In his book From Mao to Market, Andrew Wedeman argues that China succeeded in moving from a Maoist command economy to a market economy because the central government failed to prevent local governments from forcing prices to market levels. Having partially decontrolled the economy in the early 1980s, economic reformers balked at price reform, opting instead for a hybrid system wherein commodities had two prices, one fixed and one floating. Depressed fixed prices led to “resource wars,” as localities battled each other for control over undervalued commodities while inflated consumer goods prices fueled a headlong investment boom that saturated markets and led to the erection of import barriers. Although local rent seeking and protectionism appeared to carve up the economy, in reality they had not only pushed prices to market levels and cleared the way for sweeping reforms in the 1980s, they had also pushed China past the “pitfalls” of reform that entrapped other socialist economies.

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To Maggie, Kelly, Martha, and Miles
From Mao to Market
Rent Seeking, Local Protectionism, and Marketization in China

ANDREW H. WEDEMAN
University of Nebraska, Lincoln
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THE origins of this book lie in a bit of graduate school “bad luck.” In the spring of 1991, having completed my course work at the University of California, Los Angeles, I arrived at Beijing University ostensibly to research a dissertation on coalition building within the National People’s Congress (NPC). Unable to make any headway on that topic due to the tight political atmosphere at that time and the utter lack of usable data, I sought solace by reading the Chinese newspapers. As I read day after day in the cold and dark of the third-floor periodicals room of the old Beijing University Library, I became intrigued by a series of stories on “local protectionism” that appeared in Jingji Ribao and Jingji Cankao. On the surface, the stories told a tale of “economic warlords” who were slicing the Chinese economy into “dukedoms” barricaded behind networks of “bamboo walls and brick ramparts.” As I explored the topic further, moving deeper and deeper into the provincial newspapers and the academic journals, it became clear that local protectionism was not only a far more interesting topic than coalition building within the NPC, but one that seemed to have profound implications for how we interpreted the reform process in post-Mao China.

At the time, many interpreted local protectionism as evidence that China was limping toward “disintegration” as the reform process “stalled out” in the early 1990s. When the Chinese economy failed to disintegrate and the reform process roared back into high gear in 1993, local protectionism was quickly relegated to the status of one of those “unintended consequences” of Deng’s ad hoc approach to reform – an interesting but transitory phenomenon produced by contractions between supply and demand, as one prominent economist told me at the time. The story that emerged out of the pages of Heilongjiang Ribao, Guizhou Ribao, Hebei Ribao, and other provincial papers was not, however, one of some minor problem but rather a titanic struggle for control; control over a host of agricultural commodities, control over access to local markets, involving local governments, farmers, and speculators across most of China. It was also
clear that local protectionism was actually a process through which rent seeking was undermining and destroying a system of fixed prices and monopolies that had been left in place when other parts of the Chinese economy had been reformed in the early 1980s. Far from an unintended consequence it was clear that local protectionism was in fact a form of “informal reform” that helped push the Chinese economy from the plan toward the market. And so I argued in my dissertation, *Bamboo Walls and Brick Ramparts*, which I completed in 1994 under the guidance of Professor Richard Baum.

It was not clear for a long time afterward, however, how significant local protectionism had been. After being “sent down” to the University of Nebraska, Lincoln, in 1994 I pondered the great “so what” question for many years as I sought to transform the dissertation into a book manuscript. But it was not until after analyzing the divergent paths taken by China, on the one hand, and the successor states to the former Soviet Union and the Eastern bloc, on the other, that it became clear that not only had local protectionism and rent seeking forced prices toward market-clearing levels and crippled the system of monopsonies through which the state sought to extract rents, it had also helped propel China across the “pitfalls of incremental reform” that had ensnared most post-Leninist economies. According to the proponents of the “big bang” approach to reform, partial reforms are likely to be hijacked by the “initial winners,” degenerate into rent seeking and endemic corruption, and end up producing degenerate and dysfunctional economic systems incapable of generating long-term growth. By their logic, China’s cautious reformers had done virtually everything wrong and at the time I began researching local protectionism it appeared that China was destined to remain stuck between the plan and the market.

Yet, as I argue herein, China’s reforms did not bog down halfway between Mao and the market precisely because rent seeking and local protectionism continued to push the reform process forward in a chaotic and uncontrolled manner, thus setting the stage for reforms in 1993 that may have appeared radical but were in many ways actually a process of “rectifying the names.” That is, reforms that brought regime policy in line with the changes wrought by rent seeking and local protectionism during the years when the top-down reform process had stalled out. China thus escaped from the pitfalls created by Deng’s ad hoc, incremental approach because although it was possible for antireform forces to freeze the top-down process, they could not control the forces unleashed by Deng’s attempt to juxtapose market forces and a command economy.

Over the many years, various people have contributed to the evolution of this book, often without knowing it. While I was in Beijing, Richard Garbaccio schooled me in the complexities of Chinese economic data and, most important,
Preface

where to find the bookstores from whence one could get the data; Clayton Dube, who though living in a shoe factory outside Shanghai at the time, helped sharpen my thinking about local protectionism; David Holly kindly let me rummage through the voluminous clipping files of the Los Angeles Times’ Beijing bureau; while others who must remain nameless helped provide access to various information and shared their insights. In Hong Kong, Jean Hung and Professor Kuan Hsin-chi provided a warm and stimulating intellectual environment at the Universities Service Centre where I benefited from the scholarly support and comradeship of various people, including Harold Tanner, Zhu Feng, Leslyn Hall, Pierre Landry, and Lo Chi-cheng. Back at UCLA, David Lake introduced me to political economy and the utility of trade theory to understanding the dynamics of local protectionism; Roland Stevens helped me work through some of the early modeling; while Cindy Fan supported my work throughout. At the University of Nebraska, Brian Humes endeavored to teach me the black art of game theory. Financially, this work has been supported over the years by grants from the Yenching University Alumni Association, the Graham Dissertation Fund, the Institute for Global Conflict and Cooperation, the UCLA Chancellor’s Office, and the Research Council of the University of Nebraska.

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“Before the gates of Sanluan City”