 *yuan* each, which were sold to its employees, other enterprises and individuals.<sup>121</sup>

State and collective commercial enterprises continued to encounter problems as market reforms continued, however. This was still the case in the early 1990s, when a so-called 'debt-chain crisis' hit them hard.<sup>122</sup> At this time there was a renewed attempt to encourage them to co-operate by forming 'enterprise groups' that would share suppliers and retailers or even capital.<sup>123</sup> This was a strategy that had been borrowed from industrial reform and introduced first in the late 1980s, especially in 1988.<sup>124</sup>

Policy toward retail enterprises from the late 1970s also began by focusing on the creation of many more outlets (*wangdian*), with the stated aim of making shopping more convenient. Urban residential areas in particular were to make improvements, and the intention was to raise the number of outlets back to 1957 numbers within a few years.<sup>125</sup> As a result, the numbers of state-run

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<sup>118</sup> For key early documents promoting this see 'Shangye bu guanyu dangqian chengshi shangye tizhi gaige ruogan wenti de baogao' (Report of the Ministry of Commerce concerning certain questions in the current reform of urban commercial wholesale structures), 23 June, 1984, in Shangye bu bangongting (Office of the Ministry of Commerce) (ed), *Shangye zhengce fagui huibian* (Compendium of commercial policy, law and regulations, 1949-1984) (Beijing: Zhongguo shangye chubanshe, 1987), pp.36-44. See also 'Chengshi shangye tizhi zuo zhongda gaige' (The commerce system undergoes great reform), *Renmin Ribao*, 22 July 1984. This reform was strongly promoted again in 1986 by the Ministry of Commerce's 'Guanyu yijiubaliu nian shangye tizhi gaige jige wentide baogao' (Report concerning some questions in the 1986 commercial system reforms), Guofa [1986] No.56, issued on 30 May 1986.

<sup>119</sup> Zhang, *Zhongguo shangye baikeshu*, p.818.

<sup>120</sup> For numerous accounts of contract system implementation (both in commercial and other enterprises) see Zhongguo qiye chengbao shijian bianji bu (Editorial department of China's enterprise contracting in practice) (ed), *Zhongguo qiye chengbao shijian (Tianjin)* (China's enterprise contracting in practice (Tianjin)) (Beijing: Gaige chubanshe, 1991).

<sup>121</sup> Interviewee 31, a local social scientist.

<sup>122</sup> This was caused by changes to the financial system which allowed businesses to default on payments.

<sup>123</sup> See for example, Hong Hu, 'Deepening Reform of Circulation System and Further Improving State Commercial Enterprises and Supply and Sales Co-operatives', in *Reform in China Newsletter* (Beijing: China Reform Publishing House, 6 April 1992. Hong Hu is Vice-Minister of the State Commission for Restructuring of the Economic System.

<sup>124</sup> Tao and Li, 'Zhongguo shangye qiye jituan fazhan de lilun he shijian'.

<sup>125</sup> This was proposed in January 1978 by a national meeting of Commerce Bureau heads, and then reiterated in the Ministry of Commerce's 'Guanyu dangqian shangye gongzuo jidian yijian de baogao' (Report concerning

commerce retail outlets (excluding those for grain and those under the SMCs) increased by 53 per cent between 1979 and 1982, and the numbers of employees in them by 46 per cent in the same period.

From 1979, collective and individually-run (*geti*) retail trade was encouraged under the banner of 'developing a commodity circulation system with many channels' (*fazhan duo qudao shangpin liutong tixi*).<sup>126</sup> New collective commercial enterprises have also been created since 1978, either by work units to provide work for the children of their employees, or by lower level government authorities to employ the 'educated youth' returning from the countryside.<sup>127</sup> By the 1990s, there were more people working in the small-scale non-state trading sector than in state-run and collective commerce<sup>128</sup>, and more private or 'individual' retail outlets, nationally, than state or collective ones.<sup>129</sup> However, the policy has been to keep state-run commerce as 'the core' and merely have non-state trade supplement this, so while the non-state share of retail trade has steadily increased over the 1980s, it still only accounted for approximately half the value of retail trade carried out by state enterprises in the early 1990s.<sup>130</sup> Moreover, non-state commerce has made fewer inroads into wholesale markets, at least until very recently.<sup>131</sup>

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several opinions on current commercial work), issued on 7 October 1979. As a result, investment in basic construction in commerce is said to have risen from an annual average of 360 million *yuan* between 1953 and 1978 to 830 million *yuan* between 1979 and 1982. See Shangye bu shangye jingji yanjiusuo, *Shangye shigao*, p.352. Note that this initiative reveals the neglect of commerce during the 1960s and 1970s.

<sup>126</sup>The October 1980 'Provisional regulations of the State Council concerning the development and protection of socialist competition' permitted competition between 'all types of enterprises'. Dangdai Zhongguo shangye bianji bu, *Shangye dashiji* (Vol.3, 1979-1985), pp.186-7. On the 17 October 1981, the Party Central Committee and the State Council issued the 'Decision promoting individual and collective economy. This was to begin in the retail and services sector where contracting out to collectives and individual was to be carried out in batches. Ibid., pp.286-7.

<sup>127</sup> These were the young people sent from the cities to work in the Cultural Revolution period (1966-76). They were permitted to return home after 1978.

<sup>128</sup> See Table A6.1.

<sup>129</sup> See Table A6.2.

<sup>130</sup> See Table A6.3.

<sup>131</sup> Guo, *Dangdai Zhongguo shangye*, pp.17-18. Dorothy Solinger has argued that there were competing tendencies among Chinese policy makers over the commercial reforms and that one tendency wanted to retain a state role in this way while another was willing to allow non-state commerce to become dominant. See Dorothy J. Solinger, *China's Transition from Socialism* (Armonk: M.E. Sharpe, 1993), pp.65-81. For a recent discussion of wholesale system reform that questions the need to preserve the dominance of state wholesale enterprises, see Wan Dianwu, Jia Lürang, and Qiao Gang, 'The Goal of Reform of the State-Owned Commercial Wholesale Business System and Proposals on the Reform for the Immediate Future', *Social Sciences in China*, Winter 1994, No.4, pp.5-15.

*Reform of the Supply and Marketing Co-operative System*

Although SMCs are not strictly part of the urban state commercial system, their reform has been relevant to Tianjin's suburban districts. There, the distinction between city and countryside has been blurred in recent years (see Chapter 3), and as a result, suburban state commerce departments I visited in 1992-3 were usually SMCs that had, since the mid-1980s, also begun to call themselves 'commerce bureaux'.<sup>132</sup> The change had been made to make the SMCs appear more cosmopolitan and to facilitate relations with the municipal commerce bureaux.<sup>133</sup>

The SMCs' reform experience is influenced by their co-operative origins. Central reform policy has focused first on returning basic level SMCs to their original co-operative roots and transforming basic level co-operatives into viable enterprises.<sup>134</sup> Initially, SMCs were encouraged to expand the services they provided to rural dwellers, mainly with the aim of increasing both agricultural and industrial productivity. They were, for example, to supply technology, materials and information on markets. Policy documents urged county level SMCs to co-ordinate this work and organise their subordinate SMCs into associations to provide the new services.<sup>135</sup> Trials were begun in 1982 and then the reforms were expanded.<sup>136</sup> By 1986 SMCs were to set up associations of producers, develop new trading channels, expand trade relations beyond administrative boundaries, and introduce contractual relations between SMCs and the retailers and producers that had been subordinate to them in the planning system. These measures were vigorously promoted from the mid-1980s.<sup>137</sup>

*Reform of the State Purchasing and Pricing System*

Another element of the attempt to bring producers closer to retailers and consumers and introduce market competition has involved adjusting the state purchasing system and freeing price controls. Reform of the state purchasing system was high on the agenda from the beginning of the reform

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<sup>132</sup> And they had both names (*liang kuai paizi*) at the entrances to their offices.

<sup>133</sup> Interviewees 34, 35 and 39, officials in Dongli and Xiqing district SMCs.

<sup>134</sup> For early statements of this see *Renmin ribao*, 8 January 1983 and 28 January 1983.

<sup>135</sup> *Renmin ribao*, 28 January 1983.

<sup>136</sup> A key document was issued in early 1984 promoting further SMC reform and encouraging them to broaden the scope of their business activities. See Dangdai Zhongguo shangye bianji bu, *Shangye dashiji* (Vol.3, 1979-85), p.477.

<sup>137</sup> See for example 'Shenhua gongxiao hezuoshe tizhi gaige' (Deepen the reform of the supply and marketing co-operative system), *Renmin ribao*, 27 June, 1986. This article publicised a new central document, 'Guanyu shenhua gongxiao hezuoshe tizhi gaige de yijian' (Opinions concerning deepening the reform of SMC structures), issued on 10 June, 1986.

period<sup>138</sup>, and has gradually produced greater flexibility in relations between producers and purchasers. In addition, different purchasing methods were introduced and contractual purchasing has replaced, for most goods, the system whereby the state procured all (*tonggou*) and required fulfilment of certain quotas.<sup>139</sup> New measures at first gave producers more leeway on whether or not they sold to the state (wholesale enterprises) and how much they could sell to other businesses.<sup>140</sup> The precise rules for purchasing were complex and dependent on the types of goods concerned, but the trend was toward gradual deregulation during the early 1980s and the state has eventually relinquished restrictions on the trade of almost all goods handled by commerce departments.<sup>141</sup> In 1978, the Ministry of Commerce administered the planned allocation of 274 consumer goods. By 1992, the number had dropped to 14.<sup>142</sup>

Price reform is closely linked with reform of the purchasing system, since it was the pre-reform state monopsony, and monopoly over distribution, that enabled prices to be controlled. Under the pre-1979 system, almost all industrially-produced consumer goods and non-staple foodstuffs, especially the most important basic ones, were handled by state-run commerce. The prices paid for goods purchased and distributed by the specialising companies and their wholesale enterprises were decided at either the central or provincial levels. Although the powers to set prices administratively were decentralised to lower levels at certain times, goods were rarely allowed to be traded at market prices in significant quantities after the late 1950s.<sup>143</sup> Price control was an integral part of the state commerce administration in the pre-reform period. However, since commerce departments handed over pricing controls to the Price Bureaux in the 1980s, reform in this sphere

<sup>138</sup> It was the first item on the programme issued by a meeting of commerce bureau heads, in 10-25 March, 1980. See Dangdai Zhongguo shangye bianji bu, *Shangye dashiji* (Vol.3, 1979-85), p.123.

<sup>139</sup> See *Renmin ribao*, 20 September 1980, which states 'the number of commodities that whose allocation is planned must be reduced, and the system of procuring all and marketing all (*baogou baoxiao*) must be abolished. Unified purchase and marketing (*tonggou tongxiao*), unified purchase and allocation (*tonggou tongpei*), planned procurement (*jihua shougou*), fixed purchase (*dinggou*) and selective purchase (*xuangou*) should be used for different products as appropriate'.

<sup>140</sup> These four purchasing methods were stipulated in the 'Guanche luoshi guowuyuan youguan kuoquan wenjian, gonggu tigao kuoquan gongzuo de juti shishi zanzing banfa' (Provisional measures for the concrete implementation of relevant State Council documents on expanding powers and to consolidate and improve the work of expanding powers), promulgated on 20 May 1981. Cited and discussed in Dangdai Zhongguo shangye bianji bu, *Shangye dashiji* (Vol.3, 1979-85), p.246.

<sup>141</sup> For more details see Guo, *Dangdai Zhongguo shangye*, p.145. See also Shangye bu shangye jingji yanjiusuo, *Shangye shigao*, pp.355-6.

<sup>142</sup> Anjali Kumar, 'Economic reform and the internal division of labour in China: Production, trade and marketing', in David S.G. Goodman and Gerald Segal (eds), *China Deconstructs: Politics, Trade and Regionalism* (London: Routledge, 1994), pp.99-130. Figures cited from p.120.

<sup>143</sup> The reforms in the early 1960s did temporarily permit this. Even then, the state retained control of prices for certain products.

became less directly relevant to the those commerce departments. Nevertheless, it has been an important part of the creation of commodity markets for the goods that used to be distributed by them.

The state pricing system in China's command economy was extremely complex and it is difficult to generalise about the pace and depth of its reform. It should first be pointed out that the state pricing system encompassed not only state-run commerce but all other sectors of the economy, and the state set prices for a range of goods including industrial raw materials and agricultural produce distributed by other parts of the administration. Prices for industrially-produced consumer goods were set by commerce departments (in conjunction with planning departments), prices for grain by grain bureaux, and prices for industrial raw materials by 'materials departments' (*wuzi guanli bumen*).<sup>144</sup> Price reform is complex first of all because it has been introduced in a piecemeal fashion, product by product, and second because it has both raised the purchasing prices of goods still procured by the state and ended the administrative setting of wholesale and retail prices for many other goods; for some a 'dual track' system has been adopted, whereby goods have both state-set and free-market prices. Third, the state has often retained some control over 'market prices', allowing them to 'float', but within a stipulated range.

For these reasons, it is difficult to paint a comprehensive picture of the price reforms and generalise about the creation of commodity markets. However, the trend in the reform period has been away from state control over prices throughout the economy and toward market-determined pricing.<sup>145</sup> Gradually over the 1980s and into the 1990s, the numbers of goods for which the state set procurement prices was reduced.<sup>146</sup> Increasingly, goods were sold both to the state for negotiated prices and (the surplus) freely on the open market in a so-called system of 'mixed control'. Other commodities have eventually been wholly surrendered to the market.<sup>147</sup> Significantly for this study, deregulation of state pricing controls was earliest and most widespread for the luxury goods and non-staple foods handled by the urban state commerce system. Reform of both the purchasing and

<sup>144</sup> In co-ordination with the comprehensive state pricing agencies. See above.

<sup>145</sup> Although there has been an overall trend toward deregulation and decontrol of prices, the central government has at times reimposed price controls on certain goods to try and stem inflation. This happened in 1989-91 and again in 1993-4. See *Renmin ribao*, 5 September 1993, in *SWB*, FE/1788, 8 September 1993, and *SWB*, FE/1849, 18 November 1993. Though the central leadership delayed price reform for certain products in 1994 it declared it still planned to continue with these reforms in the long term. *SWB*, FEW/0326, 30 March 1994.

<sup>146</sup> In 1978 the prices of 97 per cent of domestic retail goods and 93 per cent of farm produce were fixed by the state. By 1991 the ratios were 21 and 22 per cent. Kumar, 'Economic reform and the internal division of labour in China', p.120.

<sup>147</sup> For a more detailed discussion of price reform, see Shangye bu shangye jingji yanjiusuo, *Shangye shigao*, pp.345-50, and Guo, *Dangdai Zhongguo shangye*.

pricing system has proceeded in tandem with elimination of the state allocation of these goods by commerce departments, and it is therefore in this sector that market-oriented reform has been most far-reaching. By the end of 1992, 90 per cent of retail in these commodities was reported to have been deregulated and markets had begun to emerge in this sector of the economy.<sup>148</sup>

#### *Adjustment of Administrative Structures*

Economic policies to reform the state commerce system have been accompanied by a range of organisational changes. In the late 1970s some of the administrative reorganisations of the early Cultural Revolution were reversed. This began in 1975, when the state-run commerce and SMC systems were again separated, with the stated aim of 'strengthening the leadership and management of rural commercial work'.<sup>149</sup> Gradually, and particularly after the fall of the Gang of Four in 1976, central departments regained control of lower levels. Then, over the next two years, before Deng Xiaoping established himself as the pre-eminent leader and the economic reform programme was initiated, there were minor readjustments in state commerce department structures and some recentralisation of commercial enterprise management.<sup>150</sup> The re-establishment of pre-Cultural Revolution administrative structures continued during the early reform years of 1979-82.<sup>151</sup> As a result, the number of institutions at all levels within this system grew and staffing levels increased.

In 1982 there was a concerted effort to combat this expansion and streamline organisational structures throughout the government. This was also part of the early reform effort to create a smaller, more efficient state administration.<sup>152</sup> In line with this, the Ministry of Commerce was once again amalgamated with the All-China Federation of SMCs and the Ministry of Grain, to form a single Ministry of Commerce.<sup>153</sup> At the same time, in line with the general policy of reducing the

<sup>148</sup> 70 percent of production materials were subject to 'market' regulation. *SWB*, FEW/0270, 24 February 1993. Price reform for grains, oils, and basic goods such as coal, oil, gas and steel have been introduced more cautiously. But these goods are not handled by the state commerce system as defined in this study.

<sup>149</sup> *Shangye bu shangye jingji yanjiusuo*, *Shangye shigao*, p.338.

<sup>150</sup> This refers to the wholesale enterprises in particular.

<sup>151</sup> On 25 September 1978 the State Council issued a 'Guanyu chengli gongshang xingzheng guanli zongju de tongzhi' (Notice concerning the establishment of the General Bureau for the Administration and Management of Industry and Commerce), and in June 1979 the Eighth session of the Fifth NPC passed a document establishing a Grain Bureau. See *Shangye bu shangye jingji yanjiusuo*, *Shangye shigao*, p.338.

<sup>152</sup> See Chapter 2.

<sup>153</sup> In March 1982 the 22nd session of the Fifth NPC passed the overall State Council structural reform programme of which this was a part. The tasks of this new Ministry of Commerce were clearly stipulated as being to 'organise national commodity circulation, unify the leadership of, and arrange, the urban-rural markets, co-ordinate the commercial activities of all kinds of economic entities (*chengfen*) [my emphasis], and serve the four modernisations, [all] in accordance with the Party Central Committee and the State Council's line and policies on domestic commerce and the principles of the planned economy as the mainstay, supported by market regulation'. *Shangye bu shangye jingji yanjiusuo*, *Shangye shigao*, p.339.

staff of government departments, the fixed payroll (*bianzhi*) of the central Ministry was cut by 837 to 2145 people.<sup>154</sup> There were also reductions in the number of its internal departments. The 17 specialising departments once again became specialising companies, operating under both names and performing two kinds of functions: enterprise management and administrative management.<sup>155</sup>

The 1982 merger of central level commercial departments was not always carried out at lower levels. In Tianjin in 1993 there were still a First and a Second Bureau of Commerce and an SMC at the municipal level, all of which were answerable to the single central level Ministry of Commerce. However the division of labour between SMC structures and commerce bureaux at the lower levels had been changed so that it was once again based on the type of commodity handled, rather than simply urban versus rural jurisdiction. This was followed in 1982 by a 'Decision' of the State Council aimed at further breaking down the barriers between urban and rural trade. This Decision made companies handling state wholesale business responsible for rural as well as urban markets and urged them to support local SMCs.<sup>156</sup> It was hoped that this would help improve the flow of goods between cities and the countryside, something that had been singled out as a key problem with the old system.<sup>157</sup>

### **Conclusions: Toward a Leaner, More Efficient State?**

By the early 1990s, organisational changes at both the central and local levels of the state commerce administration began to reflect the impact of encroaching markets for the goods in which they had traditionally dealt. This is because the post-1979 commerce reforms have gone further than earlier

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<sup>154</sup> The original figure of 2982 was a combination of the staff of the former Ministries of Commerce and Grain, and the General SMC. Those that left these departments were said to have either retired (*lixiu, tuixiu*) or have left to do training (*jinxing lunxun*). Shangye bu shangye jingji yanjiusuo, *Shangye shigao*, p.340.

<sup>155</sup> The tasks of these newly reformed Companies at this time are said to have been stipulated as: being (a) 'in charge of the purchasing, marketing, distribution, storage and processing work (of their particular commodity or group of commodities)'; and (b) 'doing research for purchasing and sales policy and price policy [formulation], and market forecasting; directing enterprise management within their own system, carrying out the work of statistical analysis and the adjustment of business structures [to facilitate] business and financial activities'.

<sup>156</sup> See the State Council's 'Guanyu shutong chengxiang shangpin liutong qudao, kuoda gongyepin xiaxiang de jue ding' (Decision concerning opening up the channels for the flow of commodities between city and countryside, [and] increasing the industrial products reaching the countryside) of 17 June 1982, cited in Shangye bu shangye jingji yanjiusuo, *Shangye shigao*, p.342. In support of this initiative, state-run commerce wholesale enterprises were for the first time established below the level of the county town from 1980, and state-run commerce retail enterprises began to venture into the countryside to encourage collectives and SMCs to sell their produce in the towns. *Ibid.*, p.356.

<sup>157</sup> Reforms of the SMC system itself were another important element of the commercial system reforms. Pilot reforms were carried out in 1982, in an attempt to change internal structures and practices. For more details see Shangye bu shangye jingji yanjiusuo, *Shigao*, pp.344-6.

ones and instead of simply reorganising the state administrative system, have handed its allocative functions over to the market. The abolition of the hierarchical state wholesale system (and the specialising companies), reductions in price controls and the state purchase and distribution of consumer goods, together with the reform of state commercial and industrial enterprises, have removed the state's monopoly over the allocation of goods and gradually introduced market regulation.<sup>158</sup> Logically, this implies a reduced state role in commerce and a need to reduce state intervention. As markets for consumer goods have taken shape, commerce agencies, whose former role was precisely planning and supervising the distribution of goods under the old system, and monitoring and directing state enterprises, have therefore become obsolete.<sup>159</sup> Indeed, this was foreseen by policy makers as early as 1984 when there was a trial abolition in Wuhan of the First and Second Commerce Bureaux.<sup>160</sup> However it was another decade before market reform would become a real threat to state commerce departments elsewhere. In 1993, commerce departments began to be dismantled in some localities and although this had not yet happened in Tianjin, similar changes were expected there too, and steps were being taken toward cutting departments and reducing staff. However, this was often being assisted by state entrepreneurial activities in this sector, something that was not prescribed by policy. The next chapter will describe and explain in more detail state entrepreneurialism and other similar forms of state business activity as they appeared in Tianjin's commercial system in 1992-3.

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<sup>158</sup> As Kumar notes, 'a fundamental element in the movement towards the establishment of a market economy has been the decline in the role of the state in material allocation as well as in pricing decision', Kumar, 'Economic reform and the internal division of labour in China', p.120.

<sup>159</sup> Some of the commerce-related tasks that have increased with market reform, such as enterprise registration and administration, are handled by departments in another part of the government administration headed by the State Administration of Industry and Commerce.

<sup>160</sup> This was decided on by the Party Central Committee and State Council in May 1984. Wuhan Municipal Government announced its decision to abolish these bureaux and establish a Commercial Management Committee in August 1984. Dangdai Zhongguo shangye bianji bu, *Shangye dashiji*, p.517. There were also mergers of these departments in Guangzhou.

## Chapter 7

### The Encroaching Market: Entrepreneurialism in State Commerce Departments

#### Introduction

Contrary to the Chinese leadership's vision of the small, efficient, macro-managing state that has withdrawn from day-to-day involvement in the economy, an entrepreneurial state has emerged in Tianjin's state commerce administration. It appeared there at first in the late 1980s, and then again after mid-1992. Commerce bureaux, supply and marketing co-operatives (SMCs), and their subordinate agencies (hereafter, 'departments') are setting up new enterprises. In many ways these enterprises resemble the 'new economic entities' established by state agencies in the real estate management system.<sup>1</sup> But as will emerge below, there are some differences. These lie in both the types and numbers of enterprises and also the reasons why they have been set up. In this sector, other businesses, known as 'enterprise groups' (*qiye jituan*), have also been formed from a combination of the SMCs or specialising companies and their formerly subordinate enterprises. As I will discuss in Chapter 8, these may or may not constitute a kind of state entrepreneurialism as I have defined it.

State entrepreneurialism in commerce departments, like that in the REM system, is the consequence of structural and behavioural changes produced by the market reforms. Economic liberalisation and the introduction of commodity markets for the goods handled by state commerce agencies have produced opportunities and constraints contributing to state entrepreneurialism not only by creating alternative sources of employment and revenue, but also by increasing the financial burden on departments. More importantly in this sector, marketisation has made many state agencies redundant, and the broad package of market-oriented policies have been supported since the early 1990s with a policy of dismantling bureaux, the SMCs and administrative companies. This has promoted entrepreneurialism as a stage in a process of entrepreneurialisation, whereby obsolescent departments of the state administration are transformed into business enterprises.

#### *State Bureaux and SMCs Setting Up New Enterprises*

Tianjin's commerce bureaux have been setting up 'new enterprises'.<sup>2</sup> These are new, usually small-scale, businesses that have mushroomed under municipal and district commerce bureaux and SMCs since April 1992. Departments invariably establish more than one of these new enterprises. District commerce bureaux in Tianjin typically had between six and eight in mid-1993, most of which had

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<sup>1</sup> See Chapter 5.

<sup>2</sup> As in the real estate management system, these are commonly referred to as 'economic entities' (*jingji shiti*).

been set up since early or mid-1992. They covered a range of business. Some dealt in goods traditionally handled by the bureau, such as electrical goods, wood and electronic components. Others were more general 'trade companies' (*maoyi gongsi*) doing unspecified business and most likely dealing in whatever goods come their way. There were also transportation companies or real estate development companies.<sup>3</sup>

In December 1992, the Municipal Second Commerce Bureau had, set up six 'commercial business entities' (*shangmao jingying shiti*): a raw materials purchasing and marketing company, a trade development company, a real estate development company, a commercial tourism company, a foreign trade company, and a catering project preparation group (*canshi gongcheng choujian zu*). By mid-1993, the number of new businesses had risen to 13. Most of the newest ones were doing business in foodstuffs, the goods handled by the bureau in the planning system, though one was a real estate development company.<sup>4</sup>

The Municipal SMC (*shi zong gongxiaoshe*) had also established eight 'economic entities' employing over 100 administrative management personnel.<sup>5</sup> It had begun this in early 1992, calling on its officials to 'participate in business activities at the same time as doing their official work well'.<sup>6</sup> At first, 'six or seven Party and government sections' experimented with this, then the SMC established five 'economic entities' within its sections.<sup>7</sup> By late 1992 it had reduced its sections by 15, and its staff by around one hundred. 15 section level cadres had left to set up seven enterprises. By mid 1993, the SMC had companies doing real estate development, handling agricultural by-products (*nong fuchanpin*), foreign trade, grain and oil, goods used by commerce-run industry (*shangban gongye*), materials (*wuzi*), and animal feed. It also had a 'service company' to serve the new enterprises.<sup>8</sup> Suburban district and county SMCs then followed this model.<sup>9</sup> By late 1992, they had abolished more than 75 sections and streamlined 30 per cent of their staff, a total of 614

<sup>3</sup> Interviewees 35, 39, 42, all leading officials in district bureaux.

<sup>4</sup> They were named as the Jinqiao Real Estate Development Company, Ltd., the Huashi Foodstuffs Company, Ltd., and Jindi Fast Food Company, Ltd., and the Ruixian Foodstuffs Company, Ltd. *Tianjin ribao*, 13 July 1993.

<sup>5</sup> I discuss the SMC here because though technically a co-operative, at this and the district level, SMCs were to all intents and purposes bureaux; see Chapter 6.

<sup>6</sup> Liu Deci, 'Xingban jingji shiti ying zhuyi xie shenme: shi gongxiaozongshe de zuofa zhide jiejian' (Things deserving attention in setting up economic entities: lessons from the experience of the Municipal SMC) *Tianjin shangye jingji*, 1993.2, pp.26-7. The author is an employee of the SMC.

<sup>7</sup> Ibid.

<sup>8</sup> Liu, 'Xingban jingji shiti ying zhuyi xie shenme', p.27.

<sup>9</sup> As discussed in Chapter 6, the SMCs are found in rural administrative areas (counties, administrative villages) and semi-rural areas such as suburban districts. There are indications of entrepreneurial practices in Tianjin's rural counties. See for example, a report on Ji county SMC, *Tianjin ribao*, 8 March 1993. I do not discuss the counties here since this study is confined to the urban and suburban districts of Tianjin.

management officials. Throughout the system, 58 economic entities were established, staffed by 550 ex-officials.<sup>10</sup>

The district commerce bureaux and commissions were setting up the same kinds of enterprises. Xiqing district bureau/SMC had set up eight by March 1993. These covered several different spheres of business. Several were trading companies. One dealt in electrical goods such as televisions and cassette recorders, another in wood and related products. Several were general trade companies that did unspecified business.<sup>11</sup> Tanggu district SMC had set up seven economic entities, reducing its staff from 86 to 43 people, and cutting 21 sections down to 11.<sup>12</sup>

The Municipal First Commerce Bureau was even more enterprising. In mid-1993 it had set up a new 'trade building' (*shangye dasha*) in the Tianjin Economic and Technological Development Zone to house other new enterprises. Among the 83 businesses registered there, were 17 'economic entities' run by the state commerce system's specialising companies or their former wholesale and retail enterprises.<sup>13</sup>

As in the REM system, the relationship between the departments and their new enterprises was usually close. The staff of these enterprises were officials from the administrative agencies, and their managers were often leading officials. The eight entities established by Xiqing district bureau/SMC each had a deputy leader of the SMC serving jointly as their manager.<sup>14</sup> Usually these leaders, and the lower level officials who went to work in the new enterprises, had only partially left their former department. They worked full time in the enterprise, but retained their position (*zhiwu*) in the bureau or SMC, and thus still received all the benefits, such as housing, free medical treatment, and use of child care facilities. Usually, the plan was that their wages would be paid from the enterprise once it was well-established.<sup>15</sup> In some cases officials were to receive wages from their department for the first year after they left to work in the enterprise, and bonuses (*jiangjin*) for the first six months. It was to be up to them to ensure that the enterprises became profitable within that time.<sup>16</sup> One district commerce commission's new trade company, established in mid-1992, had

<sup>10</sup> *Tianjin ribao*, 17 November 1992. Some officials were transferred to 'basic level enterprises', a reference to retail enterprises in the state commerce system. This probably accounts for the difference of 64 between the numbers 'streamlined' and the numbers working in the new enterprises. Some officials may also have retired.

<sup>11</sup> Interviewee 34. This interviewee said that this department was both an SMC and a bureau.

<sup>12</sup> *Tianjin ribao*, 4 April 1993.

<sup>13</sup> *Tianjin ribao*, 17 July 1993.

<sup>14</sup> *Tianjin ribao*, 6 February 1993.

<sup>15</sup> The officials staffing Hebei Commerce Commission's Trade Company, established a year before, were, in mid-1993 still receiving wages and benefits from the commission.

<sup>16</sup> Interviewee 35. This was the plan in mid-1993. Whether or not officials who are unsuccessful will actually be left to flounder remains to be seen.

had not become independent of the commission ('*tuó gōu*') a year later, but was expected to in the future. The seven former commission officials working in it were still receiving wages and bonuses from the commission.<sup>17</sup> Arrangements for the 42 officials who had left the Municipal Second Commerce Bureau to set up new enterprises were similar to those for district level departments, though in addition to them continuing to receive their salaries and bonuses, and the usual living subsidies, they also received a monthly 'hardship assistance allowance' (*xīnkǔ bǔzhū fěi*). It was anticipated that they would become fully independent in their third year. The Municipal SMC similarly allowed those staffing the new entities to keep their former official status (*shēnfēn*) and administrative rank (*xíngzhèng jībīe*). They would also keep their bonuses (*jiāngjīn*) for six months and their salaries for one year. In some cases this phasing was justified by the argument that it demonstrated the efforts of the department to ensure the smooth implementation of staffing reductions. The 'leader and manager' of each of Xiqing district bureau/SMC's new enterprises was a deputy leader of the bureau, and the officials staffing these entities were guaranteed salaries for one year and bonuses for six months.<sup>18</sup>

The new enterprises are usually referred to as 'independent budgeting units' (*dúlì hēsuan dānwèi*), 'responsible for their own profits and losses' (*zìfù yíngkuǐ*).<sup>19</sup> This means that they keep their own separate accounts. This may indicate that the aim is for these enterprises to differ from the 'old' state enterprises, and will not be subsidised by the state if they prove economically unviable or inefficient.<sup>20</sup> However, this does not prevent financial connections between the enterprises and departments that set them up. The enterprises are established either from the departments' own budgets, or with bank loans taken out by them.<sup>21</sup> Often the department provides space of some kind from which these enterprises can operate, and other materials necessary.<sup>22</sup> One suburban SMC had

<sup>17</sup> Interviewee 42.

<sup>18</sup> The officials were praised for demonstrating their talents in doing this work ('like the eight immortals crossing the sea', a reference to an old fable). The eight new enterprises were said to have made profits (*lìshuǐ*) of 1.5 million *yuan*. *Tianjin ribao*, 6 February 1993.

<sup>19</sup> According to one account this is required by Chinese enterprise law (*qǐyè fǎ*).

<sup>20</sup> An attempt to impose a 'hard budget constraint', to use the currently fashionable terminology popularised by János Kornai. See Kornai, *The Socialist System: The Political Economy of Communism* (Princeton: Princeton University Press, 1991).

<sup>21</sup> One district commerce commission had established a 'Commercial Real Estate Development Company' with a bank loan. It was also looking for foreign investment in its planned project to build a large office building (*dasha*). Interviewee 42. Some of the enterprises established by the Municipal Bureau are joint ventures with foreign investment. *Tianjin ribao*, 13 July 1993.

<sup>22</sup> An article in the official internal journal of the Tianjin commerce system, in which recommendations are made about how administrative departments should set up 'economic entities', states that just having enthusiastic cadres, willing to 'plunge into the sea' is not enough: careful planning and the provision of 'certain material conditions' is also necessary. See Liu, 'Xingban jingji shiti ying zhuyi xie shenme', p.27.

contractual relations with its new enterprises, though this did not seem to be the norm for all departments.<sup>23</sup> The long term aim in 1993 was for the new enterprises to generate revenue for their departments, though they were typically exempt from tax for the first year. Because most enterprises had only recently been set up, they were for the time-being keeping profits for reinvestment. One district Commerce Commission official revealed that once the Commission's new enterprises were well-established they would contribute (*bo*) to its finances and help raise the wages of its officials.<sup>24</sup> In the Municipal Second Commerce Bureau it was anticipated that the new enterprises would be made independent within three years, though 'at present, capital for setting up and running (*kaiban*) the new businesses is basically raised by the bureau'.<sup>25</sup> The Municipal SMC had set up an 'economic entity leading small group' to be responsible for solving serious business problems involving its new entities and to co-ordinate, manage and guide them.<sup>26</sup> It also provided each entity with 300,000 *yuan* as floating capital, and three or four rooms and office equipment. It was to allow the entities flexibility in distributing profits (*chunli fencheng*) (within the enterprise, to its staff) as soon as they became profit making (*chuang xiaoyi*).<sup>27</sup>

These new enterprises differ in several ways from the old state enterprises traditionally subordinate to administrative departments.<sup>28</sup> First, they seem to have been set up to increase departmental extra-budgetary revenues and supplement state budget allocations to departments.<sup>29</sup> In some cases<sup>30</sup>, income from the new enterprises may even be 'outside the extra-budgetary category' (*yusuanwai zhi wai*). This is in contrast with the old enterprises in the commerce system, whose profits were a part of budgetary income and submitted upward within the system by the administrative departments that received them.<sup>31</sup> Secondly, the new enterprises have a different

<sup>23</sup> Interviewee 36, a bureau official. I cannot confirm that this was the case in other departments, though it is likely, particularly in the commerce system where contractual relations have been commonly established between the bureaux and their 'old' wholesale and retail enterprises. However, contracts were not referred to in other documentary accounts or interviews.

<sup>24</sup> Interviewee 35. Some of the earliest established were already doing well. They were said to have already earned close to a million *yuan*. Interviewee 34.

<sup>25</sup> *Tianjin ribao*, 15 December 1992.

<sup>26</sup> Liu, 'Xingban jingji shiti ying zhuyi xie shenme', p.27.

<sup>27</sup> *Ibid.*

<sup>28</sup> In the SMC and urban state commerce systems, these were usually wholesale or retail enterprises. See Chapter 6.

<sup>29</sup> Though the distribution of profits earned was in at least one district department going 'to be decided later'. Interviewee 34.

<sup>30</sup> Extra-budgetary income is that which is anticipated but for which targets of quotas cannot be set. Fines for traffic violations are one example of this kind of income. Interviewee 1.

<sup>31</sup> Rather than submitting profits to those departments the old enterprises are now paying taxes (which they submit to the local tax bureau, not their administrative department). The management fees charged by the

internal structure from state enterprises. One official journal stated that the new 'economic entities' established by the Tianjin Municipal SMC are a wholly new form of enterprise that differ from the 'old' enterprises in that they have few employees, and do not establish management departments corresponding to those in the agency. Instead, there is a single manager, and a manager responsibility system under an 'agency entity leading small group' (*jiguan shiti lingdao xiaozu*, within the administrative department). The new enterprises do not have Party committees or a personnel department. Party, union and Youth League organisational activities are instead handled by the SMC 'so that the entity can concentrate on its business affairs'.<sup>32</sup> This is probably also the situation in other new enterprises established by commerce departments, most of which had a small staff.

#### *Specialising Companies Setting Up New Enterprises*

The administrative 'specialising companies' in Tianjin's commerce system have been setting up small new enterprises in the same way as the bureaux, commissions and SMCs above them. In Tanggu commerce system, companies had by Spring 1993 created 25 of these new businesses.<sup>33</sup> One, the district's Vegetable and Non-staple Foodstuffs Company had set up a processing factory and a restaurant,<sup>34</sup> and was being gradually transformed into a trade company. In a transitional strategy begun in early 1992, a trade company was being created from part of the old Foodstuffs Company, the intention being to expand it until it 'swallowed up' the obsolescent parts. Sometimes officials from these old administrative companies were also allowed to leave to do their own separate businesses. For example, officials from the Hexi district Vegetable and Non-staple Foodstuffs Company had left to set up a new trade company.<sup>35</sup>

Similar businesses were being set up in other districts. Hongqiao district's ten specialising companies reduced their staff by half in mid-1993 through the creation of 17 service sector

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departments (calculated at a small percentage of business turnover) are being eliminated. However, where the contract system is still being implemented, then the relationships may not be so different.

<sup>32</sup> Liu, 'Xingban jingji shiti ying zhuyi xie shenme', p.27. These economic entities are described and promoted in this article as a wholly new form of enterprise (*xin xing qiye*), and it is said that the entities established by the Municipal SMC are in businesses that do not duplicate that of basic level ('old') enterprises and that such enterprises are unable to do. The new entities will also 'serve' the basic level enterprises.

<sup>33</sup> *Tianjin ribao*, 4 April 1993.

<sup>34</sup> *Ibid.*

<sup>35</sup> *Jin wan bao*, 7 April 1993. In this report it is stressed that they really have cut all links with the company, though it is also revealed that the new company had given 150 thousand *yuan* in tax and profits (*lishui*) to the District Foodstuffs Company in the first quarter of 1993.

enterprises.<sup>36</sup> Specialising companies under Xiqing Commerce Bureau/SMC had also allowed officials to go and set up their own enterprises, and were themselves setting up new economic entities or dividing up into these.<sup>37</sup> Their counterparts in Hebei and Dongli districts were setting up restaurants and shops<sup>38</sup>, and one had established a joint venture with a Japanese company.<sup>39</sup>

As with the higher level departments, relations between the district specialising companies and their newly-created enterprises are often very close. For example, one of Hexi Foodstuffs Company's new enterprises, set up by seven officials in August 1992, had by the first quarter of 1993 contributed 150,000 *yuan* to the company.<sup>40</sup> The employees no longer received wages or welfare from the company, and were reported to be relying wholly on their own efforts and the efficiency of their new unit.<sup>41</sup> While there were still financial connections with the company, the enterprise's success has presumably meant that their employees were being paid from its profits.

#### *SMC and Specialising Company Enterprise Groups*

As well as setting up 'new entities' like the district bureaux, both the SMCs and the specialising companies have also been forming enterprise groups (*qiye jituan*) comprising themselves and enterprises that had been subordinate to them in the state planning system. In some cases these new enterprise groups also include some of the 'new enterprises'. Many of these enterprise groups were only just being created in 1992-3. In several departments at the municipal and district levels, plans had been made, but only the first steps had been taken to actually set them up. I will therefore discuss them only briefly. In Dongli district, state-run commerce was administered by a department that called itself both the district SMC and commerce commission. This is one of the most rapidly changing of the former suburban districts, and the use of two names reflects the urbanisation of this part of the city and an increase in urban functions such as those of urban state commerce. The SMC was now also called a 'commerce commission' because this facilitated relations with the municipal-level commerce bureaux.<sup>42</sup> Officials in this department seemed to see their organisation very much as an SMC, that is, a collective enterprise originally formed from the joint investment of peasants. Over the years, SMCs accrued more and more administrative functions, and by the late 1970s they

<sup>36</sup> Often called 'tertiary industry' (*disan chanye*) in Chinese. *Tianjin ribao*, 15 July 1993.

<sup>37</sup> Interviewee 36.

<sup>38</sup> Interviewees 42 and 39.

<sup>39</sup> *Jin wan bao*, 21 November 1992. This is connected with streamlining the department, and the company is said to be exploring the possibilities of developing an enterprise group.

<sup>40</sup> *Jin wan bao*, 7 April 1993.

<sup>41</sup> *Ibid.*

<sup>42</sup> Interviewee 39. See Chapter 3 for a discussion of Tianjin's suburban districts and their changing status.

resembled commerce bureaux (although still officially retaining their 'collective' status). There were plans to set up an enterprise group (*jituan gongsi*) by the end of 1993, with the SMC at the core, and the Dongli SMC saw itself as returning to its earlier form in setting up its enterprise group. Several wholesale and retail enterprises beneath the SMC (in the pre-reform system) were to join the SMC to form the group.<sup>43</sup> Officials in Xiqing said they were considering the same kinds of changes, but had not yet set about making them.<sup>44</sup>

In a variation on this, the Municipal General SMC was planning to establish a 'city supply and marketing comprehensive commercial co-operative' (*shi gongxiao zonghe shangshe*), by combining or incorporating retail (and possibly wholesale) enterprises (*jituanhua qiye*).<sup>45</sup>

The enterprise groups have been set up on a much wider scale by the specialising companies. In September 1992 Tanggu district the General Merchandise Company was merged with the department store (*shangye dasha*) over which it had formerly had authority, and contractual relations were established between enterprises within the newly-formed group.<sup>46</sup>

Heping district's confectionery company (*tanguo gaodian gongsi*) was transformed into a wholesaling enterprise group dealing in general foodstuffs, and was explicitly said to be no longer a 'district' company. This means that it was no longer limited to operating with its administrative area, and could buy and sell outside the district. 'Wholesale departments' (that is the state wholesale enterprises) formerly under the company had become the foundation of this new wholesaling enterprise group (*pifa jituan*). This is reported as constituting a 'real transformation of the company from administrative-type to enterprise-type'<sup>47</sup>, and followed the company's creation of eight joint ventures with foreign investment between 1991 and mid-1993.<sup>48</sup>

Hedong District's General Merchandise Company had been similarly transformed into a general trading company, incorporating 28 former enterprises and nine new ones.<sup>49</sup> Again, this was reported as transforming an 'administrative management company' into a 'business entity unifying business and management'. The plan was to use this model for other companies in the district.<sup>50</sup> Nankai district's former Catering (*yinshi*) Company had also formed an enterprise group, and was

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<sup>43</sup> Interviewee 39.

<sup>44</sup> Interviewee 34.

<sup>45</sup> *Tianjin ribao*, 28 April 1993.

<sup>46</sup> See *Tianjin ribao*, 19 September 1992. The same kind of arrangement had been made at the municipal level in Tianjin not long before.

<sup>47</sup> *Jin wan bao*, 28 May 1993.

<sup>48</sup> *Tianjin ribao*, 13 July 1993, and *Jin wan bao*, 10 December 1992.

<sup>49</sup> These included a consulting service company, a decorating company (*zhuangshi*), and a 'trade company'.

<sup>50</sup> *Tianjin ribao*, 4 April 1993.

described as taking under its wing all its small, weak, retail enterprises.<sup>51</sup> In Tanggu, the commerce commission had similarly transformed its repair company (*xiupeigongsi*) into a joint stock enterprise group (*jituanhezuo gufen gongsi*), in its capital and labour, and the enterprises formerly below it in the administrative system, were pooled.

Enterprise groups have become plentiful in Tianjin's state commerce system in the early 1990s.<sup>52</sup> These groups are not peculiar to Tianjin; by 1991 there were already 1000 such groups in the commerce system nationally.<sup>53</sup> In creating them, state commerce agencies are following a legitimate model that had been developed earlier in industry and has now been transferred to the commerce system.<sup>54</sup> This policy seems to have been promoted only for enterprises or for old specialising companies, which were technically semi-business units in the planning system.<sup>55</sup> Often these companies are supposed to have been merged with their respective wholesale enterprises as part of a policy of converting them into enterprises. The formation of these groups is a further extension of that conversion process. The practice has now begun to be extended to suburban SMCs.

Although officially approved, the precise form of enterprise groups is unclear and their merits are contested. The term 'enterprise group' is used loosely in the PRC in the early 1990s, and is not legally defined.<sup>56</sup> It tends to be used to refer to a loose association of enterprises, often ones which were connected administratively in the planning system. The relations between them are sometimes contractual, and occasionally the group is a stock company.<sup>57</sup> Many business entities are calling themselves enterprise groups when in fact they are still administrative companies, chain

<sup>51</sup> *Tianjin ribao*, 11 September 1992 and 18 February 1993[138].

<sup>52</sup> Though many had been established between 1987 and 1990.

<sup>53</sup> Tao Bei and Li Cuifang, 'Zhongguo shangye qiye jituan fazhan de lilun he shijian' (Theory and practice in the development of Chinese commercial enterprise groups), *Shangye jingji yu guanli*, 1992.6, pp.3-11.

<sup>54</sup> Tao and Li, 'Zhongguo shangye qiye jituan fazhan de lilun he shijian'.

<sup>55</sup> Hong Hu, 'Deepening Reform of Circulation System and Further Improving State Commercial Enterprises and Supply and Sales Cooperatives', in *Reform in China Newsletter* (Beijing: China Reform Publishing House, 6 April 1992. Hong Hu is Vice-Minister of the State Commission for Restructuring of the Economic System.

<sup>56</sup> This is reflected even in commercial handbooks. For example, in Wang Yang and Liu Fuyuan (eds), *Shiyong shangwu shouce* (Practical business handbook) (Beijing: Zhongguo jingji chubanshe, 1992), pp.133-4, 'commercial enterprise corporations' (*shangye qiye jituan*) are described as 'large-scale commercial economic entities formed by the combination [*jiehe*] of several commercial enterprises'. This handbook then describes three different degrees of corporate association: those with loosely-defined and *ad hoc* relations, those with 'close' and fixed relations within the company, and those with 'semi-close', partially fixed relations.

<sup>57</sup> As indicated in the examples above. See also Tao and Li, 'Zhongguo shangye qiye jituan fazhan de lilun he shijian', p.7, who discuss these groups in some detail.

stores or loose associations of enterprises.<sup>58</sup> And one official in the Municipal First Commerce Bureau argued that in Tianjin many commerce system companies were not technically 'real' enterprise groups, but used this term because it was fashionable.<sup>59</sup>

In some ways the groups perpetuate relations from the pre-reform state planning system, and they have been criticised for this.<sup>60</sup> They are sometimes described negatively as '*fanpai gongsi*', meaning that they have faked their reform by changing their names but not their practices, often using subordinate enterprises to keep themselves going.<sup>61</sup> According to one analysis, the enterprise group replaces administrative mechanisms with economic ones as a way of binding subordinate enterprises to the former department, which, in its new guise as the core of the group, tends to ignore the independent legal status of the subsidiaries.<sup>62</sup>

However, others are less critical and see the enterprise groups, as potentially permitting a shift to new modes of entrepreneurial organisation and administrative management, and say this is why it has been officially encouraged.<sup>63</sup> Setting up these new groups may be a way of supporting subordinate state enterprises having difficulties in the new market environment. For example, wholesale enterprises are also assisted in their transformation from administrative entities to market-

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<sup>58</sup> *Ibid.*, p.4. For another account that describes deviations from the prescribed model being advocated officially see Li Yuanchan, 'Enterprise Groups in China: The Present Situation and Development Trends', *Social Sciences in China* (Summer 1992), pp.5-15.

<sup>59</sup> Interviewee 44. Though it is not clear what 'real' would be. Some academics have called for a corporate law to be drawn up in China to clarify such matters. *Jin wan bao*, 17 March 1993. But other Chinese analysts have argued that these enterprise groups ought to be allowed to assume their own form, rather than being regulated and forced to conform to models such as Western corporations or Japanese 'zaibatsu' of various kinds. See Chen Zhi'ang, 'Dui shangye qiye jituan yanjiu zhong moxie qingxiang de sibian' (Differentiating between trends in research on commercial enterprise groups), *Shangye jingji yu guanli*, 1992.2, pp.66-70.

<sup>60</sup> For example *Tianjin ribao*, 3 July 1993, and two articles in *Tianjin Ribao*, 17 March 1993, and another, on 3 July 1993.

<sup>61</sup> See *Tianjin ribao*, 3 July 1993. This term is also applied to administrative companies in other sectors that have faked reform changes. This article gives some of the reasons why this is done, and reveals the interests involved.

<sup>62</sup> Tao and Li, 'Zhongguo shangye qiye jituan fazhan de lilun he shijian', p.4. These authors detail the internal management structures of 'real' enterprise groups, pp.8-10. According to these authors, the key elements of an enterprise group are the core 'level' and below it a tier of enterprises that are closely connected with the core company. In addition to this there may also be other tiers of more loosely related enterprises. At a minimum, these companies ought to also (a) be an association of independent legal enterprises, (b) consist of at least two tiers of enterprises, (c) have to have real structures and proper relations between the companies, (d) the core enterprise should be a real economic entity not merely an administrative organisation, (e) it must also have in centralised investment, profit and capital. And not many entities claiming to be 'enterprise groups' fulfil all these criteria, most having looser organisational structures.

<sup>63</sup> Li, 'Enterprise Groups in China: The Present Situation and Development Trends'; Tao and Li, 'Zhongguo shangye qiye jituan fazhan de lilun he shijian'. Tao and Li refer here to encouragement by the 'state' (*guojia*), and note that such enterprise groups have been accorded certain (tax) privileges.

oriented businesses.<sup>64</sup> It has been claimed that some of the wholesale enterprises were having difficulty adapting to the market system now that they had to go out and find producers and retailers rather than simply buying and selling to units designated by the state. An enterprise group arrangement had the advantage of allowing enterprises to pool their capital 'in order to be more competitive'.<sup>65</sup> In support of this, one commentator has noted that sometimes the subordinate enterprises were not altogether unhappy about retaining their relationship with their 'mother-in-law' (*popo*) because they were afraid of having no-one to turn to should they encounter problems.<sup>66</sup>

Enterprise groups are controversial because they seem to perpetuate old relationships and practices. But, like the new enterprises, they are politically acceptable to both the officials within state commerce departments, their local governments and the central leadership because they provide employment for officials whose jobs are threatened by marketisation. Like the new enterprises, they also reveal some adaptation to the market environment. But because enterprise groups are the result of official policy and seem to be created to reform and transform state agencies, rather than a profit-seeking initiative on the part of individual state bureaux, they may not be entirely 'entrepreneurial'. If new enterprises are set up as part of the enterprise groups then there is a case for arguing that they are. I will discuss the differences between the new enterprises and the enterprise groups in Chapter 8 as a way of clarifying the notion of the entrepreneurial state.

### Why New State Businesses Have Emerged in State Commerce Departments

Entrepreneurialism in state commerce agencies, like that in real estate management departments, is the result of a combination of the market-oriented reform policies, financial constraints and incentives, and changing attitudes in wider society towards doing business. However, these

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<sup>64</sup> Interviewee 39 said that the wholesale enterprises had to be pushed to change their ways, and that their staff were sometimes taken by the commission to other parts of the country to buy goods, even though the wholesale enterprises were reluctant to seek new channels through which to do business.

<sup>65</sup> Interviewee 39. The enterprises forming the corporation were named as the general merchandise, non-staple foods, medicine and production materials wholesale enterprises, and the general merchandise store. Note that the new economic entities established by Dongli SMC were said to be going to strengthen the capabilities of the corporation and would therefore be automatically part of it since they are effectively a part of the SMC, for financial purposes. Chen Yunyi, 'Xianji shangyeju zhuan shiti zujian jituan gongsi biyaoxing chutan' (A preliminary discussion of the need for county level commerce bureaux to be transformed into entities and set up enterprise groups), *Shangye jingji yu guanli*, 1992.3:27-9, in which the author refers to the problems of small state retail enterprises as a result of the contract system and liberalisation of the system (p.27). Another article in 1993 in an official journal of the commerce system proposed enterprise groups as a solution to fragmentation of the commerce system. Xu Guosheng, 'Jianli qiye jituan, zhenxing gongxiao hezuo shiye' (Build enterprise groups, enliven the business of SMCs), *Tianjin shangye jingji*, 1993.2, pp.32-34,42.

<sup>66</sup> A Bang, "'Fanpai' gongsi yu jigou gaige" (Fake companies and structural reform), *Tianjin ribao*, 17 March 1993.

opportunities and constraints have wrought rather different effects in the commerce departments. Most importantly, reform policies have introduced markets for the commodities dealt with by urban state commerce earlier and more thoroughly than in any other sector of the economy. I will explain this and the sector-specific details of the financial burden below.

### *Marketisation*

In the urban state commerce system, the policy of creating commodity markets has been more thoroughgoing than in any other sector of the economy.<sup>67</sup> State purchasing and price controls have been relinquished in this sector and commodity markets introduced for almost all goods distributed by urban state commerce agencies under the planning system. By 1992, the state administrative allocation of goods had been replaced by the market mechanism. Along with this, restrictions on the goods in which state wholesale and retail enterprises and SMCs can deal, and with whom they can trade, have been abandoned.<sup>68</sup>

These reforms have had an enormous impact on state commerce departments and have contributed to the creation of both new enterprises and enterprise groups by the bureaux, SMCs and specialising companies. First of all, as in the real estate management system (where trading companies had also been created), they provided opportunities for these new forms of enterprise to be established. More importantly, however the introduction of markets has meant that administrative allocation of goods is no longer necessary and the state commerce agencies, at least as they operated in the planning system, have become redundant. Particularly in the case of the companies, but also more recently with the SMCs, the new enterprises and the enterprise groups were seen as a transitional move to phase out these now unwanted or obsolete administrative entities. Both may be a step toward the entrepreneurialisation of this sector of the state administration.<sup>69</sup>

The process of entrepreneurialisation first affected the specialising companies. As the enterprises that they formerly administered have become autonomous, these companies have been left with nothing to do.<sup>70</sup> Under the state planning system the companies had administrative functions and had effectively been state agencies, not business entities proper.<sup>71</sup> As part of the post-

<sup>67</sup> I reiterate briefly here the policies described in more detail in Chapter 6.

<sup>68</sup> Reported in the case of the SMCs in *Tianjin ribao*, 28 April 1992. This account notes that the SMCs in Tianjin have been making the most of this.

<sup>69</sup> Similar to that of the real estate management stations described in Chapter 5.

<sup>70</sup> Interviewee 6.

<sup>71</sup> Interviewee 6. See also, for example, *Tianjin ribao*, 27 November 1992, where an article describing the streamlining of 200 officials from Nankai district's ten commerce bureaux and companies, treats both types of organisations as state organs. Note that all the officials were said to have left of set up 'new economic entities'.

Mao enterprise reforms, wholesale enterprises are to become independent of the commercial administration, including the companies, and the companies are in theory obsolete.<sup>72</sup> The strategy was to transform them into independent enterprises as part of the broader policy of making all administrative 'companies' (not just commercial ones) into viable businesses. This task received much attention in Tianjin in 1993, though the strategy had been adopted elsewhere earlier.<sup>73</sup> In 1993, a Municipal Commercial Work Conference decided that the 144 'management companies' (and their 13,770 staff) in the city should 'transform their functions'. The transformation was officially to begin on July 1 1993, and the methods by which the companies might transform were mentioned in an official announcement on 10 June that year by the Municipal Commerce Commission: the companies were to divide up according to specialisation, specialise more narrowly, set up new companies, change into business entities, or form chain companies (*liansuo gongsi*), enterprise groups, or joint stock companies. Alternatively, factories and companies could merge together.<sup>74</sup>

This process of entrepreneurialisation is fraught with difficulties. For all the attempts to reform the companies, they are still in practice being expected to have administrative and even regulatory functions.<sup>75</sup> For example, one account of work in Hebei District's Confectionery Company (*tangye gongsi*) presents its attempts to prevent 'fake and low quality goods' entering the market through the company in terms of the campaign for 'clean government'. These companies are still seen as part of the state system; note the approving tone adopted vis-à-vis this company's regulation of malpractice and protection of consumers.<sup>76</sup> This may be the reason why the

<sup>72</sup> Staff of some companies reported having nothing to do as the enterprises below them have more and more autonomy according to interviewee 6, a local social scientist who had done fieldwork in several Tianjin districts.

<sup>73</sup> The formation of enterprise groups was officially adopted as policy in the late 1980s. In mid-1993, the State Council decided to offer such enterprises greater financial autonomy to redistribute finances within the group, deal in stocks (*gufen*) and issue shares (*gupiao, zhaiquan*), as well as greater autonomy in foreign investment business, control over staffing and appointments and more competitive mechanisms in leadership structures, with Boards of Directors. *Tianjin ribao*, 15 July 1993.

<sup>74</sup> *Tianjin ribao*, 11 June 1993. See also the Tianjinshi shangye weiyuanhui 'Guanyu shi, qu shangye gongsi zhuanbian zhineng shenhua gaige de shixing yijian', pp.23-24. For the line on reforming the companies toward late 1992, see Qin Kejiang, 'Zhenxing shigongsi shi zhenxing gongxiaoshe de zhongyao yihuan' (Enlivening the municipal companies is an important element in enlivening the SMC). *Tianjin shangye jingji*, 1992.6, pp.38-9.

<sup>75</sup> Tianjinshi shangye weiyuanhui (Tianjin Municipal Commerce Commission), 'Guanyu shi, qu shangye gongsi zhuanbian zhineng shenhua gaige de shixing yijian' (Implementing Opinions concerning transforming the functions and deepening the reform of municipal and district commerce companies), *Tianjin shangye jingji*, 1993.4, pp.23-4. This report suggested that trade associations be set up and the functions handed over to them or to government departments.

<sup>76</sup> *Jin wan bao*, 29 July 1993.

specialising companies appear to have depended on their new enterprises and subordinates in the enterprise groups rather than transforming straightforwardly into pure business enterprises as prescribed in reform policy.

The marketisation process has also begun to threaten the existence of the SMCs. In Tianjin entrepreneurialisation was being promoted in 1993 in district SMCs by their municipal superior, and seemed soon to follow in commerce bureaux. The threat of abolition was made very real by the transformations of the state commerce administration elsewhere. In August 1992, Guangdong Provincial Government announced that it was transferring the government functions of the Commerce Bureau, Grain Bureau and SMC to the Finance and Trade Office and creating five companies from the remnants.<sup>77</sup> Early in 1993, Beijing's Second Commerce Bureau (responsible for the provision of produce such as meat, eggs and vegetables) and its subordinate enterprises were transformed in February 1993 into the Beijing Food Produce Industrial and Trade Group (*shipin gongmao jituan*).<sup>78</sup> Finally, in mid-1993, the central Ministry of Commerce was abolished.<sup>79</sup>

In Tianjin, the municipal and district SMCs were adopting the same entrepreneurialisation methods as Guangdong and Beijing, and enterprise groups in the SMC system were being promoted and encouraged by the Municipal General SMC.<sup>80</sup> This is officially said to be in line with the policy of allowing SMCs to return to their original co-operative enterprise form.<sup>81</sup> The Dongli commercial administration's plans indicate the emergence of an entrepreneurialism that is transitional. The aim is for this SMC to cease all administrative tasks and itself become an enterprise.<sup>82</sup> It was for the time being retaining its administrative role *and* its close relationships with enterprises that had been administrative subordinates under the old system, by incorporating them into its own new enterprise organisation and creating new entrepreneurial businesses.<sup>83</sup>

<sup>77</sup> The SMC company would be a collective, other companies would become state-owned enterprises. The specialising companies would become subsidiary companies (*zi gongsi*) within the larger conglomerate that would have a board of directors. *Renmin ribao*, 23 August 1992.

<sup>78</sup> Any remaining 'management functions' relating to trade in foodstuffs were handed over to the municipal government. *Renmin ribao*, 26 February 1993. The reason given here for the creation of the Beijing enterprise groups was that 'after the market was opened up, the government functions falling to the Second Commerce Bureau decreased'.

<sup>79</sup> Announced in March 1993, see *SWB*, FE/1639, 17 March 1993. The Ministry of Commerce and Ministry of Materials and Equipment were replaced by the Ministry of Internal Trade.

<sup>80</sup> See *Tianjin ribao*, 28 April 1992.

<sup>81</sup> See Chapter 6.

<sup>82</sup> Interviewee 39.

<sup>83</sup> Note that the same official, interviewee 39, also said that the old enterprises would soon become independent and the SMC would rely on its new economic entities only, he presumably meant that the old enterprises would be economically independent and have only contractual relations (in the case of those becoming part of the enterprise group) with the SMC.

The commerce bureaux may survive for the time being. Especially at the district level they are still needed to provide information (on materials and buyers) to enterprises that were subordinate to them in the plan system, or help farmers buy fertilisers and pesticides. One section chief said that the main task in his section was now providing information to basic level 'old' enterprises, and effectively acting as an intermediary between producers and retailers.<sup>84</sup> But in the long or even medium term time is running out for the commerce bureaux.

### *Pressures to Reduce Staff*

In this sector, economic liberalisation and the introduction of commodity markets has gone far enough to threaten the existence of the administrative departments and agencies. The streamlining constraint is therefore harder in this system than for the real estate management departments because these departments are more likely to see it as inevitable. One district commerce system official noted that bureaux were generally supposed to cut their staff by about one quarter in the streamlining.<sup>85</sup> In many bureaux this had been exceeded and cuts of one third or one half were common in 1992-3. For example in Xiqing district Commerce Bureau/SMC staff had been cut by 53 per cent.<sup>86</sup> Reports indicate the same processes at work in other commerce bureaux and commissions in the city and districts. Hebei Commerce Commission streamlined from 26 people to 19 in mid-1992, with the seven officials going to a new trade company.<sup>87</sup> The Tanggu district SMC reduced its personnel from 86 to 43, and its sections from 21 to 11, at the same time, setting up seven business entities.<sup>88</sup> Both staffing levels and numbers of sections within departments have been cut back.<sup>89</sup> Dongli SMC had also streamlined staff into its new entities and was planning to do

<sup>84</sup> This was said to be necessary because such enterprises had not (yet) established channels, and did not know how to find each other. Interviewee 36, a district bureau official.

<sup>85</sup> Interviewee 16.

<sup>86</sup> *Tianjin ribao*, 6 February 1993. According to interviews conducted in the bureau in March it had reduced its staff from 100 to 43 people. This included officials, drivers and cooks. Interviewees 34 & 35. There were reports of similar cutbacks in the rural counties. For example Ji County SMC cut nine sections and reduced staff from 97 to 43 people and created five new economic entities. The county SMC paid for the 'cushioning' of the officials who left to work in the entities. They retained their former salaries, bonuses and welfare benefits for the first six months (which began in early 1993). *Tianjin ribao*, 8 March 1993. As a result of the streamlining, there has been the reduction in officials doing traditional or new 'management work'. Old production sections and political work and party sections have been most severely cut back.

<sup>87</sup> Interviewee 42.

<sup>88</sup> *Tianjin ribao*, 4 April 1993.

<sup>89</sup> It is reported that the former 28 'management sections' of the Tianjin Municipal Second Commerce Bureau are now excessive, and structures too large with underemployment. It is for this reason that some have been merged together. *Tianjin ribao*, 15 December 1992.

more of this in the future.<sup>90</sup> 42 officials had left the Municipal Second Commerce Bureau to staff the six new enterprises and ten sections had been abolished.<sup>91</sup>

In this sector the creation of new enterprises has been widely reported in the local press. And in those reports streamlining has frequently been given as a key reason. For example the Municipal SMC's eight economic entities were explained in a local newspaper report in the following way:

'In the Municipal SMC, another special feature of the streamlining of structures has been 'first digging the channels, then letting the water through later'..... Before streamlining the structures, all levels of management departments were vigorously encouraged to set up economic entities.'<sup>92</sup>

According to this account, the SMC had gone about promoting this strategically.<sup>93</sup> Xiqing District SMC had reduced the number of sections within the SMC from 21 to six, and administrative officials from 104 to 43, with most officials going into the SMC's eight new enterprises. This was reported similarly reported in the local press as a streamlining strategy adopted by the SMC.<sup>94</sup>

Because the state commerce system's specialising companies have long had state administrative as well as business functions, they have been subject to the same constraints and were being streamlined in much the same way as state bureaux. Hexi District Vegetable and Non-staple Foods Company was for example described in one account as 'an enterprise-type company which also has administrative management functions', which in order to adapt to the needs of the reforms has streamlined its 17 sections to five departments and two offices, and 60 officials to 30.<sup>95</sup> In early 1993, Tanggu's 13 commercial specialising companies reduced their staff from a total of 620 to 369 and 146 sections to 82 (by merging and abolishing them), set up 25 new businesses.<sup>96</sup>

<sup>90</sup> Interviewee 39.

<sup>91</sup> *Tianjin ribao*, 15 December 1992.

<sup>92</sup> *Tianjin ribao*, 17 November 1992. One writer has noted that the new entities have 'smoothed a path by which government organs can streamline their structures' ('...wei jiguan jingjian jigou bupingle daolu'). Liu, 'Xingban jingji shiti ying zhuyi xie shenme', p.26. See also *Tianjin ribao*, 17 November 1992, where the SMC's new entities were explicitly linked with streamlining and the reductions in the system of a total of 90 sections. In this article, the abolition of management sections is ironically described as 'demolishing the temples' (*chai miao*), a revelation of the former hallowed status of these organisations.

<sup>93</sup> *Tianjin ribao*, 17 November 1992. The streamlining and establishment of economic entities is said here to be novel in the case of the SMC system, because it began at the top and spread downwards.

<sup>94</sup> The officials were praised for demonstrating their talents in doing this work ('like the eight immortals crossing the sea', a reference to an old fable). The eight new enterprises were said to have made profits (*lishui*) of 1.5 million yuan. *Tianjin ribao*, 6 February 1993.

<sup>95</sup> *Jin wan bao*, 7 April 1993; *Tianjin ribao*, 18 June 1993.

<sup>96</sup> *Tianjin ribao*, 4 April 1993.

Hongqiao district's ten specialising companies' new enterprises have also been specifically linked with the need to streamline.<sup>97</sup>

However the streamlining policy itself was probably not the key factor in the emergence of state entrepreneurialism. Had it not been combined with the very real threat to the departments that they would be abolished (in the case of the bureaux) or simply cast adrift (in the case of the specialising companies beneath the bureaux), the streamlining drive might not have been taken up so readily. Although more and more goods were decontrolled in the 1980s, the staff of these commercial departments did not begin to fall until the streamlining drive in 1992 was combined with these other pressures.

#### *Financial Constraints and Incentives*

Financial constraints have also been a factor in the emergence of state entrepreneurialism in Tianjin's state commerce system. This applies most clearly to the wholesale enterprises and specialising companies, though it has also affected the commerce bureaux. Tianjin's state wholesale enterprises were in serious financial straits in the early 1990s. This was particularly true of those that had been 'first level' enterprises in the pre-reform system, which had difficulty adapting to the deregulated system because they had traditionally not had connections with retail outlets. Once the wholesale system was dismantled, these no longer had guaranteed buyers for their goods.<sup>98</sup> In addition to this, the state commerce system as a whole had been shaken by a so-called 'debt chain' crisis in the late 1980s in which buyers throughout the country defaulted on their payments.<sup>99</sup> Wholesale enterprises were hit particularly hard by this and became seriously indebted.<sup>100</sup> They passed those debts on to their respective specialising companies.

The financial burden on the specialising companies has been large, and growing, for a range of other reasons. Like most state administrative agencies (and state enterprises) the companies have a heavy financial burden from pension payments because they have a large staff and many retired former officials to support and provide benefits for. On top of this, the companies have also suffered tax increases in the 1990s.<sup>101</sup> Tax reforms have reduced income from former enterprises in the

<sup>97</sup> *Tianjin ribao*, 15 July 1993.

<sup>98</sup> In the planning system they had simply sold goods on to the second level wholesale enterprises.

<sup>99</sup> This was triggered by changes in banking regulations (later retracted) that allowed the buyers to receive goods before paying for them, thus allowing them to default. See Nie Fengqi and Zhang Guodong, 'Zhuazhu jiyu, jiakuai fazhan, dangzheng heli, zhenzhua shigan' (Grasp the opportunity, accelerate development, unite Party and government and truly do solid work), *Tianjin shangye jingji*, 1993.4, pp.15-16.

<sup>100</sup> Interviewee 6.

<sup>101</sup> Turnover tax (*yingye shui*) was raised from 33 per cent to 50 per cent. Interviewee 42.

system, which rather than submitting profits to their company, have begun to pay taxes to the local government tax bureau.<sup>102</sup> While the contract system in the commercial sector maintained some basic income for departments from their SOEs or collectives, those departments were formally cut off from the new profits earned by those enterprises.<sup>103</sup> And the management fees charged by the city's specialising companies from their subordinate retail and wholesale enterprises were being gradually eliminated in 1993.<sup>104</sup>

Financial difficulties were also sometimes created as a direct result of marketisation. For example, Tanggu district's Non-staple Food Company set up a new company because of financial problems created by the release of prices for the goods handled by it in winter 1992. Sales of goods handled by the company rapidly dropped by 40 per cent, and it was virtually bankrupted. The need to make it solvent was urgent because of the huge financial burden on the company, with its 3000 employees and a large pension burden (retirement pensions were being paid to around 1000 former employees).<sup>105</sup> In interviews, the financial problems of the companies were referred to as an urgent problem. Note that the company was not made bankrupt. As indicated by this example, it would require an alternative system for the provision of certain welfare services, such as pensions, as well as either alternative employment or means of supporting the enormous numbers of workers laid off for bankruptcy to be really viable. Local governments are too aware of the social and political problems created by large-scale unemployment.

It is in this financial context, as well as the under the pressures of the marketisation policy that the specialising companies were forming new enterprises and enterprise groups. The financial problems may have made entrepreneurialism more urgent, but setting up new enterprises was in any case part of a process of entrepreneurialisation in these state agencies. In Tianjin, a co-ordinated campaign was begun in early 1993 to help companies and enterprises in the commerce system 'turn

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<sup>102</sup> It was reported that by the end of 1993 all of the 7000 enterprises in the Commerce Commission's system would be implementing 'shuili fenliu, shuihu huanhuo, shuihou fenliu' measures, and that all those making profits would pay tax (at between 15 and 33 per cent, depending on the turnover of the enterprise). *Jin wan bao*, 31 March 1993.

<sup>103</sup> According to the contract system fixed sums are paid to departments in charge for use of property and other facilities.

<sup>104</sup> It was announced by the Municipal Commerce Commission that these fees would be reduced by one half from July 1993 and the companies would become fully independent. *Tianjin ribao*, 11 June 1993. For a report that this was being carried out in Hongqiao district's commerce system see *Tianjin ribao*, 15 July 1993.

<sup>105</sup> Interviewees 38 and 39.

profits into losses' (*niukui zengying*).<sup>106</sup> Leadership groups were set up specifically to deal with this. This may mean that officials felt great pressure to generate income for their departments.<sup>107</sup>

Similar financial constraints on the bureaux and SMCs were inducing them to set up new enterprises. Departments have turned to alternative entrepreneurial activities as new sources of income to compensate for the loss of old sources. Officials in both Dongli Commerce Bureau and Hebei Commerce Commission said that the new enterprises had been set up as a new source of revenue for the departments because the enterprises traditionally under the them, the old wholesale enterprises and retailers, were to stop paying 'management fees' after the end of 1993.<sup>108</sup> These management fees paid the running costs of the departments and the salaries of the officials and the bureaux were seeking alternative sources of income.<sup>109</sup>

#### *Local Government Role?*

The Municipal SMC has openly encouraged its subordinate departments in the districts to set up enterprise groups, and officials from the commerce bureaux, rather than letting these unprofitable companies go bankrupt, are helping them adapt to the new market environment.<sup>110</sup> It seems therefore that the Tianjin municipal and district governments are encouraging the entrepreneurialisation of the specialising companies and SMCs, and approve their creation of enterprise groups and, though only tacitly, new enterprises. This is for a variety of reasons. First, local leaders need to prevent large scale unemployment, not least because the social problems that generates would create a huge potential for unrest, as well as increase the burden on local governments. The enterprises help avoid this by providing jobs for many officials. Second, if they can be made viable, the new enterprise, enterprise groups and old specialising companies will

<sup>106</sup> For the results of this in 1993, see Nie and Zhang, 'Zhuazhu jiyu, jiakuai fazhan, dangzheng heli, zhenzhuo shigan', pp.15-16.

<sup>107</sup> See also *Tianjin ribao*, 28 April 1993.

<sup>108</sup> These management fees had replaced the former submission of profits by enterprises to departments. Instead, there were contracts between the and different elements making up one reformed company in Hebei District, and with warehouses and wholesale enterprises. See also Zhang Shiming and Zhou Shiping, 'Dui jianmian shangye xingzheng guanli gongsi guanlifei wenti de tantao' (An inquiry into the problem of reducing the management fees of commerce administrative management companies), *Tianjin shangye jingji*, 1993.2, pp.28-9.

<sup>109</sup> Interviewees 39 and 42. In one district, it was said that only 50 per cent of the management fees were now paid. These fees were calculated at 0.6 per cent of turnover (*xiaoshou'e*). Income tax and business tax were also paid by the wholesale enterprises to the Tax Bureau. Interviewee 41.

<sup>110</sup> An official in one district commerce commission said that the companies and wholesale enterprises needed the commissions help to secure bank loans and because their revenues were insufficient even to cover repairs. Interviewee 42. The decision to send bureau cadres into the companies to help them adjust and become real businesses was taken by the Municipal Commerce Commission. Interviewee 38.

generate revenues for the city as a whole.<sup>111</sup> Thirdly, the transformation of the specialising companies and SMCs are in line with central policy.

#### *Changing Attitudes Toward Doing Business*

Another consequence of the central policies that has indirectly contributed to state entrepreneurialism is the changing popular attitudes toward doing business. The transformation of social norms from the revolutionary asceticism and taboos on business in the Mao era to acceptability and the business 'crazes' of 1980s and 1990s has been discussed in Chapter 5. It has affected all spheres of life and is a factor in the state entrepreneurialism in this system as it is in the real estate management system. As mentioned above, the real estate development craze appeared to have even enthused commerce officials, and several departments had set up development companies.

#### *The 'Calculus' of Officials in State Commerce Departments*

The calculus of leading officials in commerce departments in taking decisions to set up new enterprises or form enterprise groups are rather different from those of their counterparts in the REM bureaux. Because of the more thoroughgoing marketisation in this sector, the threat of abolition or transformation into business entities was very real for these departments in 1993.<sup>112</sup> In anticipation of entrepreneurialisation they have decided to prepare by setting up enterprises to absorb staff. In this they may have been motivated on a personal level by reluctance to make old colleagues and staff redundant.

Other factors, such as pressures to reduce the staffing complement and the need to please superiors, have no doubt played a role encouraging leading officials to adopt an entrepreneurial strategy in their department, but have probably been less significant. Officials in these departments may not see a future for themselves in the state administration. While like officials in the REM system they can benefit from the income to alleviate financial constraints and raise their own salaries, they probably have their eye much more keenly on the imminent changes. However sometimes there was also clearly enthusiasm and energy going into business activities. In some departments these enterprises had clearly generated much interest, and links with them were still

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<sup>111</sup> The specialising companies pay taxes submitted to the district and municipality. Interviewee 38.

<sup>112</sup> Particularly after the abolition of commerce bureaux in Beijing and Guangzhou. One senior Tianjin commerce system official said he believed that the commerce bureaux would eventually be abolished. Interviewee 44.

very close. Leading departmental officials usually expressed pride in having a number and variety of enterprises.

For lower level officials in the commerce system, the threat of their departments' abolition has probably made them more willing to leave and take advantage of the alternative (and possibly more lucrative) employment in the new enterprises. For them also, the constraints were 'harder'. This was remarked on in one local press account, where it was said that officials leaving Xiqing district SMC understood that this was a necessary step.<sup>113</sup>

Entrepreneurialism in the specialising companies is part of a process of entrepreneurialisation that has been forced on them in policies supporting marketisation in this sector. It was not surprising that officials in the specialising companies were creating enterprise groups because this had been officially encouraged and they were assured of local government support. The new entities, however, have been set up to solve the very immediate financial burden on the companies. Leading officials are using these and their 'old' subordinate enterprises primarily to support their old companies.

### Conclusions

The new enterprises and enterprise groups in Tianjin's state commerce system have emerged from the pressures and incentives created by encroaching markets for the goods in which commerce departments have traditionally dealt. Departments in the system have been rendered obsolete in their old form and are being compelled to transform themselves into enterprises. This process of entrepreneurialisation and the particular forms of market-oriented activity undertaken as part of that process have been induced by the context in which the market reforms have been implemented. The interdependence of departments and enterprises in the large pre-reform commercial bureaucracy, together with the work unit-based welfare system and the need to avoid increasing unemployment have made both the new enterprises and the enterprise groups, a practical option. As a leading official in one district bureau explained, 'I am a government worker, a representative of the SMC, and head of an enterprise. Historical factors have created the form of government we have.'<sup>114</sup>

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<sup>113</sup> It was reported that their 'minds were at ease' (*xinqing shuchang*), and they were praised for demonstrating their talents in doing this work ('like the eight immortals crossing the sea', a reference to an old fable). The eight new enterprises were said to have already made profits (*lishui*) of 1.5 million *yuan*. *Tianjin ribao*, 6 February 1993.

<sup>114</sup> Interviewee 39.

## Chapter 8

### The Entrepreneurial State

#### Introduction

State business activities have mushroomed in China in the early 1990s.<sup>1</sup> Many of them reveal an important new dimension of state activity that has emerged as China has reformed its command economy and introduced markets. Based on a study of Tianjin's commerce and real estate management (REM) departments, I label this activity 'state entrepreneurialism'. This uses and develops a concept first used by Marc Blecher to describe the profit-seeking activities of individual state bureaux in a rural county in the late 1980s. State entrepreneurialism is a distinctive new form of state involvement in the economy. Moreover, contrary to the expectations of neo-classical political economy, which portrays states as conservative and predatory, it shows that states can adapt to market reform. I present an ideal-type model of the entrepreneurial state (ES) as a foundation for future comparative research as well as for research on state businesses in China, and argue that where state entrepreneurialism is significant in a given locality it may require a revision of the prevailing image of the Chinese state at the local level as developmental or corporatist.

Chapters 4-7 present new empirical data on state business activities in Tianjin's commerce and REM departments. As noted in Chapter 1, the factors contributing to state entrepreneurialism in these two sectors are also likely to obtain in other departments as well as other places and at other levels of government. However, future research is needed to verify that references in the literature to similar activities elsewhere are indicative of the same phenomenon. It is for this reason that a model of the ES has been developed. It is based on a study of the common phenomenon of state bureaux and their subordinate agencies setting up new enterprises (often called 'new economic entities') that differ from the 'traditional' state-owned (SOEs) and collective enterprises in organisational structure and relationship with the bureau. These new enterprises were particularly prevalent in the early 1990s, though there is evidence that they first appeared in the late 1980s and still exist today.<sup>2</sup> Typically, a district bureau in Tianjin had, by early to mid-1993, half a dozen such enterprises, most of which had been established since

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<sup>1</sup> See Chapters 2 and 3. See also Marc Blecher, 'Development State, Entrepreneurial State: The Political Economy of Socialist Reform in Xijiu Municipality and Guanghan County', in Gordon White (ed), *The Chinese State in an Era of Economic Reform* (London: Macmillan, 1991), pp.265-291; Gordon White, 'Basic-Level Government and Economic Reform in Urban China', *ibid.*, pp.215-242; Li Qin, "'Shiti re" chutan' (Initial study of the 'craze for economic entities'), *Liaowang*, 10 August 1992, pp.9-11; excerpts translated in *SWB*, FE/1504, 6 October 1992. John Wong also indicates similar activities at higher levels of the state. See Wong, 'Power and Market in Mainland China: The Danger of Increasing Government Involvement in Business', *Issues and Studies*, Vol.30, No.1 (January 1994), pp.1-12.

<sup>2</sup> Personal communication, Tianjin social scientist, December 1995.

Summer 1992.<sup>3</sup> This dissertation has mainly documented the creation of these new enterprises and the concept of the ES is based on them. But the preceding chapters have also discussed two other forms of business-oriented activity: new 'enterprise groups' in the commerce system, and administrative 'service companies' formed in administrative sections within bureaux. These ventures also involve administrative departments in business, but do not fully match the ES model. A brief analysis of the enterprise groups and service companies will be given below to further clarify the notion of the ES.

I begin this chapter with a discussion of the ES model, elaborate its key features in light of the empirical information presented in Chapters 3-7, and distinguish entrepreneurial activity involved in setting up new enterprises from some other forms of state business-oriented activity, such as the new enterprise groups. I then explain the institutional and structural context of China's market transition, within which the ES has begun to emerge. This leads on to a discussion of whether the ES represents a 'deadlock' in China's market reform or a staging post on the way to further reform. The third part of the chapter assesses the significance of the ES for theories of marketisation and transition. Here I will clarify how the ES challenges current thinking on economic liberalisation, particularly the 'neo-classical political economy' that portrays states as rent-seeking, predatory and resistant to change. I will then show how the ES contributes to our understanding of the Chinese state and assess its implications for current models of the Chinese local developmental or corporatist state. The chapter will conclude with a consideration of issues for future research.

### **The Entrepreneurial State as a Model**

The Chinese state has begun to adapt to market reform, and it has done this by getting involved in business. The new state businesses are part of a complex economic, social and political environment. Within this environment there is a great deal of variety in the business activities of state officials. They differ not only in the relationships between businesses and administrative departments, but also in amount of capital investment, use of privileged access to goods or information, profitability, use of profits, and degree of involvement in competitive business. Some of this business activity constitutes a distinctive state role in the economy that can be

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<sup>3</sup> I use the past tense for information gathered in 1992-3, though as noted above there are indications that these activities have continued into the mid-1990s. I will discuss below the likelihood of state entrepreneurialism persisting.

distinguished from corruption and bureaucratic speculation. To clarify its distinctiveness, I present its key elements in the form of a model of the ES. This model is not intended to be a comprehensive description of the Chinese state; it merely highlights one dimension of state activity. I will discuss later in this chapter the extent to which the ES may be used to characterise the state in China now and requires a revision of the current models of it as developmental or corporatist.

The ES outlined in Chapter 1 is a model of the state (or parts of the state) characterised by the entrepreneurial activities of state officials aimed at producing profits for their bureaux. These activities have six key characteristics: first, they entail the direct business activities of state bureaux in emergent markets. Second, the businesses are set up to earn profits for the bureaux. Third, the bureaux are involved in these businesses in an individual capacity and for their own separate ends. Fourth, state entrepreneurialism involves risk as usually associated with entrepreneurialism. Fifth, this behaviour is adaptive in that it entails officials adjusting their behaviour to the new market environment. It may also be adaptive in the sense that it facilitates state restructuring. Sixth, state entrepreneurialism is distinct from simple speculation or profiteering because it is directed toward productive economic activities. I will discuss below each of these features and why they are important to the notion of the ES.

#### *Direct State Involvement in Business*

The most important and distinctive element of state entrepreneurialism is that it involves the direct business activities of the state in emergent markets. As Marc Blecher notes, a defining feature is that bureaux themselves get involved in business:

‘They start enterprises of their own, which are not independent (though they may be formally separate, like dummy corporations), but rather remain under bureau or agency control.’<sup>4</sup>

There are two ways in which entrepreneurial bureaux and other state agencies are directly involved in business. First, their leading officials actually set up the enterprises. These officials, much like private entrepreneurs, take the initiative to go into business on their bureaux’ behalf, estimating their chances of success in the newly emergent markets, supply and demand,

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<sup>4</sup> Blecher, ‘Development State, Entrepreneurial State,’ pp.267-8.

and judging this business activity potentially profitable and therefore worthwhile. Second, they invest bureau funds in the businesses or arrange other sources of investment.

The direct involvement of bureaux and bureau officials in the new enterprises is in many ways the least ambiguous feature of state entrepreneurialism. In 1993, officials in Tianjin freely discussed their bureaux' new companies, often spoke of them proprietorially, and referred to them as if they were part of, or subordinate to, the bureaux. They often said that they themselves had set them up on their own initiative and also that bureaux had invested in the new businesses. But while bureaux organised and facilitated investment in the enterprises, the amount and sources of investment varied enormously, dependent partly on the size and scope of the new enterprise, and partly on the resources of the bureaux and the preferences and initiative of their officials. Some enterprises had been set up with minimal capital and the bureaux had primarily provided space and basic equipment, while in other cases the enterprises had been started with bank loans guaranteed by the bureau, or were operating as joint ventures with foreign investment.

Bureaux continue to have connections with the enterprises once they have been set up, at least in the minimum sense of continuing to invest or share in profits. In a few cases, the companies were, or had been in their first months, still indistinguishable from the bureau, but most were registered as independent business entities, usually as collectives. However, the registration of companies as collectives reveals little about de facto property rights, the true nature of ownership and control, or the relationship between the enterprises and bureaux.<sup>5</sup> Despite the common formal 'collective' status, claims made by officials about their companies differed. In some cases, enterprises were said to be a part of their parent bureau, and the companies and bureaux did not have separate financial accounts. There, the enterprises were still subject to considerable direction by the bureau and its chiefs and full-time bureau officials were closely involved in running the businesses. However, even where the new companies were said to be independent and had contractual relationships with their bureaux, they had still not fully broken their links, and staff formally retained their bureaucratic posts. This was probably desirable for the staff of the new enterprises who had been transferred from the bureau. They may

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<sup>5</sup> As Louis Putterman has noted with reference to similar problems in defining the property rights of rural enterprises which are similarly registered as collectives. Louis Putterman, 'The Role of Ownership and Property Rights in China's Economic Transition', *The China Quarterly* 144 (December 1995), pp.1150-73. Collectives are preferred because they give better tax breaks than private enterprises but more freedom than SOEs, according to one Tianjin social scientist.

have preferred to retain ties in case the enterprise ran into problems and they needed help or wanted to return to work in the bureau.

*Profit-seeking*

State entrepreneurialism is also profit-seeking. As we have seen in the preceding chapters, state bureaux set up new enterprises with the express intention of generating income for themselves. This income is put to a range of uses. It can be used to pay administrative running costs and cadre salaries, but also to spend on carrying out certain work-related tasks. For example, some REM departments claimed to be using this income for housing repairs. Profit-seeking was evident in state business in both sectors investigated in Tianjin, though in the state commerce system it may have been secondary to the need to provide alternative employment for officials who anticipated the imminent demise of their departments. The profit motive is important to the ES model for two reasons. First, the fact that the profit-seeking is institutional, in the sense that the profits go to the state bureaux rather than to individual officials, helps distinguish state entrepreneurialism from corruption. Were enterprises simply set up by officials to earn income for themselves, this would be either private entrepreneurship or corruption (depending on the source of investment).<sup>6</sup> Second, profit-seeking explains the choice of the term 'entrepreneurial' to label these activities.<sup>7</sup> As I discuss below, the profit motive distinguishes the ES from the currently dominant concepts of the state in China as developmental or corporatist in which local governments promote economic development for the benefit of the locality. The state bureaux' new businesses are not set up for these developmental ends, though this does not mean that they cannot indirectly bring wider benefits.

Together, the direct, profit-seeking elements of state entrepreneurialism distinguish it from the kind of bureaucratic intervention described in economic rent-seeking theory. They also distinguish it from other types of state activity that are sometimes referred to as entrepreneurial. For example Gerschkenon, Evans and Killick have all referred to entrepreneurial states in the more general sense of states that intervene in the economy by using macro-economic levers or in the sense of developmental states that makes policy to encourage national economic growth or

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<sup>6</sup> If state investment was used to set up private enterprises for officials, this would be embezzlement. However, the contractual nature of the relationship between bureaux and enterprises means that this is not always the situation.

<sup>7</sup> Again, this profit-seeking was part of Blecher's notion of the new entrepreneurial state that he had identified in Guanghan county in the late 1980s. Blecher, 'Development State, Entrepreneurial State', p.268.

have a range of nationalised industries and state enterprises. In this sense, the Chinese state has been entrepreneurial for several decades.<sup>8</sup>

*Individual Bureau Involvement*

State entrepreneurialism involves the separate business activities of individual state bureaux or other agencies. The bureaux set up new enterprises for their own individual benefit and on their own initiative (though often encouraged or inspired by similar activities going on around them). The investment, large or small, comes from the bureaux' own budget and not from higher levels of the state, and as indicated above, is intended to satisfy their own financial needs and wants. The entrepreneurial initiatives benefit the bureaux directly through the profits generated and cuts in staffing costs, and by allowing them to provide alternative employment for their officials.

The individual nature of bureaux' business activities are important because it is in this way that the ES disaggregates local government into its separate constituent bureaux. It is this aspect of the ES that distinguishes it from the currently dominant models of the state in China. Models of the local 'developmental' or 'corporatist' state portray it as composed of levels of government that co-ordinate local development. The ES model highlights the fragmented nature of the Chinese state by showing bureaux within local government pursuing their own separate agendas, often in competition with each other. Different bureaux often set up new ventures in the same spheres of business (for example the many real estate development companies, bars and restaurants) and often compete with each other as well as with other state, collective, or private enterprises. In the ES, while local governments tolerate or even encourage the new enterprises, and ignore their breaches of central policy, they do not co-ordinate their creation or directly reap the benefits. The new enterprises' profits are shared with their parent bureaux, rather than with the local government as a whole. Although local governments benefit indirectly from the taxes paid or perhaps from donations made by the enterprises<sup>9</sup>, they are created to solve the problems of the individual bureaux.

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<sup>8</sup> Peter B. Evans, 'The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change', p.158; Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge, Mass. Bellknap, 1962). Tony Killick, *Development Economics in Action: A Study of Economic Policies in Ghana* (London: Heinemann, 1978).

<sup>9</sup> Or they may reap the benefits in the future: many enterprises still had tax exemptions in 1993. At least one entrepreneurial bureau, one of the most successful, had made donations to the district and municipal governments.

This disaggregation of the state into its constituent bureaux and departments marks a departure not only from current alternative models of the state in China with their focus on local governments as unitary entities, but also from the comparative political economy literature. It is common not only in much of the neo-classical political economy, particularly in the economic theories of rent-seeking, but also in development economics and writing on developmental states, to present the state as a unitary actor or focus on central governments and top leaders. The ES not only challenges the expectations of state resistance but shows that such expectations are in part the result of a different focus and methodology.

### *Risk*

These profit-seeking state businesses involve an element of risk that is important to the notion of entrepreneurialism. Because the new enterprises are set up with capital from the individual state bureaux, either from their own budgets or with bank loans guaranteed by them, those bureaux are taking entrepreneurial risks. Since for some bureaux, the real capital investment is minimal, the risk is small. Yet significant sums are sometimes involved and there is no guarantee that these will be recouped. This element of risk distinguishes bureaux' creation of new enterprises from their previous bureaucratic administration of SOEs. In the past, although bureaux 'managed' SOEs, investment was allocated by higher levels of the state. Regardless of their efficiency, enterprises could not be bankrupted and would always be subsidised from state coffers. This created the so-called 'soft budget constraint' that released SOEs from the need to be efficient in order to survive, and eliminated any risk for managers, and indeed for employees and state officials in bureaux immediately superior to the enterprises.<sup>10</sup> In contrast, since the new enterprises are set up by the bureaux themselves, they cannot expect to be bailed out by higher levels of the state should they run into difficulties.<sup>11</sup> There is a certain amount of risk for officials leaving their bureaux to work in the enterprises, as they would lose their jobs if the ventures failed. However, some departments agreed that they would allow their officials to return to their bureaucratic posts should problems arise, and for these employees, the risk is reduced.

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<sup>10</sup> First conceived of by János Kornai. See for example János Kornai, 'The Soft Budget Constraint', in Kornai, *Vision and Reality, Market and State: Contradictions and Dilemmas Revisited* (Hemel Hempstead: Harvester Wheatsheaf, 1990), pp.20-46.

<sup>11</sup> The legal situation is apparently unclear, but it is unlikely that leading officials would be held personally liable for losses incurred. Interviewee 1.

### *Adaptation*

As a consequence of its preceding features, state entrepreneurialism is also adaptive. It is in this respect that it challenges neo-classical political economy's expectation of bureaucratic resistance to market reform. State entrepreneurialism is adaptive in one, and possibly two, ways. First, it involves state officials' innovative adjustment to market reform. Officials are 'plunging into the sea' of business and making the most of market opportunities to improve their bureaux' position. They are adapting by embracing and using emergent markets rather than hindering or resisting them. However, this does not mean that they abandon all their former practices and powers. Indeed, as I will discuss below, state entrepreneurialism reveals a manipulation of bureaucratic resources remaining from the pre-reform system. Second, state entrepreneurialism may also facilitate the restructuring of state bureaux. In Tianjin, the new enterprises were staffed by former bureau officials and this had allowed some bureaux to cut back their staff and reorganise themselves. In some departments, these enterprises were providing alternative employment for officials in a process of 'entrepreneurialisation' in which obsolete administrative departments were to be dismantled or transformed into economic enterprises. Should these transformations proceed as anticipated, entrepreneurialism would pave the way for state restructuring as the planning system is phased out. This seems to be the central government's hope; while it has tolerated the enterprises, it has stipulated that they must become fully independent of their parent bureaux.<sup>12</sup> If this happens, then state entrepreneurialism will have been merely a transitional phenomenon in the marketisation process. In 1993, the break between bureaux and enterprises had not yet been made.

### *Productivity*

I also include as a final feature of state entrepreneurialism, and one that is indicated in the other dimensions above, that it can be distinguished from simple profiteering and speculation. State entrepreneurialism does not, for example, involve simply using the dual pricing system and making profits by buying goods at low state controlled prices and then selling at free market ones. In contrast, entrepreneurial state involves investment in productive businesses that construct buildings, trade goods, run bars and restaurants. This element differentiates state entrepreneurialism from rent-seeking. Theories of rent-seeking portray states as intervening in the

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<sup>12</sup> See Chapter 2.

economy by either creating bureaucratic obstacles to trade, or receiving bribes in exchange for allowing access to markets, rather than being involved productively in economic activity. They cannot account for state economic activity that is directed toward productive ends. However, whether or not state activity that results in output or trade is *optimally* productive for the economy, as defined in economic rent-seeking theory, is more difficult to assess. I will therefore discuss this issue this separately below.

The ES model is based on investigation of the 'new enterprises' set up by state bureaux. However, these were other forms of state involvement in business in Tianjin's REM and commerce bureaux in 1992-3. A brief discussion will indicate how they relate to the notion of state entrepreneurialism and help clarify it.

#### *Enterprise Groups and State Entrepreneurialism*

Another, more controversial, form of business activity by state agencies was emerging in the state commercial administration in the 1990s. Some state commerce agencies were forming 'enterprise groups' in which they themselves constituted the core company, while formerly subordinate enterprises, and sometimes new enterprises, became subsidiaries. The enterprise groups seem to fulfil some of the criteria of the ES model by involving state administrative departments more closely in running the enterprise groups and thus directly doing business. They also appear to be adaptive: the groups were being created to absorb the administrative agencies of the state and transform them into enterprises so that former officials become business people.

However, the enterprise groups differ from state entrepreneurial activity as defined above in several ways. First, they are not truly individually entrepreneurial or innovative at the level of the individual state department. The enterprise groups are not being set up autonomously on the initiative of officials in those departments for their department's own separate ends. Tianjin's suburban commerce system departments were being encouraged to form enterprise groups by the municipal bureau as an extension of a central government policy to reform the rural trading system, and officials were merely following policy. Although they are meant to operate as profit-seeking businesses, the enterprise groups are primarily set up to transform the state and employ officials. Though they share the employment motive with the entrepreneurial state, they do not seem to be taking the entrepreneurial profit-seeking initiative. Moreover, although enterprise groups incorporate state departments, those departments are not investing directly in them and are

not taking any risk. For these reasons, the enterprise groups seem do not fully match up to state entrepreneurialism, though they do reveal another path to state restructuring and a deliberate attempt by policy makers to promote state adaptation.

In cases where, on the initiative of the separate departments, new enterprises were being created into which the departments would merge, or which would form a key part of the group, the enterprise groups may have involved some state entrepreneurial activity. But overall, they are a central government strategy to dismantle the state rural and suburban trading system with a minimum of pain for former officials in that system. Although state entrepreneurialism itself also reflects an informal accommodation between central policy makers and other parts of the state bureaucracy (see below) the enterprise group phenomenon has been officially approved and seems to be a strategy directed from above. In contrast, state entrepreneurialism is spontaneous, and central policy makers have equivocated over its desirability.

#### *Financially Independent Administrative Sections*

Some administrative sections within bureaux in Tianjin had been made 'independent budgeting units' and this had prompted them to find their own new sources of income. Their situation varied: some sections were fully independent and self-reliant, having to find their own running costs, while others received part of their income from the bureau. But in both cases, the sections had set up 'service companies' that charged fees for handling certain administrative tasks or for providing information like consultancy firms. This arrangement contains some features of state entrepreneurialism, but not all. The companies are set up by individual sections within bureaux to generate revenue for themselves, and their creation has not been ordained by policy. There is therefore an element of profit-seeking in this state business activity. However, it may also fall short of state entrepreneurialism on several counts. First, there is no evidence of capital investment and therefore of risk, and so while the enterprises are exploiting the knowledge of their officials, they may be doing so in a way that smacks of rent-seeking. This depends on the 'services' that their companies provide. Some sections seem to be charging fees as monopoly suppliers of services previously available free to the public or to private entrepreneurs, rather than providing new services. While this is not quite the same as economic rent-seeking theory's conception of bureaucratic state activity that causes wasteful competition for access by entrepreneurs, it is reminiscent of exchange of power for money created by a state monopoly. This kind of practice is controversial and commonly a target of criticism in China. However, if

the new companies are providing useful services at cost that are otherwise unavailable (because it would not be economic for private entrepreneurs to provide them), this is not rent-seeking. And if they offer new services and are responding to demand for information and consultants they may be entrepreneurial and adaptive, particularly if their companies operate in a market environment.

### **The Entrepreneurial State and the Structural Logic of Market Transition**

The preceding chapters have identified four factors contributing to the emergence of state entrepreneurialism in Tianjin's state commerce and REM departments. In both sectors, the most important factors are the opportunities and constraints provided by markets. Second, state entrepreneurialism has provided a means to relieve the growing financial burden on departments as tasks increase, some sources of income are removed, inflation devalues state funds, and the expectations of the urban population rise. Third, pressure (from central government) to reduce expenditures by cutting staff has provided extra impetus as departments have taken the opportunity to comply by transferring staff into the new businesses. Fourth, changing attitudes toward doing business in Chinese society have provided the wider normative sanction for profit-seeking, wealth-creation and entrepreneurialism.

These four factors have been produced in the wider structural and institutional context in which market reform has proceeded, a context characterised by a modified Stalinist command economy and the enduring rule of the Chinese Communist Party. More specifically, state entrepreneurialism is the result of the introduction of markets into an economic, political and social system dominated by an extensive administrative bureaucracy and governed by a single, centralised Leninist party. Three features of this institutional context are singled out below as particularly significant in the appearance of state entrepreneurialism. They are the pre-reform bureaucratic administrative control of the economy; a work unit-based system of economic, social and political organisation; and one-party rule and the consequent diminution of rule by law. I describe each of these in turn and then explain how the behaviour of officials has changed within the context they provide.

#### *Bureaucratic Administrative Control of the Economy*

The Soviet-influenced centralised planning system adopted by the PRC in the 1950s operated via a comprehensive bureaucracy in which administrative mechanisms took over functions that are

left to markets in capitalist economies.<sup>13</sup> As industrial and commercial enterprises and property were nationalised, many strong societal interests, such as the bourgeoisie and large landowners, were eradicated, and an extensive state bureaucracy came to dominate the running of the economy.<sup>14</sup> This has not only created a comprehensive and costly bureaucracy that is ill-equipped to administer a market economy. The state bureaucracy has also represented a wide and powerful range of interests to be accommodated in the course of the market-oriented reform process. Although different parts of the bureaucracy vary in their power, state institutions in the 1990s have retained control over many resources and still exert considerable influence over policy formulation and implementation.<sup>15</sup> They can use that influence to direct the economic transition process in ways favourable to themselves. This influence is evident in the emergence of state entrepreneurialism, which can be connected with the pre-reform system's comprehensive bureaucratic control of the economy in two important ways.

First, officials have been well-placed to exploit the opportunities of economic liberalisation and get involved in business. They are often well-connected in business networks and have contacts with the producers and distributors with whom they dealt in the pre-reform system, as well as access to a range of resources and information. They also tend to have good contacts within the state bureaucracy, which can be useful for example in registering and licensing companies. As the REM departments' success in securing real estate development projects shows, they do often make the most of their advantageous position, in this case their close connections with land bureaux.

Second, the bureaucracy is now involved in implementing economic reform and its co-operation is needed to carry through policies that reduce its control and size. State entrepreneurialism has emerged partly because it facilitates the implementation of state enterprise (SOE) reform and streamlining policies by reducing bureaucratic opposition to them. Financial constraints on departments have tightened for a variety of reasons, partly because budgetary allocations, fell in the early 1990s. State enterprise reform reduced one other important source of

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<sup>13</sup> See Chapter 2.

<sup>14</sup> Milovan Djilas saw the similar processes that had taken place in Eastern Europe as having created a new bureaucratic class. See Djilas, *The New Class: An Analysis of the Communist System* (London: Thames and Hudson, 1957).

<sup>15</sup> See for example Susan Shirk, 'The Politics of Industrial Reform', in Elizabeth J. Perry and Christine Wong (eds), *The Political Economy of Reform in Post-Mao China* (London: Harvard University Press, 1985), pp.195-222, and Gordon White, *Riding the Tiger* (London: Macmillan, 1993), especially Chapters 3 & 4.

departments' financial control in Tianjin's commerce system. Under the command economy, SOEs submitted profits to the administrative state agencies in charge of them; and as the enterprise reforms have been pursued and a tax system introduced, this source of control has been removed. State entrepreneurialism, which increases income and compensates for this, may therefore assist SOE reform. It is probably for these reasons that state entrepreneurialism has been tacitly encouraged by local governments, and at times by central government. The pre-reform system of bureaucratic administrative control over, and economic dependence on, state and collective enterprises may also have made creating new enterprises a more obvious option for officials in China than it would be for officials in systems where there had not been such a long-standing practice.

State entrepreneurialism has also facilitated implementation of streamlining and restructuring measures. Central policy makers see the extensive bureaucracy created to administer the command economy as costly and inappropriate, and have accepted the need for state restructuring for the commodity economy. The state bureaucracy has in the past been able to resist such policies: repeated streamlining initiatives and their failure nation-wide in the past indicate that it is commonly hard to achieve compliance.<sup>16</sup> State entrepreneurialism facilitates its implementation by providing alternative employment for officials. If it can re-employ significant numbers of officials in the long term, it may help to dismantle those parts of the state rendered obsolete by markets in a way that is acceptable to leaders at several levels of the state system.

#### *Work Unit System*

The reasons for bureaucratic opposition to streamlining policies are best explained in the context of the 'work unit' (*danwei*) system that forms the foundation of the state organisation. The work unit was fundamental to the Chinese state and the command economy created in the 1950s. In the context of bureaucratic administration of the economy, it has contributed to the emergence of state entrepreneurialism in two ways. First, as an important part of an economic system characterised by state allocation of work and little labour mobility, it contributed to a working environment in which people build up long term relationships.<sup>17</sup> This has enhanced patterns of '*guanxi*' or patron-client relations from top to bottom in the system, both between people

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<sup>16</sup> See Chapter 2.

<sup>17</sup> Brantly Womack, 'Transfigured Community: Neo-Traditionalism and Work Unit Socialism in China', *The China Quarterly* 126 (June 1991), pp.313-332.

working in different units and also within work units. Networks have been built up not only among officials in the state bureaucracy but also between these officials and people working in economic enterprises. These networks may provide useful business contacts. Clientelist relations are proving conducive to market-oriented bureaucratic strategies rather than creating vested interests that resist change.

The work unit system also creates friendships or loyalties within work-places so that leading officials, enmeshed in long-standing relationships with staff, may be unwilling to make their subordinates or colleagues redundant. They may instead feel obliged to try and provide for them. This has created problems with the implementation of restructuring or streamlining policies. State entrepreneurialism helps solve these by providing alternative employment opportunities.

State provision of welfare and benefits through this work-unit system has also contributed to state entrepreneurialism. First, welfare expenditures (especially on pensions and health care) of work units in the state administration have added to their growing financial burden, and have made entrepreneurialism attractive for leading department officials. This is something commonly discussed in relation to state enterprises, for whom the welfare burden has been regarded as a significant obstacle improving efficiency, but it is commonly overlooked as a problem for state administrative departments.

Second, central policy for streamlining the state has been difficult to implement not just because of reluctance within individual departments to see colleagues unemployed. It has also been hindered by the lack of a comprehensive support system for the unemployed. This, together with already growing urban unemployment, has made both central and local governments unwilling (or unable) to enforce streamlining policy because of the instability more unemployment might create. State entrepreneurialism provides alternative employment for officials, and indeed many officials are keen to work in the new enterprises. It therefore meets the needs of the state at several different levels: individual bureau, local government and central leadership.

*Continued Rule by a Single, Centralised Leninist Party*

The continuation of the Chinese Communist Party's (CCP's) one-party rule is also an important part of the institutional framework contributing to the appearance of state entrepreneurialism. The CCP's control of the state at all levels and the centralised nature of its internal organisation have

meant that it is directed by a few powerful individuals and often become dependent on the arbitrary proclivities of a supreme leader. Under Mao, this resulted in a highly politicised social and economic environment. The legal system was meagre and ineffectual, and normative control was maintained through ideological 'education', monitored and enforced by the CCP's comprehensive, pervasive and centralised Leninist organisation.

This system of control served to contain (though not entirely eradicate) abuses of power in the absence of legal restraints, but it also meant that, especially during the Cultural Revolution, profit-seeking business was stigmatised and 'capitalists' persecuted. This, and the shortage of significant market opportunities in the command economy, meant that involvement in business was virtually impossible for officials despite the powerful bureaucracy and the pervasiveness of clientelist relations at that time.<sup>18</sup>

The highly politicised and somewhat arbitrary rule of the CCP helps to account for the lack of state entrepreneurialism in the pre-reform PRC, but also for the dramatic transformation in norms since 1979. Under the leadership of Deng Xiaoping, the country's attention has turned from continuing the revolution to economic growth and development. Once Deng had decreed that 'to get rich is glorious', business activities increased, and by the early 1990s urban China was swept by business-related 'crazes' that would have been unimaginable ten years before.<sup>19</sup> But as the old norms have been eroded, the new ones do not include a substitute for the displaced Maoist revolutionary, egalitarian morality.<sup>20</sup>

At the same time, reforms have decentralised power and reduced the CCP leadership's ability to discipline and control. Moreover, legal structures that have atrophied under one party rule have also been unable to deep pace with the rapid development of local economic activity; officials are now able to exploit loopholes in a legal system unable to cope with the new varieties of business activity and define the boundaries of licit and illicit activity.<sup>21</sup> Despite efforts to rebuild it, the legal system is still hobbled by frequent arbitrary political intervention, either by central government decree or at a personal level, in a system where the '*guanxi*' relations often fill the spaces in the formal legal framework.

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<sup>18</sup> As argued by Gordon White, 'Corruption and Market Reform in China', *IDS Bulletin*, Vol.27, No.2, 1996, pp.40-47.

<sup>19</sup> See Chapter 5.

<sup>20</sup> White, 'Corruption and Market Reform in China', p.44.

<sup>21</sup> *Ibid.*, pp.43-44.

### **Behavioural Change: The Calculus of State Officials**

Rather than remaining passive implementors of plans passed down from higher levels, many leading officials in state agencies have become entrepreneurs who are taking advantage of opportunities produced by emergent markets to do business for and through their departments. The institutional and other structural changes and their normative consequences described above have changed the behaviour of state officials. Not only is entrepreneurship and profit-seeking now much more widely acceptable, it is virtually compulsory. The opportunities that officials have been provided by economic and bureaucratic connections retained from the organisation and administration of the planned economy and the pervasive sense that everyone *else* is making the most of any opportunities to benefit from the rapid economic growth, may have led them to do the same for their bureaux.

The undermining of the Maoist revolutionary social and moral codes has parallels within the state bureaucracy. There, political loyalty used to be valued over expertise and promotion was according to length of tenure rather than ability and performance. Since 1979, these norms have been challenged and eroded, and the old political loyalty is no longer required. The image of the ideal official portrayed in central leadership rhetoric and propaganda has changed from the 'red', ideologically correct, loyal party cadre of the Mao period to the able technocrat. However, while there has been an attempt to institute new norms for retirement, to promote younger, better educated able officials, and encourage leading officials to take responsibility and be pro-active<sup>22</sup>, the criteria by which performance is judged are not entirely clear and regularised. The lack of moral direction in society, together with an absence of clear standards of professional conduct, mean that younger officials in particular are now keen to show their worth by demonstrating adaptability, flexibility and dynamism in the new market environment. Though it was still common to hear them say that their job was to 'serve the people' (a classic Maoist phrase)<sup>23</sup>, a new twist was sometimes added when they argued that this was best done through their business ventures.

The absence of clear measures of bureaucratic performance during the transition from a highly politicised period of CCP rule to one of 'economics in command', has helped produce an

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<sup>22</sup> See Chapter 2. In the late 1980s the 'responsibility system' was extended to state agencies according to which leading officials were encouraged to take the initiative in running their departments.

<sup>23</sup> The officials may also have been saying this partly out of habit or because they felt they ought to. But in some cases it did seem genuine.

unintended but significant change in bureaucratic behaviour. Because entrepreneurialism allows implementation of streamlining and restructuring policies, and generates revenues while avoiding raising unemployment, it is also valued by bureau officials' superiors in both the vertical professional systems and in the horizontal local governments. This, together with the lack of clear legal regulation on the limits of official behaviour (especially economic activities) has provided the space for entrepreneurialism. In the context of the work unit system and the long-standing relationships it creates, ties between officials in the bureaux and other parts of the local government mean that pleasing local leaders and bureaucratic superiors takes priority over staying within (weak) legal boundaries or obeying central level decrees.

In addition to these professional factors, there are also personal incentives for officials to become entrepreneurial. First, entrepreneurialism can be expected to raise their status, but probably more important are the gains in terms of raised salaries<sup>24</sup>, or an improved working environment if some of the earnings are used to improve their workplaces. Furthermore, some leading officials clearly enjoy their bureau's business activities.<sup>25</sup> For many it may have been a welcome change or diversion from their usual routine, though for some it was more of a necessity because of the imminent demise of their bureaux.

For lower level officials who staff the new enterprises, the attraction of state entrepreneurialism lies rather more straightforwardly in the opportunity to earn potentially higher salaries and the challenge and novelty of doing business. Again some of these motives are influenced by changing norms towards doing business. This form of business activity is also particularly attractive since employees often have the additional security of knowing that they can return to their official posts if the business ventures are unsuccessful. For those officials who foresee the closure of their bureaux in the near future and therefore do not have this security, this is still an attractive alternative to redundancy.

### **The Entrepreneurial State: Deadlock or Staging Post?**

State entrepreneurialism is the product of the transition from a bureaucratically-dominated economic, social and political system under the government of a single, centralised Leninist party

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<sup>24</sup> Technically it is their bonuses that will be raised. Salaries consist of a basic wage that is set by the state and cannot be arbitrarily changed by departments. Apparently, however, bonuses can be increased if the funds are available.

<sup>25</sup> Also noted by Thomas G. Rawski, 'Implications of China's Reform Experience', *The China Quarterly* 144 (December 1995), pp.1150-1173.

to a substantially different one in which the market mechanism is more significant. The existing bureaucratic elite may take advantage of its position of power or privilege to benefit from that process, but not necessarily in ways that obstruct market reform.

State entrepreneurialism's use of state power to take advantage of the opportunities of the market seems to resemble developments in other 'transitional' economies such as Hungary, Poland and Russia. There, people empowered by their position in the institutions of the Communist Party-ruled system have also attempted to benefit from market reform. Most notable is the phenomenon of 'nomenklatura privatisation' noted in the economic transition of the former Soviet Union, whereby members of the former political elite use their power to 'privatise' state assets such as economic enterprises in such a way that they take control and have de facto ownership rights.<sup>26</sup> However, while there are broad similarities in the use of power or privilege to benefit from markets, the actual forms and contexts of the officials' activities are rather different. First, nomenklatura privatisation does not refer to officials in the state bureaucracy or government, but 'officials involved in taking control of industrial assets may ... often include individuals from the managerial and other elites (academics, KGB officials, Komsomol activists, etc.)'.<sup>27</sup> Indeed, some observers have noted that the principal beneficiaries of privatisation were former enterprise managers rather than bureaucrats.<sup>28</sup> Second, in China, state bureaux are operating on markets, and rather than privatising old state enterprises, they are investing in the creation of new companies that earn profits for them as part of the state, rather than as individuals.

The ES resembles more closely the kind of 'half-way house' that János Kornai identified as a feature of the market socialist project in Hungary in the 1980s. According to Kornai, the Hungarian reforms had only succeeded in reaching a halfway point because, while achievements had been made in the introduction of markets, bureaucratic 'co-ordination' was still significant.<sup>29</sup> For Kornai, who focused mainly on state enterprise reform, continued bureaucratic control of

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<sup>26</sup> David Stark, 'Privatization in Hungary: From Plan to Market or From Plan to Clan?', *East European Politics and Societies*, Vol.4, No.3 (Fall 1990), pp.351-392; Roman Frydman, Kenneth Murphy, Andrzej Rapaczynski, 'Capitalism with a Comrade's Face', *Transition*, 26 January 1996, pp.5-11.

<sup>27</sup> Peter Rutland, 'Privatisation in Russia: One Step Forward, Two Steps Back?', *Europe-Asia Studies*, Vol.46, No.7 (1994) pp.1109-1131. Quotation from pp.1109-10. Rutland notes that for this reason, nomenklatura privatisation is a controversial notion.

<sup>28</sup> Simon Johnson and Heidi Kroll, 'Managerial Strategies for Spontaneous Privatisation', *Soviet Economy* 7 (4) 1991, pp.281-316.

<sup>29</sup> János Kornai, 'The Hungarian Reform Process: Visions, Hopes and Reality', *Journal of Economic Literature*, Vol.XXIV (December 1986), pp.1687-1737, especially pp.1699-1700.

SOEs was an obstacle to further progress<sup>30</sup>: because officials retained power in the enterprises, they would prevent further reform. State entrepreneurialism is the product of a combination of continued official power and resources during market reform that partly resembles Kornai's account of the Hungarian process. It differs in that entrepreneurial officials in China are actively taking advantage of new market opportunities rather than simply retaining former bureaucratic controls; their involvement is not really 'bureaucratic' at all, but business-oriented and profit-seeking.

As Gordon White has already pointed out in a discussion of a similar problems with SOE reform in China, the question when looking at the half-way house of partial reform, is whether it merely a 'staging point' in the reform process or reflects a 'political deadlock' that has halted that process.<sup>31</sup> The ES, while arguably itself a half-way situation, may permit movement in the stalemate the reached in China's SOE reform by compensating state bureaux financially for loss of control over enterprises. In facilitating bureaucratic streamlining, it may also lead the way out of another political deadlock: by providing employment for officials, state entrepreneurialism may also allow parts of the bureaucracy to be dismantled without increasing state expenditure on labour insurance and without the need to wait for reconstruction of the welfare system, a slow and laborious process. In the commerce system in particular, it seems to aid the dismantling of administrative departments and state restructuring.

The long term prospects for a resolution of these problems and for consolidation of achievements in reducing staffing levels will depend on the success of the state's new enterprises. Moreover, state entrepreneurialism, while allowing movement from situations of deadlock at this stage, might itself lead to others. This will depend on how state entrepreneurialism evolves. It may itself create interests that resist reform in the future. For example, the central government seems unhappy with a close relationship between bureaux and new enterprises, and urges their separation, but bureaux may be unwilling to give them up. If separation can be enforced, then state entrepreneurialism may prove to be a transitional phenomenon on the way to dismantling the state, a staging post in reform process rather than just another half-way house.

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<sup>30</sup> As noted by Peter Nolan, *China's Rise, Russia's Fall: Politics, Economics and Planning in the Transition from Stalinism* (Basingstoke: Macmillan, 1995), pp.75-77.

<sup>31</sup> White, *Riding the Tiger*, p.77.

### **An Entrepreneurial, Rent-seeking or Conservative State?**

The state entrepreneurialism that has emerged in China as the market reforms have progressed, has not been anticipated in the currently dominant thinking and writing on states and economic reform. The neo-classical political economy has supported this broad agenda to extend markets and reduce the role of the state in the economy via cuts in the civil service and programmes to privatise state sector enterprises. Yet at the same time, it typically expects states to resist such policies. Through economic theories of rent-seeking, sometimes combined with public choice notions of interest maximisation and preservation, this school anticipates that officials in countries with significant state intervention and comprehensive state administration of the economy will be part of systems of entrenched interests—either winning rents from their manipulation of the economy or maintaining networks of support by the distribution of rents. In either case, these entrenched interests will mean that it is in the interests of state officials to resist reform.<sup>32</sup> This position has been bolstered by the work of Kornai and others who, based on observation of problems in the marketisation in Eastern Europe, have also anticipated bureaucratic resistance.<sup>33</sup> Together such work as made for a dominant paradigm on states and market reform.

State entrepreneurialism challenges this paradigm's expectation of state resistance to market reform. It does this by showing that in some contexts, officials that formerly administered the planned economy have been given incentives to adapt rather than defend 'entrenched interests'.<sup>34</sup> As Peter Evans argues, the rent-seeking predatory state idea is useful '[a]s an explanation of one pattern of the incumbent behaviour which may or may not dominate a particular state apparatus'. But as a 'master theory, applicable to states generally', the neo-

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<sup>32</sup> This expectation of resistance is noted by both John Waterbury and Peter Evans. See John Waterbury, 'The Heart of the Matter? Public Enterprise and the Adjustment Process', in Stephan Haggard and Robert R. Kaufman (eds), *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State* (Princeton: Princeton University Press, 1992), pp.182-217; Peter B. Evans, 'The State as Problem and Solution: Predation, Embedded Autonomy and Structural Change', *ibid.*, pp.139-181.

<sup>33</sup> János Kornai, 'The Hungarian Reform Process: Visions, Hopes, and Reality', *Journal of Economic Literature*, Vol.XXIV (December 1986), pp.1687-1737. Anders Åslund, *Gorbachev's Struggle for Economic Reform* (London: Pinter Publishers, 1989).

<sup>34</sup> Waterbury and Evans have argued that groups of (usually leading) officials have sometimes initiated and promoted change. Waterbury, 'The Heart of the Matter?'; Evans, 'The State as Problem and Solution: Predation, Embedded Autonomy and Structural Change'.

classical political economy model is 'problematic'.<sup>35</sup> Not only is it inadequate as a general theory, its generalised notions of state reaction to economic reform are misplaced.

State entrepreneurialism reveals one dimension of state activity. Although many bureaux now devote significant amounts of energy to their new business activities, they still carry out their conventional administrative functions. And, while state entrepreneurial activity can be distinguished from rent-seeking and corruption, this does not mean these activities are absent from the Chinese state or that Chinese officials never resist change. Where there are no other options or no incentives to adapt, officials may prefer the status quo. I further clarify the distinctiveness of state entrepreneurial activity and then its place within this complex economic and political environment by addressing two potential lines of criticism, first that state entrepreneurialism is in fact rent-seeking, and second, that it is a form of conservatism.

#### *Entrepreneurialism or Rent-seeking?*

First, sceptics might maintain that to label state business activities 'entrepreneurial' is to make a naïve misinterpretation of state intervention that creates 'rents' or involves state officials in rent-seeking activities themselves. To answer this line of criticism it is necessary to distinguish between economic theories of rent-seeking and less technical notions of rent-seeking in the sense of exchange of power for money.<sup>36</sup> Economic rent-seeking theory maintains that state intervention invariably leads to economically damaging unproductive activities.<sup>37</sup> Most of this literature has focused on state intervention in the sense of the bureaucratic setting of quotas or tariffs, which leads private entrepreneurs to use their resources not to contribute to the economy but in wasteful competition for import licenses, tariff-seeking, lobbying, and tariff evasion.<sup>38</sup> This kind of behaviour bears little relation to the entrepreneurial state activities evident in Tianjin, in which state intervention in the economy takes the form of direct business on the part of the state rather

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<sup>35</sup> Evans, 'The State as Problem and Solution: Predation, Embedded Autonomy, and Structural Change', pp.144-5.

<sup>36</sup> As White notes that it is called in China. White, 'Corruption and Market Reform in China', p.43.

<sup>37</sup> Anne O. Krueger, 'The Political Economy of the Rent-Seeking Society', *American Economic Review* 64 (June 1974), pp.291-303, reprinted in Buchanan et al, *Toward a Theory of the Rent-Seeking Society*, pp. 51-70; James M. Buchanan, 'Rent-seeking and Profit Seeking', in Buchanan et al, *Toward a Theory of the Rent-Seeking Society*, pp.3-15; David C. Colander, 'Introduction', in David C. Colander (ed), *Neo-Classical Political Economy: the Analysis of Rent-seeking and DUP Activities* (Cambridge, Mass.: Ballinger, 1984), pp.1-7; Jagdish N. Bhagwati, 'Directly Unproductive, Profit-seeking DUP Activities', *Journal of Political Economy*, Vol.90, No.5 (October 1982), pp.988-1002. The literature on rent-seeking is large, but these texts representative statements of the 'new political economy's' rent-seeking position.

<sup>38</sup> Bhagwati, 'Directly Unproductive, Profit-seeking DUP Activities', pp.989-90.

than the creation of bureaucratic obstacles to trade. The new businesses typically retail goods, build property or provide services and facilities ranging from department stores and restaurants to hairdressers and dance halls. They also provide employment and raise the incomes (and purchasing power) of employees. Moreover, those enterprises set up with bank loans contribute to financial trade and markets as well as, through their tax payments, to state revenues. State entrepreneurialism refers to a kind of state activity that is not provided for in rent-seeking theory.

Neither does state entrepreneurialism fall into the category of rent-seeking by attempting to monopolise and limit entry into labour and product markets in other ways.<sup>39</sup> While it may often involve privileged access to goods through bureaucratic connections, it is not dependent on a monopoly.<sup>40</sup> In practice, many bureaux are setting up enterprises dealing in goods not traditionally handled in their sector and which are traded by both other bureaux' enterprises and other state and non-state businesses. In any case since private entrepreneurs may, in the early stage of market transition, lack the information to trade in some goods, a bureau's business might be the sole trader without seeking to maintain or exploit a monopoly position. The onus would be on critics to demonstrate that the entrepreneurial state is squeezing out, or preventing the entry of, other enterprises by monopolising particular markets.<sup>41</sup>

The new businesses may not resemble the usual types of state activity envisaged in economic rent-seeking theory, but they may still constitute rent-seeking. To assess whether or not they do, we must return to the essential features of such activity in the rent-seeking literature. According to Bhagwati, a general definition is that they '...yield pecuniary returns but do not produce goods or services that enter a utility function directly or indirectly via increased production or availability to the economy of goods that enter a utility function'.<sup>42</sup> Tullock argues,

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<sup>39</sup> Kenneth J. Koford and David C. Colander, 'Taming the Rent-seeker', in Colander, *Neo-Classical Political Economy*, pp.205-16.

<sup>40</sup> In the late 1980s state officials did engage in profiteering, mainly by manipulating the 'dual track system' of state and market prices. They bought goods at low state prices and resold on the free market. However, according to at least one Chinese analyst, the businesses that have been created in the 1990s by state bureaux are qualitatively different from those earlier practices, Li Qin, "'Shiti re" chutan'.

<sup>41</sup> In any case, the argument may not be relevant to the extent that the monopolies in the rent-seeking literature are not clearly state monopolies, but apparently monopolies by private entrepreneurs. See for example Gordon Tullock, 'The Welfare Costs of Tariffs, Monopolies and Theft', *Western Economic Journal* (now *Economic Enquiry*) 5 (June 1967), pp.224-232, reprinted in Buchanan et al, *Toward a Theory of the Rent-Seeking Society* (College Station, Texas: A&M University Press, 1980), pp.39-50.

<sup>42</sup> Bhagwati, 'Directly Unproductive, Profit-seeking (DUP) Activities'. This definition actually applies to what Bhagwati has labelled 'directly unproductive, profit-seeking activities' in an attempt to extend the concept of rent-seeking. Bhagwati sees rent-seeking as one sub-group of DUP.

for example, that tariffs and monopolies create waste because resources 'are spent not in increasing wealth, but attempting to transfer or resist transfer of wealth'.<sup>43</sup> This is sometimes stated in terms of the social cost.<sup>44</sup> Buchanan, for example has stated that '[t]he term *rent-seeking* is designed to describe behavior in institutional settings where individual efforts to maximize value generate social waste rather than social surplus'.<sup>45</sup>

To evaluate state entrepreneurialism in these terms, it is necessary to assess whether it is productive (i.e., 'enters a utility function') or wasteful for the economy. However, problems arise when it comes to considering the costs (or benefits) of state business activities in practice. In economic theory, rent-seeking is by definition a deviation from an idealised state of equilibrium in the economy.<sup>46</sup> In a non-equilibrium situation, 'rent-seeking' (usually conceived in the form of bureaucratic intervention) may have positive economic effects. It 'can have the effect of alleviating the ill-effects of a distortion-creating intervention, e.g., by rendering it ineffective. It may then be associated with a higher level of output than would otherwise have occurred.'<sup>47</sup> Rent-seeking in this sense is difficult to define and to measure.<sup>48</sup> Whether or not state intervention is productive, in the sense that it increases the total volume of activity in the economy, is dependent on initial economic conditions. It is beyond the scope of this dissertation to determine whether state entrepreneurialism is productive in this wider sense. However, although it cannot be claimed that state entrepreneurialism is always optimally productive, the new state enterprises resemble private business more than the bureaucratic intervention envisaged in rent-seeking theory. Moreover, in the context of the highly distorted command economy, even state business might be a move in the 'right' direction towards equilibrium..<sup>49</sup> State

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<sup>43</sup> Tullock, 'The Welfare Costs of Tariffs, Monopolies and Theft', in (reprint, see note above) Buchanan et al, *Toward a Theory of the Rent-Seeking Society*, p.44.

<sup>44</sup> Krueger, 'The Political Economy of the Rent-Seeking Society', p.295. Note that as Krueger points out in this paper, rent-seeking includes both legal and illegal activities, the definition being based on economic waste or productivity, rather than legality. See also Colander, pp.8-9.

<sup>45</sup> Buchanan, 'Rent-seeking and Profit-seeking', p.4.

<sup>46</sup> *Ibid.*; Killick, *A Reaction Too Far*.

<sup>47</sup> Killick, *A Reaction Too Far*, p.13. For such an arguments, Killick cites T.N. Srinivasan, 'International trade and factor movements in development theory, policy and experience', in G. Ranis and T.P. Schultz, *The State of Development Economics: Prospects and Perspectives* (Oxford: Basil Blackwell, 1988), pp.556-7. See also Buchanan, 'Rent Seeking and Profit Seeking', p.4, and Bhagwati argues that the relationship between economic utility and welfare outcomes depends on the situation in which 'productive' and 'unproductive' activities are carried out and can be counter-intuitive. See Bhagwati, 'Directly Unproductive, Profit-seeking DUP Activities'.

<sup>48</sup> See Colander, pp.8-9.

<sup>49</sup> As Alan Smart has noted of other activities in China, this may be a case of 'rent-seeking' increasing the efficiency of an economy by overcoming existing obstacles. See Smart, 'The political economy of rent-

entrepreneurialism may not be wasteful at this stage in the reform process or at other times when the economy is highly distorted. Theorists of neo-classical political economy may argue that in their idealised free market, entrepreneurial activity would be more efficient if the state were not involved and it was left to private entrepreneurs, but to prove that state entrepreneurialism is in fact rent-seeking they would, have to demonstrate the negative utility of the new enterprises in the transitional economy.<sup>50</sup>

Despite the problems of identifying rent-seeking activities in actually-existing economies, theories of rent-seeking are useful for highlighting and distinguishing certain forms of behaviour associated with the economic activities of officials. They might therefore be used to argue that, productive or not, state entrepreneurialism is just another form of rent-seeking because rather than taking risks, officials, are exploiting advantages derived from their public office—by, for example, using bureaucratic connections to gain access to goods. But although state entrepreneurialism involves manipulation of public resources, it is also ‘entrepreneurial’ in the sense that capital must be raised, markets found, revenues earned, and risks are involved. Even when capital investment is small, bureaux are still taking entrepreneurial risk. For example, the REM department that decided to build a department store may have used its connections or office to obtain the land, but it still had to build the store and run it effectively in order to be able to pay back its loan and make profits. This was by no means guaranteed, since there were many other department stores, new and old, in Tianjin in the early 1990s.<sup>51</sup> This is activity of a qualitatively different kind from, for example the exchange of export licences for bribes or favours. The fact that this is being done by the state rather than private entrepreneurs merely shows the limits of rent-seeking theory (and particularly the cruder view of the state as ‘predatory’) which sees state intervention as simply ‘bad’. State entrepreneurialism is a hybrid of entrepreneurial activity and state manipulation that neo-classical political economy is unable to account for.

Similarly, some analysts have seen the businesses as kind of bureaucratic corruption.<sup>52</sup> This is because while they are not strictly illegal in the fledgling legal system, the new state

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seeking in a Chinese factory town’, *Anthropology of Work Review*, Vol.XIV, No.2 (Summer-Fall 1993), pp.15-19, cited in White, ‘Corruption and Market Reform in China’, p.43.

<sup>50</sup> Again, this probably comes down to proving that state entrepreneurialism is squeezing out private businesses that are more efficient.

<sup>51</sup> Indeed some bureaux officials complained that the manager of the store (a former bureau chief) would have to be replaced as he was not running the business as well as they wanted.

<sup>52</sup> White, ‘Corruption and Market Reform in China’, who terms ‘entrepreneurial’ activities of the kind that I discuss here as ‘Class B Corruption’.

businesses result from officials' semi-legitimate exploitation of loopholes in that system and have at times been criticised by both Chinese central leaders and observers.<sup>53</sup> However, while state entrepreneurialism and corruption both involve state officials taking advantage of their public office to engage in economic activity, state entrepreneurial activities can be distinguished from corruption in the sense of the abuse of office for private gain.<sup>54</sup> Consigning these activities to the category of corruption may mean that their distinctiveness and their potential role in China's transition to a market economy is overlooked.

*Entrepreneurialism or Resistance?*

A second line of criticism against the notion of state entrepreneurialism might be that it in fact reveals officials conservatively clinging to power and to their habitual roles by, for example, substituting new enterprises for the state enterprises that have been given financial autonomy in the reform period. However, while the new businesses may help replace lost resources and control over state enterprises, the relationship between bureaux and their new enterprises is innovative, and enterprise management structures are quite different. These are not simply replicas of the traditional state enterprises with whom the bureaux retain bureaucratic patterns of management and control, simply passing down plans and collecting profits. The new enterprises operate in the market system, and have minimal administrative structures designed to enhance efficiency. Moreover, the bureaux themselves are investing in the new enterprises. Unlike state enterprises, they are not subsidised or funded from higher levels and operate under a harder budget constraint. The bureaux creating these new enterprises retain a micro-economic role in some ways reminiscent of earlier practice and relying on bureaucratic resources, but they are also learning to operate within the market economy. Moreover, for officials in those departments setting up enterprises because they foresaw their abolition, the motives were less conservative and more a case of making the best of a bad situation. As John Waterbury has argued, officials may adapt when reform is inevitable and they can no longer resist.<sup>55</sup>

As the discussion of the structural logic of state entrepreneurialism has already revealed, the ES is an adaptive state that is changing quickly, and by definition includes elements of its

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<sup>53</sup> Ibid., p.41.

<sup>54</sup> As Gordon White notes. He terms this latter type of activity 'Class A corruption'. Within this he includes smuggling, embezzlement of public funds, theft of state property, bribery, fraud and insider dealing. Ibid., p.41.

<sup>55</sup> Waterbury, 'The Heart of the Matter?'. He calls this a '*sauve qui peut*' strategy.

former structures and practices. Despite containing these elements of the former system, this state is characterised by a high degree of adaptation to the market environment. As Thomas Rawski has pointed out, we have to accept that economic development will never proceed cleanly according to an ideal scenario.<sup>56</sup> Chinese state entrepreneurialism demonstrates the need to go beyond one-dimensional characterisations of the developmental process that ignore institutional and social context and expect states and the officials that staff them to display immutable qualities or make smooth and problem-free transformations.

### **Entrepreneurial State or Local Developmental State?**

The ES, in addition to contributing to understanding of states in times of economic transition, also contributes empirically to our understanding of the state in China and suggests a need to reconsider current models of the state at the local level. The dominant models of the Chinese state in the reform period do not see it resisting reform. These models, which like the ES, are based on research in lower levels of the state system, also see it as adaptive. But unlike the ES, they portray the state in the localities in terms of a unitary local government that co-ordinates economic development.<sup>57</sup>

Marc Blecher's model of the local developmental state, based on research in Hebei Province, involves the local government co-ordinating infrastructural developments and encouraging and assisting local enterprises.<sup>58</sup> Jean Oi, on the basis of research in the late 1980s-1991 in counties and villages in Tianjin, Shandong, Liaoning and Sichuan, has developed the notion of 'local state corporatism' in which several levels of local government together promote rural industry in the localities. In both, local government, or levels of local government, are presented as a unitary actor co-ordinating local economic growth and development.<sup>59</sup>

In contrast, the ES disaggregates local government and shows individual bureaux within them separately undertaking profit-seeking business ventures. It reveals that bureau activities are not always co-ordinated by the local government chief as part of a local government strategy. As

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<sup>56</sup> Rawski, 'Implications of China's Reform Experience'.

<sup>57</sup> Marc Blecher, 'Development State, Entrepreneurial State'; Jean C. Oi, 'Fiscal Reform and the Economic Foundations of Local State Corporatism', *World Politics*, 45 (October 1992), pp.99-126, and 'The Role of the Local State in China's Transitional Economy', *The China Quarterly* 144 (December 1995), pp.1132-49. See Chapter 1.

<sup>58</sup> Marc Blecher, 'Development State, Entrepreneurial State'.

<sup>59</sup> Jean C. Oi, 'Fiscal Reform and the Economic Foundations of Local State Corporatism', *World Politics*, 45 (October 1992), pp.99-126, and 'The Role of the Local State in China's Transitional Economy', *The China Quarterly* 144 (December 1995), pp.1132-49.

noted in Chapter 1, local governments are made up of many bureaux. The ES shows those bureaux creating businesses separately and primarily in their own individual interests. Often, different bureaux have enterprises operating in the same sphere of economic activity and this results in competition among them. Although local governments may tolerate or encourage those business activities, they do not co-ordinate them. The ES therefore suggests that models of the unitary local developmental or corporatist state mask a much more complex and fragmentary relationship between state and economy.

Does the ES represent an alternative view of the state in China that challenges the LDS model, or can state entrepreneurialism and developmental local governments coexist in the same locality? Jean Oi does indicate that some competition, though of a different kind, takes place within local governments when she notes that 'even though the government may be seen as a corporate entity, within the corporation there are diverse interests competing for limited resources.'<sup>60</sup> She also makes occasional reference to certain bureaux' activities within the local corporatist state, though does not describe the relationship between bureaux and the government as a whole. In her model, it remains not only unclear just what 'local government' refers to, but also how competition and individual bureau activity relate to the notion of corporatism and whether they enhance or undermine the model of the local corporatist state.

Blecher suggests that local governments are *either* developmental *or* entrepreneurial, but since his explanations of the ES and LDS are based on accounts of their historical development in two different counties, the two forms of activity are not necessarily incompatible in principle. Since state entrepreneurialism refers to only one dimension of state activity, it may exist within developmental local governments. Governments may co-ordinate the promotion of developmental and infrastructural projects while still allowing individual departments to run businesses. The coexistence of state entrepreneurialism and local government developmentalism would be feasible at the county level in the countryside, where the local government would be large enough for more autonomous bureau activity, as well as co-ordination of all activities being unlikely. It is also likely in urban governments. Indeed, in Tianjin, governments at municipal and district level were directing local infrastructural projects while individual bureaux were involved in doing business. But how far and in what circumstances the two do co-exist are empirical questions and further research is needed

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<sup>60</sup> Oi, 'Fiscal Reform and the Economic Foundations of Local State Corporatism', p.110.

to determine the balance of entrepreneurial and developmental activity in local governments. This may vary from place to place and over time.

Where the two activities do co-exist, the important question is to what extent the entrepreneurialism of individual bureaux undermines the local government's developmental initiatives. This is not necessarily a problem: it is conceivable that the mayor's office and the local government commissions can co-ordinate bureau co-operation on the development of the cities roads or telecommunications without this being undermined by their competitive business activities in other spheres. However, state entrepreneurialism may indirectly create problems for governmental co-ordination. For example, urban planning can be made more difficult as economic liberalisation and decentralisation reduce departments' dependence on budget allocations from higher levels.<sup>61</sup> Income from state entrepreneurialism may further enhance bureaux' autonomy by increasing their financial independence, with consequences for local government cohesiveness.

Can the ES characterise the state at the local level and replace the picture of it as developmental? The ES and the LDS are best taken as models that are at opposite ends of an analytical spectrum. While some localities may conceivably approach these extremes, it is likely that in practice their activities fall somewhere in between. As noted above, in Tianjin in the early 1990s, entrepreneurial business was an important focus of state activity, but despite this, there was still evidence of municipal government direction of local infrastructural and developmental projects. However, if state entrepreneurialism were a dominant feature of activity within local governments, that would justify use of the term ES as a description.<sup>62</sup> If entrepreneurialism were less developed than co-ordinating activities, then the LDS might be the better characterisation. But even where the ES is not dominant, its prevalence in many localities suggests the need for further research to determine whether there is also state entrepreneurialism in 'developmental' or 'corporatist' governments and individual business activities there have simply gone unremarked. It also shows a need to redefine our understanding of the Chinese state and to go beyond distinguishing between layers of government to break down 'local government' itself into its constituent bureaux and agencies.<sup>63</sup>

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<sup>61</sup> Interviewee 29.

<sup>62</sup> Though based on a study of departments within an urban local government, it may also be used to characterise parts of the state at other levels, and in the countryside as well as in the cities, where state entrepreneurial activities are prevalent.

<sup>63</sup> The LDS and local state corporatism are modifications of the notion of the 'developmental state' in the sense of a central state that is capable of directing development, which has also been discussed in relation to China. See Gordon White & Robert Wade, 'Developmental States and Markets in East Asia: An

### Conclusions and Issues for Future Research

Chinese state entrepreneurialism is the consequence of structural and behavioural changes created by the implementation of market-oriented reforms in the context of a command economy and continued Communist Party rule. Though market reform policies did not prescribe state entrepreneurialism, they have created the opportunities and constraints that have produced it. State entrepreneurialism reflects continued bureaucratic power in the economy that enables officials to use emergent markets for the benefits of their bureaux. However, state entrepreneurial activities in China also show that states can adapt to market-oriented reform and challenge neo-classical political economy's expectations that states will obstruct change because of vested interests. It also demonstrates that the context in which market reforms are implemented and officials are working is important, and that theories which cannot take it into account are inadequate for explaining reform processes. While the strand of neo-classical political economy influenced by theories of public choice ostensibly focuses on officials, it takes a 'thin' view of those officials by abstracting them from context. This results in assumptions that their self-interest would always lead them to prefer the status quo and resist change. The notion of the ES has been developed from research using a methodology that places officials in their structural context, and shows how their interests and incentives are shaped by their changing institutional and structural environment. This produces a more realistic understanding of official behaviour. This account of state entrepreneurialism therefore also shows the need to go beyond the general theories of neo-classical political economy and for more detailed empirical studies of states in transition.

In 1993, bureaux had only recently set up their new state businesses, and there is still much that we do not know about them. Research on a wider scale, geographically, sectorally and at different levels of the state system, is needed to find out more about their origins and levels of investment, productivity, sources of inputs, and channels through which they purchase and supply goods, as well as the connections and information used to set up and run them. More needs to be known about the range of existing practices in terms of day-to-day control, the extent to which

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Introduction', in Gordon White (ed) *Developmental States in East Asia* (Basingstoke: Macmillan, 1988), pp.1-19. The entrepreneurial state may be compatible with the 'developmental state' in this sense if there is convergence between entrepreneurial activities and the central state's aims (and in the early 1990s this seemed to be the case).

the businesses derive privilege from their state connections, and relationships between different bureaux and their businesses. It is hoped that new research will be able to refine and improve on the notion of the ES.

State entrepreneurialism is a new phenomenon that has emerged in the midst of market reform, and research also needs to follow its development and consequences. It may prove to be a transitional phenomenon on the way to further economic liberalisation, facilitating future transition, and paving the way to state restructuring. On the other hand, it may lead to a deadlock in the reforms. In the early 1990s, the central government has apparently tacitly condoned these activities because of the problems they solve and because they might provide permanent employment for officials and allow the state to be restructured. But it hopes to see separation of departments and enterprises in the future. If all goes according to this scenario, then the new enterprises will become independent of their departments.<sup>64</sup> It will be instructive to observe this transformation and investigate how 'property rights' evolve or are handed over, and how (if at all) the state's investments are reclaimed. State assets have in effect been invested in the companies and the fate of those assets and future property rights will be significant to the future assessment of this activity as 'state' or 'non-state'. Should the new enterprises not become independent and should they remain prevalent at all levels and in all parts of the state system, this may constitute a new state role in the economy and require revision of current models of the state in China.

State entrepreneurialism also raises other questions that have not been addressed or not discussed fully enough here and which need further research. For example, more investigation is needed to clarify whether or not the 'service companies' of administrative sections within state bureaux are best seen as entrepreneurial or rent-seeking. Similarly, much more needs to be known about 'enterprise groups', the differences in their arrangements and the role of the former state departments within them. No doubt there are also many other different forms of state business now also deserving close investigation.

The ES model can be used to gauge on a case by case basis whether other state businesses are best described as entrepreneurial or more closely approximate corrupt or 'rent-seeking' behaviour. On this basis, future research may also be better able to judge whether entrepreneurial behaviour is widespread enough to justify use of the term ES to describe given

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<sup>64</sup> As noted in Chapter 2, this has consistently been the preferred option of the central government.

localities or parts of the state. But the ES model has been developed not only as a guide for future research in China. It is hoped that it will prove a fruitful model of the state under economic reform and open up new avenues of research in comparative political economy. There, it can be used as a point of departure for the study of state reactions to economic reform by providing an alternative to the rent-seeking conception of the state. Joan Nelson has pointed out that '[p]olitical analysts tend to emphasise political obstacles to [reform] measures without considering whether or not it might be possible to work around those obstacles'.<sup>65</sup> This dissertation, in revealing state entrepreneurialism and adaptation in the Chinese reform process, begins the work of showing just how some of the expected obstacles to economic reform may be worked around.

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<sup>65</sup> Joan M. Nelson, *Economic Crisis and Policy Choice*, p.13.

## APPENDICES

## APPENDIX 1

### 1.1 Methodological Notes

Interviews were conducted in Tianjin between September 1992 and September 1993. I was fortunate that in the six months prior to my arrival in Tianjin, China had rapidly emerged from almost three years of economic austerity and relatively tight political control. During those three years, foreign social scientists had been restricted and closely monitored in their research in the PRC. By the time I arrived, in September, the atmosphere had changed radically and was much relaxed.

Materials cited in this dissertation interviews actually include two different kinds of material: information from formal interviews with officials a range of departments in Tianjin's government, and information gained from informal discussion with local social scientists who were experts in the fields of commerce, real estate management or Chinese government.

The government interviews were normally arranged by me through local contacts, usually social scientists. They were not, with the exception of interviews in one district, arranged formally through Nankai University's or (to my knowledge) any other Foreign Affairs Office (*waiban*). This avoided, or at least reduced the chances of, formal restrictions being placed on the interviewees about what they could divulge. This was something I knew had happened to other foreign social scientists doing research in the same locality. I specified to my appointed assistants who I would like to talk to (for example 'a leading official in xx district bureau). In most cases I was able to interview in the bureaux I chose. I aimed to talk to people both at the municipal level and in a range of districts in the two sectors of government I had chosen. I therefore tried to interview officials in both commerce and real estate management bureaux in the three urban districts, two suburban districts and one outlying district, though I also took up opportunities to visit other districts if they arose. I also interviewed officials in related sectors of the local governments, such as planning departments and the Urban and Rural Construction Commission, in local government offices, and in real estate development companies of various kinds. In total, I interviewed 65 people. Of these, 49 were Tianjin officials, 20 in the real estate management system officials, 13 in the state commerce system, the others in related systems.

The interviews normally lasted two to three hours. They were conducted in Chinese, without an interpreter. I made handwritten notes and did not use a tape recorder. I was accompanied at all interviews by either an assistant or the person who had arranged the interviews, who also took notes. I used an open question format allowing flexibility to follow up new lines of inquiry where relevant. I began by asking basic questions about the interviewee, the internal structure of the bureau, the range of functions carried out by the bureau and then moving on to discussing reform policies affecting that work. In some, but not all cases, I was able to interview the same person more than once to tidy up loose ends.

## 1.2 List of Interviewees

1. Chinese social scientist
2. Official, REM system
3. Official, construction sector
4. Official, REM system
5. Chinese social scientist
6. Chinese social scientist
7. Official, REM system
8. Official, REM system
9. Official, REM bureau
10. Official, REM bureau
11. Official, REM bureau
12. Official, REM bureau
13. Local government official
4. Official, staffing complement system
15. Official, REM system
16. Official, commerce bureau
17. Official, constructionSector
18. Employee, real estate development company from south China
19. Party official
20. Official, REM bureau
21. Official, housing reform office
22. Official, government office
23. Official, construction sector
24. Official, REM system
25. Official, REM system
26. Official, REM system
27. Official, REM system
28. Official, REM system
29. Chinese social scientist
30. Chinese social scientist
31. Chinese social scientist
32. Official, commerce system
33. Official, commerce system
34. Official, commerce bureau
35. Official, commerce bureau
36. Official, commerce bureau
37. Official, commerce bureau
38. Official, commerce system
39. Official, commerce bureau
40. Manager, commercial enterprise
41. Official, commerce system
42. Official, commerce system
43. Manager, commercial enterprise
44. Official, commerce system
45. Chinese social scientist
46. Official, planning department
47. Official, REM system
48. Official, neighbourhood office
49. Official, neighbourhood office
50. Official, neighbourhood office
51. Official, neighbourhood office

52. Official, neighbourhood office
53. Official, Tianjin economic development zone
54. Official, neighbourhood office
55. Official, construction sector
56. Employee, real estate development company
57. Employee, real estate development company
58. Employee, real estate development company
59. Employee, real estate development company
60. Representative, Tianjin Real Estate Association
61. Employee, real estate development company
62. Chinese social scientist
63. Employee, real estate development company
64. Official, REM bureau
65. Chinese social scientist

## APPENDIX 3

### Appendix 3.1 Tianjin Municipal Government, 1985 (1992)

#### Commissions

Foreign Economics and Trade/Foreign Affairs Office ( <i>duiwai jingmao wei/waishiban</i> )	
Education and Sanitation ( <i>jiaowei wei</i> )	
Planning ( <i>ji wei</i> )	Economy ( <i>jing wei</i> )
Transport ( <i>jiaotong wei</i> )	Agriculture ( <i>nong wei</i> )
Urban Environment ( <i>shirong wei</i> )	Family Planning ( <i>jihua shengyu wei</i> )
Urban Construction ( <i>chengjian wei</i> )	Sports ( <i>ti wei</i> )
Commerce ( <i>shangye wei</i> )	Science and Technology ( <i>keji wei</i> )
Development Zone ( <i>kaifa qu wei</i> )	Nationalities Affairs ( <i>minzu shiwu wei</i> )
Economic Structure Reform ( <i>jingji tizhi gaige wei</i> )*	Port Management ( <i>kou'an guanli wei</i> )*

#### Offices

Municipal Government office ( <i>bangongting</i> )	Technological Development ( <i>ji gai</i> )*
Letters and visits ( <i>xin fang ban</i> )**	Party Committee Office ( <i>dang wei ban</i> )**
Coastal Port ( <i>kou'an ban</i> )**	Overseas Chinese Affairs ( <i>qiao wu ban</i> )**
Air Defence ( <i>ren fang ban</i> )	Structural Reform ( <i>tigai ban</i> )**
Economic Coordination ( <i>jing xie ban</i> )	Religious Affairs section ( <i>zongjiao chu</i> )**
Research ( <i>yanjiu ban</i> )*	

#### Bureaux

Government Organs and Administration ( <i>ji guan xingzheng</i> )**	National Secrets ( <i>guojia baomi</i> )*
Urban government projects ( <i>shizheng gongcheng</i> )	Dossier ( <i>dang'an</i> )
Personnel ( <i>renshi</i> ) [with Staffing Complement commission, <i>bian wei</i> ]	
Supervision ( <i>jiancha</i> )	Tianjin Port affairs ( <i>Tianjin gangwu</i> )*
Planning ( <i>guihua</i> ) [with Land ( <i>tudi</i> )*]	Parks and Forests ( <i>yuanlin</i> )
Religious Affairs ( <i>zongjiao shiwu</i> )*	Real Estate Management ( <i>fangan</i> )
Textile Industry ( <i>fangzhi</i> )	Environmental Protection ( <i>huanbao</i> )
Coal Chemical Industry ( <i>meihua</i> )**	Local Railways ( <i>ditie</i> )
Metallurgy Industry ( <i>zhijin</i> )	Environmental Sanitation ( <i>huanwei</i> )
Chemical Industry ( <i>huagong</i> )	Technological Supervision ( <i>jishu jiandu</i> )
First Light Industry ( <i>yiqing</i> )	Auditing ( <i>shenji</i> )
Second Light Industry ( <i>er qing</i> )	Finance ( <i>caizheng</i> ) [with Tax ( <i>shuiwu</i> )*]
Electrical Industry ( <i>dianzi gongye</i> )	Price ( <i>wujia</i> )
First Commerce ( <i>yishang</i> )	Industry and Commerce ( <i>gongshang</i> )
Second Commerce ( <i>ershing</i> )	Agricultural Machinery ( <i>nongji</i> )*
Transport ( <i>jiaotong</i> )	Foreign Trade ( <i>waimao</i> )
Medicine ( <i>yiyao</i> )	Tourism ( <i>liyou</i> )
Grain ( <i>liangshi</i> )	Culture ( <i>wenhua</i> )
Statistics ( <i>tongji</i> )	Publishing ( <i>chuban</i> )
Labour ( <i>laodong</i> )	Broadcasting and Television ( <i>guangbo dianshi</i> )
Standards ( <i>biaozhun</i> )**	Higher Education ( <i>gaojiao</i> )
Weights and Measures ( <i>jiliang</i> )**	Education ( <i>jiaoyu</i> )
Machine Industry ( <i>jixie gongye</i> )*	Education (No.2) ( <i>er jiao</i> )
Materials ( <i>wuzi</i> )	Health ( <i>weisheng</i> )
Public Utilities ( <i>gongyong</i> )	Rural Forestry ( <i>nonglin</i> )
Building Materials ( <i>jiancai</i> )	Water Conservancy ( <i>shuili</i> )
Building Projects ( <i>jiangong</i> )	Aquatic Products ( <i>shuichan</i> )
Township and Town Enterprises ( <i>xiangzhen qiye</i> )	Animal Husbandry ( <i>xumu</i> )
National Security ( <i>guojia anquan</i> )	Judicature ( <i>sifa</i> )

Public Security (*gong'an*)

Civil Affairs (*minzheng*)

*Total (1985): 77*

\* Departments in 1992 established since 1985    \*\* Departments in 1985 abolished by 1992

Source, 1985: Personal communication, Tianjin Municipal Government.

Source, 1992: Tianjin jingji nianjian bianji bu, *Tianjin jingji nianjian 1992*, pp.5-6.

### **Appendix 3.2 Tianjin Municipal Party Committee, 1985**

Party committee office (*bangongting*)

Organisation department (*zuzhibu*)

Propaganda department (*xuanchuanbu*)

United Front department (*tongzhanbu*)

Education and Health Work department (*jiaowei gongzuo bu*)

Science and Technology Work department (*keji gongzuo bu*)

Industrial and Communications Work department (*gongjiao gongzuo bu*) [comprising an  
Industrial commission (*gongye wei*) and a Communications commission (*jiaotong wei*)]

Commercial Work department (*shangye gongzuo bu*)

Urban Construction Work department (*chengjian gongzuo bu*)

Rural Work department (*nongcun gongzuo bu*)

Planning Work commission (*jihua gong wei*)

Foreign Economics and Trade commission (*duiwai jingmao gong wei*)

Political and Legal commission (*zhengfa wei*)

Old Cadres bureau (*lao ganbu ju*)

Taiwan Work office (*duitai gongzuo ban*)

State Secrets Commission office (*baomi wei ban*)

Party History office (*dangshi ban*)

Municipal Official Organs Party Commission (*shizhi jiguan dangwei*)

*Total: 18*

Source: Personal communication, Tianjin Municipal Government

### Appendix 3.3 Tianjin: Economic and Demographic Statistics

Table A3.1 Tianjin's Growth, 1949-1994

Year	Growth in Output Value (%)	Population growth (%)
1949-52*	42.6	2.9
1953-57	12.8	3.8
1958-62	-1.8	2.4
1963-65	15.3	2.3
1966-70	7.7	0.5
1971-75	7.2	1.5
1976-80	7.3	1.3
1981-85	9.3	1.4
1986-90	5.2	1.5
1991-92	11.7	0.7
1993†	11.8	0.8
1994‡	13.5	0.8

Source: Figures for 1953-1992 from *Tianjin tongji nianjian 1993*, p.33.

\* Figures for 1949-52 from *Tianjin sishinian*, p.191.

† Figures for economic growth in 1993 from *FBIS* 10 March 1994; population growth in 1993 from *FBIS*, 8 April 1994.

‡ Figures for 1994 from *FBIS*, 28 April 1995.

Table A3.2 Profile of Tianjin's Districts

Name	Area (Km <sup>2</sup> )	Population (Thousands)	Towns (Zhen)	Townships (Xiang)	Neighbour- hood Offices	Residents Committees	Villagers Committees
TOTAL*	11,305	8 726	37	184	129	2673	3824
Heping	10	490			12	261	
Hedong	36	624			18	323	
Hexi	32	655			20	397	
Nankai	30	693			20	425	
Hongqiao	21	574			15	345	
Hebei	25	609			16	348	
Tanggu	859	436		8	13	198	36
Hangu	416	164		7	6	83	58
Dagang	928	294	2	5	4	49	73
Dongli	469	289	1	8	2	46	106
Beichen	482	306	3	9	2	58	121
Jinnan	429	358	3	7		33	157
Xiqing	539	292	2	7	1	44	149

\*Total numbers for Tianjin, inclusive of the five rural counties  
 Source: Tianjin jingji nianjian bianji bu (ed), *Tianjin jingji nianjian 1992*, p.1.

APPENDIX 4

Table A4.1 Control of Urban Housing in the PRC, 1978-84

	1978	1979	1980	1981	1982	1983	1984
Total Housing Area	516.78	583.05	642.19	709.55	783.87	874.98	964.53
Area Managed by REM system (%)*	172.69 (33.4)	184.27 (31.6)	191.55 (29.8)	203.44 (28.7)	213.03 (27.7)	222.70 (25.4)	232.40 (24.1)
Area Managed by Administrative, Enterprise and Other Units (%)*	238.19 (46.1)	282.73 (48.5)	333.06 (51.9)	380.34 (53.6)	437.16 (55.8)	503.72 (57.6)	567.53 (58.8)
Area Owned by Individuals (% of total housing)	105.90 (20.5)	116.05 (19.9)	117.58 (18.3)	125.77 (17.7)	138.68 (17.0)	148.56 (17.0)	164.60 (17.1)

\* State-owned public housing

Unit: Million m<sup>2</sup>

Source: Zhang Yueqing, Yan Zhongqiu, Lu Xiangyun (eds), *Chengshi zhuzhai guanli gailun* (An outline of urban housing management) (Beijing: Beijing jingji xueyuan chubanshe, 1989), p.29.

**Table A4.2 Investment in Productive and Non-Productive  
Capital Construction in the PRC, 1949-1980**

<b>Year</b>	<b>Productive Construction</b>	<b>Non-Productive Construction (inc. Housing)</b>	<b>Housing</b>
<b>1953-57</b>	394.5 (67)	193.97 (33)	53.97 (9.1)
<b>1958-62</b>	1,029.66 (85.4)	176.43 (14.6)	49.56 (4.1)
<b>1963-65</b>	335.05 (79.4)	86.84 (20.6)	29.32 (6.9)
<b>1966-70</b>	818.02 (83.8)	158.01 (16.2)	39.32 (4.0)
<b>1971-75</b>	1,455.16 (82.5)	308.79 (17.5)	100.74 (5.7)
<b>1976-80</b>	1,729.94 (57)	612.23 (26.1)	277.29 (11.8)

Unit: 100 million *yuan* (proportion of investment in capital construction, if total is 100)

Source: Jan Middelhoek, "Housing reforms in the People's Republic of China", *China Information* ( Winter 1989-90), p.59.

**Table A4.3 Investment in Productive and Non-Productive Capital Construction in the PRC, 1978-1990**

<b>Year</b>	<b>Productive Construction</b>	<b>Non-Productive Construction</b>	<b>Housing</b>
<b>1978</b>	396.24 (79.1)	104.75 (20.9)	39.21 (7.8)
<b>1979</b>	365.14 (69.8)	158.34 (30.2)	77.28 (14.8)
<b>1980</b>	359.28 (64.3)	199.61 (35.7)	111.66 (20.0)
<b>1981</b>	252.43 (57.0)	190.48 (43.0)	111.19 (25.1)
<b>1982</b>	302.90 (54.5)	252.63 (45.5)	141.05 (25.4)
<b>1983</b>	346.44 (58.3)	247.69 (41.7)	125.07 (21.1)
<b>1984</b>	443.40 (59.7)	299.75 (40.3)	134.50 (18.1)
<b>1985</b>	611.34 (56.9)	463.03 (43.1)	215.18 (20.0)
<b>1986</b>	712.15 (60.7)	463.95 (39.4)	189.41 (16.1)
<b>1987</b>	880.30 (65.5)	462.80 (34.5)	181.24 (13.5)
<b>1988</b>	1038.08 (65.9)	536.22 (34.1)	204.37 (13.0)
<b>1989</b>	1064.07 (68.6)	487.67 (31.4)	189.39 (12.2)
<b>1990</b>	1229.33 (72.2)	473.27 (27.8)	182.41 (10.7)

Unit: 100 million *yuan* (proportion of investment in capital; construction, if total is 100)

Source Gao Shangquan, Ye Sen (eds), *China Economic Systems Reform Yearbook 1991* (Beijing: China Reform Publishing House, 1991), p.324.

## APPENDIX 6

**Table A6.1 Personnel Employed in Commercial Retail Outlets**

Year	State-owned	Collectives	Individual
1952	493,000	707,000	5,895,000
1957	1,794,000	2,586,000	467,000
1965	1,032,000	1,992,000	335,000
1978	976,000	3,362,000	136,000
1985	2,908,000	6,654,000	8,369,000
1991	3,883,000	6,723,000	11,345,000

Source: Zhongguo tongji ju (State Statistical Bureau) (ed), *Zhongguo tongji nianjian 1992* (Statistical Yearbook of China, 1992) (Beijing: Zhongguo tongji chubanshe, 1992), p.584.

**Table A6.2 Number of Commercial Retail Outlets**

Year	State-owned	Collectives	Individual
1952	29,000	101,000	4,070,000
1957	120,000	1,233,000	413,000
1965	86,000	509,000	286,000
1978	49,000	891,000	108,000
1985	229,000	1,362,000	6,189,000
1991	290,000	1,176,000	7,773,000

Source: Zhongguo tongji ju (ed), *Zhongguo tongji nianjian 1992*, p.584.

**Table A6.3 Share of Total Commercial Retail Trade Value**

<b>Year</b>	<b>State-owned</b>	<b>Collectives</b>	<b>Individual</b>
<b>1952</b>	4.5	5.0	16.9
<b>1957</b>	17.6	19.6	1.3
<b>1965</b>	35.6	28.9	1.3
<b>1978</b>	85.1	67.4	0.2
<b>1985</b>	174.0	160.0	66.1
<b>1991</b>	378.4	282.6	184.4

Unit: Billion *yuan*.

Source: Zhongguo tongji ju (ed), *Zhongguo tongji nianjian 1992*, p.606.

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