

MARKET IN STATE

Focusing on the evolving relations between the state and market in the post-Mao reform era, Yongnian Zheng and Yanjie Huang present a theory of Chinese capitalism by identifying and analyzing three layers of the market system in the contemporary Chinese economy: a free market economy at the bottom, state capitalism at the top, and a middle ground in between. By examining Chinese economic practices against the dominant schools of Western political economy and classical Chinese economic thought, the authors set out the analytical framework of “market in state” to conceptualize the market not as an autonomous, self-regulating order but as part and parcel of a state-centered order. Zheng and Huang show how state (political) principles are dominant over market (economic) principles in China’s economy. As the Chinese economy continues to grow and globalize, its internal balance will likely have a large impact upon economies across the world.

YONGNIAN ZHENG is Professor and Director of the East Asian Institute at the National University of Singapore. He is the author of *The Chinese Communist Party as Organizational Emperor* (2010), *Technological Empowerment* (2007), *Globalization and State Transformation in China* (Cambridge, 2004), and *Discovering Chinese Nationalism in China* (Cambridge, 1999).

YANJIE HUANG is conducting doctoral research on modern Chinese history at Columbia University, New York. He has published papers and book chapters on China’s state sector, food security, and monetary history.

Cambridge University Press
978-1-108-47344-6 — Market in State
Yongnian Zheng , Yanjie Huang
Frontmatter
[More Information](#)

Market in State

The Political Economy of Domination in China

YONGNIAN ZHENG

National University of Singapore

YANJIE HUANG

Columbia University, New York



CAMBRIDGE
UNIVERSITY PRESS

Cambridge University Press
978-1-108-47344-6 — Market in State
Yongnian Zheng, Yanjie Huang
Frontmatter
[More Information](#)

CAMBRIDGE UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom

One Liberty Plaza, 20th Floor, New York, NY 10006, USA

477 Williamstown Road, Port Melbourne, VIC 3207, Australia

314–321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre, New Delhi – 110025, India

79 Anson Road, #06–04/06, Singapore 079906

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning, and research at the highest international levels of excellence.

www.cambridge.org

Information on this title: www.cambridge.org/9781108473446

DOI: 10.1017/9781108562119

© Yongnian Zheng and Yanjie Huang 2018

This publication is in copyright. Subject to statutory exception and to the provisions of relevant collective licensing agreements, no reproduction of any part may take place without the written permission of Cambridge University Press.

First published 2018

Printed in the United States of America by Sheridan Books, Inc.

A catalogue record for this publication is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Names: Zheng, Yongnian, author. | Huang, Yanjie, author.

Title: Market in state : the political economy of domination in China / Yongnian Zheng,

National University of Singapore, Yanjie Huang, Columbia University, New York.

Description: Cambridge, United Kingdom ; New York, NY : Cambridge University Press, 2018. |

Includes bibliographical references and index.

Identifiers: LCCN 2018012811 | ISBN 9781108473446 (hardback : alk. paper) |

ISBN 9781108461573 (pbk. : alk. paper)

Subjects: LCSH: China—Economic policy. | China—Economic conditions. |

Economic development—China. | Government business enterprises—China.

Classification: LCC HC427 .Z457 2018 | DDC 330.951—dc23

LC record available at <https://lcn.loc.gov/2018012811>

ISBN 978-1-108-47344-6 Hardback

ISBN 978-1-108-46157-3 Paperback

Cambridge University Press has no responsibility for the persistence or accuracy of URLs for external or third-party internet websites referred to in this publication and does not guarantee that any content on such websites is, or will remain, accurate or appropriate.

Contents

<i>List of Figures</i>	<i>page</i> vii
<i>List of Tables</i>	ix
<i>Preface</i>	xi
Introduction	1
PART I THEORY	27
1 Market, State, and Capitalism: Theories of Political Economy and China	29
2 Market in State: A Theory of Chinese Political Economy	78
PART II HISTORY	129
3 The State and Market in Imperial China	131
4 Origins of the Modern Chinese Political Economy: Geopolitics, Mobilization, and State-Building	190
PART III CONTEMPORARY INSTITUTIONS	247
5 Grassroots Capitalism and Marketization: Dynamics of Market Reform in the Contemporary Era	249
6 The Middle Ground: The Nexus between the State and Private Enterprises	298
7 The Money Regimes: Fiscal and Monetary Reforms and Their Limits	339

Cambridge University Press
978-1-108-47344-6 — Market in State
Yongnian Zheng , Yanjie Huang
Frontmatter
[More Information](#)

vi	<i>Contents</i>	
8	State Capitalism: The Centrally Managed State-Owned Enterprises and Economic Domination	378
	Conclusion	425
	<i>Bibliography</i>	447
	<i>Index</i>	469

Figures

3.1 Concentric circles of organizational dependency in the traditional imperial system	<i>page</i> 140
4.1 Share of defense in PRC budget and GDP, 1950–1993	240
6.1 The political opportunity structure for private entrepreneurs	329
7.1 Share of central and local revenues, 1991–2016	349
7.2 Land transfer and local revenue, 1999–2016	354
8.1 Capitalization of state-owned and state-holding manufacturing enterprises, 1998–2015	391
8.2 Share of the state sector in overall economy	392
8.3 Profits of centrally managed and locally managed SOEs, 2002–2016	393
8.4 Total assets and profits of centrally managed SOEs	394
8.5 SOEs’ contribution to fiscal revenue	399
8.6 Return on capital for state and nonstate enterprises	407
8.7 Intersectoral wage differentials in Zhejiang, 2008	409

Cambridge University Press
978-1-108-47344-6 — Market in State
Yongnian Zheng , Yanjie Huang
Frontmatter
[More Information](#)

Tables

8.1 List of main sectors in the strategic market	<i>page</i> 390
8.2 Political Bureau members with business administration background (2012)	405

Cambridge University Press
978-1-108-47344-6 — Market in State
Yongnian Zheng , Yanjie Huang
Frontmatter
[More Information](#)

Preface

This book is both the fruit of our long-term intellectual speculation and the product of our troubled times. The book was conceived more than a decade ago when Yongnian completed his research project on *Globalization and State Transformation in China* (Cambridge University Press, 2004). He certainly did not foresee this research project kickstarting a series of related projects on China's party-state system of the time. In 2005, after spending several resourceful research years with the East Asian Institute (EAI), National University of Singapore, Yongnian moved to the University of Nottingham to head the China Policy Institute and subsequently to embark on a research project on the Chinese Communist Party (CCP). In 2010, the findings of that project were laid out in a book entitled *The Chinese Communist Party as an Organizational Emperor*, which discusses the historical roots and contemporary transformation of the most powerful, yet understudied, political party of our time – the CCP – and analyzes how the party has dominated the state both within the party-state system and outside society. For Yongnian, the project raised more questions than it solved. For one, to fully examine the transformation of the Chinese state, it is necessary to account for the tremendous economic power of the party-state and the huge state sector under its aegis. For another, a theoretically grounded and historically informed research program on contemporary institutions seems to hold promise for other major institutions in a society like China. In this sense, the book raised interesting questions for related research.

We embarked on the market-in-state project after we met at the EAI in late 2008, when Yongnian returned to direct the institute and Yanjie joined the institute as a junior researcher. The idea of a book project on the Chinese political economy system gradually took shape during frequent discussions among ourselves or with colleagues and visitors at the EAI over

dinner or afternoon tea. Our main concerns were the well-exposed downsides of China's epic growth story: the increasingly imbalanced economic structure, the eroding basis of social trust, the widening gap of income inequality, and other social costs of high growth. We could not accept mainstream diagnoses of these problems, which put all the blame squarely on either immoral and destructive market forces or a corrupt and inefficient Chinese state. A shared concern for these contemporary issues and debates led us to conclude that a timely theoretical intervention was needed in the very concept of the market in the Chinese context.

When the global financial crisis sent seismic waves across the Asia-Pacific region in 2008, we watched developments in China anxiously as a stimulus package of 4 trillion yuan impinged on an already overheated economy and an anomic society. We had mixed feelings about the crisis in China: It was indeed the worst external shock that had hit the Chinese economy since reform, but it also presented opportunities for again reforming the Chinese economy and rebuilding society. We anticipated a quick and decisive response, but the sheer amount of credit that the Chinese government pumped into the economy through the state sector still caught us off guard. Within a couple of years, the assets and investment portfolios of centrally managed state-owned enterprises (SOEs) and their subsidiaries ballooned. Although China has successfully prevented a nightmarish economic outcome and engaged in meaningful social reforms, plans for comprehensive social reforms and economic rebalancing have been shelved. Meanwhile, credit expansion for physical infrastructure and real estate has led to rising inflation, increasing inequality, and a disturbing housing bubble. Our disappointment with these developments and our intellectual curiosity about the logic behind all these led us to explore ways to try to make sense of market-state relations in China from both historical and contemporary angles.

The writing of this book took about six years. The first few chapters to be generated from our initial probing were the historical chapters and the one on centrally managed SOEs. We were very fortunate to have the opportunity to present an earlier draft of the chapter on SOEs at a conference on public sector reforms in China and India held at the Copenhagen Business School in late September 2011, where we received positive feedback from our host, Kjeld Erik Brødsgaard, and several other scholars. However, the drafting of other chapters and the conceptualization of the market in state proved more difficult than expected. We had to sift through a wealth of empirical materials and gradually expand the scope of investigation to the fiscal systems, market reforms, and the relationship between the state and

private entrepreneurs. Meanwhile, we firmed up the theoretical chapters that spelt out clearly the ideas of the market in state. The first draft was ready by July 2015. By the time we came to the final draft in December 2017, we had already gone through three rounds of revision, partly to refine our arguments and partly to respond to rapidly evolving external events.

Despite all our endeavors, we were unable to account for the full complexity of the Chinese economy as it enters another unpredictable “new normal” phase of slower growth, mounting social challenges, and hard structural reforms. Without restructuring the economy and protecting society, China will risk not only the “middle income trap” but also major social upheaval. The stakes are high but the outcome remains uncertain. Notably, any institutional outcome from these troubled post-crisis times, if durable, must combine with the mixed economy, characterized by a balance between the state and market and a truly comprehensive program of social protection.

In the long process of researching and writing this book, we have benefited from fruitful discussion with and constructive feedback from our colleagues at the EAI, other research institutes, and teaching departments of the National University of Singapore. Wang Gungwu, a renowned historian of China and the institute’s chairman, has provided us with unfailing intellectual and moral support. With insightful comments and observations, he has always encouraged us to transcend prevailing concerns and analyze China’s history from the angle of an ancient civilization and its changing position in the world. John Wong, an economist on modern China in the Southeast Asian region, has also unreservedly shared with us many of his views on the modern Chinese political economy. We would also like to thank, among many of our EAI colleagues, Chen Chien-Hsun, Chen Gang, Chen Kang, Lance Gore, Kong Tuan Yuen, Lye Laing Fook, Qi Dongtao, Qian Jiwei, Shan Wei, Yu Hong, Sarah Tong Yueting, and Zhao Litao, whose ideas and comments have inspired us at different stages.

We would also like to thank our friends and colleagues who have shared with us their interests and research findings on similar topics during friendly exchanges in Singapore and elsewhere. These intellectual exchanges were especially stimulating. We would particularly like to thank Daniel A. Bell, Kjeld Erik Brødsgaard, Peter Nolan, Lawrence J. Lau, Barry Naughton, Christine Wong, Dwight Perkins, Justine Lin Yifu, Lin Shuanglin, Yu Yongding, Ge Yanfeng, Gong Sen, Hou Yunchun, David Li Daokui, Li Jiange, Li Shi, Liu Shijin, Wu Guoguang, Andrew Warder, Jean Oi, Lynn White, Joseph Fewsmith, and Jae Ho Chung.

On the business side, we benefited greatly from many intensive discussions and interviews with Chinese entrepreneurs in both the state and private sectors, particularly many members of the China Entrepreneur Club. They not only provided us with their personal experiences of doing business in China, but also offered rich insights into how the Chinese political economy works. Our special thanks go to Mo Daoming, a successful entrepreneur based in Guangzhou and Hong Kong, for his great assistance rendered during the many years of our research. Mo is an exceptional entrepreneur in today's China. Besides sharing his rich business experience with us, he linked us to many other entrepreneurs for us to expand on our research bases. Many of his insights were reflected in our research in one way or another. Equally important were our frequent discussions with Chinese government officials at both the central and local levels. Without their insights, it would have been more difficult for us to conceptualize market-state relations in China today.

For years, Yongnian has attended the annual China Development Forum organized by the China Development Research Foundation. Regular attendees include Fortune 500 companies, international organizations, and academic institutions. Since its inception, it has been one of the most important occasions for anyone seeking an understanding of China's economic reforms. Yongnian has taken the opportunity to exchange views with CEOs of multinational companies, research experts from international organizations, and university scholars. He would particularly like to thank, among others, Masahiko Aoki (who passed away in 2015), Michael J. Boskin, Martin Feldstein, Ricardo Melendez-Ortiz, Stephen S. Roach, Muriel Roubini, Michael Spence, Nicholas Stern, Joseph Stiglitz, Ronnie C. Chan, Fan Gang, Lu Mai, Lu Zhongyuan, Vincent H. S. Lo, and Wu Jinglian.

Both authors also want to acknowledge the excellent editorial support and guidance provided by Stephen Acerra, Karen Maloney, Grace Morris, Anwarali Shaheer, Kristy Barker, and Kristina Deusch. Karen deserves special mention as she worked on our manuscript from its initial review right through to the end of its publication. We would also like to express our heartfelt thanks to the three anonymous reviewers who offered invaluable suggestions during the review process.

Last but not least, we want to thank our family members, particularly Lijun and Jielu, for their contribution to the projects. Their selfless moral and intellectual support has been vital in our scholarly pursuit.