

China's Post-1998 Developmental State

Dissertation Proposal Draft
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Summary

Scholars of China's post-1978 economic reforms have virtually unanimously argued that the reforms of the past thirty years have been at the expense of the state. It has become a stylized fact that China's economic growth – and in particular its industrial growth – has followed from China's policies of decentralization and privatization. Most argue that the state has played a virtuous role in this process by allowing private actors greater freedom, fostering competition, and implementing these changes in a gradual fashion. In this dissertation, I contend that this narrative is convincing from the period from 1978-1998, but invalid since. I propose that since the late-1990s, China's central government has attempted to forge a 'developmental state,' by recentralizing economic controls, expanding the state's capacity to coordinate and discipline firms (both state and private), and establishing key bureaucratic agencies that can carry out economic interventions with the goal of rapid industrial growth. I will trace the outline of this project and evaluate its implementation. Special attention will be paid to post-1998 state-capital relations, in particular the state's strategy to impose discipline on capital, and firms' reaction to this discipline.

Background

Commentary on contemporary China's post-reform political economy typically can be located on two poles. China is either portrayed as a heretic of proper economic policy – still burdened with a bloated, inefficient monopoly state sector despite thirty years of gradual reform, and driven by a power-hungry Communist Party whose logic of economic reform without political

has led to increasingly negative economic policies, and a 'stalled' transition. (Pei 2006; Lu 2000, Huang 2008) Or alternatively, China is said to have put in place a package of market-transition reforms, entailing the eclipse of state planning, the rise of market coordination, and the privatization of state enterprises. In sum, China has 'grown out of the plan,' and this has led to mechanisms that will likely lead to deepening economic reforms and growth. (Naughton 1994; Guthrie 2006; Nee, 1989) One common point of agreement of these two approaches is in their agreement on the limited positive role of the state. The state is seen as primarily a hamper on growth and reform, although the state *may* play a positive role in a number of ways by: 1) relaxing its control over firms and industries; 2) establishing laws, institutions and a governance structure that brings order to industry and markets; 3) investing in public goods including health, education, and infrastructure. (World Bank 1993, Stiglitz 2003) However, this is a much more limited scope for the state compared with either pre-Reform China or, as I will argue below, post-1998 China.

The shift in interest away from the state's role in economic development has meant the deluge of studies on China's central economic apparatus produced in the early-to-mid-1980s (White 1983; White 1987; Lieberthal and Oksenberg 1988) narrowed to a trickle by the 1990s (Lieberthal and Lampton 1992), and now – like the Yellow River itself – most years never reaches the sea of journals and monographs. Interest in the issue also waned I would argue as a result of the reinterpretation of the developmental state in Asia as crony capitalism, the eclipse of really-existing developmental states in South Korea, Taiwan and Japan, and of course the continued authoritarianism of the Chinese state. Together, these trends bolstered the belief

that there were few alternatives to market-led development complemented at best with a competent, regulatory state. As Alan Greenspan said in 1997, "The current crisis [in East Asia] is likely to accelerate the dismantling in many Asian countries of the remnants of a system with large elements of government-directed investment, in which finance played a key role in carrying out the state's objectives. Such a system inevitably has led to the investment excesses and errors to which all similar endeavors seem prone... What we have here is a very dramatic event towards a consensus of the type of market system which we have in this country." (quoted in Klein 2008: 338) Still, why the reasons above would have influenced studies of China is puzzling since China's central state was viewed as capably steering its economy clear of the worst fallout of the Asian Financial Crisis of 1997-1998, and there is also a consensus that China's rapid mobilization of the world's largest stimulus package (as % of GDP) of any country in the wake of the 2008 global recession helped it to deftly avoid significant dislocations.

The scarce number of sustained attempt to understand contemporary's central state China from the standpoint of the 'developmental state' is even more puzzling given that China has consciously attempted to adopt the post-war East Asian developmental 'model' at various times since the late 1970s. Japan was one of the first stops on top officials' list of tours abroad after the Reform period began, and the rapid rise of South Korea and Taiwan generated an intense interest in the source of their rapid growth. (Ye 2007; see also Naughton 1994)¹

¹ Ye's article gives ample textual evidence of desires on the part of bureaucrats to impose the East Asian development state model onto China's economic reforms throughout the 1990s, and her interviews with current officials show a similar current sentiment: "Even today, during the author's interviews at various Chinese central bureaucracies, the success of developmental states and the failure of 'dependent

Furthermore, as China's reforms progressed, the simple empirical facts of China's political economy began to approximate that of East Asian countries previously understood as 'developmental states' (see Table 1 below).

In a nutshell, while a focus away from the state in the first two decades of reform made sense, the drying-up of literature on the central state in China has hindered insights into the political economy of contemporary China. The current field can be compared to that which confronted Chalmers Johnson's (1982) study of Japan in the early 1980s – the central economic apparatus is vastly different from what one would expect in a 'market economy' - yet what it *is* is not clear. Bringing the mature literature of the 'developmental state' to bear on China will help to shed light on the nature of China's post-1998 political economy.

What is a developmental state?

Twenty years ago the jury appeared to render a final verdict in the debate on the state's role in development: failure. The collapse of the Soviet Union and socialist states in Eastern Europe signaled the end of state planning, and ushered in an era of 'big bang' reform centered on rapid privatization. In Latin America, the state's role in channeling foreign funds into unproductive – albeit private – investments was viewed as the root cause of the debt crisis of the late 80s. Other developing countries' attempts at import-substitution industrialization had also led only to anemic growth, but generated robust pathologies including endemic rent-seeking and inefficient investments. There was one anomaly: East Asia. The East Asian 'Newly-Industrializing Countries' (NICs) – primarily South Korea and Taiwan – were growing rapidly, and had

development' in Latin America are emphasized by the technocrats." (Ye 2007: fn. 1)

weathered the various challenges of the 70s and 80s with aplomb. At the end of the 1980s, however, there was consensus that the NICs' success was a result of the export-oriented nature of industrial growth, made possible by a government that concentrated on 'getting the fundamentals right,' and refraining from intervening in the operation of domestic industrial firms. (Wade, 1992) This explanation for growth in East Asian countries became a key piece of empirical evidence in support for what was to later be termed the 'Washington Consensus.'²

This narrative of growth in East Asia was challenged by a number of scholars working in Asia. Chalmers Johnson's *MITI and the Japanese Miracle* (1982) examined the structure and functions of Japan's Ministry of International Trade and Industry, (MITI) and concluded that the Japanese 'model' of development warranted placing Japan in a third category between the commonly understood antinomies of 'plan ideological' (Soviet Union) and 'market' economies (USA, Britain), which Johnson coined 'plan rational' (Johnson, 1982: 18). Plan rational implied that the state went beyond a regulatory role in relation to the economy, viewing economic development as its *raison d'état*. Unlike market economies, Japan was intensely involved in the promotion and coordination of firms via strong industrial policy, deciding what industries should be promoted, limiting entry into certain sectors, and encouraging orderly exit from 'sunset' industries.

Later work on Taiwan and South Korea identified similar mechanisms at work. Robert Wade's

Governing the market: economic theory and the role of government in East Asian

² Key planks of the Washington Consensus: Fiscal discipline and austerity; public expenditure priorities; tax reform; financial liberalization; exchange rate reform; competitive real exchange rates; trade liberalization; foreign direct investment liberalization; privatization; deregulation; strong property rights.

industrialization (1990) looked primarily at Taiwan's post-war economic experience. Wade put forth the idea that Taiwan's state had created a 'governed market,' characterized by: high levels of productive investment, fast transfer of new technology; more investment in key industries than would occur without government intervention; and exposure of industries to international competition. (Wade, 1990: 26). A number of conditions were necessary to allow this type of development to be possible, most notably a competent bureaucracy to carry out the above policies. Alice Amsden's book on South Korea: *Asia's next giant: South Korea and late industrialization* (1989) elucidated the ways that the South Korean economy also diverged from the prescription of what would later be called the 'Washington Consensus.' The South Korean state had not attempted to shape South Korea's economy according to its putative comparative advantage. Instead, it 'got the prices wrong' in order to concentrate on heavy industry, according to Amsden. Of particular importance for this research is the concept of 'disciplining of capital' that Amsden coined. Discipline for Amsden was a complex mixture of incentives and coercion in order to align the actions of firms with the broader goal of the developmental state: "in direct exchange for subsidies, the state exacts certain performance standards from firms: export targets, price controls, restrictions on capacity expansions, limits on market entry, prohibitions on capital flight, restraints on tax evasion, government control over the banking system." (146)

The empirical single-case work on East Asian countries drew from a long-standing literature on late development. Most theories of late development had claimed that the state could potentially overcome the challenges that late developers faced in industrializing. (List, Hamilton,

Carey, Gershenkron. etc.) What changed from the early phase of late development (pre-war Japan, Germany) to late-late development (post-war development) was the intensity of state involvement in the economy. 'Late' development advocated the strengthening of the fiscal capacity of the state so that the state apparatus could create a favorable climate for industrialization to take place, primarily through protective tariffs for 'infant industries.' For state-led industrial development to succeed in 'late-late developers' – mainly newly decolonized nations in the post-war era – more stringent conditions had to obtain. State intervention had to expand to include selective subsidies to individual firms, the coordination of investment projects among several firms, and the channeling of selective credits to targeted industries, precisely what Wade and Amsden claimed countries in post-war East Asia were able to accomplish. This type of intervention makes great demands on states – simply the collection and coordination of information about firms within one industrial sector demands a substantial bureaucratic capacity. In addition, states have to find strategies that can neutralize any resistance by capitalists and other social actors to state discipline, since there is good reason to believe that the interests of the developmental states and capitalists will tend to diverge, and only coincide in specific conjunctures. A divergence of interests has been more common among late-late developers, and capitalists in many contexts have evolved strategies of maintaining state subsidies while deflecting discipline. (Chibber, 2003)

Peter Evans' (1995) book *Embedded Autonomy* made use of the developmental state framework to compare the developmental experience of a series of developing countries in the post-war era, and to delve more deeply into the political nature of developmental states. The

title of the book signals the main argument: in order to effectively promote industrial development, late-developing states must enjoy some autonomy from powerful social interest groups in order to formulate projects that 'go beyond responding the immediate need of powerful political constituents.' (248) Evans argued that the existence of a formalized, rule-governed bureaucracy that rewarded commitment to the state's goals would create something he called 'corporate cohesion.' Corporate cohesion oriented the bureaucracy to a larger project than self-interest, and for Evans is a key element giving states some autonomy from social forces. Simultaneously, however, states must be closely linked to the larger economy so that they can obtain crucial information and prevent firms from operating in ways that may be profitable for the firms but detrimental to the project of sustained industrial development. The satisfaction of both of these conditions leads to a developmental state, while their absence signals a 'predatory state.' Evans lists Zaire as an example of a predatory state, a state in which 'the incumbents are out for themselves', and the state bureaucracy is run by the rules of the market (corruption), rather than some corporate ideal. (45-6)

Chibber (2002) has further refined Evan's (1995) formulation by arguing that interagency relations within the bureaucracy are crucial in explaining the importance of cohesion for a state's developmental project. 'Nodal' agencies that coordinate the actions of different offices within the state bureaucracy (e.g. Japan's MITI, South Korea's Economic Planning Board) can reduce the possibility that different bureaucratic agencies could be working at cross-purposes.

This literature provides an extremely useful framework to make sense of the changes in China's political economy since the 1998. As shown in Table 1 (see appendix) China's post-reform

experience maps closely to the 'ideal type' of the developmental state from East Asia, with some caveats, suggesting that the mechanisms of the developmental state (embedded autonomy, competent bureaucracy, discipline, intra-state coordination) may be present in post-reform China.

Developmental State Literature on China

Literature on the developmental state in China can be broken down into three types: 1) attempts to understand China in general as a variant of the developmental state; 2) literature that examines local state structures as types of developmental states; and 3) sectoral-specific literature.

There are only a handful of studies that that directly ask whether China as a whole in the post-Reform period can fit into the model of a 'developmental state'. Those studies tend to deny that China fits under the rubric. Minxin Pei (2006) has written the most coherent account of contemporary China through the lens of the developmental state literature, and argues that China is in fact a *predatory* state, not a developmental state. Pei views the economic reforms as driven by the political logic of the Chinese party/state's will to survive. In the early stages of reform, this led to a strategy of decentralization and dispersal of power. The government devolved control over state-owned assets to lower-level officials and fostered markets in order to secure the support of local and provincial officials. Pei argues that the party/state's ability to remain in power depends on its ability to create and allocate rents (31). This explains why China would adopt a gradualist approach to reform, since some sectors (agriculture, retail, and light

industry) produced little in the way of rents, while other sectors (heavy industry, energy, telecom, etc.) produced large amounts. The former sectors were therefore liberalized early, and the latter sectors kept under tight state control. Pei further argues that it has been difficult for the Chinese central government to retain control over the rents accruing to it. With little popular accountability, 'rent dissipation' by powerful party/government insiders is endemic, as these insiders possess both the means to appropriate the rents for themselves (a monopoly on political power), and the motive (fear of an uncertain future). (33) As a result, Communist states that embark on gradualist reform will tend to become 'trapped' in the midst of the transition, unable to check the opportunities for corruption stemming from the mixture of markets and state-control. For Pei, this sets China apart from the experience of other 'developing states' in East Asia, in which the state had strong links with, but was not captured by economic interests. The Chinese state does not enjoy autonomy from powerful economic groups according to Pei. It has been captured. It is a 'grabbing hand', not a 'helping hand.'

Others have also challenged the notion that the Chinese state has been able to retain an effective bureaucratic apparatus through the process of market reforms. Lu Xiaobo (2000) contends that the party/state has experienced an 'organizational involution' – a perversion of bureaucracy through which the private interests of bureaucrats and government agencies in China have become misaligned with the public office that individuals hold. The result is corruption and rent-seeking that enriches individuals and thwarts the state's goals. What is left is what Lu calls 'booty capitalism' – "[a] fragmented but administratively administered market economy." (Lu, 2000)

Researchers probing the relationship between China's leadership and a rising class of entrepreneurs have similarly argued that the interests of China's bureaucrats and entrepreneurs have developed a "cozy and often corrupt relationship" that Bruce Dickson (2008: 4-6) calls 'crony communism.' Marc Blecher (2005) contends that the state and a rising bourgeoisie have 'bonded' since the 1990s. The implication is that China's development has increasingly held captive by the business interests, particularly since the 1990s, when private economic interests in industry begin to emerge.

If the above studies are valid, it would imply that several necessary conditions of the development state cannot be found in China: a rational, effective bureaucracy; intra-state coordination required to draft and implement a coherent development strategy; and (relative) autonomy from powerful social groups. If true, one would expect to see evidence of collusion and cronyism within the Chinese state, particularly in those state agencies that are directly responsible for state regulation of and interventions in the economy. These would be crucial sites for economic and political elites to colonize. As mentioned above, however, the decline of recent studies on China's central economic apparatus has meant that little empirical research is currently done in this area, leaving the above conclusions hanging in the air with little evidence.

'Developmental state' literature also influenced studies of China's local states. One of the salient features of the reforms was a devolution of responsibilities away from the central government, and a number of researchers turned their attention to the variety of local states that emerged in the new situation. For this group of scholars, the central government's 'green light' for local experimentation (via decentralization) was important, but did not help to explain

rapid growth in rural China that was apparent throughout the 80s and into the 90s. (Oi, 1999: 9-10) The 'local developmental state' turn produced a number of rich empirical studies of provincial and county governments in China, all of which convincingly argued that state actors at the local level played instrumental roles in either fostering or hindering economic growth and industrial development. (Blecher and Shue, 2001; Oi, 1995; Oi, 1999; Walder 1998) Much of the literature scaled down the original scope of the 'developmental state,' but argued that similar processes were responsible for rapid industrial growth. For instance, Jean Oi put forth the concept 'local state corporatism' to understand rural industrial development: "By local state corporatism I refer to the workings of a local government that coordinates economic enterprises in its territory as if it were a diversified business corporation." (Oi, 1992: 100-1)

More recent literature on industrial growth in China focuses more on particular industries and sectors than localities, but similarly argues that the explanations of China's development must be made below the national level. Eric Thun's (2008) recent monograph, *Changing Lanes in China: Foreign Direct Investment, Local Governments, and Auto Sector Development*, for instance, contends that the trends of decentralization and globalization put limits on the actions of nation-states, and thereby heighten the leverage of local states in development. Thun examines how different five different local governments shaped the manner in which state-owned enterprises met the challenge of foreign investment in the 1990s.

The local or sectoral turn in developmental state studies in China has produced an array of useful and challenging work. The limit of this work is something that all of its practitioners gesture to in their research: the context of local states is set by national policy. It is the central

government that decided to 'give the green light' to rural industry in the 1980s, and it was national policy that allowed FDI into the auto sector. Explanations of changes to the economic apparatus of the central state will of course not explain all local developments, but the decisions at the national level are logically prior, and national policy continues to significantly shape local outcomes, even after transformative decisions are made. Furthermore, the theoretical argument that national states lose power as a result of globalization is unconvincing (Weiss 1998, 2003), and as I will argue below, not the full story in China's case.

Decline in state capacity early 1980s-1998

Two aspects of China's reforms starting in the 1980s generated a gradual decline in state capacity at the national level. First, the central state deliberately devolved powers to local governments. At the same time, the government dismantled rural communes and divided previously commonly held land among rural families, creating a vast class of small-holders in the countryside. These policies were part of a political strategy by the Deng Xiaoping administration to generate a base of support in the early years of reform. (Shirk, 1993), but also to mitigate what Deng and other reformers saw as the pathologies of the Maoist period: over-centralization and the concentration of economic and political power. The reform project started in the countryside because resistance to reform was weakest there, but the reform project of decentralization and separating political from economic power would later spread to urban China and China's industries.

The effects of China's early reforms were most prominent where they began: in the rural areas and small cities. The break-up of rural communes meant that large numbers of individuals could be drawn from the rural labor force. Private investment in industrial ventures was not allowed, and in any case not available. Local governments were not so constrained, however, and in the early 1980s they rapidly expanded existing industrial firms established during the Maoist period, or started new firms, known as town and village enterprises (TVEs). Key for our argument is that these firms were not part of the planned economy, and operated under 'hard' budget constraints as they could only sell their goods at market prices.

Major reforms began in the state sector by the mid-1980s, where a 'dual track' was created. 'Dual track' refers to the simultaneous existence of both planned and market sources and markets for commodities. SOEs remained under the planning system, but the scope of planning governing them was significantly reduced. Under central planning, the planning apparatus set nearly all production targets and provided the vast majority of investment funds. The industrial reform package changed that. Firms were still given targets, but these were quotas to be met. Production above the quota could be sold on the market, invariably for a much higher price. The intended effect was of the establishment of the 'dual track' was to provide an incentive for firms to increase production by tying the material interests of owners and workers most closely to firms' output. However, the introduction of the 'dual track' in effect gave firms two different options for increasing revenues: they could either raise production, or they could obtain resources at lower planned prices, and sell them on the market at higher prices, a strategy known as 'official profiteering' (*guan dao*) Which strategy firms adopted would depend on,

among other things, whether the planning agencies of the state could impose discipline on firms to prevent them from subverting the goal of the 'dual track' policy. There is no accurate estimate of the scope of official profiteering, but there is a consensus that it was endemic and involved massive amounts of resources.

The 'special economic zone' that China established near the border with Hong Kong in 1980 (following Taiwan's example of the 1965 SEZ in Kaohsiung) represented another 'market' growth in the interstices of the planned, state system. SEZs typically offer special policies for investors, including tax holidays, duty-free import and/or export of goods, and the 'streamlining' of administrative procedures. SEZ spread in the 1980s to other coastal regions in China (Zhuhai, Shantou, Xiamen), but did not experience rapid growth or large foreign investment until the early 1990s. By 2000, however, over 100 SEZs had been established, with at least one in each province, and are now well known through journalistic accounts. (Naughton 2007: 406-10)

Planners viewed these trends with alarm. TVEs escaped their controls entirely. By the mid-1990s, TVEs employed more than 60 million people (Kung and Lin 2007), and their industrial value-added had grown to more than 40% of the state sector. (Taubmann, Heberer and Fan 2003) SOEs themselves – the very heart of the planning apparatus – had vastly expanded their autonomy from the planning system as well. China's SEZ were further off-limits to planners. In sum, from the early 1980s on, direct state discipline over industry in China plummeted.

Less direct measures of state capacity in China also suggest a reduction in the ability of the state to coordinate national economic development. Government revenue as a percent of GDP

gradually fell from 30.9% of GDP in 1978 to the very low level of 10.9% by 1996. (See Table 2 in the appendix)

One of the consequences of the reforms of the 1980s was rapid inflation. SOEs possessed both the incentive and the ability to expand investment and simultaneously rapidly increase the wages and benefits of its workforce (Guthrie 1997; Guthrie 1999). By the mid-1980s, funds were no longer dispersed through the planning channel via the Ministry of Finance. Instead, firms received monies from loans from state-owned banks. The banking system was unable to discipline firms' spending, and losses covered by state loans began to mount in 1986, leading to rapid inflation.

High inflation and the sense that officials and SOE managers were profiting at the expense of ordinary people (through 'official profiteering') were two important causes of the unrest of 1989. Until that year, reformers had the upper hand in the central government. Top officials associated with China's conservative faction only briefly regained the upper hand in the aftermath of 1989. Austerity was briefly introduced to control inflation, but few elements of the reform package were changed substantially. Losses continued to mount in the state industrial sector, as seen in Table 3 (see appendix).

In 1995 a new proposal was put forth to attempt to deal with the state sector: privatization and consolidation. Small, loss-generating firms were gradually privatized and the government attempted to consolidate larger and more profitable into larger, viable entities. (Naughton, 2007) Two motives governed this policy. First, one constant criticism of the industrial reforms

was that it led to 'haphazard, redundant and uncoordinated' investments. Gains from economies of scale were impossible to realize under those circumstances. Second, China was increasingly integrated into world markets by the mid-1990s, and exports were growing rapidly. China had decided to join the WTO, and the central government was concerned that the opening up of the economy to foreign trade and investment would wreak havoc on firms that would be forced to compete with multinational corporations.

Of course, reforms of this magnitude required massive discipline on the part of the state, precisely what was slipping away from the hands of the central government during this period. This is the background of the Chinese state's attempt to rebuild state capacity in the late 1990s.

Discipline from the late-1990s? Evidence for Growing Discipline

Based on the previous section, it would appear China was moving in an opposite direction than that of a developmental state. I believe that this holds true for China for the first two decades of the reform process covered in the above narrative (1978-1998). However, a number of studies have begun to suggest that 1998 was a turning point. A recent dissertation reports that, "In 1998, the central state seized an opportunity to overcome immobilized local state and industrial interests, imposing its conception of 'strategic industries' as governed by oligopolistic competition and centralized corporate hierarchies. These organizational choices mainly reflected central reformers' negative experience under decentralization, as well as an elite political agenda to position the central state as a primary beneficiary of the growing market." (Lin, 2003) Lin's argument is that weakened local and industrial interests, a strong fiscal case for

reform of the central state, and a blueprint for corporatization allowed for the rapid rollout of reforms to the economic bureaucracy in 1998.

Hongbin Cai and Donald Treisman (2006) argue that the central government intervened to re-impose its authority over state banks in 1998. The People's Bank of China replaced provincial branches with nine regional offices, and local governments no longer had any say in the appointments of bank personnel, who were now selected and monitored by the Party. The reforms in effect recentralized some aspects of the financial system. Premier Zhu Rongji even “ordered state banks either to cut wages of managers who authorized bad loans or to fire them.” (Cai and Treisman, 2006:530) The budget constraints of banks, and thus by extension SOEs, hardened, and the authors attribute this to renewed centralization of economic authority. Other scholars claim to have discovered a paradox in that the central government is trying to “reassert control over a complex and diversified industrial sector using more administrative means and tighter state control over industry, even while the rhetoric continues for increased marketization.” (Meidan, Andrews-Speed, Ma, 2009: 591; Mertha, 2005)

Tim Wright (2007) also points to 1998 as a crucial year in the central state’s efforts to restructure the coal industry. Most serious mine safety issues occur in small mines outside of the SOE system. In order to deal with the safety record, but also to bolster the position of larger state-owned mines, the central state launched a project to shut down smaller mines and reduce coal production in 1998. Wright suggests that the central state’s efforts were not fully successful due to ‘a powerful coalition of local cadres, mine bosses, workers and farmers who depended directly or indirectly on the mines for their living’ (2007: 23).

In addition to recentralization in finance, Dali Yang (2003) claims that the central state instituted other far-reaching government reforms after 1998. Central tax revenues rose rapidly, and the state dropped hundreds of thousands of local officials from its roles, even while the party strengthened its control over personnel decisions. The bureaucratic restructuring of 1998 consolidated numerous central government 'line' ministries (coal, machine-building, metallurgy, internal trade, forestry, light industry, textile industry) into one single agency: the State Economic and Trade Commission (SETC). The SETC was charged with day-to-day industrial policy implementation. The reform left in place the State Planning and Development Commission, an agency with a mandate to undertake long-term, medium and long-range economic forecasting and planning. The number of government agencies fell from 40 to 29, and the new streamline central agencies meant that China's economic bureaucracy were 'much like those found in the East Asian countries' (Yang, 2000: 40) Moreover, the power of China's post-1998 central economic 'planning' agencies now often trumps that of China's new 'regulatory' agencies to act. (OECD, 2008).

The changes adumbrated above do not necessarily imply a turn towards a developmental state. If true, they merely suggest that the Chinese central state may have increased its internal cohesion since 1998 by creating nodal agencies that can coordinate the state's development plan. But state cohesion is only one element of a developmental state. As the Wright (2007) article above shows, it leaves unanswered the questions of the capacity of the state to effectively monitor and discipline industrial firms.

Research Design

My research asks the question: has the central state's restructuring since 1998 increased the capacity of the state to impose discipline over capitalists (both state and private)? This question can be decomposed into three nested questions: 1) Has the cohesion of the state increased since 1998? 2) Is the post-1998 central state able to monitor the actions of capitalists and shape their decisions in order to realize developmental goals? 3) How have capitalists' (and others in coalition with them) responded to the imposition of discipline?

I will focus my attention on the post-1998 period, precisely the time when a renewed attempt to create a developmental state appears to have begun, and paradoxically the same time that interest in China as a developmental state began to trail off. Research will consist of two parts: 1) a study of the evolution of the central state economic bureaucracy since the 1990s; and 2) research into capital's response to changes in the bureaucracy.

In terms of the economic bureaucracy, at present, I plan to direct my attention to three central state agencies that are the children of the State Economic and Trade Commission (SETC), the major bureaucratic body formed in the 1998 reforms: the National Reform and Development Commission (NDRC), the State Asset Supervision Administration Commission (SASAC) and the Ministry of Industry and Information (MIIT). As far as I am able to ascertain, these are the key economic bureaucracies that are responsible for establishing and carrying out economic policy in contemporary China.³

³ Perhaps most important is the Central Finance and Economics Leading Small Group – an ad hoc supra-ministerial coordinating and consulting body jointly under the State Council and the Politburo. China's 'leading small groups'

I plan to examine the public pronouncements of these agencies, attempt to gain access to their archives, and most importantly conduct interviews of current and retired officials. My questions will center on: What policies were attempted at what time, for what reason? Did they succeed, did they fail? How do government agencies monitor firms? Are firms and local governments able to subvert the monitoring and discipline of the central state?

NDRC (National Development and Reform Commission)

The NDRC was established in 2003 out of the State Economic and Trade Commission (SETC). The NDRC is charged with the responsibilities of industrial planning, macroeconomic policy, price controls, investment controls, and planning for the import and export of raw materials. Some of the commission's portfolio was transferred to the MIIT in 2008, but from 1998-2008 the NDRC (and its former self, the State Economic and Trade Commission) was the key agency with broad goals consistent with those of a 'developmental state': protecting state assets, establishing national champions, and fostering certain social policies. Importantly, the NDRC was in charge of approving large investment projects proposed by state-owned enterprises and setting prices in infrastructure projects, roles that are not consistent with a 'regulatory' state role. More recently, the NDRC has been the key state agency involved in drafting and implementing the large stimulus package that China implemented at the end of 2008. (OECD p. 96)

provide a mechanism for top decision makers to exchange views – both formally and informally – and to develop recommendations for the Politburo and the State Council. I estimate there is a 0% chance of my gaining access to any part of this group, and so have left it out of the formal research design. I will attempt, however, to understand the role that this group plays.

The NDRC played a key role in 2003-4 as the central government began to become concerned about the 'overheating' of the economy. The NDRC was charged with reigning in investments in industrial endeavors, and the commission's actions are a good example of the type of 'discipline' that this proposal refers to. In 2003, the Jiangsu Tieben Steel Corporation (JTSC) – at the time China's largest private steel firm – began construction on a US\$1.2 billion steel plant in Jiangsu province, which borders Shanghai. The firm and the local government colluded in breaking up the reported value of the investment into 22 smaller tranches so that each individual investment would fall beneath the regulatory radar (firms were required to report investments of more than US\$40 million to the NDRC). By the spring of 2003, China's State Council was concerned about overheating and inflation in the economy, and announced that it would undertake 'macroeconomic measures' in order to prevent overinvestment (fixed assets had grown by 118% from 1Q 2004 vs. 1Q 2003). These measures included controlling the scale of investments and their 'haphazard' nature. The State Council dispatched a team of inspectors to investigate the firm's investments, including officials from the NDRC. Soon after, JTSC's CEO and several other officials were arrested, and later sentenced to several years in prison for submitting false reports to secure government-backed loans and tax fraud. It was clear that the case was meant to serve as a warning to other local officials and corporate leaders. (Zhiyue, 279)

The Tieben case is an excellent possible example of an exercise of state discipline over industry. However, other examples involving large investments in steel production around the same time suggest that the state's disciplinary power may have crucial limits. For instance, the Jianlong Iron & Steel Corporation, another private steel firm, planned a similarly large investment in a

steel plant in Ningbo, Zhejiang Province around the same time (2002-2004). The State Development and Reform Commission (precursor to the NDRC) apparently had the firm under investigation, but despite the fact that a similar type of regulatory evasion was at work at Jianlong, the central state did not intervene. Moreover, the China's state-owned steel industries were also announcing massive expansion plans in the spring of 2004. Was the central government selective in its application of investment limits, showing a bias against private firms (suggesting a lack of autonomy from SOEs)? These are some of the key questions that must be answered in order to disentangle the state's ability to discipline industrial firms.

SASAC (State Asset Supervision Administration Commission)

SASAC was formed in the 2003 government reform, concentrating responsibility over China's largest state-owned firms (SOEs) into one agency. SASAC was charged with managing 196 key industrial enterprises under direct control of the central government – including energy firms, banks and financial institutions. The central government's SASAC controls only a small number of SOEs within China (numerically most are owned and operated at the provincial or municipal level), but the 196 SOEs under its control are the largest and most highly capitalized firms in China's industrial structure. (Pearson 2005; Naughton 2007; Naughton 2008) Very little is known about SASAC's operations, and I have not discovered any first-hand research on the commission. Research into SASAC will be vital in determining whether or not the post-1998 reforms have increased state's discipline. Presumably firms tied tightly to the China's party/state will have several avenues of escape from attempts by the state to impose discipline.

MIIT (Ministry of Industry and Information)

The Ministry of Industry and Information is presently an unknown. It was created in 2008 from a merger of: the Commission of Science, Technology and Industry for National Defense, the Ministry of Information Industry, the State Council Information Office, and the State Tobacco Monopoly Bureau. Some of the industrial policy duties of the NDRC appear to have been bundled into MIIT as well, evinced by the ministry's currently active role in drafting a restructuring plan for the steel sector. Given that the ministry may have some elements of industrial policy within its portfolio, this ministry will be important to understanding China's very recent industrial policy.

Following the inductive phase of my initial research into state ministries in the spring of 2010, I will begin to proceed in the second half of my project: research into capital's response to attempts at discipline. In order to develop productive hypothesis that capture important aspects of the success or failure of the imposition of discipline, I need to have a better understanding of the lineaments of the state's post-1998 project.

Research Strategy

Research in China is challenging, and research delving into the central state apparatus is likely to be even more challenging. The main obstacle I believe I will face is access to documents and interviews. I have considered several strategies for overcoming this problem. First, I have secured a (tentative) institutional sponsorship from Professor Yao Yang of the China Center for Academic Research (CCER). CCER occupies a relatively unique location within China's nexus of

think-tanks as, “a key resource for China’s economic leaders.” (Cheng Li, 2009) The CCER publishes a number of economic journals, but also frequently consults with China’s bureaucracy. In addition, I hope to find additional support from a number of research institutes within the Chinese Academy of Social Science (CASS) in Beijing. Last, I am fluent in Chinese. I believe this will help immensely in securing interviews, as well as digging through policy pronouncements and archives.

Contribution

The main contribution of this work will be to clarify the role of the central state in post-1998 China, and to examine state-capital relations during this period. I believe this work will generate significant interest among a broad range of academic and general readers. Within the academy, this dissertation fits within the traditions of development studies, economic and political sociology, and of course China studies. It may also elicit interest among general readers interested in the question of the development state in late-late developing countries, as well as the feasibility and desirability of state-led industrialization in the 21st century. It further bears directly on Marxist debates of the nature of China’s contemporary social formation.

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Appendix

Table 1

Comparison of Eight characteristics of Japan, South Korea and Taiwan’s postwar experience compared to post-reform China

Traits of post-war developmental states in East Asia	Present in Post-Reform China?
‘Strong states’ – technocrats and bureaucrats enjoy high levels of power and wield a variety of tools to enforce their will. State actors are also relatively free from populist pressures, especially from organized labor and organized peasants	Consensus that the state is free from pressure from organized labor and organized peasants – consensus that technocrats/bureaucrats wield great power, but it is unclear how effective the central government is
There is no sharp dichotomy between state and society. The presence of semipermanent socioeconomic coalitions close linked to state institutions makes such a reified bifurcation meaningless.	Yes. The state retains ownership over a large amount of industrial assets, land, and most financial institutions. In addition, the CCP has started to attempt to incorporate private capitalists into the party. The party further has a near monopoly of popular organizations.
All three (Japan, South Korea and Taiwan) underwent land reforms that virtually eliminated large landholders as major elements in the sociopolitical landscape. Moreover, with limited natural resources and small land areas, none of the three is a major exporter of agricultural products or natural resources.	Yes.
All have domestic power structures that, for males at least, are open to entry largely (though by no means exclusively) on the basis of individual merit rather than ascriptive traits such as social class.	Yes. CCP membership in neither the state nor party is based on ascriptive traits.
The regimes in all three have taken on “hegemonic projects” that entail two essential elements: first, the enhancement of their national economic competitiveness through the development of internationally marketable goods, and second, an ideological and economically rooted opposition to communism, socialism and big states.	The ‘hegemonic project’ of is clearly present. The second point is unclear. The post-reform coalition continues to draw legitimacy from its communist origins. However, the reform project itself is based on a repudiation of Chinese socialism (state ownership, planning).
In conjunction with the project of improved	Unclear.

<p>economic competitiveness, all three reject the deified Western concept of 'the market,' opting instead for active market manipulation, but in ways that are market enhancing rather than market rejecting.</p>	
<p>To the extent that they have been successful in advancing their overall production, national income per capita, and shares of world trade, all three have done so relatively free from the compromising effects of international capital penetration. In particular, the three regimes have retained highly effective filters over foreign direct investment and foreign capital flows.</p>	<p>China's experience is sharply different from that of Japan and South Korea in this regard, due to large FDI flows beginning in the early 90s. The amount of control that the central state has over investment is unclear.</p>
<p>All three are exceptionally closely linked both in economic and security policies with the United States. Moreover, Taiwan and South Korea are similarly linked to Japan.</p>	<p>China is tightly integrated into production and trade networks involving Japan, but is not within the</p>

(left-hand column adapted from Pempel in Woo-Cumings 1999: 160; China bits are mine, cites forthcoming)

Table 2

<i>Selected Fiscal Indices of China, 1978–1995</i>					
<i>Year</i>	<i>GDP Growth</i> %	<i>GGR/GDP</i> %	<i>CGR/GGR</i> %	<i>Deficit</i> (billion)	<i>Debt/CGR</i> %
1978	11.7	30.9	45.8	-1.0	0.0
1979	7.6	27.6	46.8	20.7	5.5
1980	7.9	24.0	51.2	17.0	6.6
1981	4.5	22.8	57.2	9.9	12.1
1982	8.5	21.7	NA	11.3	14.6
1983	10.2	21.6	53.0	12.3	12.3
1984	14.5	20.9	56.0	12.2	10.5
1985	12.9	20.8	52.7	6.8	10.7
1986	8.5	22.2	NA	20.9	14.4
1987	11.1	19.8	48.8	25.0	16.4
1988	11.3	17.6	47.0	34.9	25.5
1989	4.3	17.4	NA	37.4	25.6
1990	3.9	17.9	48.5 (45.1)*	51.6	27.3
1991	8.0	16.7	45.0 (40.3)*	66.4	30.8
1992	13.6	15.6	45.6 (38.6)*	90.5	36.8
1993	13.5	14.7	NA (33.4)*	89.9	35.5
1994	11.8	11.6	?	63.8	40.7
1995	10.2	10.7	?	NA	52.8
1996	9.7	10.9	?	54.8	NA

SOURCES: Ma Jun, "Modeling Central-Local Fiscal Relations in China," *China Economic Review* 6 (1995), pp. 105–36; Liu Zhongli, "Zhenxing guojia caizheng shenhua caishui gaige" [Deepening fiscal reform and revitalizing public finance], *Zhongguo caijing bao* [Chinese public finance daily], December 7, 1995; State Statistical Bureau, *China Statistical Yearbook 1995* and *A Statistical Survey of China 1996* (Beijing: China Statistical Press, 1995 and 1996); and Liu, "Report Concerning the Execution of the 1996 Central and Local Budgets and the Draft 1997 Central and Local Budgets," Xinhua News Agency, Beijing, March 17, 1997.

NOTE: GDP = gross domestic product; GGR = general government revenue; CGR = central government revenue; CGE = central government expenditure. GDP data are in constant price, while GGR are in current price.

*Figures in parentheses exclude debt incomes.

(From Wang, 1997)

Table 3

LOSS-MAKING AMONG STATE ENTERPRISES IN CHINESE INDUSTRY
(1975–2004)

	<i>Share of State Industrial Production Enterprises That Are Loss Making (%)</i>	<i>Losses of Loss-Making State Industrial Production Enterprises (100m Yuan)</i>	<i>Share of State and State- Controlled Industrial Enterprises That Are Loss Making (%)</i>	<i>Losses of Loss- Making State and State-Controlled Industrial Enterprises (100m Yuan)</i>
1975	31.4	52.0		
1976	37.2	72.5		
1977	27.4	57.5		
1978	23.9	44.3		
1979	23.4	36.9		
1980	22.4	31.9		
1981	27.7	42.4		
1982	25.1	42.7		
1983	14.6	28.6		
1984	10.5	22.9		
1985	9.6	27.1		
1986	13.4	47.1		
1987	12.8	50.7		
1988	10.7	71.3		
1989	15.9	128.0		
1990	30.3	278.8		
1991	28.0	300.2		
1992	22.7	300.1		
1993	29.8	281.7		
1994	32.6	273.8		
1995	33.3	364.8		
1996	37.5	501.4		
1997	43.9	607.2		
1998	47.4	850.2	40.6	1150.7
1999			39.2	966.7
2000			34.1	704.3
2001			36.0	752.2
2002			36.1	668.5
2003			35.2	680.0
2004			35.0	669.5

SOURCES: For 1975–98, *Finance Statistics Yearbook of China* (1999); for 1998–2004, *Statistics Yearbook of China* (2005).

(From Cai and Treisman, 2006)