

Lai, Hairong; Csanadi, Maria

Working Paper

Transformation of the Chinese party-state at prefecture and county level

IEHAS Discussion Papers, No. MT-DP - 2003/11

Provided in Cooperation with:

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Suggested Citation: Lai, Hairong; Csanadi, Maria (2003) : Transformation of the Chinese party-state at prefecture and county level, IEHAS Discussion Papers, No. MT-DP - 2003/11, Hungarian Academy of Sciences, Institute of Economics, Budapest

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DISCUSSION PAPERS
NEW SERIES

MT–DP. 2003/11

**TRANSFORMATION OF THE CHINESE PARTY-STATE
AT PREFECTURE AND COUNTY LEVEL**

MÁRIA CSANÁDI
HAIRONG LAI

Institute of Economics
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KTK/IE Discussion Papers 2003/11
Institute of Economics Hungarian Academy of Sciences

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Transformation of the Chinese party-state at prefecture and county level

Authors: Mária CSANÁDI, Senior Research Fellow at the Institute of
Economics of the Hungarian Academy of Sciences
Hairong LAI, Research Fellow at China Center for Comparative
Politics and Economics in Beijing

This research was supported by the Beijing Office of the Ford Foundation
in China and the National Science Foundation in Hungary

Published by the Institute of Economics Hungarian Academy of Sciences, Budapest, 2003.

**TRANSFORMATION OF THE CHINESE PARTY-STATE
AT PREFECTURE AND COUNTY LEVEL
BY MARIA CSANÁDI, HAIRONG LAI**

Abstract

The study describes the acceleration of the disintegration and withdrawal of the party-state network and transformation of the system on national level, and empirically surveys the impact of the hardening reproduction constraints of the party-state network since 1994 in three Chinese prefectures and six counties. We track the reactions to the hardening reproduction constraints at these levels and the consequences of these reactions on the transformation of the party-state network at those levels. We make an effort to demonstrate the differences in impact, reactions and consequences among the given administrative levels and between them. We also try to detect how does this process change the relationship among the actors within the net (party-state and economic decision-makers) and between those within and outside the net. The survey is based on the implementation of the Interactive Party-State model (Csanádi, 1997, 2003) that serves as a device and approach for comparative empirical analysis. The surveyed prefectures and counties provided a test-field for the postulates of the model.

More than 70 interviews with provincial, prefecture and county level party- and state officials, different level statistics, national and local level documents and secondary sources forged the raw material for the study.

**A KÍNAI PÁRTÁLLAM ÁTALAKULÁSA,
A PREFEKTÚRÁK ÉS MEGYÉK TÜKRÉBEN**

CSANÁDI MÁRIA – HAIRONG LAI

Összefoglaló

A tanulmányban a pártállami háló bomlásának és visszahúzódásának, valamint a rendszer átalakulásának felgyorsulását írtuk le makro szinten. Emellett empirikus kutatás segítségével feltártuk a háló romló újratermelődési feltételeit Kína három prefektúrájában és hat megyéjében. Nyomonkövettük azt, hogy e szinteken milyen módon reagálnak a romló feltételekre és azt, hogy e reakciók hogyan hatnak a pártállami háló átalakulására a vizsgált szinteken. Igyekszünk bemutatni a hatások, reagálások és következmények közötti eltéréseket az egyes adminisztratív szinteken belül és azok között. Azt is megpróbáljuk nyomonkövetni, hogy ez a folyamat hogyan változtatja meg a párt-állami hálón belüli szereplők (párt- állami- és gazdasági döntéshozók) egymáshoz való viszonyát és a hálón belüliek és az azon kívüliek közötti viszonyt. A kutatás az Interaktív Pártállami Modell (Csanádi, 1997, 2003) alkalmazásával készült, amely az összehasonlító empirikus elemzés eszközeül és szempontjául szolgált. A vizsgált prefekturák és megyék egyben a modell működőképességének kísérleti terepét jelentették.

Több mint hetven – tartományi, prefektúra és megyei – szintű párt és állami vezetővel készült interjú, különböző szintű statisztika, országos és helyi dokumentumok és másodlagos források szolgáltatták a tanulmány alapanyagát.

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PART I

THEORETICAL FRAMEWORK: INTRODUCTION

This joint research was aimed at tracing the process and main characteristics of the transformation of the Chinese party-state at county level between 1994 and 2002. We view transformation as a reaction of decision-makers to the different impacts attaining them and the behavioral and institutional consequences of these reactions on the party-state. The starting point of the research is 1994. At this period, according to different data, a major impact may be detected in the Chinese economy as a whole and at different administrative levels. This major impact was caused by the coincidence of the implementation of some impressive economic policy decisions and the expiration of others with great prior importance. The two major factors of this impact were the introduction of a comprehensive tax reform and the expiration of the dual-track system that allowed enterprises to profit from market factors while enjoying advantages of being nested in the party-state network. Expiration was due to the decline of advantages provided by the net (*Csanádi, 2003*).

For empirically studying behavioral and institutional consequences of economic policy impacts on party-state a new analytical framework is introduced: the Interactive Party-State Model (*Csanádi, 1997, 2003*). On the one hand, the Interactive Party-state Model (IPS) serves to empirically analyze and compare structure and dynamics of party-states and that of their different administrative levels. In turn, the research serves to empirically test the theoretical postulates of the model.

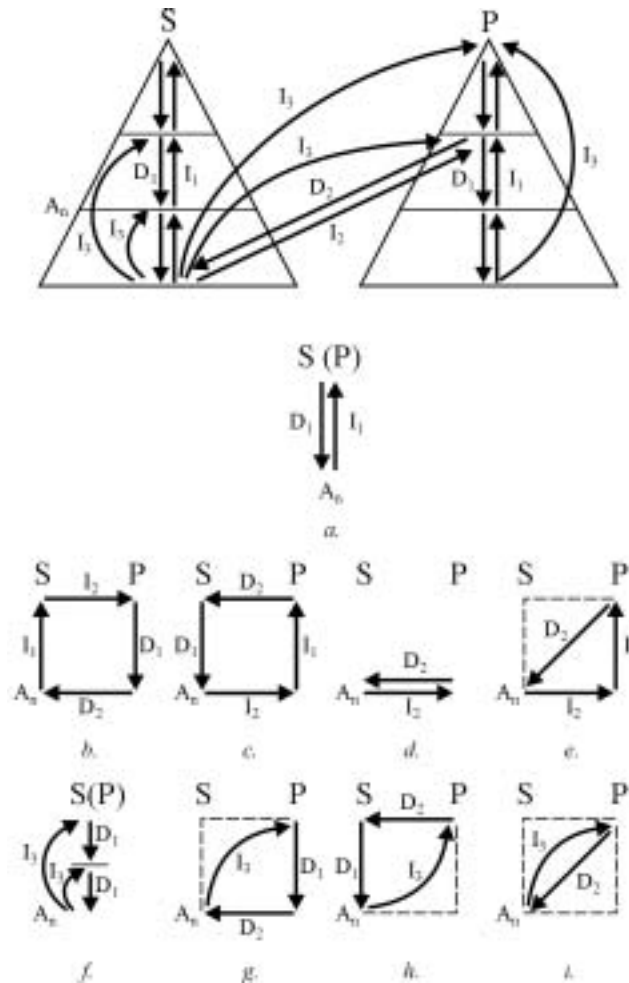
1. THE IPS MODEL AS AN ANALYTICAL TOOL FOR THE SURVEY:

THE STRUCTURE AND DYNAMICS OF PARTY-STATES

The IPS model is an inductively built dynamic construct that postulates a self-similar¹ character for the structure and operation of party-states along different dimensions (time, space, different aggregation and condition of the

¹ Self-similarity (fractal character, see Mandelbrot, 1987) of and within party-states was first defined in Csanádi, M. and A. Lőrincz (1992), "Neural Network Formalization of the Hungarian Party-state System", *Behavioral Science*, Vol. 37, 1992, pp. 81–108.

structure). It also identifies the structural reasons behind the differences among party-states². Here is a brief description on some of the most important arguments and conclusions of the model. *Figure 1* schematically shows the structural properties of a party-state network besides the usual rules of hierarchies within the party and the state. The distinctiveness of a party-state structure evolves through the direct connection between party and state, politics and state-owned economy.



² Csanádi, Maria, *Party-states and their Legacies in Post-communist Transformation*. Edward Elgar, Cheltenham, UK, Northampton, Ma, US, 1997, p. 26 in Chinese, *Zhuanxing: Toushi Xiongyali Zhengdang-guojia Tizhi*, Jilin People's Publishing House, 2002, p.44.

Figure 1 Power structure of the party-state system and the perspective of decision makers (actors, A_n) on various levels on the possible paths of interest promotion (from 'a' to 'i').

Key:

S	State (non-party) hierarchy
P	Party hierarchy
A_n	Decision-makers (actors) at the n^{th} level of the structure
D_1	Direction of intra-hierarchy dependence
D_2	Direction of cross-hierarchy dependence
I_1	Path of intra-hierarchy interest promotion
I_2	Path of cross-hierarchy interest promotion
I_3	Direction of feedbacks

Direct connections arise via the power instruments of the party³. We call these instruments as interlinking dependency lines⁴ (D_2). These interlinking lines penetrate non-party institutions and directly influence decisions by overlapping positional-, organizational-, activity structure and individual behavior. These specifics render the political nature of dependencies and interest promotion possibility (I_2) for those connected to these lines. Interlinking lines produce structurally built-in inequalities among those connected and those lacking connection. Inequalities further increase through the deeper political integration of strategic actors that – by meeting priority criteria of politically rational concerns are able to short cut the decision-making process within and across party and state hierarchies at any level. With short cuts (I_3) another structurally built in inequality will emerge. Through shortcuts actors are able to directly promote their interest and resist to disadvantageous decisions by encountering decision-makers whom

³ Not only state owned economy is directly connected to the party. The same direct connection is true for other sub-spheres and levels of the society: culture, politics, education, healthcare, civil society, social movements, mass movements, executive legal and judicial decisions, procurator, police apparatus, etc. These sub-spheres for the sake of simplicity, are "condensed" in the concept of the non-party – state – hierarchy.

⁴ The interlinking lines infiltrating institutional framework of non-party institutions are the following: nomenklatura system overlapping decisions through position structure in non-party organizations, the subject-matter responsibility system overlapping decisions through activity structure, the instructor system, overlapping decisions through the organization structure, the party membership, overlapping individuals through party discipline (Csanádi, 1997, 2002).

otherwise, considering their formal position in the hierarchy would never meet⁵. Shortcuts are in short, a form of structural feedback⁶.

The result of unequal interest promotion and resistance possibilities is that bargaining capacities and formal positions differ. These characteristics furnish the unique institutional interactivity of politics and other spheres at the level of individual decision-making. They comprise the structural background of operating principles of party-states: the politically monopolized dependencies, politically monopolized interest promotion, as well as politically monopolized resource extraction and redistribution. They also contribute to the politically rational motivation and subsequent behavior of actors that are being simultaneously exposed to and holding dependency links within the structure concerning intervention, selection and interest promotion.

This double-sided position (might and exposure) and the inequalities within it result in selective bargaining capacities, defining the distribution of power within the system. These inequalities allow the different resource attracting, extracting, distribution and resisting capacities of the actors within the net. The balance of these capacities will result in selectively hard or soft reproduction constraints that forge the dynamics of the structure, motivating actors' behaviour.

Elements, principles of connection of these elements, and principles of operation and the subsequent motivations and behaviour have a self-similar pattern. Self-similarity of structure and dynamics will prevail in time, as well as in space in different aggregations and conditions of the structure. Differences emerge within the self-similar properties due to the different distribution of the origin, extent and depth of interlinking threads, locus of origin, arrival and density of feedbacks acquired and the different distribution of resource extraction and allocation capacities (*Csanádi*, 2003)⁷. The

⁵ For example it may occur within the hierarchies: if an enterprise manager is invited to a ministerial session, or a local party secretary becomes member of the Central Committee of the Party (CC), or across hierarchies: if an enterprise manager or local government leader becomes member of the CC.

⁶ See about feedbacks in detail *Csanádi*, 1997, pp. 28–37, in Chinese version on pp. 46–56.

⁷ Variation of structural elements: interlinking lines may vary in density, extension and depth, shortcuts may vary in density, level of accumulation, the place of those in the respective hierarchy who are privileged by short-cuts and the place (within his/her own or party hierarchy) where the privileged actor reaches in consequence of the

combination of these differences will define the different distribution of power and accordingly the differences in the distribution of soft or hard reproduction constraints. Selectively soft/hard reproduction constraints are therefore structure-specific.

Placed in the dynamics of the model, these arguments call for the re-evaluation and modification of the widespread view on soft budget constraints in party-states:

- a) the term should refer to the result of the balance of attracting, resisting, extracting and allocating capacity of decision-makers, instead of being a mere concept of distribution. In more detail, incomes evolve in consequence of the unit's extracting and attracting capacity. Expenses evolve in consequence of the unit's revenue sharing pressures both from below – allocation – and from above – and in consequence of the resisting capacity to this pressure.
- b) Therefore, budget constraints in party-states do not evolve in economic conditions but instead, are *nested in power relations*. From this point of view, the dynamics of the system transforms budget constraints into a wider concept: the reproduction of the status quo within the power network. We shall call this in short: reproduction constraints.
- c) Therefore, budget constraints in party-states is a systemic instead of economic concept that evolves in the context of interrelated party-state-economic decision-making and interaction of self-similar units during self-reproduction
- d) in consequence of the structural and dynamic self-similarity, the idea of reproduction constraint is *extended structurally, in space and aggregation*. It concerns *any* self-similar unit nested in power relations: from the lowest to the highest aggregation levels: from enterprise shop-floor and village to national level rather than concerning only enterprises; it also concerns any unit of one level;
- e) Within the net, *softness of the reproduction constraint is selective rather than being a general rule*. Selectivity within the net is based on political and not economic rationality. Selectivity evolves according to the interaction of self-similar units with specific distribution of power and bargaining capacity. Consequently, within the net not only soft, but *also hard reproduction constraints prevail*, according to actual bargaining capacities of the unit, and distribution of power within it.

short-cut, and extracting and allocating capacity may vary according to which level they are delegated or concentrated in the structure.

- f) Reproduction constraint is not only structural but also a *dynamic concept*. *Reproduction constraint is not only extended in space and aggregation level, but in time as well*. Soft reproduction constraints may turn to hard from time, to time and prevail for different periods and than may turn to soft again. Persistence and frequency of this shifts depends on the capacity of changing bargaining position within the higher aggregation, redistributing power relations within the unit, and/or acquisition of resources from outside the net.
- g) *Reproduction constraints and budget constraints outside the net are strictly connected*. When reproduction constraints are soft, budget constraints do not play a role. If reproduction constraints are hard, budget constraints may still be soft, softening reproduction constraints and sustaining status quo within the net. If reproduction constraints are hard and budget constraints become hard, adaptation pressure increases, reproduction of status quo meets barriers and cohesion within the net decreases, and the net disintegrates.

Based on the above arguments, we shall use reproduction constraints as an extended version of budget constraints in time, space and aggregation of different patterns of power distribution.

Motivations, subsequent behavior and instruments of resource acquisition due to the selectively soft or hard reproduction constraints provide the *self-reproduction mechanisms* of the whole system.

THE MAIN PATTERNS OF REPRODUCTION AND TRANSFORMATION⁸:

Development and transformations of party-states may be grouped from the point of view of reproduction of the system, according to the specifics of the distribution of power and its adequate dynamics (*Table 1*). Distribution of power includes three major structural factors: (1) the distribution of interlinking threads, (2) the existence of structural feedbacks (shortcuts) from economic field and (3) the levels of extraction and allocation of resources.

⁸ Csanádi: *A critical analysis of comparative reform literature*. 2003, manuscript

Table 1: Basic patterns of power distribution in party-states and adequate reproductions and transformations

PATTERNS OF REPRODUCTION	SELF-EXPLOITING	SELF-DISINTEGRATING	SELF-WITHDRAWING
Distribution of power	Centralized extraction and redistribution and centralized interlinking	Centralized extraction and re-distribution, centralized (or de-centralized) interlinking threads	Partially decentralized extraction and redistribution and either centralized or de-
Relationship between units and sub-units	Faint resisting and attracting capacity of sub-units	Selectively strong attracting (re-sisting) capacity of sub-units	Selectively strong resisting (attracting) capacity of sub-units
Reproduction constraints	Reproduction constraint on unit level is RARELY HARD in consequence of	REPRODUCTION constraints (p) on unit level become OCCASIONALLY HARD	REPRODUCTION constraints (p) on unit level become FREQUENTLY
Mode of resource acquisition	Forced resource rede-ployment within the net (no reforms), redistribu-	Drive to mobilize resources to extract within the net (resource mobilizing reforms) while	Drive to create resources to extract outside the net (re-source creating reforms),
Economic development	Forced economic growth based on political priorities while	Economic recession due to soft budget constraints (p) of those privileged within the net while	Economic growth due to hard budget constraints (m) of those outside the net and
Condition of the net	Remains unharmed	Emptying – for the lack of resources; deteriorating capacity to overlap positional,	Relative and absolute shrinking and emptying; deteriorating capacity to
Sequence of transformation	(1) Abrupt Collapse (2) Disintegration parallel to Transformation	(1) Disintegration (2) mild Collapse (3) Transformation	(1) Disintegration parallel to Transformation (2) Advancing partial and

Three major patterns are given upon the variation of the above elements: (i) Self-exploiting, (ii) Self-disintegrating and (iii) Self-withdrawing. These structural patterns will determine the different ways of self-reproduction with pattern-conforming instruments of resource extraction and distribution, the capacity within the pattern to resource attraction and resistance to intervention and extraction. These factors will determine the different frequency of hardening reproduction constraint within the pattern. Patterns will also contribute to the differences of the paths to transformation of the given systems. The impact of the specific way of reproduction on the structure results in characteristic disintegration, collapse and transformation. Disintegration, collapse and transformation will occur in different sequence and pace according to the specifics of the pattern of power distribution.

In consequence of the self-similar character, within a complex aggregation, according to bargaining capacity and structural specifics, different patterns of self-reproduction may exist simultaneously nested in different power relations. Accordingly, different extent of reproduction constraints may evolve simultaneously and enhance pattern conforming instruments of resource acquisition (forceful resource redeployments, resource mobilizing- and resource creating reforms). Moreover, due to the different patterns in one aggregation, also different transformations may take place concurrently. They may coincide in time and space, on the same level aggregations, in different level aggregations, and in different conditions of the given power structure. In turn, according to the variations within one pattern one may find the variations of the same transformation.

The national level as a final aggregation has also reproduction constraints that may be also soft and hard and hardening. In the case of final aggregation, attracting capacity evolves in relationship of resources from outside the net (either within or out of the national framework) that may be still different. Within the net the center has extracting and allocating capacities toward lower level self-similar units (be these industrial, agricultural or regional). The softness of the reproduction constraint of the center within the net depends on the bargaining, attracting and resisting capacities of lower levels in relationship to the center and its attracting capacity from outside the net.

Let us turn to our research subject: the Chinese way of self-reproduction. First let us see which of the transformation patterns China is seemingly following and second what role reproduction constraint plays in this transformation, third, what stage is China in this transformation, according to the model.

PART II

CHINA AS INTEGRAND PART OF THE IPS MODEL⁹

2. WHICH OF THE TRANSFORMATION PATTERNS IS CHINA SUPPOSEDLY FOLLOWING?

As a complex aggregated structure, China seems to follow the third – *Self-withdrawing* pattern. All the above factors are pointing to the hardening re-production constraints and the relative and absolute shrinking of the net and supposedly, in consequence of the decreasing distribution capacity within the net, to the emptying and disintegration of this latter at different levels. The process reflects the dynamics of the self-withdrawing pattern: disintegration parallel to transformation. Our supposition is supported by the following: (a) the fast growing share in employment, and production contribution of non-state enterprises (the field partially or completely out of the net) see *Table 2*; (b) the large amount of infiltrating foreign and domestic private capital into the net (forming joint-ventures and purchasing shares of transformed SOEs, or whole SOEs, or green-field) and increasing the market field outside the net see *Table 3*; (c) the growing budgetary deficits see *Table 4*; (d) the decline in the number of economic units attached to the net *Table 2*; behind the numbers, the expansion of TVE (Township and Village Enterprises) and SOE privatization both in number and enterprise size to get rid of burdens (World Bank interview and *Table 2*); second, the increasing number of village, township and county level free-and semi-free elections (*Lai Hairong, 2000*¹⁰) for redistribution of responsibilities and enhancing willingness for collaboration and resource contribution.

As to the privatization, the process within the net is already reaching the larger state owned enterprises on province and central level as well: bad loans are exchanged to debt equity shares, compensated from privatization incomes, through liquidations or FDI inflow. Large enterprises are being transformed into companies and also listed at stock exchange for attracting

⁹ The following section is part of Csanádi's book manuscript that besides describing the model demonstrates its applicability as an analytical tool in the case of the Romanian, Hungarian and Chinese party-state systems.

¹⁰ Lai, Hairong, and Rong, Jingben, "A Comparative Study on Reform of the Political System at County and Township Levels in China," prefaced by Andrew Watson, representative of Ford Foundation for China, *Comparative Economic and Social Systems*, No.4, 2000.

additional capital. Shares of the largest SOEs are being "diversified", that is, also domestic and foreign capital may purchase them.

Table 2 Number of employment in each sector and their contribution to industrial production on national level in 1994 and 2000

		1994	2000	Difference	Rate %
Employment	SOEs	112140000	81020000	-31120000	72.25
	Collective	153020000	143190000	-9830000	93.58
	PEs	48300000	81190000	32890000	168.10
Share in industrial output (%)	SOEs	37	28 /99	-9	—
	TVEs	38	35 /99	-3	—
	Collective E				
	PEs	10	18 /99	+8	—
	Others*	15	19 /99	+4	—

* Including FDI, share-holdings with majority shares not controlled by the state, and those with ownership not clearly defined.

Source: *China Statistical Yearbook, 1995*, compiled by National Bureau of Statistics of China, Beijing: China Statistics Press, 1995, p. 84-85, 375. *China Statistical Yearbook, 2001*, compiled by National Bureau of Statistics of China, Beijing: China Statistics Press, 2001, p. 247.

Table 3 Total investments in fixed assets by ownership on national level in 1994 and 2000 (Billion RMB)

	1994	2000	Difference	Rate %
SOEs	932.3	1650.4	718.1	177
Collective	266.5	480.1	213.6	180
Pes	197.1	470.9	273.8	239
Jointly owned*	10.0	9.5	-0.5	95
Share-holding	56.9	406.2	349.3	714
Foreign funded	128.0	131.3	3.3	103
Overseas Chinese from Hong Kong, Macao and Taiwan	43.0	129.3	86.3	301
Others**	3.3	14.0	10.7	430
sTotal FDI	281.8	337.9	56.1	120

* Jointly owned by more than two SOEs, or by some SOEs and TVEs, or by SOEs and PEs. ** Those with ownership not clearly defined.

Source: *China Statistical Yearbook, 1995*, compiled by National Bureau of Statistics of China, Beijing: China Statistics Press, 1995, p. 398, 558. *China Statistical*

Yearbook, 2001, compiled by National Bureau of Statistics of China, Beijing: China Statistics Press, 2001, p. 428, 607.

Table 4 Revenue, expenditure, and balance of governments at all levels as an aggregation in China in 1994 and 2000 (billion RMB)

	1994	2000	Difference	Rate %
Revenue	521.8	1339.5	817.7	257
Expenditure	579.3	1588.7	1009.4	274
Balance	-57.5	-249.2	-191.7	434 def.

Source: China Statistical Yearbook, 1995, compiled by National Bureau of Statistics of China, Beijing: China Statistics Press, 1995, p. 375, 379. *China Statistical Yearbook, 2001*, compiled by National Bureau of Statistics of China, Beijing: China Statistics Press, 2001, p. 112-113.

3. ACCELERATION OF THE SELF-WITHDRAWAL OF THE PARTY-STATE IN CHINA: ESCALATION OF RESOURCE-CREATING REFORMS COMBINED WITH ABSOLUTE SHRINKAGE OF THE NET

Reproduction constraints within the net are hardening from two dimensions. First, hardening begun from township level and is spreading towards the center. Second, hardening reproduction constraints are spreading at each aggregation level, thereby narrowing the circle of those economic units (be they enterprise or administrative territory) who can persist with soft reproduction constraints. In turn, the circle of those with hardening reproduction constraint expands. The process paves the way for further absolute shrinkage of the net through increased asset stripping, close-downs, bankruptcies and privatization spreading upwards the net.

The spreading of hardening reproduction constraints within the net contributes to the increasing efforts and simultaneous difficulties of resource extraction on central level, and with that, the acceleration of absolute and relative shrinking of the net on national level. This process, in turn, further accelerates the spread of hardening reproduction constraints within the net on lower levels. Reactions to the hardening of reproduction constraints within the net are very different, due to the bargaining (attracting, resisting) capacities and internal distribution of power (extracting and allocating) of the given unit and thus, the pressures and capacities to attract resources from outside the net.

Acceleration in China will leave more and more interlinking (D_2) threads in limbo in consequence of the disappearing targets in the economy, or turn them less important in consequence of the infiltration of alternative (private)

capital in the net, or by voluntary withdrawing them while market is taking over. *Hardening reproduction constraints within the net in China from the 1990s.*

Reproduction constraints hardened by the end of 1980s. Central government introduced an overall retrenchment that contracted economy. Growth was again incited through the usual instruments: TVEs, so far strictly suppressed, were again politically legitimized. In December 1991, Deng declared that "the more I watch TVEs the more I like them". Similar legitimization with radical consequences was Deng's roundtrip in 1992 that made private enterprises to boom. Motivations and possibility to openly acknowledge market activities came from the decreased extracting capacity of the center from within the net and from outside the net (*Table 5*).

Table 5: Revenues and Expenditures at Central and Local Levels before 1994 (Billion RMB)

Years	Revenues			Expenditures		
	Total	Central	Local	Total	Central	Local
1981	117.58	31.11	86.47	113.84	62.57	51.28
1982	121.23	34.68	86.55	123.00	65.18	57.82
1983	136.70	49.00	87.69	140.95	75.96	64.99
1984	164.29	66.55	97.74	170.10	89.33	80.77
1985	200.48	76.96	123.52	200.43	79.53	120.90
1986	212.20	77.84	134.36	220.49	83.64	136.86
1987	219.94	73.63	146.30	226.22	84.56	141.66
1988	235.72	77.48	158.24	249.12	84.50	164.62
1989	266.49	82.25	184.24	282.38	88.88	193.50
1990	293.71	99.24	194.47	308.36	100.45	207.91
1991	314.95	93.83	221.12	338.66	109.08	229.58
1992	348.34	97.95	250.39	374.22	117.04	257.18
1993	434.90	95.75	339.14	464.23	131.21	333.02

Source: <http://www.stats.gov.cn/tjsj/ndsj/>

Foreign investments, compared to the low growth along the 1980s began their sharp increase from 1990 on. The number of foreign investment projects between 1990 and 1992 quadrupled, contractual value raised seven fold, and realized value raised about three fold respectively (*Xiaojuan, 2001a, p. 1, Table 1*). FDI did not spread evenly in China. Most of the export oriented FDI was concentrated in the open coastal regions due to preferential policies, lack of competition for the scarcity of SOEs and for ancestral roots. In the 1980,

90 percent of such investment was made in these areas and only somewhat decreased in the 1990s. Opposite to the tendencies of the 1980s, when FDI overwhelmingly preferred joint ventures with collective enterprises, in the 1990s, the wholly owned foreign firms began to grow impressively. From services preferred in the 1980s, FDI shifted to industrial activity in the 1990s (*Xiaojuan*, 2001a, pp. 4-6).

Meanwhile, SOEs' tax contributions steadily decreased. This was partly due to SOEs' declining profit rates and partly to the boom of other enterprises and that of their tax contribution. This process drastically declined the market share of SOEs in all branches except gas industry between 1988 and 1995 (*Jefferson and Rawski*, 1998, pp. 28–29). In consequence of the rapid influx of TVEs, foreign invested enterprises and domestic private firms, SOE profit rate declined for they had difficulty to sustain higher prices (*Jefferson et al.*, 1998, p. 147) than their non-state counterparts. SOEs' profitability also relatively declined in consequence of their slower pace of profitability increase¹¹. Also capital productivity of SOEs declined between 1988 and 1992 in consequence of over-investment (*Jefferson et al.*, 1998, p. 147; *Jefferson and Rawski*, 1998, p. 31). Moreover, profit rates have declined overall, in consequence of the decline of monopoly rents due to entries and import competition (*Jefferson and Rawski*, 1998, pp. 34, 36; *Jefferson et al.*, 1998, p. 145). This latter lead gradually to the decline of the advantages of the dual-track system.

Despite of the decrease in profitability, SOEs still gave overwhelming part of industrial taxes (65 percent in 1994)¹², that meant 30 percent of total government revenues (*Jefferson and Rawsky*, 1998, p. 38). However, losses were widespread among independent accounting units, while bailouts since 1986 were partial and radically declining (*Jefferson and Rawski*, 1998, pp. 80–81). This fact suggest stricter selection, hardening reproduction constraints of widening number of SOEs in consequence of hardening reproduction constraints of central and local governments to which they were subordinated.

In respect of the center, less allocating capacity and stricter selection is also suggested by the decline of the share of state budget (state budgetary

¹¹ Capital intensity, pensions, social services, housing that are most extensive in state sector depress reported profit rates *Jefferson et al.*, 1998, p. 149)

¹² Revenue tax-rates until 1994 were differentiated to the detriment of the SOEs: in 1995 it was 72 percent for SOEs, 60 percent paid by collectives and 39 percent by foreign-invested firms (*Jefferson and Rawski*, 1998, p. 38).

appropriations) as a source for investment financing in SOEs. The share precipitated from 40.6 percent in 1983 to 4.9 percent in 1995 (*Jefferson et al.*, 1998, p. 221). Hardening reproduction constraints within the net as a reaction accelerated the implementation of structure-conform instruments.

FIRST SIGNS OF ACCELERATION:

Letting the net shrink officially:

From 1992 on we can experience the acceleration of the absolute and relative shrinkage of the net.

Deng's roundtrip was formalized on the 14th Party Congress in 1992 that declared the existence of the socialist market economy. The legitimacy of private ownership was included in party statute. The next year, legitimacy of private ownership was also legislatively recognized as Peoples' Congress included private ownership in the constitution. Moreover, the 14th Fourteenth Party Congress had formally jettisoned the central plan as a mechanism for resource allocation. By that time, the proportion of planned production in total industrial output value was reduced from over 90% in 1978 to 5 percent in 1993. (*Woo*, 1998 p.158).

1) The same year, Contract Responsibility System was enhanced by the Regulations on Transforming the Management Mechanism of State-Owned Industrial Enterprises and delegating SOEs more autonomy in several fields. The law defined three major forms of companies: joint-stock, limited liability company, state wholly-owned company. By that move, the law legalized the absolute shrinkage of the net in economic realms. It is not by chance, that FDI inflow in fixed assets doubled from 1992 to 1993 and so did FDI's share in total investment in fixed assets (*Xiaojuan*, 2001b, p. 4, *Table 5*)

2) The perspective on the infiltration of foreign and domestic capital into SOEs was given by the resolution of 3rd plenum of the 14th. Party Congress in 1993. According to the resolution, every SOE must turn into company. Around 10,000 enterprises were to be transformed into corporations, restructured or merged (*Sun*, 1997, p. 22–23). The shares in centrally controlled SOEs were to be held by the state in the first instance. However, the intention was to distribute the shares gradually to provincial and local governments and banks. Operations were delegated to the management, who in turn bore responsibility for profits and losses. At a plenum in 1993, the CPC had identified "ambiguous property rights" as a key reason for the inefficiency of SOEs (*Woo*, 1998 p. 155). According to

the Congress, the virtually bankrupt enterprises will be allowed to go bankrupt.

3) The Plenary Session of the 14th. Party Congress adopted a document on economic system reforms. It did not advocate privatization, but it left the door open slightly for the process. As for the small state-owned enterprises, it stressed that the management of some can be contracted out or leased. Others can be shifted to the partnership system in the form of stock sharing, or sold to collectives or individuals (*China Daily*, Supplement, Nov 17 1993; *Cao, Qian, Weingast*, 1999, p. 120).

However, by the time privatization was legalized and politically legitimized, the process has already started: for example, Zhucheng city in Shandong province, started privatizing SOEs in 1992, when two-thirds of its SOEs were losing money or just breaking even. Almost 90% of county-supervised SOEs in Zhucheng have already been privatized. Sichuan province was steadily selling off money losing SOEs, and Guandong province was selling profitable SOEs as well, in order to finance local infrastructure and to clear the debts of unprofitable SOEs before putting them up for sale. Heilongjiang province had announced plans to privatize 200 SOEs after having sold 160 successfully (*Woo*, 1998, p. 180).

By allowing officially the purchase of smaller SOEs, and legalizing joint-stock and limited liability company, the Party had willingly or unwillingly a complex impact on local behavior. It provided another field for forced resource redeployment on short term (privatization), allowed local governments to get rid of unprofitable burdensome enterprises while in turn, acquired some resources for the conservation of the remaining net. On the long run, central consent contributed to the relative and absolute shrinkage of the net (*C. Lin*, 1989 p.113).

Parallel to political opening and spreading privatization, FDI increased dramatically: from 1991 to 1993, the number of projects increased six-fold, contractual value increased tenfold and realized value increased also six-fold. From 1993, the number of projects and contractual value declined but the realized value increased steadily. Foreign investments were concentrated on the coastal region and overwhelmingly performed by overseas Chinese in forms of joint ventures and cooperative enterprises with local counterparts (*Xiaojuan*, 2001a, pp. 1, 2 Table 1, Table 3).

Revenue centralization efforts within the remaining net:

In consequence of the hardening of reproduction constraints within the net, revenue centralization efforts continued, parallel to decentralization of

expenses and economic liberalization. *In 1994 a major general tax reform* was introduced. The new tax reform redistributed revenues within the net. It introduced central, local and shared tax revenues, items to be taxed. It also decreased SOEs' tax contributions to the level of other type of enterprises (see *Wong, 2002, p.51, Table 4.1*, in the Appendix 1).

The definition of the local and central discretion for tax revenues was paired with strong political pressure for the institutional redistribution of power towards the center (*Wong, 2002, Likeping, 2002; Burns, 1994, pp. 470–471*). Meanwhile, several accompanying decisions were brought to support the redistribution of power and through that, that of the extracting capacity towards the center:

- The nomenklatura of the leaders of local branches of specialized banks was re-centralized. Monetary authority was centralized and the central bank have refused to accommodate monetary policy to the local government's behavior (*World Bank, 1996; Cao et al., 1999, p. 117*)¹³. Central bank set up new regional network from 1995, delegating personnel decisions to the regional organization instead of local government (*Wong, 2002, p. 175*). Commercial banks' party secretary and management became subordinated to the central Financial Party Committee in 1997 (Interview, 2000). As a result, a nationwide credit crunch was imposed and inflation has declined drastically, from over 20 percent to about 2 percent in 1997¹⁴ (*Qian–Roland, 1998, p. 1157, Chan Morgan, 1997; Cao et al., 1999, p. 117*)
- tax offices of central the Central Tax Bureau were set up at all levels for collecting to-be-shared and central taxes separately from local taxes
- 1995 new Budget law prohibited the central government from overdrawing the central bank and from deficit financing its current account. Capital account could be deficit financed but only with issued government bonds. Local governments were required to have their

¹³ Before this measure 70 percent of central bank loans were made by its local branches (*Cao et al., 1999, p. 117*).

¹⁴ This centralization went parallel to the introduction of several monetary institutions, enhancing the rule of law: In 1995, People's Bank of China Law, empowering it to supervise and regulate the financial services industry; Commercial Bank Law; Insurance Law; Securities Law; Trust Law; Foreign Exchange Management Law; Township and Village Enterprise Law, 1996

budgets balanced, the law strictly controlled their bond issues and restricted borrowing in the financial market and to ensure enforcement of the Budget Law, and independent State Auditing Agency was also introduced (*Cao et al.*, 1999, p. 116).

All the above measures were conducive to press through the redistribution of revenues towards the center. In consequence of the one-off revenue centralization, revenues increased the center's share from 22 to 56 percent (*Wong*, 2002, p. 37). Meanwhile, the distribution of expenditures remained unchanged (*Likeping*, 2002, p. 11). As a result, tax and fiscal reform and additional measures in 1994 further hardened local governments' reproduction constraint.

Centralization efforts were again selective according to different bargaining powers of the provinces. To ease the resistance of the provincial leaders at the introduction, fiscally compensating compromises, tax rebates were reached between center and province. Consequently, measures that paved the way for the tax reform, simultaneously contributed to their formfitting to the given power distribution (see measures in *Wong*, 2002, pp. 34, 35, 71). Formfitting may be further revealed in the partial success of power redistribution measures: local branches of central tax offices soon joined local interest network (*Wong*, 2002, p. 82).

Local governments' reproduction constraints became harder both in consequence of SOE loss and indebtedness, in consequence of the decreased capacity for credit pressure and selective distribution, the loss of revenues in consequence of the tax reform of 1994, the decreased subsidies to SOEs, the constraints to reduce enterprise tax as they did in the past, and the stable expenditure assignments despite revenue reallocation.

Hardening reproduction constraints were even more salient at sub-provincial levels, since there were no central regulations on the assignment of local taxes and the redistribution of shared revenues and tax rebates, neither on the rolling down of expenditures concerning sub-provincial level. These as we suppose, varied according to the distribution of power within the province and at lower levels¹⁵. What we know is that after 1994 fiscal resources were con-

¹⁵ This assumption is underlined in Wong's book, who describes the sub-provincial distribution of revenues and expenditures and being subject of individual negotiations (p. 101). The difference in bargaining capacities among sub-provincial levels is reflected for example in the categorization of the provinces into three groups

centrated to the provinces (*Wong*, 2002 p. 46) while expenditures were distributed. This fact points to the faint attracting capacity in general of the sub-provincial levels (*Wong*, 2002, p. 57). We also know that extra-budgetary funds – that are fees collected locally and run uncontrolled by upper levels – had a high rise after 1994 tax reform (*Wong*, 2002, p. 101), as an effort to compensate budgetary losses. We also know that after the tax reform privatization and closedowns accelerated at lower levels and are spreading to upper levels¹⁶. The tendency of solutions was legitimized by the central government: in mid 1995 it endorsed a slogan for SOEs on "grasping the large and letting go the small" (*Cao, Qian, Weingast*, 1998, p. 121). The local SOEs were working at a loss, the local governments spent their money to support them, responsibilities for subsidize them were decentralized, so there was a drive to get rid of these SOEs (*Woo*, 1998, p. 155, *Wu*, 2000).

Not only extra-budgetary revenues and privatization and closedowns increased but local governments tried their best to hide resources from upper levels even in constrained conditions. Local governments encouraged local enterprise to pursue short-term profit maximization, hide profits, secretly privatize SOE under their control, tacitly encourage spontaneous privatization or local revenues to go untaxed (*Qian*, 1996, p. 436).

Decline of the growth and hardening reproduction constraints within the net:

By 1996, in overall, *economic growth was slowing down*: this did not only concern SOEs but also collective enterprises. Profit rate of collective enterprises (most of them rural): from 26,5% in 1980 dropped to 8,2 in 1996, that of SOEs dropped from 24,9 to 6,5 respectively. (*Smyth*, 1998 p. 785). As

by *Wong*, according to the total, partial or no rolling down of tax-rebates received by the province (*Wong*, 2002, p. 77-8).

¹⁶ Based on the model's approach, we may suppose that bargaining capacity at sub-provincial level was higher where tax rebates were totally redistributed. Bargaining capacity was less where they were partially redistributed and faint where they were totally kept at provincial level. Combining *Wong's* data on rebate decentralization and dispersion of extra-budgetary funds at sub-provincial level – compared with that of the budgetary funds – we may suppose that the ratio of SOE privatization will be lower in those provinces where both bargaining capacity and extracting capacity are high. They will be somewhat higher where extraction ratio is lower no matter bargaining capacity, and the highest ratio is where sub-provincial level bear neither extraction nor bargaining capacity. We suppose, that this tendency will run parallel to the frequency of sub-provincial governments that became deficit-financed (*Wong*, 2002, p. 57). Unfortunately however, data on privatization are not systematically collected, therefore, at present, there is not possibility to provide such table.

a result, between 1997-98, the average personal income growth has fallen off sharply and for large portions of rural and urban poor it has reversed. (Adjusted for inflation personal income during the 1980's rose 329 percent in cities and 155 percent in the countryside. For 1990–1995 it rose 226 percent in the cities and 186 percent in the countryside (*He Qinglian*, 1998).

SOE decline had also accelerated by 1996. After 18 years of gradual transition the SOE share in China's total industrial output has declined from 77.7% to 28.8% in 1996¹⁷; the share of employment in SOEs in 1996 was 57.4% of urban workers; it possessed 52.2% of total investment in industrial fixed assets. SOEs were losing money, in spite of the large amounts of implicit subsidies from low interest loans and other policy protections (*Lin et al.*, 1998, p. 426). The volume of explicit subsidies to SOEs did not increase parallel to the losses. Therefore, its ratio compared to losses declined steadily between 1986 and 1991 and so did the share of subsidies to loss-making state owned enterprises in the GDP. The share of subsidies to loss-making SOEs in the GDP from its 1985 height (5.66%) declined to 0.27% in 2001¹⁸. Overall, in 1996, 23 percent of the 390,000 enterprises reported losses (*Jefferson and Rawski*, 1999, p. 35). According to *Cao et al.*, 90 percent of loss-making enterprises were small. Losses in 1996 were suffered by 38 percent of SOEs, 40 percent of large and medium-size SOEs, 60 percent of small SOEs, 18 percent of collectives and 34 percent of "other" (share-holding and foreign invested) enterprises (*Jefferson and Rawski*, 1999, p. 35; *Cao et al.*, 1999, p. 122). These data, increasing towards the smaller and lower level, combined with the parallel tendency of hardening reproduction constraints towards smaller and lower levels and from SOEs to TVEs, and confronted with the declining chances for bail-outs along the same line, *forecast the upward spreading of privatization.*

Accelerating privatization and closedown:

Hardening reproduction constraints accelerated the privatization process. Based on an investigation in 1996 on letting go the small SOEs, You and

¹⁷ Large scale SOE consisted 5.6 of SOE in terms of number in 1996, contributing 63.3% of the gross output value of the SOEs (*Lin, Cai, Li*, 1998, p. 425).

¹⁸ *Guoyouqiye Shichanghua Jincheng Yanjiu* (A Research on the Marketization of SOEs), by research team on the development of Chinese market economy, Institute of Economic and Resource Management, Beijing Normal University, 2002. *Source:* http://www.snweb.com.cn/gb/people_daily/2002/12/14/f1214001.htm

Wang stress that by mid 1996 Heilongjiang had completed the privatization of 91,4 percent, Shandong 65 percent, Hunan 60 percent, Jilin 56 percent and Anhui 39 percent of its small SOEs. According to another source (Institute of Economic System Reform, 1997) Jiangsu had completed about 50% by the end of 1996 and Henan started privatization in 1996 with plans to finish by the end of 1997 (*Cao et al.*, 1999, p. 109). By the end of 1996 up to 70% of the small enterprises had been privatized in pioneering provinces. Most counties moved from the experimentation stage to a promotional stage. Many provinces have completed the change of ownership in more than 50% of their small and medium sized SOEs on county level (*Cao et. al*, 1999 p.109). By 1996 some pioneering counties such as Yibin of Sichuan, Shunde of Guangdong, and Zucheng of Shandong had privatized almost all of the state-owned enterprises under local supervision. By 1997, most counties in the country had progressed to privatize more than half of the state-owned enterprises under local supervision (*Qian–Roland*, 1998 p. 1157). Unfortunately there are no aggregate data on privatization. We can estimate the scale only from the reduction of the number of small industrial SOEs. From 1995 to 2000, the number of small industrial SOEs dropped to its half, from 72,000 to 34,000. The difference is 38,000 that had been either privatized or liquidated, or merged (World Bank Interview, 2002). Since increasing sized enterprises are in general subordinated to increasing rank of authority, and privatization is gradually reaching larger enterprises, privatization is spreading upward. Upward spreading is a relative term, since this tendency meets the tendency of decentralizing inefficient enterprises to lower levels from all levels, in order to get rid of burdens (see latest decisions of the 16th Party Congress in 2002 on the decentralization of SOEs subordinated to the center). At the same time an opposite tendency spices the dynamics: the centralization of the subordination of efficient ones (*Csanádi–Lai*, 2003).

Not only subordinated inefficient enterprises were closed down or sold, in order to get rid of burdens and ease reproduction constraints. Local authorities constrained by hardening reproduction conditions accelerated lay off in subordinated SOEs: Between 1995 and 1997 local governments in China took the initiative to massively lay off excess workers from state owned enterprises. Lay-off was mostly organized at city level, privatization at county level (*Qian–Roland*, 1998 p. 1157). In recent years many cities began to restructure medium SOEs, transferring laid off employees to non-state enterprises, or sending them home, but workers still maintain some nominal relationship with their enterprises, (subsistence salary, housing, health care). More than 10 million workers lost their jobs in 1996, while 8,9

million were in compensation state. About 3,6 found jobs 2.3 went out from labor market. Mostly in textiles, measurement instruments, coal, metallurgy, chemical, forestry, machinery and electronics (*Wang, 1997*).

The narrowing of the circle of those preferred and the parallel spreading of privatization, lay-off and the legitimization of multiple kind property was shown on the 15th Party Congress in September 1997. In the Congress Ciang Co Minh declared that *state owned industry should be decreased*. He announced that China would be undertaking massive privatization of its SOE sector (*Woo, 1998, p. 180*). China would privatize 369,000 SOEs (*Woo, 1998, p. 155*) In fact, this was the formalization and acceleration of the process that begun five years earlier.

A report in the official China Securities in November 2000, citing a survey by the National Bureau of Statistics, predicted that SOEs would eventually withdraw from most industrial sectors, while the state would retain control over a few key areas. The recommendation was that the state should pull out of direct activity in 146 of the 196 industrial departments, including garments, textiles, food, beverages, daily consumer goods and electronics. The report suggests that the state relinquish its monopoly but maintain at least partial control over 35 sectors, including coal, iron and other major mineral resources, aerospace, new materials, computers, medicine, electronics, petrochemicals and automobiles. A state monopoly should be retained in 15 sectors, including military industries and electricity output¹⁹

Emptying the rigid structures:

At the end of the interlinking and hierarchical lines not only close-down and privatization puts an end to the concrete function of the interlinking threads but also the *emptying of the rigid structures*. In other words, the transferring of state assets outside the net through asset stripping went steadily further. Already in December 1995, the State Administration of State Property reported that asset stripping in the SOE sector "has been about 50 billion yuan (annually) since the early 1980s" (*Woo*²⁰, 1998 p. 177). This process

¹⁹ (SOE restructuring accelerates *Economist Intelligence Unit, a U.K.-based information provider, Chinaonline* 6 December 2000).

²⁰ The author refers to ("State Drain Must End" China Daily, Dec. 13, 1995, see also "State Toughens Stand to Protect Its Possessions" China Daily, June 2, 1995; "Asset Checks Can Stop Fiddles" China Daily, June 7 1995; "Market Investigated for Losing State Assets", China Daily, June 2, 1995.

accelerated to such an extent that State Council formed a leading group under the direction of then Vice Premier Zhou Rongji to examine the issue. This is not a problem that is restricted to joint stock and shareholding co-operatives. Assets are being drained through various avenues such as joint ventures, between state and non-state firms. In shareholding co-operatives it arises because there are many instances where local officials understated the true value of collective assets so that purchasers of shares, including themselves, could benefit at reduced costs (*Smyth*, 1998 p. 798).

Increase of foreign direct investment:

By mid 1990's foreign firms together with rural enterprises already accounted for more than half of China's industrial output (*Cao et al*, 1999, p. 119).

According to some experts, as a result, competition pressure on SOEs reached a new level. It had greater effects on SOEs supervised by local government than on those supervised by the central because of local SOEs are frequently in competitive industries where the non-state firms entered (*Qian and Roland*, 1998 p. 1157).

The competitive pressure from outside the net combined with privatization, closedown, lay-off and the emptying the rigid structure, also brought about the *weakening of interlinking threads* that were connected to the economy. In joint ventures, Party secretaries are not allowed to sit in the board of directors as such. They potentially have a voice through the trade union, especially since the Party Secretary is often simultaneously the trade union leader (*Pearson*, 199 p. 69). In Guangdong and the Special Economic Zones had succeeded in eliminating Party influence or activity. By 1995, in Guangdong the Party was essentially absent from joint ventures (*Pearson*, (1997 p.70). Same process is occurring with the withdrawal of state shares in share holding companies ("Fortune": Inside the *New China* A Special Report. 1999. Oct. 11. No. 19. pp. 50–86).

Supposedly in consequence of hardening reproduction constraints and the decentralization process as an accompanying tendency, the absolute shrinking of the net is taking place also in party and state hierarchies. Competitive elections on village level government begun in early 1990s, based on the Organic Law of the Village Committees passed in 1987, including candidate choices (*Tong*, p. 216). Moreover, despite explicitly opposite central instructions, as a perfect example for the self-withdrawal of the net, competitive elections to government leadership and in some places to party leadership are being held since then on township and some at county

level. These elections are organized by local level party committees at the instruction of higher level local party Organization Departments (*Lai, 2003*). These solutions seem to be spreading upwards encouraged by the province in order to win over the confidence and resource contribution of the population in politically destabilizing economic situations (see *Jiangsu province Lai, 2003*).

Based on the above processes, we can stress that the hardening of reproduction constraints within the net *instead of promoting adaptive transformation*, enhances its accelerated *withdrawal*. Withdrawal (absolute shrinkage) is perceived in the process of getting rid of burdens by eliminating targets (close-downs and privatization), by cutting interlinking and hierarchical threads (joint ventures and FDI, semi-free elections, by ceasing functions and supervising institutions). Absolute shrinking takes place also as an indirect result of the asset stripping (transfer of competitive professionals, assets, partial and whole units outside the net).

It appears, however, that *withdrawal, despite competition pressures, does not imply the change of rationality and priorities within the remaining net. It reacts only with the narrowing of the circle of those privileged*. The prevalence of political rationality and operating principles is suggested by several factors. The nomenklatura prevails in the shrinking net, both concerning the state owned economy²¹, the bureaucracy and financial fields²². Government orders suggest the characteristic selectivity in bailouts: in direct subsidies from fiscal authorities, cheap credits from the state banking system, policy loans from the central bank financed with money creation, replacement of indicative credit quotas with mandatory ones, strict restriction on the flow of funds outside the state-owned banks and lending to projects outside the credit plan, use of administrative credit plan and centralization of the allocation through it, local leaders (government, ministry and bank) held

²¹ Political rationality in appointments: According to official survey conducted in 1995, about 80% of SOE managers, especially those of large and medium SOEs, were appointed through political and administrative channels (referring to Window of Hong Kong, published in HK, March 10, 1995, p. 10).

²² The autonomy of the banking system is relative. They are not private enterprises. In order to prevent bank corruption the state intervenes and interferes and controls very deeply the banking process and the punishment is very severe. It controls money supply too and at every bank the PC has to play the leading role. The banks general manager and its deputy are nominated by a central financial PC subordinated to the State Council (Interview, 2000).

individually responsible for credit plan fulfillment (World Bank interview, 2002, *Brandt, Zhu*, 2001, p. 441)²³. The increase and large share of extra- and off-budgetary revenues of local and central governments²⁴ testifies to the prevailing extracting capacities through dependency lines. Feedbacks are still prevailing and being created in the case of important enterprise (State Owned Assets Management Commission). Foreign capital is still attracted by large enterprises that have efficient feedbacks²⁵ to make their way in the net. At lower levels, share-holding cooperatives have not reduced the power of local governments. Despite only partially owning shares, they still nominate the director (*Smyth*, 1998 p. 798). Corruption is very high, also indirectly testifying for the prevalence of the importance of party and state feedbacks. Capital flight from SOEs during delayed bankruptcy procedure is taking place in collaboration with local courts (*Chinaonline*, 2002). Some grassroots Party and government officials have become the new bosses of business corporations. Conversely, some successful private entrepreneurs joined the party and have been incorporated into ranks of the political elite, those remaining outside the net are being regularly consulted by local cadres on major community issues (*Tong*, 1997, p. 216). Private enterprises still use "red cap" as a method to drain the privileges still available within the net.

Moreover, also formfitting process within the net is still taking place according to structural and dynamic characteristics. Since 1996-97, parallel to the growing instability in reproduction of status quo, efforts may be detected to re-strengthen the party's role in SOE's²⁶ and centralizing its control over the strategic state property – especially large enterprises – while getting rid of burdens (World Bank, interview, 2002). In 1998, 10 ministries were abolished, and also enterprises formerly created and owned by other ministries, military, police etc. were detached to decrease economic policy

²³ For example:

"However, SOE's net losses deepened in early 1996, the state banks were ordered in mid 1996 "to satisfy the funding demands of the large and medium-sized State enterprises" (Central Bank urges support for faltering enterprises. *China Daily*, July, 8, 1996 (*Sachs–Woo*, 1997, p. 44)

²⁴ For example, the creation of share-holding co-operatives provided a means for rural enterprises to raise capital both for the enterprise and the local government. The management forced sometimes workers or all were forced by TVGs (township and village governments) to buy shares. (*Smyth*, 1998 p. 797).

²⁵ (*Dodsworth et al.* 1996; *Mallon and Irvin* 1997 in *Sun*, 1997, p. 26–27).

²⁶ In 1997, there was a No.3 Document issued by the CC, emphasizing the role of party (World Bank, interview 2002)

intervention in enterprise management. The vacuum of power however was soon filled up and form-fitted within the net. Instead of increasing enterprise autonomy, the abolishment of the 10 ministries ended up in the redistribution of power towards the party. Large Enterprise Working Committee (LEWC)²⁷ under the Politburo was set up. LEWC was responsible for appointments of the enterprise leadership and about 180 strategic enterprise was selected and subordinated to its nomenklatura function²⁸. From within them, the leadership of a smaller number of even more important enterprises is nominated by the CC's Organization Department and appointed by the Politburo. Similar committees were set up on provincial and prefecture levels for strategically important SOEs subordinated to those levels.

LEWCs in theory do not fulfil economic policy function. However, in practice, feedbacks to LWC and higher levels mean centralization of allocation and extraction capacities from lower level governments on strategically important enterprises. These enterprises cannot be privatized, however they may go listed through their subsidiaries where they keep majority shares. They are taking part in central government's infrastructure developing "bond project" that is practically compulsory for commercial banks to finance (World Bank interview, 2002). In case of larger projects, highest levels of Party and State administration approve their investments²⁹. Lately, in early 2003, Economic and Trade Commission (ETC) and LEWC and some sections of the Planning Office merged under the new name of State Owned Asset Management Commission. The merger explicitly concentrated assets to distribute and nomenklatura of the most important enterprises.³⁰ All

²⁷ The members of this committee were selected from the leadership of the 10 abolished ministries (World Bank, interview 2002).

²⁸ The managers, the party secretary, and chief accountant were appointed by it (World Bank, interview 2002).

²⁹ In fact, the Planning Commission, the State Economic and Trade Commission still have regular power to be involved in the economic policy decision making in these enterprises. Also, for very large companies like Petro China and Sinopec, economic decisions, business decisions, are usually approved by the State Council and the deputy prime minister or even the party secretary, for very large investments, like 10 billion or 40 billion worth projects (World Bank, interview 2002).

³⁰ According to the head of the new commission, 64% of the total profits by produced by state sector (160,000 SOEs) were contributed by the 196 SOEs under the new commission's supervision. The strategy of reforming these 196 SOEs is to "encourage those SOEs to be listed in foreign stock market, to diversify the share

the above suggest that the absolute and relative shrinking and weakening of the net makes the selection stricter but does not change the selection criteria within it.

Similar consequences may be drawn concerning the debt-to-equity swaps. Debt-to equity construction was introduced in 1999 to provide relief and solutions for 601 selected enterprises with bargaining capacity, (and to the banks who granted those bad loans many times at government pressure). These enterprises were selected from among the 6,600 loss-making enterprises. The debt-equity swaps benefit China's SOEs by reducing their interest payments and allowing them focus on modernizing and restructuring (World Bank, interview 2002).

Prevailing politically rational selection criteria not only involved soft reproduction constraints for the narrowing circle in consequence of attracting and resisting capacity of its members. It further enhanced extracting drives for the sake of allocation within the net and resource creating drives outside the net of those to whom they were subordinated. Since 1994 on, repeated revenue centralization efforts may be detected through the introduction of newer and newer revenue-sharing techniques. For example: the inclusion of formerly exclusively local tax into the rank of shared taxes, the increase of the centralized ratio, the centralization of the subordination of profitable and decentralization of inefficient enterprises, the inclusion of extra-budgetary funds in controlled official budgets, the decentralization of expenses, the transfer of SOEs' social costs to local budget and so on (*Csanádi-Lai, 2003*).

In the following part of the study we shall relate about our empirical survey that aimed to trace the above process in a selected number of lower level governments. The question was how did this general process present itself at county level. Can we really detect these impacts connected to the introduction of the 1994 tax reform, what were its signs of this impact? What was the reaction to the impact and what consequences did it have on the party-state network at those counties?

PART III

IMPACT OF THE CHANGES ON THE SIX COUNTIES WITHIN THE THREE SURVEYED PROVINCES AND PREFECTURES AND BETWEEN THEM

owners by inviting FDI to buy the shares" (*Li Rongrong*, head of the commission, talked with his counterpart in South Korea, *Workers Daily*, July 8, 2008)

4. METHODOLOGY

SELECTION OF INTERVIEW LOCATIONS:

We have tried to choose provinces geographically spread in Eastern, Western and Central-Northern China. The other considered factor was to select provinces in which power structure is characteristically different and the strength of the party and government, the role of administrative planning, and that of SOEs, collective and private sector, agriculture, industry and heavy industry differs. *Table 6* shows our choice:

Table 6 Selected provinces, prefectures and counties within them (2000)

Provinces	Number of prefectures	Number of counties	Selected prefectures and number of (c)ounties + (d)istricts in them	Selected counties	
Jiangsu	13	108	Wuxi (2c+6d)	Jiangyin	Yixing
Shanxi	11	119	Ghangzhi (11c+2 d)	Changzhixian	Wuxiang
Sichuan	21	180	Ya'an (7c+1d)	Yucheng	Mingshan

Source: National Statistical Yearbook 2001, National Statistics Press, Beijing, 2001.

Criteria of our choice are shown on *Table 7*. From these provinces Jiangsu is a well situated province: its location is coastal, industrialized, within that light industry production almost equals to the size of heavy industry. Industrial production is overwhelmingly contributed by TVEs. This province is one of the few that attracted the large part of FDI (16 percent) and private industry also has a significant share in production. GDP per capita is very high (about 140 percent of the national average). Shanxi is a much poorer province. It is located in Central-Northern China, industry contributes to production almost as much as in Jiangsu, but in overwhelmingly heavy industry (coal mining). Agriculture plays similarly low roll as in Jiangsu. SOEs are having a major share in industrial production compared to TVEs. FDI is minimal. The contribution of private enterprises to production is one third of the ratio of Jiangsu. Its per capita GDP is less than half of this latter. Shichuan province, located in Western China is one of the poorest provinces in China. Among the three provinces under survey, it

is Sichuan where agriculture plays the most important part, but still, here too, the industry takes the overwhelming share. Within that, light industry is as important as in Jiangsu while SOEs play almost as large role in industry as in Shanxi. FDI is also minimal, though twice as large as in Shanxi. The role of private sector is much more significant than in Shanxi, but somewhat less than in Jiangsu. The GDP per capita is lower than in Shanxi.

Table 7 GDP per capita, share of industry and agriculture in GDP, contribution of SOE, TVE, and PE to industrial production, FDI in Shanxi, Jiangsu, and Sichuan provinces in 2000

	Shanxi	Jiangsu	Sichuan
Location	Central-Northern China	Eastern China-Coastal line	Western China
GDP per capita (RMB)	5137	11773	4784
Share of agriculture in GDP (%)	10.9	12.0	23.6
Share of industry in GDP (%)	50.3	51.7	42.4
Light industry's contribution to industry production (%)	14.4	43.2	42.1
Heavy industry's contribution to industry production (%)	85.6	56.8	57.9
SOEs' contribution to industry production* (%)	62.2	26.9	50.4
TVEs' contribution to industry production* (%)	29.9	45.5	28.8
PEs' contribution to industry production* (%)	7.9**	27.6**	21.8**
Share of FDI in total FDI %	0.5	15.8	1.1

Note: * Production of all SOEs and non-SOEs that have annual turnovers above 5 million RMB.

** Counted by the author based on statistical yearbook. It includes share-holding companies with majority of shares not held by the state, foreign fund enterprises, and enterprises with funds from Hong Kong, Macao & Taiwan.

Source: *National Statistical Yearbook 2001*, National Statistical Press, Beijing, 2001.

PLANS AND REALITY IN FIELDWORKS

Fieldwork had several constraints. Some were known before the start, others turned out during the process of research:

- physical capacity constraints: only one person was interviewing. This condition narrowed the circle of possible interview targets and sharpened the focus on developments within the net rather than outside of it (joint ventures, FDI, foreign investment are less thoroughly traced down)
- time constraint: possible time length the interviewer was allowed to spend at one site by his office superiors was about two weeks
- interview length constraint: officials did not have time for more than one interview and did not have more time in one sitting than about one and a half hour
- unequal possibility to reach interview targets: party leaders were less reachable on higher levels and in general those in the state apparatus were more reachable than those in the party
- political constraints: empirical tracing of the power structure and bargaining position of the given administrative level and that of those subordinated to them was only faintly possible through direct questions. Similar difficulties emerged to track asset stripping activities. Archives from where the main characteristics of the given level's power structure could be mapped up were unachievable
- Despite the project is beginning with 1994 tax reforms, we did not submerge in the professional details of tax reform since there are really good experts and excellent studies in this field (*Likeping, Wong, Bahl*). Instead, using this literature from our point of view we could proceed to trace its impact at the surveyed locations and detect the reactions it has provoked.
- methodological constraints: without knowing prior or during the research the specific power distribution in each province, prefecture, county under survey, one can only indirectly and retrospectively guess power structure from the used instruments of resource extraction and the characteristic consequences on the transformation of the net
- Statistical constraints (i): for the same reason, the application of statistical rules would have been impossible because even if we new prior the power distribution, the factors of choice according to the net's criteria are not exact and therefore, sampling is very hard. Therefore, field-work targets were not chosen according to statistical rules but according to geographic and economic concerns and personal relationships from prior research.

- Statistical constraints (ii): The problem with official statistical data was the usual: volatile data content, disappearing old and emerging new categories, inconsistent and missing data on different levels, or at same levels but different locations, that is, incomparability in time and space and different aggregation. We have also revealed the inhomogeneous basis of collection of theoretically comparable indicators³¹. *Table* in Appendix 2 demonstrates our efforts to collect the basic statistical data for a multi-level data analysis between 1994 and 2001. It shows simultaneously some of the main problems described above.

The table testifies to the fact that from the whole amount and type of data supposed to be used there are only five (1) Government revenue; expenditure; and balance; (2) Total Employment (SOEs Collective E Private E); (3) Total investment in fixed assets by ownership (SOEs Collective Private Es); (4) Total output share of SOEs in industrial production); and (5) SOE profits that are available at all levels and more or less meet the date (close to 1994 and 2001) requirements. Therefore, one had to take this extremely desolating fact into consideration when trying to compare economic developments with the above basic statistical data.

Further problem is, that from the available data – even if it were consistent in every respect – one may not directly conclude on the dynamics of the net. This is because available statistics reflects its results rather than the process itself that occurs behind it within the net. Reasons behind the numbers without the interviews would have remained a black box. Moreover, analyzing strictly statistical data one may easily arrive to erroneous conclusions concerning the dynamics behind it. On the other hand, interview findings – while they could be well quantified – have no respective statistical data collection. For example: there no data systematically collected on

³¹ For example, employment in and number of different enterprises: The employment indicator takes all those enterprises that are at the given aggregation level, the enterprise number indicator takes the number of enterprises some-times subordinated to the given administrative level, other all those at the aggregation level. Moreover, we have the number of subordinated SOEs and Collective enterprises from township level and above, but not knowing their number at each level in 1994. In 2000 we have the number of SOEs and non-SOEs whose turnover is above 5 million yuan according to aggregation level instead of subordination, and without specification of how many are private and how many are collective enterprises from those non-SOEs. Profits of SOEs are collected according to all SOEs in early 1990s but according to those that have turnover above 5 million yuan in latter years.

privatization, on bankrupt enterprises, closed-down enterprises, decentralized or centralized nomenclatura, abolished discretion, abolished party and state functions, abolished or created departments and functions, decentralization or centralization of enterprise subordination, administrative registration level of private enterprises etc.

Therefore, on the one hand, the available statistics – while showing certain tendencies, will not reflect the dynamics of the processes that interviews reflect. On the other hand, data surveyed by interviews may not be quantified.

Best example for this is Appendix 1 compiled by Bahl and quoted by *Wong* in 2002 (p. 51, *Table 4.1*) on the different central, local and shared taxes. Interviews revealed – combined with our prior knowledge, that the table cannot reflect several facts that from our point of view are very important. These missing factors determine the real amount of revenues from taxes of the different administrative units and levels: (a) Administrative levels, and central tax collection: the center collects both central and shared taxes without regard to ownership. (b) Administrative levels, SOE subordination, location of enterprises and tax collection: SOEs are subordinated to different level government and party authorities concerning their operation and leaders appointment. Taxes are collected by each level overwhelmingly according to subordination and partly according to location of SOEs. The lowest administrative level SOEs are subordinated to in general are the counties, therefore, lower than county levels do not have those revenues. (c) Administrative levels, SOE size and tax collection: The size of possible taxes is greatly determined by the fact, that in general, decreasing fixed asset size of SOEs are subordinated to decreasing administrative levels. (d) Administrative levels, ownership and tax collection rights: local tax collection rights of different levels differs by ownership. Besides the above-mentioned SOE specifics, TVEs in general are taxed by townships, private enterprises in general taxed by townships, or according to registration level. In turn, in case of privatized enterprises taxes remain collected by the level of authorities that had privatized them. (e) Administrative levels, distribution of industrial production and tax collection: The volatility of tax revenues is also determined by the fact that the those enterprises are kept under central subordination that are in monopolized industries while those enterprises are distributed to local levels that are in competitive industries. Moreover, production structure also differs at each administrative unit at the same level. (f) Administrative levels, tax collection, final revenue target and power relations: revenue collection and final targets of revenues do not match. Local tax offices

collect local taxes, while local branches of central financial tax office collect shared- and central taxes. Tax rebates will develop according to provincial decision and lower level resisting and attracting capacity. Similarly, collected revenues by townships, counties and prefectures and finally received revenues by the same will depend on their resisting attracting capacity towards the level above them.

Concluding from the above problems, what we could do is to use the available data to complement field work findings whenever it was possible when differences among localities were on stake between 1994 and 2001.

THE INTERVIEW PLAN

Csanádi and *Lai* jointly prepared the interview plan. We have selected the professional material that formed the background of our interview questions from the Chinese and English literature (see Reference list). The collected material refers to intergovernmental fiscal relations, introduction and problems and development of 1994 tax reform, central and local fiscal relations, budgets and extra-budgets, economic policy decisions on decline of budgetary revenues, case-studies on local government's role and behavior, case studies on privatization, market incentives, ownership-reforms, spatial disparities in the distribution of investments, case studies on private business, its relationship to local governments etc, and case studies on local power relations. The concrete material complemented the researchers' empirical experiences both in China and Hungary. In turn, the IPS model provided the theoretical background to analyze the literature according to our point of view and purpose of research.

The plan contained wide-ranging and deep-reaching questions that covered the maximum possible, in order to trace the given administrative level's position in the net, the impacts on the reproduction of the net since 1994, reactions to those impacts and consequences of those reactions on the position of the administrative level, and the reproduction and transformation of the net. The interviewer had the difficult task to select from the prepared questions according to the administrative level, institution, organizational section, activity and position of the interviewee.

Communication and on-line consultations between collaborating partners and further adaptation of interview plans to the concrete situation was made possible through Internet. Up-to-date information on the interviews for the partner remaining in Hungary was made possible by the fact that the essence of interviews was soon summarized in one to three pages in English,

according to the main pre-determined terms and points of view of the research. The number of interviews amounted to 71. Interviewees according to locality and position were the following (see *Table 8*).

Table 8 Location, Organization and Position of Interviewees

Org.	Shanxi Province				Jiangsu Province				Sichuan Province			
	Prov	Chz	Chz	WX.	Prov.	Wux	Jyin	Yix.	Prov.	Ya'an	Yu.C.	M.S.
Finance Bureau	x	x	x	x		x	x	x	x	x	x	x
Local taxation		x	x	x						x	x	x
Planning comm.		x	x	x	x	x	x	x	x	x	x	x
ETC		x	x	x	x	x	x	x	x	x	x	x
TVE Adt.		x	x	x		x				x		
Bank										x		
Industry bureau		x	x	x		x						
Leaders group on enterprise reform						x	x			x	x	x
Org. Dept.	x	x	x	x	x		x	x		x	x	x
Policy Res.	x					x			x			
Enterprise working committee					x				x			
Party secretary			x	x								

Positions of the cadres interviewed within each organization:

Finance Bureau: cadres in charge of budgeting (director or vice-director);

Organization dept.: cadres (director or vice director) in charge of appointing economic cadres;

Planning commission: cadres (director or vice director) in charge of (capital construction) investment planning;

ETC: cadres (director or vice director) in charge of (technique upgrading) investment planning;

Policy research: head of vice-head;

Bank: head;

Industry bureau: vice-director;
 LGOER: member of the group;
 Enterprise Working Committee: director of division of cadres appointment.
 TVE administration: director (in case of Wuxi: vice-director of agriculture working committee);

Abbreviations:

Loc.: Location	Prov.: Province
Org.: Organization	Pref.: Prefecture
Comm.: Commission	Ch.z.: Changzhi county in Changzhi pref.
Re: research	WX.: Wuxiang county in Changzhi pref.
TVE: Township and Village enterprise	J.yin: Jiangyin county in Wuxi prefecture
Adt.: Administration	Yix.: Yixing county in Wuxi prefecture
ETC: Economic and Trade Commission	Yu.C.: Yucheng county in Ya'an prefecture
M.S.: Mingshan county in Ya'an prefecture.	

INTERVIEW ANALYSIS

The essence of interviews were structured according to main points of research simultaneously meant the first step in the process of analyzing their content. We have analyzed interviews from the point of view of the dynamics of reproduction and transformation defined in the model. We took its most important dynamic factors and pursued a kind of content analysis. The factors searched were representing the elements of hardening (softening) reproduction constraints, respective reactions to it and consequences on the net. Both the definitions of elements and reactions became subtler with interview experience. Factors were the following: Reproduction constraints – centralizing resources, centralizing resource targets, decentralizing resources, decentralizing resource targets. Reactions – raising extra budgetary funds, stricter selection, funds from outside the net, getting rid of burdens (close-down, bankruptcy, privatization), withdrawing the net in the state (D1), and party (D1 and D2) fields, emptying the net (transfers and asset stripping), enhancing private sector.

The content analysis followed three paths: (1) selected the above factors according to time (from 1994 to 2002), (2) according to different variations of those factors and (3) according to space (differences between different aggregations and among locations of each aggregation level). The first was not a complete analysis of the interviews, since factors were not consequently connected to dates. The second compensated the shortcomings of the first. The third combined the positive traits of the first two type of

analysis to relate about the differences among prefectures and counties according to the above factors.

In the first case, a search was done registering events connected to impacts on reproduction constraints and reactions according to time and location and source of the information and its consequence on the net (see Appendix 3). This made possible to get a picture about the general and specific impacts and reactions at a given year and follow the developments from 1994 until 2002. The analysis of the "timetable" provided information about the implementation of different means in those years and could point to the tendencies of those actions concerning the net.

In the second case, we made the search according to the different variations of actions representing those factors. This procedure allowed us to demonstrate the different kind of possible impacts on the given administrative unit and possible reactions that we have also illustrated with interview parts. This analysis lets the reader have a much deeper insight in the rich variability of impacts and means. It also forges an analytical tool for the reader to get a wider picture of the developments on lower levels and be able to locate different events from the point of view of the transformation.

In the third case we could give a picture on the differences among the surveyed prefectures and counties according to their reproduction constraints and the differences in their reactions in measures, in timing the measures, and in the intensity of applying those measures. We could also reveal the differences of the impact of these factors on the transformation of the net on the given level and between prefecture and county levels between 1994 and 2002. Experiences from interviews were completed by statistics where it was possible to demonstrate the changes.

5. STRUCTURAL AND DYNAMIC BACKGROUND OF CHANGES (ANALYSIS OF THE INTERVIEWS ACCORDING TO THE CATEGORIES OF THE MODEL)

CHANGES IN TIME, FROM 1994 TO 2002

Theoretical part and macro-level analysis stressed and demonstrated that China as a whole belongs to the self-withdrawing pattern within the model. Interviews revealed that characteristics of the dynamics of self-withdrawing

pattern could be detected also on the surveyed prefecture and county levels³².

On national aggregated level (see *Table 4*) between 1994 and 2001 the government deficit increased four fold, since expenditures increased faster than revenues. This means that the comprehensive tax-reform introduced in 1994 on national level did not increase faster revenues than expenses. However, its impact has radically changed the share of revenues between central and local authorities, by decreasing the share of local revenues. This was due to the fact that central revenues increased much faster (seven fold), than local revenues (two-fold). This radical shift however was not followed by similar move in the development of expenditures. Local and central distribution in expenditures only slightly changed towards the detriment of the center. The slight move was due to the fact that the increase of central expenditures was somewhat faster than local ones.

In consequence of this dynamics, central government balance of revenues and expenditures turned from negative to positive and local government's balance turned from positive to negative. The size of the deficit at local level was more than twice as large as the surplus at central level. In our terms, central government softened its reproduction constraints, while that of local government, according to these data, has hardened.

Behind the scenes, 1994 tax reforms had much deeper and broader consequences apart from central actions. The overall impression from the empirical survey according to the search tracking the dates and events supports the above. As we have already stressed, the "timetable" does not represent all the events revealed in the interviews, since not always were they attached to dates, the focus of this search. But even though, we can follow from the signs – completed by available statistics – that the 1994 tax reform within our surveyed provinces has soon rolled down and hardened reproduction constraints at all levels within the net resulting in government deficits (see Appendix 4). Exceptions were either due to the usual selection criteria: for example, resources distributed according to political position as Wuxiang county that once was one of the guerilla base for the party in 1940s (Wuxiang Party Secretary), or by chance when prescriptions of the taxation reform turned out to be more advantageous for the locality after than prior as in the industrialized Jiangyin county (Jiangyin planning com-

³² This does not exclude the theoretical possibility that we could have found units on different levels or units at the same level that belonged to other patterns.

mission). Exceptions also derived from phase delay concerning the development of TVEs and their decline (see later).

Appendix 3 that shows according to dates, the events of hardening (softening) reproduction constraints (HRC, SRC) and reactions and its consequences on the transformation of the net. Moves and impacts within the net and outside of it are represented with the following signs:

$R\uparrow; R\downarrow; \leftarrow R; R\rightarrow$:	revenue centralization, decentralization, emptying the net and attraction of revenues from outside the net (e.g. TVEs using dual-track system or FDI or private profit)
$Exp\uparrow; Exp\downarrow; Exp\rightarrow$:	centralization of expenses, decentralization of expenses, decrease of expenses (e.g. merger)
$D1\uparrow; D1\downarrow; D1\rightarrow$:	centralizing state decisions within the state, decentralizing decisions, winding up (withdrawing) intervention at local level state bureaucracy
$D2\uparrow; D2\downarrow; D2\rightarrow$:	centralizing nomenklatura or other party intervention, decentralizing nomenklatura, winding up (withdrawing) party intervention
$I3\uparrow; I3\rightarrow$:	creating (acquiring) feed-back, withdrawing feed-back (political privileges)
$P (D1\rightarrow D2\rightarrow I1\rightarrow I2\rightarrow I3)$:	privatization means the withdrawal of the net in state and party bureaucracy by cutting targets off the links
$P+$:	direct increase of the field outside the net (market)

Timetable (Appendix 3) indicates that independent of the year under focus that as a reaction to declining economic performance of subordinated units, state bureaucracy is loosening control on investments or completely withdraws from intervening in enterprise development strategy. Parallel to these moves we can track the withdrawal of the net in party control: party ceases higher political rank of enterprises, decentralizes nomenklatura to less important and lower levels and then either withdraws interlinking threads before privatization or enterprises are cut off interlinking threads through pri-

vatization. In general first TVEs disappear, later SOEs, first smaller economic units than larger, first at lower levels, later on higher aggregations³³. Disappearance is due overwhelmingly to privatization³⁴ or more seldom to closedown. All these moves have significant consequences on the absolute shrinkage of the net.

If we group signs in the timetable according to types that increase or decrease the hardening of reproduction constraints shrink the net relatively and absolutely, we can find the unequivocal tendency of the absolute shrinkage of the net. This is however far from being an exact indicator, since interviews do not reveal all measures, and not all measures revealed in the interviews are connected to dates. Moreover, though these moves happened in one year and reached county level, yet they attained different counties. What we can stress therefore, that according to the interviews, where the interviewees mentioned dates, measures vary according to different years. However, for the abovementioned incompleteness of the interviews attached to dates it is not possible to analyze the frequency of the implementation of the different measures. Therefore, acceleration of certain type of measures may not be detected.

- In 1994 revenue centralization from and expenditure decentralization to counties was overwhelming, while counties reacted in the field of state hierarchy, withdrawing the net by decreasing state responsibilities and/or engaging in privatization (cutting off targets from party and state dependency threads). The one act of revenue decentralization was for political reasons (being the county the main site of guerilla movement of the party in 1947). Impact on the reproduction of the net: hardening reproduction constraints and absolute shrinkage of the net.
- In 1995 centralization of revenues and decentralization of expenditures did not appear. Instead, we can see the ceasing of some political privileges (which means indirectly the decentralization of the nomenklatura and ceasing feed-back), the withdrawal of the net in the field of state bu-

³³ The statistical data underline this perception, since according to the number, employment and contribution to the industrial production both at prefecture and county level we experience the decrease (*Table 12, 14, 15, 16, and Appendix 6, 7*).

³⁴ As we have already mentioned, in the case of privatized enterprises the taxes remain collected by those levels where these enterprises were formerly subordinated, also workers may remain employed. This means that there is no counter-interest in privatization from this respect.

reaucracy, privatization and the increase of the field outside the net. Impact on the transformation of the net: narrowing of the circle of those selected, and the absolute and relative shrinkage of the net.

- In 1996 revenue centralization appears again, decentralization of the nomenklatura, the withdrawal of the net both in state and party bureaucracy and overwhelming privatization, that is, cutting off targets from state and party dependency lines. Impact on the transformation of the net: hardening reproduction constraints decentralization within the net and absolute shrinkage.
- 1997 does not show too much characteristics on county level: decentralization of nomenklatura, withdrawal of the net in state and party bureaucracy and late development of TVEs in one county that brings revenues to the government. Impact on the transformation of the net: decentralization within the net, absolute shrinkage in both bureaucracies and in one county the density of party and state dependency threads increases and the net expands.
- 1998 finds the counties active in centralizing decisions from township level in consequence of townships' hardening reproduction constraints, which brings both expenditures and revenues, high frequency in privatization cutting off burdens from the net and increase of the field outside the net by attracting FDI³⁵. Impact on the transformation of the net: internal restructuring of responsibilities to ease township reproduction constraints, spreading of absolute and relative shrinkage.
- In 1999 revenue was siphoned away from county, nomenklatura decentralized, party and state dependency threads withdrawn and market field increased by attracting FDI. Impact on the transformation of the net: hardening reproduction constraints, siphoning away revenues, decentralization of responsibilities, absolute and relative shrinkage of the net.
- In 2000 looks a very active year³⁶ when overwhelmingly revenue and decision-making power was siphoned away from counties. This was the

³⁵ This simultaneously weakens those dependency lines that are attached to economic units within the net where FDI enters, if not green-field.

³⁶ At least three big issues happened at this year in the surveyed counties and prefectures: firstly, the restructuring of governmental organizations initiated by Zhu Rongji cabinet at central level in 1998 rolled down to prefecture and county levels in 2000, resulting in a wave of merging of governmental organizations. Secondly, party and

year after prefectures were transformed from transmission belt to administrative power units, central sources were directly allocated to townships that also relieved higher level authorities from expenses, state and party dependency lines were withdrawn, mergers in bureaucracy occurred to decrease costs and privatization cut off burdening targets. Impact on the transformation of the net: hardening reproduction constraints, extraction of revenues and power instruments hardened from above, direct central transfers to townships and mergers in townships softened from below the counties' reproduction constraints, privatization increased the absolute shrinkage of the net.

- 2001 Revenues were further siphoned away from counties and further mergers at county level to simplify the bureaucracy and further withdrawals of dependency lines (both party and state) to detach enterprise behavior from direct demands increase their responsibility on economic behavior. Also privatization took place this year. Impact on the transformation of the net: hardening reproduction constraints, cost decrease by mergers and absolute shrinkage of the net through withdrawal of dependency lines and cutting of targets from it.
- In 2002 revenue was further centralized from counties, more decision-making power was delegated to SOES and swift growth of private sector occurred. Impact on the transformation of the net: hardening reproduction constraints, decentralization of responsibilities, absolute and relative shrinkage of the net.

Taking the difference in these yearly events into consideration one may find that in most of the years (in six from nine) revenue was siphoned away, hardening reproduction constraints. We can experience in most of the years either the withdrawal of the dependency threads or the cutting off of economic units from them shrinking the net absolutely. Interviewees mentioned less frequently the growth of the private sphere (the relative shrinkage of the net).

Reviewing the possible variations of the restructuring and transformation of the net concerning expenditures, revenues, state and party dependency lines, some moves – at least according to the interviewees – seldom occurred. For example, the centralization of expenses, the decentralization of

state leadership in most of the surveyed localities, including provincial level, changed in 1999 and 2000, bringing new policies. Thirdly, two of the surveyed provinces – Jiangsu and Sichuan – made a major effort of further centralize fiscal revenues from lower levels, further hardening reproduction constraint at prefecture and county levels).

revenues, the extension of the state dependency lines and extension of party dependency lines and extension or centralization of interlinking dependency threads, factors that would point to a stable and developing party-state network during its reproduction. What happened indeed was the opposite: the network is disintegrating, decentralizing and withdrawing. Based on the experienced dynamics we can also exclude the chance of any of the surveyed units belonged to the self-exploiting or self-disintegrating pattern.

Next we shall analyze the interview essences according to the above factors without the data constraints. We shall find out the variations in the ways of hardening reproduction constraints and the great variety of solutions to ease it and in the variety of ways the net may transform.

CHANGES IN KIND

Variety of impacts on reproduction constraints

It is obvious from the interviews that reproduction constraints are hardening in the surveyed levels. Reproduction constraints harden within the net at a certain level unit by all means, when (1) expenditures (allocation responsibilities) are decentralized, (2) revenues are centralized, (3) transfers from above are decreased, and (4) possibilities to extract resources within the net from lower levels decline. In the terms of the model, attracting, resisting, extracting and allocating capacity of the given units worsens. If any one of those factors takes place while the other factors do not increase, the tendency of hardening prevails. *Hardening reproduction constraints at one level is already the cumulated consequence of similar developments and consecutive reactions on the levels above and below the given level.* We shall demonstrate this dynamics in the field of our research. Let us see what are the concrete signs of hardening reproduction constraints at county level.

1. **Responsibility for allocation (expenditure) was decentralized:** for example, *a)* responsibility for subsidizing loss-making SOEs was decentralized by the province to local levels (Changzhi prefecture Finance Bureau). *b)* The center mandated that salaries to governmental staff at all levels to be increased but did not transfer according resources to lower levels (Yucheng county Finance Bureau, Shanxi province Finance Bureau). *c)* province decentralized the task for bankruptcy procedure to

lower level³⁷ (Sichuan province ETC) *d*) A special way of increasing local expenditures was when the center level ordered counties to take over township expenditures on primary and high-school teachers' salaries (and pension fund, health care, unemployment insurance, bonus) since townships were unable to finance them from local budgets³⁸. The compulsory restructuring of expenditures was not followed by equal size transfers from central level, thereby increasing county burdens³⁹ (Yixing county Finance Bureau, Changzhi county Finance Bureau) *e*) Expenditures on infrastructure, capital constructions and so on before mid 1990s were covered by provincial authority. In mid-1990s, these expenditures were decentralized to prefectures and lower levels (Changzhi prefecture Finance Bureau).

2. **Institutions and organizations decentralized.** Criteria for decentralization is on the one hand, to get rid of inefficient and first of small enterprises (this latter even if has political rank, but influences the economy to a small extent) or those consuming large revenues (Wuxi

³⁷ We did not do the bankruptcy procedures. We simply did not have enough resources to conduct the bankruptcies. Our solution was to first decentralize them to prefecture and/or lower levels. Then let prefecture and/or lower levels to conduct bankruptcies. Provincial authority gave some subsidies to particular authorities that carried out these bankruptcies (Sichuan province ETC).

³⁸ Since townships from time to time were not able to pay salaries to staff, especially teachers working for primary schools and gymnasiums. From 1998 on, the county recentralized the expenditures of salaries to teachers. The fixed amount of submitting and subsidizing was recounted. The due amount of submission for some townships was increased. Also the due amount of subsidies to some townships was decreased. However, the increased submission and the decreased subsidies did not cover the salaries due paid to teachers, the county had to give some money to cover this expenditure, which means a further burden on the county (Changzhi county Finance Bureau).

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Policy Research Office). On the other hand, to keep the good ones or those large ones with assets that guarantees large VAT⁴⁰. For example (a) the institute for searching natural resources (coal) was decentralized from central to provincial level. The responsibility of covering the expenditures emerged at the operation of the institute was also decentralized (Shanxi Finance Bureau). (b) Loss-making SOEs first middle later larger size were decentralized to lower levels (Sichuan province Finance Bureau)⁴¹. (c) There are cases when inefficient SOEs were decentralized even from county to township level⁴² (Wuxi Agriculture Working Department). This means not only subsidizing expenditures, but to ensure minimal wages, expenditures on social security for the workers, taking care of laid-off workers' unemployment funds, educational programs for retraining them for different jobs, pensions, health-care conduct, and bearing the responsibility of the tensions (interview with Luoshe township governor). (d) A specific way of decreasing allocation capacity was to cut off the nomenclatura discretion of local level PCs over local branches of People's Bank in 1997. Appointment of CEOs was delegated to the discretion of the 7 newly formed regional bureaus of the Central Bank⁴³ in the case of county, prefecture and province levels. Central Bank has to approve the

⁴⁰ Upper levels would not decentralize SOEs with good performance. Only loss-making ones would be decentralized. We were doing the same thing. We decentralized loss-making ones to townships. However, all of those had already been privatized (Yixing county Finance Bureau).

⁴¹ In 1990s, center decentralized loss-making enterprises to us. We also decentralized them to prefectures. There were few enterprises centralized to province. Most enterprises in Sichuan are not in good performance, and therefore few enterprises worthwhile being centralized. We did not centralize revenue by centralizing enterprises. We did it by changing the taxation regime (Sichuan province Finance Bureau).

⁴² In 2002, 11 loss-making SOEs were decentralized to Luoshe township from Xishan Qu (county level). Luoshe township simply did not have enough resources to bail out these enterprises. The result of the bargaining between Luoshe township and Xishan Qu was that, accumulated losses in previous years were to be solved by Xishan Qu, Luoshe township were to solve the problem of compensating laid-off workers, supporting their social security, and preserving social stability. By decentralizing loss-making SOEs, townships run out of resources. (Wuxi prefecture agriculture working department)

⁴³ Nomenclatura and appointment on local level branches of commercial banks is always delegated to one level higher since the late 1980s.

appointment. In 1999 even the supervision of party activities of both commercial and central banks had been centralized to Central Financial Working Committee. The cutting off of existential bonds – though informal ones remained – made possible for banks to resist with more success to inefficient loans or to loans to loss-making enterprises⁴⁴ (Ya'an Industry and Business Bank).

3. **Revenues siphoned away (extraction)**⁴⁵: the rolled down taxation reform in 1994 and its continuous revision, showed the tendency of increasing extraction of resources in several forms and ways⁴⁶. *a)* increasing the share of higher level authorities in shared taxes. This may concern either the ratio of the total or that of the increased revenues (Wuxi prefecture Finance Bureau, Yixing Finance Bureau). *b)* shifting taxes originally deemed for local discretion to the group of shared

⁴⁴ Banks became more cautious since stricter requirement on loans being paid back was imposed on them. Before 1999, banks would almost automatically give loans to investment projects if leaders of the prefecture or ETC make coordination. From 1999 and 2000, banks began to make their own assessments on each project. Investment project coordinated by ETC and prefecture leaders were not ensured to get loans from banks (Wuxi prefecture ETC).

⁴⁵ There is annual task of revenue collection assigned from upper levels. Provincial party committee and provincial government assign the task (amount of revenue given authority should collect) to prefecture, prefecture further assigns it to county, then to township level. County branch of state taxation bureau, county branch of local taxation bureau, county financial bureau, and their township counterparts, are the technical organizers of revenue collection. It is the party committees and governments that urge or pressure economic entities to pay taxes and revenues. Party committee is driven to put pressure, since tax extraction is one of the top priorities for authorities at every level. If these tasks were not met, first to get bad scores by higher level authorities and whose promotion outlook declines is the party secretary rather than the head of the taxation bureau. Since party committees have sufficient influence only on SOEs, tax collection from private sector proves to be very inefficient.

⁴⁶ The composition of fiscal revenues at county level in Mingshan was: 1) agriculture tax and land tax, 7 million RMB, near 1/3 of the total revenues; 2) tax from industry and commerce, 8 million, 1/3; 3) fines, 7-8 million, 1/3. Since 2000, provinces centralized a part of revenues from 8 taxes: VAT, business tax, individual income tax, natural resources tax, real estate tax, stamp tax, contract tax, and urban land tax (Mingshan finance bureau).

taxes⁴⁷. This may occur for example either by declaring it shared taxes, e.g. individual income tax and corporate income tax from locally subordinated enterprises⁴⁸; or by merging it to VAT taxes. For example, business tax in service industry and construction industry, which was previously a full local tax and which was one of the main sources of revenue for locality, will be incorporated into VAT. The center will take 75% and 25% will remain as local revenues and will cause immediate revenue decline in the county (Financial bureaus at Changzhi prefecture, Changzhi county, Wuxiang county, Ya'an prefecture, Yucheng county, Mingshan county). *c)* Shifting originally local tax to provincial level tax (in some cases that of urban construction) (Ya'an prefecture financial bureau). *d)* Decreasing the rebated ratio of VAT tax (25%) formerly distributed by province to lower level by increasing the ratio kept at the province (Changzhi county local taxation bureau, Wuxi Finance Bureau, and Ya'an Finance Bureau). *e)* assigning tax increase as political task to county level party and government leaders and increasing the weight of tax performance in the yearly evaluation of their performance (Ya'an prefecture Finance Bureau)⁴⁹. *f)* assigning tasks to taxation bureau on

⁴⁷ From 2002 on, corporate income tax from newly established enterprises at any level and ownership by any level apparatus is going to be collected by state taxation bureau. Also from 2002 on, individual income tax and corporate income tax is going to be shared tax. But individual income tax and corporate income tax from enterprises set up before 2002 is still going to be collected by local taxation bureau (Changzhi prefecture local taxation bureau).

⁴⁸ The center is further centralizing revenues from us. Corporate income tax was to be changed from a local tax to a shared tax with center. The sharing ratio will be 50 (to center) to 50 (to localities) in 2002, 60 (to center) to 40 (to localities) in 2003, and 70 (to center) to 30 (to localities) in 2004. Corporate income tax is one of the main sources of resources for us. This new change will greatly decrease our capacity of retaining resources. 2002 after all the deductions by upper levels, for each increased 100 RMB of revenues contributed by entities in Yixing, only 39 RMB would be retained by us. Next year (2003), only 31.2 RMB would be retained (Yixing county Finance Bureau).

⁴⁹ One of the measures was to put more pressure on main cadres at county level (county party secretary and county governor) to collect more fiscal revenues. Previously, while evaluating particular cadres' performance, weight of performance in collecting fiscal revenues and stimulating its growth was 5%. Since 2000, it was 15%. Prefecture authority urged every governmental organization and staff to introduce, to attract investors from outside the prefecture. Prefecture authority determined the amount of attracted investment as a political task. Each county, each governmental bureau was assigned a certain amount (Ya'an prefecture Finance Bureau).

tax increase, disregarding economic growth that drives the bureau to either borrow from banks or individuals or to extract taxes from targets in advance that were supposed to be paid the next year or the next two years (Yucheng county local taxation bureau). *g*) Centrally forbidding tax deference (Changzhi county Local Taxation Bureau)⁵⁰. *h*) Centrally forbidding the issue of local government bonds. *i*) setting up local branches of central tax offices to prevent tax deference and separate collection of local and central taxes (Changzhi prefecture local taxation bureau). *j*) Specific way of granting taxes: ordering enterprises to pay taxes prior paying back bank loans (Wuxi prefecture ETC)⁵¹ *k*) prefecture centralized taxes of larger enterprises supposed to flow to county level, with the compromise of rebating a fixed smaller portion to the county (Jiangyin financial bureau). *l*) Even FDI may be siphoned away by higher level authorities (Jiangyin county ETC)⁵². *m*) taking advantage of increased bargaining capacity through feed-back to exert greater pressure on lower levels to extract more revenues (Wuxi

⁵⁰ There had been certain amounts of tax payment deferments. From 2000 on, tax payment deferments have been decreasing. In the local taxation system, a regulation was and is implemented, which requires that tax payment deferments should not surpass a certain ratio. If it does, head of local (in our case, county) taxation bureau would be dismissed by higher level local (prefecture) taxation bureau. Moreover, tax payment deferments granted before should be due. A certain ratio of those formerly deferred taxes should also be collected. Otherwise, head of local taxation bureaus would be criticized and punished by upper level bureaus (Changzhi county Local Taxation Bureau).

⁵¹ Another change took place in 1994 accompanying the reform on taxation, which was that before 1 May 1994, SOEs could pay back loans for technique upgrading before paying taxes, but after that day, SOEs could only pay back loans for this purpose after paying taxes. This measure greatly decreased SOEs investments in technique upgrading. This measure was a shock to all SOEs. Many SOEs went into deep trouble since that year. Since after paying taxes, they did not have resources to pay bank loans (Wuxi prefecture ETC).

⁵² Prefecture robbed FDI from Jiangyin through administrative instruments. For example, once Jiangyin authority nearly concluded a bargaining with a Japanese investor on an investment project. Two parties were going to sign the agreement in a fancy hotel in downtown area of Wuxi. It happened that prefecture governor visited the hotel and knew the project. Later, the project was mandated to be done in the area where prefecture headquarter was located (Jiangyin county ETC)

prefecture Finance Bureau)⁵³. *n*) keeping taxation bureau and finance bureau as separated entities for leaving less room for manoeuvre at local level (Wuxi prefecture Finance Bureau). *o*) transform SOEs and TVEs into share-holding companies and making workers buy shares to raise fund (Changzhi prefecture ETC). *p*) special revenue centralization when tasks are redistributed to higher level and respective resources are driven to these same, e.g. responsibilities for urban construction redistributed from county to prefecture level (Yucheng county Construction Committee)⁵⁴

4. **Institutions, organizations siphoned away**⁵⁵: *a*) There were cases of centralizing targets from county to prefecture or higher up in exchange

⁵³ Wuxi prefecture in 2002 began to centralize 2% of the total increased amount of revenues from counties. Suzhou, neighboring to Wuxi, centralized 4% of total increased amount of revenues from its counties since 1994. Reason for the difference and the new development in Wuxi was that Wuxi prefecture party secretary began to be a member of standing committee of Jiangsu provincial party committee, and that Suzhou prefecture party secretary had already been a member of standing committee of the provincial party committee. Party secretary being a member of standing committee of the provincial party committee increased the prefecture's authority over lower levels (Wuxi prefecture Finance Bureau).

⁵⁴ We owe debts to everybody except to provincial and upper level organization. We owed debts to other administrative organizations, to private enterprises (most of the debts were to them) and to banks. The reason why we owe debts to private enterprises was that we actually did not invest any money while undertaking urban construction like building roads, improving lights besides the roads and so on. We promised to pay for the construction in a later stage. Private enterprises poured money into the projects with the hope of being paid back later by us. Also as a general rule, we asked private enterprises to give us certain amounts of money to guarantee that they would go on with the projects to their complete ends. While the projects were finished, these amounts of money must be given back to particular enterprises. These money became debts to the enterprises too because we did not give back to them as promised. Before the transformation of prefecture and the accompanied centralization, we could pay parts of the debts by getting new resources by undertaking new urban construction projects. Now that we did not initiate any new construction projects due to the centralization, no resources were flowing in. We were unable to pay the debts. Yucheng construction committee)

⁵⁵ In general, revenues from economic entities basically go to levels according to their subordination, especially in the case of Corporate Income Tax and rebated VAT. Enterprises located in areas where prefecture headquarter is located, taxation is according to subordination. If an enterprise in this area was subordinated to Yucheng county (the county where prefecture headquarter is located), Yucheng county local

of fixed, later declining compensation⁵⁶. (Ya'an prefecture Finance Bureau, Changzhi county Finance Bureau, Yucheng county Finance Bureau). *b*) Registration of private enterprises is in general at township level and this means the same location for taxation. However, if the possible revenue becomes large, the upper levels may centralize this discretion⁵⁷ (Ya'an local taxation bureau). *c*) centralizing revenue targets leaving behind the debts generated by this enterprise to former subordination level (Yucheng county Finance Bureau).

5. **Declining transfers from above** *a*) From 1990 on, there are no resources at ETC for the purposes of technique upgrading, investment projects, and subsidies to enterprises for them to pay interests to banks loans (Mingshan ETC, Mingshan leaders group on enterprise reform⁵⁸). *b*) decentralizing the authority of permission on larger value investments to lower levels parallel to declining transfers (ETC at the 3 surveyed prefectures and 6 surveyed counties). *c*) using political position for granting resources from the center (Wuxiang county). *d*) central supports were reduced to centrally designated poverty counties⁵⁹

taxation bureau would collect local taxes from it. If it was subordinated to the prefecture, prefecture local taxation bureau would collect local taxes from it. Concerning private enterprises in this area, it depends on the level to which given enterprise made its registration. This caused prefecture and Yucheng county compete with each other for private enterprises to get registration at its own level (Ya'an prefecture local taxation bureau).

⁵⁶ The number of enterprises supervised by us tended to increase. Many enterprises actively came to contact us, asking us to supervise them. We made decisions on it after consulting with related bureaus and organizations. Anyhow, we wouldn't accept enterprises that were small scale, and in not good performance (Sichuan EWC). Since 1994, the subordination of 6 SOEs was shifted to the prefecture. In 1994 these were profitable enterprises. Therefore the compromise was that prefecture should give 10 million RMB to Yucheng every year. This was still the case after 1996 Unfortunately, these enterprises gradually became loss-making and burdens and bankrupt. Compensation decreased to 1.8 million in 2001 to Yucheng authority, and meanwhile Yucheng authority has to take the responsibility of paying their debts and paying social security to laid off workers (Yucheng county Finance Bureau)

⁵⁷ Exception of township level taxation for private enterprises is when it is located at the township or district, or county or city where the county, the prefecture or province headquarters is located. In these latter cases the given level will dispose of the taxes.

⁵⁸ Leaders Group on Enterprise Reform consists of county vice-party secretary in charge of industry, county vice-governor in charge of industry, and heads of related bureaus. The group's office is frequently located at economic and trade bureau. Its task is to decide on, prepare and implement privatization (Changzhi county ETC).

⁵⁹ Poverty counties designated by the State Council also have the right to grant tax cut for entrepreneurs willing to invest in the county.

(defined GNP per capita) (Finance bureau at Changzhi prefecture and Wuxiang county). *e)* counties got direct transfers called "general transfers" used to pay government staff (Shanxi Finance Bureau). *f)* Earmarked transfers e.g. for education, agriculture (Shanxi finance bureau). *g)* bailing out poor counties in unpredicted situations *h)* Subsidies to SOEs were decreasing⁶⁰. In economic plans, certain amount of money was announced to be transferred to SOEs. But in fact, only a very small part of the money was actually implemented as planned (Shanxi Finance Bureau, Ya'an prefecture Finance Bureau). *i)* state bonds were declining in the region, soon will expire (Yucheng Planning Bureau) *j)* Transfers to counties from prefectures in general were decreasing (Ya'an prefecture Finance Bureau⁶¹).

6. **Extraction of resources from below for counties:** *a)* in some prefectures townships did not have treasuries, county centralized all revenues and then redistributed to them according to expenditures. If expenditures were higher than prior set, townships had to find resources by themselves, if revenues were higher than the prior set expenditures they shared extra revenues according to county regulations (Ya'an prefecture Finance Bureau). *b)* For stricter control and securing taxes, Party organs at county branch of local taxation were formed and supervised by Organization Department of county party committee. Appointments on main administrative cadres (non-party positions) were done by prefecture bureau of local taxation (Mingshan Finance Bureau) *c)* pressing out loans for industrial growth of TVEs from peasants that

⁶⁰ Since the 2001 (2001), there were no subsidies allocated to SOEs: no subsidy for prices; no subsidy for capital construction; no subsidy for technique updating (Ya'an prefecture Finance Bureau).

⁶¹ 51.4% of prefecture expenditure was for salaries to governmental staff. At county level, this part of expenditure composed 95.14% of the total expenditure. We had to subsidize the counties for covering the following expenditures of counties: 1) social security fund to laid off workers; 2) health care expenditure for those who worked in governmental and/or quasi-governmental organizations; 3) fund for ensuring social stability, to pacify discontent 4) fund to facilitate laid off workers to find new job; 5) fund to cover local part of state bond projects, since resources from upper level only finance about 20% of the projects (the rests were financed by bank loans). Deducting these subsidies, we only had full autonomy over 15%-20% of our total expenditure, which were basically used in economic development and public (mainly urban) construction. (Ya'an prefecture Finance Bureau).

keeps local government increasingly indebted and local grievances sharpening⁶²

Variety of reactions to hardening reproduction constraints: all these reactions in turn will have an impact on the given unit's reproduction constraints and on that of the levels above and below it.

1. Restructuring administration to reduce costs and meanwhile, redistribute decision-making over material and subordinated entities: *a)* In 1994, 4 large-scale wholesale companies were transformed from administrative way of management to commercial way of management. With transformation subsidies were cut and appointment discretion of cadres in their field of business decentralized to the companies, ceasing the county authorities' administrative power over them (Yixing county Organization Department) *b)* at the sample of central administrative measures, ETCs were formed from EPC. Industrial bureaus were merged into ETCs while enterprises were detached from the bureaus, merged into fewer economic entities, and subordinated to Enterprise Working Committee (Jiangsu ETC)

2. Restructuring economy: *a)* restructuring towards service industry that does not contain VAT (Yucheng local taxation bureau). *b)* help enterprises to evade non-local taxes (Mingshan Finance Bureau). *c)* accumulating tax debts to higher than local levels by TVEs and SOEs ending up in tax-cut by the center (Mingshan Finance Bureau). *d)* easing investment permissions (Wuxi prefecture ETC)⁶³. *e)* facilitating the different projects in different regions to decrease parallel structure (Sichuan Planning Commission)

⁶² The reason for privatization was that TVEs then were in deep trouble. They were setting (social and political) fires everywhere. Investments in TVEs were financed by borrowings from residents. Before 1994, economic growth was abnormally high. And the fact that TVEs's assets were not sufficient to pay the debts, was covered by the over-heated economy. In 1995 and 1996, economic austerity policy was implemented. No more resources were pooled into TVEs. Debts problem suddenly emerged. Residents everywhere surrounded township authorities. Even party secretary of Xishan county was put under house arrest by residents for a short time. Residents sit in roads. State Council was alerted. There was no way other than reform (Wuxi prefecture Agricultural Working Department).

⁶³ In 1997, alarmed by a tendency of shrinkage in investments, ETC at all level strived for promoting investments. Investments were encouraged. Investment projects were easy to get approval from ETC. ETC also coordinated with banks to issue loans to enterprises (Wuxi prefecture ETC).

3. Stricter selection

3.a Narrowing the circle of those fed-back: *a)* ceasing political privileges of enterprises, transferring their nomenklatura from Organization Department to industrial bureaus' PC⁶⁴ (Changzhi county PC secretary). *b)* forming EWC-s with wide discretion over SOEs subordinated to the locality and also sometimes those subordinated to higher levels settled in the locality, generally headed by local PC secretary. Selected large enterprise nomenklatura and appointment were transferred to EWC's discretion from Organization Department and industrial bureaus. This move induced a drive for enterprises to enter this group (feedback) with the hope of better access to governmental organizations⁶⁵ (Sichuan EWC). *c)* concentrating on the facilitation of large projects at lower levels (Sichuan Planning Commission).

3.b Narrowing the privileged in distribution of resources: *a)* distributing resources to fewer and the larger enterprises (Changzhi prefecture ETC). *b)* The solution was and still is to decrease the investment initiated by the governments in economic development (in SOEs, TVEs) (Changzhi county Finance Bureau). *c)* Tax payment deferments were reduced increasing the hardening of enterprise reproduction constraints and closing down those that did not pay taxes due (Changzhi county local Finance Bureau). *d)* few enterprises were selected to be bailed out through debt-equity swaps⁶⁶ (Sichuan EWC).

4. Getting rid of functions that became liabilities or emptied:

⁶⁴ Also because of the deterioration of the performance of the SOEs and the inefficiency of the measure of political treatment for the SOEs, county party committee decided to cancel the political positions for SOEs, and cancel the political positions for CEOs of SOEs as well (Changzhi county PC secretary.)

⁶⁵ The background for forming enterprises working committee was that: 1)there were enterprises that were vital to the economic development and social stability; 2)these enterprises were supervised in scattered way (some by Organization Department, some by ETC, some by other industry bureaus 3)enterprises were required to detach from governmental organizations in late 1990s, resulting in the situation that some enterprises were left unsupervised; 4)enterprises also require some party organizations to supervise their activities (Sichuan province EWC).

⁶⁶ Concerning debt-equity, firstly very few enterprises in Sichuan were included in that program. Secondly, they were large-scale enterprises. Thirdly, they were enterprises with bad performance. Fourthly, they were labor-intensive enterprises (Sichuan province EWC)

4a Withdrawing functions and abolishing organizations in the state bureaucracy: This measure was the result of a longer process pressured by the decline of SOEs subordinated to the state bureaucracy and decline of the resources distributed from above within the net. *a)* The first effort was to let enterprises retain some of the interests they created. *b)* Then the measure taken was to simplify supervision on enterprises and to delegate more decision making power to enterprises. *c)* Then the measure was to change grants to enterprises to loans to enterprises so as to make enterprises be responsible for decisions they made. *d)* Then efforts were made to cut off the links between authorities and enterprises. Though no official announcements were made that they were failure, all these reforms de facto failed (from points a to d, Wuxi leaders Group on Enterprise Reform and Wuxiang county ETC)⁶⁷. *e)* withdrawing from giving permission on material input (Wuxi prefecture Planning Commission). *f)* Instead of permission granting only registration of SOE investments was expected (Jiangyin county ETC, Jiangsu ETC, Wuxi prefecture Planning Department, Sichuan province Planning Department)⁶⁸. *g)* withdrawing from government initiated investments in economic development of TVEs

⁶⁷ Administration functions of industry bureaus were transferred to economic and trade bureau. It is not as formidable as people think about the transferring, because the administration functions of each industry bureau had already shrunk a lot in past years (mainly grant registration for projects to enterprises now), as shown later by the example of economic and trade bureau ourselves. One administration in our charge is that enterprise should come to us to make registration for each of their investment projects. However, the nature of the registration had already changed a lot. It is much simpler than before.

In 1980s and early 1990s, getting registration meant that funds for the project were to be given. Therefore it was very hard for projects to get registration then. Now registration does not mean more than just registration. We do not have a say on funds and enterprises do not ask for funds when they come for registration. This is also the case for economic and trade bureaus at upper levels (Wuxiang county ETC).

⁶⁸ Concerning the decline of planning commission, taking the example of division of industry under planning commission, years ago, staff at that division were crazy busy everyday, because only after being approved by this division could an enterprise get registration in Industry and Business Administration. Now this stage of getting permission from us was cut off. Enterprise directly went to Industry and Business Administration for registration. Now people set up firms everywhere. We (not only planning commission but the whole authority) don't know the whole picture. We even don't know how much the GDP is. I don't think the data on statistic books are real. (Wuxi planning commission).

and SOEs (Changzhi county Finance Bureau). *h*) withdrawing sequentially from small, middle and large-scale enterprises (Jiangsu ETC)⁶⁹. Withdrawing prior all-mighty functions of the Planning Bureau (Yucheng county Planning Bureau)⁷⁰. *i*) Bank-loans are not any more requiring prior ETC approval (Sichuan province ETC)⁷¹. *j*) leaders group on development of TVEs at county level (that consisted of leaders of the party committee, of county government, of county people's congress, of banks, of land administration, and so on) did not convene since 2001⁷² (Ya'an prefecture

⁶⁹ Strategy on SOEs development is basically withdrawal. State would completely withdraw from small and middle scale enterprises. In 2003, it is expected that state would withdraw from 60% of small and middle scale enterprises. In 2004, the complete withdrawal would be done. Concerning large scale SOEs, state would withdraw from most of them. The aim is to reduce the number of large-scale SOEs to less than 200. The reason is that SOEs generated too many problems. Those preserved SOEs would be those in natural monopoly, in infrastructure, in strategic industries (like electronic information) Jiangsu province ETC).

⁷⁰ Concrete instruments for us to coordinate economy declined since early 1990s. Since 1993, there were no longer any within-budget resources at us county level for us to make coordination. Since mid-1990s, there were no longer any within-budget resources from prefecture for us to enable our coordination job. Presently, we only have two instruments: state bonds to us; and within-budget resources from province. Resources from upper level (state bonds, and provincial budget) have been obviously declining. Before 1995, planning bureau was seen as minor government. We were very powerful at that time. We set tasks that each enterprises and/or line bureaus should accomplish, and coordinated almost all aspects of economic activities to ensure the tasks to be achieved. Since 1995, due to the abolishment of compulsory indicators, our power greatly decreased. Our function continuously declined in late 1990s. Especially since the end of last year (2001) when organizational restructuring was accomplished, our function changed a lot. Since then, we did not coordinate any economic activities except for projects partially funded by state bonds. Our main function is now doing investigations on economic activities, analyzing collected data, and facilitating the county party committee and government to formulate strategies for economic development (Yucheng county Planning Bureau).

⁷¹ Previously (last year, the year before last, and so on), banks would only issue loans to those projects that got approvals from us. Now, the practice is that loans were not related to approvals. Banks would give loans to projects without our approvals. In the meanwhile, banks would not necessarily give loans to projects with our approvals (Sichuan province ETC).

⁷² This group got together regularly to deal with issues concerning TVE development, to facilitate loans to particular TVEs, to help them get using rights on particular plots of land, to help them get preferential treatment from the taxation bureau.

TVE Administration). k) extra budgetary resources of TVE administration were abolished (Ya'an prefecture TVE Administration)

4b Withdrawing functions in the party bureaucracy: *a)* cut off nomenklatura responsibility of county PC organization (Changzhi county PC Organization department)⁷³. *b)* withdrawing through organizing leadership election by employees with increasing voting ratio according to the increasing size of the enterprise loss (Changzhi prefecture PC organization Department)⁷⁴. *c)* cut off career transgressions between party-state apparatus and economic entities in enterprises without feed-back and for cadres appointed after 1996. In turn, administrative cadres could not be appointed to positions at economic entities (Wuxi economic policy department). *d)* cut off dependency threads through privatization (Minshan county organization Bureau)⁷⁵. *e)* Cut off dependency threads through

⁷³ Further changes happened in 2001. The new county party secretary decided to reform the running mechanism of SOEs and TVEs thoroughly. He decided that county and township authorities should withdraw from all enterprises activities (see the interview with the county party secretary Wang Doulin). Since then, the cadre responsibility for enterprises cadres was cut off. Now, we do not involve in appointment or dismissal of management for enterprises any more (Changzhi county PC Organization Department).

⁷⁴ After 1996, things began to change. The main reason was that performance of some enterprises declined dramatically. Many SOEs were making losses. And the losses were enormous. Prefecture authority decided to increase participation and transparency in appointing SOE cadres. SOE cadres were not directly and secretly appointed by Organization Department any more. Nomination process was open. People could participate in the competition for particular positions based on his/her own will. We made examination on them (basically on political correctness). Then candidates who passed the examination were required to give and defend his/her speech in front of a election college consisting of leaders from related prefecture bureaus and organs and the whole employment of the enterprise. New methods began to be applied in 1997. Three different cases were distinguished: 1) in case of losses made by particular SOEs being not very large, the weight of votes by employees was 40-50%, the weight of votes by leaders was 50-60%. 2) in case of losses being quite large, the weight of votes by employment was 70-80%, the weight of votes by leaders was 20-30%. 3) in case of losses being extremely severe, it was solely voted by employment (Chiangzhi prefecture Organization Department).

⁷⁵ With the weight of private sector increasing, reform on authority will be accelerated. The more SOEs, the wider and deeper authority (its bureaus) had to intervene. After privatization, nobody will come to authority. And authority will accelerate reform on itself. For the authority, as long as it is favorable to keeping social stability, as long

decreasing state shares in transformed companies (Wuxi Leaders Group on Enterprise Reform)⁷⁶. *f*) Party secretaries function remaining in privatized or shareholding enterprises radically declined, secretaries were elected instead of being appointed, party membership and party activity declined (*Mingshan County PC Organization Bureau*)⁷⁷. *g*) Party secretaries in remaining SOEs and TVEs are part-time. There are very few party secretaries employed as full time (Ya'an ETC). *h*) party's role collapses in SOEs and TVEs if enterprise becomes bankrupt⁷⁸ (Changzhi county Organization Department). *i*) responsibilities over party organizations in privatized enterprises were shifted to Street Offices from local level party organizations (Yucheng county Organization Department).

5. Getting rid of assets that became liabilities⁷⁹:

as it helps people to get fed, privatization is not a taboo that authority fears to make (Wuxi planning commission).

⁷⁶ It was difficult to sell enterprises to outsiders, because workers (management and ordinary workers) did not trust outsiders. Privatization would be opposed by them. We intervened into the formation of the leadership of the newly privatized enterprises. Because if leadership did not enjoy the support of majority of ordinary workers, workers would come to us complaining. However, we only intervened at the first stage. We did not intervene into the later changes of leadership at particular enterprises (Wuxi leaders Group on Enterprise Reform).

⁷⁷ Party organs were not dissolved after reform was made in enterprises. However, operation of the party organs changed. For example, heads of the party organs were elected by party members. Usually they were the leadership of the enterprises. There were no special party cadres at enterprises. Party members decreased after the privatization. Presently, number of party members at enterprises at most was 30, at least 10. Some party members left the enterprises going to coastal lines or big cities for better chances for life. Party activities also decreased at enterprises (*Mingshan County PC Organization Bureau*).

⁷⁸ Even in SOEs and TVEs not yet reformed, if they are facing bankruptcy or closing-down, party activities also collapse. The only party activity that is being carried out in above-mentioned enterprises is to collect the party fee (around 10 RMB (about one-two dollars) each month for each member) from party members. (*Changzhi county Organization Department*).

⁷⁹ Reform strategies varied: 1) as to those enterprises with net assets less than 50 million RMB, they would be gradually privatized to management. They could also be sold to legal persons or foreign investors. 2) as to those with net assets over 50 million RMB, diversifying the investors would be a choice. That is to say, state assets will still be part of them (especially in those with good performance and that are competitive). Part of the assets will be sold to management. Part of them to foreign investors. Part of them to legal persons. 3) as to those that are really unworkable, those without competitive products, without competition, close-down and bankruptcy would have to be implemented. In this case, the most difficult thing was

5.a Close-down (cost may be reduced -workers have to be dealt with, D1 and D2 are cut off): *a)* enterprises that do not pay taxes may be closed down (Changzhi county local taxation bureau)⁸⁰. *b)* closing down enterprises that are small, assets are fewer than debts, without competitive product, without competition (Wuxi Machine Industry Bureau). *c)* closing down fed-back SOEs (Ya'an prefecture organization department). *d)* leading bankruptcy procedure in fed-back SOEs– leaving debts unpaid and renaming enterprises (Ya'an leaders group on enterprise reform, Yucheng county leaders Group on Enterprise reform⁸¹) *e)* changing workers identity from state workers to ordinary workers shifting dependencies and responsibilities from the state to the private owners (Changzhi county Economic and Trade Bureau)

5.b Diversifying ownership by transforming enterprises into shareholding companies (taxation is retained while, costs reduced, D1 and D2 dependency weakens or is cut off where state has minority shares) *a)* transforming enterprises into shareholding as the first stage of privatization, where the state still retains decisive share, workers could not be easily fired, and enterprise were still taking the social security responsibility for them (Mingshan county ETC) *b)* transforming enterprises into shareholding with domestic private individuals as share-holders (Ya'an leaders Group for Enterprise Reform) *c)* enhancing joint ventures with FDI decided by Party Standing Committee (Wuxi prefectue leaders group on enterprise

to look after SOE workers. Handling SOE workers is more difficult than handling assets. Some workers had to be laid off with some compensation. Some had to be shifted to other enterprises. SOE workers had to be taken care of, otherwise, social stability would be hard to keep (Wuxi machine assets management company)

⁸⁰ A new Tax Collecting Law was passed on May 1st, 2001. On October 15, detailed regulations on how to implement the law will be passed on October 15, 2002. According to the new law and its detailed regulation, local taxation bureau would confiscate certain assets of the enterprise, or even close down the enterprise if it does not pay tax due (Changzhi county local taxation bureau).

⁸¹ A lot of them were announced bankrupt. But our bankruptcy was different from those in western countries. In western countries, bankruptcy means that remaining assets of certain enterprise would be shifted to the debtors. But we did not do that. Debtors of those enterprises with bad performance were state owned banks (local branches of commercial banks). We did not give the remaining assets to banks, otherwise we would have had no resources to compensate workers in the process of reforming the property rights of SOEs. Local branches of state owned banks did suit particular enterprises for not paying debts. But the courts stood on our side, because they are parts of us local authorities. By my counting, banks in the process of reforming enterprises' property rights lost 200-300 million RMB (Yucheng leaders group on enterprise reform).

reform)⁸² *d*) transforming SOEs into workers' share-holding with and administrative act, workers did not have to buy the shares, state did not have to compensate workers for changing their identity from state to ordinary workers (Yucheng county leaders group on enterprise reform) *e*) transform SOEs into shareholding with the size of state-owned shares decreasing according to enterprise size and with the time (Wuxiang county Organization Department). Shares in privatization were concentrated to former management instead of workers shares that failed profitability expectations (Jiangyin leaders group on enterprise reform)

5.c Cutting off liabilities by privatization (taxation is retained by the locality from the privatized enterprise while both costs and D1 and D2 dependency lines are cut). Privatization spread at lower levels motivated by hardening reproduction constraint⁸³, first despite higher level (central and provincial) authorities' explicit disagreement at more remote places, than with their tacit agreement, than with explicit official encouragement from the 17th Party congress⁸⁴. Criteria of what to preserve and what to privatize is overwhelmingly connected to size and losses⁸⁵, to competitive pressure

⁸² Concerning those enterprise that are very large-scale, and those that are with good performance. The approach was to form joint venture so as to dilute the shares held by state sector. What had been reformed (privatized) so far were loss making ones or would-be loss making ones. (Wuxi leaders group on enterprise reform)

⁸³ The momentum of privatization came from county authority. The main reasons for privatization were that those former collective enterprises were not able to pay loans due, and that workers in them did not get salaries or wages and therefore were much discontent. Those enterprises not only could not go on with their business, but also became trouble-maker for the county authority (Wuxiang county TVE administration)

⁸⁴ The purpose of forming this group (Leaders Group on Enterprise Reform) and its office and sections was to reform the property rights relations of SOEs (means privatization). We tried many ways of reforming SOEs, like delegating more rights of making decisions to management, making contract with management... They were not efficient enough. In the meanwhile, some localities within our province already began to make reforms involving change on property rights of SOEs. Our party secretary being accompanied by many of the main cadres of our county went to those counties to learn their experience. Also, the center first agreed then advocated the strategy of grasping those large scale ones and letting the small ones go. We thought it was the right time to make the reform (Yucheng leaders group on enterprise reform)

⁸⁵ The features of the enterprises reformed were as follows: 1) they were small scale but tried to produce everything (obviously not competitive); 2) assets were not enough to cover debts (bank loans and/or taxes; 3) workers were in older and older age who

from outside the net and also to the level of administrative coordination necessities. In some places, provincial authority's policy was that authorities at county level should completely withdraw from economic fields that were competitive (Sichuan province Research Office of the Party)⁸⁶. Those that are still large and resourceful and those natural monopoly (railway, airline, banking), or those in infrastructure and in strategic industries (like electronic information) are preserved for tax and serving extra-budgetary purposes for local government investments (Jiangsu EWC, Jiangsu ETC, Jiangsu Planning Commission). *a)* letting domestic private entrepreneurs purchase SOEs and TVEs (Shanxi Organization Department) *b)* giving away enterprise with bad performance free of charge, as long as the entrepreneur guarantees workplace to former employees (ETC and coal mining administration at Changzhi prefecture) *c)* forming joint ventures and share-holding companies with foreign capital for large enterprises (Wuxi machine asset management company) *d)* introducing enterprises to be sold to "outside" investors (domestic private settled in other province) (Yucheng county ETC) *e)* provide using rights to particular plots of land on advantageous prices (even for free) and provide better infrastructure and provide better service in the respect of administrative works, or even build houses for rent for attracting FDI (Wuxi prefecture ETC). *f)* Provide VAT rebate to FDI for three or four years if investing in the locality (Wuxi prefecture ETC, Yixing county Finance Bureau). *g)* Lifting administrative barriers to foreign investment and assigning as task for the apparatus to attract FDI (Yangyin county ETC)⁸⁷.

were less and less capable of catching up the new development; 4) there were no promising products, projects; 5) they lacked finance; 6) equipment being used were backward. In a word, they were the enterprises eliminated by market competition (Yucheng leaders group on enterprise reform)

⁸⁶ Privatization on TVEs was much easier than that on SOEs. In case of TVEs, with the decision of township party secretary, privatization could be done. Therefore, there were cases that all TVEs in a township were privatized in one year. Privatization on SOEs was much more troublesome. SOEs were tied to enormous links. Countless organizations involved in SOEs: labor bureau, personnel bureau, social security bureau, party committee, organization bureau, finance bureau, banks, industry bureau... It was impossible that privatization on SOEs could be done with the single decision of any leader (Wuxi agriculture work department).

⁸⁷ About 20% of the investment were done by FDI. Other investments were done by self-raised (or self-accumulated) resources by enterprises and resources by domestic enterprises outside the county (bank-loans were scarce in the county). Changes in attracting FDI were the following: before 1995, and 1996, level of FDI was low. FDI at that time was basically from overseas Chinese. In mid and late 1990s, FDI increased gradually. After 1999, FDI accelerated. Now we are in the road of trying to attract investments from first 500 leading companies in the world. Special Economic

6. Emptying rigid structures *a)* workers and resources from large-scale TVEs with huge losses, that were impossible to be privatized, were shifted to start up new private enterprises, leaving behind an empty carcass and the debts (Wuxi agriculture work department) *b)* transferring bad debts to local authorities in consequence of bankruptcies, close-downs and privatization leaving banks without payment (Ya'an prefecture TVE administration) *c)* fleeing the net individually while stripping off the rigid structure forging one factor to privatization (Jiangyin Leaders Group on Enterprise Reform)⁸⁸

7. Enhancing private sector's development: while private sector is increasingly becoming an alternative source of production and revenue and employment, its development is exerting increasing pressure on both small and large-scale enterprises located within the net⁸⁹ *a)* enhancing private sector to absorb unemployment deriving from closed-down, privatized, bankrupted and part-time working enterprises to keep social stability (Jiangyin Leaders Group on Enterprise Reform) *b)* letting private enterprises use red hat and work under TVE denomination for easing bank loans otherwise overwhelmingly denied by banks (Jiangyin leaders group on enterprise reform). *c)* letting private sector to flourish since it forges increasingly large share of the local GDP (Sichuan province Policy Research Office)⁹⁰ *d)* enterprises that otherwise would stop running were contracted out to private entrepreneurs. In case private entrepreneur had funds, D1 and D2 rights (transferring rights to appoint and dismiss

Zones since 1995 were not special any longer, because local authorities across the land self-liberated from restrictions imposed by planning economy system (Jiangyin ETC).

⁸⁸ Privatization was in indirect consequence of the growth of private sector. In 1990s, with the development of private sector, entrepreneurs in TVEs and SOEs found that they were not accordingly paid for their contributions, therefore behaved in passive or negative way, transferring business to private sector that were in collusion with them. Corruption in TVEs and SOEs erupted. TVEs and SOEs' performance rapidly declined. Losses increased enormously. County and township authority lost control over them. This was the main reason why we made the privatization (Jiangyin leaders group on enterprise reform).

⁸⁹ Performance of the 97 companies under us are so far good. But they are under two kinds of pressures. As to small-scale enterprises, they were greatly affected by competition from domestic private enterprises. As to large-scale enterprises, they were increasingly affected by FDI (Wuxi policy research office).

⁹⁰ Private sector in some prefectures was creating a large proportion of GDP. In Leshan prefecture, Chengdu prefecture, and Luzhou prefecture, 60-70% of GDP was created by private sector. The share will soon reach 80% (Sichuan Policy Research Office of the Party).

management to the entrepreneur) in exchange of transferring a certain amount of the revenue to the county and employing former employees (Wuxiang county Organization Department)⁹¹. In case private entrepreneurs did not have enough fund worker's identity remained at the state authorities, creating a transitional condition (Wuxiaing county ETC)⁹²

The above picture relates on the broad variety in the dynamics of hardening reproduction constraints at provincial, prefecture and county level. It also provides a sweeping kind of reactions and measures implemented to ease reproduction constraints. Sorting these measures according to the factors of the model, it gives an opportunity to the readers to have a consistent picture on the developments and place further measures where they fit. Fitting impacts and measures in their place, one may draw conclusions on the nature of transformation of the net.

We have analyzed interviews according to the differences in reproduction constraints and reactions in time since 1994. We have also surveyed the different ways of the appearance of hardening (softening) reproduction constraints at surveyed localities and the range of different instruments applied by them as a reaction to hardening reproduction constraints. The next step is to detect the differences between different aggregations of the net (prefecture and county level), and in space, among units at one given level

⁹¹ Management of TVEs were always selected by townships and village party groups (in some cases, villagers committees). Since most TVEs has been rent out or contracted out, townships and villages are not involving in selecting management for the TVEs. Only one or two (in other words) TVEs are still run by township authorities. The reason why townships and villages did not sell out those enterprises is that township and villages still want to have access to them for off-budgetary resources (mainly administration charge). If they had been sold out, they would have lost the access. Therefore, there had been very few cases of selling out TVEs. (Wuxiang county Organization Department).

⁹² Still these transformed enterprises are different from those originally private ones in the respect that workers in the privatized ones are still SOE workers. This sounds bizarre. But it is the fact. In private enterprises, owners do not pay funds for workers' pension, unemployment insurance, health care insurance and so on. But in these newly privatized enterprises, new owners still do not have the responsibility of above-mentioned issues. Workers in these enterprises are still considered as SOE workers. At least, many of them think so themselves. Therefore, when they had problems, one of their actions is to come to the government for solutions. For those enterprises that have funds, workers' identity had been changed. For those that have not, this has not been done (Changzhi county ETC).

within the net (prefectures or counties). These differences will be traced according to (1) impact: hardening/softening reproduction constraints, (2) reactions to the impact: kind, sequence, timing, and intensity of implementation of the measures and (3) consequences of these reactions on the transformation of the net.

CHANGES IN SPACE AND AGGREGATION LEVEL

Below we shall detail the differences in the transformation among counties and prefectures and between prefectures and counties. Apart from the common features in terms of transformation among the surveyed counties and prefectures, differences appeared among them in every respect: from the starting points, to the ongoing processes, and to the results. Let us see first the changes that may be tracked from the available data in the traditional way of analysis (See *Tables 9-12*, and *Appendix 5-9*).

In Wuxi prefecture, revenues doubled, while expenditures increased five-fold that made the balance surplus decline close to zero. Number of loss-making SOEs did not change in Wuxi, while losses increased four-fold. Number of SOEs and TVEs has dropped radically to its one-fifth. Employment has also declined in both SOEs and TVEs. Number of and employment in TVEs decreased more than that in SOEs. Based on number and employment, we may suppose here that small enterprises have disappeared but not the large loss-making ones. Meanwhile, investments in remaining SOEs increased more than three-fold, while investment in collectives somewhat decreased. Despite of increased investments, SOE's share in industrial production slightly decreased. The share of TVEs in industrial production dropped to its half. Both SOEs and TVEs lost share to domestic private and foreign capital.

In Changzhi prefecture revenues increased almost three folds. The increase of expenditures was a bit slower but still more than doubled and deficit increased more than two-folds. The number of loss-making SOEs decreased while losses increased three-folds. Number of SOEs dropped to their two-third and so did employment in SOEs to the same extent. We may suppose that it was harder to get rid of larger loss-making enterprises. We do not have data on the number of TVEs but we can see that employment in TVEs decreased even more than they did in SOEs. Investments in remaining SOEs increased, parallel to investments by private enterprises, and so did their share in industrial production. The largest increase in investments was in TVEs, however, their share in industrial production decreased. Share of domestic capital in industrial production also decreased, while that to FDI increased.

In Ya'an prefecture the revenues also increased but to a lesser extent than it did in the other two prefectures, expenditures increased faster, therefore deficit was more than double by 2000. The number of loss-making SOEs decreased and so did losses. Number of SOEs decreased to its one-third and the similar was the decline in TVEs. Decline in employment reflected the changes in number, but to a lesser extent (we may suppose that mostly smaller SOEs and TVEs have disappeared) Investment in remaining SOEs increased more than four-fold, so did that of private enterprises, while in TVEs decreased to its half. Both SOE and TVE share in industrial production decreased while domestic and foreign capital's share increased.

Similar data on *county* level is less complete, yet, they unveil substantial differences among the surveyed counties (*Tables 13–16*, and Appendix 10). While the number of SOEs and TVEs radically declined between 1994 and 2001, the employment in these sectors decreased much less. Meanwhile, except for Changzhi county, the number of loss-making SOEs dropped and so did losses. Investments by SOEs grew during these years, except in Yucheng (Ya'an). Developments both in number, employment and loss-making SOEs suggest that also at county level the small enterprises disappeared first. SOEs share in industrial productions increased only in Chanzhi county, otherwise decreased all over. TVEs' share also declined radically, the most dramatic drop was in Yiangyin (Wuxi). Except for Wuxiang county in Changzhi prefecture, investments by TVEs increased less than those by SOEs, or declined. Investments in private sector increased in all surveyed counties⁹³.

Next we shall analyze these data abandoning the traditional way. We shall keep to the general approach of the model introduced in the analysis and by adding interview results. The model's approach helps to locate the changes within the net, interviews expose the reasons, motivations, behavior, and applied instruments and the consequent structural changes in the net in the background of these developments. They also reveal the differences in the above mentioned factors among them according to prefectures and counties.

Differences in the growth of hardening reproduction constraint

⁹³ We do not have county level data on investments in private enterprises within Wuxi prefecture.

In general, as a consequence of the 1994 taxation reform *reproduction constraint* of local authorities has been *hardening*. But it had not hardened to the same extent in our surveyed counties and prefectures and at county and prefecture levels.

Table 9 shows the revenues, expenditures, and balance in 1994 (93) and 2001 (00) in the surveyed prefectures.

Table 9. Revenue, expenditure and balance at surveyed prefectures in 1994 (93) and 2001 (00) DFF (million RMB)

Prefectures		1994 (93)	2001 (00)	Difference	Rate
Changzhi prefecture	Revenues	356.5	998.1	641.6	280
	Expenditures	745.0	1890.3	1145.3	254
	Balance	-388.5	-892.2	-503.7	230 def.
Wuxi prefecture	Revenues	3462.5 /93	7509.8	4047.3	217
	Expenditures	1460.4 /93	7249.3	5788.9	496
	Balance	2002.1 /93	260.5	-1741.6	13 surplus
Ya'an prefecture	Revenues	141.1	233.4 /00	92.3	165
	Expenditures	328.4	653.8 /00	325.4	199
	Balance	-187.3	-420.4 /00	-233.1	224 def.

Source: counted by the author based on *Changzhi Prefecture Statistical Yearbook: 1995*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995, p.138, 148; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002 p.170; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.128; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.56-60; *Ya'an Statistical Yearbook: 2001*, edited and published by Ya'an prefecture statistic bureau, 2001, p.93-98.

Among the three prefectures, Table 8 shows that there was still budgetary surplus in Wuxi prefecture in 2001, though the amount of surplus decreased dramatically compared to that in 1993. In Changzhi prefecture, both in 1994 and in 2000, expenditures were the double of revenues, while both increased close to three-folds (increase in expenditures somewhat slower than in revenues). Therefore, budgetary deficit in Changzhi increased close to the same pace as expenditures and revenues did. In Ya'an prefecture, expenditures in 1994 were the double of revenues, but while expenditures increased close to two folds by 2000, revenues increased at a slower pace, therefore budgetary deficits increased faster

than both expenditures and revenues. All in all, Changzhi prefecture was worse than Wuxi prefecture its deficit growth surpassed that of Ya'an prefecture, despite faster growth of revenues than in this latter.

Differences in the *size and dynamics of tax revenues, expenditures, and balance* are only one of the indicators that point to the differences in reproduction constraints at different places. At current stage, and based on the level of statistical data at our disposal, it would be irresponsible to try to consider all non-budgetary inputs and allocations. Moreover, we are aware of the fact that extra budgetary and off budgetary sources play an important role in the localities' reproduction and that tax revenues had a minimal share in the value of fixed asset investments both at national and local levels (see *Table 10*). We also know that several other factors that contribute to the reproduction of the status quo within the net are not quantifiable. Despite of these facts, using interviews and data combined, we made efforts to examine the possibility and tendency of extraction of resources from and decentralization expenditures to lower levels, attraction of subsidies from and transfer of revenues to higher levels, and attraction of resources from the private sector. Taking these factors together that point to the chances to reproduce the status quo at each locality within the net, we suggest tendency of the hardening or softening of reproduction constraints.

Table 10. Total investment in fixed assets by source of finance in 1994 and 2000 (Billion RMB)

	1994		2000		Difference		Rate
State budgetary appropriation	53	3.0*	211	6.0*	158	3	398
Domestic loans	400	22.0	673	20.0	273	-2	168
Foreign investment	177	10.0	170	5.0	-7	-5	96
Fundraising and others	1153	65.0	2258	68.0	1105	3	196
	1783	100.0	3312	100.0	1529		190

* Share of difference sources of investments

Source: China Statistical Yearbook, 1995, compiled by National Bureau of Statistics of China, Beijing: China Statistics Press, 1995, p.137-139. *China Statistical Yearbook, 2001*, compiled by National Bureau of Statistics of China, Beijing: China Statistics Press, 2001, p. 157-161.

Table 11 shows that inflow of FDI had been huge in Wuxi prefecture, and few in the prefectures in Shanxi province and Sichuan province.

Table 11. FDI at prefectures in 1994 (93) and 2001 (00) (USD million)

	1994 (93)	2001 (00)	Difference	Rate
Changzhi prefecture	–	–	–	–
Wuxi prefecture	476.31	1357.46	881.15	285
Ya'an prefecture	4.86	–	–	–

Source: counted by the author based on *Changzhi Prefecture Statistical Yearbook: 1995*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.301; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.110; *Ya'an Statistical Yearbook: 2001*, edited and published by Ya'an prefecture statistic bureau, 2001.

On *table 11*, no data on FDI in Ya'an prefecture in 2000 and Changzhi prefecture in any year were available. As interviewees revealed, FDI in these two prefectures were negligible.

Domestic private sector in Wuxi prefecture had been much larger than in the other two surveyed prefectures (see *table 12*).

This difference in FDI inflow and in domestic private capital contributed to the softening of the reproduction constraints in Wuxi prefecture, and to the hardening of the reproduction constraints in Ya'an prefecture and Changzhi prefectures.

As shown before in the former section, different surveyed prefectures and counties also had different possibility to siphon away resources or resource targets from below, decentralize inefficient enterprises, decentralize expenditure responsibilities and so on.

Except that in Wuxi, we did not find evidence on major decentralization of burdens from surveyed prefecture level to county level, as opposed to the relevance of such actions from the center to province, from province to prefecture.

Table 12. Each sector's share in industry production in surveyed prefectures in 1994 (93) and 2000 (01) (%)

		1994 (93)	2000 (01)	Difference
Changzhi prefecture	SOEs	37.81	51.08	13.27
	Collective	36.28	11.02	-25.26
	Pes	18.58	4.31	-14.27
	Others*	7.33	33.59	26.26
Wuxi prefecture	SOEs	12.94 /93	7.49	-5.45
	Collective	75.80 /93	19.33	-56.47
	Pes	7.48 /93	45.39	37.91
	Others*	3.63 /93	27.79	24.16
Ya'an prefecture	SOEs	33.08	8.35 /00	-24.73
	Collective	34.26	22.17 /00	-12.09
	Pes	26.07	57.19 /00	31.12
	Others*	6.59	12.29 /00	5.7

* Include jointly owned enterprises, share-holding companies, FDI, Enterprises invested by overseas Chinese.

Source: counted by the author based on *Changzhi Prefecture Statistical Yearbook: 1995*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995, p.138, 148; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002 p.170; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.128; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.56-60; *Ya'an Statistical Yearbook: 2001*, edited and published by Ya'an prefecture statistic bureau, 2001, p.93-98.

Extraction of revenues on provincial level by surveyed provinces and at prefecture level by surveyed prefectures differed much. Sichuan extracted higher ratio of resources from lower levels than the other two provinces did. Sichuan province kept higher ratio of the 25% of VAT retained to localities – about 9% since 1994 compared to 8% in Shanxi since 2002 and 5% in Jiangsu since 2000 (interviews with finance bureaus in Sichuan, Shanxi, and Jiangsu). Sichuan also siphoned away 35% of 8 main local taxes (interviews with Ya'an finance bureau and Ya'an local taxation bureau). Among the three prefectures, only Wuxi succeeded in further extracting 2% of the increased revenues from the two surveyed counties within it. The other two prefectures – Changzhi prefecture and Ya'an –

could neither further extract revenues from surveyed counties nor could they siphon away resource target from the counties.

At county level, *Table 13* shows that all surveyed counties' situation deteriorated from 1994, though to a different extent. Even the balance of those two in Wuxi that were in the best situation among all declined substantially. The balance surplus of Yiangyin, dropped to its one-third, in Yixing it has shifted from surplus to deficit. All others' initial (1994) deficits increased further by 2000. The largest increase in deficit evolved in Changzhi county, followed by Wuxiang, both in Changzhi prefecture. The reason of the overall decline was the faster increase of expenses compared to that of revenues. The fastest increase in expenditures compared to that of revenues was in Yangyin than in Yixing (Wuxi), but even this skyrocketing increase influenced revenues less than the slower increase in other surveyed counties.

Table 13. Revenue, expenditure and balance at surveyed counties in 1994 and 2000 (million RMB)

Counties		1994 (93)	2001 (00)	Difference	Rate
Changzhi county	Revenues	26.8	65.2	38.4	243
	Expenditures	40.7	115.8	75.1	285
	Balance	-13.9	-50.6	-36.7	364 def.
Wuxiang county	Revenues	11.8	27.4	15.6	232
	Expenditures	34.9	84.5	49.6	242
	Balance	-23.1	-57.1	-34	247 def
Jiangyin county	Revenues	629.2 /93	1837.0	1207.8	292
	Expenditures	318.1 /93	1725.7	1407.6	543
	Balance	311.1 /93	111.3	-199.8	38 surplus
Yixing county	Revenues	349.1 /93	717.9	368.8	206
	Expenditures	197.9 /93	758.8	560.9	383
	Balance	151.2 /93	-40.9	-192.1	27 def.!!!
Yucheng county	Revenues	22	33.3 /00	11.3	151
	Expenditures	57.8	94.5 /00	36.7	163
	Balance	-35.8	-61.2 /00	-25.4	171def.
Mingshan county	Revenues	18.8	23.3 /00	4.5	124
	Expenditures	39.1	57.9 /00	18.8	148
	Balance	-20.3	-34.6 /00	-14.3	170 def.

Source: Changzhi Prefecture Statistical Yearbook: 1995, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995, p.213; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002 p.269; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.317; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.116-117; *Ya'an Statistical Yearbook: 2001*, edited and published by Ya'an prefecture statistic bureau, 2001, p.136-137.

Yixing county's deficit reached about 5% of its revenues by 2000. Changzhi county (Changzhi prefecture) had deficits as large as its revenues both in 1994 and 2001. Mingshan county (Ya'an prefecture) had deficits as large as its revenues in 1994, and the deficit increased to about 1.5 times larger than its revenues in 2000. In Wuxiang county (Changzhi prefecture) where despite the three-fold growth of the revenues deficits both in 1994 and 2000 remained more than two times larger due to the faster growth of expenditures. Unfortunately we do not have relative data that would show the differences in the size of budgetary revenues among localities according to either population or workers etc.

Hardening reproduction constraints suggested by overall deterioration of the budgetary balance were in some cases softened from above. Transfers from higher levels took place on account of political bargaining capacity. For example, Wuxiang county within Changzhi prefecture was one of the most important guerrilla bases for the party during the Second World War, and therefore had more feedbacks to provincial and central authorities. From time to time, Wuxiang got resources in various forms from higher levels, which neither other counties in the same prefecture enjoyed nor did counties in Ya'an and Wuxi prefectures. However, transfers did not radically improve, only temporary relieved Wuxiang's reproduction constraints as a poor agricultural county.

Different counties had different possibilities to get *resources from outside* the party-state network. Direct data on domestic private capital and FDI is not available. Only indirect data – the share of different ownership sectors in industrial production – suggest their existence, moreover expansion. *Table 14* shows each sector's contribution to industry production at the 6 surveyed counties.

Table 14. Each sector's share in industry production at surveyed counties in 1994 (93) and 2000 (01)(%)

		1994 (93)		2000 (01)		Difference
Changzhi county**	SOEs	6.03	73.5	18.99	45.3	12.96
	Collective	67.48		26.26		-41.22
	Pes and other*	26.49		54.75		28.26
Wuxiang county**	SOEs	27.23	76.1	12.41	21.5	-14.28
	Collective	48.91		9.05		-39.86
	Pes and other*	23.86		78.54		54.68
Jiangyin county	SOEs	3.70	89.6	3.65	41.3	-0.05
	Collective	85.93		37.64		-48.29
	Pes	6.49		34.98		28.49
	Others*	3.88		23.73		19.85
Yixing county	SOEs	8.06	91.1	2.02	7.7	-6.04
	Collective	83.03		5.66		-77.37
	Pes	8.83		46.85		38.02
	Others*	0.08		45.48		45.40
Yucheng county	SOEs	59.81	80.5	13.14	22.8	-46.67
	Collective	20.73		9.67		-11.06
	Pes	13.69		55.14		41.45
	Others*	5.77		22.05		16.28
Mingshan county	SOEs	33.49	64.6	8.07	24.1	-25.42
	Collective	31.13		15.98		-15.15
	Pes	30.96		73.20		42.24
	Others*	4.42		2.75		-1.67

* Including jointly owned enterprises, share-holding companies, FDI, Enterprises invested by overseas Chinese.

** In the case of these two counties, data on the share of private and other enterprises was missing. We have calculated them through the deduction of the share of SOEs and collectives from 100 percent.

Source: Counted by the author based on *Changzhi Prefecture Statistical Yearbook: 1995*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995, p.138, 146; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002 p.170-173; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.133-135; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.57-60; *Ya'an*

Statistical Yearbook: 2001, edited and published by Ya'an prefecture statistic bureau, 2001, p.99-102.

Among the surveyed counties, private sector's contribution at Yixing county increased the most during second half of 1990s. It increased more at Yucheng county, Wuxiang county and Jiangyin county than at Mingshan county. Private sector's contribution at Changzhi county grew the least. Between 1994 and 2001 private sector's share increased all over to the detriment of the collective and state contribution (except for Changzhi county, where SOEs' share increased somewhat). The difference among counties concerning this expansion was that in some places domestic private sector's share increased the most (Mingchan in Ya'an), in other places FDI was the dominant (Yixing)⁹⁴. Growing share was partly due to the decline of the state and collective sector, and partly to the absolute increase of the private sector. Data on FDI was available only at Jiangyin and Yixing counties in 2001, FDI at Jiangyin county in 2001 was three folds of that at Yixing county. Interviews revealed that at other surveyed counties, FDI was negligible. This difference contributed to the softening of reproduction constraint at Yixing county, Jiangyin county and the hardening of that at other surveyed counties.

Moreover, *different counties encountered different pressures exerted* by prefecture and upper levels to siphon away resources and resource targets from counties. Their *capacity to resist* these pressures was also different. In Ya'an, prefecture authorities in early 1990s siphoned away quite a few resource targets from counties (see footnotes 54, 55, 56, 57 and the according texts), hardening the reproduction constraints at the two surveyed counties within it. Among the two surveyed counties in Ya'an prefecture, more resource targets were siphoned away at Yucheng county by the prefecture than those at Mingshan county, due to the fact that headquarter of prefecture authority was located at Yucheng county (see footnotes 57)⁹⁵. In the other two prefectures, few such actions were initiated. In Wuxi, however, another kind of extraction was implemented. Since counties and townships are quite rich, prefecture authorities could not only extract revenues from lower levels by siphoning away 2% of the

⁹⁴ We do not have separate data on the share of these two in the case of Changzhi and Wuxiang counties.

⁹⁵ What is worthwhile to notice is that Ya'an prefecture never succeeded in extracting resource targets from counties since 1994.

increased fiscal revenues since 2002 but also decentralize expenditures to those levels. We suppose, based on interviews that in Wuxi prefecture, counties still have resources to be extracted by the prefecture, while in Changzhi and Ya'an (since 1994) there was few resource or resource base to siphon away without the menace of economic collapse of these counties.

Concerning the possibility of decentralizing burdens to lower levels, only the two counties in Wuxi prefecture could still decentralize burdens to townships. They decentralized the responsibility of paying bonus and health care for teachers at primary and secondary schools (interview with Luoshe township governor, and see footnote 42 and the according text).

Taking all the above factors into consideration, we tend to believe that, among our surveyed counties and prefectures, reproduction constraints of Ya'an prefecture in Sichuan province, and Yucheng county, and Mingshan county in Ya'an were the hardest in every respect and had been hardening consecutively. In Changzhi prefecture in Shanxi, and within the prefecture Changzhi county, and Wuxiang county's reproduction constraint was hard and had been hardening. That of Yixing county and Jiangyin county was hard but not hardening too much further, and that of Wuxi prefecture was the softest and Wuxi prefecture authority still has the possibility of further softening its reproduction constraint through extraction from lower levels.

Differences in kind, sequence, timing, and intensity of the implementation of reform measures

Differences in the growth of hardening reproduction constraint coincided with the differences in kind, sequence, timing and intensity of implementation of resource acquisition measures among the three prefectures and six counties.

Different frequency and success: According to the predictions of the model, hardening reproduction constraints, as a reaction, bring about the drive for the extraction of revenues, decentralization of expenditures, narrowing the selection, privatization, and so on. These measures were implemented in all the surveyed counties and prefectures. However, different localities implemented some measures more frequently than others and with more success than others.

For example, though Sichuan province in 1994 and 2000, and Shanxi province in 2002 further extracted revenues from lower levels by changing the share of tax revenues between provincial and lower levels in favour of the province, and so did Jiangsu province in 2002. Neither Ya'an prefecture nor Changzhi prefecture could implement similar strategies toward levels

lower than theirs. It was so, because, as local cadres in these two regions complained, there was no possibility of further extraction from lower levels that had already huge deficits.

There was a failed effort in 1998 by Changzhi prefecture authority to siphon-away profitable SOEs subordinated to counties. Counties' resistance blocked the proposal before it was submitted to prefecture party standing committee for formal discussion and decision. Counties' resisting capacity was in the political and economic menace that they would just collapse if those SOEs that could still contribute something to county finance were siphoned-away by the prefecture (interview with Changzhi prefecture Organization Department).

Not only efforts to siphon away resource targets from counties failed at these two prefectures. So did efforts to get rid of burdens by decentralizing loss-making SOEs to counties. Prefectures remained the last stations in the hierarchy to whom loss-making SOEs could be decentralized from the province and/or the center. Resisting capacity of counties was due to the menace of their collapse. This move led the prefecture and county authorities to narrow the circle of those fed back, and to narrow those privileged in distribution of resources (see footnote 64 and the according text). Political privileges of enterprises were ceased. Their nomenklatura were transferred from Organization Department to industrial bureau PC. Resources were distributed to fewer and larger enterprises. Also investments initiated by governments in economic development were decreased.

In Wuxi, however, since counties and townships are quite rich, prefecture authorities could not only extract revenues from lower levels but also decentralize expenditures to those levels. Since 2002, Wuxi prefecture has reformed the intergovernmental fiscal relations. Under the new arrangement, 5 counties should submit tax revenues to the prefecture with an annual increase rate of 12%; the other two counties, Jiangyin and Yixing, should submit 2% of the increased tax revenues compared to 2002 to the prefecture authorities. Meanwhile, cadres at Wuxi prefecture related on the decentralization of loss-making enterprises to lower levels, though no exact numbers were given. One of those decentralized was an SOE that originally belonged to the central authorities. As a loss-maker, it was decentralized to Jiangsu provincial level, then to Wuxi prefecture, then to Xishan county within Wuxi prefecture, and finally to Luoshe township in Xishan county last year (Interview with governor of Luoshe township).

Just as Wuxi prefecture siphoned away resources or resource targets from counties, so did Jiangyin and Yixing county in 2000 and 2001 extract some revenues from townships (interview with Wuxi policy research office of the party committee, Jiangyin Finance Bureau, Yixing Finance Bureau). Merging townships in these counties provided the means for extraction of further revenues. Mergers relieved counties from financing larger number of staff at township level. No similar actions were revealed in the other four surveyed counties. Meanwhile, in Jiangyin and Yixing county not only siphoned away revenues, but also decentralized some expenditures to townships. For example, expenditures on funding bonus, health care, and some other benefits for primary and high school teachers were decentralized to townships in these two counties (interview with the governor of Luoshe township, and also see footnote 42 and the according text). According to interviewees, in the other four counties, no similar decentralization occurred.

The other unique strategy that had been successfully implemented in Wuxi prefecture and the two counties within it is to attract FDI. Barriers to FDI were lifted. Moreover, taxes from FDI were given back to FDI to attract them (see footnote 87 and the according text).

Not only the success of the decentralization of burdens and extraction of revenues but also the speed, intensity and success of other measures for easing reproduction constraint differed substantially among the surveyed counties and prefectures.

In mid 1990s TVEs became heavily loss-making due to the rapid growth of private sector in Wuxi. TVEs that in 1980s provided resources for township and county authorities within Wuxi prefecture turned into their liabilities in 1990s. Parallel to the TVE decline, tensions grew in the society and TVEs became serious sources of political instability at the locality⁹⁶. There was no other way out than privatization (interview with Wuxi rural issue working committee of the prefecture PC). Privatization of TVEs was

⁹⁶ The background of tensions originated from the weak position of TVEs within the net. Since TVEs could hardly get loans from state owned banks in 1980s and early 1990s, TVEs raised funds from ordinary citizens. Almost every citizen living in the townships and counties lent some money to local TVEs. When declining TVEs started not to serve debts due, citizens demonstrated: they siege townships and sometimes county authority headquarters; they blocked roads. Social and political stability was shaken, raising concerns even at the central authority.

intensive everywhere once authorities decided that these actions were needed.

Meanwhile, privatization on SOEs was drawn out in time in some places but intensive in others. In Yucheng and Mingshan counties, and Ya'an prefecture (Sichuan province) where reproduction constraint was hard and had been consecutively hardening, privatization of SOEs was basically done in one or two years. By the end of 2002, according to interviews, there was no longer any SOE in Yucheng county; only 2 SOEs remained in Mingshan county, and only a few were still supervised by Ya'an prefecture. It seems that resistance to privatisation was faint. Privatization within this prefecture and its counties began in 1997. In the early stage most enterprises were privatised to workers. However, shares were too scattered for efficient decision-making and enterprise performance kept declining. Within two years mostly management buy-out or outsider investment dominated.

Based on the interviews done in Yucheng and Mingshan counties (Ya'an prefecture) concerning SOEs and in the townships of Yixing county and Jiangyin county in terms of TVEs we suggest that where reproduction constraints were hardening from above and below, authorities were more determined to privatization and presumably SOEs' or TVEs' resistance was overcome. In these localities privatization was done within short period. Where reproduction constraints were less hardening since revenues could be extracted increasingly from below, and burdens decentralized for example, in Wuxi prefecture and the two counties within it, they were less pressured to put down SOEs' and worker's resistance in SOEs subordinated to them, and also had financial background to appease possible grievances.

In the surveyed counties and prefecture in Shanxi province where reproduction constraint seemed to be less hard compared to those surveyed in Sichuan province, privatization was drawn out, and in some cases not even initiated. At Changzhi prefecture level in Shanxi province, privatization of SOEs are still being discussed and yet to be implemented in 2002. This is despite of the fact that according to Changzhi prefecture's Organization Department and local ETC, many SOEs subordinated to the prefecture were forced to operate part-time due to the lack of resources. Authorities made efforts to privatize them but some of the cadres at prefecture authorities and workers at those SOEs resisted privatization. However, according to the same cadres, resistance to privatize SOEs subordinated to the prefecture decreased by 2002 due to the persistent lack of resources. On the one hand, workers' hope for the SOEs to revive

vanished. On the other hand, the prefecture authority was forced to admit that it lacks resources to continue to fund the SOEs.

Despite of this fact, few of the SOEs subordinated to Changzhi prefecture were successfully privatized so far. Instead, hardening reproduction constraints of counties were softened through selective withdrawal of party and state responsibilities from subordinated large enterprises. Selectivity was adapted to the extent of the liabilities SOEs meant for the prefecture. Changzhi prefecture classified the 17 large scale SOEs – whose leadership nomenclatura was subordinated to prefecture party committee's Organization Department – into three categories. In those SOEs where losses were huge, Organization Department of the prefecture PC let workers elect the leadership that the department approved after the elections. Simultaneously, substantial decision making power was decentralized to these SOEs. In case of SOEs with little losses, Organization Department worked together with some representatives of the workers to select leadership. Parallel to this process, limited decision-making power was also decentralized to the SOEs. As to those SOEs that are still profitable, both appointment discretion and decision-making power remained unchanged (interview with Changzhi prefecture Organization Department).

Just as in the prefecture, Changzhi county's (Changzhi prefecture) first efforts to privatize SOEs in 1997 had also limited success. Efforts ceased in 1998, and were successfully renewed in 2001. According to authorities at all visited levels, the failure of privatisation efforts in 1997-1998 was a common phenomenon in Shanxi province. Efforts seemed to have been half-hearted from the side of the authorities in Shanxi while, in turn, the resistance by SOEs and some representatives was initially strong (interview with Changzhi prefecture ETC).

Similarly, in Wuxiang county (Changzhi prefecture), there were two failed privatization efforts, one in 1997 the other in 2000. The third privatization effort ended up with limited success in 2002 (interview with Wuxiang ETC).

At Wuxi prefecture (Jiangsu province) level where reproduction constraint was the softest among all the surveyed counties and prefectures, small scale loss-making SOEs – where resisting capacity is relatively weaker – were successfully privatised in late 1990s. Middle and large scale SOEs were not privatized so far. Neither the strategy of withdrawing nomenclatura from loss-making larger SOEs, similar to Changzhi prefecture, was implemented. The only major reform measure was to decentralize

nomenklatura responsibility over part of the subordinated SOEs from prefecture party Organization Department to party committees at branch ministries. In 1996, 95 out of 147 SOEs were decentralized this way narrowing the circle of those with higher level feed-backs. Since then, no major restructuring was carried out (interview with Wuxi policy research office).

In Jiangyin and Yixing counties (Jiangsu province) where reproduction constraint was harder than that of Wuxi prefecture, interviews revealed that almost all TVEs and SOEs had been privatized. Those loss-making SOEs that are not yet privatized underwent a process of emptying. Authorities did not have enough resources to compensate workers and other debtors in case of one-off actions (close down, bankruptcy, privatization), since these SOEs were large-scale and loss-making. The other reason was that many other enterprises with business ties to these enterprises would not have enough time for safe reorientation if these one-off strategies had been implemented. Instead, workers gradually left these enterprises and business activity declined. At a certain stage these SOEs were merged into one but this action did not halt the deterioration process. Similar decline and mergers are taking place in both counties (interview with Yixing county Organization Department).

All surveyed counties and prefectures made efforts to attract resources from the field outside party-state network. But as we have seen from table 11, 12 and 13, success was not unanimous. Cadres in Changzhi and Ya'an and the surveyed counties within them believed that foreign investors had little interest in doing business in their regions due to the disadvantageous geographic position and the lack of tradition of international engagement. Practically no FDI was present in 2002.

Opposite to Ya'an and Changzhi, Wuxi is one of the favourite regions of the FDI⁹⁷. Both in Wuxi prefecture, and Jiangyin and Yixing counties within it, great efforts had been made in promoting FDI. And due to its geographic position on coastal line, its industrial and commercial traditions, these efforts paid off. The capacity of attracting FDI, however, differed even within Wuxi. Usually, Jiangyin county attracted much more than

⁹⁷ Statistics show that, in 2000, among the 31 provinces, Jiangsu province attracted one sixth of the total FDI in China. And among the 13 prefectures in Jiangsu province, Wuxi prefecture attracted more than one fifth of the total FDI in the province. (China statistical yearbook 2001, p.607; Wuxi statistical yearbook, electronic version).

Yixing county did. In 2001, about one third of total FDI was located in Jiangyin county, and only about 7 percent in Yixing county.

From the analysis, it seems that where alternative resources emerged and also extracting capacity was high (Wuxi) only decentralization of the nomenklatura occurred and privatization of mid-and large SOEs was yet to be an issue, partly because middle and large SOEs were profitable, partly because prefecture had enough resources to “pacify” workers at loss-making enterprises of large scale. Meanwhile, loss-making small SOEs were privatised. Where transfers from above were possible (Shanxi, political subsidies, state bond project, increase in coal prices), selective withdrawal of the nomenklatura occurred and several failed actions of privatization took place. Where no resources from above and no extraction and no alternative resources emerged and there was low chance for resource extraction from below (Sichuan and the surveyed counties), SOE privatization occurred fast. Similar procedure took place in case of the TVEs at township level in Yixing and Jiangyin counties, where many of the burdens were decentralized⁹⁸ to townships. In these two counties TVEs played a decisive role in early 1990s (about 80 percent of the industrial production) and inefficiency could not be afforded.

Different sequence and timing: Though all surveyed authorities implemented – or at least tried to do so – instruments to centralize revenues, decentralize expenditures, decentralize decision making power, decentralizing nomenklatura, merging SOEs, merging governmental organizations, privatizing TVEs, privatizing SOEs, and so on, different localities implemented these measures in different sequence and timing.

Jiangyin and Yixing counties in Wuxi (Jiangsu province) first privatized TVEs and SOEs and later on, in late 1990s and early 2000s, they made successful efforts of centralizing revenues from townships . This centralization was done in 2000, parallel to township mergers as further

⁹⁸ According to interviewees, decisions to privatise TVEs were much easier than in case of SOEs. TVEs had few links (township party, government, financial department). Moreover, these few links—with few exceptions—could hardly reach prefecture level. SOEs however were deeply submerged in the network, embraced by large quantity of links (labor ministry, social security, housing ministry, banks, party, government, youth League, women association, trade union, planning commission, ETC, financial department, taxation office, etc). Moreover, SOEs were frequently fed back to higher levels within the net.

steps to siphon away resources. Privatization of TVEs and SOEs in these two counties was carried out in different periods. Privatization of TVEs was much earlier in Yixing county (began in late 1993, high tide in 1994 and 1995) than in Jiangyin county (began in late 1996, high tide in 1997 and 1998).

Early privatization of TVEs in first part of 1990s was taken as ideologically incorrect. Therefore township and county authorities' efforts in privatization encountered strong opposition from higher, mainly at provincial level. Nevertheless, pressure from above on different counties to delay privatization of TVEs differed and so did different counties' capability of handling problems caused by loss-making TVEs. Both factors strongly influenced the timing of the privatization.

Since opposite to Jiangyin, Yixing was not a geographically and politically focal point, these two counties' and their superior Wuxi prefecture's inexplicit strategy was to let Yixing county do privatization without publicizing the events, but to shift some resources to Jiangyin county to help to delay the privatization. This practice prevailed until official ideology on this issue changed in 1996 and especially in 1997 after the 15th party congress. (interviews with Wuxi rural issue working committee, Jiangyin leaders group on enterprise reform, and Jiangyin planning commission).

In Yixing county TVE privatization was done at one stroke in 1994 and 1995, while in Jiangyin TVE privatization process was scattered in time. Jiangyin's first wave of privatization took place in 1997 and 1998. The second wave occurred in 2000 and 2001. This period was the turn of large scale TVEs that were not privatized or only partially privatized in 1998. According to interviewees, the reason for not privatizing large scale TVEs in late 1990s was that private sector was not large enough to take them over.

In Yucheng county and Mingshan county within Ya'an prefecture (Sichuan province) TVE development was slower, limited in scale and had not developed as important as those in Jiangyin county and Yixing county within Jiangsu province. High tide of TVE creation evolved later and they began to make losses also much later. When this period arrived, problems caused by TVEs were by far less subversive than those in the two surveyed counties in Jiangsu province.

On the other hand, in these two surveyed counties in Sichuan province, most SOEs began to make losses by mid 1990s. In Yucheng county, losses developed after Ya'an prefecture siphoned-away a group of relatively large

scale profitable SOEs from the county in 1993. The county quickly found it difficult to afford to bail-out remaining loss-making SOEs.

Four years later, when two other counties in Sichuan and a very few counties in other provinces made pilot privatization of SOEs, leaders group on enterprise reform in Yucheng county was formed to privatize SOEs. In 1997 and 1998, Yucheng county made a successful and leading effort in privatizing SOEs. By the end of 2000, according to cadres at Yucheng county all SOEs had been privatized (Yucheng Planning Commission and leaders group on enterprise reform). Mingshan county implemented similar privatization to Yucheng in 1999. By the end of 2002, only two profitable SOEs were still run by the county authority.

The privatization of SOEs, was followed soon by the privatization of TVEs in these two counties. According to Ya'an prefecture TVE administration, majority of TVEs were privatized in 1999 and 2000. In these two counties SOEs were the dominant source of revenues. Problems and burdens caused by them may have caused harder reproduction constraints than TVEs for townships in these counties. This sequence and timing is very much different from that in Jiangyin and Yixing counties and different from that in Changzhi and Wuxiang counties where privatization of SOEs usually came after or at least parallel to TVE privatization⁹⁹. In Changzhi and Wuxiang counties within Changzhi prefecture (Shanxi province) compared to the other surveyed counties both SOE privatization and TVE privatization were very much delayed. While in Jiangyin and Yixing counties (Jiangsu province) TVEs began to decline in early 1990s and in mid 1990s in Yucheng and Mingshan counties (Sichuan province), in Wuxiang TVEs began to decline only in 1999 after a high tide of development in 1997 and 1998 (interview with Wuxiang TVE administration). It is not clear when TVEs began to decline in Changzhi county. We did not directly find reasons for the delayed development and decline of TVEs in these two counties. We assume that it was partly

⁹⁹ This fact does not mean that TVEs become earlier loss-making than SOEs. Time-sequence may be due to the differences in the hardness of reproduction constraints. TVEs were usually subordinated to townships and villages, while SOEs' last subordination level is usually the county. It may occur that SOEs become loss-making earlier than TVEs and losses are much larger than those of TVEs, but usually townships encounter harder reproduction constraints earlier than counties do. This will lead them to get rid of burdens earlier than higher levels do. On the other hand, if particular TVEs are efficient sources of extraction, privatisation will not occur.

because most TVEs in this region were engaged in coal mining. This industry might not be as sensitive to market as other industries since free entry in this sector is hindered. Meanwhile, during those high tide years there was a general increase in coal prices.

In terms of intensity of TVE and SOE privatization, significant differences emerged between Changzhi and Wuxiang counties. Privatization in Changzhi county was intensively done while the privatization process in Wuxiang county was stretched out in time. Reasons may be drawn back to leadership change. In Changzhi county, there was a change of leadership in 2000 after the corruption case of former county party secretary was revealed. The new county party secretary's strategy was to privatize most of TVEs and SOEs in about one year – from early 2001 to mid 2002 (interview with county party secretary, ETC and Organization Department). In Wuxiang county, none of the interviewees talked about any clear-cut privatization strategy. According to them the latest effort in privatizing TVEs and SOEs was in 2002 with limited success. This was the third round of making efforts in privatisation, preceded by two failed rounds in 1998 and 2000. (interview with Wuxiang ETC, Wuxiang TVE administration).

At prefecture level, sequence and timing of implementation of reform measures were different from those at county level. Moreover, the three surveyed prefectures differed from each other as well.

In general, except for Ya'an, the surveyed prefectures did not make as much privatization as county level did. Instead, prefecture level took several measures of resource extraction and expenditure decentralization: further extracted revenues, decentralized expenditures, decentralized decision making, decentralized nomenklatura, centralized efficient enterprises and so on. This means that surveyed higher levels had more varied facilities to acquire resources and get rid of burdens than lower levels had, prior getting definitely rid of liabilities and withdrawing party and state dependency threads. Privatization was not only less frequent but it was also much later implemented. This fact also underlines our supposition that privatization is spreading upwards in time and size.

For example, as shown above, Wuxi prefecture (Jiangsu province) in 2000 extracted further revenues from lower levels, in 1996 decentralized nomenklatura responsibility over some large scale SOEs from the Organization Department of the prefecture party committee to the party committees within prefecture level line ministries, and in some years decentralized loss-making SOEs to counties. Meanwhile, gradually increased decision making power in SOEs (interview with Wuxi policy

research office of the party). All these efforts did not end up loss-making. In 2001, Wuxi prefecture authority began to privatize small scale loss-making SOEs subordinated to it. Compared to privatization in Jiangyin county and Yixing county, privatization of SOEs subordinated to the prefecture was delayed for at least three years.

Changzhi prefecture (Shanxi province) did not begin to make privatization until 2002. As we have mentioned before, many SOEs subordinated to the prefecture had been running part time for years, while making losses. They could operate only a few months or even weeks in a year. Some of them stopped running for years. However, prefecture leadership still wanted to keep them so that they could get resources from them in case it was needed. For example, the cost of their travelling to Western countries in the name of studying Western experience and attracting FDI. Workers also wanted to keep them. They feared that privatization would make them lose salaries, pension, health care, and other benefits. Some workers in Changzhi prefecture demonstrated, asking prefecture authority to bail-out their loss-making SOEs so that they could at least get part of their benefits. However, the prefecture authority could hardly do anything, because they simply did not have resources. After years of hopeless protest, demonstration, and demands, some workers began to accept the idea that they could not survive through SOEs and began to engage in private sector through one way or the other (interview with Changzhi prefecture ETC) (also see section Difference in the kind and intensity of implementation of resource acquisition measures).

Ya'an prefecture authority implemented the most radical reform measures compared to the other two surveyed prefectures. It encountered hardening reproduction constraints earlier than the other two prefectures. More SOEs were making losses, Sichuan province extracted more revenues from the prefecture, had less transfers from above and less chance to extract from lower levels. Prior to privatization, beginning in 1999, prefecture authority also made efforts to siphon away revenues and decentralize expenditures, nomenklatura, and decisions. As shown before, some expenditures were decentralized to counties; some revenues were siphoned-away to the prefecture with the change of prefecture authority from a transmitting belt to a concrete level of authority (Ya'an Finance Bureau, Yucheng Construction Commission). Organization Department decentralized nomenklatura over a few SOEs to ETC. Some decision making power had also been decentralized to SOEs. Nevertheless, SOEs were still problematic and sources of trouble to the prefecture authority. By the end of 1998, Leaders Group on Enterprise Reform was formed at the prefecture level. In

1999 and especially in 2000, most of SOEs subordinated to prefecture level in Ya'an were privatized.

Differences in the consequences on the transformation of the party-state network

Different extent of reproduction constraint, different kind, intensity, sequence, and timing of implementation of reform measures resulted in different consequences on the transformation of the net in the surveyed counties and prefectures. Differences in the transformation emerge however among different levels and among units of one level.

Differences between prefecture and county levels: According to statistics, absolute and relative shrinkage of the net at surveyed counties seems much more radical than at higher levels. However we should be cautious how to draw conclusions from aggregated numbers that do not specify results according to enterprise subordination. Without this concern, we easily could misjudge the tendencies of transformation of the net at different levels. For example, not mentioning statistical comparative constraints, if aggregated prefecture level results show the decrease in the number of and employment in SOEs, that does not necessarily mean that number and employment in SOEs subordinated to prefecture level has also decreased, shrinking the net at that level. Yet, despite the above data, theoretically the net may even expand at prefecture level.

According to Appendix 6 and 7, within the surveyed prefectures an overall decline in the number of and employment in SOEs and TVEs was experienced, parallel to the growth in the number and industrial contribution of private enterprises. At this aggregation, the absolute and relative shrinkage of the net was somewhat slower than in our surveyed counties subordinated to them, but the difference in the rates among these latter was much more extreme. Surveyed prefectures show characteristic differences in the contribution of different ownership sectors to the industrial production.

Based on the above, aggregated numbers in general show the relative withdrawal of the aggregated net. Absolute withdrawal of the net is suggested from the aggregated number of and employment in SOEs and TVEs. From these numbers however we can only suppose that in fact, the net has shrunk at levels where these economic units were subordinated.

According to the numbers, Wuxi as an aggregated unit seems to go under the most radical transformation of the net. However, interviews reveal that this dynamics is very differentiated according to levels, used measures,

sequence and timing of the implementation. The net at Wuxi prefecture level did not really change, only small SOEs were privatized¹⁰⁰ in consequence of its soft reproduction constraint due to its capacity to decentralize burdens to and siphon away revenues and revenue sources from lower levels and large SOEs. Instead, decentralization and relative shrinkage seemed to dominate the transformation of the net at this level. The net was restructured at prefecture level by narrowing the number of those enterprises that were fed back. Nomenklatura of the leaders of less meaningful enterprises were transferred (decentralized) from prefecture Organization Department to PC-s at government authorities within the prefecture. Relative shrinkage and emptying or withdrawing the net at this level took place through the attraction of resources from outside the net to SOEs subordinated to prefecture level¹⁰¹.

As opposed to Wuxi prefecture level, transformation of the net was much more radical at surveyed county and township levels. Even among those, meaningful differences may be tracked according to timing of the changes. Since first the TVEs that gave overwhelming part of industrial production were privatized in large numbers. The net shrunk absolutely first at Yixing that was less fed back, therefore out of the sight of higher level authorities and later at coastal Jiangyin. First small, than larger TVEs were at stake. In Yixing privatization of TVEs took place at one stroke, in Yiangyin was scattered in time.

Privatization of TVEs not only ceased township burdens but also decreased counties' capacity to further decentralize burdens and siphon away resources from townships. After TVEs also SOEs at county level were privatized. Meanwhile, the share of domestic and foreign capital increased dramatically in both counties. These changes brought about the radical

¹⁰⁰ Privatization was not the option partly because these SOEs are usually very large scale therefore few single private entrepreneur could take over them at one stroke. Moreover, these SOEs are still resourceful and prefecture authority do not want to lose them.

¹⁰¹ Prefecture authority is aware of the fact that SOEs performance declines in consequence of the competition with domestic and foreign private sector. Therefore, to keep some possibility of resource extraction, the so far solution was to involve private sector and "dilute the state's share". Authorities attracted FDI in order to decrease the share of state assets to "desirable level" and compensate market competition of foreign enterprises (interview with leaders group on enterprise reform of Wuxi prefecture).

absolute and relative shrinkage of the net at surveyed counties. Among them the network in Yixing shrunk to a minimal size.

SOEs and TVEs in Ya'an prefecture, as a whole aggregation had relatively high, but lower role in the industrial production compared to those in Wuxi prefecture, relative to private enterprises. This suggests that at this field the net was less expanded in Ya'an than in Wuxi's case in 1994. Changes therefore, though also quite radical in Ya'an as a whole, did not reach the size of that in Wuxi. This may be confirmed in the differences in the decrease in the number of and employment in SOEs and TVEs in Ya'an as a whole compared to Wuxi as a whole and the similar dynamics in the growth of private sector.

Meanwhile, according to interviews, at prefecture (non-aggregated level) the absolute shrinkage of the net was the most radical in Ya'an among the three surveyed prefectures.

Transformation of Ya'an prefecture as a whole seem to be less radical than that of Wuxi. Here we also find large differences in dynamics at different levels and at units on the same level in the transformation of the net. Ya'an prefecture level did not have the chance to decentralize burdens to lower levels, did not get resources from above and could not extract further resources from below. According to interviews most SOEs subordinated to prefecture level have been privatized and prefecture party-state network in Ya'an was largely withdrawn from economic field. The net at prefecture level shrunk absolutely to its minimum.

Counties in Ya'an were poor, and so were townships. Counties could not decentralize burdens towards townships. Privatization of SOEs and TVEs occurred soon at one stroke. Counties in Ya'an prefecture encountered even harder reproduction constraint than the prefecture level. And the net at counties also shrank to its minimum absolutely and relatively. The difference between county level and prefecture level in Ya'an had been much less than that in the other two surveyed prefectures.

As a whole aggregation, Changzhi prefecture seems to show the least dynamism in the transformation of the net. Interestingly, the share of private enterprises decreased (unfortunately, lacking data, we do not know if this was due to the decrease in the number of and employment in private enterprises within the province). What we can see however, is that number of SOES and employment in SOEs and TVEs has declined. This may suggest both the absolute and relative shrinkage of the net at aggregated level.

Interviews revealed that dynamics was even slower at Changzhi prefecture (non-aggregated) level. Here none of the interviews revealed any clear case of SOE privatization. According to interviewees, privatization is being done but they could not give any example of completed action. Burdens could not be decentralized in consequence of resistance, and the siphoning away of resources also failed. Despite of these circumstances, dynamics was low at prefecture level. Strategy was to withdraw nomenklatura over a few heavily loss-making SOEs. Interviewees also detailed the events of desperate SOE workers leaving SOEs to engage in private sector. We assume that the net at prefecture level in Changzhi is undergoing a slow net restructuring through decentralization and a process of absolute shrinkage through the emptying of the net.

Counties in Changzhi prefecture also could neither extract resources from nor decentralize burdens to townships. Due to the fact that in eras before 1990s, prefecture level had got larger and better SOEs than counties did, state sector at the counties had encountered problems earlier and severer than prefecture level did. These earlier and severer problems led counties to make reforms to get rid of the burdens earlier than prefecture did too. At both counties, interviewees reported clear strategy and achievement of privatising SOEs and TVEs, while at prefecture level no such picture was revealed.

Differences in the transformation of the net among surveyed counties: Table 14, and 15 show the change in number of each type of enterprise, employment in each sector between 1994 (93) and 2001 (00) at each surveyed counties. Based on these data, together with table13 that showed each sector's contribution to industrial production, the combination of relative and absolute shrinkage of the party-state may be suggested. The common feature is that shrinkage of the net in 1990s in terms of decrease of the number of enterprises, employment, and SOE and TVE contribution to industrial production (with the exception of Changzhi county) had all been dramatic. The difference is that some were more dramatic than others. And this difference coincides with the difference in hardness of reproduction constraint. For example, shrinkage of net at Yucheng county (Sichuan), Mingshan county (Sichuan), and Yixing county (Jiangsu) were more dramatic than other surveyed places. Meanwhile, reproduction constraint in these counties happened to be harder than those in other surveyed places (see section Difference in the growth of hardening reproduction constraint).

Table 15. Number of enterprises at county level according to ownership in 1994 and 2000

		1994 (93)	2000 (01)	Difference	Rate
Changzhi county	SOEs	19	17	-2	89.5
	Collective	511	—	—	—
	Pes	1102	—	—	—
Wuxiang county	SOEs	24	12	-12	50.0
	Collective	625	—	—	—
	Pes	712	—	—	—
Jiangyin county	SOEs	92	13	-79	14.1
	Collective	3288	969	-2319	29.5
	Pes	4949	9476	4527	191.5
Yixing county	SOEs	24	19	-5	79.1
	Collective	625	183	-442	29.2
	Pes	712	4845	4133	680.5
Yucheng county	SOEs	42	10	-32	23.8
	Collective	387	108	-279	27.9
	Pes	2336	6375	4039	272.9
Mingshan county	SOEs	29	14 /00	-15	48.3
	Collective	640	222 /00	-418	34.7
	Pes	2371	1816 /00	-555	76.4

Source: *Changzhi Prefecture Statistical Yearbook: 1995*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995, p.138, 146, 147; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002 p.138; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.133, 135; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.56; *Ya'an Statistical Yearbook: 2001*, edited and published by Ya'an prefecture statistic bureau, 2001, p.93.

Table 16. Employment in enterprises at county level according to ownership in 1994 and 2000

		1994 (93)	2000 (01)	Difference	Rate
Changzhi county	State unit	14,049	12,195	-1584	86.8
	Collective	7,518	1,334	-6184	17.7
Wuxiang county	State unit	11,493	7,842	-3651	68.23
	Collective	3,101	1,719	-1382	55.43
Jiangyin county	State unit	53,457	46,247	-7210	86.51
	Collective	47,004	14,001	-33003	29.79
Yixing county	State unit	68,411	36,691	-31720	53.63
	Collective	33,601	6,453	-27148	19.2
Yucheng county	State unit	51,900	37,200	-14700	71.68
	Collective	6,900	5,600	-1300	81.16
Mingshan county	State unit	11,600	9,000	-2600	77.59
	Collective	2,100	900	-1200	48.26

Source: *Changzhi Prefecture Statistical Yearbook: 1995*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995, p.332, 340; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002 p.412, 420; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.55; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.112; *Ya'an Statistical Yearbook: 2001*, edited and published by Ya'an prefecture statistic bureau, 2001, p.144.

Absolute shrinkage went parallel to relative shrinkage of the net in all counties. We can see from *Table 14* that private enterprise's share in industrial production increased in all surveyed counties. This increase that suggests the relative shrinkage of the net was partly due to the absolute decrease of the role of enterprises belonging to the net and partly to the absolute increase of the number of private enterprises. Unfortunately we do not have county level data in Changzhi prefecture (Shanxi) for 2000 on the number of collective and private enterprises. Comparing the surveyed counties in Jiangsu and Sichuan provinces we can see that in Mingshan, relative shrinkage of the net was overwhelmingly due to its absolute shrinkage, since also the number of private enterprises decreased, but that of collectives and SOEs decreased even faster. The other extreme is Yixing,

where the number of private enterprises increased almost seven folds while employment within the net declined the most. Since SOE privatization was more stretched out and delayed than TVE privatization, and emptying and merging seemed to dominate the SOE transformation, employment at SOEs could decline much faster than the decrease of the number of SOEs.

We also see that Yixing was less radical than Jiangyin in decreasing SOEs but presumably more radical in privatizing or closing down mid- and large enterprises (both SOEs and TVEs) since employment declined more in Yixing than in Jiangyin compared to the number of enterprises. Also the domestic private sector increased more radically in Yixing. Shares in industrial production shows that the net in Yixing has practically shrunk to its minimum, since less than 8 percent is contributed by units within the in 2000. Yixing's change was the most radical, since the share of the enterprises belonging to the net was the largest in 1994 (91 percent) and it has dropped to the lowest among all surveyed counties. This change is due to both absolute and relative shrinkage of the net.

At Changzhi county and Wuxiang county, the net had undergone an absolute shrinking in the sense that both number of SOEs and TVEs, and number of employment of SOEs and TVEs declined. At Wuxiang county, both SOEs' and TVEs' contribution to industry production declined much (table 13), showing that the net also relatively shrank fast. At Changzhi county, on the contrary, SOEs' contribution to industry production increased, which was the only case among the 6 surveyed counties. However, the increase rate of SOEs was much less than the decrease rate of TVE's contribution, showing the net had also relatively shrunk, but in a much slower pace. And among the 6 surveyed counties, the net shrank the least in terms of the contribution to industry production by the units within the net.

Interviews at these two counties reveal more radical measures at Changzhi county than at Wuxiang county. It seemed that change of the net at Changzhi county had been in larger intervals. And at each wave of change, it changed dramatically. At Wuxiang county, change of the net had been less dramatic, and more stretched out.

Mingshan's reproduction constraints were the hardest, the net decreased radically but chances for the increase of the field outside the net also declined. The net shrunk absolutely but poor relative shrinkage may be detected.

Compared to Mingshan county, partly due to the fact that the headquarters of prefecture authorities were located at in Yucheng, prefecture level

competed for resources with the county, and extracted more from it. The net at Yucheng county encountered hard reproduction constraint earlier than in Mingshan, and was forced to change dramatically too. However, also due to the same factor of locations, private sector had more access to resourceful business and therefore had more chances to growth. Therefore, in Yucheng county, the net experienced a swift absolute shrinking, and a rather slow relative shrinking.

PART IV

CONCLUSIONS

6. THE CONSEQUENCES OF THE TRANSFORMATION DURING REPRODUCTION

ABSOLUTE AND RELATIVE SHRINKAGE OF THE NET

Reviewing the changes in time, in kind and in space, we can conclude the following concerning the transformation of the net. According to our empirical survey, the transformation of the net varied according to levels and among units of the same level, but all were explicitly strong examples of the self-withdrawing pattern. More concretely, both prefectures and counties were experiencing a relative shrinkage of the party-state network – with the development of private sector (both foreign and domestic). All surveyed units were also undergone a process of absolute shrinkage – with the privatization of TVEs and SOEs and withdrawal of party and state dependency lines.

Surveyed prefecture level, except for Ya'an, underwent a faint absolute shrinkage of the power network. The surveyed prefectures did not make as much privatization as county level did. Prefecture level took several measures of resource extraction and expenditure decentralization. They extracted further revenues, decentralized expenditures, decentralized decision making, decentralized nomenklatura, centralized efficient enterprises and so on. This means that surveyed higher levels had more varied facilities to acquire resources and get rid of burdens than lower levels had, prior getting definitely rid of liabilities and withdrawing party and state dependency threads. Privatization was not only less frequent but it was also much later implemented. This fact also underlines our supposition that privatization and the shrinkage of the net is spreading upwards in time and size. Instead, a process of relative shrinkage, decentralization, withdrawal or emptying of the net took place. This also means that absolute shrinkage of the net is occurring earlier at lower levels than at higher ones.

Moreover, even among those at higher levels, those shrink earlier absolutely where reproduction constraints are harder.

Counties at surveyed prefectures in general had harder reproduction constraints than prefecture level had and in general it occurred earlier. Surveyed counties, except those within Wuxi could not decentralize burdens to lower levels and siphon away revenues or revenue targets to soften reproduction constraints. Absolute shrinkage of the net took place in all of them, since privatization of TVEs and SOEs was carried out without exception, only sequence and pace, timing, methods and the extent of the shrinkage are different. Also the relative shrinkage may be traced at all of them. Variations emerged in the extent of growth of the private sector, its infiltration in the net and according to the counties' capacity of attracting either domestic and/or foreign capital.

Concerning the changes of elements of the net behind the relative and absolute shrinkage, vertical dependency lines within the state sphere of the net became scarcer (merger of supervising organizations) and have shrunk radically. Shrinking took place by cutting functions, resources and discretion and cutting off targets from functions. These developments occurred not only at county, but higher and lower levels too. Retained tasks and functions of the remaining organizations became decentralized along the levels of hierarchy and authorities became less interventionist and with decreased power lacking distribution potential¹⁰².

Interlinking threads of the party towards enterprises and state bureaucracy became also radically scarcer. This happened indirectly because enterprises were detached from state subordination or state organizations were merged, or decentralized or centralized from the given level. It happened also directly, since many were interlinking threads to economic units were withdrawn or cut (e.g. privatization, mergers, centralized, decentralized, closed down). Those remaining became weaker (eg. at joint ventures or

¹⁰² The change was mainly on issuing permissions. Some of the permission issuing had disappeared, like distribution of materials and productive means. Coordination on these issues was substituted by market. Change in this respect was not undergoing at one stroke. It was a gradual process. Planning commission gradually withdrew from this field. Another change was that some permission issuing was decentralized to other bureaus. For example, some permission issuing on urban construction was decentralized to construction commission. (Wuxi prefecture Planning commission).

share-holding companies) and emptied (e.g. those attached to state organizations without effective distributive function).

Remaining direct interlinking threads to economy have been differentiated. Some cross-hierarchy (from state-owned economy to party hierarchy) feedbacks disappeared, their nomenklatura was decentralized, thereby the circle of those fed back was narrowed. Selection of decentralization was according to usual criteria: size and resourcefulness. Larger SOEs were transferred to the LEWC, smaller ones to Organization Department or to PCs located at ministries. Some transfer of nomenklatura responsibility also occurred, according to the higher level's capacity to siphon away efficient economic units.

New party and party-state organizations emerged under which authorities concentrated first the nomenklatura and subordination and then allocation of potential resources: first EWC was formed under the party, then EWC merged with ETC and planning sections. Other organizations emerged (leaders group on enterprise reforms and TVE reform) for implementing the self-withdrawal: detach SOEs and TVEs from interlinking threads through privatization and deciding on privatization. Traditional party organizations (County Party Organization Department) are engaged in leading self-withdrawal at township and county levels by organizing county and township semi-free elections and free elections at village level.

Remaining party linkages to the state and remaining SOEs and TVEs – even if strongly bound – are attached to a weakening state in its capacity of extraction and distribution within the net and therefore, less activity through it. Many of the remaining direct links to economy turned to be liabilities instead of assets (those attached to loss-making enterprises).

CHANGING RELATIONSHIP AMONG DECISION-MAKERS WITHIN AND OUTSIDE THE NET

In consequence of the hardening reproduction constraints within the net, the absolute and relative shrinkage of the net, the emptying of the rigid structures, the decreasing resources to extract and distribute within the net and the emerged alternative resources outside of it substantially changed and continues to change dependency and interest promotion of actors within and outside the net. While in the remaining net principles of connection of party-state elements remain unchanged, characteristics that define the principles of operation of the party-state are vanishing: dependencies, interest promotion and extraction and distribution of resources are not any more monopolized. Empirical evidence suggests that changed operat-

ing conditions gradually transform the relationship among the actors, both among those within the net and with those outside the net.

Changing relationship between state and enterprises: a) privatized enterprises have restricted contact with authorities with declined power¹⁰³ (Changzhi county ETC), monopolized power vanished together with monopolized responsibility: workers' grievances and expectations are not only addressed to the authorities but the private owner b) The change of the function and the decline of resources of the Planning and Economic Commission enterprises began not to obey instructions¹⁰⁴ with increasing frequency (Yucheng county ETC).

Changing relationship between party authority and enterprises: a) less responsibility after privatization, while self-reproduction and social stability is manageable through the further improvement of the private¹⁰⁵ b) less possibility for economic and political intervention for the party in economic management affairs both in share-holding or rented or contracted out enterprises (Changzhi county Organization Department, Wuxiang county Organization Department), c) less capacity for the party to mediate resource distribution through resource-less state, consequently, less reasons for eco-

¹⁰³After the enterprise reform and organization restructuring, our supervision on enterprises had been largely simplified (weakened). We had already lost the power over business decisions in enterprises. We finally lost the power over personnel in enterprises. We now only call representatives for the enterprises to attend meetings that disseminate policy, intents, suggestions or instructions of the authorities (Changzhi county ETC)

¹⁰⁴Permission issuing (approval granting) is needed from the point of view of the existence of a governmental bureau. From our experience, if a governmental bureau was deprived of all (did not have any) administrative power and/or control over permissions, it would soon shrink (decline) greatly. It is of no use that it wanted to actively provide service to enterprises and society. People just did not care (Wuxi prefecture Planning commission).

¹⁰⁵Before privatization, when enterprises were in bad performance, people came to require authorities for solution, authorities were held responsible and heavily pressured; after the reform, authorities had little to do with economy. Only when unemployment was high would government pay attention to it. And the solution was and will be nothing else than further promoting the development of private sector. Only if economy is in development could social stability (one of the top priorities for the authorities) be kept (Jiangyin leaders group on enterprise reform).

conomic management to comply with the party's instructions¹⁰⁶. *d*) more capacity to attract alternative resource from outside the net decrease dependence from party mediation *e*) increased capacity to flee and/or empty the net or buy out and decreased attraction of party career decreases the interests and willingness of those embraced by the nomen-klatura threads to comply for the sake of individual and organizational interest *f*) decreased capacity of the members of the party apparatus to enter the economic sphere bring about more willingness to compromise with economic management *g*) assets that became liabilities (subjects for mass demonstration against the party instead of mass mobilization for the party) incite the party to withdraw.

Changing relationship between party and state: On the one hand, despite the strong remaining bonds between party and state, we experienced more conflict, less adaptation, more frequent denial of party's orders or expectations by state authorities. Weakened state as distributor acquires this capacity to resist partly due to the development of alternative legitimacy: that of state leaders as winners of multi-candidate semi-free elections at village and township level (*Lai, 2003*), moreover at a few but growing cases at People's Congress at county level. In consequence of the development of an alternative field for existential mobility (private sector), Party career is not any more so attractive. On the other hand, hardening reproduction constraints and assets turning into liabilities incite the party (and the state) to redistribute responsibilities and power for the sake of social stability, getting rid of burdens and easing the extraction of new resources by re-acquiring the compliance of local population. We suggest that just as reproduction constraints are likely spreading upwards, so will these actions spread within the net, providing one way of its absolute shrinkage both at state and party dependency lines. Lower level government leaders acquire more legitimacy through semi-free elections. Party seems to compete for legitimacy acquired by governors at lower levels. At village level only those may be party leaders at local level who won direct elections as governor. Moreover, some cases of direct elections for party secretary at village level and in few cases at township level also occurred.

¹⁰⁶ In reformed SOEs and TVEs, and private enterprises, it is very hard for Organization Department to intervene to handle party affairs. If party secretaries at *particular enterprises do not support the management, the management would lay-off the secretaries (Organization depart at Changzhi county).*

Changing relationship between party-state authority and private entities: on the one hand, hardening reproduction constraints, and drive to get rid of burdens and ease competition pressure within the net, the stripping off the state assets, on the other hand the emergence and increase of alternative resources outside the net, incited the invitation of domestic and foreign private capital into the net.

Hardening reproduction constraints and pressures from below and spreading upwards and from agriculture to industry gradually softened economic policy and ideology in relationship to market and private capital. Though domestic private enterprises are still suffering from biased credit policy, local authorities are increasingly friendly towards private entrepreneurs and do their best to attract FDI. Local private entrepreneurs play focal role in local social life, authorities try to suck them into the network and offer them crucial positions in economic policy management. At central level economic policy gradually conceded to the pressure of letting go first the small, than middle and presently large SOEs. Private capital is allowed to enter loss-making enterprises, share in the debt to equity project, to enter the money market, in B shares, in insurance, in banking, and lately in buying shares in the largest – most fed back–enterprises under central subordination. Entering the WTO requires the liberalization of regulations, lifting former barriers to FDI inflow, the introduction of the rule of law, etc.

Changed relationship between party-state and the society: the transformation of the net changes the relationship between party-state and the population. Gradually, and in a scattered manner – where the net was withdrawn, emptied or weakened – spots of civil society are emerging in consequence of hardening reproduction constraints. Examples for this are the direct elections at village level, semi-free elections on township and county level, where peasants and other citizens become electors in government leadership and party and consequently, the emergence of legitimate leaders; the formation of horizontal links (groups) in growing grievances and siege, mass demonstration of fired workers or unemployed in consequence of close-downs; strikes of those long-lastingly unpaid; workers becoming electors in enterprises from where authorities have withdrawn; workers becoming share-holders in enterprises that authorities had privatised. Partly due to the weakening of power within the net, partly to growing social pressure and non-compliance, efforts were made to enforce rule of law. Information channels multiplied and more foreign pressure was encountered for openness, in consequence of multiplying

information channels. Criteria of officials' selection have changed and more and more corruption cases are revealed.

SHIFTING RATIONALITY FROM POLITICAL TO ECONOMIC?

It seems that a specific shift in rationality is taking place within the net in consequence of the hardening reproduction constraint. Besides narrowing the circle of those selected, getting rid (decentralization, close-down, share-holding, from smaller to larger ones and from lower to higher levels), political measures and power serves to siphoning away and feeding back those large-scale that are resourceful. Resourcefulness may and may not mean efficiency. This dynamics suggests that former politically rational selection criteria in conditions of soft reproduction constraints is becoming more differentiated in hardening reproduction constraints and in the presence and pressure of growing field outside the net. Selection criteria from the point of view of distribution seems still politically rational, pressure exerted on banks for loans by authorities are politically rational. Meanwhile extraction criteria are indirectly becoming economically rational. The reason of this latter is that despite the criteria remains the resourcefulness for more resource extraction, and therefore, on the short term, larger annual production may be more important than larger profit¹⁰⁷. However, on the long-term, those enterprises will remain economically resourceful in the shrinking net and hardening reproduction constraints within it, who are able to adapt and compete with the field outside the net¹⁰⁸. Therefore, selection criteria for the sake of more extraction within the net may shift in the long-run. a) banks are giving loans to large enterprises for profitable projects for their own sake and in view of growing competition by entering the WTO (Ya'an bank) b) Organization Department politically awarding position to those with good performance and decentralizing those to Industrial Bureaus with declining performance¹⁰⁹. However, these latter signs (banks, politically awarding)

¹⁰⁷ Rebated VAT tax in volume is much more important than corporate income tax.

¹⁰⁸ SOEs were encouraged by local authorities to make investments as they possibly could. Due to the increased economic activity, local finance did benefit from it for a short time. However, since these economic activities were not profitable and therefore self-sustaining, these SOEs declined sharply as soon as resources were exhausted in late 1990s.

¹⁰⁹ Before 1996, 147 enterprise nomenclatura was kept in Organization Bureau. After 1996 only 52 enterprises were kept, those with large scale and good performance.

remain either a kind of will or are selectively implemented. Giving loans to profitable projects have been advocated for decades, but no substantial success in this respect was achieved. It turned out that those projects that got loans were loss making ones. Bad loans are still accumulated by banks, though great efforts and political pressures were put to decrease them. Authorities wanted to keep large SOEs with good performance. But bad ones resisted and some of them managed to be merged into good ones. Especially successful were those large ones with bad performance, since they could still menace authorities. Therefore, though there is a will to change according to economic rationality, the system (and particular authorities) just could not achieve it, or could only achieve it partially, faintly, or delayed. Therefore it could not prevent the state sector, the links, the dependency from declining.

Concluding the above the empirical research on the transformation of the net at prefecture and county levels has proved that the model may be used as an instrument for empirical analysis. It has also proved that the dynamics of self-withdrawing pattern may be verified both at prefecture and county levels. Also differences in extent of self-withdrawal in different aggregations and in different units of one aggregation level may be traced.

The relative and absolute shrinking of the party-state's net, its accelerating disintegration, and the growing extent of activities outside its influence and changing relationships among the actors within the net and those within and outside of it point to the characteristics of the self-withdrawing pattern: disintegration, parallel to transformation.

All these dynamics were traced from the point of view of the authorities, since interviews did not include the views of one major actor in this disintegration and transformation process: that of the economic units linked to the net. In order to acquire a more comprehensive picture, one should also reveal the how do economic units in different bargaining position within the net react to the transformation of the net and the growth of the field outside the net.

APPENDIX

APPENDIX 1

Current Revenue Assignments between the Central and Provincial Governments

But even the number of these may change. Not all of those 52 SOEs were for sure to be appointed by Organization Department. If the performance of an enterprise declined, it would be dropped out of this panel. If an enterprise previously outside this panel developed to an enterprise whose scale is large enough and which was with good performance, it could be promoted into the panel (Wuxi policy research office).

I. Taxes exclusively assigned to the Central Government

1. Excise taxes
2. Income tax of all central government enterprises
3. Taxes collected from the Ministry of Railroads and from the headquarters of banks and insurance companies
4. Income taxes, sales taxes and royalties from offshore oil activities of foreign companies and joint ventures
5. Energy and transportation fund contribution
6. Seventy percent of the three sales taxes collected from enterprises owned by the Ministry of Industry, the Ministry of Power, SINOPEC (petrochemicals), and the China nonferrous metals companies.
7. All customs duty, VAT and excise taxes on imports
8. Enterprise income tax collected from banks and other financial institutions.

II. Taxes shared between the central and local governments

1. Value-added tax (75 percent central, 25 percent provincial)
2. Natural resource taxes (coal, gas, oil, and other minerals if the enterprises are fully Chinese owned.)
3. Construction tax on the cost of construction of buildings that are outside the plan and financed from retained earnings
4. Salt tax
5. Security and exchange tax (50 percent central, 50 percent provincial)
6. Industrial and commercial tax, and income tax levied on foreign and joint venture enterprises.

III. Taxes exclusively assigned to local governments

1. Income tax and adjustment tax of locally owned state enterprises, collectives, and private enterprises.
2. Business (gross receipts) tax falling on sectors not covered by VAT (transportation and communications, construction, finance and insurance, post and telecommunications, culture and sports, entertainment, hotels and restaurants, and other)
3. Rural market (stall rental) trading tax

4. The urban maintenance and construction tax (a surcharge on the tax liability of enterprises for business tax, consumption tax, and VAT)
5. The urban land use tax
6. Vehicle and vessel utilization tax
7. Thirty percent of the product and VAT revenues collected from enterprises owned by the Ministry of Industry, Ministry of Power, SINOPEC, and the China nonferrous metals companies
8. Individual income tax
9. Value-added tax on land
10. Education surtax
11. Entertainment and slaughter taxes
12. Property tax
13. Surtax on collective enterprises
14. Resources tax
15. Fixed asset investment tax (discontinued in 1999)
16. Fines for delinquent taxes.

Source: Updated from Bahl, R. (1999). *Fiscal Policy in China: Taxation and Intergovernmental Fiscal Relations*. San Francisco: 1990 Institute and the University of Michigan Press. In Wong 2002, p. 51, Table 4.1.

APPENDIX 2

Data collected from different level statistics and their possible homogeneity

LEVELS									
	NATIONAL		PROVINCIAL		PREFECTURE		COUNTY		
INDICATORS		dates		dates		dates		dates	
Number of SOEs	x	1994, 2000	x	1994, 2000	x	94 (93), 01 (00)	x	94 (93), 01 (00)	
Total Employment									
SOEs	x	1994, 2000	x	1994, 2000	x	1994, 2000	x	94, 00 (01)	
Collective E	x	1994, 2000	x	1994, 2000	x	1994, 2000	x	94, 00 (01)	
Private E	x	1994, 2000	x	1994, 2000	x	1994, 2000	x	94, 00 (01)	
Output of SOEs	x	1994, 2000	x	1994, 2000	x	94 (93), 01 (00)	x	94 (93), 01 (00)	
Total profits by SOEs	x	1994, 2000	x	1994, 2000	x	94 (93), 01 (00)	x*	94 (93), 01 (00)	
Total subsidies to SOEs	x	1994, 2000	-		-		-		
Loss-making SOEs	-		-		x	94 (93), 01 (00)	x	94 (93), 01 (00)	
Losses of SOEs	-		-		x	94 (93), 01 (00)	x	94 (93), 01 (00)	
Total investment in fixed assets by ownership									
SOEs	x	1994, 2000	x	1994, 2000	x	94 (93), 01 (00)	x	94 (93), 01 (00)	
Collective	x	1994, 2000	x	1994, 2000	x	94 (93), 01 (00)	x	94 (93), 01 (00)	
Private Es	x	1994, 2000	x	1994, 2000	x**	94 (93), 01 (00)	x***	94 (93), 01 (00)	
Jointly owned	x	1994, 2000	x	1994, 2000	-		-		
Shareholding	x	1994, 2000	x	1994, 2000	-		-		
Foreign funded	x	1994, 2000	x	1994, 2000	-		-		
Overseas Ch.	x	1994, 2000	x	1994, 2000	-		-		
Others	x	1994, 2000	x	1994, 2000	-		-		
Total investment in fixed assets by source of finance									
state budgetary appropriation	x	1994, 2000	-		-				
domestic loans	x	1994, 2000	-		-				
foreign investment	x	1994, 2000	-		-			-	
fundraising and others	x	1994, 2000	-		-		-	-	
Share of enterprises in total industrial output									
SOEs	x	1994, 1999	x	1994, 1997	x	1994, 2000	x	1994, 2000	
Collective E	x	1994, 1999	x	1994, 1997	x	1994, 2000	x	1994, 2000	
Private E	x	1994, 1999	-		x	1994, 2000	x***	1994, 2000	
Share-hold.	x	1994, 1999	-		x	94 (93), 01 (00)	x***	1994, 2000	
Investment in fixed assets of SOEs by source of finance									
state budgetary	x	1994, 2000	-		-		-		

	appropriation							
	domestic loans	x	1994, 2000	-		-		-
	foreign investment	x	1994, 2000	-		-		-
	Fundraising	x	1994, 2000	-		-		-
	Others	x	1994, 2000	-		-		-
Capital construction investment of SOEs by source and administrative relationship								
	state budgetary appropriation	x	1994, 2000	x	1994, 2000	-		-
	domestic loans	x	1994, 2000	x	1994, 2000	-		-
	foreign investment	x	1994, 2000	x	1994, 2000	-		-
	Fundraising	x	1994, 2000	x	1994, 2000	-		-
	Others	x	1994, 2000	x	1994, 2000	-		-
	central projects	x	1994, 2000	x	1994, 2000	-		-
	local projects	x	1994, 2000	x	1994, 2000	-		-
	FDI	x	1994, 2000	x	1994, 2000	x	1993, 2001	-
Investment by administrative subordination (central-local)								
	Value	x	1994, 2000	-		-		-
	Ratio	x	1994, 2000	-		-		-
Government Revenue at central and local level								
	Value	x	1993, 2000	-		-		-
	Ratio	x	1993, 2000	-		-		-
Government expenditure at central and local level								
	Value	x	1993, 2000	-		-		-
	Ratio	x	1993, 2000	-		-		-
	Government revenue by ownership	x	1990, 1995	-		-		-
	Government revenue, expenditure, and balance	x	1994, 2000	x	1995, 2000	x	94 (93), 01 (00)	x 94 (93), 01 (00)
Government revenue by source								
	total re.	x	1994, 2000	-		-		-
	Taxes	x	1994, 2000	-		-		-
	subsidies to loss making	x	1994, 2000	-		-		-
	fundraising for infrastructure	x	1994, 2000	-		-		-
	budget adjustment fund	x	1994, 2000	-		-		-
	extra-charges for education	x	1994, 2000	-		-		-
	Other	x	1994, 2000	-		-		-

Notes: x available; - non-available

* except in Changzhi county and Wuxiang county

** except in Wuxi prefecture

*** except Jiangyin county and Yixing county

**** except in Changzhi and Ya'an prefectures

APPENDIX 3

Table on time and location

Year	Location	Constraint	Reaction	Reproduction constraint	Source
1994	Changzhi prefecture	Exp ↓		Expenditure responsibility on subsidizing SOEs were decentralized from province to the prefecture	Changzhi prefecture finance bureau
	Wuxiang	R↓	Some resources were given to the county by orders from the center	The county was one of the guerilla base for the party in 1940s	Wuxiang party secretary
	Wuxi	R↑	Debts/assets quickly increased from 30% to above 90%	Taxation reform requiring enterprise to pay taxes before pay loans; SOE performance declined	Wuxi ETC
	Jiangyin	D1→	Government withdrew intervention into decision making at enterprises		Jiangyin ETC
	Jiangyin	R↓	County finance was better off	Taxation reform that made them retain more revenues contributed by tax-payers	Jiangyin planning commission

	Jiangyin	D1→	Plans were taken less and less seriously		Jiangyin planning commission
	Yixing	P (D1→D2 →I1→I2 →I3)	Privatization on TVEs began	TVE made losses and Money borrowed from peasants could not be paid, accompanied social uprising	Wuxi agriculture working department
	Ya'an	R↑	Prefecture centralized some profitable SOEs from Yucheng county		Ya'an finance bureau
	Mingshan	D1→	Decreased checks on investment	Resources within net declined, investments were needed to ensure employment and other things	Mingshan planning commission
	The whole country	P (D1→D2 →I1→I2 →I3)	Privatization started	Taxation reform in 1994	Development research center
1995	Changzhi county	I3↑	Granting political ranks to 10 important SOEs	To encourage them to contribute resources to county finance	Changzhi county org dept.
	Changzhi county	P+		Private sector began to grow fast	Changzhi county local taxation bureau

Wuxiang	D1→	Function of planning declined	Plans were no longer compulsory	Wuxiang ETC
Wuxi	R↑		Taxation reform requiring SOEs to pay taxes before paying bank loans; SOE performance plummeted	Wuxi ETC
Wuxi	D1→	Government basically stopped investment into SOEs		Wuxi policy research office
Jiangyin	R→; P+	Attracting FDI accelerated		Jiangyin ETC
Jiangyin	D1→	Function of planning further declined		Jiangyin planning commission
Yixing	P	High tide of privatization on TVEs (in 1995 and 1996)		Wuxi agriculture working department
Ya'an	P+	Dual-track system abolished		Ya'an planning commission
Ya'an	I3→	Political ranks for SOEs abolished	Increase of competition from private sector	Ya'an org dept
Yucheng	D1→	Power of planning declined	Abolishment of the compulsory planning	Yucheng planning commission
Yucheng	P	Leaders group on enterprise reform set up	The need to do privatization	Yucheng LGOER

	Mingshan	P+	Dual-track system abolished		Mingshan planning commission
1996	Changzhi county			TVEs began to decline irreversibly	Changzhi county org dept
	Changzhi county	D2 →	Party activities in SOEs and TVEs decreased		Changzhi county org dept
	Wuxiang	D1→		Planning commission's power over material redistribution was abolished	Wuxiang planning commission
	Wuxi	D2↓	Decentralized a large group of SOEs' nomenklatura to industry bureau PC and/or SOEs PC	Performance of SOEs declined Those with bad performance were decentralized	Wuxi policy research office
	Jiangyin	R→; P+	Attracting FDI accelerated, also see 1995		Jiangyin ETC
	Jiangyin	P	Privatization on TVEs and SOEs began	The decline of enterprise performance	Jiangyin LGOER
	Yixing	P	High tide of privatization on TVEs, also see 1995		Wuxi agriculture working dept
	Ya'an	D2↓	Decentralized nomenklatura over mid-level cadres to SOE PC		Ya'an org dept

	Ya'an	R↑		Fixed subsidies from provincial level abolished	Ya'an finance bureau
	Yucheng	P	Privatization on TVEs and SOEs began and in high tide		Yucheng LGOER
1997	Shanxi	P	Privatization began and stopped (1999)		Shanxi org dept
	Changzhi prefecture	D1→	Intervention into SOEs decreased		Changzhi prefecture ETC
	Changzhi prefecture	D2↓	Decentralized nomenklatura over SOEs	SOE performance declined dramatically	Changzhi prefecture org dept
	Wuxiang	R→	The peak of TVE development (also in 1998)		Wuxiang TVE
	Wuxi	D1→; P+	Enterprises were easier to get permissions from ETC	Local authorities strived for investment	Wuxi ETC
	Wuxi		Economic growth slow down	Asia financial crisis	Wuxi planning commission
	Wuxi	D1→	SOEs transformed into share-holding companies with most shares by the State		Wuxi planning commission

	Jiangyin	P	High tide of privatization	SOEs and TVEs performance plummeted due to competition from private sector	Jiangyin LGOER
	Ya'an	P	Privatization began		Ya'an ETC
	Mingshan	D1→; D2→	Authorities stop to make appointments on SOEs		Mingshan org dept
	Across the country			1997 Asia financial crisis; Bank loans selection stricter	Development research center
1998	Changzhi county	D1↑; Exp↑	County centralized the responsibility of paying teachers	Less and less resources at township for covering this expenditure	Changzhi county finance
	Wuxiang	R↑; Exp↑	Centralized revenues and expenditures from townships	Lack of resources at townships to cover basic expenditures	Wuxiang finance bureau
	Wuxiang	R→	Peak of TVEs		Wuxiang TVE
	Wuxiang	D1→	Function of planning further declined	Plans on industrial products and grains were abolished	Wuxiang planning commission

Jiangsu	D1→	Enterprise working committee was formed; Campaign of detaching enterprises from governments		Jiangsu EWC
Wuxi			A last small amount of resources for SOEs from prefecture finance was run out of	Wuxi policy research office
Wuxi	R↓		State bond project stimulated investment	Wuxi planning commission
Wuxi	P (D1→D2 →I1→I2 →I3)	Partial privatization without much success		Wuxi planning commission
Jiangyin	P+	Watershed year in terms of economic growth		Jiangyin ETC
Jiangyin	P (D1→D2 →I1→I2 →I3)	Relations between ETC and enterprises (intervention) were cut-off; Privatization		Jiangyin ETC
Jiangyin	Exp ↓		More responsibility decentralized to townships	Jiangyin finance bureau

Jiangyin	P (D1→D2 →I1→I2 →I3)	High tide of privatization on TVEs and SOEs, also see 1997		Jiangyin LGOER
Ya'an	Exp ↓		Burdensome SOE asbestos mining was decentralized from the province	Ya'an planning commission
Ya'an	Exp ↑		A burdensome SOE pulp manufacturing was centralized to the province	Ya'an org dept
Ya'an	P (D1→D2 →I1→I2 →I3)	Privatization began, LGOER formed	Every effort other than privatization was made but could not improve SOE performance	Ya'an LGOER
Yucheng	P (D1→D2 →I1→I2 →I3)	SOEs supervised by org dept privatized, also see 97 and 99		Yucheng org dept
Mingshan	P (D1→D2 →I1→I2 →I3)	Privatization on SOEs began		Mingshan ETC
Across the country	R ↓	State bond project began	Economic growth slow down	

1999	Shanxi	P (D1→D2 →I1→I2 →I3)	Privatization on middle and small scale SOEs stopped		Shanxi org dept
	Changzhi county	D2 →	Nomklatura decentralized (or withdrawal from SOEs)	Corruption case of the county party secretary re- vealed	Changzhi county org dept
	Changzhi county	D2 →	Withdrew no- menklatura from villages	Free (semi- free) elections were held at village level	Changzhi county org dept
	Changzhi county		Leadership change	Corruption of former party secretary re- vealed	Changzhi county org dept
	Wuxiang	D1→	Planning fur- ther lost meaning	Last compul- sory indicator, which was on wages, was abolished	Wuxiang planning commission
	Jiangyin	R→; P+	Attracting FDI leaped forward		Jiangyin ETC
	Ya'an	P (D1→D2 →I1→I2 →I3)	Concentrating shares to for- mer manage- ment in priva- tization	Inefficient in previous years in privatiza- tion with shares held in scattered way	Ya'an ETC
	Ya'an	R↑		Provincial level further centralized revenues from lower levels (35% of 7 taxes)	Ya'an fi- nance bu- reau

	Across the country	D1↑		Central Finance Working Committee strengthened its vertical supervision on banks	Wuxi ETC Ya'an bank
2000	Shanxi	D1↑; D2↑	EWC was formed		Shanxi EWC
	Changzhi prefecture		New leadership		Changzhi prefecture ETC
	Changzhi prefecture		Authorities stopped making new SOEs, transformed SOEs to shareholding companies		Changzhi prefecture org dept
	Changzhi county	I3→	Political ranks for SOEs abolished	Continuous declining performance despite the political treatment	Changzhi county org dept
	Changzhi county	R↑	Room for maneuvering taxes further decreased	New regulation restricting granting tax deferent	Changzhi county local taxation bureau
	Wuxiang	P (D1→D2 →I1→I2 →I3)	Privatization without much success	Performance declined, workers opposed privatization	Wuxiang TVE
	Jiangsu	←R	Merging of industry bureaus	Rolling down of Zhu Rongji's effort at the center	Jiangsu ETC

	Jiangsu	R↑		Province further centralized revenues from lower levels	Wuxi finance bureau
	Jiangyin	D1→; D2→	Authorities' further withdrawal from partial privatized SOEs and TVEs		Jiangyin LGOER
	Sichuan	D1↑; D2↑	EWC was formed		Sichuan EWC
	Ya'an	P (D1→D2→I1→I2→I3)	Prefecture-wide privatization on TVEs and SOEs	Loss-making of them, low efficiency and huge debts	Ya'an TVE
	Ya'an	P (D1)	Weakening of TVE administration	Disappearance of the working objects due to privatization	Ya'an TVE
	Ya'an	D1↑	Prefecture transformed from a transmitting belt to a level of authorities		Ya'an planning commission
	Ya'an		Leadership change		Ya'an planning commission
	Ya'an	D1↑	Provincial level strengthened supervision over county party secretary and county governor		Ya'an org dept

	Ya'an	R→	More emphasis was put on increasing revenues	New leadership	Ya'an finance bureau
	Ya'an	R→; P+	Emphasis was put on attracting investment from outside (it was assigned as a political task)	New leadership	Ya'an finance bureau
	Yucheng	P (D1→D2 →I1→I2 →I3)	Almost privatized all of the SOEs		Yucheng LGOER
	Yucheng	R↑; D1↑	Powers of some authorities were centralized to the prefecture, responsibility not	Transformation of the prefecture from transmitting belt to a level of authority	Yucheng construction commission
2001	Changzhi prefecture	D1→; R→	Industry bureaus merged into ETC		Changzhi prefecture ETC
	Changzhi prefecture		Workers left state sector	Workers began to lose the hope of leading lives at dying SOEs due to years of not being well-paid	Changzhi prefecture
	Changzhi county	P (D1→D2 →I1→I2 →I3)	Privatization		Changzhi county org dept, finance bureau

Changzhi county, Wuxiang	Exp→; D1→	Merging of townships	Directive from the center to decrease staff and expenditures at townships	Changzhi county org dept, Wuxiang org dept
Changzhi county	P (D1→D2 →I1→I2 →I3)	Withdrawal in nomenclatura over SOEs; Privatization		Changzhi county org dept
Wuxiang	R↓; Exp↑	More townships got subsidies from the center		Wuxiang planning commission
Jiangsu	D1→; Exp→	Further merging of the 16 industry divisions under ETC (done in 2000) into 2 divisions		Jiangsu ETC
Wuxi	P (D1→D2 →I1→I2 →I3)	LGOER was formed	Inadequate reform—transforming SOEs to share holding companies with shares by the State—in previous years	Wuxi LGOER
Wuxi	R→; P (D1→D2 →I1→I2 →I3)	Government began to sell using rights of land		Wuxi planning commission
Wuxi	D1→	Transformed industry bureaus to companies therefore decrease the scale of authorities		Wuxi machine assets management

Jiangyin	D1→	Merging of companies transformed from industry bureaus	Performance of those companies declined	Jiangyin ETC
Jiangyin	I3→	Political ranks for 13 so called important SOEs abolished		Jiangyin org dept
Yixing	D1→	Remained few companies transformed from industry bureaus were further merged into 1 company	Performance of them declined	Yixing org dept
Yixing	R↑		County further centralized revenues from townships	Yixing finance bureau
Sichuan	P (D1→D2 →I1→I2 →I3)	Privatization spread to large scale SOEs	Some prefectures privatized some large scale ones	Sichuan policy research office
Sichuan	D1→	Reduced administrative barriers to investment		Sichuan ETC
Sichuan	Exp ↓; D1↓	Further decentralized SOEs to prefectures		Sichuan ETC

Ya'an	P (D1→D2 →I1→I2 →I3); D1→	TVE administration at township level abolished, Leaders group on promoting TVEs at county level stop operation	Disappearance of TVEs resulting from the privatization in previous years	Ya'an TVE administration
Ya'an	D1→	No SOEs supervised by planning commission		Ya'an planning commission
Ya'an	P (D1→D2 →I1→I2 →I3)	Shares of privatized SOEs concentrated to management or single outsider investor		Ya'an ETC
Ya'an			After privatization, subsidies lost the ground; with the decreasing of resources, subsidies lost the possibility; No subsidies to SOEs	Ya'an finance bureau
Ya'an	P (D1→D2 →I1→I2 →I3)	Privatization; ETC's nomuklatura over SOEs disappeared		Ya'an ETC
Yucheng	R↑	Some resources were centralized by the prefecture	Transformation of prefecture from a transmitting belt to a level of government	Yucheng finance bureau

	Yucheng	D1→	Merging of governmental organizations	Rolling down of Zhu Rongji's effort at the center	
	Mingshan	D1→	Merging of governmental organizations	Rolling down of Zhu Rongji's effort at the center	
2002	Shanxi	R↑	Province centralized 35% of increased revenues from 6 taxes from lower levels	The need to bail-out or to transfer to poor prefectures and counties	Shanxi finance bureau
	Changzhi prefecture	R↓	The center and the province decentralized some revenues to the prefecture	Corporate income tax from centrally and provincially subordinated SOEs located in the prefecture would be shared with prefecture	Changzhi prefecture finance bureau
	Wuxiang	P (D1→D2 →I1→I2 →I3)	New effort in privatization with some success		Wuxiang TVE
	Jiangsu	D1→	Function of ETC decreased	Permission from ETC was changed to making registration at ETC	Jiangsu ETC
	Jiangsu	D1↓; P+	More decision-making power delegated to SOEs and swift growth of private sector	Investments on fixed assets grew fast	Jiangsu planning commission

Wuxi	R↑; I3↑	Prefecture party secretary was recently promoted as a member of the provincial party standing committee	Prefecture centralized some revenues from counties	Wuxi, Jiangyin, Yixing finance bureau
Jiangyin	D1→	Function of ETC decreased	Permission from ETC is no longer needed, only registration is OK	Jiangyin ETC
Sichuan	R↑		Tax rate on alcohol increased by the center; Some prefecture's finance ability further declined	Sichuan finance bureau
Sichuan	P (D1→D2 →I1→I2 →I3)	Privatization spread to provincial level (No. 2 document by provincial PC)		Sichuan EWC
Sichuan	D1→	Bank loans to particular project were disconnected from approvals by ETC		Sichuan ETC
Ya'an	R↑	Township lost some revenues	Collecting agriculture taxes was shifted from township authorities to local taxation bureau	Yucheng local taxation bureau

Across the country	R↑		The center centralized more revenues from localities (corporate income tax turned from local tax to shared tax)	Finance bureau at all surveyed localities
Across the country		The center centralized more revenues from localities (corporate income tax to be shared with the center at rate of 50%: 50% in 02, and 40%: 60% in 03)		Wuxi finance bureau

Note: R↑↓ → Revenue extraction, transfer, mobilization

D1↑↓ → centralizing dependency, decentralizing and restructuring dependency lines

D2↑↓ → centralizing, decentralizing and restructuring interlinking lines

P privatization;

P+ increasing private sphere

Exp. centralizing and decentralizing expenditures

I3 forming and ceasing feedbacks

1994: R↓; Exp R↑ R↑ R↑ D1→D1→D1→P

1995: I3 I3 D1→D1→P P+P+

1996: R↑ D2↓ D2→ D2→ D1→ P P P

1997: D2→D1→D2→R→

1998: D1↓D1↑D1↑R↑ R→ P P P P

1999: R↑ D2↓; P+D1→D2→D2→

2000: R↑R↑R↑D1↑D1↑D1↑D1↑ R↓ I3 D1→D1→D1→D1→D1→D2→P

2001: R↑D1→D1→D1→D1→D2→P

2002: R↑R↑D1↓D1→D1→P P+

APPENDIX 4

Revenue, expenditure, and balance on province level in 1995 and 2000
(million RMB)

		1995	2000	Difference	Rate
Shanxi	Revenue	16707.3	23386.3	6679	140
	Expenditure	27772.1	45200.4	17428.3	163
	Balance	-11064.8	-21814.1	-10749.3	197 def.
Jiangsu	Revenue	17264.0	44831.0	27567	260
	Expenditure	25348.8	59128.1	33779.3	233
	Balance	-8084.8	-14297.1	-6212.3	177 def.
Sichuan	Revenue	16707.3	23386.3	6679	140
	Expenditure	27772.1	45200.4	17428.3	163
	Balance	-11064.8	-21814.1	-10749.3	197 def.

Source: <http://www.stats.gov.cn/>, Statistics, 1996. *China Statistical Yearbook, 2001*, compiled by National Bureau of Statistics of China, Beijing: China Statistics Press, 2001, p. 262, 266.

APPENDIX 5

Loss-making SOEs and volume of losses at prefecture level in 1994 (93) and 2000 (01)

		1994 (93)	2000 (01)	Difference	Rate
Changzhi prefecture	Number of loss-making SOEs	75	36		
	Losses (million RMB)	70.4	184.1		
Wuxi prefecture	Number of loss-making SOEs	49 /93	50	1	102
	Losses (million RMB)	70.7 /93	272.5	201.8	385
Ya'an prefecture	Number of loss-making SOEs	38	—		
	Losses (million RMB)	25.7	—		

Source: Changzhi Prefecture Statistical Yearbook: 1995, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995, p.121, 127; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002 p.138, 146; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.157, 159; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.81, 88, 89; *Ya'an Statistical Yearbook: 2001*, edited and published by Ya'an prefecture statistic bureau, 2001, p. 104,105.

APPENDIX 6

Number of enterprises at prefecture level in 1994 (93) and 2000 (01)

		1994 (93)	2000 (01)	Difference	Rate
Changzhi prefecture	SOEs	309	198		
	Collective	5472	—	-	—
	Pes	11544	—	-	—
Wuxi prefecture	SOEs	482	98		
	Collective	13478	2652		
	Pes	16213	25003		
Ya'an prefecture	SOEs	198	60		30.3
	Collective	1838	895		40.7
	Pes	12803	19734		154.1

Source: Changzhi Prefecture Statistical Yearbook: 1995, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995, p.117, 148; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.128; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.56-57; *Ya'an Statistical Yearbook: 2001*, edited and published by Ya'an prefecture statistic bureau, 2001, p.93-95;

APPENDIX 7

Employment at prefectures in 1994 (93) and 2000 (01)

		1994 (93)	2000 (01)	Difference	Rate
Changzhi prefecture	SOEs	317,174	209,207	-108507	66
	Collective	72,437	30,693	-41744	42
Wuxi prefecture	SOEs	464,563	287,407	-177156	62
	Collective	227,469	67,006	-160463	29
Ya'an prefecture	SOEs	115,600	92,800 /00	-22800	80
	Collective	17,100	12,700 /00	-4400	74

Source: Changzhi Prefecture Statistical Yearbook: 1995, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995, p.332, 340; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002 p.380, 392; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.55; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.113-114; *Ya'an Statistical Yearbook: 2001*, edited and published by Ya'an prefecture statistic bureau, 2001, p.149;

APPENDIX 8

Total investment by ownership at prefectures in 1994 (93) and 2000 (01) (million RMB)

		1994 (93)	2000 (01)	Difference	Rate
Changzhi prefecture	SOEs	1621	3016 /01	1395	186
	Collective	119	1684 /01	1565	1415
	PEs	175	384 /01	209	219
Wuxi prefecture	SOEs	5258	19026	13768	362
	Collective	12082	10724	-1358	89
	PEs	—	—	—	—
Ya'an prefecture	SOEs	464	1971	1507	425
	Collective	251	110	-141	44
	PEs	154	327	173	212

Source: Changzhi Prefecture Statistical Yearbook: 1995, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995, p.269; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002 p.325; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.244; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.95, 101,102; *Ya'an Statistical Yearbook: 2001*, edited and published by Ya'an prefecture statistic bureau, 2001, p.126-128.

APPENDIX 9

Total investment by ownership at counties in 1994 (93) and 2000 (01)
(million RMB)

		1994 (93)	2000 (01)	Difference	Rate %
Changzhi county	SOEs	28	72	44	257
	Collective	48	97	49	202
	Pes	22	26	4	118
Wuxiang county	SOEs	13	34	21	262
	Collective	2	59	57	2950
	Pes	7	24	17	343
Jiangyin county	SOEs	848	2244	1396	265
	Collective	3197	4204	1007	132
	Pes	—	—	—	—
Yixing county	SOEs	770	1521	751	198
	Collective	2233	2011	-222	90
	Pes	—	—	—	—
Yucheng county	SOEs	240	193	-47	80
	Collective	62	22	-40	35
	Pes	45	65	20	144
Mingshan county	SOEs	33	109	76	330
	Collective	30	10	-20	33
	Pes	29	49	20	131

Source: Changzhi Prefecture Statistical Yearbook: 1995, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995, p.269; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002 p.325; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.244; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.95, 101,102; *Ya'an Statistical Yearbook: 2001*, edited and published by Ya'an prefecture statistic bureau, 2001, p.126-128.

APPENDIX 10

SOE losses at surveyed counties in 1994 (93) and 2000 (01)

		1994 (93)	2000 (01)	Difference	Rate
Changzhi county**	Number of loss-making SOEs	5	7	2	140
	Losses (million RMB)	0.4	19.3	18.9	4825
Wuxiang county**	Number of loss-making SOEs	5	0	-5	0
	Losses (million RMB)	1.0	0	-1.0	0
Jiangyin county	Number of loss-making SOEs	9	5	-4	56
	Losses (million RMB)	7.9	5.1	-2.8	65
Yixing county	Number of loss-making SOEs	9	6	-3	67
	Losses (million RMB)	14.8	5.6	-9.2	38
Yucheng county	Number of loss-making SOEs	13	7	-6	54
	Losses (million RMB)	71.8	27.7	-44.1	39
Mingshan county	Number of loss-making SOEs	7	6	-1	86
	Losses (million RMB)	17.3	6.9	-10.4	40

Source: Changzhi Prefecture Statistical Yearbook: 1995, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 1995, p.142, 144; *Changzhi Prefecture Statistical Yearbook: 2002*, edited by Changzhi prefecture statistic bureau, published by China Statistic Press (Beijing), 2002 p.178, 180; *Wuxi Statistical Yearbook: 1994*, edited by Wuxi statistic bureau, published by China Statistic Press (Beijing), 1994, p.172; *Wuxi Statistical Yearbook 2002*, electronic version, edited by Wuxi Center for Economic Information, 2002; *Ya'an Statistical Data: 1995*, edited and published by Ya'an prefecture statistic bureau, 1995, p.81, 89; *Ya'an Statistical Yearbook: 2001*, edited and published by Ya'an prefecture statistic bureau, 2001, p.104, 114-115.

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