



Bureaucrats in Business, Chinese-Style: The Lessons of Market Reform and State Entrepreneurialism in the People’s Republic of China

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Summary. — In the 1990s, parts of the state bureaucracy in China have been setting up new profit-seeking, risk-taking businesses. Some of these businesses are entrepreneurial rather than rent-seeking, and are an unplanned and unanticipated development in China’s market-oriented economic reforms. What are the lessons of this phenomenon for the developing world? State entrepreneurialism may create problems such as reduced government control over departmental finance, loss of state assets, and uneven provision of services. It is nevertheless an innovative solution to the politically difficult problem of bureaucratic restructuring, and confounds the development orthodoxy, fostered by neoliberalism, that states will resist market reform. It also demonstrates that to understand fully the politics of market reform we must research the activities of subcentral state bureaucrats as well as central leaders and policymakers. © 2000 Elsevier Science Ltd. All rights reserved.

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1. INTRODUCTION: STATES AND MARKET REFORM IN THE DEVELOPING WORLD

In the 1990s, departments within the state administration in China have been setting up profit-seeking businesses to earn income for themselves and to employ their officials. These new state businesses differ from the state enterprises that existed under the command economy in terms of both their organization and their sources of investment, and they have been neither planned as part of the market reform program nor anticipated by central government policy makers. Rather, they are a spontaneous response by individual departments to the needs and opportunities that have emerged in the process of economic liberalization.¹ This state activity is novel in the experience of implementing liberalization policies around the world.² Moreover, it is unanticipated in the literature on the political economy of market reform, where states are typically expected to resist liberalization policies because they reduce their influence.

Economic liberalization has been promoted since the 1980s in developing countries, and from the 1990s in Eastern Europe, Russia and

other former state socialist systems. Although reducing the role of the state is an important part of the orthodox thinking behind economic liberalization and “transition,” the orthodoxy has anticipated that states will resist attempts to reduce their control. It is particularly the “new political economy” (NPE), the influential school of thought that has supported arguments for cutting back the state and has underpinned the market reform trend, which has promoted the idea that states will resist attempts to limit their role through marketization.³

While in much of the NPE literature the state appears only as a unitary bureaucratic actor that creates administrative restrictions on economic activity, some NPE theorists have argued that economically damaging or wasteful

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state intervention includes interest-maximizing activities by individual politicians and bureaucrats, such as purchasing support or accepting bribes in exchange for the distribution of subsidies, licenses, loans, jobs or services.⁴ Such arguments about self-interested politicians and officials have appealed to those writing on developing countries (Lal, 1988; Wellisz & Findlay, 1988; Findlay, 1990). This is undoubtedly due to the considerable amount of research there that has documented pervasive nepotrimonial networks and corruption.⁵ Politicians and officials in the developing world often have lucrative interests based on their public positions and the networks established around them, particularly when significant state administration of the economy allows them to distribute favors. These findings reinforce expectations that state intervention creates bureaucratic and societal vested interests that will seek to maintain the lucrative status quo and resist economic liberalization,⁶ and they apparently give empirical support to NPE theory.⁷ As John Waterbury has noted: "From different disciplinary origins there has been a conflation of assumptions about the likely behavior of public bureaucracies that yields powerful insights into their pathologies but little that would explain why they might change" (Waterbury, 1992, p. 188). It has become part of the orthodox thinking on economic liberalization that state bureaucracies would have little interest in promoting market reform.⁸

The "orthodox paradox" inherent in this thinking—that a reduction in the role of the state must be carried out by those states while they are expected to have little interest in doing so—has been recognized (Kahler, 1990; Grindle, 1991; Toye, 1991; Haggard & Kaufman, 1992). This recognition has produced work examining why and how (and especially under what political conditions) politicians and leading policy makers do initiate and promote reformist policies (Williamson, 1994; Haggard & Webb, 1994; World Bank, 1995; Elster, Offe, & Preuss, 1998). Little attention has been paid, however, to how economic liberalization affects state bureaucracies and bureaucrats below the very top level in the countries where such policies are implemented. While the orthodoxy suggests that officials will have their own interests, they seem still to be expected to simply implement the policies devised by their central government leaders. At this level the paradox has not yet been tackled.

At the same time as the dominant thinking in development theory and practice has converged toward anticipating state resistance to economic liberalization, market reform in China has produced a quite contrary phenomenon in which mid- and lower-level officials within the state bureaucracy embrace markets by setting up their own businesses. As competitive markets have emerged, Chinese bureaucrats have become involved in business in a way unanticipated in the dominant thinking on market reform.⁹ This paper describes the new state business activities in China and explains their emergence in the political, economic and social context of market reform. It argues that some of these activities are genuinely entrepreneurial, and concludes that state entrepreneurialism in China reveals weaknesses in current thinking about the state and marketization in development by showing that mid- and lower-level officials do not always simply maintain the status quo, but may have interests in accepting or promoting change. It then assesses the advantages and disadvantages of state entrepreneurialism and its lessons for other countries attempting market reform.

2. METHODS AND SOURCES

During the 1990s, state officials in China have been setting up businesses, usually referred to as "new economic entities," on behalf of the administrative departments they run. These administrative departments include individual ministries within the central government, and "bureaus" subordinate to them within local governments.¹⁰ As I will show below, the state businesses are only semi-legitimate, and as a result are not generally reported in China. This means that there are no available quantitative data, and documentary reports are scarce. The following data and analysis are therefore primarily based on field research carried out during 1992–99 in Tianjin, a northern provincial-level city of 10 million inhabitants and one of China's largest.¹¹ The main part of the field research was conducted in 1992 and 1993, when I spent more than a year in Tianjin. During this first period of fieldwork I conducted qualitative, in-depth interviews with 49 Tianjin government officials, six enterprise employees, and 10 local social scientists. I also carried out documentary research using local newspapers, local government in-house journals (not publicly available), central government policy

documents and official reports. In 1996, 1997 and 1999, I returned to Tianjin to follow up the business activities I had identified in the early 1990s.

In 1992 and 1993, I interviewed officials in those parts of the state administration that distributed consumer goods under the command economy and administered public housing and buildings.¹² Thus I interviewed in the Tianjin municipal commerce and public property bureaus and in selected submunicipal district commerce and public property bureaus. Tianjin has 13 urban and suburban districts, and I interviewed in the bureaus of seven of them. I selected the districts in which I interviewed so as to include some in the prosperous center of the city, some in the less economically dynamic western part, two suburban districts, and one of the three outlying coastal districts that are separated from the city center by some of Tianjin's rural hinterland.

Since the state business activities I describe are founded primarily on a study of two sectors of the Chinese state administration in one city, further research is needed to prove that they are more widespread. I have three reasons to believe that this is the case. First, several interviewees have stated that this is so. For example, one informant in 1996 stated that: "Both the First and Second Commerce Bureaus set up these economic entities [in 1992 and 1993], as did many industrial and other systems in Tianjin. Everyone was doing this."¹³ Second, other, less detailed, accounts note similar businesses across China, at central as well as subcentral levels of the state system, in the army, in industrial, commercial and agricultural departments, and in rural as well as urban China (Blecher, 1991; White, 1991; Li, 1992; Bickford, 1994; Wong, 1994; Lin & Zhang, 1999).¹⁴ There are no figures for the total numbers of such businesses, but one account has estimated that in 1992 in some areas of China as many as 70% of state and party departments had set up such businesses, and that in Hunan province alone there were over 10,000 of them, employing over 40,000 people (Li, 1992). Third, while more research will be needed to confirm that the businesses elsewhere are similar in structure, aims and operation to those in Tianjin, this seems likely since the factors leading to state entrepreneurialism in Tianjin (discussed below) are present across China.

An important source of information was interviews with officials.¹⁵ This raised two

problems. First, officials might be fabricating their accounts of their businesses and their reasons for creating them. But, since I interviewed in a range of departments across the city and the accounts were remarkably consistent, it is highly unlikely that they could have been fictitious. Second, the businesses might have been merely fronts for corrupt activities. The fact that officials gave the same reasons for setting up the business, however, and talked freely to me about their businesses makes this unlikely.¹⁶ I also corroborated the officials' accounts in discussions with local academics familiar with the government departments in which I had interviewed, and with the documentary material available. These documentary sources are cited below.

I was fortunate that during my first period of field research China was just emerging from the economic and political austerity that had followed the bloody suppression of popular protests on June 4, 1989. Just months before my arrival in China in September 1992, Deng Xiaoping had once again given the go-ahead for further market-oriented reform, and economic activity surged. During this moment of economic and political liberalization, officials were willing to discuss their economic activities. Even then, however, they were hesitant to reveal how much they had invested in their new businesses and how much income they were deriving from them. When I returned to Tianjin to research the evolution of the businesses in the late 1990s, I found it even more difficult to obtain detailed information. Although officials reported that their departments did still have enterprises, that some had been successful, and some of them were now monitored by local government finance bureaus, they were unwilling to discuss them with any specificity. Apparently, attempts by higher levels of the state to regulate these enterprises, and especially to control the income from them, had made my interviewees cautious. It was therefore still not possible to obtain case by case information on the enterprises' profitability or their evolving relationship with their parent department.¹⁷

Due to these restrictions my account mainly documents and discusses the creation of the new state businesses in the early 1990s in the departments where I interviewed. I focus on the numbers of new businesses, their internal organization and spheres of activity, the relationship between departments and businesses, and the reasons why leading government offi-

cials set them up. Individual departments, or rather the leading officials within them, are shown to be directly setting up businesses in emerging (tertiary sector) markets.¹⁸ It is because the state officials have invested state assets in the businesses to earn income in a market environment, that I characterize them as adaptive, embracing market reform and acting entrepreneurially. They are promoting rather than hindering market reform in that they are using the businesses to implement policies to cut back state personnel rather than blocking cutbacks. It remains for further research, however, to determine whether the enterprises have in fact operated without advantage derived from their bureaucratic parentage, promoted further deregulation and market reform, and led to state restructuring in the longer term.

3. MARKET REFORM AND THE NEW STATE BUSINESSES IN CHINA

(a) *Scope of business*

By 1993 individual departments in Tianjin's state administration had each created as many as half a dozen new businesses.¹⁹ These differed enormously in their size and in their spheres of economic activity, ranging from small trading companies or restaurants with only a handful of employees, to large department stores and real estate development companies with several dozen or more staff. A large number were service sector businesses, partly because this was a small part of the prereform command economy and therefore had most scope for development, and partly because such businesses often require relatively little initial capital investment. Sometimes the businesses were related to the administrative work of the parent department, but many conducted unrelated business. For example, public property departments tended to establish real estate development companies—often more than one—but some had also set up trade companies and one had opened a large department store. Commerce departments, which had managed the distribution of consumer goods in the prereform planning system, often set up businesses trading in those goods, but they had also created other kinds of business (Liu, 1993). In addition to several trading companies, the municipal commerce bureau

had set up a tourist company and a real estate development company.

(b) *Investment, income and the profit motive*

There was great variety in the amounts invested in these businesses, their profitability, and their financial relationship with their parent departments. In the early 1990s, when the state businesses began to appear in large numbers, there were relatively loose controls on certain kinds of "extrabudgetary" state finance,²⁰ and departments apparently used this to their advantage. They—that is, the officials within them, on their departments' behalf—often used state funds, probably these extrabudgetary funds, to set up their new businesses, or took out loans. Sometimes joint venture companies were established with foreign business capital. For example, one Tianjin government department had created several real estate development ventures together with investors from Hong Kong.²¹

The profits generated by the businesses are shared with the parent department and are used to pay officials' bonuses,²² supplement administrative expenses, and carry out departments' official work.²³ The new businesses thus help relieve financial problems that have grown for departments in the reform period as the demands on them increase and inflation devalues state funds and officials' salaries.²⁴ The profits tend to be spent first on staff bonuses, refurbishing offices and accommodation, and updating technology,²⁵ and the degree to which income is spent on provision of government services varies, apparently on the whim of the departmental leaders who control the purse strings.²⁶ The income tends to be channeled into departmental slush funds, known in China as "small treasuries." No one, even local government finance departments, knows how much they contain (Zhu, 1997, p. 333). As I will discuss below, however, there have been attempts to tighten controls over such income, especially since 1996.

(c) *The employment of officials and market restructuring*

Departments have often staffed their new businesses with bureaucrats and other employees (such as technicians or clerical staff) and their leaders have sometimes become the business managers. The precise arrangements

for transfers of personnel, however, have varied. In some businesses, especially just after they had first been set up, the managers and other enterprise employees were still on the departmental payroll. Thereafter, personnel were allowed nominally to retain their bureaucratic position, either indefinitely or for a stipulated period, but were paid from the enterprise's earnings. In some cases there was an arrangement under which departments paid a proportion of an employee's salary for a period, after which time that person was to be paid from the business's income. Thus staff were gradually transferred out of the state administration and into the business, though in the early stages of the business they still had the option of returning to their bureau should the business fail.²⁷

Leading officials have been under pressure to cut back staffing levels during the reform period so as to restructure the bureaucracy for the market economy and to reduce budgetary spending.²⁸ The pressure has been particularly evident in departments required to restructure because markets have encroached on their work, and there the businesses have clearly provided a convenient means of reducing personnel. For example, the introduction of markets for consumer goods has forced a fundamental restructuring of commerce departments. For these departments, the businesses provided alternative employment for officials in a process of "entrepreneurialization" whereby parts of the administration were cut back and then transformed into economic enterprises. In 1992-93, commerce departments reported staffing cuts of between one-third and one-half of their personnel, and by 1996 Tianjin's two municipal commerce bureaus had become enterprises.²⁹

For other departments, the more gradual introduction of markets in their spheres of work has had less radical consequences. For example, public property departments have so far been less fundamentally affected because the public property system remains and the introduction of real estate markets has been limited. For these departments, under pressure to improve the quality of public housing, the main motive for creating their new businesses was profit and some limited reorganization and downsizing, rather than fundamental restructuring. Those with several new businesses reported staffing cuts of about one-third and connected this "streamlining" with their business ventures.³⁰

(d) *Central government policy toward the new state businesses*

The motivation for the new businesses was primarily that they allowed individual departments within the state administration simultaneously to earn new income and comply with the staff reduction policy without making their personnel redundant. These activities were, however, neither officially permitted nor encouraged and indeed, they are at odds with other policies aimed at reducing state involvement in micro-economic activity. Perhaps for these reasons, central government directives and statements on the new state business activities have at times been contradictory, reflecting either disagreement or indecision over them at the highest levels. In May 1992, for example, a Communist Party document is reported to have permitted such businesses, but was rapidly followed by a central Party and government circular in July stipulating that all state businesses must sever links with their parent departments (South China Morning Post, 16 July 1992). In September, another central government statement calling for an end to the businesses allowed a "transitional period" of up to three years before departments and businesses must fully separate (Summary of World Broadcasts, Far East, 15 October 1993). While some central leaders seem to have been concerned that a close relationship between state departments and their businesses may provide opportunities for corruption, they have been irresolute in dealing with them, apparently because they enable cuts in the state bureaucracy and relieve some of the pressure to increase budgetary spending. Attempts to control the business activities have, however, become more concerted since 1996 as control has been tightened on state finances generally and extrabudgetary funds in particular (cf. State Assets Management Bureau, 1996; Wang, 1997). In Tianjin since then, some businesses have been made to pay profits to their departments via the local government finance bureau. Nevertheless, many businesses retain informal (including direct financial) links with their departments.³¹

4. WHY "ENTREPRENEURIAL" STATE?

These new state business activities raise many questions for those interested in states and market reform in the developing world,

particularly whether they can justifiably be called “entrepreneurial,” and, especially in view of obvious ambivalence about them amongst leaders in China, in what ways they are distinct from corruption. For those familiar with planned economies, these businesses may seem little different from conventional state enterprises, and thus perhaps an attempt to retain micro-economic control that is more conservative than adaptive. Some further clarification of “state entrepreneurialism” and an outline of the key features of “the entrepreneurial state” are therefore necessary.

There is considerable variation not only in the relationships between businesses and their administrative departments, but also in the amounts of capital invested, profitability, use of profits, use of privileged access to goods or information, and degree of involvement in competitive business. Some of the new state businesses, like those described above, are best seen as a distinctive kind of state involvement in the economy and one that can be distinguished from corruption and profiteering.³² Indeed this activity is best termed “entrepreneurial” since it involves individual departments investing directly, to generate income, in businesses that operate in a market environment. In these cases, individual departments invest their own finance in businesses, which therefore differ from traditional state enterprises that receive budgetary funding as designated in state plans. Moreover, they do so to employ some of their own staff and to generate profits for themselves rather than for local or central government.³³ These business ventures also involve an element of risk, often seen as a defining feature of entrepreneurship (Hébert & Link, 1982). Some departments invest only small amounts and so the risk is minimal, but some invest significant sums, with no guarantee (in the market system) that they will be recouped. Finally, these businesses are productive: they do not simply use the dual pricing system to buy goods at low state-controlled prices and sell them at higher, market ones. Rather, they are set up to build buildings, produce goods, provide catering services and trade commodities in a competitive market environment. Many were set up to trade in consumer goods or provide services (restaurants and dance halls) in sectors where markets were at their most developed.

Some analysts have interpreted the state businesses as a form of corruption (White, 1996; Wong, 1994). But while state entrepre-

neurialism may, like many other government activities in China today, provide opportunities for corrupt behavior, it differs from corruption in the usual sense of officials personally accepting bribes or embezzling state funds.³⁴ Rather, it generates income for the state administration, and although the departmental income is frequently used to benefit officials by raising bonuses and improving their working environment, the spending is often accounted for under recognizable spending categories, rather than simply being siphoned off for personal use. Nevertheless, while distinct from personal corruption and not strictly illegal, the new state businesses do result from officials’ exploitation of legal loopholes, and probably would not be allowed in many other countries.

State entrepreneurialism might also look like a conservative attempt to resist change. The new enterprises seem in some ways to substitute for state enterprises that have been given greater autonomy from their administrative departments during the reform era, and run counter to official policies to reduce the micro-economic role of the state. But while the new businesses may sometimes help make up income lost when state enterprises were deregulated, and government departments do sometimes retain a micro-economic role in their businesses, they have much smaller internal management structures than traditional state enterprises, and very different relationships with their parent departments.³⁵ Government departments used to manage and often subsidize, “traditional” state enterprises in accordance with administrative plans. In contrast, the new businesses are run on market principles and operate in a market environment, and as they do not receive the subsidies given to state enterprises they operate under a harder budget constraint.

5. STATE ENTREPRENEURIALISM AND THE CONTEXT OF MARKET REFORM

As indicated above, two key factors had encouraged state entrepreneurialism in commerce and public buildings departments in Tianjin. First, the financial burden on departments had grown as their tasks increased and the expectations of the population rose, and second, central government policy had ordered cuts in the state bureaucracy. These immediate constraints on leading officials at this level of the Chinese state are set within the wider

context of the market reform. Several features of this context have contributed indirectly to officials' choice of an entrepreneurial strategy. These are the legacy of prereform bureaucratic control over the command economy, an inadequate legal system, and emergent markets at a time of rapid economic growth. In this context, normative and generational bureaucratic changes have made entrepreneurialism possible.

(a) *The legacy of prereform bureaucratic control over the economy*

The legacy of the prereform bureaucratic control of the economy is evident in the emergence of state entrepreneurialism in two key ways. First, the command economy established in the 1950s in China depended on a comprehensive bureaucracy that took over functions left to markets in capitalist economies.³⁶ This has meant that as markets have emerged, some leading officials and their departments have not only the experience of managing state enterprises but also the economic and bureaucratic connections that enable them to go into business. For example, because they dealt with them in the prereform system, some officials may be well-connected with producers, distributors and retailers and know where market opportunities exist.

Second, as industrial and commercial enterprises and property were nationalized in the 1950s and 1960s, many strong societal interests such as the bourgeoisie and large landowners were eradicated and effectively replaced by a powerful range of bureaucratic interests. These bureaucratic interests have exerted political influence in myriad ways in the market reform process (White, 1993), and their presence can be felt in the emergence of state entrepreneurialism. Indeed, state entrepreneurialism can be understood as kind of bargain negotiated, probably only tacitly, between central government leaders and the middle levels of the bureaucracy. Central leaders may have tolerated entrepreneurial activities partly because they diminish lower level bureaucratic opposition to other reform policies such as state enterprise reform and bureaucratic streamlining. State enterprise reforms have reduced the role and financial controls of some administrative departments, and state entrepreneurialism may compensate for this by providing new sources of income. Similarly, by providing employment for officials state entrepreneurialism allows parts of the bureaucracy to be cut

back and even dismantled in a way that is palatable to them. Entrepreneurialism may also be acceptable to central and local government leaders because it both saves spending in redundancy payments for officials and avoids raising unemployment, a highly sensitive political issue in China in the 1990s.

(b) *Inadequate legal system*

The legal system in China, while changing quickly, is still unable to keep up with the rapid developments under economic reform. It is inadequate partly because so much adaptation is needed under market reform and partly because it had been in any case virtually dismantled under decades of personalistic one-party rule. Particularly in the 1960s and early 1970s, rule of law was replaced by rule by party decree, and this has made the task since then of rebuilding the legal system an enormous one. In the 1990s, the line between the licit and illicit involvement of public officials in economic activities often has not been clarified (White, 1996). In this legal context, and central and local government leaders' ambivalence toward the new state business activities, state entrepreneurialism has emerged and persisted.

(c) *Marketization and economic growth*

Certain economic conditions have also made state entrepreneurialism possible. First, and most crucially, nascent markets have provided opportunities for profit-seeking business where they did not exist before. As shown above, many of the new state businesses take advantage of trade liberalization and emerging housing markets. Moreover, China's rapidly growing economy in the early 1990s—around 13% annual GNP growth in 1992 and 1993³⁷—made the likelihood of success good. Once the signal was given in 1992 that market reform was again high on the central leadership's agenda and it had received political sanction from the paramount leader Deng Xiaoping, there was a nationwide surge in economic activity that fuelled a much-reported "craze" by people from all walks of life for going into business. As a result of these changes, the normative sanction for profit-seeking and entrepreneurialism has been quickly extended, creating a febrile business atmosphere unimaginable during the Mao era.

(d) *Normative, generational and behavioral change in the state bureaucracy*

Bureaucratic norms have also changed during the reform period. While the legal boundaries and civil service rules on bureaucratic behavior are unclear, the Mao era emphasis on political loyalty has been replaced by demand for younger, better educated, able officials, and has meant that they are keen to demonstrate adaptability, flexibility, and dynamism in the new market environment. The process of changing bureaucratic behavior may also be influenced by generational change in the bureaucracy, with younger officials more readily adopting a dynamic pro-market style of work.³⁸

In the context of early 1990s reform, these normative and generational changes have transformed bureaucratic behavior and led officials to adopt entrepreneurial strategies. The renewed reform drive may have persuaded officials that continued marketization was now inevitable and so their adaptation would sooner or later be necessary. Given their access to state resources and business contacts, the lack of clarity on bureaucratic activities and the rapid growth in market activity at this time, officials have seen business as a means of relieving financial and staffing constraints. They have not of course, been acting entirely selflessly, for the business income is often used to raise salaries and refurbish offices. But in improving their working conditions in this way, they have a measure of protection from charges of malpractice should attitudes toward the businesses harden in the future.

6. ENTREPRENEURIALISM AND MODELS OF THE STATE

It is not yet clear whether the entrepreneurial state will be a short-lived phenomenon in the process of reforming state planning and introducing a market economy in China, or whether it will prove more enduring. In the short term, its persistence and widespread nature may depend on continued economic growth. In the long term, its fate depends on the central authorities' willingness and ability to formulate and implement new business and civil service legislation to separate the enterprises from their parent bureaus. For their status to be clarified, and for any separation to be carried out without the loss of assets to the state, accounting,

tax, and auditing systems must also be improved (Summary of World Broadcasts, Far East, 30 August 1989). As yet, state entrepreneurialism continues, and so a few words should be said about this new state role and what it means for current models of the state in the literature on China and on states, markets and development.

China's entrepreneurial state is fundamentally different in several respects from the Stalinist command economy state out of which it is evolving. While the entrepreneurial state retains a micro-economic role, it is one far removed from the centralized administrative control of the command economy because it invests entrepreneurially rather than controlling administratively and operates in an increasingly competitive market environment. State entrepreneurialism's micro-economic role also clearly differentiates it from the ideal state envisaged and promoted in neoliberal reform policies. To a certain extent China's leaders have espoused a minimalist state role, and talk of removing the state from micro-economic activity to macro-economic control and cutting back the state. The political realities of the reform process have, however, produced a compromise practice not prescribed in central government policy.

The entrepreneurial state is distinct from that other model of pro-market state involvement in China sometimes referred to as the local developmental state (LDS) or local state corporatism (LSC) (Blecher, 1991; Oi, 1992, 1995). While geared to the development of the local economy on a market basis, the LDS and LSC involve the local government as a whole facilitating the development of the local economy by providing supportive infrastructure and conditions for enterprises, whether state, collective or private. In other words, the LDS and LSC resemble a local version of the developmental state, and their motives are the indirect, tax revenue that local economic development brings (Oi, 1992) or the successful promotion of the local economy more generally (Blecher, 1991). This is very different from the entrepreneurial state's direct investment and involvement in risk-taking productive business to earn profit.

State entrepreneurialism also involves a different kind of activity from that found in the "developmental state" identified by some as directing development in other parts of East Asia (Johnson, 1982; Amsden, 1989), and indeed perhaps also in China itself (White &

Wade, 1988). The developmental state model refers to the developmentally-oriented activities of the national leadership and a central bureaucratic elite, usually in guiding or, in Robert Wade's version, "governing" the market (Wade, 1990). This means the state for example encouraging and supporting particular industrial sectors through credit controls, controlling investment through legislation, and promoting and supporting technological innovation (Henderson & Appelbaum, 1992). This is clearly different from the entrepreneurial activities in China, in which state agencies of many different kinds at different levels of the state system are directly involved in business, and in a less coordinated and "bureaucratic" way. While there seems to be no reason why the developmental state (or its local version) and state entrepreneurialism should not co-exist, the question is whether or not state entrepreneurialism would undermine efforts to coordinate development at national (or local) level by producing conflicts of interest within the bureaucracy. Such issues need further research.

7. STATE ENTREPRENEURIALISM: LESSONS FOR THE DEVELOPING WORLD

(a) *Adaptation*

State entrepreneurialism in China shows that contrary to expectations promoted by the dominant paradigm on states and markets, state bureaucracies (and the officials that staff them), even those geared to the administration of a command economy, can under certain circumstances adapt to and embrace market reform.³⁹ Many officials in China are now no longer just plan implementers, but also entrepreneurs. Chinese bureaucrats have gone into business in a way unanticipated in the literature that promotes market reform and reveal the flaws in expectations that officials will desire the status quo because the current constellation of interests will remain the most lucrative. As the account above shows, reform era institutional and societal changes can give officials the incentives to adapt. Moreover, political obstacles and interests can be negotiated during the reform process in a kind of tacit bargaining within the state system in which some kinds of unorthodox activities are permitted because they enable the achievement of other aims or mitigate other problems. In particular, the

entrepreneurial state seems to be a solution (or partial solution) to the problem of cutting back the bureaucracy (World Bank, 1991b), one of the most difficult public sector reforms to implement because of the difficulties in finding new employment for officials.

(b) *Understanding the state*

Attempts to improve state effectiveness and address the obstacles to reform have so far tended to focus on leaders, elite policy makers, and influential interest groups in society who may divert the course of reform and development (Nelson, 1990; World Bank, 1997; Haggard & Webb, 1994; Williamson, 1994; Elster *et al.*, 1998). There is also a need to disaggregate "the state" and to differentiate between, on the one hand, the aims, interests and policies of leaders, policy makers and officials in central government, and on the other, those of officials required to implement the policies at lower levels of the state system. Certain reforms, not least bureaucratic restructuring and other reforms of public sector management, have just as much impact at these levels as they do at the top. For example, although downsizing and restructuring the state bureaucracy are usually key recommendations in neoliberal policies and are considered difficult to implement (World Bank, 1991a), there has as yet been little attention to bureaucratic interests at lower levels. But, as this account of the entrepreneurial state reveals, while central leaders may wish to cut back and restructure the lower levels of the bureaucracy, bureaucrats at lower levels can have different interests. A better, more nuanced, understanding of the state and of public bureaucracies as more than simply top leaders and policy makers is needed if many reforms are to be pursued successfully.

(c) *Can (and should) the entrepreneurial state be replicated?*

State entrepreneurialism has helped solve certain problems created during market restructuring in China, such as how to reduce the size of the bureaucracy without making officials unemployed, raise the salaries of the remaining officials, and restructure administrative departments rendered obsolete by the introduction of markets in their particular sphere of work. It also contributes to processes of marketization by allowing bureaus to restructure their plan-oriented institutions.

Should these transformations proceed as anticipated, entrepreneurialism would pave the way for state restructuring as the planning system is phased out. Is it therefore something that might be adopted as a means of solving these problems elsewhere in the developing world?

There are several reasons why the adoption of state entrepreneurialism would be difficult. It has emerged in China under a very particular set of economic and political circumstances. It has appeared at a time when the Chinese economy was rapidly expanding from a relatively low starting point, so that there was space for new businesses and optimism that they could be successful. It has also been possible because the legal system in China has been unprepared for economic developments such as this, and the businesses would likely be illegal in many other states. Moreover, the prereform bureaucratic administration of the command economy provided certain conditions (such as a history of micro-economic state intervention) conducive to their emergence without which replication might be difficult.

State entrepreneurialism may be not only difficult to replicate, it may also create certain economic and political problems. Many of the new state enterprises, and the truly entrepreneurial ones, were set up to trade goods, build property, or provide services and facilities ranging from department stores to restaurants and dance halls, and in this sense they are intended to be productive rather than profiteering. Moreover, the entrepreneurial state businesses do not depend on monopsony or monopoly: because there are so many such businesses in the 1990s, they often compete with each other as well as with private, collective, and conventional state-owned enterprises. Critics might argue, however, that use of state assets to set up businesses is problematic because it involves the use of privileged access to goods or knowledge and may squeeze out more efficient private business. On this basis, the businesses might be considered rent-seeking. This is difficult to either verify or disprove. While the entrepreneurial businesses do use bureaucratic resources, it is far from clear that they prevent the development of more efficient nonstate businesses. In the early stages of marketization there may be limited knowledge of producers and markets, and state entrepreneurialism may fill gaps in certain markets. The net economic effects of the businesses are difficult to measure.⁴⁰

Not only is it unclear whether state entrepreneurialism is economically beneficial or damaging, there are other potential problems with state entrepreneurialism which mean that it cannot be recommended as a strategy for marketization. Probably the most important of these, and certainly one that the Chinese central government has been concerned with, is that because the business income is difficult to monitor, it reduces local government finance bureaus' control over the financial affairs of other departments. Reduced financial control may mean reduced local government control over departments' activities (State Assets Management Bureau, 1996; Zhu, 1997). It may also mean the loss of state assets should businesses be transferred into private hands while financial controls remain weak, or if investments are not recouped should businesses fail. It is unclear what happens if the businesses become bankrupt,⁴¹ though recent regulations have tried to make leading officials more accountable in this respect (Beijing Youth Daily, 16 July 1999). While in some parts of the state system, local governments have been reasserting financial controls over the businesses by making them channel their income via local government finance bureaus,⁴² finance and auditing procedures may as yet be unable to ensure that relations are regularized. If this continues, then state entrepreneurialism, while allowing breakthroughs in some political problems, may have created new interests that might in turn cause problems later in the course of reform.

State entrepreneurialism involves public agencies using markets to generate income to supplement state budgetary allocations and in some cases to actually carry out their work and provide public services. From this angle, state entrepreneurialism seems to add new meaning to the term "socialist market economy" that is used by the Chinese government to describe its current economic system. But, not only may the businesses prove to be a poor use of public finance if they fail and state assets are lost, they may also lead to the unequal provision of certain public services should the quality of those services rely on business income. Departments may have very different capabilities for doing business (dependent for example on the local economic environment or the entrepreneurial skills of their officials). Where there is much less economic activity and fewer business opportunities, departments correspondingly tend to have fewer businesses.⁴³

8. CONCLUSIONS: THE POLITICAL DYNAMICS AND UNPREDICTABILITY OF ECONOMIC LIBERALIZATION

This paper has shown how as market reforms have progressed in China in the 1990s state bureaucrats have been spontaneously going into business on their departments' behalf. It has argued that many (but not necessarily all) of the individual departments setting up these businesses are best seen as "entrepreneurial" because they are engaged in direct, profit-seeking, risk-taking economic activities. State entrepreneurialism is adaptive, because it involves officials accepting markets and the state restructuring they bring. Its economic consequences are unclear, however, and it also creates problems of financial control, administrative discipline and inequality in public spending. Given these problems, state entrepreneurialism is not something that is to be recommended for adoption elsewhere in the developing world as a means of promoting market reform or state adaptation. Nevertheless, it does demonstrate the political processes and close contextual constraints in the liberalization process, and the incentives and constraints, legal, normative, financial and bureaucratic, on officials at the lower levels of the state system. State entrepreneurialism is

also useful for demonstrating the political problems faced by leaders in implementing market reforms and restructuring, and for showing ways in which those problems can be circumvented. It is revealing of the evolution of the state under market reform and of how a constant process of economic and political negotiation can produce unexpected accommodations and compromises.

It is hoped that this account of state entrepreneurialism will be used as a point of departure for the study of states under economic reform. It shows that more attention needs to be paid to lower levels of the state in the development process, and to the institutional and social contexts in which officials at these levels work and implement policy. It also begins the work of showing how some of the problems that reform throws up within the state bureaucracy can be negotiated, and reinforces the point that states and the officials that staff them do not display immutable qualities. It also reminds us that market-oriented economic development will not be problem-free. State entrepreneurialism simultaneously reveals the difficulties and unpredictability of development, as well as the possibilities for innovation as China and the rest of the developing world move into the 21st century.

NOTES

1. I use "market reform," "marketization," and "economic liberalization" interchangeably to refer to the extension of market mechanisms into economic activities that previously were controlled administratively by the state.

2. "State" here refers to parts of the state administration or bureaucracy. In China, which has a centralized, hierarchical state administration, this includes not only central ministries but also the branch departments subordinate to them within local governments.

3. The NPE school is extensive and includes theories of "rent-seeking" or "directly unproductive, profit-seeking," as well as some work within the public choice school. For important texts, see Krueger (1974); Buchanan (1980); Bhagwati (1982); Colander (1984).

4. Argued by Evans (1992, p. 143). According to Killick (1989, pp. 14–15), the "public choice school" has been an influence on the development of these ideas by

drawing attention to the behavior of individuals within the state and contributing toward the depiction of the state and its politicians and bureaucrats as serving their own interests. Key texts in public choice theory are Downs (1957), Niskanen (1971), Buchanan and Tullock (1962).

5. See Theobald (1990, pp. 87–92) for a discussion and review of this literature. See, for example, Sandbrook (1986), Bates (1981), and Wade (1985). Work on patrimonialism has been explicitly welcomed by some proponents of NPE as supporting their own approach. See, for example, Findlay (1990).

6. This expectation is noted by Callaghy (1990), Toye (1991), Waterbury (1992), and Evans (1992). For examples of this kind of expectation see World Bank (1991a), Brett (1986, 1988), and Killick (1990).

7. Though this would not necessarily be the intention of such work.

8. See also Nolan and Wang (1999) for this view of the orthodoxy.
9. I refer here to the World Bank publication, *Bureaucrats in Business* (1995), that promotes privatization and a reduction of bureaucratic intervention in the economy.
10. See Note 2. In China vertical systems run from each central government ministry through corresponding bureaus in each level of local government (for example, province, city, county government). The different bureaus in a province, city or county, coordinated and directed by the local governor, mayor or county chief's office, together form the local government.
11. For a more detailed account of the research conducted during 1992–97, including information on Tianjin, and the research methods used, see Duckett (1998).
12. In Chinese, *shangye ju* and *fangdichan guanli ju*. I selected these two sectors of the state administration based on the hypothesis that markets for the goods/factors of production they handled would have developed to different extents and would therefore have affected them differentially. See Duckett (1998) for a more detailed discussion. In 1996–99 I revisited some of my original departments, but also visited “civil affairs” (*minzheng*) departments that handle welfare and social services, and subdistrict “neighborhood offices” (*jiedao banshichu*).
13. Official in the Municipal Commerce Commission, August 1996. This same point was made by a Tianjin public housing department official, August 1996, and confirmed by several local social scientists.
14. These accounts do not all characterize the state businesses as “entrepreneurial,” and further research is needed to determine whether businesses elsewhere in the country and in the state machinery are on closer examination exactly like those I identify in Tianjin.
15. I cannot, of course, reveal the identity of my interviewees. I provide information on them as far as is possible without compromising their anonymity.
16. Though this does not mean that there may be some corruption relating to the new enterprises, just as there is in relation to other bureaucratic activities.
17. Local social scientists with whom I worked were also unable to obtain such information.
18. In Duckett (1998), especially Chapters 3 and 5, I discuss the emergent markets for consumer goods and real estate in Tianjin and their links with state entrepreneurialism.
19. All the departments I visited had created at least one business, most had more. Officials in the municipal public housing department reported seven, those in each of the five district departments reported (in separate interviews) around four or five each, and one had only one. Municipal and district commerce department officials reported that they had created between six and eight businesses by mid-1993. See also Liu (1993), *Tianjin Daily* March 8, 1993, November 17, 1992, April 4, 1993, July 17, 1993, February 6, 1993. For more detailed information on the different businesses these departments created, the number of staff they employed, their spheres of businesses and other characteristics discussed in this paper, see Duckett (1998).
20. That is funds used by state agencies that fall outside the formal state budget, but are still part of state revenues and expenditures. For a discussion see Wong, Heady, and Woo (1995).
21. Interview, Tianjin public housing department official (1993). Sources of investment (but not actual amounts) were reported by officials in the departments that had created the businesses. Corroboration that departments across the country have been investing in such businesses (but not of these particular cases) is found in official central government documents translated or reported in Summary of World Broadcasts October 18, 1988, February 15, 1989, August 30, 1989, August 7, 1992, October 15, 1992, November 27, 1993. See also Li (1992), and Lin and Zhang (1999).
22. Note that the basic salaries of state employees, which are paid from the state budget, cannot be changed, and so local increases in salaries usually take the form of increased “bonus” payments.
23. Interviews with state officials, Tianjin (1993, 1996).
24. This interpretation, based on my interviews with state officials in departments that had created businesses, is corroborated by Li (1992).
25. For evidence of such practices in the “civil affairs” departments that provide social welfare, see *Zhongguo Minzheng* (Civil Affairs in China, an internal publication of China's state “civil affairs” departments), 1996 (2) 32.

26. Interview with civil affairs officials (1999), confirmed by a Chinese co-researcher.
27. Interviews with commerce and public property department officials (1993).
28. There have been several “streamlining” drives since the early 1980s, most of which met with limited success. See Burns (1993). The appearance of the new businesses in the early 1990s coincided with another attempt to cut back the state bureaucracy.
29. Interviews with Tianjin officials; Liu (1993), *Tianjin Daily* (in Chinese) November 17, 1992, February 6, 1993, March 8, 1993.
30. Interviews with public property department officials, 1993.
31. This was acknowledged separately by a commerce system official (1996) and a civil affairs department official (1997), and confirmed to me by three local social scientists in 1996, 1997, 1999.
32. Bureaucratic corruption, profiteering and speculation are widespread in China, but this does not mean that all bureaucratic behavior is corrupt. Li (1992) argues that many state businesses appeared in the late 1980s, and that these were simply profiteering on the basis of the dual track (state and market) pricing system. Such businesses could not be considered “entrepreneurial.” Li argues that the businesses that appeared in the 1990s were different because they were generally not profiteering.
33. That is, the profits are retained within the department rather than being handed over to the state finance bureau.
34. As White (1996) has acknowledged.
35. As also argued by Lin and Zhang (1999).
36. Riskin (1987) is a classic text on China’s political economy after 1949.
37. From Naughton (1995, p. 329), who notes these official figures may be inflated.
38. The older officials I interviewed were by no means all anti-market in principle. Many were critical of features of the prereform system even if they were also critical of some of the problems created by market reform.
39. Some writing has begun implicitly to show states can change and adapt. See for example *IDS Bulletin*, 1992-93, where change is revealed in a range of developing countries.
40. See Lin and Zhang (1999) for a negative view of the state businesses.
41. I have specifically pursued this issue with interviewees, but none was able to give a clear answer.
42. Interviews with Tianjin officials (1996, 1997).
43. Interviews with officials in economically less dynamic parts of Tianjin (1993, 1996). See Duckett (1999).

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