

CHINA'S POLICY-MAKING IN THE CONTEXT OF THE REFORM

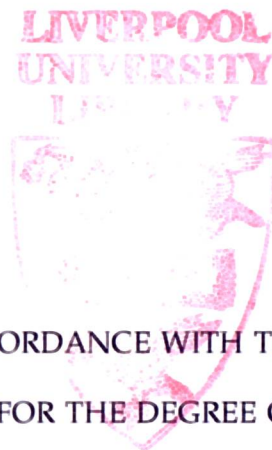
(1976-1990)

WITH A FOCUS ON THE ESTABLISHMENT OF ECONOMIC
DEVELOPMENT ZONES

YUELUN LIU

UNIVERSITY OF LIVERPOOL

THE INSTITUTE OF PUBLIC ADMINISTRATION AND MANAGEMENT



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ABBREVIATIONS

- BSM: Baoshan Steel Mill
- CCP: Chinese Communist Party
- CKHC: China Kang Hua Corporation
- CMSNC: China Merchants Steam Navigation Company
- CNOOC: China National Offshore Oil Company
- CNTIC: China National Technical Import Corporation
- DBEDZ: Daya Bay Economic Development Zone
- ETDZs: Economic and Technological Development Zones
- GETDZ: Guangzhou Economic and Technological Development zone
- MMI: Ministry of Metallurgical Industry
- MOFERT: Ministry of Foreign Economic Relationship and Trade
- PMC: Panda Motors Corporation
- PRC: People's Republic of China
- RMB: Renminbi
- SCSPC: South China Sea Petrochemical Complex
- SEZs: Special Economic Zones
- SMMPC: The Second Motor Manufacturing of China
- SPC: State Planning Committee

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Chapter One

Introduction

1.1. The Scope of the Research

This thesis aims to improve our knowledge and understanding of the operation, dynamics, and causes of Chinese policy-making in the recent past. It treats the policy-making activity as a dependent variable and seeks to find the causal relationships between the activity and different determinants. In order to achieve the goal, some basic questions need to be answered: Who participated in the policy-making process? What sort of participants were dominant in this process? Why was a particular policy adopted? What was the principal motivation behind the policy-making activities? How were the policies made? And through what approach and by what means were the policies designed and adopted? However, these questions are only involved in static observation of the policy-making process and have not touched the dynamic changes of the policy-making pattern in China. Therefore, it is necessary to set forth some further questions: Were there clearly recognizable periods into which the development of the Chinese policy-making process in the recent past can be divided? If it was true, what were the major features of the policy-making pattern in each period? Why was there such a transformation in these years? And what forces had driven the movement?

In order to answer these questions, the author selects a particular policy area—the

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policies concerning the establishment of economic development zones, including the Special Economic Zones(SEZs) and the Economic and Technological Development Zones(ETDZs)—as the focus of investigation and analysis. These policies occupy an important place within the aggregation of Chinese public policies. In China, economic policies have been a key area since 1976, when the "Gang of Four"¹ fell from power, because the credibility of the political system was largely dependent on how well the economy fared. The new leadership had to legitimise themselves in the eyes of the people, which meant not only reimposing normality, but also developing the economy and providing some of the fruits of development to the people who had long be denied much increase in the living standard. Under the circumstance, economic policies became a Political focal point. Furthermore, the policies concerning the establishment of different types of economic development zones hold a very important position among economic policies. The Chinese leaders clearly see that the policies play a significant role in attracting foreign capital, technology and management methods, as well as in introducing competition and dynamics to the domestic economy. So they have given much attention to the formulation of the policies. By examining the representative policy-making process, it is possible to reveal the actual operational mechanism and the dynamic of the Chinese policy-making system in the post-Mao era.

The study covers the time span between 1976 and 1990. The most distinct hallmark of this era was the constant but fluctuating reform movement. Without referring to

¹An ultra-leftist wing within the party leadership.

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the content of the reform and without considering the significant changes brought about by the reform, we can never understand any important development in China during this era. Thus, in discussing the changes of the Chinese policy-making pattern in these years, it is necessary to place the policy-making activities in the context of the reform. Generally, during the dynamic era, China had passed through three periods, each of which was characterized by some specific features of the political system, the economic management, social conditions, and ideological principles. Correspondingly, in each of the period there was a typical pattern of policy-making process. The main concern of the thesis are the natures of these patterns, their alternative replacement and the causes of these changes.

1.2. Research tools and approaches

In this thesis, two types of existing theoretical tools will be applied to study the Chinese policy-making process. The first type includes some theoretical models created by political scientists and policy analysts to help us to understand the policy-making process in Western countries. These models use different patterns of concept, rules and principles to simplify and clarify policy-making processes. During the last several decades, a variety of these models have been developed, for example, the rationality model which emphasises means-end analysis and maximization of the profit of preferred alternatives. Another two examples are the incremental model which describes policy-making as an adjusting process through constant interest conflicts and consensus building, and the contingent model which recognizes that

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different policy issues and different situations require different policy-making approaches. Although these models were established on the basis of practice in Western countries, and they were built for the purpose of improving the understanding of policy-making processes in the Western-style systems, this thesis tries to borrow some ideas and principles to deal with policy-making practices in China.

Another type of the tool is the theoretical models offered by Western scholars to depict the characteristics of the policy-making process in China. From the 1960s onward, Western analysts have constructed a variety of frameworks to explain the operation of the Chinese policy-making system. Some of them are mainly concerned with the question of who plays the leading role in the policy-making process,² some of them primarily deal with the aspect of why particular policies are adopted.³ All these models have shed light on the actual running of the Chinese policy-making system from different perspectives. Therefore, some of these ideas will also be incorporated into this study.

However, the author has considerable reservations about the above-mentioned models. All the models are based on information available at different times and illuminate a part of the story of the policy-making process in China, but none of them are applicable to the whole era of reform. Policy-making in these years was so

²For example, the Mao-in-command model and the bureaucracy-in-chief model.

³Such as the two-line-struggle model and the factional model.

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dynamic and complicated that no existing model is relevant to the explanation of the practices in all stages of the era. So, an effort should be made to build our own framework which may accommodate more dimensions and causal relationships and explain the constant shift in policy-making pattern in this period.

The main study approach in this thesis is case analysis. The author agrees with the idea suggested by some scholars in the Chinese study: the examination of only China's state and party constitutions, legal status, and other authoritative policy statements is not sufficient to reveal the structure of policy-making. This alone cannot insure an understanding of how China's political system has actually functioned. A large number of the rules and procedures of government which are followed in practice may not be formalized, they may function alongside of, or in place of, formal rules. "Therefore, as a guide for understanding the policy-making process in China, case studies of how policies are made may prove more reliable than simple analysis of formal rules and official statements made by Peking."⁴ In addition, tracing the whole process of a specific policy from the genesis of an initiative to the adoption of a mature programme may identify the forces pushing the issue onto the agenda and shaping the outcome, and identify a wider range of pertinent players and explain their involvement in the issue.⁵

From numerous cases of China's policy-making, the author chooses four of them as

⁴Parris H. Chang, Power and Policy in China, The Pennsylvania State University Press, 1984, P.4.

⁵See Kenneth Liberthal and Michael Oksenberg, Policy Making in China: Leaders, Structures, and Processes, Princeton University Press, 1988, P.393.

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a sample for examination. Two considerations influence the selection of the four cases. Firstly, each of these cases is a typical example which represents the nature of some similar processes, and each of them has received enormous attention from politicians and bureaucrats at different levels. By examining the cases it is helpful to illuminate some common features of the policy-making process in different periods. For instance, in studying the policy-making process in the transitional period from Mao's era to the post-Mao era(1976-1979), the project of Baoshan Steel Mill is selected as the focus of analysis.⁶ This was the largest imported project in China during the 1970s and was designed as a showcase example of gaining access to high technology through cooperation with foreign partners. Also, it was the most important item among the 120 major construction projects, which constituted the core content in the ambitious 10-year development plan worked out by a newly arisen political faction within the leadership to legitimize its power position.⁷ Surrounding the project there were tense factional conflicts within the leadership. It therefore is a good basis for the analysis of underlying influences of factional power struggles on the Chinese policy-making process.

In analyzing policy-making in the period of the partial-reform(1979-1984), focus is placed on the establishment of the Shenzhen Special Economic Zone(the Shenzhen

⁶It should be noted that different economic development zones appeared after 1979. For the convenience of comparison, in this period the author selects the steel project as the object of analysis. This case, which is similar to the decision concerning establishment of the SEZs, also features the attempt by the Chinese leadership to introduce foreign investment and technology into China.

⁷For the details of the policy-making process concerning the project, please see the Chapter Five of this thesis.

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SEZ). The Shenzhen SEZ was the largest and the most important zone among the four original SEZs. These zones were sponsored by the pragmatic leader Deng Xiaoping and enjoyed the most preferential treatment authorized by the central government in attracting foreign investment and technology. As a representative model of the SEZs taken by the Chinese leadership, the Shenzhen SEZ attracted much attention from the top leaders, politicians, and bureaucrats at both central and local levels. The policies concerning the genesis and development of the zone typically embodied the pragmatic values and experimental approach.⁸ Therefore, analyzing the case is beneficial to revealing the change of policy-making pattern with the launch of the reform movement.

With regard to the period of all-round reform(1986-1990), the thesis chooses two cases which feature another two different patterns of policy-making. One is the establishment of the Guangzhou Economic and Technological Development Zone(the Guangzhou ETDZ). This zone is one of the original 10 ETDZs located in coastal cities. The establishment of this sort of zone was an extension of the strategy concerning the SEZs. They were also authorized by the central government, and enjoyed similar preferential treatment to the SEZs. Among them, the Guangzhou ETDZ has been taken by the Chinese leadership as one of the most successful examples.⁹ Through the case study, it can be shown the extent to which specialists had been involved in the policy-making process and to what extent the rational approach had been applied

⁸See the analysis in the Chapter Six of this thesis.

⁹See the descriptions in Chapter Seven of the thesis.

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to formulate the policies.

The second case is the establishment of the Daya Bay Economic Development Zone(the DBEDZ). This is representative of a variety of economic development zones, special foreign trade zones, technological co-operation zones, and tax-free zones sponsored and managed by local governments at different levels. These zones have proliferated since the second half of the 1980s.¹⁰ They have enjoyed more autonomy and more flexible policies than the above-mentioned types. The analysis of the case of the DBEDZ can demonstrate the impact of interest conflicts between regional authorities, and between local governments and the central government, on the policy-making activities in the context of economic marketization and administrative decentralization.¹¹

The Second consideration to influence our case selection is the availability of information. All the four cases chosen by the study have received substantial press coverage. A lot of reports, articles, and data can be found in various journals, newspapers, books, and official documents. Also some pertinent officials were willing to provide unpublished information in our interviews. Such available information concerning the cases makes it possible to undertake a detailed analysis.

1.3. Sources of research materials

¹⁰See *Cheng Ming*, No.175, May 1992, PP.16-17.

¹¹See Chapter Eight of this Thesis.

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The main sources used in this thesis can be listed as the following:

1. Interviews with officials in different agencies of the government and the party. From December 1990 to March 1991, field work was carried out in China. During these several months, the author was able to interview officials in the following agencies: the State Planning Committee(SPC), the Ministry of Foreign Economic Relationship and Trade(MOFERT), the Customs General Committee of PRC, the Planning Committee of Guangdong Province, the Planning Committee of Jilin Province, the Guangdong Economic System Reform Committee, the Policy Research Section of the Guangdong Party Committee, the Administrative Office of the Guangdong SEZs, the Policy Research Section of Guangzhou Party Committee, the Administrative Committee of the Guangzhou ETDZ, the Planning Committee of Shenzhen Municipality, the Shenzhen Economic System Reform Committee, the Policy Research Section of the Shenzhen Party Committee, the General Office of Huizhou Municipal Government, and the Administrative Committee of the DBEDZ. The interviewees include senior and junior officials, designers of policy documents and projects, and researchers in related areas. The author was especially interested in learning about who participated in actual policy-making processes and what were their specific roles, why a particular policy initiative was adopted, how a policy document was worked out, and what factors determined the behaviours, motives, and methods of the policy actors. Generally, the officials at the local levels were more willing to answer the questions than those at the central level.

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2. Documentary materials published by the Chinese authority, particularly the speeches and works of the party leaders, official statements, documents, regulations and statistical yearbooks issued by the party and the government. For example, Selected Works of Deng Xiaoping, Selection of Important Literature since the Third Plenum of the 11th Central Committee, Documents of the First Session of the Fifth National People's Congress of the PRC, Selected Documents concerning the Reform in the Shenzhen SEZ, The Report on the Preparation of the Guangzhou ETDZ, and Statistical Yearbook of China, etc. These materials provide the author with part of the first-hand policy outputs, original points of view and values of the policy makers, and some important data concerning the reform programme.

3. Chinese newspapers, periodicals, and books. For example, *People's Daily*, *Worker's Daily*, *Economical Daily*, *Nanfang Daily*, China Today: Administration of Investment in Fixed Assets¹², Current Economic Problems in China¹³, and New Strategy for China's Economy¹⁴, etc..This source of material provided the author with some important information about what happened in the recent past and the interpretations of Chinese scholars, reporters, and experts.

4. Reports and articles from journals and newspapers in Hong Kong. Hong Kong's media offers a valuable source of data which may be unavailable on the mainland of

¹²By Zhou Daojong, *et al.*.

¹³By Xue Muqiao.

¹⁴By Ma Hong.

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China.

5. Research articles and books by Western scholars and correspondents. Since the early 1980s, Western scholars, journalists, and correspondents have gained access to Chinese organizations. Their investigations and research achievements also provide a source of information, and particularly, different interpretations of recent developments in China.

These diversified sources enable the author to analyze the actual operation of policy-making behind the formal structure. However, these sources have their limitations. For one thing, the study of the Chinese policy-making process needs substantial background data on the main participants and information relating to interactions between different political leaders and local officials, and between political leaders and bureaucrats. Even though the author has gained some of the relevant material, generally access to this sort of information is rare. This limitation may weaken the exploration of the intention, preference, and values of policy makers and the interplay between different actors. For another, the policy area on which the study focuses is an important sector at a time when the leaders paid much attention to the attainment of economic growth, and the cases we choose are typical of decision making in this area. However, the author cannot assert that this data is representative of policy-making in all other areas in China. It should be recognized that the Chinese policy-making system is very complex and the policy-making activities in different sectors are also different from each other. Therefore, the ideas proposed in this thesis may

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have validity in the economic realm or in an even smaller area, but may not be generalized and applied to other sectors.¹⁵

1.4. Principal ideas of the thesis

This thesis proposes a contingent model to describe and explain the Chinese economic policy-making process in the reform era. The aim of this model is to illuminate the evolution of policy-making activities from one mode to another and seek what forces drive the movement. Toward this aim, the model focuses its attention on elaborating the interrelationships between a set of independent variables and a group of dependent variables. The independent variables include economic institutions, power distribution and power conflicts within the leadership, social conditions, and ideology. The dependent variables are the changes of policy-making modes, which is taken as a pattern of behaviour and performance of policy actors. A particular policy-making mode can be recognized from three dimensions. The first concerns the role of participants in the policy-making process; the second involves motivating factors in the policy initiation, policy design, and policy adoption; the third is related to the means, methods, and procedures adopted by policy makers.

The model suggests that during the reform era all the independent variables were changing constantly and the changes of one or more of them had brought about a corresponding transformation of the policy-making mode. The model suggests further

¹⁵For example, foreign policy, cultural and educational policy, or defence policy, etc..

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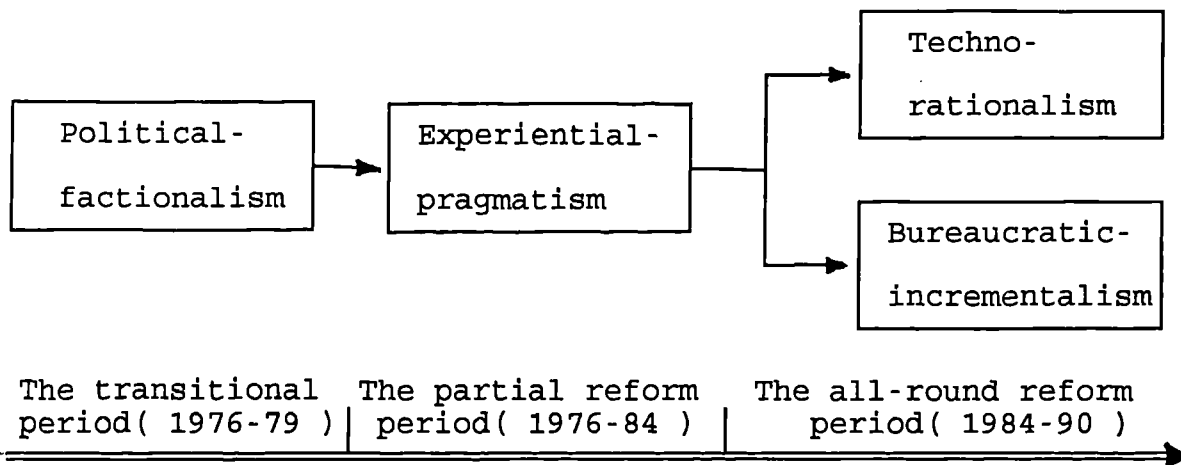
that the independent variables make an impact on the dependent variables through producing a series of constraints and pre-conditions on policy players. They include: who is allowed to play the game of policy-making, where is the arena of decision making, what are the risks and uncertainties facing the decision makers, what means and resources are available for the players, and what sort of values are dominant in the policy process. A summation of these constraints and pre-conditions constitute a specific decision situation. Their changes may result in a replacement of the policy-making mode. Therefore, this model takes the concept of decision situation as the linkage between the independent variables and the dependent variables. Briefly, in this framework alteration of one or more independent variables may bring about changes in the decision situation, and in turn, leads to the transformation of the policy-making mode.

By applying this theoretical model to explain the Chinese policy-making in the economic realm, the thesis divides the Whole reform era into three periods, each of which is characterized by different attributes to the independent variables, the decision situation, and the policy-making mode. The first period is the transitional period, which covers the years from 1976 to 1979. At this stage, we saw a command planning institution of economic management, an over-concentrated power structure and tense power struggles within the leadership, underdeveloped social conditions, and ideological conflicts between the dogmatists and pragmatists. These factors defined a particular decision situation in which the political-factionalism dominated the policy-making process. The second one is the partial reform period which spans

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the years between 1979 and 1984. In this period, there had been attempts to introduce market forces into the economic management system, an initial tendency towards power decentralization and a diminishing of power struggles, and the prevalence of pragmatic thinking. Thus, the experiential-pragmatism mode of policy-making appeared to correspond with the changes in the decision situation. The third period is the all-round reform period, which includes the duration between 1984 and 1990 or so. In this period, we saw the co-existence of two contrasting tendencies. On the one hand, the modernized social conditions and comprehensive participation of specialists in economic policy-making brought about the rise of techno-rationalism; on the other hand, the accumulative efforts of economic marketization and power decentralization resulted in the growth of bureaucratic-incrementalism. This dynamic movement in the policy-making approach is shown in Figure 1.1..

Figure 1.1. The transformation of policy-making mode in the post-Mao era(1976-1990)



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1.5. Outline of the thesis

Chapter Two and Chapter Three of this thesis are devoted to discussing the theoretical models developed by Western scholars in studies of both the Western and Chinese policy making processes. Our own framework will draw some principles and ideas from these models. Chapter Two surveys the evolution of some policy-making models which are mainly concerned with Western-style systems but may be borrowed to study other sorts of systems. The survey begins with the rationalism which emphasizes means-end analysis and maximization of the profit of preferred alternatives. As a root model of policy-making, the strengths and weaknesses of the rational model aroused a long controversy and which generated a series of other approaches. One of them is incremental approach, which describes policy-making as an incremental, serial, and adjusting process with abundant interest conflicts, bargaining, negotiation, and compromise. Following that there were two hybrid approaches: "mixed scanning" and optimal method, both of which made efforts to combine the features of rationalism and incrementalism. Then a set of contingent approaches appeared. They suggested that policy-making models are not necessarily exclusive and that the issue of which one is appropriate in any situation is contingent upon contextual conditions. Besides these models which focus on the behaviours and functions of policy actors in policy-making processes, the survey also traces several composite frameworks that seek to reveal causal links among different components in policy-making processes.

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Chapter Three turns to observe the development of policy-making models concerning the Chinese practice. This chapter suggests that there exists two foci in the research which concern: Who plays the leading role in the policy-making process? and why particular policies are adopted? Surrounding the two foci, four strands of framework have been formed: Politician in control models vs. bureaucracy in chief models; idea contention oriented models vs. power conflicts oriented models. Within each strand, there have been more sub-variants. The chapter reviews the fundamental principles of each model, traces the linkages between the models, illustrates the positive points and defects of them, and sets forth an over-all evaluation of the academic development.

Chapter Four offers our own theoretical framework. This chapter makes an effort to draw some ideas from previous studies and build a contingent model to explain Chinese policy-making in recent years. As already noted, the heart of the model is to illuminate the movement of the Chinese policy-making pattern in the context of the reform. The model is composed of three working parts: a set of independent variables, a set of attributes of the decision situation, and a set of dependent variables. In this model, the independent variables are taken as the driving force that produce changes in the attributes of the decision situation. The decision situation refers to a series of constraints and pre-conditions of policy-making. It represents a kind of possibility under which a particular mode of policy making may appear. The attributes of policy-making mode, as the dependent variables, are used to describe the actual behaviours and functions of policy makers. The causal links among these

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working parts constitute the main framework of the model.

Chapters Five through Eight present an application of the theoretical model to empirical studies. Each chapter deals with concurrent changes in the contextual variables, attributes of decision situations, and features of policy-making mode in a particular period. Chapter Five focuses specifically on the transitional period from Mao's era to the post-Mao era(1976-1979). This chapter traces the Mao's legacy in the system of economic management, political power structure, social conditions, and ideology. It is suggested that the command planning system of economic management and the highly centralized power structure determined that the participation in policy-making was mainly the patent of a small number of political leaders, and most policies were generated at the central level, particularly in the party's organs. Tense factional struggles increased policy actors' concern over power gains or losses rather than the effectiveness and workability of policies. Underdeveloped social conditions led to a situation in which scientific knowledge and technical expertise became a scarce resource, information was unreliable, and rational methods of decision-making were unavailable. The prevalence of dogmatism made policy actors design policy alternatives on the basis of orthodox doctrines. All these attributes of the decision situation determined that the "political-factionalism" was a dominant mode of policy-making in this period. This proposition is supported by case studies of policies concerning a major steel project.

Chapter Six deals with the policy-making process in the partial-reform period. During

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the period a moderate reform was launched by the new pragmatic leadership. With this reform dramatic changes occurred in the contextual variables: market forces started to be introduced into the economic management system; the power of the party and the central government had been separated and decentralized to a certain extent; factional power struggles tended to subside temporarily; and dogmatism as an official ideology had been replaced by pragmatic values and realistic objectives. Correspondingly, the decision situation had changed as well: participation was expanded to a moderate degree; the party organs were no longer the only body involved in the policy-making process; power consideration was not so decisive in determining policy formulation as in the previous period; experience accumulation and the experimental approach were taken as the most effective ways for policy-making; and the dominant values in policy-making had become more practical. These changes led to the transformation of policy-making mode from "political-factionalism" to "experiential-pragmatism". The case study of the policies concerning the SEZs presents evidence to show this transformation.

Chapters Seven and Eight explore the policy-making process in the all-round reform period(1984-1990).¹⁶ By 1984, a comprehensive reform movement was launched. The distinctive features of the movement were a series of radical measures toward economic marketization and power decentralization. In addition, the Chinese leadership sought impetus, for economic development, from education, science, and technology. This resulted in considerable changes in social conditions. The

¹⁶The main part of Chapter Eight has been published in *Public Administration and Development*, February 1993, PP.65-80.

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comprehensive reform brought about a combination of two contrasting modes of policy-making. On the one hand, the development of social conditions and the involvement of specialists in the policy process brought in the "techno-rationalism" which placed stress on the role of expertise, rational means, and systematical procedures. On the other hand, economic marketization and power decentralization resulted in "bureaucratic-incrementalism" which is characterized by interest conflicts and consensus building among governmental agencies. Policy compromise was reached mainly through a series of mutual adjustments and negotiations. Chapters Seven and Eight attempt to depict how the contextual changes led to the transformation of the decision situation and, in turn, led to the rise of the two modes of policy-making. Each chapter includes a relevant case study to support the analysis. Finally, Chapter Nine, the concluding chapter, summarizes the findings of the thesis, and discusses some of the most recent developments in policy-making patterns in China.

Chapter Two

Controversies and Evolution of Models for Policy-Making:

A Literature Survey

A model can be defined as a pattern of symbols, concepts, rules, and processes which simply represent reality. As a creation of the human mind, models provide us with an effective instrument to view our world and comprehend it. Without the help of models, it is difficult to make sense of complex natural and social phenomena.

For a long time, political scientists and policy analysts have developed a variety of models to help us understand policy processes, policy contents, and policy outcomes, etc.. As Thomas Dye indicates:

"The models try to simplify and clarify our thinking about politics and public policy; identify important aspects of policy problems; help us to communicate with each other; direct our efforts to better understand public policy by suggesting what is important and what is unimportant; and suggest explanations for public policy and predict its consequences."¹

Although the methods of political scientists and policy analysts converge when using models to portray a policy process and in explaining their outcomes, they diverge a great deal on the issues over which a model is most appropriate to describe a

¹Thomas Dye, Understanding Public Policy, Prentice-Hall, 1984, P.19.

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particular policy process and which model should be emulated in policy-making. During a long period of controversy, diverse models have been developed. In this survey we would trace the evolution of some important models of policy-making in last several decades.

2.1. Rationalism: the root model of policy-making

The rational model is probably the most familiar model for policy analysts. Some other types of model are derived from the debate about the strength and weakness of the rational model. The model emphasizes means-end analysis and maximization of the profit of preferred alternatives.

The classic statement capturing the idea of rationality in policy-making is found in Simon's early book of "Administrative Behaviour": "The task of rational decision is to select that one of the strategies which is followed by the preferred set of consequences,..."² In Simon's view, the existence of goals or objectives within organizations is of fundamental importance in giving meaning to administrative behaviour. That is, administrative behaviour is purposive if it is guided by goals. In any organization there might be a number of ways of reaching goals, and when faced with the need to make a choice between alternatives the rational decision makers should choose the alternative most likely to achieve the desired outcome.

²H.A. Simon, Administrative Behaviour, Free Press, 1947, P.67.

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In 1955, Meyerson and Banfield briefly summarized the basic features of the rational model:

"a. The decision maker considers all of the alternatives open to him, i.e., he considers what courses of action are possible within the considerations of the situation and the light of the end which he seeks to attain; b. He identifies and evaluates all of the consequences which would follow from the adoption of each alternative, i.e., he predicts how the total situation would be changed by the course of action he might adopt; c. He selects the alternative the probable consequences of which would be preferable in terms of his most valued ends."³

In order to expose the weaknesses of the rational model, later analysts push the above assumptions to their extremes. They assert that the rational model "assumes that decision makers have:

- * a well-defined problem;
- * a full array of alternatives to consider;
- * full baseline information;
- * full information about the consequences of each alternative;
- * full information about the values and preferences of citizens; and
- * fully adequate time, skill, and resources."⁴

These assumptions are so strong that they make the position of the rational model

³Meyerson, Martin and Edward Christie, Politics, Planning, and the Public Interest: the Case of Publichousing in Chicago, Free Press, 1955, PP.314-315.

⁴John Forester, Bounded Rationality and the Politics of Muddling Through, in *Public Administration Review*, Vol.44, Number 1, January/February, 1984, PP.23-24.

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obviously unfeasible.

Actually, Simon himself acknowledges, in his later works, that there are some difficulties with this model. The first is that under the condition that the values of the organization as a whole may differ from those of individuals within it, whose values and objectives are to be used in the decision-making process? Secondly, within an organization where individuals and groups often have discretion in interpreting general policy statements, it may not make sense to refer to the goals of the organization. Thirdly, in practice decision-making rarely proceeds in such a longitudinal, comprehensive and purposive manner. Finally, it is difficult to separate facts and values, and means and ends, in the policy-making process.⁵

Recognising the idealised nature of the rational model, Simon elaborates the idea of "bounded rationality" to describe decision making in practice. He suggests that actual decision makers face (1) ambiguous and poorly defined problems; (2) incomplete information about alternatives; (3) incomplete information about the baseline, the background of "the problem"; (4) incomplete information about the consequences of supposed alternatives; (5) incomplete information about the range and content of values, preferences, and interests, and (6) limited skills and limited resources.⁶ Under the conditions of bounded rationality, decision makers, choosing an alternative, intend not to maximise their values but to select an alternative which will be

⁵See H.A. Simon *et al.*, Public Administration, Knopf, 1964, and Models of Bounded Rationality, MIT Press, 1983.

⁶See March, James Gardner, H.A. Simon, and Harold Guetzow, Organizations, Wiley, 1958.

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satisfactory or good enough. That means they just do what they can. This "satisficing" position is more realistic than the optimising alternative.

In spite of the severe criticisms from different angles, some students of policy analysis still try to identify the desirability of the model through other approaches. For example, J.I. Gershuny, in his article argues that the rational model is desirable because of the necessity for the vindication of public policies. That means, in order to enter the implementation stage, public policies have to be justified or upheld by evidence or arguments, thus they require a comprehensive consideration of policy alternatives. In his paper, Gershuny contends that

"We all know that social cooperation may entail on occasion some personal loss; we expect that whatever expectation we may develop within a society may nevertheless be frustrated by that society—this is a result of scarcity. We can accept such abridgement of our expectations, up to a point, as long as we are satisfied that it can be vindicated. If we can see that all the feasible alternatives have been considered, together with all their effects, and that on the basis of that consideration some decision has been taken, then even if we are harmed by the decision, we may still be able to reconcile ourselves to it. If, on the other hand, a policy option that we consider desirable, or a particular category of effect—or indeed our interests as a whole—have been left out of the calculation, then we may well not be able to reconcile ourselves to the decision."⁷

Alan Jones presents another reason to support the rational model. He asserts that the

⁷Gershuny, J.I., *Policymaking Rationality: A Reformulation*, in *Policy Science*, 1978, PP.297-298.

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rational approach provides both the raw material for the clash of interests and the legitimation of the outcomes. That too is an important illumination in the making of public policy. For example, the technic-rational information becomes not simply the basis of objective decision-making but is the counter over which bargains are struck. The political interests use the information as part of their persuasion and in their search for advantage.⁸

2.2. Incrementalism: a response to the inadequacies of the rational model

As a significant descriptive and normative strategy, the incremental model was first presented by Charles E. Lindblom in the course of a critique of the rational model. In the same way as Simon, Lindblom claims that man has a limited problem solving ability. Furthermore, he argues that the rational model is inadequate because of its failure to take into account the planning system in which decisions are made. Lindblom believes that decision making must occur with inadequate information and that the costliness of data collection and analysis prohibits the extensive analysis recommended by the rational model. He also criticizes the rational model for its tendency to be static. Lindblom is especially concerned with the close inter-relationship of facts and values and argues that "one chooses among values and among policies at one and the same time."⁹

⁸See Alan Jones, *Rationality and Policy-Making in Higher Education: The Case of the National Advisory Body*, in *Policy and Politics*, 1985, PP.345-358.

⁹Lindblom, Charles E., *The Science of "Muddling Through"*, in *Public Administration Review*, Vol.19, No.1, 1959, P.82.

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Lindblom goes beyond identifying the limits to rationality, however, and often seems to delight in demonstrating how policy-making stands in real life. In "A Strategy of Decision", a book he coauthored with David Braybrooke, Lindblom describes in detail the strategy of disjointed incrementalism,

"It is decision-making through small or incremental moves on particular problems rather than through a comprehensive reform programme. It is also endless; it takes the form of an indefinite sequence of policy moves. Moreover, it is exploratory in that the goals of policy-making continue to change as new experience with policy throws new light on what is possible and desirable. In this sense, it is also better described as moving away from known social ills rather than as moving toward a known and relatively stable goal. In any case, it is policy-making that chooses those goals that draw policies forward in the light of what recent policy steps have shown to be probably realizable; the utopian goal, chosen for its attractiveness without thought of its feasibility, is not a heavy influence on this kind of policy-making."¹⁰

In his series of writing in the 1960s(1963, 1965, and 1968), Lindblom developed the above assumptions. Some later writers have summed up the main features of the model as follows:

1. Policy-makers often avoid thinking through or at least spelling out their objectives. This may reflect a shrewd awareness that to do so would precipitate conflict rather than agreement. It would also provide standards by which to judge performance, and

¹⁰Lindblom, A Strategy of Decision: Policy Evaluation as a Social Process, Free Press, 1963, P.71.

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why give such hostages to fortune.

2. When it is clear that existing policies are failing to cope, the remedial action taken by legislators and administrators will tend to be "incremental": That is, they will make relatively small adjustments to policies rather than sweeping changes. In doing so, they are moving cautiously and experimentally from a basis of what is known rather than taking a giant step into an unknown future.

3. Policy-makers accept that few, if any, problems are ever solved once and for all times. Instead, policy-making is "serial"(we keep coming back at problems as mistakes are corrected and new lines of attack developed).

4. Few policies are made by individuals or even single agencies, but are instead made by the interaction of many policy influential agents operating in a power network.

5. While these actors are self-interested, they are not blindly partisan and are capable of adjusting to one another, through bargaining, negotiation, and compromise.

6. A value is placed in most pluralist liberal democracies on "consensus seeking", so that what emerges is not necessarily the single best policy but rather a compromise policy upon which most group can agree.¹¹

¹¹See Hogwood, Brian W. and Lewis A. Gunn, Policy Analysis for the Real World, Oxford University Press, 1984, PP.52-53.

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This model of policy-making wins a large measure of agreement in policy analysis circles. Another policy analyst, Arron. Wildavesky, in his book of "The Art and Craft of Policy Analysis" presents similar assumptions about policy-making. He argues that policies are not so much solved as succeeded and replaced by other problems, "it is not resolution of policies but evolution that should interest us."¹² He also examines some important policy phenomena which provide positive evidence to support incremental approach. For example, policy retreat on objectives, policy as its own cause, and coordination without a coordinator.

Then, why can the incremental model be accepted as a good description of how decisions are actually made in organizations, and why can policy makers adopt the norm of incrementalism in their decision making? Thomas Dye suggests four reasons. For one thing, policy makers usually do not have the time, intelligence, or money to investigate all the alternatives to existing policy. The cost of collecting all this information is too great. Policy makers do not have sufficient predictive capabilities, even in the age of computers, to know what all the consequences of each alternative will be. Nor are they able to calculate cost-benefit ratios for alternative policies when many diverse political, social, economic, and cultural values are at stake. For another, policy makers accept the legitimacy of previous policies because of the uncertainty about the consequences of completely new or different policies. It is safer to stick with known programmes when the consequences of new programmes cannot be predicted. Under conditions of uncertainty, policy makers continue past policies or

¹²Arron. Wildavesky, The Art and Craft of Policy Analysis, Macmillan, 1980, P.23.

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programmes whether or not they have been proven effective. Thirdly, there may be heavy investments in existing programmes which preclude any really radical change. These investments may be in money, buildings, or other hard items, or they may be in psychological dispositions, administrative practices, or organizational structure. It is accepted wisdom that organizations tend to persist over time regardless of their utility, that they develop routines that are difficult to alter, and that individuals develop a personal stake in the continuation of organizations and practices, which makes radical change very difficult. Hence, not all policy alternatives can be seriously considered, but only those which cause little physical, economic, organizational, and administrative dislocation. Finally, incrementalism is politically expedient. Agreement comes easier in policy-making when the item in dispute are only increases or decreases in budgets, or modifications to existing programmes. Conflict is heightened when decision making focuses on major policy shifts involving great gains or losses. Because the political tension involved in getting new programmes or policies passed every year would be very great, past policy victories are continued into future years unless there is a substantial political realignment. Thus, incrementalism is important in reducing conflict, maintaining stability and preserving the political system itself.¹³

Many analysts recognize that the incremental model reflects special characteristics of the policy-making systems of the United States. In this country policy-making takes place within a highly pluralistic environment dominated by interdependent interest groups. These interest groups operate in an open system which accepts the necessity

¹³ See Thomas Dye, Understanding Public Policy, Prentice Hall, 1984, PP.35-36.

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for compromise in the production of policies.¹⁴

The Incremental model is not only suggested as a description of how policy-making occurs but also a normative strategy—a model for how decisions should be made.

Lindblom argues that,

"psychologically and sociologically speaking, decision-makers can sometimes bring themselves to make changes easily and quickly only because the changes are incremental and are not fraught with a great risk of error or political conflict. In a society, for example, that is rapidly changing, one can argue that it can change as fast as it does only because it avoids big controversies over big change."¹⁵

However, some other theorists and practitioners disagree on the merits of the incremental model as a normative approach. They strongly criticize the conservative strategy. Dror, for example, while admitting the descriptive usefulness Lindblom's writings, views their prescriptive elements "as an ideological reinforcement of pro-inertia and anti-innovation forces present in all human organizations, administrative and policy-making..."¹⁶ Dror suggests that it is a valid approach only if the results

¹⁴See Hogwood and Gunn, Policy Analysis for the Real World, P.53; David E. Berry, The Transfer of Planning Theory to Health Planning Practice, in *Policy Science*, 1974, P.349; and Ham Christopher, The Policy Process in the Modern Capitalist States, Wheatsheaf, 1984, P.82.

¹⁵Lindblom, The Intelligence of Democracy: Decision Making Through mutual Adjustment, Free Press, 1965, P.157.

¹⁶Yehezkel Dror, Muddling Through—"Science" or Inertia? in *Public Administration Review*, 1964, Vol.24, P.157.

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of present policies are generally satisfactory, if the nature of problems is relatively stable and if the means for dealing with the problems are continuously available. He sees at least three circumstances in which incrementalism would be inadequate, namely: (1) present policies may be so manifestly unsatisfactory that merely to adjust them is pointless; (2) the problem requiring a governmental response may be changing so fast or fundamentally that policies based on past experience are inadequate as a guide to future action; (3) the means available for problem-solving may be expanding, so that major new opportunities exist but are likely to be neglected by incrementalism.

The incremental model is also accused of being unjust since "good" decisions are assessed not by their ranking on some objective evaluative criteria but by their acceptability in a particular situation. The model is therefore to favour the interests of the most powerful groups. The model is felt to be more narrow and more limited than the model it seeks to replace.

Other problems with the model include its emphasis upon the present rather than the future. The impact of the so-called "small change" on future generations may be much more profound than is generally acknowledged. Lindblom suggests that incrementalism is used because the costs of comprehensive analysis are prohibitive; yet this model tends to ignore the possibility that situations arise in which the costs of analysis are not as great as the costs of error. Sometimes the costs of failing to

explore radical alternatives to existing policies may be even higher.¹⁷

2.3. "Mixed Scanning": a hybrid approach to decision making

Mixed scanning, the model suggested by Etzioni tries to seek a middle way between rationality and incrementalism, and combine certain desirable features of both the rational and incremental model. "This approach is less demanding than the full search of all options that rationalism requires, and more 'strategic' and innovative than incrementalism."¹⁸

The term "mixed scanning" is derived from the analogy of cameras employed in satellites for such activities as weather observation. If total information about weather patterns and trends were required, cameras would have to incorporate both a capacity for scanning the total weather scene and a capacity for the most detailed observation of each part of the scene. This is difficult to achieve and what people settle for is a mixed scanning approach, in which wide-lens cameras take in a broad sweep to provide a rough indication of significant new developments while other cameras are focused much more narrowly on particular areas where developments are confidently expected and detailed observation required.

Applied in policy-making process, Etzioni argues, rationalism would seek detailed

¹⁷See Berry, *The Transfer of Planning Theory to Health Planning Practice*. P.350.

¹⁸Amitai Etzioni, *Mixed Scanning Revisited*, in *Public Administration Review*, Vol.47, 1986, P.8.

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and comprehensive information about the whole weather scene; incrementalism would focus only on those areas in which troublesome patterns had developed in the past and on a few adjacent areas. The mixed scanning strategy combines a detailed examination of some sectors with a more cursory review of the wider weather scene. This feasible and economically defensible operation is seen as adequate for most purposes. Also, it is flexible since the mix of broad and detailed scanning can be varied depending on changing circumstances.

The mixed scanning strategy distinguishes between fundamental and incremental decisions. According to Etzioni,

"Fundamental decisions are made by exploring the main alternatives the actor sees in view of his conception of his goals, but—unlike what rationalism would indicate—details and specifications are omitted so that an overview is feasible. Incremental decisions are but within the contexts set by fundamental decisions (and fundamental reviews). Thus, each of the two elements in mixed scanning helps to reduce the effects of the particular shortcoming of the other; incrementalism reduces the unrealistic aspects of rationalism by limiting the details required in fundamental decisions, and contextualizing rationalism helps to overcome the conservative slant of incrementalism by exploring long-run alternatives."¹⁹

Since 1967 when the mixed scanning model was put forward, a steady stream of discussion, criticism, and applications for the model have been generated. In 1968

¹⁹Etzioni, Mixed Scanning: A "Third" Approach to Decision-Making, in *Public Administration Review*, Vol.27,1967, P.390.

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Etzioni spelled out the model in programmatic terms, that can be used as a computer programme, and as a basis for research designs.²⁰ Irving Janis and Leon Mann introduced a major improvement in the programme. They point out that while in the initial scanning, all those options that have no "crippling objectives" are held over for closer scanning, which amounts to a "quasi-satisficing" approach, "each time the surviving alternatives are reexamined, the testing rule might be changed in the optimizing direction by raising the minimum standard."²¹ David Starkie agrees with the Etzioni's opinion that a mere accumulation of numerous incremental changes is not expected to yield the equivalent of a fundamental decision, because the incrementalist provides no guide lines for the accumulation; it is likely to be random or scattered. In contrast, in mixed scanning, the fundamental decisions provide such guidance. He believes that the Etzioni's suggestion that an "incremental 'creep' followed by a sudden change when existing policies are no longer sustainable by modification alone" is but one possible pattern of combination of incremental and fundamental decisions.²²

The mixed scanning model has also been criticised by some scholars. Hogwood indicates some difficulties in applying the model to the practical concerns of decision makers,

²⁰Etzioni, The Active Society: A Theory of Societal and Political Process, Free Press, 1968.

²¹Janis, Irving, and Leon Mann, Decision Making, Free Press, 1977, P.37.

²²David Starkie, Policy Changes, Configurations, and Catastrophes, in *Policy and politics*, Vol.12, January 1984, P.75.

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"In the first place, it is not clear whether the analogy between weather satellites and social problems holds up. The surface of the world is of fixed geometrical proportions which can be scanned on a simple pattern and the phenomena to which closer attention has to be paid are fairly well known. It is not clear in the same way what the lay out of the social world is or what phenomena should be focused on." Secondly, "As the name implies, the 'mixed scanning' model is of particular potential relevance to decisions about how to allocate analytical resources. However, Etzioni, while providing us with criteria about what kind of weather formations require detailed analysis, does not provide a set of criteria for determining which policy-issues should be analyzed in which way."²³

Gilbert Smith and David May state that the central weakness of mixed scanning lies in the importance attached to a distinction between two different kinds of decision,

"...just as the distinction between means and ends is flexible, as we have seen, so fundamental decisions in one context are incremental in another and vice versa. It is at least possible that decision makers would define decisions in different ways either quoting or ignoring details and either exploring or neglecting alternatives as suited their purposes in particular situations. Without further empirical data the doubt remains that mixed scanning is just as utopian as rational planning and just as lethargic as 'muddling through'."²⁴

2.4. Optimal method: another attempt to combine rationalism and incrementalism

²³Hogwood and Gunn, Policy Analysis for the Real World, P.61.

²⁴Gilbert Smith and David May, The Artificial Debate Between Rationalist and Incrementalist Models of Decision Making, in *Policy and Politics*, 1980, P.153.

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Starting from the criticisms of rationalism and incrementalism, Dror also seeks to construct a model to increase both the rational and extra-rational elements in decision making.

Dror believes that his optimal model of public policy-making can avoid both extremes, by rejecting pure rationality on the one hand, and by providing an optimal goal that is more than an incrementally improved extrapolation of the present situation on the other hand. Also this model is designed to integrate and supplement the strengths of various normative models, but to avoid their weaknesses.²⁵

Although Dror presents many features of the optimal model perhaps the most striking features of it include three aspects. For one thing, the model emphasize the role of extra-rational components in policy-making. In his writings Dror asserts that the extra-rational process must play a significant, essential, and positive role in optimal policy-making. He bases his opinion on three arguments:

"First, limited resources, uncertain conflicts, and a lack of knowledge place strict limits on the degree to which policy-making can feasibly be rational, so that policy makers must necessarily rely a great deal on extra-rational processes. Second, only extra-rational processes will work in some phases of policy-making, for example, policy makers need 'creativity' to invent new alternatives. Third, and this argument is more speculative and based on intuition, extra-rational processes may solve problems in some phases better than rational processes could, even though the latter by themselves

²⁵See Dror, Public Policymaking Reexamined, Chander, 1968, PP.130-131.

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could solve problems."²⁶

The extra-rational components consist of the use of intuition, judgements, creative invention, brainstorming and other approaches. Dror holds that policy makers are usually biased more toward "intuition" than "information" and more toward "guess" than "estimate", and must work very hard to achieve an "informed intuition" or a "guestimate". Therefore, one major way to improve policy-making is to encourage and strengthen its extra-rational components.²⁷

For another, the model stresses the necessity for "metapolicy-making" or "deciding how to decide". In Dror's analysis, policy-making includes three main stages in the broad sense:

"(a) metapolicy-making, that is, policy-making on how to make policy; (b) policy-making in its usual sense, that is, making policy on substantive issues; and (c) re-policy-making, that is, making changes in policy based on feedback from the execution of policies."

The metapolicy-making phases manage the policy-making system as a whole. They identify problems, values, and resources, and allocate them to different policy-making units; design, evaluate, and redesign the policy-making systems; and determine the

²⁶Ibid., P.157.

²⁷Ibid., P.158.

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main policy-making strategies.²⁸ Dror indicates that these phases are a very important part of the optimal model. One unique feature of this model is that it includes metapolicy-making phases.

Furthermore, the model also tries to increase the rational elements in policy-making. It seems that Dror's model shares the assumptions of the rational comprehensive model, but it develops many adjustments. In his writings, Dror breaks the whole process of policy-making into eighteen specific phases and discusses these phases respectively. Some of these are unique, for example, the seven phases of the metapolicy-making stage. But some of them reiterate the aspects of the rational model, such as, "Establish operational goals, with some order of priority for them." "Preparing a set of major alternative policies, including some 'good' ones,"²⁹ Therefore, some scholars believe that Dror does lean toward the Simonian end of the spectrum.³⁰ Nevertheless, Dror offers one of the most considerate attempts to devise a normative mode of policy-making.

Despite Dror's claim that his model avoids the difficulties of rationalism and incrementalism, different stances are still taken by other writers. Lindblom has criticised Dror for offering no more than a series of discrete statements which do not connect and cannot be said to constitute a "model" for decision making. Smith and

²⁸Ibid., P.160.

²⁹Ibid..

³⁰See Hogwood and Gunn, Policy Analysis for the Real World, P.56.

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May hold that

"The weakest feature of Dror's statement is the role assigned to 'intuition and experience'. There are disconcertingly vague variables and hardly more than residual categories for non-rational sources of information." "Again the important point is that the central feature of the dispute between rationalist and incrementalist models of decision making remain largely unmarred by this attempt to offer this 'third' alternative."³¹

For these reasons, it is difficult to assert that the optimal model has actually corrected the weaknesses and supplemented the strengths of other models.

2.5. Amendments to rationalism and incrementalism: toward a more rational and skilful approach

Along with the controversies of policy-making models, the founding fathers of rationalism and incrementalism, themselves, continuously revise their models. Although Simon's earlier writings had demonstrated the limitations of rational decision making behaviour, he still believes policy makers should and could become more rational. Therefore, he tries to explore new approaches to improve the rationality of policy-making.

In his book, "The New Science of Management Decision", Simon asserts that decision

³¹Smith and May, The Artificial Debate between Rationalist and Incrementalist Models of Decision Making, P.154.

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making can be divided into "programmed" and "non-programmed". Decisions are programmed to the extent that they are repetitive and routine and to the extent that a definite procedure has been worked out for handling them. Decisions are non-programmed to the extent that they are novel and unstructured: the problem may not have arisen before, or its precise nature may be elusive and complex, or it may be so important that it deserves custom-tailored treatment.

"In non-programmed decision making, the system has no specific procedures or capacity for dealing with the situation but must instead fall back on whatever general capacity it has for intelligent, adaptive, problem-oriented action. However, as such general-purpose capacity is expensive to provide and maintain, so programmed, specific procedures and criteria for decision making should be used wherever possible."³²

Thus, Simon pays attention to improvements in programmed decision. He finds the new capacity for such decision making in operational research, system analysis, and mathematical techniques, such as linear and dynamic programming, game theory, and probability models, etc.. Even though there remain many administrative problems which are not amenable to programming, Simon argues that we have learned much about "heuristic problem solving", that is, methods which help us to define and solve problems in the absence of scientific, objective or quantitative methods. Such problem-solving proceeds by way of search activity, abstraction, analogy, and by groping attempts to break down problems into sub-problems and to deal with them

³² See Simon, The New Science of Management Decision, Englewood Cliffs, 1977.

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on the basis of precedent, observation, and so on. Such decision making is essentially a leaning process but even here, there is some scope for analysis, including computer-assisted analysis.³³

If Simon seems to be pointing us towards a more rational, planned form of decision making, what are the amendments to Lindblom's position? Lindblom's earlier writing became the target for much criticism in the 1960s and 1970s. Lindblom himself has been recognized as a conservative defender of the *Status Quo*, champion of the market system and dedicated opponent of planning. However, at the end of the 1970s, Lindblom replied to the critics and presented a different view with his earlier position.

In his article, "Still Muddling, Not Yet Through", Lindblom claims that "Incrementalists believe that for complex problem solving it usually means practising incrementalism more skilfully and turning away from it only rarely."³⁴ But how can they practise it more skilfully? To do that Lindblom distinguishes three types of incremental analysis:

1. Simple incremental analysis—"Analysis that is limited to consideration of alternative policies all of which are only incrementally different from the *status quo*."

³³Ibid..

³⁴Lindblom, Still Muddling, Not Yet Through, in *Public Administration Review*, Vol.39, 1979, P.517.

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2. Disjointed incrementalism—"Analysis marked by a mutually supporting set of simplifying and focusing stratagems", such as analysis limited to a few familiar alternatives; analysis of policy goals interwind with empirical aspects of the problems; analysis concerned with remedying ills rather than positive goals to be sought; a sequence of trials and errors and revised trials; analysis of only some of the important consequences of those alternatives considered; and analytical work fragmented among many partisan participants in policy-making.

3. Strategic analysis—"Analysis limited to any calculated thoughtfully chosen set of stratagems to simplify complex problems, that is, to short-cut the conventionally comprehensive 'scientific' analysis."³⁵ Such strategies include skilfully sequenced trial and error, limitations of analysis to only a few alternatives, routinization of decisions and focusing decision making on crisis. Moreover, such analysis can be supplemented by broad ranging, often highly speculative, and sometimes utopian thinking about directions and possible features, new and far in time. Therefore, Lindblom seems prepared to find a place for "theory" and for innovative policy analysis.

Lindblom also suggests that it is necessary to distinguish between "incremental analysis" and "incremental politics". Incremental politics involves political change by small steps, and may or may not result from incremental analysis. The distinction then is between the process of decision and the scale of the change brought about by the decision. What characterises incremental politics is that only small changes result

³⁵Ibid..

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from decisions, although Lindblom reminds us that there is no reason why large changes cannot result from a succession of small steps.

In their comments, Hogwood and Gunn indicate that "Surely this 1979 'strategic analysis' plus theoretic insights which 'liberate us from both synoptic and incremental methods of analysis,' all add up to a form of modified rationality rather than Lindblom's earlier attempts to stand rationality on its head."³⁶ So "he goes on to develop a number of distinctions which could be read either as a clarification of his 1959 position or ...the statement of a rather different 1979 position."³⁷

2.6. Contingent approaches: adjusting policy-making model to its context

Recently some scholars in the field of policy analysis have recognized that policy-making models are not necessarily exclusive. The appropriate model or combination of models in any situation is contingent upon the contextual condition. In other words, they suggest that different policy and environments require different policy-making approaches. As Hogwood and Gunn note,

"Some issues will always require a highly political, pluralist, bargaining, and incrementalist approach. But other issues——probably only a small minority——will both require and lend themselves to a much more planned or analytical approach."

"Thus we advocate a 'contingency' approach. ... There is no 'one best way' of making

³⁶Hogwood and Gunn, Policy Analysis for the Real World, P.59.

³⁷Ibid., P.57.

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decisions, just as there is no universal prescription for 'good organization'. Among the diagnostic skills required is a very high degree of political sensitivity and discrimination as well as a grasp of the technical skills of planning and analysis.³⁸

Although more and more scholars agree on the general idea that in different situations, different strategies and approaches will be required, their ways of defining the context in terms of various factors and the way to match policy-making models to specific situations diversify. Several advocacies are presented in the following sections.

In his article, "Coping with Uncertainty in Planning", K.S.Christensen sets forth a contingent model through the study of the planning process. In his view, different planning processes respond to different conditions of uncertainty in planning problems. Planning processes can be understood as contingent because they are not pre-determined, but depend instead on problem conditions. By matching the planning process to the problem characteristics, planning offers a chance to overcome uncertainty.

A further task is to determine how to clarify these variables planning problem conditions. In this aspect, Christensen sets out a matrix to tailor planning processes to conditions. The matrix is divided along two dimensions: technology(knowledge of how to do something or means), and goal(the purpose, desired outcome, or end).

³⁸Ibid., P.62.

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Each is dichotomized according to certainty/uncertainty. A technology can be known or unknown, a goal can be agreed on, or not. Thus, the matrix produces four prototype variations in conditions that can characterise planning: (a) known technology; agreed goal; (b) unknown technology; agreed goal; (c) known technology; no agreed goal; and (d) unknown technology; no agreed goal.

When both means and ends are certain, a public action may be prescribed through standard, routine procedures set into a replicable programme. The particular set of prescribed procedures will then be applied repeatedly with the same dependable results. Therefore, these conditions are the basis of traditional, rationalist doctrine. In these conditions the planner knows the goal and goes about matching an effective technology to accomplish the goal. This rationalist approach stresses highly specified skill in selecting effective means to reach known ends. From that perspective, planners act as programmers, standardizers, rule setters and regulators.

If people agree on what they want but do not know how to achieve it, i.e, they have an agreed goal but no known technology, then planning becomes a learning process through which the planners obtain the missing knowledge. In this context, planners usually deal with uncertainty as to the means to achieve the goal, by moving ahead pragmatically, in an incremental, trial and error search for something that works. Occasionally the search for an effective means may be more thorough and systematic through formal research. But, most often experimenting in public programmes aims, not at finding what causes the problems but, at finding solutions. When the problem

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is known but the solution is unknown, innovation is needed. Inventive and creative sensitivity to varying constraints are the keys to discovering a solution. This situation is entirely different from the situation in which there are already proven solutions. Christensen offers two sets of theories and corresponding policy process to discover useful means.

The first set presupposes that people's capacity for knowledge is inadequate, and it proposes ways to act given this inherent incapacity. Such theories include pragmatism, incrementalism, "muddling through", and "satisficing". The second set presupposes that a command of the necessary knowledge is possible and proposes ways to obtain it. Planning theories in this school stress planning as a learning experience and as systematically applying strategic variation. In comparison with the pragmatic approach, the search for knowledge is more explicit and initiative; it focuses on method to generate knowledge.

If in a situation where there are effective, proven methods but there is uncertainty or conflict over goals, then planning becomes a bargaining process. The condition of multiple, conflicting goals preclude replicable results. Each bargain must be tailored to its particular participants, their issues, their circumstances and their preferences. Adjustments are necessary in the bargaining. Participants in negotiations cannot, and ought not to, be expected to produce predictable, uniform outcomes. Instead, they should be expected to accommodate diverse preferences. In these expressly political conditions, the planner uses processes to accommodate conflicting goals. The planner

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can shape the way participants interact. Consensus building encourages communication to emphasize common ground and shared goals. On the other hand, mediating and conventioned bargaining assume differences among the participants and reach agreements through exchanges and concessions.

When planners have multiple goals and no known effective means for achieving them, then planning becomes part of the search for order in a situation of chaos. In some situations, goals are often nebulous and changing; facts are often ambiguous. Moreover, the ways planning problems are defined, focus people's attention on some aspects of the problem and cause them to neglect others. These neglected aspects are left nameless and therefore untreatable. The appropriate expectation for planners in these situations of uncertainty over both means and ends is to establish order. Planners try an array of activities but they are not ordered by a reliable process or a guiding process. In short, by matching planning to real world conditions, the planners can cope rationally with uncertainty.³⁹

Another writer of planning, John Forester, also holds that by assessing the degree of complexity in decision making situations, planners and decision makers may be better able to adopt a strategy to fit each situation. However, he provides a different way to clarify the decision making situations. Forester suggests that in order to assess the decision making situations, it is necessary to run a continuum from the rationalist's

³⁹See Karen S. Charistensen, *Coping with Uncertainty in Planning*, in *Journal of the American Planning Association*, Vol.51(1), 1985, PP.63-73. For the summary of this framework, please see Appendix 1 to the thesis.

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idealized situation to highly politically structured decision making situations. It will be helpful to consider this continuum by beginning with the idealized assumptions and then slowly relaxing them. In each decision making situation, different practical strategies will seem appropriate, depending on the level of complexity and boundedness present.⁴⁰

First of all, assume that there is only one decision maker to consider and that he is an economic rational actor. The setting is the decision makers's office, by assumption a closed system. The problem is well defined, its scope, time horizon, value dimensions, and chains of consequence are clearly given or available in the nearest file drawer. Information is perfect, complete, accessible, and comprehensible. Time is infinitely available. Under these conditions there is a clear practical strategy to accept: rational problem-solving or optimization through the available methods and solution techniques.

Secondly, we move on to a situation where the scenario has become constrained: the decision maker is fallible, he permits intuitions, localities, and doubts to creep into the picture. The setting is now open to the environment. The problem is no longer so well defined; its scope is a bit ambiguous. Information is now imperfect. Time is now a scarce resource. Under these conditions, a satisfactory decision will have to suffice. Investigations into the consequences and environmental changes now become

⁴⁰See John Forester, Bounded Rationality and the Politics of Muddling Through, in *Public Administration Review*, Vol.44, 1984, PP.23-31.

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bets to be hedged. Shortcuts must be taken, estimates made, approximations settled for.

The third situation assumes that decision makers face an increased number of constraints: a decision is made by a cooperative group which consists of decision makers, staff, and clients, whose skills and insight vary. The setting is now socially differentiated. Interpretations of the problem are also now differentiated: information is not only imperfect but is also greatly varied. Time now becomes a socially precious resource. In this situation, satisficing alone will no longer do. It must be supplemented by strategies of search through social intelligence networks. Search depends on the ongoing cultivation, maintenance, and nurture of networks. Here the decision making situation is no longer simply in a cognitively bounded or limited environment; it is now socially differentiated, and decision making strategies must take that environment into account. The decision makers must now be able to gather information by bridging organizational boundaries, by using social networks, and by tapping sources of expertise.

Fourthly, in a pluralist world, the decision making setting becomes more complex. In addition to mere social differentiation, competing organizations further complicate the practical decision making environment. Definitions of problems in a pluralist environment are multiple. Different interest groups make different sense and valuations of the problems at hand. Information becomes a political resource. It will be contested, withheld, manipulated, and distorted. And time is now a coveted

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resource. Under these conditions, strategies of search and "networking", etc., are not enough, bargaining and adjustment are necessary. Short-term political compromise becomes a practical incremental strategy.

Finally, in reality, social actors in political organizational environments are not simply randomly and diversely interacting actors, colliding and competing with one another. They instead are often positioned with and against one another in social and political-economic structures that display significantly nonrandom continuity. The decision setting then is characterized not by random plurality, but by highly structured plurality, where structure and power are rarely neatly separable. In such settings, definitions of a problem come to reflect their social sources. The decision maker's information is as likely to reflect the interests of the participants. And time is power, but power is not likely to be distributed equally. Under these conditions, incremental strategies are hardly responsive to the realities at hand. The appropriate strategies are restructuring strategies: strategies that work toward effective equality, substantive democratic participation and voice, and strategies that work away from the perpetuation of systematic racial, sexual and economic domination.

After reviewing the strategies for decision making, Forester concludes that as the contextual complexity of the decision-making situation grows, an increasingly sophisticated set of decision-making approaches is required.⁴¹

⁴¹See John Forester, Bounded Rationality and the Politics of Muddling Through, in *Public Administration Review*, Vol.44, 1984, PP.23-31. For the general description of this model, please see Appendix 2 to the thesis.

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Alongside the model established by Forester, Pasty Healey develops a more subtle contingent approach to policy-making. Like the previous writers of the contingent models, Healey criticises the tendency which discusses policy process forms in isolation from their situations. Healey advocates that the discussion must be firmly located in the context within which the process forms arise or are put to use, and should be related to the substance of the issues addressed in any stance. He also agrees that the crux of the study lies in how the relations between context, substance and policy processes may be made. But, Healey is against in which some scholars treat context as a "given" factor into which a policy process must be fitted. He argues that policy processes are interpenetrated by the social relations of the wider society, not independent of them or "slotted into" them. The context itself may be defined and transferred through the way policy processes operate. Therefore,

"such conception firmly locates the discussion of policy processes within the economic and political dynamics of social change in society. Policy processes are thus inherently political. The task for analysis then focuses on identifying the distinctive qualities of the processes by which the power relations among the interests with a stake in, and/or involved in, collective or public agency operations are mediated and transformed."⁴²

To establish the relations between the social interactions which constitute policy processes and wider social relations, Healey elaborates three sets of criteria for defining policy processes:

⁴²Pasty Healey, Policy Processes in Planning, in *Policy and Politics*, Vol.18 No.2 1990, P.92.

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1. Criteria governing who is involved.

- Who gets access to the process and on what terms;
- Who controls the process;
- To whom must the process be legitimated.

2. Criteria governing the relations between those involved.

- What style of debate;
- What procedure of debate.

3. Criteria governing the judgement of an acceptable decision.

- Which values should govern a decision;
- In what way should decisions be presented to the relevant constituency.⁴³

Basing on these criteria, Healey also discusses a continuum of process forms of decision making, namely: clientelist, political-rational, pluralist politics, open democratic debate, bargaining, special committees, corporatist, bureaucratic legal, judicial/semi-judicial, techno-rational, market-rational. The order of the processes as listed moves from the more directly political forms, to other forms involving a direct relation to interest groups, concluding with an indirect relation with interest groups ostensibly separate from formal and informal politics.⁴⁴

⁴³Ibid., P.98.

⁴⁴The continuum of the policy process forms against different contexts is summarised in the Appendix 3.

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According to Healey, this approach highlights the distributive tendencies within particular processes, irrespective of the context in which they are developed. Clientelistic processes will have great difficulty in mediating complex interest conflicts and addressing external effects. Bargaining processes will exclude those who have no power over other participants. Bureaucratic, judicial and techno-rational processes mediate interests indirectly. ... To summarize, process forms are the products of interest mediation around a specific set of issues. The decision rules embodied in a process will reflect the power games of the particular mediation process, shaped but not determined by the structuring forces which both distribute power among the interests involved and lodge decision rules within process forms.⁴⁵

From what has been said so far, it is clear that writers of the contingent approach to policy-making attach importance on matching policy-making strategy to the concrete situation. Although they have provided different criteria and factors in clarifying the specific situations, they are similar in general rules.

2.7. Causal theories: seeking the driving forces behind the changes of policy actions and outputs

So far what we have traced are the models which take behaviour views in observing policy-making processes. That is, the models focus on the questions of what are the functions of policy makers in policy-making processes, how do they behave in

⁴⁵Ibid., P.100.

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designing and adopting policies, and by what way, through what approach do they produce policy outputs. These models provide us with different perceptions as to how policies should be made and can be made. However, there is another strand in study of policy-making process, that is a group of theories which seeks to establish causal links among different components of policy process, so as to reveal what forces lead to dynamic changes of policy actions and policy outputs. These causal theories were developed in 1970s and 1980s as a result of criticisms to the stage-description frameworks concerning policy processes. The representative expression of the stage-description framework can be seen in the works of James E. Anderson and B. Guy Peters. According to Anderson, a policy process includes the following stages: defining policy problems, setting the policy agenda, formulating policy proposals, making policy decisions, implementing policy, and evaluating the impact of the policy.⁴⁶ Peters takes a stance similar to Anderson. He describes the policy process as a sequence of following stages: Agenda setting, policy formulation, legitimacy policy choices, implementation, and evaluation.⁴⁷

While this approach has helped to divide the policy process into manageable stages of analysis, its basic limitation has been indicated by researchers. First of all, the model is not a causal theory, because it contains no coherent assumption about what forces are driving the process from stage to stage; secondly, the stage-division approach guides researchers to focus on a single stage with little recognition of work

⁴⁶James E. Anderson, Public Policy-Making, Preager Publishers Inc., 1975.

⁴⁷B. Guy Peters, American Public Policy, Chatham House Publishers Inc., Second Edition, 1986.

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on other stages. The result is a weakened theoretical coherence across stages;⁴⁸ thirdly, some scholars have noted that the real world process often does not fit this sequence of stages.⁴⁹

In response to criticism from political scientists in other subjects, policy scholars have made a great deal of effort to develop some better theories on policy process. In the last two decades, several promising theoretical frameworks, which try to integrate the contribution from policy scholars into the traditional discoveries of political scientists in order to explain causal links among different components of policy process, have emerged.

An early developed framework of policy process is Hofferbert's open system model.⁵⁰ This model takes policy decisions as the dependant variables and several contextual factors as independent variables. It particularly highlights the role of elite behaviour in determining policy output and notes that all possible influences from independent variables on policy actions have to pass through this sector. Elite behaviour is a necessary condition of policy-making, so it suggests that, "the most fruitful strategy for inquiry into the determinants of public policy would be to begin

⁴⁸See Paul A. Sabatier, Toward Better Theories of the Policy Process, in *Political Science & Politics*, June 1991, P.145.

⁴⁹Robert Nakamura, The Policy Process and Implementation Research, in *Policy Studies Review*, 7(1) 1987, PP.142-154.

⁵⁰See Richard I. Hofferbert, The Study of Public Policy, Bobs-Merril Company, 1974.

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with elite behaviour and work backward through the factors conditioning them."⁵¹

Other independent variables in this model include historical-geographic conditions, socio-economic conditions, mass political behaviour, governmental institutions. These variables jointly or independently make determinative effects on policy outputs through elite behaviour.⁵²

The model has been criticised for its "black box" approach to governmental institutions and elite behaviour, and for its neglect of an intergovernmental dimension.⁵³ Despite this, it is a valuable attempt to reveal real causal links between different independent variables and policy outputs, and it has provided a useful framework to compare policy decisions across states and locations in the United States.

Along the road of research, two other synthetical frameworks with different foci emerged in 1980s. One of these is Ostrom and his colleagues' institutional analysis approach.⁵⁴ The principal task of this model is to establish the causal links among policy actions, policy outcomes, policy makers, policy decision situations, and a few

⁵¹Ibid., P.231.

⁵²For the interrelationships between policy output and a series of independent variables, please see Appendix 4.

⁵³Robert Eyestone, Confusion, Diffusion, and Innovations, in *American Political Science Review*, June 1977, P.441-447.

⁵⁴Larry Kiser and Elinor Ostrom, The Three Worlds of Action, in Strategies of Political Inquiry, Ostrom ed., Sage Press, PP.179-222._

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independent variables. In other words, the model attempts to explain how the policy actions and its aggregated outcomes are determined by the combination of the attributes of policy makers and decision situations, and how are the latter, in turn, are produced by institutional rules, the nature of relevant good, and the attributes of the community.

According to the model, the actions and strategies adopted by an individual decision maker depend on both of the individual's attributes and the decision situation's attributes. The attributes of the individual describe the values, motives, and capabilities of the individual in the decision situation. The decision situation describes the choices available to the decision maker, the linkages between actions and results, and the possible consequences of the choices, etc.. The decision maker chooses an action or strategy that is suitable to the decision situation.

"An individual with given attributes will make different choices as decision situation change. Also changes in the attributes of decision situations can require changes in the attributes of the individual decision maker."⁵⁵

Furthermore, the decision situation itself is the result of other variables rather than given. These variables include attributes of institutional arrangements, attributes of goods and events, and attributes of the community. Institutional arrangements are the set of rules governing the decision situation: rules delineating the participants and

⁵⁵Ibid., P.186.

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allowable actions, rules distributing authority among participants, rules aggregating participants' choices into collective decisions, rules outlining procedure and information flows, and rules distributing payoffs among participants; the attributes of goods and events include jointness of use, exclusion, degree of choice, and measurability, which help to shape individuals' decision-making incentives; the community includes all individuals directly or indirectly affected by the decision situation, the attributes of the community include level of common understanding, similarity in individuals' preferences, and the distribution of resources among those affected by a decision situation.⁵⁶

This model has been acknowledged as a superb framework for thinking about the effects of individuals and institutions on governmental policy decisions, even though it has some limitations due to the neglect of the role of substantive policy information and the effects of socio-economic conditions on the decision situation.⁵⁷

Another recently developed model is Sabatier's advocacy coalition framework.⁵⁸ This model takes policy change as a function of three sets of factors. The first one is the interaction of competing advocacy coalitions within a policy subsystem, which affects the policy decisions directly. The basic assumption is that actors within the subsystem

⁵⁶The interactions between the different working parts is summarized in Appendix 5.

⁵⁷Paul A. Sabatier, Toward Better Theories of the Policy Process, in *Political Science & Politics*, June 1991, P.151.

⁵⁸See Paul A. Sabatier, An Advocacy Coalition Framework of Policy Change and the Role of Policy-Oriented Learning Therein, in *Policy Science*, 21(fall) 1988, PP.129-168.

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can be aggregated into a number of advocacy coalitions. These coalitions are composed of people from various organizations who share a set of normative and causal beliefs and who seek to manipulate the rules of various governmental institutions to achieve their policy objectives. Conflicting strategies from various coalitions are normally mediated by a third group of actors—policy brokers, whose principal concern is to find some reasonable compromises which will reduce intense conflicts. The end result is one or more governmental programmes, which in turn produce policy output at the operational level.

In this policy subsystem, policy changes mainly result from policy-oriented learning, which refers to relatively enduring alterations of thought or behavioral intentions. Policy-oriented learning involves the internal feedback within the subsystem, perceptions concerning external dynamics, and increased knowledge of the state of problems, parameters and the factors affecting them. The integration of this knowledge with the basic values and causal assumptions comprising the core belief of advocacy coalitions is the focus of policy learning. The framework assumes that such learning is instrumental, i.e. that members of various coalitions seek to improve their understanding of the world in order to further their policy objectives.

The second set of factors which affect policy change over time is dynamic events external to the policy subsystem. These include changes in socio-economic conditions and technology, changes in systemic governing coalition(e.g. changes in general election results), and policy decisions and impacts from other subsystems. By altering

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the constraints and opportunities confronting subsystem actors, they constitute one of the principal dynamic elements affecting policy change. They also present a continuous challenge to subsystem actors to learn how to anticipate and to respond to them in a manner consistent with their basic beliefs and interests.

The third cluster of influential factors is relatively stable parameters, including basic attributes of the problem area, basic distribution of natural resources, fundamental cultural values and social structure, and basic legal structure. These factors can limit the range of feasible alternatives or otherwise affect the resources and beliefs of subsystem actors.⁵⁹

2.8. Conclusion

What we have discussed indicate a main trend in the evolution of models for the study of policy-making process. From the comprehensive rational model, which believes in universality and unlimited rationality, to the contingent models and a series of causal theories, which recognizes that different situations require different policy-making approaches and these transformations are driven by different forces, the movement demonstrates the synthetical orientation in the study. More and more scholars in this field have realized that different models are not necessarily competitive and exclusive in the sense that any one of them could be judged "best".

⁵⁹The interrelationships among these factors, policy programmes, and policy outputs can be seen in the Appendix 6.

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Each one provides a separate focus on political life, and each can help to understand different aspects about policy processes. Although some policies appear at first glance to lend themselves to explanation by one particular factor, most policies are a consequence of combined activities and influences. Therefore, in light of the purpose or intention of policy makers, different models can be employed, singularly and in combination, to describe and explain specific policies.

All these models were established on the basis of the policy-making experiences of Western countries, and they are influenced by Western ways of thinking. But I believe to some extent they can be borrowed to deal with policy-making practice in developing countries and communist states. In this thesis, effort will be made to assimilate some ideas and principles of these models in studying the Chinese policy-making process.

Chapter Three

Western Models of the Chinese Policy-Making Process:

Resorting and Reevaluation

3.1. An Overview

Western analysis of Chinese society and politics has undergone significant change during the course of the past three decades or so. From the early 1960s, Western analysts started to undertake serious research into Chinese politics. Particularly from 1970s onward, scholars have constructed a variety of theoretical models to depict the characteristics of the policy-making process in China. Some scholars in this field have written critical summaries concerning the change and development. For instance, in his book The Dynamics of Chinese Politics, Lucian Pye does not only establish his own model—the factional model, but also summarizes five other models—the Yanan round-table model, the two policy lines struggle model, the bureaucratic model, the geographic model, and the generation model.¹

In 1984, Harding Harry published a review article in which the models of the Chinese policy process are divided into eight varieties: structural models, normative models,

¹Lucian Pye, The Dynamics of Chinese Politics, Rand Corporation, 1981, PP.41-46.

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Mao-in-command models, factional models, tendency models, generation models, and interest models.²

By 1988, Kenneth Liberthal and Michael Oksenberg published their book Policy-Making in China: Leaders, Structures, and Process. In this book they produce a generalized description of Western literature on the Chinese policy process. In their view, two different approaches emerged in the 1970s in the common effort to illuminate the policy process. One approach focused on reasoned debates by the Chinese leaders over substantive policy issues which stem from an implicit "rationality model" of the policy process; another approach focused on the struggle for power among contending leaders which arises from an individual or factional "power model". Recognizing the advances made by the adherents of both models and pointing out the limitations of both models, the authors introduced the third approach which emphasizes the bureaucratic structure in which the policy process is embedded.³

In 1990, Avery Goldstein put the different approaches into four major categories: those that emphasize the political practices, norms, beliefs, and institutions of China as a Marxist-Leninist regime; those that focus on the distinctive role played by Mao-Zedong;

²Harry Harding, Competing Models of the Chinese Communist Policy Process, in *Issues and Studies*, February 1984, PP.13-36.

³Kenneth Liberthal and Michael Oksenberg, Policy Making in China: Leaders, Structures, and Process, Princeton University Press, 1988, PP.9-18.

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those that depict Chinese politics as a competition among actors defined according to bureaucratic affiliation, regional loyalties, class origin, occupational category, age cohort, ideological commitment, or some combinations of such attributes; and those that set forth "factionalist" accounts of Chinese politics in which the participant groups are portrayed as engaged in a struggle for power.⁴

Each of these surveys has shed light on the movement of Chinese policy-making studies. Among the surveys, Harding's work is particularly helpful and enlightening for successors in this field, because his article not only identifies the main varieties of the models and sorts them out according to their analytical and descriptive focus, but also evaluates the strength and weakness of a few most influential models and sets forth ways to reduce this large number of models to more manageable proportions.

Although Harding's review is helpful in illuminating the evolution of Chinese policy-making studies, it still has its limitations. First of all, its sorting of the models seems to be not reasonable. In his article Harding asserts that most of the models deal primarily with a single and same aspect of policy-making: the decision participants. He also holds that both factional models and tendency models are principally attempts to identify the

⁴Avery Goldstein, Explaining Politics in the People's Republic of China, in *Comparative Politics*, April 1990, PP.301-322.

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participants in the political process.⁵ These assertions are not persuasive. In my view, among the different models, some of them mainly deal with the aspect of who participates in the policy process, but some others primarily deal with another aspect: why particular policies are adopted. It is no doubt true that Mao-in-command models and bureaucratic models are primarily concerned with identifying the participants in the Chinese policy-making process. However, factional models and tendency models, although they pay attention to the participants of decision as well, are primarily concerned with the motivation for policy-making. The key hypothesis of the factional models is: a policy is adopted or rejected by a faction not for the purpose of solving practical problems but for the purpose of strengthening power positions of the leaders within the faction;⁶ and the key hypothesis of tendency models is: a policy is adopted or rejected in order to keep alive the ideological vision of its proponents.⁷ Thus, both of the models focus their attention on explaining the reasons, motives, and purpose of policy-making in China.

Secondly, Harding's work only evaluates the strength and weakness of a few influential models respectively, but does not conduct a general evaluation concerning the over-all trend and features of the theoretical frameworks. So he has not presented a

⁵Harry Harding, *Competing Models of the Chinese Communist Policy Process*, P.18.

⁶See Pye, *The Dynamics of Chinese Politics*, P.13.

⁷See Michael Oksenberg and Steren Goldstein, *The Chinese Political Spectrum*, in *Problems of Communism*, XXIII:2, March-April 1974.

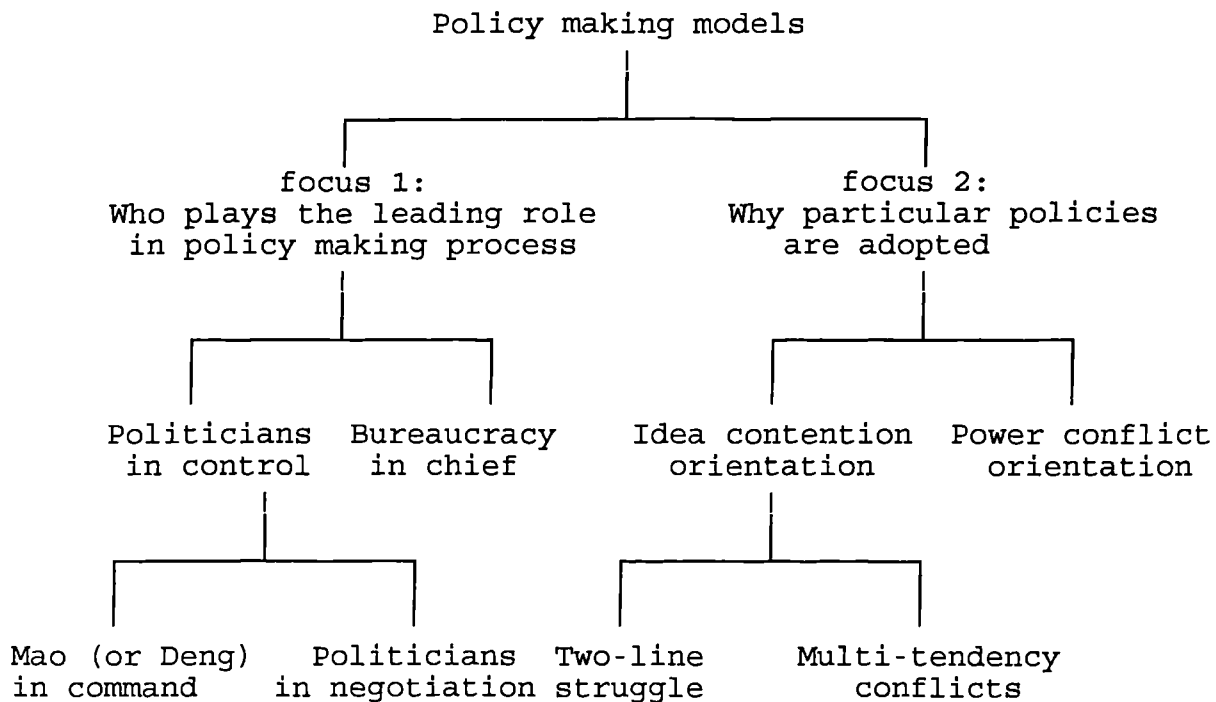
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comprehensive image of the development of Chinese policy-making studies. In addition, since the mid-1980s, a series of new research works has emerged, their achievements and limitations need to be incorporated into the main stream of the development through further sorting and evaluation. But up to now this work has not been done. Therefore, it seems to be necessary to resort and revalue the models concerning Chinese policy-making studies.

This review suggests that the major models concerning the Chinese policy-making process that developed in the last few decades mainly revolve around two issues: Who plays the leading role in the policy-making process, and why particular policies are adopted. Around the two foci, four different strands have been formed: Politicians in control models vs. bureaucracy in dominance models; idea contention oriented model vs. power conflict oriented models. Within each of these strands, there have been more sub-variants. For example, in the strand that emphasizes the role of political leaders, a line can be drawn between approaches of Mao(or Deng) in command and approaches of politicians in negotiation and interaction; and in the strand which stresses idea contention, a slight difference can be found between two line struggle models and multi-tendency models. This sorting of the models can be shown in the Table 3.1.. The following sections will survey the models more specifically.

Table 3.1. Sorting of Western models concerning
Chinese policy-making process

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3.2. Models surrounding the focus on who plays the leading role in the policy-making process

Centring around the issues of who participates in the Chinese policy-making process and who is the chief actor in the process, different models have been developed. Among the diversified models concerning the decision participants, two strands are prominent. One is the models which emphasized the role of politicians in the policy process, another is

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the models that attach importance to bureaucracies.

3.2.1. Politicians in control models

Some scholars who are interested in the Chinese policy process hold that the political elite played a leading role in policy-making in China. In their view, politicians' preferences, personality, and the nature of the relationships between them exert crucial influences on policy formulation. They seek to explain the shifting or cyclic fluctuations of public policies by depicting changes in politicians' thinking, positions, and relationships, etc..

However, the scholars who stress the importance of politicians still disagree with each other in some specific issues, such as, to what extent the policy-making process was controlled by politicians, and assertion that it is the paramount leader or a group of political leaders dominated the policy formulation.

At one end of the spectrum is the Mao-in-command model. The model was developed by Michael Oksenberg, Frederick C. Teiwes, *et al.* to portray the policy-making process in the period between 1949 toward 1976. According to this model, Mao was the unchallenged pivot of elite politics—a dominant leader. All other leaders were dependent, to a significant degree, on Mao's continued goodwill and he was able to

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reorient not only major policies but also the overall direction of the regime.

In his representative article of the model,⁸ Oksenberg asserts that Mao Zedong had dominated the policy-making process over the past twenty years. In his view, Mao appears not to have been involved in daily decision making but to have intervened in important policy formulation. He describes Mao's role in policy-making as being dual:

"Bringing initiatives, establishing priorities, and giving coherence to ongoing policies, Mao played a decisive role. On the other hand, his search for a synthesis of goals that seemed to be irreconcilable raised as many questions as he answered; he was disquieting and provocative."⁹

Through what approach did Mao control the policy formulation? Oksenberg notes that a crucial method adopted by Mao was through informal party meetings. By setting the agenda at the meetings and placing expectation on participants at the meetings, Mao prompted important policy initiatives and produced general guidelines for the party and the government. Once policy guidelines were formulated at the small party meetings, they were turned into more specific directions by three key bodies: the Military Affairs Committee, the Standing Committee of the State Council, and the Party Headquarters

⁸Michael Oksenberg, Policy Making under Mao, 1949-68: An Overview, in John M.H. Lindbeck ed., Management of a Revolutionary Society, Seattle: University of Washington Press, 1971, PP.79-115.

⁹Ibid., P.91.

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Secretariat.¹⁰

A further question is, what factors exerted an influence upon Mao? From this aspect Oksenberg comments that

"Although Mao dominated the policy-making process, he had to respond to specific problems pressing upon him and make use of the limited opportunities available to him; at the same time, of course, his perception and evaluation of these problems and opportunities were determined by his beliefs, his health, and the demands of his role as the acknowledged leader of China."¹¹

Therefore, Oksenberg examines further how did role demands, Mao's beliefs, the social and economic problems of the country, and the sources at hand shape the choices available to Mao.

Frederick C. Teiwes takes a stance like Oksenberg on Mao's role in policy formulation, but he views the role from some different perspectives. He claims that shifting policies in the pre-Cultural Revolution period can be explained by divergent tendencies in Mao's thought. That is to say, the contradictory aspects of Mao's overall intellectual framework determined the vacillation of policy guidelines in China.

¹⁰Ibid., P.98.

¹¹Ibid., P.80.

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Teiwes argues that Mao frequently changed his position both in terms of specific policies and by emphasizing different aspects of his intellectual outlook, such as subjective and objective forces, spontaneity and organization, "red" and expert, and selflessness vs. particularistic interests. "This shifting of position was derived in part from the very core of Mao's thinking, which depicts a world in constant flux, in which the central problems, or 'contradictions', change as society develops."¹² So it was the various strands in Mao's thought that justified strikingly different policies.

Teiwes reviews three major periods in which significant changes of emphasis and overall outlook of Mao's thought were present and corresponding shifting of Chinese policies occurred.

"In the first period, 1949 through 1957, CCP policies were basically modeled on the Soviet experience. A brief second period, 1958-1960, was inextricably tied to the unprecedented developmental strategy of the Great Leap Forward. Finally, from 1961 to 1965, Mao's preoccupation with the future of the Chinese revolution was indicative of an indecisive search for new directions within the party as a whole."¹³

Why did Mao's shifting intellectual concern have such an impact on the policy process?

Teiwes holds that the impact was derived from the predominant position of Mao within

¹²Frederick C. Teiwes, Leadership, Legitimacy, and Conflict in China—From a Charismatic Mao to the Politics of Succession, Macmillan Press, 1984, P.11.

¹³Ibid., P.16.

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the leadership. Despite the fact that Mao's prestige had its ups and downs, "the evidence is overwhelming that his colleagues consistently regarded him as the ultimate authority." "Party leaders clearly viewed Mao's attitude toward them and the general perception of that attitude as crucial to their careers."¹⁴

Then an important question has to be raised: what was the sources of Mao's authority? To answer the question, Teiwes employs the concepts of charismatic authority, legal-rational authority, and traditional authority defined by Max Weber in his explanation. He suggests that Mao drew on all three types of authority to sustain his rule, in particular, his legitimacy was rooted in the first type of authority. Teiwes cites Weber's view to explain the authority source of Mao:

"According to Weber, charisma refers to the perception of a 'certain quality of an individual personality by virtue of which he is set apart from ordinary men and treated as endowed with supernatural, superhuman, or at least specifically exceptional powers or qualities.' Charisma in its pure form only arises in periods of crisis when the unusual powers of the person in question are seen as providing the answers to the calamitous situation."¹⁵

Mao's success at a time of revolutionary crisis made his colleagues within the party

¹⁴Ibid., P.24.

¹⁵Ibid., P.46.

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leadership recognize his "exceptional qualities". In the 1930s and 1940s Mao consolidated his leadership as his policies of guerilla warfare and "independence within the united front" gained ascendancy with the party and produced a vast growth of communist power. "Within a dozen years strategies bearing a personal stance led to an almost unimaginable victory which conferred on him a genuine revolutionary charisma."¹⁶

Mao-in-command models put Mao's role in such a unique position that he stood above all his colleagues and no other political leaders could challenge his authority. Thus, an interesting question is: in the post-Mao era is there any leader who has the same authority as Mao? Some students who study politics in post-Mao China give a positive answer. They develop a similar approach—the Deng-in-command model. One of these attempts is illustrated by David Wen-wei Chang's work.¹⁷

In his book, Chang argues that, although Deng is different from Mao in some important aspects, he gained the same degree of authority of Mao. Since his victory against Hua Guofeng(The Party Chairman between 1976-1978), Deng reached absolute control over the hierarchy of the state.

"The new political circumstances since then have allowed Deng to be the first and definitely the last voice in all major policies. He is the final arbiter of all things, like Mao,

¹⁶Ibid., P.48.

¹⁷David Wen-wei Chang, China under Deng Xiaoping, Macmillan Press, 1988.

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but without being surrounded by a personality cult.... In short, his position is supreme and unique in the entire communist world."¹⁸

According to Chang, Deng is an initiator of important policies, creator of ideology, and the chief architect of the current reform.

How did Deng achieve this unique leadership position? Chang suggests a few factors to explain the situation. First of all, Deng's experience and positions before the Cultural Revolution had given him unique advantages over many other well-known politicians. Secondly, Deng's age qualifies him as a younger and well-experienced statesman who is from the old generation that experienced the famous Long March. Thirdly, Deng's experience in the Cultural Revolution enabled him to obtain sympathy from cadres within the party and governments. Fourthly, his policy of restoring purged colleagues to their personal honour, to former or new positions in the government was highly praised by millions of former leaders and cadres. Fifthly, his struggle against the leftists and their influence within the party and government earned for him gratitude of many individuals and groups. Finally, his new policies to save the economy and benefit the people have increased his popularity.¹⁹

The Mao(or Deng)in command models place emphasis on the role of the paramount

¹⁸Ibid., PP.24-25.

¹⁹Ibid., PP.25-26.

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leader. The merit of the model is that it has a strong ability to explain fluctuations in Chinese policy and the abrupt nature of some political events. Relating policy formulation to changes in the top leader's wishes, values, health, and other personal factors, can provide reasons as to why Chinese policies changed so frequently and why the Cultural Revolution or other political campaigns might occur suddenly and against the predictions of all observers of China.

However, the deficiency of the model is also glaring: it over-simplified the complex process of policy-making in the Chinese political sphere and policy formulation was described as the dependency of a unique factor—the will of the paramount leader. As a result, it underestimated the role of other political leaders within the power circle.

There was another model that stressed the interaction between the political elites—the politicians in negotiation model. According to this model, either Mao or Deng had limits to their control of the policy system. They could not play a leading role within the policy-making process. They faced adversaries within the leadership who would use their own power to frustrate policy designs. Policies were the results of negotiation and compromise between the political leaders. In this process, although the paramount leader's position was prominent, his primary role was to reconcile and balance differing interests. In many situations, the paramount leader had to give up his policy

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propositions and yield to the pressure from other leaders. MacFarquhar's work²⁰ seems to be orientated toward this approach, particularly when he depicted Chinese policy-making in the 1950s. MacFarquhar claims that, despite the fact that Mao's distinct role, he could not totally dominate the policy-making process in the sense that he shaped policies according to his own wishes. Some of his important policy initiatives sustained setbacks brought about by other politicians. MacFarquhar picks up several cases to demonstrate the situation.

One such example is the end of the first "Leap Forward". MacFarquhar notes that in January 1956, with the solution of the problem of socialization and consolidation of the regime, Mao turned his attention to the task of developing China into a modern, industrialized nation. He held that the scale and rate of China's industrialization, and the scale and rate of the development of science, education, public health, and so on, could no longer be entirely the same as originally intended. All must be expanded and accelerated. Then he launched the first "Leap Forward". The main policy document adopted by Mao was The Twenty-Year Agriculture Programme, in which a series of ambitious targets were designed. In the field of industry, Mao also used a new slogan to spur growth of production: "More, fast, better, and more economically". Although the policy initiatives were adopted by the high leadership, they were actually not implemented for a long time. Some other politicians criticized the policy programme as

²⁰Roderick MacFarquhar, The Origin of the Cultural Revolution, 2Vols., New York: Columbia University Press, 1974 and 1983.

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"adventurism". In the 1956 session of the National People's Congress, opened on 15 June, Finance Minister Li Xiannian outlined the economic problems resulting from the ambitious programme, and raised a slogan to oppose impetuosity and adventurism. This slogan was emphasized by an important editorial in the *People's Daily*, which was drafted by the editor of the *People's Daily*, Deng Tuo. It was then revised at the Central Committee's Propaganda Department by the director, Lu Dingyi, and a deputy director, Hu Qiaomu, and finally was vested and passed by Liu Shaoqi. There is also evidence to demonstrate that Premier Zhou Enlai, and his colleagues in the State Council Chen Yun (senior Deputy Premier), Li Fuchun(Deputy Premier), and Teng Zhihui(Deputy Premier), etc, had themselves opposed this adventurism. Due to the opposition from high political leaders, Mao had to abandon his policy programme. His first attempt to hustle the Chinese economy forward at a faster pace failed.²¹

Another instance mentioned by MacFarquhar is the dispute in the Eighth Congress of the CCP, held in September 1956. At this congress, some political leaders(including Peng Dehuai, Liu Shaoqi, Peng Zhen)proposed that reference to Mao's thought should be dropped from the new constitution of the party²². Also, some other political leaders(including Zhou Enlai and his colleagues) continued to reject Mao's radical

²¹See MacFarquhar, The Origin of the Cultural Revolution, Vol.I, Chapter 2 and Chapter 7.

²²Ibid., Vol.I, Chapter 8.

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In his book, China Without Mao, Imanuel C.Y.Hsu examines the conflicts and negotiations between the Chinese leaders over important issues. One case examined by Hsu is the bargaining process that took place over Deng Xiaoping's rehabilitation. Hsu notes that, in 1977, following the downfall of the Gang of Four, the Party Chairman Hua Guofeng faced pressing issues, such as the question of his legitimacy as Mao's successor and the rehabilitation of Deng. Regarding the succession, Mao's dying words to Hua("With you in charge, I am at ease") was regarded by Marshall Ye Jianying and Deng's supporters as a reflection of Mao's personal view rather than the will of the party.

"By implication, Hua's assumption of the Chairman of the Central Committee and of its Military Commission was deemed unconstitutional; but, if he would agree to the reinstatement of Deng, this question of legitimacy could be negotiated or even withdraw. Thus, the two issues came into balance. As a result of mediation by Marshall Ye and Deputy Premier Li Xiannian, who desperately desired a smooth transition to the post-Mao era, Hua agreed in principle to rehabilitate Deng."²⁶

One more case was the policy compromise over the Fifth National People's Congress held in June 1979, when Deng had reestablished and enlarged his power base. During this time Hua and Deng were in dispute over issues of personal arrangement, priority of economic development, and the evaluation of Mao's role. Hsu asserts that

²⁶Imanual C.Y. Hsu, China Without Mao, Oxford University Press, 1982, P.30.

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economic policies.²³ From the description of MacFarquhar, we have an image that, even in Mao's era, the paramount leader's role in policy-making should not be exaggerated and that the power of other leaders could not be neglected. Then, what is the situation in the post-Mao era?

When tracing the policy process during the post-Mao era, many scholars disagree with the Deng-in-command approach. They argue that in this era no particular leader has had the degree of authority or power of even the dying Mao of 1976. Although Deng Xiaoping quickly emerged as the generally acknowledged leader, a genuinely more collective pattern now developed with many ramifications for elite interaction as a whole.²⁴ With regard to the policy-making process, many of the most important policies were made with collective decision, requiring a high degree of consensus. No one figure, not even Deng Xiaoping, was so dominant that he could unilaterally circumvent the process and impose his will.²⁵

Some books on the study of the politics in the transitional period from Mao's era to Deng's era particularly take the view that policy was the result of conflicts and negotiations between politicians.

²³Ibid., Vol.I, Chapter 10.

²⁴See Teiwes, Leadership, Legitimacy, and Conflict in China, P.6.

²⁵See Michael Oksenberg, Economic Policy Making in China: Summer 1981, in *China Quarterly*, No.90, June 1982, PP.177-178.

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"Hua and Deng had apparently reached a tacit understanding; the former would support Deng's personal changes and economic policies, while the latter would slow moves toward a critical assessment of Mao's role in the Cultural Revolution, which could be both embarrassing and injurious to Hua."²⁷

Another book, Chinese Politics After Mao, seems to adopt a similar approach to Hsu when portraying the confusing process of policy formulation in the transitional period. Vloeberghs' article, in this book, shows the conflicts between Hua and Deng surrounding a series of policy issues. Conflict areas included the assessment of Mao's legacy, the change of education and culture policies, the strategy for industrial development, and the policies for the countryside. Design on these issues were not results of the arbitrary decisions of one top leader, but were products of bargaining and negotiations within the leadership.²⁸

3.2.2. Bureaucracy in dominance models

Recognizing the deficiency of Mao(or Deng) in command models, some scholars realized that not only the strength of other political leaders should be considered, but also the role of the bureaucracy must be taken account into the study. In their view, with the

²⁷Ibid., P.36.

²⁸Gustaf Vloeberghs, The Position of Hua Guofeng, in Jurgen Domes ed., Chinese Politics After Mao, University College Cardiff Press, 1979.

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evolution of the state structure in the communist system, a great bureaucracy emerged to become constraints on leadership initiatives and become a determinant of the nature of the policy process. The bureaucratic structure has increasingly become a necessary ingredient for policy formulation. In many situations, the bureaucracy even dominated the policy process by altering, bending, or distorting the external impulses which they channel to the top leaders. In this sense, the key actor in the policy process was not a political elite, but rather a number of bureaucratic agencies which represented the interests of different functional or area organizations. Policy-making is a process of competition for resources and power among the various agencies. Different policy positions were shaped by the different perspectives and priorities of the bureaucratic agencies.

In the study of the policy process during the pre-reform period, William W. Whitson's work might be the most noticeable example of consciously applying the bureaucratic model to analyze the conflicts of bureaucratic interests, values, attitudes and goals within the Chinese policy process.²⁹

The analytical framework adopted by Whitson was the "bureaucratic politics model". According to this model, government decisions are the result of compromise, coalition,

²⁹William W. Whitson, *Organizational Perspectives and Decision-making in the Chinese High Command*, in Robert A. Scalapino ed., *Elites in the People's Republic of China*, University of Washington Press, 1972, PP.381-415.

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competition, and confusion among government officials through the activity of bargaining. The actors are a number of individual players. Groups of these players constitute the agent for particular government decisions and actions. Players' stances on policy issues are shaped by the position occupied by the players.

Whitson's article applied this model to explain the high command's different perceptions of their strategic problems in the People's Liberation Army(PLA). He suggested that at least six major career channels existed in the PLA before the Cultural Revolution: (1) local forces; (2) ground forces; (3) General Political Department; (4) General Rear Service Department; (5) Navy; and (6) air force. By 1968, officers in each channel had developed a distinctive set of organizational interests, values, attitudes, and goals. According to the fundamental premises of the bureaucratic politics model, "each of these organizations would tend to encourage its members to behave in such a way as to enhance their own collective interests."³⁰

Furthermore, Whitson held that there were still five informal factors which cut across career lines and tended to confuse the career group's definition of collective priority of interests. They included military generations, the field armies, military regions, the central elite, and personal relationships. These informal factors had generated individual differences in values, viewpoints, and goals among about 1,000 senior officials of the

³⁰Ibid., P.383.

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PLA, where "each of these men acts as a player in bargaining process in which his informal and formal organizational affiliations could be expected to influence his choices of the issues on which he might bargain, his perspectives toward such issues, and his ultimate bargaining behaviour"³¹.

On the basis of discussing the formal and informal groups in the PLA, Whitson identified differences in viewpoints toward some important issues in the high command. For example, the priority of security values and goals; the priority of perceived threats to those values and goals; the "best" organization of available systems and resources for coping with perceived threats, etc..

If Whitson's work is an explicit example of an application of the bureaucratic model in analyzing the Chinese policy-making process, then Teiwes describes the process in terms of the conflicts between bureaucratic agencies more implicitly.³² Teiwes' analysis focuses on some important aspects of provincial administration, such as the central-provincial tensions in articulations of provincial interests, the competition among provinces for scarce central resources, etc.. The study shows that the key source of tension between the provinces and central authority was three-fold. The first was the contradiction between central policy-making and local policy implementation; the second

³¹Ibid., P.384.

³²See Frederick C. Teiwes, Provincial Politics in China: Themes and Variations, in John M.H. Lindbeck ed. China: Management of a Revolutionary Society, The University of Washington Press, 1972, PP.116-192.

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was the competition among provinces for centrally controlled resources; the third was the deviation to "localism", which meant that provincial officials made their discrete policies for local interests without regard central policies.³³ Teiwes also notes that provincial leaders at the Eighth National Party Congress express provincial interests and appeal for preferential treatment and other scarce resource allocation from the central level.³⁴

Compared with the Mao-in-command models, the bureaucratic models were less systematically developed before the 1980s. The reasons are twofold. For one thing, in that period when the state structure was characterised by highly centralized planning and concentrated power, the political elite could successfully control the formation and diversification of bureaucratic interests. The bureaucracy in fact played a minor role in the policy process. The second reason is, as some analysts noted, that the students of Chinese policy process at that time were constrained by the sources available to them "They did not have direct access to Chinese bureaucracies."³⁵ However, since the 1980s, the tendency towards economic marketization and administrative decentralization has seriously eroded the concentrated power structure controlled by politicians. More and more power has been delegated to bureaucratic agencies, and bureaucratic interests have

³³Ibid., PP.125-128.

³⁴Ibid., PP.135-139.

³⁵Liberthal and Oksenberg, Policy Making in China: Leaders, Structures, and Processes, P.19.

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diversified to a greater extent. Thus, the bureaucratic structure and interests have increased their weight in the policy process and have even tended to be out of the control of the political leaders. On the other hand, the opening up of China since the end of 1970s to foreign scholars, businessmen, and diplomats has made it possible to investigate bureaucratic organizations specifically and systematically. Therefore, Western scholars might explore how the bureaucracy affected the policy-making process. Under these circumstances, bureaucratic models were developed more rapidly and designed more systematically.

In the post-Mao era, a scholar who paid early attention to the impacts of bureaucratic structure and interests on the policy process is Michael Oksenberg. In searching for the factor that brought changes to the Chinese policy process, he poses some key questions to researchers: What are the principal features of the Chinese policy process in the Deng's era? How much has it evolved from the Maoist system? Is power now lodged in situations more than in individuals? To answer the questions, Oksenberg used opportunities of investigation in China to conduct a series of interviews with officials in various bureaucratic agencies. Through the investigation, he observed different aspects pertaining to the operation of the bureaucratic system, including the involvement of the bureaucracy in economic policy-making, the functions of different agencies in agenda setting, procedures of policy initiatives and design, the approaches to resolving interagency disputes, the ways of consensus building, the relationships between

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commissions ministries, and general administrations, and structures, the ideology, and communications within some bureaucratic agencies.³⁶

In accordance with the investigation, Oksenberg concludes that dramatic changes have occurred in the Chinese policy process. First of all,

"the process seemed less vulnerable to the intervention of one man. At least in the economic realm, decisions were shared,... it was a protracted process, involving widespread consultation and modification in the face of opposition." Secondly, "factions may have continued to exist in the Politburo, but unlike the situation in Mao's last years, whatever strife existed was somewhat contained. The economic realm was insulated or cushioned from the other functional sectors." Thirdly, "rule through bureaucracy had returned. Professionalism was officially esteemed. ... Decisions were somewhat more based on empirical evaluations of alternatives."³⁷

In addition, the research by Oksenberg also takes a case study to trace the evolution of agricultural policy since 1978, by which he demonstrates that "Deng and his associates had succeeded, at least temporary, in fashioning a disjointed, incremental, bureaucratic policy process."³⁸

³⁶Michael Oksenberg, *Economic Policy Making in China: Summer 1981*.

³⁷*Ibid.*, P.192.

³⁸*Ibid.*, P.191.

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With the development of reform and the promotion of the rule of institutions in policy-making, more and more scholars realised that a focus on elite preference politics was incomplete. They turned to study the bureaucratic structures and interest conflicts in shaping policy outcomes. Since the mid-1980s, some valuable studies have been conducted by a number of skilled researchers. Part of their contribution was recorded by an important work.³⁹ Although the contributors to this volume focus on policy implementation, they actually revealed the extent to which central policies had been reshaped by bureaucratic agencies in the process of implementation.

What they found is a policy system in which power was fragmented among a diversity of bureaucratic actors, in which negotiation, consensus building, and persuasion pervaded at the implementation stage, and in which central policies were often distorted or bent to meet the needs of implementors. For example, Barry Naughton reveals that the approvals of any investment projects were the result of long processes of competition and negotiation among different power centres;⁴⁰ David Bachman shows how central authorities, in implementing the new policy of substituting taxes for profits, compromised on contentious issues with enterprises and localities which feared that the new system would diminish their revenues;⁴¹ also Thomas Finger and Stanley Rosen

³⁹David M. Lampton ed. Policy Implementation in Post-Mao China, University of California Press, 1987.

⁴⁰Ibid., PP.51-81.

⁴¹Ibid., PP.119-157.

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explain how localities always tried to maximize the portion of resources over which they can exercise discretion.⁴² All these studies demonstrate that fragmented power, based on the control of resources within discrete bureaucratic agencies, was a pervasive characteristic of the Chinese policy system in the mid-1980s.

Possibly up to now the most systematic expression of the bureaucratic model concerning the Chinese policy-making process is the work by Liberthal and Oksenberg which focuses on the making and implementation of policy in different bureaucratic contexts in regard to a few energy projects.⁴³ This study takes a similar approach as the Lampton's volume. In their view, the Chinese policy process is a protracted, disjointed, and incremental process of complex bargaining. The evolution of the policy-making pattern is due to a fragmented bureaucratic structure of authority.⁴⁴ But Liberthal and Oksenberg go further than Lampton *et al.* They seek to develop a more refined version of the model which can probe the organizational dimension of the Chinese policy process more systematically and combine disparate knowledge and information about the Chinese bureaucracy—its structures, functions, intra-competitions, relations with political leaders, etc.—into a coherent interpretation of the system.

⁴²Ibid., PP.190-225, and PP.321-354.

⁴³Liberthal and Oksenberg, Policy Making in China, Leaders, Structures, and Processes.

⁴⁴Ibid.,P.22.

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In their valuable study, Liberthal and Oksenberg illuminate the organization of political power at the top level, trace the linkage between the leaders and the energy policy bureaucracies, and specify the energy bureaucracies—their roles, structures, activities, ethos and missions, and how the units within the bureaucratic system relate to each other in handling energy development issues. They also analyze the way in which the structures and processes shape the perspectives and actual behaviour of Chinese bureaucrats. Furthermore, they present several case studies in detail to show different dimensions of the relationships among structure, process, and outcome. Drawing upon the studies, they seek to reveal how and to what extent the giant bureaucracies become constraints on leadership initiatives and a determinant of the policy-making process.

The principal advantage of the bureaucratic models is that they provide a new perspective from which to observe the Chinese policy process and overcome the lopsided view of the politicians in control models. The models that attach importance to politicians assert that policy is shaped mainly at the top. They underestimate the significance of the bureaucracy in determining policy outcomes through the altering of information concerning the external environment or by distorting the initiatives of politicians at implementation. By contrast, the bureaucratic models consider the structures of bureaucracy as an important factor for comprehending typical policy outcomes and incorporate different organizational interests, missions, and their conflicts into the policy-making process. Therefore, the models have a strong power in explaining

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discrepancies between different policy outcomes, and the protracted, incremental nature of the policy process.

However, the bureaucratic approach also faces some problems. One such problem is that the models are deficient when they are applied to explain the Chinese policy process before 1979. In the Mao's era, despite the fact that Chinese politics was bureaucratic in nature (in the sense that the principal participants in political life were bureaucratic officials), it was still impossible for a bureaucracy to play a dominant role in any field of policy-making, and political leaders had successfully prevented the formation of bureaucratic interests by launching a series of campaigns to criticize "bureaucratism", "departmentalism", and "localism".

A more substantive problem is how to integrate the "bureaucratic approach" and "political approach". In other words, how to reconcile the viewpoint of emphasizing the role of bureaucracy and the viewpoint of emphasizing the role of political elite. Even in the post-Mao era, when the open environment has eroded the central control of political leadership and increased the weight of bureaucracy in policy formulation, the role of the political elite should not be underestimated. In the period of transition from a centrally planned economic system to a market oriented system, the continued power of the political leadership is still strong. To a certain degree, the political leadership can break the constraints created by the bureaucracy and reshape the course of policy formulation.

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Therefore, it is important to recognise the need to discriminate different roles of the two actors in different policy areas and different periods.

3.3. Models with a focus on the reasons why particular policies are adopted

This dimension is concerned with the motivation behind policy formation, and is closely related to some other questions of the Chinese policy process: Why are there always contradictory aspects in policy outcomes? Why are there frequent fluctuations in policy movement? What are the resources of policy conflicts? In dealing with these problems, another two distinct strands of policy-making model have been developed. The first is the models which explain Chinese policies on the basis of idea contentions within the leadership, the second is the models which attribute policies to the struggle for power among factions in the leadership.

3.3.1. Idea contention-oriented models

Some scholars observe idea contentions, values contradictions, and alternative directions in the Chinese policy process, and assert that policies in China were formulated on the basis of ideological considerations, policy conflicts resulted from the diversified and competing ideas, values, preferences and ideological orientations in the Chinese leadership, and policy oscillations were derived from the periodic up and down

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movement of the struggle among different opinion clusters. A simple form of the model is the so-called "two-line struggle" model, which was developed by Chinese top leaders themselves, but was later modified by Western scholars. At the beginning of the Cultural Revolution, the Chinese leadership declared that there were two opposing political and ideological lines within the CCP. One was the "Proletarian revolutionary line", another was the "Bourgeois reactionary line"(they were simplified as "left" and "right"). These two lines struggled with each other and determined the policy-making in China.

While no Western scholars adopted the same dichotomy of the Chinese leadership, some of them had employed similar terminologies to depict Chinese politics. They also describe the policy-making as a process of conflicts between the "left" and "right" camps. Certainly, as Oksenberg and Goldstein pointed out, Chinese and Westerners attached different meanings to these labels.

"To the Chinese, the 'left' represents the interest of the proletariat and of peasants from poor ground, the 'left' is sane, progressive side, committed to Maoist principles and to sound, socialist development of China's culture and economy. The Chinese identify the 'right' as the side of conservatism, 'revisionism', or 'capitalism'—the side whose policies would erode the vitality of the revolution. ...Most Westerners, on the other hand, think of the 'leftists' in China as the radicals, the extremists, the utopians, the campaigners, or the ideologues... Opposed to them, in the Western idiom, are the moderates, realists, experts, pragmatists, or bureaucrats, all seen as making up the 'right'. In this language, these are the sane people, committed to the rational, flexible development of the economy

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and of the political institutions."⁴⁵

Derived from the demarcation of "left" and "right" lines, more dichotomies were adopted by Western scholars, such as "Maoist" versus "Liuist", "radical" versus "moderate", mobilization versus institutionalization, the revolutionary modernizer versus the managerial modernizer, equity-seeking versus efficiency-seeking, transformation versus consolidation, etc..

In search of the origin of the "two-line struggle", some scholars assert that most of these policy conflicts are rooted in the history of the CCP. For instance, in his article concerning the emergence of the two roads, Jack Gray argues that diversified policy viewpoints about strategies of social change and economic growth in the 1950s and 1960s were related to the similar controversies in the Yanan Border Region Period(1930s) and Jiangxi Soviet Period(1920s). In tracing the history of policy conflicts on different issues, such as land reform strategies, economic management policies, organizational policies, cooperative policies in agriculture, etc., Gray suggests that all the controversies within the leadership have been present through the history of the Chinese policy process and appeared in the form of a struggle between the two lines.⁴⁶ Another instance is the

⁴⁵Michael Oksenberg and Steven Goldstein, The Chinese Political Spectrum, in *Problems of Communism*, March-April 1974, Vol.III, PP.1-13.

⁴⁶Jack Gray, The Two Roads: Alternative Strategies of Social Changes and Economic Growth in China, in Stuart R. Schram ed. Authority Participation and Cultural Change in China, Cambridge University Press, 1973, PP.109-159.

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article by Joel Glassman concerning the changes in education policy in Communist China.⁴⁷ The article holds that there are important elements of continuity in Chinese Communist education policies. By examining pre-liberation origins of communist education policies and education policies before the Cultural Revolution, Glassman's paper indicates that contention over many fundamental education issues in the PRC, such as the goals and directions of education, priority of investment in education, and methods of education, can be traced to different opinions in earlier periods of China.

In literature advocating the two line struggle model, perhaps Nathan's paper concerning policy oscillations in China is representative in discussing different dimensions of the line struggles.⁴⁸ In his article, Nathan firstly offered a condensed chronology of left-right oscillations in Chinese policy from 1949-1976. According to this chronology, during the early years after the Liberation, pragmatic or moderate policies(the right line) were in the ascendancy, because the regime faced the problems of take-over, which required the establishment of public order and the first step toward economic reconstruction. The years 1955-56 saw the first swing to a leftist line. Agricultural collectivisation was pushed rapidly, while a mass mobilization campaign brought socialist transformation to commerce and industry. A rightist interlude followed in 1956-57, when agricultural

⁴⁷Joel Glassman, Change and Continuity in Chinese Communist Education Policy: "Two-Line Struggle" Versus Incremental Trends, in *Contemporary China*, Vol.2, No.2, September 1978, PP.51-70.

⁴⁸Andrew J Nathan, Policy Oscillations in the People's Republic of China: A Critique, in *China Quarterly*, Vol.68, 1976, PP.720-750.

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collectives and socialized industrial and commercial enterprises were consolidated. With the Great Leap Forward of 1958-60, mobilization returned as the theme in all sectors of Chinese policy. The excesses of the Great Leap led to a period of retrenchment from late 1960 to 1965, characterized by a rightist line. However, since 1962, Mao had been dissatisfied with the rightist policies of the retrenchment, and in 1966 he launched the radical counter offensive which became the Cultural Revolution. The post-Cultural Revolution era, from 1969 to 1975 was characterized by a return to moderation and pragmatism.⁴⁹

Furthermore, Nathan's paper illustrates different manifestations of the "two lines" in eight policy areas which interlink with each other, including agriculture, industry, intellectuals and education, cadres and party life, military organization and strategy, foreign policy towards the Soviet Union, foreign policies toward the United States, and foreign policies towards other countries. For example, in agriculture a rightist line involves a greater appeal to selfish, materialistic motives on the part of peasants in the form of free markets, private plots, piece-work rates, a greater flow of consumer goods to the countryside, and decentralization of management to the team level; a leftist line involves greater appeal to self-sacrifice, mobilizational or ideological motives, and hence a reduction in the role of free markets and private plots, and the politicization of remuneration systems. Correspondingly, a right line in industry involves balanced,

⁴⁹Ibid., PP.721-722.

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planned investment and centralized management, greater technical sophistication, slower, more stable growth, and reliance on material incentives to both workers and managers; and a leftist line in industry involves a more rapid but inefficient, decentralized growth of a less sophisticated industrial sector with greater worker participation in management and more reliance on ideological incentives, etc..⁵⁰

In building the two line struggle model, some scholars went beyond merely describing such a policy pattern to offer some explanation for it. One explanation for the policy oscillation was set forth by Parris H. Chang. In his opinion, the policy oscillations between right and left reflected the conflicts between groups with conservative view and groups with a radical view.

"When the radical view prevailed in the party, the political pendulum would swing to the left, policies to effect rapid revolutionary changes would be pushed, and the leadership would stress mobilization of the masses and the ability of human will to overcome objective limitations. When the conservative view gained an upper hand, however, the political pendulum would swing to the right, the radical policies would be moderated and 'consolidation'(retreat) would become the order of the day, and material incentives for the people as well as objective conditions would receive attention."⁵¹

⁵⁰Ibid., PP.722-723.

⁵¹Parris H. Chang, Power and Policy in China, second and enlarged edition, the Pennsylvania State University Press, 1982, P.176.

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It should be noted that the two line struggle models were mainly prevalent in the early 1970s and applied in order to describe policy process in the first twenty years of the PRC, particularly during the Cultural Revolution. Since the mid-1970s, due to more evidence of complex processes in Chinese policy-making and more criticism from researchers, the two line approach has gone into decline. However, even in the post-Mao era, variants of the model still existed. Some scholars hold that the model remained a useful way to conceptualize the Chinese policy-making process. For example, Peter R. Moody tries to apply the approach for analyzing the policy conflicts within the Chinese leadership on the issues of political control and political liberalization in the post-Mao era.⁵² In his paper, Moody adopts an approach to divide modes of political thinking and attitudes into two lines—the right and the left, or the moderate and the radical, or "experts" and "reds"(in the Chinese version). The former demanded limits to the leadership's power, required political control over society through routine and predictability, and proposed to loosen the control over people's lives; but the latter stressed the need for political control over all the lives of the people and bureaucracy, whether by dictatorship or the "masses". These two tendencies attacked each other, and continually evolved in the period of Deng Xiaoping. The outcomes of the struggles determined the policies of political control and liberalization.

However, the two line struggle models have been facing bitter criticisms from other

⁵²Peter R. Moody, Political Liberalization in China: A Struggle between Two Lines, in *Pacific Affairs*, January 1984, PP.26-44.

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Western scholars for a long period. The first criticism is that the models were derived from the explanation which was developed by Chinese Communists themselves and which "took a highly moralistic tone", in that it depicted Chinese politics as "manichaeian conflicts between right and wrong". Even though Western scholars tend to translate its labels into more respectable social scientific terminology, "the basic characteristics of the models remained the same."⁵³

The second criticism is that the model oversimplify the complex mechanism of the Chinese policy process.

"Chinese politics are more complicated than the 'two line struggle' model suggests, and to describe them in simplistic terms of 'left' vs. 'right' or 'radical' vs. 'moderate' not only precludes analysis of the process whereby coalitions are pieced together over a number of issues, but also obscures the shadings of opinion involved."⁵⁴

The third criticism is that it is problematic to say that there were really two mutually exclusive and relatively fixed lines in Chinese Communist history, because the political thinking and attitudes of Chinese leaders were not fixed but swinging over time. For example, "Mao himself frequently change his position both in terms of specific policies

⁵³Harry Harding, *Competing Models of the Chinese Communist Policy Process: Toward a Sorting and Evaluation*.

⁵⁴Oksenberg and Goldstein, *The Chinese Political Spectrum*.

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and by emphasizing different aspects of his intellectual outlook."⁵⁵

In recognizing the defects in the two line struggle models, Western scholars developed some similar, but more refined models along the route of idea contention. Those are the multi-tendency clash models. Tendencies, according to the classical definition of Franklyn Griffiths, refer to "pattern(s) of [value] articulation associated with a loose coalition of actors operating at different levels of the political structure, whose articulations tend in the same direction but who are unlikely to be fully aware of the common thrust and consequences of their activity."⁵⁶

The principal hypothesis of the tendency models is that policy-making is the function of competition between different tendencies. These tendencies should not be described in moralistic terms but by value-neutral terms and need not be limited to two but may be differentiated within multiple directions. On the basis of this hypothesis, a variety of forms of the model have been developed. They cover different periods and centre around different issues.

A representative form of the model is the "four-line" framework presented by Oksenberg

⁵⁵Teiwes, Leadership, Legitimacy, and Conflict in China, P.11.

⁵⁶Franklyn Griffiths, A Tendency Analysis of Soviet Policy-Making, in H.Gordon Skilling and Franklyn Griffiths ed. Interest Groups in Soviet Politics, Princeton University Press, 1971, P.358.

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and Goldstein. They claimed that since the 1840s, the key theme in Chinese society had been a search for the proper route to a modernity, in response to the Western challenge. This core concern had remained at the heart of Chinese politics after 1949, even though it had changed in some dimensions. Surrounding the key issue, four opinion clusters could be identified within the Chinese leadership. The first was the militant fundamentalists who believed in the force of an ideologically aroused populace, and took the stance of anti-bureaucratic, anti-urban, and anti-foreign. The second was the rational radical conservatives, who sought to preserve the traditional essence of China, but with a selective borrowing of Western technical knowledge. The third was the eclectic modernizers, who were more tolerant of a Western presence in China and accepted western sciences and technology. The final one was the westernized Chinese, who advocated China's pursuit of national greatness as a westernized country. Oksenberg and Goldstein believe that it was the struggles, coalitions, and changing positions of these schools of thought that determined outputs in the Chinese policy-making process.⁵⁷

Another scholar who adopted the tendency model to describe the Chinese policy-making process is Harry Harding. In his book, Organizing China, Harding analyzes organizational policies in China from 1949 to 1976. By examining in retrospect the different diagnoses held by Chinese leaders to deal with organizational problems and

⁵⁷Oksenberg and Goldstein, *The Chinese Political Spectrum*, PP.1-14.

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dilemmas, he found four major policy tendencies in this field. The first was rationalization, which laid stress on promulgating rules and regulations, establishing a complex network of bureaucratic auditing and monitoring agencies, systematizing career lines, and expanding the role of specialized bureaucratic agencies. The second was radicalism, which proposed the complete destruction of the bureaucracy and its replacement by a much more participatory and less hierarchical form of political system. The third was internal remedialism, which assumed that an organization's problem stemmed from the personal values and political orientations of its officials, and that solving them therefore depended on the thorough indoctrination of cadres through study, criticism, and self-criticism. The fourth was external remedialism, which proposed to mobilize the masses to participate in party and state affairs, to discover, criticize, and rectify organizational problems. Harding believes that all Chinese organizational strategies derived from this fourfold scheme.⁵⁸

In his recent studies, Harding still uses the tendency model to portray the Chinese policy process, but the focus of his attention has shifted to the economic and political reform in the post-Mao era. He suggests that at the time of Mao Zedong's death in 1976, the Chinese political spectrum consisted of three broad schools of thought.

"On the left of the spectrum was a group of revolutionary Maoist, headed by Mao's wife,

⁵⁸Harry Harding, Organizing China, Stanford University Press, 1981, PP.329-331.

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Jiang Qing, who wished to preserve the values and policies of the Cultural Revolution. In the centre was a second group of leaders, symbolized by Premier Hua Guofeng, who believed that the wounds of the Cultural Revolution could be healed by restoring, in modified form, many of the political and economic institutions that existed in the mid-1950s and early 1960s, before the onset of the Cultural Revolution. At the other end of the spectrum, on what the Chinese call the 'right', were leaders who sought to make significant changes in both the Maoist legacy and the Soviet model of politics and economics. This coalition of reformers was assembled and led by Deng Xiaoping,...⁵⁹

With the conflicting process of the tendencies, the right wing of the leadership (reformers) has enhanced their power basis. Since the end of 1970s, the reform leadership itself has been divided into two groups—the radical reformers and the moderate reformers. Their differences have concerned the issues of how fast to reform and how far to proceed, with the moderates more deliberate and more orthodox than their radical counterparts.⁶⁰ Harding claims that the conflicts between the tendencies in different periods dominated the formulation of reform strategies.

Dorothy J. Solinger's approach is similar to that of Harding, but she takes some other issues as the focus of her analysis. In one of her papers studying the Chinese policy-making process from 1978 through 1981, she identifies three opinion groups within the

⁵⁹Harry Harding, China's Second Revolution, the Brookings Institution, 1987, P.40.

⁶⁰Ibid., PP.777-778.

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policy-making elite who differ on how to develop the economy. There are the adjusters, who advocated the readjustment of sectoral relationships in the economy, the reformers, who favoured reform or restructuring of the economic system, and the conservers, who stood in support of various elements of the *status quo* and against the Third Plenum of the Eleventh Central Committee of the Party.⁶¹ In her later book concerning the Chinese business policies from 1949 to 1980, Solinger goes further in analyzing the tendency clashes and policy shifts. She describes the cyclical process in Chinese commercial policy as a "three-line struggle"—the bureaucratic approach, the market approach, and the radical approach. Then she points out that the cycling among the three competing strategies for commercial work was more than a battle over power between contending elites, but reflected a clash between generally shared values—egalitarianism, order, and productivity.⁶²

It can be seen in retrospect that the models which focus on multi-tendency clashes are more sophisticated than the two-line struggle models. They try to discriminate between the subtle differences of ideas involved, rather than only sketch two general lines. They would not divide different policy tendencies into a wrong camp and a right camp but describe them in value-neutral terms. Furthermore, they would not obscure the shadings of policies in different areas but identify tendencies in lines with different issues and

⁶¹Dorothy Solinger, The Fifth National People's Congress and the Process of Policymaking: Reform, Readjustment, and the Opposition, in *Issues and Studies*, August 1982, PP.63-106.

⁶²Solinger, Chinese Business under Socialism, University of California Press, 1984, PP.297-298.

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different periods.

Another positive aspect of the model is that they provide us with a convenient way to observe Chinese policy process. They highlight the phenomena of policy differentiation and policy cycles, and reveal an important motivating factor behind the policy movements—that is value conflicts and ideological struggles. So they are useful in improving the understanding of the Chinese policy process.

However, despite the fact that the multi-tendency models have introduced an improvement compared with the two-line struggle models, they still have their shortcomings. The most important one is that the models attribute the policy conflicts and policy cycles only to value differentiation within the leadership but do not take other motivating factors into account. It should be noted that variables determining policy conflicts and fluctuations in China are diversified. In addition to ideological clashes and opinion differences, power struggles, institutional arrangements, as well as some other socio-economic conditions also play significant roles in motivating policy conflicts and fluctuations. Therefore, a composite perspective should be taken when observing the Chinese policy process.

3.3.2. Power conflict-orientated models

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In searching for causal relationships between policy formations and their determinants, some scholars develop another important type of framework, that is a set of models which highlight power conflicts between different factions in the Chinese political system.

In contrast to the idea contention-orientated models, the power models downplay the significance of ideological considerations. They take power conflicts as the most important determinant of Chinese policy-making. The real motive behind policy debates and policy oscillations is the striving for and maintaining the power positions of participants. In this sense, policy is only an instrument for policy makers to achieve their appointments, offices, and influences.

Probably up to now the most influential and frequently cited power model was developed by Lucian Pye. He assumes that the main actors in the policy-making process are power constellations of clusters of officials who for reasons or other feel comfortable with each other, these are the so-called factions. The real motivation behind factions is that to achieve career security and enhancement. Although certain policies may become the trademarks of particular factions, it cannot be concluded that factions are formed in response to policy preference. Neither are ideological considerations of prime importance. "The prime basis for factions among cadres is the search for career security

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and the protection of power."⁶³ On many occasions, policy-making serves a factional power purpose. Policy makers can bitterly contend over policies, not necessarily because of intellectual disagreements, but because they foresee that the effects of the policy will alter their respective power positions.

In summarizing the findings of Parris H. Chang concerning the Chinese policy process, Pye describes the relationships between policy issues and factional power considerations more explicitly:

" (1) The ending or shelving of any authoritatively announced policy programme signals the existence of a countervailing power group. ... (2) A change in focus of a policy signals the existence of a contending power group that is not strong enough to be an effective countervailing power. ... (3) Policies that are not workable will not be criticized or altered unless there is a contending group to challenge for power. ... (4) A change in the responsibility for a programme implies a shift in factional power. ... (5) Persistence in clinging to unworkable policies is a sign of secure power, not of mere stubbornness. ... (6) Any public criticism, particularly at a party congress, must be interpreted as a challenge for power."⁶⁴

These six rules emphasize the degree to which policy issues are dominated by factional power struggles.

⁶³Pye, The Dynamics of Chinese Politics, P.7.

⁶⁴Ibid., P.162.

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However, Pye is not the first one to propose a power model. As early as in the late years of the 1960s, Western analysts had started to pay attention to power struggles within the Chinese leadership and their connection with policy issues. For instance, Philip Briggam tried to illuminate the factional struggle within the Chinese Party leadership. On the basis of evidence brought to light during the Cultural Revolution, Briggam asserted that the power factor was the first prerequisite for engaging in factional struggle, even though the policy factor also played a role in the course. The most important target of factional politics was to create and maintain an independent power base for an individual faction. The policy disputes were only the second consideration for the Chinese leaders.

A further effort in this direction was made by Andrew J. Nathan. Unlike other scholars who study the Chinese policy process by employing power models, he tries to place his analysis in a comparative framework. He does not adopt the usual approach to the study of Chinese power struggles that developed an interpretation on the basis of the information available, but uses a reversed procedure that presents a general and abstract framework at first, then show that the available data on Chinese politics are consistent with the model. He assumes that in an ideal-typical political system which was primarily organized by factions, the political process is characterized by a series of typical features. For example, a faction's most important concern is to protect its own base of power while opposing accretions of power to rival factions; ideological agreement is not a

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primary condition for an alliance of two factions; and policy decisions are made by consensus among the factions, etc. Turning to China, Nathan claims that the available evidence permits the view that Chinese politics at the central government level had been structured largely by factions, so the central political arena displayed most of the characteristics of a factional system. Power consideration is the most important factor in political activities and policy-making within the central elite was made with a consensus among factions which struggled for their own power base.⁶⁵

In debating the relationship between power conflicts and policy disputes, some scholars strongly suggest that the latter is subordinate to the former, and the former is the real motivating factor of the latter. Kuo Hua-lun proposes this view in his paper. He argues that in intra-party struggle,

"it appears that the contenders are struggling for the adoption of a correct line, whereas power is the instrument to carry out the line. In essence, the real goal is power while the supposed errors in a certain line are excuses to discredit opponents. Therefore, every top-level intra-party struggle is inevitably concealed under the line struggle, resulting in a shift and redistribution of power." By citing quite a range of evidence from the history of intra-party struggles, Kuo further concludes that "the correctness or incorrectness of a

⁶⁵Andrew J. Nathan, A Factionalism Model for CCP Politics, in *China Quarterly*, No.53 January-March, 1973, PP.34-66.

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certain line, or policy, is judged by the power-holders——winners of a power struggle."⁶⁶

The Power models provide us with a different perspective from which to observe the Chinese policy process. Unlike the tendency models which attribute policy conflicts and oscillation to opinion clashes and ideological considerations, the power models highlight the power factor in motivating policy-making activities, in determining agenda of policy process, and in affecting the adoption of particular policies. These models point to a crucial characteristic in the Chinese policy process. Even the Chinese leaders themselves could not deny the existence of power struggles in the party and the role of the power struggles in policy formulation.⁶⁷ Therefore, analysis of power struggles behind the curtain of policy disputes is a useful approach to reveal the real dynamics of the Chinese policy process.

In addition, the power models are strong in their explanation of the Chinese policy process in some particular periods. For example, they are applicable to the period of the Cultural Revolution when different groups within the leadership were struggling for their political survival and the maintenance of their power base, and the early years of the post-Mao era(1976-1978) when several factions in the party were competing for a legitimate position in order to succeed to Mao. During these periods, policy-making was

⁶⁶Kuo Hua-lun, Patterns of Intra-elite Conflict, in Jurgen Domes ed., Chinese Politics After Mao, University College Cardiff Press, 1979, PP.25-26.

⁶⁷For example, Mao Zedong took the Cultural Revolution as a power struggle between two headquarters.

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really dominated by the power factor.

However, the power models do not fit well with the reality of every period in China, especially when a round of power struggle was settled, a temporary consensus was built, and a new round of power competition had not yet been initiated. For example, in the partial reform period(1979-1984), when the pragmatic group in the leadership defeated other factions and dominated the power, most the leaders agreed that it was necessary to launch a reform movement in pursuit of the modernization goal. In this context, substantial policy issues became the first consideration of the leadership and the power factor became a sub-important consideration in policy-making.

Furthermore, the power models have a similar shortcoming as the tendency models. If the tendency models can be criticized for over-emphasizing idea contention in the motivation of policy-making, then the power models can be accused of over-estimating the role of power competition in the process. Both of them fail to take other factors into account. A better method would be to integrate different factors in the analysis.

3.4. Conclusion

So far we have examined two foci of studies concerning Chinese policy-making, traced four strands of models which describe the policy formulation from different angles, and

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illustrated various forms of these models. In addition, we have made some specific assessments as to the strength and weakness of each model. By way of conclusion, we want to portray some general features of the studies in recent years, provide an over-all evaluation of the academic development, and suggest some ways in which the scholarship might improve the understanding of the Chinese policy process.

3.4.1. Positive changes of the studies in last two decades

With retrospect to the development of research in the Chinese policy process, a few features can be drawn. First of all, the studies have gone far beyond merely describing the Chinese policy process and have moved towards developing a series of theoretical models, which tend to provide generalized explanations of the process. If in the early years of the 1960s, the study was characterized by a descriptive rather than an analytical approach, then from late-1960s to mid-1970s, theories, models, or conceptual frameworks tended to proliferate. As illustrated in this review, the models have not stopped at a simple description of the process, but have sought to reveal complex causal relationships and explain the dynamics in the process. Since the end of 1970s, some of the models have tended to become more sophisticated. Taking the case of the bureaucratic models, during the 1970s it was still difficult for researchers to discriminate between the competing bureaucratic agencies, identify conflicting interests, and examine relationships between policy outcomes and the competition, due to lack of information. However, by

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the 1980s, it has become possible for scholars to interview Chinese leaders and cadres in different agencies, to explore how the bureaucratic structures and interest conflicts affect the policy formulation, and then develop a more refined bureaucratic model.

Secondly, the studies of the Chinese policy process have no longer been an isolated academic field but have begun to rejoin its parent disciplines. As can be seen from the review, at the early stage of the study Western scholars used to adopt concepts and frameworks proposed by Chinese leaders(e.g., "two-line struggles"). Since the 1970s, more and more theories, methods, and concepts developed by modern social sciences, including comparative politics, comparative administration, and policy analysis, etc., have been employed to study the Chinese policy process. To mention a few: Max Weber's concepts of charismatic, traditional, and legal-rational authority were applied to illuminate the nature and source of Mao's authority in policy-making;⁶⁸ the stage-division approach to understand Western policy process was introduced into the study of the Chinese policy process;⁶⁹ and several decision making models created by Western scholars(including "garbage can", "satisficing", and "incrementalism") were taken as tools of research into Chinese reality as well.⁷⁰

⁶⁸Teiwes, Leadership, Legitimacy, and Conflict in China.

⁶⁹Chang, Power and Policy in China.

⁷⁰Liberal and Oksenberg, Policy Making in China: Leaders, Structures, and Process, and Peter N.S. Lee, Industrial Management and Economic Reform in China, Oxford University Press, 1987.

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Thirdly, the topics of study have tended to become more specialized. A principal feature of the early research on Chinese politics is that academic works usually discussed a large topic and covered an extensive area. For instance, Franz Schumann's work involved most aspects of the Chinese politics, including the ideology, the rules and the structures of the party, organizations of the government, management of the society and enterprises, bureaucratic control, urban organizations, and village policies, etc.⁷¹ A. Doak Barnett's work covered nearly all the levels of the administrative system and bureaucratic organizations in China, from a central ministry to a grass roots brigade in the countryside.⁷² However, up to 1970s, a number of works which focused on the evolution of policies in particular areas appeared. These policy areas included agriculture,⁷³ science,⁷⁴ public health,⁷⁵ and education.⁷⁶ By the 1980s, there emerged more studies on China on the basis of one selected policy, such as organization,⁷⁷

⁷¹Franz Schumann, Ideology and Organization in Communist China, University of California Press, 1966.

⁷²A. Dock Barnett, Cadres, Bureaucracy, and Political Power in Communist China, California University Press, 1967.

⁷³Kang Chao, Agricultural Production in Communist China, 1949-1965, University Wisconsin Press, 1970.

⁷⁴Richard P. Suttmeier, Research and Revolution: Scientific Policy and Societal Change in China, Lexington Books, 1974.

⁷⁵David M. Lampton, Health, Conflict, and the Chinese Political System, University of Michigan's Centre for Chinese Studies, 1974.

⁷⁶Joel Glassman, Change and Continuity in Chinese Communist Education Policy, in *Contemporary China*, Vol.2, No.2, September 1978, PP.847-890.

⁷⁷Harry Harding, Organizing China, Stanford University Press, 1981.

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business,⁷⁸ industrial management,⁷⁹ and energy.⁸⁰ Compared with the early studies, these works discuss the mechanism and dynamics of the policy-making process more specifically.

Finally, sources of information and empirical data have become increasingly diversified. In the early years, official publication in China was the main source of data for Western scholars, because the Chinese society was a closed system and the Chinese party and government strictly control the channels of information flow. Western analysts had to carry out their research on the basis of newspapers and journals certified by the Chinese authority. Entering the Cultural Revolution, data sources available expanded to a greater extent. Through the channel of Hong Kong and Taiwan, Western scholars gathered a variety of unofficial publications by the "Red Guards",⁸¹ and interviewed many refugees from the mainland of China. By this way they gained access to a large amount of empirical evidence about the operation of the Chinese policy process, including speeches by Chinese leaders in non-public occasions, secret party and government documents, and information about factional struggles, and idea conflicts within the leadership.

Since the 1980s, the opening of China to foreigners has produced more sources of

⁷⁸Dorothy Solinger, Chinese Business under Socialism, University of California Press, 1984.

⁷⁹Lee, Industrial Management and Economic Reform in China, 1949-1984.

⁸⁰Liberthal and Oksenberg, Policy Making in China:Leaders, Structures and Processes.

⁸¹The Student Organizations in the Cultural Revolution.

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information for Western scholars. They might not only make extensive use of statistical yearbooks and other empirical data, but also carry out field works in China and interview Chinese leaders. These changes have allowed the scholars to acquire greater insight into concrete structures and diverse elements of the Chinese system. Therefore, it has become possible to advance their research further.

3.4.2. Remaining problems and suggested resolutions

Recognizing the considerable advances made by the designers of the above-mentioned models, this review tries to discuss the weakness of existing studies in general and suggest a few promising approaches to a better understanding of the Chinese policy process.

(1) Fragmented studies and the necessity of synthetic frameworks.

As illustrated already, in searching for conceptual explanations of the Chinese policy process, Western scholars have employed a variety of models to their studies. Some of them emphasized the distinctive role played by the paramount leader or interactions of political elite, others depicted policy outputs as the result of competition among different bureaucratic agencies. Divergences also exist between scholars who seek motivation of policy-making from idea contentions and those who propose power struggles as the

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principal factor to determine the policy formulation. Each of these approaches has illuminated parts of the story of the policy process in China, so each of them contains elements of truth.

However, these specialized studies focusing on a particular dimension of the policy process also have a glaring shortcoming: they are deficient in drawing a whole picture of the process. It appears that the frameworks used adhere to a lopsided perspective and exaggerate the roles of certain factors without considering others, so they can only provide us with a fragmented picture. In my view, if in the early stages when relevant data was unavailable, it was an unrealistic target to study the Chinese policy process as a whole. Now it is time to construct some relatively composite models to accommodate different contributions made by the specialized studies in last two decades. This task requires analysts to consider the different roles of different actors, to balance different weights of different motivating factors, and particularly to be aware of their interplay and mutual-complement.

It is certainly a difficult task, and actually it has been suggested by other scholars. For example, as early as nine years ago, Harry Harding claimed that it was necessary to reduce the large number of models to more manageable proportions and built a composite model which could depict different aspects of the same phenomena.⁸² Why

⁸²Harry Harding, *Competing Models of the Chinese Communist Policy Process*.

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until now have we not seen a powerful work which constructed the productive approach. The reason may be twofold. On the one hand, it is a highly sophisticated work to synthesize numerous factors and take into account their complex interactions on the basis of all previous studies. On the other hand, it is still not easy for a single scholar to gain extensive information concerning the different aspects of the Chinese policy process. Different analysts may gather data through different channels, so they can only observe part of the process under the guidance of the data, and tell different stories about the process. Even though barriers still exist, synthesis is still necessary for improving the study of the Chinese policy process, and this is perhaps an enduring forefront of the research in the near future.

(2) Reductionist methodology and the importance of the contingency approach.

A further problem of the existing models is that their appropriate ranges of application have not been sorted out. Analysts attempted to generalize the models across divides between different periods. Taking the case of the power struggle approach, its proponents asserted that the approach captured the essential features of political life through out the history of the PRC.⁸³ But actually, its advantages were demonstrated mainly in the period of the Cultural Revolution and the transitional period between 1977-1978. Exaggeration of the applicability of the models may result from a reductionist

⁸³Pye, Dynamics of the Chinese Politics.

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methodology: substantive distinctions between different periods are left largely unattended, the policy-making patterns are isolated from their changing situations in which they arise, and contextual influences on policy-making patterns are underestimated or neglected. Contingency approach, by contrast, attaches the central importance on identifying characteristics of the decision situation, adhere that the discussion of the policy-making pattern must be firmly located in the context which shift constantly. Therefore, the approach pays close attention to the influences of contextual factors, and attempts to reveal why a framework developed with reference to a certain period is not applicable to another, and explains how policy-making processes transform from one pattern to another.

(3) Narrow range of research and the need to expand the agenda.

This review illustrates that most studies in Chinese policy process centred around two foci: who plays the leading role in the policy process and why particular policies are adopted. The analysts seemed to be only concerned with the aspects of participants and the motivations behind the policy process but neglected other dimensions. The narrow range of research prevents a systematic understanding of the process. With the proliferation of source of data, it is necessary to broaden the range of study. More interesting issues should be put onto the agenda of further research. To list a few: In what way are Chinese policies made in a newly established environment? What are the

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changes in decision making procedures and methods? What is the arena in which policies are designed and adopted and what changes in the arena have occurred during the reform period? Through what approach do local policy agencies bargain with the centre or distort central policies to protect their own interests? What are the differences in the policy process between the central level and local levels? These questions are just a sample of the important themes waiting for exploration.

Chapter Four

From Political-Factionalism to Bureaucratic-Incrementalism:

A Contingent Model of Economic Policy-Making in the Context of the Reform in China

As can be seen in the last chapter on the survey of literature, there has been a proliferation of models concerning the Chinese policy-making process during the last three decades. An interesting question is: can we select a model from the existing ones to describe and explain Chinese policy formulation in the reform era? To my mind the answer is negative. As already noted in the previous chapter, the traditional models investigated the Chinese policy process from different perspectives and were based on information available at different times. Each of them seems to illuminate a part of the story and capture features of the policy-making process in a specific time span. However, none of them is applicable to the reform era as a whole, which is a highly changeable and complicated period. No one may deny that deep and dramatic changes in the Chinese economic and political system occurred in this period and no one who lived in the era before the mid-1970s could have expected these changes. So it is difficult to state that the conceptual frameworks, each of which focuses on a specific dimension and stresses a feature in a particular stage, might be relevant to the whole period of reform. In my view it is necessary to construct a theoretical framework which may accommodate more dimensions and causal relationships at work in the process and

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which is capable of explaining the shifting patterns of policy-making in the last ten or so years.

Nevertheless, the existing models (including those are relevant to Western political systems) have provided a starting point for our further research. In constructing our own framework, an effort will be made to assimilate the enlightening ideas and methods from the models but avoid their defects. As already noted, the basic aim for this thesis is to illuminate the evolution of policy-making modes from one to another and discover what forces drive the movement. Toward this goal, we will develop a contingent and composite model. This model elaborates the interrelationships between changes in a set of independent variables and a group of policy-making modes. By matching the policy-making modes to the conditions under which they are most applicable, the model attempts to reveal what factors lead to the shift in policy-making approach.

This chapter tries to construct our own framework through following steps:

1. To draw an outline of our own framework;
2. To choose a set of independent variables which are taken as the most important factors to constitute the context of Chinese policy-making during the reform era;

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3. To define some of the attributes of the decision situation which are determined by the independent variables, on the one hand, and constraint decision activities, on the other;

4. To define the concept of policy-making mode and clarify a set of modes which I believe to be the most relevant in describing the dynamics of Chinese policy-making process at different stages of the reform. These are taken as the dependent variables in this framework.

4.1. An over-view of our own conceptual framework

Most models mentioned in last two chapters bear Western characteristics in selecting dependent and independent variables and constructing assumed relationships between the variables. Therefore, it is impossible to transplant the models into the research field of the Chinese policy process which exists in a very different political and economic context. Despite the limitation of application, some principles and ideas of these models are enlightening and can be borrowed to established our own framework.

The first one is a series of discussions concerning the contingent approach of policy-making which I have mentioned in the literature survey. I particularly commit myself to the following propositions that highlight the interrelationships between policy-making forms and contextual factors:

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"The discussion of process must be firmly located in the context within which process forms arose or are put to use,..."¹; "Actual problems vary in uncertainty over means and ends,... Planners should tailor their styles to problem conditions, by acting contingently they can use reason to cope with uncertainty."²; "We advocate a 'contingency' approach,... There is no 'one best way' of making decisions, just as there is no universal prescription for 'good organizations'"³

Although these suggestions are mainly normative they are borrowed for the purpose of identifying the descriptive dimension of policy-making in China.

Secondly, the causal theories which are introduced in Chapter one do not stop with a description of existing policy process stage by stage, but try to find the driving forces behind the changes in policy actions and outputs. Also they view the dynamics of policy process not from a single perspective, but seek to explain it from different angles. For example, Hofferbert's model view policy outputs as dependent on the aggregated effects of factors at different levels; Ostrom's model takes policy actions and strategies as products of both attributes of individual actors and decision situations, the later, in turn, is the results of other variables; and Sabatier's model dose not only consider external

¹Pasty Healey, Policy Processes in Planning, in *Policy and Politics*, Vol.18, No.1, 1990, PP.91-103.

²Karen S. Christensen, Coping with Uncertainty in Planning, in *Journal of the American Planning Association*, Vol.51(1), 1985, PP.63-73.

³Brain W. Hogwood and lewis A. Gunn, Policy Analysis for the Real World, Oxford University Press, 1984, P.62.

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parameters, but also incorporates the competition among advocacy coalitions within the policy subsystem into the explanation for policy change. This synthetic orientation in the study of policy process is worth the attention of scholars who are interested in Chinese policy process. Following this path, our framework will link policy-making patterns in China with a set of contextual variables rather than take them only as the function of a single parameter (e.g. power struggles or ideological conflicts).

Thirdly, these causal theories take policy actions or outputs not as direct products of external variables, but rather the indirect function of them through the medium of elite behaviour or attributes of individual actors. As noted in Hofferbert's model, the correlation between contextual variables and policy actions does not tell us much about how these actions are adopted, so a clearer conceptualization of the role of influential individuals is necessary.⁴ In Ostrom's model, the capabilities and motives of individual actors in decision situations are emphasized in policy-making. Likewise, Sabatier's concept of policy oriented learning highlights the alteration of individual behaviour, and intentions, in leading policy changes. This principle is also relevant to the Chinese situation. Generally, the Chinese political system is an elitist system. In this system, the authority of policy-making is associated with a cluster of politicians and bureaucrats, and individual actors play a more important role in policy-making. Therefore, this model will place the attributes of individual policy makers—their values, motives, and

⁴Hofferbert, The Study of Public Policy, PP.225-226.

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capabilities——at the core of analysis.

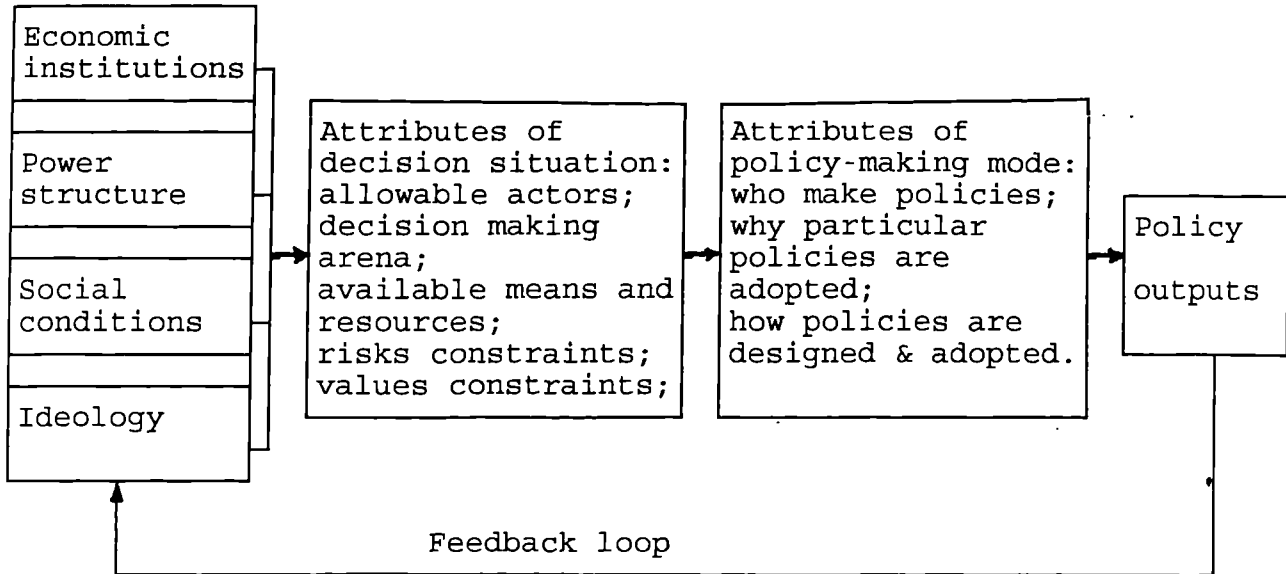
Finally, Ostrom's institutional analysis model stresses attributes of decision situations in determining individual actions or strategies. This idea is useful for it puts policy makers in different situations when observing their activities. The alterations in motives, behaviour, and actions should be explained by different attributes of decision situations. To my mind, examining the Chinese policy-making process through this lens may be helpful in revealing the causes of changes in policy-making pattern from one to another.

Generally, our conceptual framework borrows some principles and ideas from above-mentioned models, particularly from Ostrom's institutional analysis model, but differs from them in the selection of independent variables, the concepts of decision situation's attributes and individual attributes, in order to adapt it to the Chinese circumstance. The framework can be displayed in Figure 4.1.

As can be seen in the Figure 4.1, the whole framework consist of four sections. The first section includes a set of independent variable——changes in economic institutions, power distribution and conflicts, social conditions, and ideology. These variables are asserted to be important enough to merit investigation. Alterations in one or more of them may bring about changes in the decision situation, and in turn, lead to the transformation of policy-making activities from one mode to another.

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Figure 4.1. A contingent model concerning economic policy-making in China



The second section contains attributes of decision situation. The concept is borrowed from Ostrom to describe a set of constraints and preconditions confronting decision makers in a particular period. The decision situation is a key link between the independent variables and the decision makers activities. On the one hand, it is transformable in

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response to changes in the independent variables, on the other hand, its changes can require corresponding changes in motives and behaviours of the decision makers.

The third section encompasses the policy-making mode, which is used to describe attributes and performance of the decision makers. This concept includes mainly three dimensions: Who makes the policies(participants); why particular policies are adopted(motivation); how policies are designed and adopted(means, methods, and procedures). As already noted, changes in the policy-making mode depend on changes in the decision situation.

The last section involves policy outputs, which refer to decisions or actions adopted by the decision makers. The decision makers usually choose actions that are suitable to the decision situation. The policy decisions or actions can affect the environmental variables through the feedback loop.

The heart of this framework examines how the policy-making mode is transformed within different situations, which are a function of several independent variables. Next, the following sections will focus on an elaboration of each working part and their causal relationships.

4.2. Independent variables

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While policy scholars have reached a consensus that the study of the determinants of public policies is a challenging task, they are divergent when it comes to choosing which factors that might drive policy-making activities and policy actions. Some of them attach importance to the characteristics of a political system;⁵ Some others lay stress on the impact of socioeconomic conditions;⁶ in some frameworks popular demands and political culture are taken as principal determinants;⁷ in others individual actors and institutions are viewed as the key components;⁸ with regard to those synthetic models, the selection of independent variables are more diversified.⁹

Turning to the study of Chinese policy process, we can find a similar situation in determinant selection. As can be seen in our literature review,¹⁰ those who propose the factionalism model hold that power distribution and conflicts are the dominant factor in Chinese policy process; those who adopt the tendency model pay much attention to ideological clashes; and those who set forth the bureaucratic model claim that institutional arrangements or organizational structures are the key variables in deciding

⁵V.O.Key, Jr., American State Politics, New York:Knopf, 1956; and Dunne Lockard, The Politics of State and Local Government, New York:Macmillan, 1963.

⁶Thomas R. Dye, Politics, Economics, and the Public, Chicago: Rand MacNally, 1966.

⁷Paniel J. Elazer, The State and the Political Setting, and Ira Sharkensky, Regionalism, Economic Status, and the Public Policies of American States, in Ira Sharkensky ed., Policy Analysis in Political Science, Markhan Publishing Company, 1970, PP.171-207.

⁸Ibid., Part Five, Determinants of Public Policy: Individual Actors and Institutions in the Policy Process.

⁹e.g. in frameworks by Hofferbert, Ostrom, and Sabatier, which I have surveyed in Chapter Two.

¹⁰Chapter Three of this thesis.

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policy-making activities. These divergences in the choice of determinants in policy process reflect the researchers' particularities in their tasks and interests of study, perspectives and objects of analysis, and data resources, etc.. We cannot expect that researchers on economic policy issues will choose the same determinants, as the researchers of defence policy issues. Nevertheless, a common requirement for policy analysts is to elaborate the basis for their selection before turning to discuss some specific determinants.

For the purpose of our study, the following considerations will be incorporated into the selection of independent variables:

First of all, we should choose the variables that have been generally recognized as important factors in driving the Chinese policy process. In my view there are not only one but a few such factors to merit our attention. Policy-making in China is the function of these important factors, which jointly or separately affect the decision situation, and in turn, bring about changes in policy-making modes. So, this framework will encompass all these variables, even though it is not always the case that all of them are necessarily activated in every situation.

Secondly, we should choose the variables that are relevant to the Chinese circumstance. Due to the dramatic differences of social, political, and cultural background between

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China and Western countries, it is not wise to assume that every determinant suggested by Western scholars is activated in China as well. Therefore, some variables, such as mass political behaviour, public opinion, and mass media, etc., which exert strong influence upon policy-making in Western countries, but play a much minor role in China, will not be investigated.

Thirdly, we should choose the determinants that have changed dramatically in the reform era. As indicated previously, the principal task of this framework is to examine the alteration of economic policy-making in China from one mode to another. Therefore, some relatively stable variables, such as historical and geographical conditions, which may not bring about remarkable changes of policy-making mode, will be out of our consideration.

On the basis of the three criterion, four independent variables will be taken as the most important elements to constitute the context of Chinese economic policy-making in the last ten or so years:

4.2.1. Economic institutions

By economic institution, we refer to a set of rules and norms designed to govern the activities and behaviours of participants in the economic system. Specific dimensions

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include the norms of the state's function in economic management: the extent of its control of economic activities and economic units(tight or loose, direct or indirect, etc.), methods of its economic management(mandatory or guidance, rigid or elastic, etc.); rules concerning markets' function in economic activities: allowable scope of markets in allocation of goods, resources, and services; rules of property rights: allowable forms of ownership and the proportion of each form; rules of price setting and income distribution: administered by the state or allowed to fluctuate according to market conditions; and rules concerning the activities of economic units: their autonomy, scope of decision , and constraints on their performance, etc..

Anyone who is familiar with the course of the reform in China will recognize that the above mentioned dimensions constitute the core of the reform in last decade. Since the pragmatic leaders came to power at the end of 1970s, the Chinese leadership has reached a consensus of opinion that in order to realize the modernization targets, it is necessary to turn the traditional economic system, that imitated the Soviet model, into a more efficient one. So a series of programmes which aimed at reforming the economic institutions have been designed and implemented. These reform programmes have brought about significant changes in the economic institutional arrangements, and consequently have abolished the old rules and established new ones for the activities of economic participants, including policy makers themselves. Therefore, corresponding changes can be seen in the policy-making process as well. For the study of the course

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and contents of the reform, there has been enormous Western literature.¹¹ This thesis seeks to reveal how the economic reform led to the alterations in the Chinese policy-making pattern.

4.2.2. Power distributions and conflicts

This variable involves the distribution of capacities to different actors in different agencies, groups, or factions that affect decision making over political, economic, and personnel issues, and that may lead to clashes among these actors. Power distributions and conflicts include some specific dimensions:

(1). Power distribution and conflicts within the Communist Party: Between the highest leader and other party leaders, between the individual leaders and the organizations, and among different factions.

(2). Power distribution and conflicts in a horizontal sense: between the Party and the State, between the Party Central Committee(including its Politburo) and the State Council, between the State Council and the National People's Congress, and between bureaucratic agencies.

¹¹See, for example, Stephen Fenchtwang and Athar Hussain ed., The Chinese Economic Reforms, New York: ST. Martin's Press, 1983; Gene Tidrick and Chen Jiuyan ed., China's Industrial Reform, Oxford University Press, 1987; Bruce L.Reynolds ed., Chinese Economic Policy: Economic Reform at Midstream, New York: Paragon House, 1988; Harry Harding, China's Second Revolution: Reform after Mao, The Brookings Institution, 1987.

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(3). Power distribution and conflicts in a vertical sense: between the Central Government and local governments, between higher governments and lower governments.

(4). Power distribution and conflicts between professional groups: between Political leaders and bureaucrats, between politicians and scientists or analysts.

Power distribution and conflicts have been considered by many researchers as a decisive factor in Chinese politics. Lucian Pye asserted that power calculations are more important than other factors in suggesting policy preferences. "Leaders can shift their positions according to all the other considerations, but in the end they have to recognize that power is sovereign".¹²This inference may be over-absolute, but it is reasonable in the sense that it fully estimates the role of the power factor in Chinese policy-making process. Although we do not want to suggest that power is the only sovereign determinant of policy-making, we have to acknowledge that it is one of the most important factors. In this thesis we will assess the extent to which the changing power structures and power conflicts bring about the changes in policy-making pattern through redefining the decision situation.

4.2.3. Social conditions

¹²Pye, The Dynamics of Chinese Politics, P127.

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For our purpose of study, social conditions involve the developmental level of a society in some fundamental aspects. We choose following dimensions which are relevant to Chinese policy-making process to investigate:

(1). Educational development: The leadership's attitude toward education, development of educational institutions and infrastructure, the educational level of the elite who are involved in policy-making, the level of educational requirements when recruiting public officers, and the availability of professional training for bureaucrats.

(2). Scientific development: The leadership's attitude toward science, the development of scientific institutions and research, the development and position of social science, the role of social science and social scientists in society and politics.

(3). Information flow: the development of communication in society, the channels to collect and transmit information, and the method of processing and sorting information.

(4). The openness of society: the elite's attitude toward the outside world, the degree of openness toward the outside world in politics, the economy, and culture, and the impact of the outside world on values held by the elite.

These aspects of social conditions have not attracted enough attention from those who

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are interested in the Chinese policy making process, but I believe they have exerted strong influences on policy-making activities. To a great extent, the development of social conditions determine the personnel structure of the policy system, the values and preference of individual actors, the behaviour of the actors, and some other premises of policy-making. Actually, in the reform era, these aspects have experienced dramatic changes and have been the driving force behind the alteration in policy-making patterns. Thus, they are important enough to be investigated.

4.2.4. Ideology

In its simplest sense, ideology is a set of action-oriented ideas or way of thinking which form the basis of a social system. In this framework, the following dimensions will be taken as relevant factors that affect policy-making: Variety of ideology, the dominant type of ideology, conflicts of different ideologies, and the changing role of ideology in the society.

As in almost all communist countries, the CCP and the political regime under it are highly ideological. The official ideology provides the Party with a means of legitimizing and sustaining its continued hegemony. On the practical side, given the diversity of conflicting interests in a vast country like China, ideology is important for the pursuit of a centralized single-party rule. As for the role of ideology in policy-making, it was

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primarily stressed by Chinese leaders themselves. The official ideology was constantly used to provide the ultimate direction for society should follow. In designing policy programmes actors need to draw from the ideology a theoretical base from which to work, and in policy debate actors usually adopt some ideological principles with which to attack their opponents. Thus, the official ideology of the Party is inseparable from the policies advocated by actors.

The importance of ideology in the policy-making process has been realized by many Western scholars as well. Some of them (such as the proponents of the tendency models) attempted to explain policy formulation, and changes, from the perspective of ideological conflicts and transformation. In this framework, the author takes ideology as a determinant of policy-making which is as important as others.

4.3. The Decision Situation

After choosing the independent variables, a further question to be raised is: how do changes in the independent variables influence the policy-making mode? In other words, how changes in the contextual factors can be reflected in the behaviour and performance of policy-making participants. We take the decision situation as the linkage between the two sides.

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A decision situation can be defined as a set of constraints or preconditions confronting the decision makers. These constraints and preconditions are derived from one or more independent variables. This definition has a three-fold implication. For one thing, the decision situation is the function of changes in the independent variables. It means that the contextual factors produce the constraints and pre-conditions for policy-making actors. The second implication is, that the decision situation is diversified and transformable, because different independent variables may place different constraints upon decision makers, and their changes and interactions may produce new constraints to replace old ones. The final implication is, that any actor must be in a particular situation when he make decisions. The situation is characterized by a set of attributes, including, who is allowed to enter the policy-making circle, where is the arena of the decision making, what rules and regulations should be observed by the actors, what risks and uncertainties are confronted by the actors, what means and resources are available for the decision makers, and what kind of values is dominant in the decision making process.

Now let us discuss a few principal attributes of the decision situation:

4.3.1. Allowable actors of decision making

This attribute involves who is allowed to enter the circle of decision making and who

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is excluded from it in a given context. For example, within a highly concentrated power structure, only a small cluster of persons—top political leaders and a few of their trusted bureaucrats—are allowed to participate in policy-making. Others, such as specialists, local bureaucrats, and scientists find it difficult to affect decision design and choice. Conversely, in a decentralized power structure, participation can be expanded to a greater extent. More specialists and bureaucrats in different departments or local governments may gain access to the policy-making process.

4.3.2. Boundaries of the decision making arena

This attribute involves the place in which the decision makers conduct their decision making activities. For example, a command planning system of economic management and an over-centralized power structure delineate economic policy-making to be carried out at high level—the Party Central Committee and the State Council. Some important decisions are even initiated and designed by the party politburo directly. However, with the process of economic reform and administrative decentralization, more power was delegated to various ministries, local governments, and enterprises so that the decision making arena is expanded or shifted downward.

4.3.3. Risks and uncertainties facing the decision makers

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This aspect of the decision situation refers to the potential dangers and losses facing decision making actors. For example, in the context of tense power conflicts between political leaders or political factions, political risks(loss of power) become the overwhelming factor determining the action of each party of participants. Decision choices are mainly measured by gains or losses in power struggles: whether the decision is beneficial to strengthen their own power basis and weaken the power basis of opponents. Even if power conflicts are subsiding, political risks may give way to other types of risk, such as economic inefficiency and the stagnation of people's living standards, thereafter socio-economic considerations may be more often than not applied to evaluate decision choices.

4.3.4. The means and resources available to decision makers

What means and methods can be adopted and what resources can be used by decision makers constitute another dimension in the decision situation. This depends on the state of the environmental variables. For example, if education and science are underdeveloped, the society is segregated from the outside world, and channels for information flow are blocked, the available means for decision making are only personal experience and the subjective judgements of a small elite group. By contrast, when the social conditions are becoming modernized, rational procedures and scientific methodologies may be introduced into the decision making process, and more

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substantive information is available for decision makers.

4.3.5. Ideas and values constraints

In a given context, the type of ideas and values dominant in the decision making process guide the activities of decision makers and so is also an important attribute of the decision situation. The changes in this attribute depend on changes in the independent variables. For example, in a setting where dogmatism takes precedence in the social system, decision making may be controlled by orthodox principles, utopian ideas and programmes. However, if the dogmatism is replaced by pragmatism, some other values become prevalent in decision making process. Actors shift their attention to tangible interests, actual effects, and instant benefits to the nation or related departments and areas.

4.4. Policy-making mode

We take a pattern of behaviour and performance of decision makers as a policy-making mode, in which the actors, according to their motives, desires, or purpose, adopt certain means, methods and procedures to yield policy outputs. So, in our framework, a policy-making mode is mainly constituted by three attributes.

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The first attribute is concerned with who actually makes the policies. This attribute is concerned about the roles of each participant in policy-making process. Specific dimensions include: Among the actors involved, who play the leading role, and who play a subordinate role in policy-making; relationships between the actors (hierarchy or coalition, harmony or conflict, coherence or diversity, integrity or fragmentation, etc.).

The second attribute is the reasons for adopting particular policies. This attribute involves motivation of policy-making. Specific dimensions include: motives, preferences, and purposes of policy makers in adopting certain strategies or actions (e.g, factional needs or local interests); an actor's criterion for evaluating alternative choices (e.g, maximum benefit or the degree of acceptance); an actor's perception and calculation of the risks and uncertainties involved with their choices (e.g, priority is placed on political risks or economic risks); incentives driving them to participate in the policy-making process (e.g, power maintenance or achievement propensity); etc..

The third attribute concerns how policies are designed and adopted. This attribute involves the ways by which policies are formulated. Specific dimensions include: the types of procedure to search for alternative choices (e.g, individual judgement or rational research or incremental experiment); the means used to design a policy programme (e.g, scientific knowledge and techniques or accumulation of experience); and the way in which agreements are reached within the policy system (e.g, factional power struggle or

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interest bargaining and consensus building); etc..

In the following sections we will discuss four particular policy-making modes from the three attributes, each of which I believe depicts the fundamental features of a period of Chinese policy-making in the post Mao-era.

4.4.1. Political factionalism

Drawing on the theoretical works by Lucian Pye, Andrew J. Nathan, and some other scholars, we take political-factionalism as an important mode of policy-making in China. In this mode, policies are arrived at through struggles and compromises among different political factions.

According to Pye, political factions are the main actors in the Chinese policy process. These factions are based upon clusters of politicians and some other public officers who share mutual trust and a common interest in maintaining and enhancing their power.¹³ Therefore, policy-making is dominated by politicians at the higher level. The expression of policy is the prerogative of leadership where policies are the products of political leaders who are frequently not intimately associated with administrative responsibilities.

¹³Pye Dynamics of Chinese Politics, P.6.

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"The key source of Chinese policy is the 'centre' (Zhongyang), composed of men who are powerful but institutionally vaguely defined, including the members of the State Council, the Standing Committee of the Politburo, the Politburo itself, and the Military Affairs Commission of the Central Committee."¹⁴

Turning to the question of why particular policies are adopted, the mode of political-factionalism implies that the real motivation behind policy-making is the actor's search for career security and the protection of power rather than national or bureaucratic interests. Pye views policy-making in China as subordinate to power struggle. Policies are the instruments of political factions who wish to consolidate their power base and facilitate the separation of friends from foes. So, in considering alternative policy choices, the actors involved are primarily concerned with the implications of the choices upon their status and power. On some occasions, "Leaders can bitterly contend over policies, not necessarily because of intellectual disagreements, but because they foresee that the effects of the policy will alter their respective power positions."¹⁵

As far as how policies are designed and adopted is concerned, Pye insists that policies are the by-products of factional power struggle. The formulation of a policy programme reflects the process of power conflicts. The answers to why a policy programme has been

¹⁴Ibid., PP.14-15.

¹⁵Ibid., P.13.

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terminated, persisted, or changed can be found in the power struggles behind the scene.¹⁶ Nanthan claims that decision making within the central elite was made by a consensus among different factions.¹⁷ All these ideas suggest that policies in China are formulated through the process of power struggle and factional compromise.

4.4.2. Experiential-pragmatism

The second mode of policy-making to be relevant to the Chinese circumstance, in a particular period, is the experiential-pragmatism, which is similar to, but not identical to the approach of incrementalism. Like incrementalism, the role of past practices and policy precedents, limited modifications on the basis of experience, and adjustments as a result of feedback are important features of this mode. Unlike incrementalism, policy formulation in this is not the result of interest conflict and compromise (among different agents or groups through bargaining and mutual adjustments), but the product from a small cluster of politicians and their trusted bureaucrats. In this sense, the mode can be seen as a "semi-incrementalism".

The leading role in this mode is played by the political leaders with "pragmatical attitude." These are leaders who have experienced the agony of the violence and turmoil

¹⁶Ibid., P.162.

¹⁷Andrew J. Nanthan, A Factionalism Model for CCP Politics, in *China Quarterly*, No.53 January-March 1973, PP.34-66.

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of the 1960s and 1970s, and have not needed to focus their attention so narrowly on matters of political survival, but on strategies for forwarding the practical interests of the nation. At the same time, participation has been extended to more bureaucratic agents and local governments. Bureaucrats who enjoyed the trust of the political leaders also play a part in the policy formulations, but generally, policy-making is still mainly the prerogative of the political leaders. On some occasions, the higher leaders initiate policy ideas, then require bureaucracies to develop them into a feasible policy programme. On other occasions, bureaucrats may set forth policy initiative by themselves, but in order for an initiative to be approved, it usually requires the enthusiastic support of one or more major leaders.

With regard to the motivation behind policy-making, two aspects of this mode merit attention: (1) not idealistic aims but realistic and instant interests, tangible objectives (e.g., improving economic efficiency, average income, and availability of material goods) are taken as main considerations in policy-making; (2) not abstract principles of orthodox ideology or moral considerations, but effectiveness, problem-solving, and acceptability of an alternative, are used as criteria for policy evaluation. In other words, policy makers may adopt any policy choice so long as it is workable and regardless of its ideological trademarks.

Given the motivation for policy-making, the pragmatist mode can be perceived further

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from the means and procedures. First of all, past practices and experiences are taken as an important guide for policy-making activities. The actors involved are "short-sighted" because they cannot afford to project the present situation into the long-term future and see all alternatives and all of their consequences. Thus, they can only make policy on the basis of past experiences. Secondly, policy makers seek to find a piecemeal, steady and persistent course of policy-making. There is no comprehensive and systematic research to be conducted at first. Rather policies are shaped by a series of small and peaceful actions. Thirdly, experiment is taken as the key way of designing policy. Policy makers usually have no blueprint for policy changes. They carefully allow the experimentation with new policy initiatives to be taken before a decision is adopted. Policy makers believe that by using a trial and error approach, they can avoid serious misjudgments and failures in policy-making.

4.4.3. Techno-rationalism

We talk of techno-rationalism, to describe the policy process within which specialists with professional knowledge play the key role. In order for pertinent organizations to realize objectives, the specialists adopt logical procedures and technical methods to search for appropriate policy alternatives. This pattern of policy-making roots in the

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rationality model introduced and developed by H.A. Simon.¹⁸

As far as the participants of policy-making are concerned, there are two kinds of specialists who are involved in policy process. The first is a cluster of professional bureaucrats and their client scientists, scholars, and engineers who have access to a recondite knowledge quite unchallengeable by the general public. They favour scientific research and unbounded growth of technology, and support technical progress. They see technical progress as beneficial and inevitable; the second is a group of methodologist, including economists, management scientists, operational researchers, and statisticians, etc..

In respect to the motives of policy-making, techno-rationalism requires that a policy should achieve positive social gains, that implicates two important guidelines: (1) actors should choose a policy which produces a net gain for society, where total benefits exceed the total costs. No policy should be adopted if its cost exceed its benefit; (2) among policy alternatives, policy makers should choose the policy that produce the greatest benefit over cost. In other words, a policy is rational when the difference between the values it sacrifices is positive and greater than any other policy alternatives. Furthermore, techno-rationalism involves the calculations of all social and economic

¹⁸See H.A. Simon, Administration Behaviour: a Study of Decision Making Processes in Administrative Organizations, Free Press, 1957; Rationality as Process and as Product of Thought, in *American Economic Review*, 1978; Models of Bounded Rationality, MIT Press, 1983.

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values sacrificed or achieved by a public policy, not just those that can be measured in money terms.

In correspondence to the features of the participants of policy-making, techno-rationalism lays stress on the logical, practical problem-solving, and orderly approach to objectives. Therefore, the newly developed methodologies, theories, and techniques, such as system analysis, decision making theories, game theory etc., have much attention paid to them. Furthermore, policy-making is rational because it is a logical process adhered to through certain procedures, for example: a problem triggers a search for the appropriate solution. Data and information are then gathered concerning the nature of the problem. The experts generate alternative projects and evaluate the solutions with different techniques in light with their respective costs and benefits, and finally, after reasonable debates, the satisfactory solution is selected. Also, techno-rationalism relies on calculus, precision and measurement, so, different quantitative methods, such as operations research, statistics, are widely applied. In this aspect, it is also quite opposed to the political-factionalism, and is different, from the experiential-pragmatism.

4.4.4. Bureaucratic-incrementalism

The incrementalism approach was presented by Charles E. Lindblom to describe policy-making process in the United States, but in my view it may be applied to analyze the

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Chinese policy-making process during the latest period of the reform. Lindblom takes policy-making as an incremental and endless process in which participants of different groups conflict and adjust with each other and reach agreements through bargaining, negotiation, and compromise.¹⁹

From the viewpoint of Lindblom, few policies are made by individuals or even single agencies, but are instead made by the interaction of many influential policy factors operating in a power network. These factors mainly include various socio-economic interest groups, and representatives of these groups. This assertion seems to be relevant to the Chinese situation in the recent period of the reform as well, but an important difference is worth noting: actors who conflict with each other in the Chinese policy process are mainly the bureaucratic agencies rather than socio-economic groups. In China, there are no autonomous and well organized interest groups, so interest conflicts which affect policy-making usually occur between localities and the centre, lower governments and higher governments, or local governments and local governments. Bureaucracies play a key role in these processes, therefore, they influence the policy process to a great extent.

In contrast to techno-rationalism, incrementalism views the purpose of policy-making

¹⁹See Charles E. Lindblom, "The Science of 'Muddling Through'", in *Public Administration Review*, Vol.19 1959, PP.79-88; *A Strategy of Decision: Policy Evaluation as a Social Process*, Free Press, 1963; *The Intelligence of Democracy: Decision Making Through Mutual Adjustment*, Free Press, 1965.

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not as a search for the best single policy, but rather as a compromise policy with which most groups can agree. Because the participants of policy-making are self-interested, they are not blindly partisan and are capable of adjusting to one another, through bargaining, negotiation, and compromise.

Also, the incrementalism mode recognizes the impractical nature of rational policy-making, and sets forth a more convertive approach for decision making. It is convertive in that existing programmes, policies, and expenditures are considered as a base, and attention is then concentrated on new programmes and policies and on the increase, decrease, or the modification of current programmes. Policy makers generally accept the legitimacy of established programmes and tacitly agree to continue previous policies.

The remainder of this thesis is an attempt to apply the framework to the explanation of the Chinese policy-making process in the reform era. The following chapters will discuss the policy-making in three periods respectively and provide empirical evidence to support the framework. Before turning to the empirical study, it should be noted that, taking into account the time lags between the changes in policy-making patterns and changes in the independent variables, our discussion of the attributes of independent variables is not confined within the boundary of each time span. Rather, it frequently goes beyond the boundaries, in a search for earlier changes which may exert influences on a later policy-making pattern.

Chapter Five
Policy-Making in the Transitional Period:
The Dominance of Political Factionalism
(1976-1979)

1976 is a turning point in the contemporary history of China. In this year a series of political events happened unexpectedly: Zhou Enlai, the premier of China, died in January 1976 to be followed by Mao Zedong, the paramount leader, who died in September of that year. The "Gang of Four" was arrested on 6th October, and Hua Guofeng took control. Despite the fact that there had been significant changes in the human factor, the nation and the new leadership faced heritages left by Mao's era. Economically, there was a dominance of the command planning system, an unbalanced economic structure, and lopsided development strategies, which led to declining rates of growth, stagnant levels of consumption, persistent inefficiency, and technological obsolescence. Politically, there was an over-concentrated power structure, continuous factional struggles, and social turmoil resulting from the "Cultural Revolution". Ideologically, there was a prevalence of the dogmatism whereby there was a persistence of loyalty to former leaders and orthodox ideology. In addition to the legacy of Mao, a new round of power conflict surrounding the succession problem was waged between the dogmatist leaders and pragmatic leaders. All these factors constituted the situation in which policy-making actors conducted their activities. Let us now examine these dimensions specifically, and consider how

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the policy-making mode was determined by the contextual variables.

5.1. Contextual examination—Mao's heritage and a new round of political struggle

The heritage left by Mao Zedong provides the starting point for understanding the policy-making process of the transitional period. The first legacy inherited from Mao was a Soviet type of economic institution, which is characterized by command planning, rigid state control, and unique ownership.

After the establishment of the PRC in 1949, the CCP chose to rely heavily on the Soviet model of economic management. This system of mandatory planning sought to bring most of the economy under direct or indirect state control. In this model, planners in the central government took the important decisions concerning the level and structure of output, growth rate, relations between economic sectors, and so on, and government officials relayed these calculations in the form of administrative instructions to productive units. The productive units had to seek approval before taking any action from the higher departments which had no responsibility for the result of the operations of the enterprises, and often gave impractical and disconnected mandatory directives. Moreover, as in other Soviet-style economies, the state exercised its planning function primarily through mandatory procurement and allocation of key agricultural and industrial products and through rigid control of the

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prices of major goods.¹

Within the "command economic system", the market played a minor role: the behaviour of economic actors and economic units was not based on commodity exchange and the pressure of supply and demand, but was subject to direction and control of state agencies. With economic development, moreover, the remaining role of the market would decline still further.

The command planning system was accompanied by a unique form of ownership: the state-ownership accounted for an overwhelming proportion in the economy, and the private sector was a very small and subordinate part of the economy. The official theory of "socialist economic transition" envisaged a process by which "lower" forms of ownership(private and collective) would gradually be replaced by ever larger-scale units of "higher" state ownership of the whole people.

In brief, the heart of the economic model in Mao's era was the central planning and mandatory procurement and allocation of commodities. As noted by Ma Hong, the former president of the Chinese Academy of Social Science,

"Under such a system, practically everything is included in the economic plan, with the state having a monopoly on the purchase and marketing of commodities. The state is also responsible for arranging jobs for the labour force. In addition, the state is in

¹For the description of the Soviet type of economic institution in China, please see Wang Shizhuang *et al.* China Today: Economic Administration, Beijing:Social Science Press, 1985, PP.43-47.

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charge of all revenues and expenditures. All these inevitably require a highly centralized method of management which relies principally on administrative means, instead of economic ones."²

This economic system was maintained for more than two decades. Until 1976, even though there had been several reallocation of responsibility between the Central Government and local governments, these cyclical changes never challenged the essential premise of direct state control over all the significant economic activities.

The second legacy left by Mao's era is the highly concentrated power structure and the tense factional struggles within the political elites. In the early 1950s, the newly victorious communist regime imitated the political structure of the Soviet Union to create an authoritarian system. Within the system, power was actually concentrated at the central level. The party leaders under Mao acquired significant power over the state bureaucracy, enterprise management, and social administration. In 1980, the reform leader Deng Xiaoping described the features and the origins of the concentrated power structure:

"Over-concentration of power means inappropriate and indiscriminate concentration of all power in party committees in the name of strengthening centralized party leadership. Moreover, the power of the party committees themselves is often in the

²Ma Hong, New Strategy for China's Economy, Beijing: Foreign Language Press, 1983, P.95; for the official description of the traditional economic system by the Chinese Communist Party, please see The Decision of the Chinese Communist Party Central Committee on Reform of the Economic Structures, in Selection from the Important Literatures Since the Third Plenum of the 11th Party Central Committee, edited by the Literature Research Section of the Chinese Communist Party Central Committee, People's Press, PP.766-798.

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hands of a few secretaries, especially the first secretaries, who direct and decide everything. Thus, 'centralized party leadership' often turns into leadership by individuals.... This phenomenon is connected to the influence of feudal autocracy in China's own history and also to the tradition of a high degree of concentration of power in the hands of individual leaders of the Communist Parties of various countries at the time of the Communist International. Historically, we ourselves placed too much emphasis on ensuring centralism and unification by the Party, and on combating decentralism and any assertion of independence. And we have placed too little emphasis on ensuring the necessary degree of decentralization, delegating necessary decision-making power to the lower organizations and opposing the over-concentration of power in the hands of individuals."³

During the Cultural Revolution, the Party apparatus was seriously weakened by the factional conflicts and social turmoil, but the Cultural Revolution further reinforced the power of individual leaders. In this de-institutionalized period, importance was attached to the status of figures and personages. Leaders transformed institutions for their own purposes and authority rested upon a myth of legitimacy that holds that the right to rule is related to the moral superiority of the rulers. In this context, policy-making was just associated with a group of political leaders who enjoyed the trust of the paramount leader. These leaders exercised tremendous arbitrary power, unchecked by effective institutions of collective decision making.⁴

Until 1976, the power structure had not been changed on the whole. Political power

³Deng Xiaoping, Selected Works of Deng Xiaoping, Beijing:Foreign Language Press, 1983, PP.311-312.

⁴See Yan Jiaqi, The Ten Years of the Cultural Revolution, Tianjin:People's Press, 1986.

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was transferred by Mao to his trusted leaders, and policy-making was still associated with a group of top leaders but not one else. However, by this time, the factional struggles surrounding the succession to power had been intensified. China's central leadership in 1976 was deeply divided between those who had been the victims of the Cultural Revolution (led by Deng Xiaoping), those who had been its principal beneficiaries (headed by Jiang Qing), and those who had made enough compromise with the movement to survive (symbolised by Hua Guofeng). Moreover, because of the passing of Mao, there was no longer any institutional means for resolving the conflicts within the elites. Maintenance of the power base had become the principal concern of different factions.⁵

The third legacy of Mao's era is the underdeveloped social conditions. Toward the end of the Cultural Revolution, Chinese society had been destroyed severely. Especially in the urban areas, the development of social conditions was hindered. A clear sign was the dismantling of the education system. During the Cultural Revolution, most schools were closed for two years, universities even longer. In addition, there was a decline in the quality of education. University selection procedures adopted after 1968 were primarily responsible for the deterioration in quality. With entrance examinations abolished, universities had to screen applicants recommended by factories, communes, and military units. Many university freshmen had only one or two years of post-primary education. College enrolment policies also

⁵See Li Shenping and Zhang Mingshu ed., The Chronicle of Political Events: 1976-1986, Guangming Daily Press, 1988; John Gardner, Chinese Politics and the Succession to Mao, The Macmillan Press LTD, 1982; and Harry Harding, China's Second Revolution, The Brookings Institution 1987.

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had an effect in high schools. Students lost motivation because they knew they would have to work for several years after graduation, usually in the countryside, before they could be considered for college. As a result, the education system could not produce qualified personnel to meet the needs of the society.

This scepticism toward the formal education and technical expertise had profound implications. It was reflected in the recruitment pattern of both the party and state bureaucracies. Officials were recruited on the basis of political enthusiasm rather than formal education. Therefore, the Chinese bureaucracy was undereducated. By the end of 1970s, only 20 percent of provincial leaders, and about one-third of ranking central officials, had a college education. The qualifications of officials at lower echelons were even less impressive. The detailed sample census conducted in 1982 implied that, of the nation's state and party employees, only 6 percent had received higher education, and only 22 percent had received senior middle school training. The remaining three-quarters had received education at or below the level of junior middle school.⁶

Other evidence of the degenerated social conditions was the stagnation of science and technology. In the Cultural Revolution, intellectuals were condemned and science and technology were neglected. Mao himself was, in large measure, an anti-intellectual, who believed that scholars and scientists represented an elite, divorced from the ordinary concerns of the masses of citizens. So, they had been one of the principal targets of the Cultural Revolution. The open discrimination for the work of scientists

⁶See Harry Harding, China's Second Revolution, PP.34-35.

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and technicians had led to a wide gap between China and developed countries in the development of science and technology. In his report to the National Science Conference held in March 1978, Fang Yi—who was then the Vice-Premier of the State Council and Minister in charge of the State Scientific and Technological Commission—admitted that China lagged 15 to 20 years behind world levels in many branches of science and technology.⁷

A graver aspect was the backward situation of social science. The social studies were seriously disrupted by the decade of the Cultural Revolution. Most branches of social science had fallen behind the standards and techniques of western social science research. Taking the case of economics, most units of research had been destroyed and much of the institutional staff were forced to take other jobs. In addition, scholars in this area usually only paid their attention to traditional economic theory without considering the study of new techniques, research tools and application of economic theories. Lack of communication with scholars of other countries also hindered the development of economics.⁸

With regard to the openness of the society, Chinese society remained at a semi-closed state. In the economic sphere, economic relations with foreign countries were limited essentially to trade for cash. The Chinese Government did not accept foreign

⁷Fang Yi, Report to the National Science Conference, in *Xin Hua Monthly*, March 1978.

⁸See Robert Denberg, The Situation of Chinese Economics, in Joint Economic Committee of the Congress of the United States ed., China Under the Four Modernizations, U.S. Government Printing Office, 1982.

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investment and, refused any further foreign loans, except for short-time letters of credit. In the cultural sphere, some Chinese leaders believed that extensive contact with foreigners would produce an infusion of unorthodox ideas that would endanger the country's social order and cultural integrity, so they minimized the points of contact between China and foreign countries and sent few students abroad. Ordinary people had to end contact with the rest of the world and had few opportunities to discover important events in the world and the real conditions of other countries.

In this semi-closed social system, there were no effective channels for the flow of information. On the one hand, ordinary people and intellectuals had no access to important data concerning the real operation of the country. On the other hand, the political leaders had difficulty in gaining reliable information about the society. For example, the State Statistical Bureau often produced figures that the leaders wanted to hear rather than what was fact.⁹ As a result, the data from this time is not exact and the degree of reliability is unknown.

The fourth legacy of Mao's era is the dogmatist ideology. In the Cultural Revolution, the personal cult of Mao Zedong was established. Mao's thought claimed to provide both a set of policy guidelines for China's economic and social development and a set of moral standards for the behaviour of both officials and ordinary citizens. Mao's every sentence was taken as absolute truth.¹⁰ Decisions on almost any subject were

⁹Ibid..

¹⁰Lin Biao, Address to the Enlarged Session of the Politburo of the Party Central Committee, May 1966.

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supposed to be made by explicit reference to Mao's writings and instructions. In order to defend Mao, many factional groups formed, each claiming to be the true followers of Chairman Mao, and fought each other with words and slogans, and frequently with physical violence.¹¹

By the time of 1976, although the Cultural Revolution had finished, the dogmatism was still the hallmark of the new leadership. Under the leadership of Hua Guofeng, the CCP sought to recapture the blend of ideological and charismatic authority of Mao. The cult of personality surrounding Mao was retained intact. Quotations from Mao continued to provide the justification for all important policy decisions. Hua and his supporters continued the principles of the "two whatever", that means the Party and the government should uphold without exception whatever policy decisions Chairman Mao had made, and should follow without fail, from first to last, whatever directives Chairman Mao had given. They hoped to protect the ideological heritage, and oppose any questioning of orthodox theories.¹² All these were related to a deliberate effort to convey some of Mao's charisma to his successor, because Hua Guofeng's power basis was Mao's trust.¹³

¹¹See Yan Jiaqi, The Ten Years of the Cultural Revolution; and Hong Yun Lee The Politics of the Chinese Cultural Revolution, University of California Press, 1978.

¹²See Liu Suinian ed., China's Socialist Economy: An Outline History, Beijing: Foreign Language Press, 1986, P.430.

¹³In April 1976 Mao wrote a note to Hua which stated, "With you in charge, I'm at easy." It was also asserted that Hua's appointment as First Vice-Chairman showed that Mao had explicitly designated him as his successor, as that post had never previously existed.

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Now let us turn to see how the contextual factors define the decision situation in which economic policies are generated. First of all, the command planning system of economic management and the highly centralized power structure defined a participation circle of policy-making to which only a small number of actors had access. In this circle we cannot find any collectively organized forces from the outside who jointly made claims through government institutions, exerted influences on policy-making process, or produced restrictions on the behaviour of policy makers, because there was no independently organized and autonomous interest groups in China.¹⁴ Also, specialists and low rank bureaucrats were on the fringe of the circle. As demonstrated by some empirical studies, between 1976-1979 policy proposals concerning economic issues were drafted in a rather closed and secretive process. For example, the experimental initiatives to expand the authority of enterprise managers were launched without any extensive prior analysis by academic economists or government staff. The policy outline was discussed just by a small group of political leaders.¹⁵ Generally, in the elitist pattern of economic and political institutions, participation was always the patent of the minority. Only those who controlled the political power were allowed to play the game of policy-making. Most vital policy issues were determined by politicians directly, or at least acquired the enthusiastic support of one or more major leaders. Any policy change depended on the willingness and preference of political figures who had won the upper hand in

¹⁴Interest group here means the group which share certain common relationships based upon a minimum frequency of interaction and which might be said to develop kind of "group" behaviour.

¹⁵See Nian P. Hapern, China's Industrial Economic Reforms: The Question of Strategy, in *Asian Survey*, Vol. 25, October 1985, PP.998-1012.

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power struggles. Certainly, some senior bureaucrats enjoying the trust of the political leaders also played a part in the process, but their mission was mainly in designing specific policy programmes according to directives of the leaders or in seeking evidence to prove the correctness of policy initiatives by the leaders.

Secondly, the command planning system and the concentrated power structure delimited the arena of policy-making—policy was mainly generated at the central level, particularly in the party's organs. The Politburo of the Party was the most important locus of decision; all major policy designs of the regime had to be approved by the Politburo or its Standing Committee. The Party Secretariat and its functional departments replaced the State Council as the main arena in which policy options were clarified and policy decisions were translated into administrative guidelines. Although various state institutions were empowered by State Constitution with important policy-making functions, their actual role in the policy-making process was much less significant than that of the party. The National People's Congress, according to the constitution, is the highest legislative organ of the nation; in reality, however, its function was merely to dress the decisions of the party leadership with legality and to serve as the "transitional belt" of the party leadership; it had little to do with actual initiation or authorization of the government programmes. The State Council, on the other hand, was more directly involved in the regime's policy-making process—it was the Party's "executive arm", responsible for the implementation of the regime's policy. Most important, the State Council, with its ministries and agencies, administered the nation's economy. The Premier and some of the Vice-

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Premiers were also members of the Politburo and obviously participated in the making of decisions within the Party. Even when basic guidelines were set by the Party, the State Council had to make many administrative decisions in the course of implementation.

Thirdly, under the circumstance of tense power struggles between different political factions, the primary risk confronting policy makers was the dismantling or undermining of their power base. The power conflicts increased their concern about gain and loss of power rather than effectiveness and workability of policies chosen by them. As Lucian Pye asserted, any designing, change, or ending of policies had implications for power distribution, and any improper choice of policy measures might result in attacks from power rivals.¹⁶ So, the power consideration was the focus for decision making, and estimation as to the gain or loss of power became the guiding factor in policy-making. To a great extent, whether, or not, a policy was initiated or changed depended on its functions in consolidating the power of the dominating faction and the weakening of the power of the countervailing factions. In this situation, economic policy-making was brought into the orbit of power struggles.

Fourthly, in a society which was characterized by underdeveloped education and science, discrimination against specialists, segregation from the outside world, and blockade of inner communication, scientific knowledge and technical expertise

¹⁶See Pye, The Dynamics of Chinese Politics, P.162.

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became scarce sources, information was unreliable, and comprehensive research methods were unknown to most policy makers. That is to say, the unavailability of rational means and approaches was a general hallmark of the policy process. By contrast, subjective judgements, utopian imagination, or the personal intentions of politicians, who held powerful positions, were predominant in the policy process. On some occasions, policy makers might use qualitative analysis based on typical examples or their personal investigations, but they rarely relied on quantitative methods offered by modern sciences.

Finally, due to the prevalence of dogmatism, the principles of the orthodox ideology and values of the founding fathers of communism formed another restriction on policy actors. The dogmatism in China means the worship of official doctrines of communism and the unchallengeable authority of the words in "classic works" of Marxism. Under the circumstance of dogmatism, policy makers had to initiate their policy programmes on the basis of the orthodox doctrines, or at least the policy programmes could not violate the principles of the official ideology.

Taken together, these decision situations provided a suitable soil for the growth of the "political-factionalism" in the policy-making process. The following case concerning the establishment of the Baoshan Steel Mill demonstrates the extent to which decisions concerning a specific project were dominated by a few top politicians rather than specialists, and the extent to which the policies relating to the project were formulated on the basis of power struggles as opposed to economic and other

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practical considerations.

5.2. The establishment of Baoshan Steel Mill: A policy process controlled by political factionalism

5.2.1. Introduction

The Baoshan Steel Mill was the largest imported project in China during the 1970s. The project began in 1977 symbolised China's drive to develop an advanced industrial economy by the year 2000. For the ambitious plan of "Four Modernizations" formulated by the communist leadership at that time, this super project, which cost at least several bn US\$, was viewed as the key link in overall development. The project was also designed to be a showcase example of gaining access to high technology through cooperation with foreign partners.

However, the project encountered tremendous difficulties in its early years because in setbacks of policy-making. Its goals and plan were abandoned or changed several times and construction was suspended in midstream. Although the plant had reached its designed capacity(six million tons annually) by 1987 and from September 1985, when it started to operation to the end of 1990 the plant had produced 20 million tons of high quality steel, the Baoshan's turbulent history in its early years shows how greatly political factional struggles had affected economic policy-making. As the largest and the most important project in that period, decisions relating to it involved

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a number of top leaders, two principal factions within the leadership. Most of the controversy presiding over it was connected with larger policy issues, such as what China's industrial priorities should be, and what role foreign companies should be allowed to play in China's economy.

5.2.2. Initiation of the project: the product of a rising political faction which sought to legitimate its power

The immediate origins of the Baoshan steel project lie in the anxious intention of some top leaders to prove the legitimacy of their leadership through establishing achievements.¹⁷ As noted in the last section, at the end of 1976 when Mao passed away, Hua Guofeng came to the power. Hua was one of the representative figures of a new political faction which rose rapidly in the mid-1970s. Other chief representatives of this faction in Beijing included Wang Dongxing, a public security official who commanded the elite force of party bodyguards; Chen Xilian, the Commander of the Beijing military region; Ji Dengqiu, a middle-level party official from Hunan, responsible for agricultural policy; and Wu De, Mayor of Beijing. For a time, this faction also enjoyed the support of some senior military and civilian leaders who had survived the Cultural Revolution, including Defence Minister Ye Jianying and Vice-Premier Li Xiannian. The policy hallmark of this faction was to

¹⁷The Baoshan project is the most important item in the so-called "Ten Year Plan". For the initiation and the content of this ambitious plan, please see Immanuel C.Y. Hsu, *China Without Mao*, Oxford University Press, 1982; Jurgen Domes, *The Government and the Politics of the PRC: A Time of Transition*, Westview Press, 1985; and Zhou Daojong, *China Today: Administration of Investment in Fixed Assets*, Beijing: Chinese Social Science Press, 1989.

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restore the economic and political institutions that had existed before the Great Leap Forward and the Cultural Revolution. They believed that China did not require any serious structural reform in the post-Mao era. They were confident that renewed economic growth and an end to political disorder would resolve the crisis of confidence that gripped urban China.¹⁸

Although this political faction rose rapidly and controlled the most important official posts in chief institutions that govern contemporary China, it lacked the informal base of power that counted for more than official titles in the relatively personalized Chinese political process. For example, the chief representative of the faction, the Party Chairman Hua Guofeng, had not had much opportunity to forge a national network of political supporters, because he had spent most of his career in Hunan, a south province of China. More important, at the age of fifty-five in 1976, Hua was a relatively junior official, with only three years membership on the Party Central Committee and three years of service on the Politburo. He remained a follower of more senior leaders rather than a strong political force in his own right. Moreover, this faction was facing a strong challenge from another faction—the reformers—whose leaders believed that, by relying on both seniority and skill, they were more qualified than Hua to lead the Party and the country.¹⁹

In this situation, the emergent task for Hua and his allies was to strengthen and

¹⁸See Hua Guofeng, Political Report to the 11th Congress of the CCP, in *Xin Hua Monthly*, August 1977.

¹⁹See Gustaaf Vloeberghs, The Position of Hua Guofeng, in Jurgen Domes ed., Chinese Politics After Mao, University College Cardiff Press, 1979.

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enlarge their power base. They expected to attract and maintain a broad coalition of national leaders and political stability by defining national policies and creating economic achievements.²⁰ Their overall strategy was to maintain some continuity with the recent past, but to redefine some of the Maoist legacy to promote faster economic modernization and greater stability. In the economy, they announced a "new leap forward", intended to transform China into a "great, powerful, and modern socialist country before the end of this century". Their strategy assumed that higher rates of growth could be stimulated by political stability, higher investment, and greater incentives, without any basic structural reform. Higher levels of state investment, a crash programme of importing technology, heavy reliance on foreign loans, and increase in urban wages would increase industrial productivity. In this atmosphere, Hua and his allies worked out a 10-year development plan, for 1975-1985.²¹ This ambitious plan called for a 10 percent annual industrial growth through 1985, and completion of 120 major construction projects. It also intended to establish "ten more Daqing"—referring to the oilfield which produced nearly 50 million tons in 1978 and had become a political symbol of the potential for rapid growth.²²

In this new plan, steel was inevitably to be placed in central place. Traditionally, steel

²⁰For Hua's struggle to maintain power, please see Jurgen Domes, The Government and Politics of PRC: A Time of Transition, Westview Press, 1985.

²¹The plan was made public by Hua Guofeng at the First Session of the Fifth National People's Congress in early 1978.

²²For Hua's long-term development plan, please see Hua Guofeng, Unite and Strife to Build a Modern, Powerful Socialist Country, February 1978, in Documents of the First Session of the Fifth National People's Congress of the People's Republic of China, Beijing: Foreign Language Press, 1978.

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was always the first sector to be assured of funding, accounting for nearly 9 percent to total capital construction investments from 1958 to 1979.²³ Until 1979, Mao's dictum to "take Steel as the key link" was followed. Planners would set a target for steel before any other, and predict other major targets on the resource requirements of steel. Difficulties in meeting targets would be attributed to the lack of steel.²⁴

Steel's importance in the modernization plan can be seen from the fact that the 1985 steel target of 60 million tons was the only target for a specific industrial commodity that Hua made public. This implied a growth rate of 12.9 percent per year over the 1977 output level of 23.74 million tons. According to these politically motivated high targets, officials in the Ministry of Metallurgical Industry(MMI), the central bureaucracy responsible for the steel industry, figured in 1977 that more than 10 million tons of additional steel production could be obtained through a fuller utilization of existing capacity. Obviously, the bulk of the remaining capacity had to be added through capital construction projects.²⁵ So, the top leaders planned to establish 10 large industrial steel complexes. Of the 10, 7 or 8 were to consist of the expansion in existing large mills. The other 2 or 3 were planned as new complexes, within which imported technology and equipments would be used. By late 1977, under the political spurs, the Baoshan project had the highest priority among the steel

²³Source: Wang Dingyong, On the Position of Steel in the National Economy, in *Jilin University Journal: Social Science Edition*, No.2, 1980, PP.21-29.

²⁴See *People's Daily*, 6th April 1979, P.3.

²⁵See Zhou Chuandian, Tapping the Potential Is the Direction for Growth in China's Steel Industry, in *Worker's Daily*, 7th July 1980.

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projects.²⁶

5.2.3. Choosing imported technology for the project: political leaders controlled the specific decision making

As soon as the Baoshan project entered the agenda of policy-making, a series of specific issues needed to be decided. The first one concerned the type of technology and equipment that should be chosen. From the PRC's founding, its leaders favoured the purchasing of complete plants as a way of obtaining access to advanced heavy industrial technology. This approach was implemented in a big way with the help of the Soviet Union in the 1950s, and in a more modest fashion with Western Europe and Japan in the 1960s. In the early 1970s, much larger scale purchases were made under the so-called "43 plan", which involved the commitment of 4.3 bn US\$ to buy key plants for a number of industries.²⁷

Purchases had been curtailed during the 1975-1976 period owing largely to the opposition, from the "Gang of Four", to the importation of technology, on the ideological grounds of self-reliance and nationalism. Although self-reliance had been an official policy since 1960, selected purchases of complete plants had been considered compatible with the strategy before the Gang became so powerful. This

²⁶See Hua Guofeng, *Unite and Strife to Build a Modern, Powerful Socialist Country*, February 1978, in Documents of the First Session of the Fifth National People's Congress of the People's Republic of China, Beijing: People's Press, 1978.

²⁷See Zhou Daojong *et al* ed., China Today: Administration of Investment in Fixed Assets, Beijing: Social Science Press, 1989, PP.301-304.

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was because buying a complete plant would supposedly enable China to construct future facilities on its own.²⁸

After the biggest barrier to plant imports had been removed, with the Gang's downfall, Chinese leaders moved again to expand the purchase of complete plants. 7.8 bn US\$ was targeted for 22 key plant import projects, mainly in the metallurgical and chemical industries. Of these, Baoshan was the largest one.²⁹

Chinese leaders realized that domestic steel technology, based largely on what had been imported from the Soviet Union in the 1950s, was insufficient to meet the 1985 goal. China's largest blast furnace in 1978 was 2,500 cubic metre, and its largest basic oxygen furnace was 150 tons/heat, compared to the 4,000 cubic metre and 300 ton units found in the West and Japan. But it was in the finishing sector that China's technology was weakest. By the mid-1970s, finished steel production was averaging only about 70 percent of crude steel output, whereas in Japan, the figure was close to 80 percent. In terms of quality, as well as quantity, China's production left much to be desired. Thus, it is not surprising that foreign equipment and technology were targeted for the Baoshan project.³⁰

²⁸See Lin Shuzhong, Utilizing Foreign Capital and Developing Foreign Economy, China Trust Investment Company Press, 1990, P.14.

²⁹Zhou Daojiong *et al.*, China Today: Administration of Investment in Fixed Assets, P.62.

³⁰Source: Marting Weil, The Baoshan Steel Mill: A Symbol of Change in China's Industrial Development Strategy, in Joint Economic Committee of Congress of the United States ed., China Under the Four Modernizations, U.S. Government Printing Office, 1982, P.369.

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Generally, the Chinese leaders preferred technology and equipment from Japan and Western Germany, because they purchased a 500 mn US\$ complete steel finishing complex for the Wuhan Steel Mill from these two countries in 1974, and the equipment was believed to be designed according to the most sophisticated technology available in the world. After contact with several foreign companies, the Japanese were selected as partners. In September-October 1977, the Senior Vice-Premier Li Xiannian requested technical assistance in steel development from a high-level private Japanese trade delegation. Then, a MMI delegation led by a vice-minister directly in charge of Baoshan was sent to Japan for a long visit. Discussions continued in the context of quasi-governmental negotiations for a long-term trade protocol. This involved the exchange of 10 bn US\$ of Japanese plant, technology, and materials for a comparable amount of Chinese oil and coal and was signed in February 1978. As a number of delegations flowed between the two countries, it became apparent that China was interested with assistance in developing 4 or 5 steel mills, but that Baoshan was the highest priority.³¹

Numerous Japanese companies were contacted, but in response to the Chinese preference to coordinate the bulk of the project through a single company, as well as the behind-the-scene encouragement of the Japanese Government, Nippon Steel—Japan's largest manufacturer—quickly assumed the lead in the negotiations. Following several months of discussion, Nippon formally signed the contract defining its role in the project on 23rd May 1978 with the China National Technical Import

³¹Ibid..

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Corporation(CNTIC). The contract called for Nippon to design a six million ton per year plant from raw materials unloading to the production of semi-finished products. At the same time, a complicated arrangement was worked out for the supply of the equipment, which was to include two sets of coking ovens, two 4,000 cubic metre blast furnaces, three 300 ton basic oxygen furnaces, a continuous casting machine and a blooming mill for the production of semi-finished products, and various auxiliary facilities. Nippon was to line up suppliers for 10 of the 19 major facilities, such as the blast furnace and coking ovens, while recommending other companies for the Chinese to negotiate with directly for the continuous caster, an oxygen plant, a 700 megawatt power plant and other auxiliary facilities.³²

According to the information published by the Chinese Government itself in later years, these specific decisions concerning the import of technology and equipment were dominated by political leaders directly. Most of these issues were decided by one or a few top leaders without any feasibility studies in advance. In order to achieve their political aims, the leaders had never considered some key points about the project. For example, economically, whether it is necessary to invest several bn US\$ found such a large scale project at that time, what is the rate of return and payout time of the investment, and whether, or not, the financial capacity of the government can afford such an expenditure, etc.. Only after the project had started, were these problems recalled. As a result, some unexpected problems emerged. For instance, before the financing issue was settled, an order had been placed for

³²Ibid..

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technology and equipment. After the equipment had been sent out from the Japanese side and Nippon asked for payment, the Chinese leaders found that their foreign exchange reserves and oil exports would not prove sufficient to pay for the plant import in the short run. With this situation, the Chinese leaders sent signals to foreign countries, in 1978, indicating that the Chinese Government would accept direct foreign loans. Negotiations for a large loan began with a group of Japanese banks. At that time the interest rate on the loan provided by Japanese was 18 percent, therefore the large loan became a heavy financial burden on the Chinese Government.³

5.2.4. Suspension of the project: the result of a new round of political struggle

By 1978, the Chinese started preparatory site work: laying roads, digging canals, and building workers' housing. Orders were placed in July with Japanese firms for the 300,000 tons of steel piles that Nippon Steel had calculated would be necessary to support the plant's foundations in the soft ground at Baoshan. The first commitment to purchase equipment was made in November with Mitsubishi for the coal-burning power plant. In this year, despite the Baoshan project turning into delay due to the complexity of the technological arrangements with Nippon and tough bargaining taking place between the Chinese and Japanese sides, it took a significant step forward. On 23rd December, contracts were signed for those facilities in phase I for which Nippon Steel was directly responsible, accounting for approximately 2 bn US\$

³See Zhou Daojiong *et al* ed., China Today: Administration of Investment in Fixed Assets, P.107 and P.305.

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total. The timetable set out in the contract envisaged the completion of phase I by October 1981, and of the full plant by 1984. Immediately upon signing, foundation pile-driving work began at Baoshan.³⁴

In early 1979, however, the Baoshan project faced a big challenge. On 22nd February 1979, the CNTIC suddenly notified the Japanese trading companies involved that implementation of the recently signed Baoshan equipment contracts was to be halted under a clause in the contracts permitting the government of either country to suspend them by withholding approval within 60 days after signing. At the same time, the Chinese similarly suspended 21 other contracts with Japanese companies. The stated reason for the suspension was the failure of the Japanese commercial banks to agree loan terms.³⁵ But in reality, the contract suspension were a part of the abrupt and fundamental shift in economic policy, and the political change resulting from factional struggles was the most important factor behind the policy shift.

As already noted, Hua and his factional allies designed a radical economic programme to strengthen their power base. But unfortunately, this programme met increasing difficulties through 1977 and 1978. The rapid growth of imports was not fully matched by a concurrent increase in exports, and in 1978 China ran its largest

³⁴See Martin Weil, *The Baoshan Steel Mill: A Symbol of Change in China's Industrial Development*, P.374.

³⁵*Ibid.*.

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trade deficit since the First Five Year Plan.³⁶ The expansion of capital investment far exceeded what the state's industrial resources could sustain and created acute bottlenecks in both construction materials and capital goods. These inflationary pressures were aggravated by wage increasing faster than the expansion in the production of consumer goods. All these problems resulting from the economic policies provided their political rivals with a handle. Within the party, another powerful faction was waiting for opportunities to attack the Hua faction. This faction proposed to reform the institutions and policies designed before 1970s, expand the role of market force in the economy, grant greater autonomy to factory managers, give local governments greater authority to make decisions about investments in their own jurisdictions, and favour greater freedom in political life and pragmatism in policy-making.

The strengths of the reform faction lay in both the personal prestige of its members and the attractiveness of its policy programmes. For the former, all the representative figures of the faction had long been senior leaders of the country and they had more experience and skill in political struggles than their rivals. For example, the most prominent reformer Deng Xiaoping was seventeen years older than Hua and had outranked the young man at every point in his career.

"In the late 1940s, when Hua was the political commissar of the county-level Red Army Forces in northwest China, Deng was the political commissar of the field army

³⁶China State Statistical Bureau, Statistical Yearbook of China(1984), Hong Kong Economic Information and Agency, 1984, P.26 and P.394.

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to which Hua's superiors reported. In the mid-1950s, when Deng was appointed secretary-general of the CCP, Hua headed only a prefectural party committee in Hunan. Deng joined the Politburo in 1955; Hua was elected to a membership eighteen years later, in 1973. Moreover, Deng had a reputation for having an encyclopedic memory and prodigious administrative skills, whereas Hua's reputation was more for loyalty, modesty, and deference to more senior officials.³⁷

Other representatives, like Chen Yun, one of China's leading economic planners, and Peng Zhen, the head of the Beijing municipal party apparatus before the Cultural Revolution, had long been veteran party leaders. For the latter, the reform programme was intended to produce a more relaxed political climate and raise urban and rural standards of living. This programme easily gained support from intellectuals, who had been brutally persecuted during the Cultural Revolution, and ordinary people, who had suffered from a low standard of living. For these reasons, the reform leaders believed that they were more qualified than their rivals to lead the Party and the state. From March 1977, when Deng Xiaoping returned to active political life, the reform faction started developing a campaign which aimed to remove Hua and his allies from leadership positions. One of their strategies was to find and attack weak points in Hua's policy programme.

The third Plenum of the Eleventh Party Central Committee held on December 1978 produced a breakthrough for the reform faction. The Plenum weakened Hua's power and brought Chen Yun back to control economic policy-making. Following that,

³⁷Harry Harding, China's Second Revolution, P.57.

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Hua's economic programme was criticized severely. First of all, it was asserted that unrealistically high output targets had led to chaos and waste and that this would actually slow down the rate of growth in the long run rather than spur it. Secondly, it was argued that construction was spread out among too many projects, with the result that none of them could be completed in time. Calls were made to halt projects "where resources and geological conditions are uncertain, where technology is not up to production needs, or where the supply of fuel, power, or raw materials cannot be guaranteed."³⁸ Thirdly, it was judged that imports of complete plant and equipment were misguided. In early 1979, no one was against the import of foreign technology on principle, but many felt that buying complete plants was going too far in the other direction. As the *People's Daily* put it: "In importing technology and equipment, we must oppose the idea that foreign equipment is invariably better than our own, the tendency to import everything and the mentality of looking down on ourselves."³⁹ Finally, it was pointed out that developmental priorities must be shifted away from heavy industry. The opponents of Hua's programme argued that resources must finally be transferred to agriculture and consumer goods industries. This would have a more immediate impact on standards of living, provide a quicker return on investment, and increase labour absorption and exports. As for steel, the reform leaders held that for many years they had stressed investment in steel, but results had been slow. So, "steel investments should be proportionately reduced, and critical

³⁸Address by Vice-Premier Gu Mu to National Capital Construction Meeting, 28th March 1979.

³⁹People's Daily Editorial, in *People's Daily*, 8th May 1979.

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examination of low economic efficiency in the iron and steel should be made."⁴⁰

All these criticism of the radical economic programme and principles of the readjustment policy undermined the rationale for the Baoshan project, as Baoshan seemed to represent everything that the advocates of readjustment opposed: it was a large construction project, a steel mill and all of the plant was to be imported. In late March 1979, the Chinese side halted all substantive implementation of the contracts with Nippon Steel. Vice-Premier Li Xiannian said that its foundation work should be temporarily delayed until the conditions for reconstruction were right.⁴¹

5.2.5. Continuity of the project: practical policy discussion after the power struggle had subsided

By 1980, the reformer's campaign against Hua Guofeng and his political faction had produced the expected results. The policy debate on economic development and ideological controversy undermined the power base of Hua and strengthened the power base of Deng. At the successive plenary sessions of the Party Central Committee, between December 1978 and February 1980, and at the meeting of National People's Congress in June 1980, Deng was able to appoint his own supporters to the key positions in the party and government. For example, Chen Yun was raised to membership on the Standing Committee of the Politburo. Several

⁴⁰People's Daily Editorial, in *People's Daily*, 24th May 1979.

⁴¹Li Xiannian, Speech to a Party Leadership Work Conference in April 1979, reported by Hong Kong *Ming Pao Magazine*, 14th June 1979.

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leaders who were sympathetic to reform, including Zhao Ziyang, Hu Yaobang, and Peng Zhen, were added to the politburo or its standing Committee. Still others, such as Yao Yilin, Bo Yibo, and Wan Li, were appointed Vice-Premier. Some of these men would later come to differ with Deng over the pace and scope of reform, but for this time they acted as his allies in his struggle against Hua.

Since the reform faction achieved overwhelming victories on personal matters, this round of power struggle tended to subside for the time being. In this situation, the end of power conflicts made way for some practical considerations in policy-making. A strong lobby for continuity in the Baoshan project emerged within the reform leadership itself. A major argument of the lobby for rapid steel expansion was that China should adopt import substitution. MMI Officials issued a report regarding China's steel import. According to this report, despite the historically high rate of investment in steel, imports of finished steel products in the 1970s accounted for a larger proportion of China's total foreign purchases than any other single commodity. Between 1975 and 1979, these imports amounted to 10.2 bn US\$, or about 21 percent of total imports. In 1978, finished product imports reached 8.64 million tons, or the equivalent of over 33 percent of China's finished output.⁴² Another argument put forward to defend the project was that the project had already been started. When the contracts were suspended, foundation and pile-driving work was already proceeding. The cost so far had been very high. If the plant was abandoned, the

⁴²Metallurgical Ministry, Report of Metallurgical Minister to 3rd Session of Fifth National People's Congress, New China News Agency, 4th September 1980.

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government would lose much more money.

There was still one more factor in favour of continuing the project—the potential damage to China's foreign economic and political relations. Actually, the reform leaders were more eager than their political rivals to gain more foreign investment and technology. Thus, they did not want to ruin the economic relationships between themselves and Western countries by abandoning the cooperative project.

Considering these practical dimensions, some compromises were reached at the highest leadership. It was agreed that the project would be modified in future contracts. A somewhat extended construction timetable might also have been set. A decision, however, was made by mid-1979 to continue construction of the project.⁴³

5.2.6. Summary

The Baoshan case fits well with the assumption put forward by Pye and Nathan that policies were made on the basis of political factional conflicts. Tracing the evolution of the project provides positive evidence to support the political factionalism mode of policy-making in the transitional period from Mao's era to the post-Mao era.

First of all, the case demonstrates that the decisive role in policy-making process was

⁴³See Martin Weil, *The Baoshan Steel Mill: A Symbol of Change in China's Industrial Development Strategy*, P.378.

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played not by the bureaucracy or specialists, but by higher political leaders who formed factions around their common interests. As can be seen in the description of the development of the Baoshan project, all the major decisions, including the initiation of the project, the selection of technology and equipment, the suspension of contracts, and the continuity of the construction, were dominated by politicians at the top level, in particular, by the Chairman of the Party, members of the politburo, and the Premier(or Vice-Premier). These leaders were not usually held economical responsibility for failure, so they could make decisions in accordance with their personal intentions.

Secondly, that such a project, was launched so hastily at the beginning and halted so suddenly in midstream, illustrated the extent to which policy-making was motivated by power consideration rather than national or bureaucratic interests. As noted in the case study, the real motivation behind the project was Hua and his allies' effort to strengthen and enlarge their power base. In this process, policies became the means of politicians to achieve their factional aims. Likewise, the primary concern of opposing leaders when attacking the decisions relating to the project was to undermine their political rivals' power base and remove them from leadership positions. So, policy-making serves factional purposes.

Finally, the Baoshan case shows us the typical process of policy-making in the transitional period—policies were formulated through political struggles and factional rivalry over power rather than through a techno-rational process. Actors

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who wanted their policy initiatives to enter the policy agenda must be strong enough to seize power. If they wanted to paralyse the policy proposals supported by their opponents, they had to cripple their power base first. Policy changes and shuffles reflected rhythms of power conflicts. Policy ending or continuity signalled the victory of one faction and the failure of another. In sum, the disjointed decisions concerning the Baoshan project were the by-products of political infighting in China.

Chapter Six

Policy-Making in the Period of the Partial-Reform:

Emergence of Experiential-Pragmatism

(1979-1984)

Soon after the reformers achieved dominance over Hua Guofeng and his conservative colleagues, the new Chinese leadership initiated a set of programmes of reform. The initial reform proposals were moderate and piecemeal rather than radical and comprehensive, mainly affecting areas of the economic institutions, while extending to the political system and ideology.¹

As mentioned in the last chapter, Hua Guofeng's "new leap forward" strategy encountered similar difficulties in the past and was criticized by the reformers. Since then, Chinese leaders have reached a consensus that the socio-economic development can not be achieved without a basic change in the structure of the economic system, in the role of the Party and the government, and in official ideology. So the reform programme aimed to change the traditional institutions, their values, and policies. Generally, the reform programme undertaken since 1979 can be summarized in three propositions: market forces should be introduced into the economic management

¹For the research concerning the reform movement in China, please see Harry Harding, China's Second Revolution; Tony Saich, The Reform Process in the People's Republic of China, in *The Journal of Communist Studies*, Vol.3, December 1987; Richard Baum *et al.*, China's Post-Mao Reforms in Comparative Perspective, in *Studies in Comparative Communism*, Vol.XXII, Nos.2 and 3, Summer/Autumn 1989; Stephan Feuchtwang *et al.* ed., The Chinese Economic Reform, St. Martin's Press, 1983; Gene Tidrick *et al.*, China's Industrial Reform, Oxford University Press, 1987; and Bruce L. Reynolds ed., Chinese Economic Policy, Paragon House, 1988.

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system and allowed to influence the allocation of goods and the determination of prices; power of the Party and the central government should be separated and decentralized and local government's autonomy should be increased; dogmatic ideology should be replaced by pragmatic values and realistic objectives. Based on these principles, a significant experiment of reform was launched. Although the reform was complicated and its influence was far-reaching, all the measures of the reform were preliminary and tentative in this period. In the economy, central planning still occupied the dominant position in allocating resources and setting prices; in politics, institutions were still subordinate to personal figures and participation was far from extensive, while in the sphere of ideology some basic orthodox principles were left untouched. Under the circumstance, policy-making was characterized by a double-sided feature. On the one hand, some bureaucrats with expertise had gained access to policy-making, local governments had become another arena to conduct policy activities, the motivation of decision was tending toward more pragmatic and realistic, experience accumulation and experiment approach but not orthodox ideology were taken as the basic means of policy-making. On the other hand, individual political leaders still played the decisive role in determining and approving policy issues. The bureaucracy and specialists' function was still relatively minor in the process, and local governments were not competent enough to make automatic decisions for their independent interests. In this period, the experiential-pragmatism emerged instead of the political-factionalism as the principal pattern in the policy-making process.

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6.1. Contextual changes—the moderate reform in different areas

The first priority of the reform was placed on structural changes in economic management. A key theme of the economic reform was to make greater use of the market and reduce reliance on central planning. So a series of measures were adopted to reduce the role of the state in economic activity and give greater play to market forces. Taken together, these measures de-collectivized agricultural production, allowed greater room for individual entrepreneurship, granted greater autonomy to factory managers, and created a lively market in the distribution of both industrial and agricultural commodities.²

The rural area was chosen as the starting point of the economic reform. In this area, the most notable reform was the de-collectivization of agricultural production, and the return to individual family farming under the "household responsibility systems". Beginning in 1978, several provinces conducted experiments with various kinds of "responsibility system", in which peasants were offered material incentives for fulfilling the responsibilities assigned to them by the state. The local experiments continued through the late 1970s and early 1980s until a uniform national policy was finally announced in early 1983. Under the "household responsibility system", the collective assigned plots of land to individual peasant families to farm. The families then had to provide a share of the agricultural tax due to the government, the

²For the features of the moderate reform, please see Gao Shangquan, The Chinese Economic System Reform in the Last Nine years, People's Press, 1987; and Ma Jiantang ed. A Retrospect to the Economic Development, Beijing: Xue Yuan Publishing House, 1990.

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agricultural products purchased by the state under the system of mandatory production quotas, and fees owned to the collective. Whatever the households produced above these quotas could be disposed of as they wished: they could consume it, sell it to the state at a premium procurement price, or sell it to other peasants and other urban dwellers at market prices.³

The economic reform also extended to industry, even though the measures were moderate. First, there was the expansion of enterprise autonomy. In July 1978, the State Council issued five directives that formally granted selected state-owned enterprises the right to (1) draw up their own production plans and sell above-quota output directly to other units; (2) retain 5 percent of their assigned profits and 20 percent of their extra profits after state quotas had been fulfilled; (3) promote workers according to the principle of "more pay for more work" and control their own welfare and bonus funds; (4) receive bank loans for investment; and (5) negotiate directly with foreign companies and retain a share of their foreign exchange earnings. In 1980, more than 6,000 state-owned industrial enterprises had already been covered by the experiment. These enterprises, which were located in all the provinces, municipalities, and autonomous regions with the exception of Tibet, comprised 15 percent of the total 45,000 industrial enterprises which were included in the state budget, and accounted for 60 percent of the output value of these enterprises and 70 percent of

³For the emergence of the household responsibility system in the rural areas, please see Tang Tsou, Marc Blecher, and Mitch Meisner, *The Responsibility System in Agriculture: Its Implementations in Xiyang and Dazhai*, in *Modern China*, Vol.8, January 1982, PP.41-104; and Harry Harding, *China's Second Revolution*, The Brookings Institution, 1987, PP.102-103.

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the profits.⁴

Second, there was the introduction of the responsibility system. A system of assigning responsibility for definite quotas of profits or losses had developed across the country. Based on statistics from 13 prefectures and municipalities in 1982 it can be seen that 73.1 percent or 1,352 out of 1,850 state-owned enterprises at the county level and above were assigned responsibility for a definite quota of profits or losses. All of the 364 enterprises with small profits were given fixed quotas.⁵ In 1983, a new measure of "substituting tax payment for profits delivery," was popularized.⁶ This further clarified enterprise's rights and obligations.⁷

Third, there was the expansion of the role of the market in guiding output and motivating producers. Reforms were carried out in the system of planning, distribution of materials and supplies, and commerce. Enterprises were permitted, after fulfilling their quotas under the state plan, to work out plans for increasing production based on market demand and their own capacity. They could also buy and sell independently that portion of the capital goods and consuming goods which

⁴Source: Ma Hong, New Strategy for China's Economy, Beijing: Foreign Language Press, 1983, P.103.

⁵Source: *Ibid.*, P.130.

⁶By which all State-owned enterprises, instead of handing over their entire profits to the state, pay taxes according to a rate and the taxation category they belonged to as determined by the state; what is left after tax payment is at the disposal of the enterprise management.

⁷For the nature of the programme of "substituting tax payment for profit delivery", please see Liu Suinian *et al.*, China's Socialist Economy, Beijing: Foreign Language Press, 1986, P.443.

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exceeded their quotas. In 1982, products which were manufactured according to market demand constituted about 15 percent of the gross value of industrial output.⁸

Fourth, there was the development of different types of ownership, in particular there was an expansion of the collective and individual economy. The number of city workers and employees in various departments under collective ownership rose from 20.48 million in 1978 to 27.44 million in 1983, an increase of nearly 34 percent. Individual labourers in cities and townships grew from 150,000 in 1978 to 2.31 millions in 1983.⁹

The restructuring of the economic management system was accompanied by a moderate political reform that initiated a tendency toward power division and decentralization. Having achieved decisive victories on personnel matters, some reform leaders, who suffered from the over-concentration of power and cults of personality in the Cultural Revolution, started to consider the issue of changing the power structures. The most important question facing the reform of the power structure was how to define the correct role for the Party and its relationship to other organizations. The Party's dominance could be detected in all aspects of society at that time. Deng Xiaoping asserted that

"Over-concentration of power in the hands of an individual or of a few people means

⁸Ibid..

⁹Source: China State Statistical Bureau, China Statistical Yearbook, China Statistics Publishing House, 1988, P.153.

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that most functions have no decision-making power at all, while the few who do are overburdened. This inevitably leads to bureaucratism and various mistakes, and it inevitably impairs the democratic life, collective responsibility in the Party and government organizations at all levels. ...The long-standing failure to understand this adequately was one important cause of the 'Cultural Revolution', and we paid a heavy price for it."¹⁰

Thus, the veteran leaders held that there should be no delay in finding a solution to this problem. Not surprisingly, suggestions for reform had focused on the need to decrease the Party's influence over the day-to-day affairs of other organizations.

At the beginning of 1980s, a set of tentative measures were taken to reform the power structure. As part of the reform programme, power was steadily to be redistributed between party organs and state organs, and there had been attempts to distinguish the functions of the Party and the state. The reform leadership decided that an effective work system should be set up for the State Council and the various levels of local government.

"From now on, all the matters within the competence of the government will be discussed and decided upon, and the relevant documents issued, by the State Council and the local governments concerned. The Central Committee and local committees of the Party will no longer issue directives or take decisions on such matters."¹¹

¹⁰Deng Xiaoping, Selected Works of Deng Xiaoping, Beijing: Foreign Language Press, 1984, PP.311-312.

¹¹Ibid., P.323.

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This meant that part of the power of decision would be transferred from the hands of the Party leaders and organs to the hands of the bureaucracy in the government. Within the party organizations, the Chairmanship system was abolished to prevent too much power from being concentrated on individuals in particular posts. The post of Secretary General became the most important post within the party system, but it only had the power to convene meetings of the Politburo and its Standing Committees, and only presided over the work of the Secretariat. Outside the Party, the National People's Congress had begun to meet annually and produced a steady stream of legislation. There had been policy debates conducted during its sessions.¹²

The moderate reform of the power structure did not only manifest itself in the horizontal division between the party organs and the state organs, but also unfolded in a vertical decentralization along the administrative ladder. Since 1979, more administrative power had been transferred to local levels. The reform involved budgetary process and the national banking system, and it strengthened the provincial and local level territorial components of this structure and placed a smaller percentage of the country's monetary and fiscal resources under the direct control of the Centre. The budgetary reform had permitted provinces to retain an increasing portion of the revenue they generated, so leaving more funds under the control of the

¹²With respect to the tentative political reform, see Li Yongchun *et al.* ed., A Chronicle of Political System Reform since the Third Plenum of the Eleventh Central Committee of the CCP, Beijing: Chun Qiu Publishing House, 1987.

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locals.¹³ The reform had also expanded the role of the banks. During the early years of 1980s, the banks became a major additional source of investment capital.¹⁴ This development created new sources of funds that local governments used to promote projects that had not been approved at the central level. In addition, various local government units had long held pockets of money which were controlled by themselves, and the reform had increased substantively the revenues of this category. These additional funds became a significant source for investment.

While the power structure tended toward differentiation, tense factional power struggle had stopped for the time being and entered into a latent period. The purge of the "Gang of Four", and the dismantling of Hua Guofeng's faction greatly narrowed the differences among the leaders at the top. Different groups within the leadership reached a temporary consensus in believing that it was necessary to change significantly the structure of the Chinese political and economic systems. Even though a cleavage emerged between the moderate and radical wings of the reform movement, the tension between these two groups was not a struggle between those who favoured reform and those who opposed it. Instead, the difference between the moderate reformers and their more radical counterparts covered the questions of how fast to reform and how far to proceed, where one group was bold and enthusiastic about the reform, the other tended to be cautious and sceptical. Before the gap

¹³For the features of the new budgetary system, please see Luo Yi *et al.*, China's Finance and Banking, Beijing University Press, 1985, PP.244-246.

¹⁴For the reform in management of investment capital, please see Zhou Daojiong *et al* ed., China Today: Administration of Investment in Fixed Assets, Beijing: Social Science Press, 1989, PP.246-258.

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between the two groups became wider and their debate was intensified, factional struggles had not been a decisive factor in the policy-making process.

However, despite the fact that the power structure in the early 1980s had been changed and it was no longer organized around the rule of a single charismatic leader, it still centred around the personal authority of a few individual leaders, and despite the power being separated and decentralized to a certain degree, the development of either rational or legal authority remained limited. The question of the Party's dominant role was not tackled, powerful party cadres, relatively unconstrained by formal legal procedures, still exercised political authority, intellectuals were still prohibited from freely investigating and debating certain basic economic and political issues. So, generally, the Chinese political system was still an authoritarian type, even though it had departed from the totalitarianism of the recent past.¹⁵

If the reform of the economic institution and political power structure was relatively moderate, then the transformation in ideology was more radical than the former two aspects. The decline of dogmatism and rise of pragmatism began with the Third Plenum of December 1978. At that meeting, the personality cult surrounding Mao Zedong was criticized and collective leadership was announced. At the same time, the official doctrine was reevaluated. The pragmatist leaders used Mao's slogan "seek

¹⁵For the remaining problems in the Chinese political system, see Li Yongchun *et al.*, A Chronicle of the Political System Reform Since the Third Plenum of the Eleventh Central Committee of the CCP.

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truth from facts" as a foundation for promoting pragmatism over ideology. They attacked the use of the notion of blind continuity with the Maoist past. Deng Xiaoping claimed that

"We cannot mechanically apply what Comrade Mao Zedong said about a particular question to another question, what he said in a particular place to another place, ... Comrade Mao Zedong himself said that no one can avoid making mistakes in his work unless he does none at all. He also said that Marx, Engles, Lenin and Stalin had all made mistakes——otherwise why did they correct their own manuscripts time and time again?"¹⁶

Therefore, Deng and his supporters called for that "Practice is the sole criterion for testing truth", and that we should "shatter spiritual fetters" and encourage an intellectual awakening.¹⁷ Since then, many ideological concepts associated with Mao's era had been abandoned, such as, that class struggle is the principal contradiction in socialist society, that "continuous revolution under the dictatorship of the proletariat should be the basic line of the Party, and that Cultural Revolution should be conducted every few years against "party people in authority who take the capitalist road."

As a result of this sort of reassessment, the content of official ideology had been

¹⁶Deng Xiaoping, The "Two Whatever" Do Not Accord with Marxism, in Selected Works of Deng Xiaoping, P.51.

¹⁷The Central Committee of the CCP, The Bulletin of the Third Plenum of the 11th Central Committee of the Chinese Communist Party, in The Selection of Important Literature Since the Third Plenum of the 11th Central Committee, Beijing: People's Press, 1987, P.12.

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transformed toward a pragmatic approach. According to the pragmatism, the main task of politics was seen as promoting modernization, rather than undertaking continuous struggle and revolution. The key to modernization was economic development. So, priority should be given to economic development, and even ideology and politics should primarily serve and guarantee the success of economic development.¹⁸The substance of the pragmatism prevailing in post-Mao China can be revealed by a famous motto adopted by Deng Xiaoping: "If a cat can catch mice, what does it matter if it is black or white." In other words, do not ask whether a policy is socialist, ask whether it works. The criterion for judging if it is working is, if it is providing the economic development.

The reforms in economic institutions, power structure, and ideology, although were still moderate, had led to corresponding shifts in the decision situation in which participants were engaging in policy activities. Firstly, let us look at the changes in actors who are allowed to play the game of policy-making and the arena within which policy actors play their games. With regard to allowable players of policy-making, the moderate reform had expanded the participation in policy-making. The policy-making was no longer the preserve of a small group of political leaders. With the separation of power, more of the functions of policy-making had been shifted from party leaders to government officials. Particularly in the economic sphere, a

¹⁸For the transformation of ideology in the early reform period, please see The Bulletin of the Third Plenum of the 11th Central Committee of the Chinese Communist Party, in The Selection from Important Literature Since the Third Plenum of the Party Central Committee, PP.1-14; and Deng Xiaoping, Emancipate the Mind, Seek Truth from Facts and Unite as One on Looking to the Future, in Selected Works of Deng Xiaoping, PP.151-166.

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market-oriented economy had partly replaced the central-planning economy. The reform leaders needed more effective and complicated techniques, including price, taxation, money, and finance means to guide the economy. Therefore, they were more willing to consult professional bureaucrats. Government officials had become more influential in formulating economic policies than they had been in the previous period. However, as already noted, despite the fact that the power structure had been divided and decentralized to a certain extent, the party's dominant position in the political system had not been challenged, and the success of the reform still relied on the personal prestige of a few powerful figures. Therefore, the party leaders still played a key role in the policy-making process. For example, although Deng Xiaoping had not been involved actively in the details of policy-making, he remained the final source of authority in Chinese politics, and made or improved the most important decisions on policy and personnel.¹⁹ With regard to the arena of policy-making, it cannot be denied that with the reform process, the party organs, such as the Politburo and the Secretariat, were no longer the only place to formulate policies. A number of issues had been transferred to bureaucratic departments and even local governments for designing. Provincial and municipal governments had gained some opportunities to make independent decisions to meet the instant demands of local people. Nevertheless, most important national policies were formulated in the Central Party Committee. The Politburo and the Secretariat were still the unchallengeable organs of policy production. Moreover, since the party organs retained the power to make all major appointments in the government, they were powerful enough to

¹⁹See David Wen-Wei Chang, China under Deng Xiaoping, PP.24-25.

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ensure that the policies designed by governmental organs did not violate the principles set by the Party.

At the same time, the temporary subsidence of any tense factional power struggle and the arrival of a tentative consensus within the leadership had reduced the risk of power loss confronting political leaders when designing and choosing policy alternatives. Although there had been a difference between the leaders who favoured a radical reform and the leaders who preferred a moderate reform, the difference did not concern the question of the necessity for the reform. Rather, it concerned the pace, speed, and extent of the reform. At this stage, victory or defeat in debates over policy programmes did not necessarily imply gains or losses in power positions, but more usually, were viewed as the normal outcomes of opinion differentiation. Then, power consideration was not so decisive in determining policy formulation as in the previous period. Policy players shifted their attention to some substantial dimensions relating to the workability of policy itself and the discussion of practical risks involved in different policy programmes. For example, debates between the moderate and radical wing in the reform leadership usually centred around the questions of the concrete shortcomings and risks of reform programmes. They included the question of, to what extent the reform in the countryside would result in inequality; whether grain production would fail to meet state targets after mandatory planning in that sector had been eliminated; what is the possibility that the market oriented reform would lead to a decline of central control over investment and the expenditure of foreign exchange; how could the Party prevent a sudden outbreak of political dissent

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during the political reform; and by what way the government could solve the problems of crime and corruption that increased during the reform process; etc..²⁰These discussions seemed to be more concerned with the effectiveness of each reform programme rather than their implications for power distribution.

Turning to the point of the available means for policy-making, there had been some new attributes as well. The market oriented economic reform and decentralization oriented political reform faced two obstacles as soon as they were launched. On the one hand, the reforms could not find any ready made model to imitate or past experiences to refer. Both the reforms were new experiments which had never been successful in other communist countries. Also it was difficult to find relevant "proof" in the "classics" of Marxism-Leninism to support the reforms. The designers of the reforms had to seek their own way and techniques for maintaining the momentum of the reform programmes. On the other hand, the reforms faced a sceptical response from the remaining conservative leaders. They criticized problems arising from the reforms such as the emergence of inequality, the increase in corruption, the expression of unorthodox political ideas, and the outbreak of inflation. The reform leadership had to be sensitive to this scepticism and make an effort to eschew much frustration over the reforms. In this context, the policy makers believed that the most suitable means for themselves was a "trial and error" strategy. This meant that policy-making should be based neither on the idealistic imagination of a few designers nor

²⁰For the retrospect of debates concerning the reform programmes, please see Harding Harry, China's Second Revolution, PP.77-90.

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on a strict and comprehensive plan by experts, but rather relied on an incremental probing process, the accumulation of experience, experimental approach, and tentative measures, etc.. This strategy divided the reforms into different stages, in the hope that the success of the initial reforms would create enough political momentum and support to permit the adoption of more complex measure later on. At the same time, the experimental approach was taken as the most effective way of policy-making—potential policy programmes should be implemented in selected sectors, regions, or enterprises in order to judge their effectiveness and feasibility. Those that succeed can then be adopted on a wider basis, while those that fail can be abandoned or modified. This approach was summarized by Deng Xiaoping in later years:

"We are engaged in an experiment. For us, reform is something new, and we have to grope around to find our way... Our method is to sum up experiences from time to time and correct mistakes whenever they are discovered, so that small errors will not grow into big ones."²¹

Finally, with official ideology tending toward pragmatism, the values constraints on policy-making had been changed correspondingly. If in the later-Mao era the party's goal was to relate a society with absolute equity through antagonistic class struggle and continuous revolution,²² then by the partial-reform period the principal goal of

²¹In *People's Daily*, 14th September 1986.

²²For Mao's values and preference, please see Ji Wenxun, Values Conflicts in Modern China, Shanxi: People's Press, 1989, PP.240-288.

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the Party was to "make people rich".²³ If in the Mao's era the main criterion to evaluate governmental policies was some empty ideological principles and any socio-economic policies were required to be committed to Marxism-Leninism, then by the partial-reform period it had been replaced by a series of practical values: whether the policies can accelerate the economic growth, whether they can improve economic efficiency, and whether they can raise the living standards of the Chinese people. In brief, the dominant values in policy-making were economic modernization and the need to turn China into a world power in near future.

All these changes in the decision situation indicated the replacement of the policy-making mode——policy-making was transformed from the "political-factionalism" to the "experiential-pragmatism", that is, policies were made by a group of pragmatist leaders with the assistance of professional bureaucracies; policies were adopted for realistic interests, tangible objectives, and based on their effectiveness and workability; policies were formulated through persistent experience accumulation, continuous experimenting, and piecemeal adjustments. The following case analysis will present some evidence to show this transformation.

6.2. The development of the Shenzhen Special Economic Zones: an outcome of the "experiential-pragmatism" in the policy-making process

6.2.1. Introduction

²³Hu Yaobang, in *People's Daily*, 29th March, 1984.

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The Special Economic Zones(SEZs) in China were established by the Chinese Government between late 1970s and early 1980s to attract foreign investment and technology into China and thereby develop the economy faster. The zones are similar to, but not identical with, export processing zones, or free trade zones. The SEZs are wider in concept, and included not only industry but also agriculture, commerce, tourism, and other services such as a university. Four such zones were established at the beginning, three in Guangdong Province, one at Shenzhen, opposite Hong Kong; one at Zhuhai opposite Macao; another at Shantou; and the final one in Fujian Province at Xiamen. There are now five zones, the original four plus Hainan Island. Up to now the five zones have become the most dynamic areas of the economy and produced the highest speed of development in mainland of China. In 1990 the total output value of industry in the SEZs amounted to 60 bn RMB yuan, 24 times as much as in 1978.²⁴

Among the five zones, Shenzhen is by far the most developed. The Shenzhen SEZ is run by the Shenzhen Municipal Government, which falls directly under the authority of the Guangdong Provincial Government. With a distance of 49 kilometres from the east to the west and 7 kilometres from the north to the south, and a total coastline of 63.9 kilometres in the east and west together, the SEZ covers an area of 327.5 square kilometres. The entire Shenzhen SEZ, when established, was many times

²⁴Source: Zhang Pingli, The Great Experiment in the Chinese Economic Reform, in *People's Daily*, 10th February 1992.

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bigger than the other zones.²⁵

The Shenzhen SEZ has been taken as a successful model of the reform by the Chinese Government. Its achievements have been propagated extensively. According to official statistics, the average annual growth rates of Shenzhen's major economic indicators from 1980 to 1990 are as follows: GNP, 47.8%; gross industrial output value, 69.2%; total export value, 72.5%; and local government revenue, 59.9%. By October 1990, 7,481 agreements and contracts had been signed by local enterprises with foreign businessmen involving 5.6 bn US\$ as committed investment, of which 3.72 billion has materialized. In the meantime more than 3,000 Sino-foreign equity and contractual joint ventures and exclusively-foreign-funded enterprises were set up, and also, there were 3,900 enterprises established with partners from the inland as well as another 5,000 companies engaged in processing, assembling and the compensation trade.²⁶

Apart from the direct and visible gains of the zone, there are certain invisible ones. As initially intended, experiences have been gained in using the price mechanism, modern business practices, and international business habits.

²⁵Source: Shenzhen Economic Development Bureau and Shenzhen Investment Promotion Centre co-ed., Shenzhen Investment Guide 1991, P.5.

²⁶Source: Li Hao, Carrying Forward the Cause and Forging Ahead into the Future, in *People's Daily*, 9th January 1991.

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However, it has been identified that there were some problems in the development of the Shenzhen SEZ. One problem was that the SEZ itself was expensive to establish, with a large up-front cost, owing to the need for much infrastructure which was often deficient. In the process, a lot of capital was wasted. Another problem was that the type of foreign investment could not meet the needs of the SEZ. A large proportion of it was simply straightforward processing and assembly work and there was no much high technology. A further problem is that in different enterprises many of the Chinese managers are not good, and lack the experience of simple cost accounting and clear ideas of profit and loss....²⁷

So far the establishment of the SEZs in China has been closely watched and intensely debated, but most of the studies are concerned with various practical aspects of their development, for example, the infrastructure, the land use, the investment, the costs and finance.²⁸ That means the scholars take the SEZs merely as an economic phenomenon. Few of them examine the SEZs from a political perspective, in particular from the perspective of who made the policies, why the policies were adopted, and how the policies were formulated. In the view of the author, the establishment and development of the Shenzhen SEZ is a representative case of

²⁷For the examination of problems of the SEZs, please see Kevin Bucknall, China & the Open Door Policy, Allen & Unwin Australia Pty Ltd, 1989, PP.155-165.

²⁸See D.K.Y. Chu, The Special Economic Zones of China: An Economic Geographic Appraisal, Chinese University of Hong Kong, Department of Geography, Discussion Paper, No.30, 1982; K.Y. Wong ed., Shenzhen Special Economic Zone: China's Experiment in Modernization, Hong Kong Geography Association, 1982; M.H. Chan, Financing Shenzhen's Economic Development: A Preliminary Analysis of Sources of Capital Construction in Shenzhen, 1979-1984, University of Hong Kong, Discussion Paper, No.54; Y.C. Jao *et al* ed., China's Special Economic Zones, Oxford University Press, 1986.

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policy-making mode adopted by Deng Xiaoping and his reform allies. Therefore, analyzing the case is helpful to improve our understanding of Chinese policy-making process in the Partial-reform period.

6.2.2. Genesis of the idea of establishing the SEZs

The idea of attracting foreign capital to China is not a new policy initiative for the Chinese leadership. As early as 1950s, the suggestion had been made. According to a report, in 1956 when Mao Zedong inspected Guangdong Province, a local official Hang Shiming, the Deputy-Secretary of the Party Work Committee of Hong Kong and Macao Affairs at that time, tried to persuade Mao to accept loans from foreign countries to develop Chinese coastal industries, and that Mao showed some interests in this suggestion. However, due to the worry that asking for loans from foreign countries might damage the reputation of the Chinese Government, the policy suggestion was finally rejected by higher leaders.²⁹

By the early 1970s, in coordinating the "modernization plan", Premier Zhou Enlai promoted the idea to set up the "special export commodity production base" in China. For the same political reason as before, the idea was not expanded to an operational programme. Until the end of 1970s, when the Pragmatist leader Deng Xiaoping and his allies consolidated their power bases and pragmatism took dominance within the leadership, the initiative might enter onto the agenda of policy-

²⁹See Diao Zi, Fighting to Open up a Bloody Way, in *Journal of Southern Window*, No.10, 1990, PP.5-6.

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making again for substantive consideration.

As mentioned in previous sections, the key point of the pragmatism in China is captured by the attitude of, "don't ask whether a policy or a system is socialist or capitalist, ask whether it works". The only criterion to evaluate the workability and effectiveness of a policy or a system is the effect it has on economic development.

With regard to this point, Deng has noted clearly,

"Henceforth, now that the question of political line has been settled, the quality of leadership given by the party committee in an economic unit should be judged mainly by the unit's adoption of advanced methods of management, by the progress of its technical innovation, and by the margins of increase of its productivity of labour, its profits, the personal income of its workers and the collective benefits it provided. The quality of leadership by Party in all fields should be judged by similar criterion."³⁰

Clearly, Deng put first priority on the economic development and the improvement of the living standard of the people. Also, he took advanced methods of management and technology as the effective means to reach the aim of economic development. A further question is: from where can the methods and technology be gained. Deng proposed to import them from foreign countries,

"If we ourselves don't know about advanced methods of management, we should

³⁰ Deng Xiaoping, Selected Works of Deng Xiaoping, P.162.

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learn from those who do, either at home or abroad."³¹ "We should introduce new technology and equipment from other countries and expand imports and exports."³²

So, according to Deng, policy makers can choose any effective means to develop the economy, as long as it works. Even methods and technology from western countries with different political institutions and ideology should be used. Undoubtedly, this general guideline had encouraged the bureaucracy and local leaders to seek a way of introducing foreign capital and technology into China.

Another aspect of the pragmatism which facilitated the birth of the SEZs was the experimental approach. Deng held that when someone was crossing a river, he should feel the rocks under the water. In other words, policy-making should rely on probing and experiments. Any important policy proposal, before it become a unified national programme, can begin to be limited spheres, and then gradually spread to others.

"The central government departments concerned should encourage such experiments. Contradictions of all kinds will crop up in the process and we should discover and overcome them in good time."³³

The experimental approach in policy-making encouraged policy actors to find a

³¹Ibid., P.161.

³²Deng Xiaoping, Comments on Industrial Development, in Selected Works of Deng Xiaoping, P.44.

³³Ibid., P.162.

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specific place to try different methods of economic development. Guided by Deng's Pragmatism, the Chinese Central Government worked out an opening policy to increase contacts with the rest of the world, and accept foreign capital in the form of loans and direct foreign investment. In particular, the central leadership proposed to play a role in coastal areas in attracting foreign investment and technology to China.³⁴ All these policy orientations stimulated the genesis of the idea of the SEZs.

However, despite Deng's intention and that the Centre's directives had provided a proper basis and suitable atmosphere for the birth of the SEZs, the first specific suggestion for establishing the SEZs was not the direct product of top leaders and the Central Government, but was provided by some local leaders and bureaucrats. In light of the recollections of a senior staff in the Guangdong Provincial Government, who participated in the actual policy design relating to the SEZs, the first concrete proposal came from Wu Nansheng, Depute-Secretary of the Party Committee of Guangdong. In February 1979, after attending the Third Plenum of the Eleventh Central Committee of the CCP, Wu returned to Shantou Prefecture in Guangdong to transmit the information from the Plenum to the local party organs. In this coastal city and his home town, Wu was shocked by its decrepit economy and the comparatively low living standard of the local people. He talked with his assistants that under the general guideline of the reform and opening to the outside world, is it possible to probe an approach to revive the economy and increase the wealth of the

³⁴The Central Committee of the CCP and the State Council, Directives of the Central Committee of the Chinese Communist Party and the State Council Concerning the SEZs, in the Ten Years of the Guangdong SEZs, 1990, P.18.

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people as soon as possible. Wu and his staff, including Qin Wenjun, Ding Lisong, considered a possibility to select a coastal area in Shantou for establishing a special export zone modelled on the export processing zones in Taiwan and some other foreign countries. This zone would be established to attract foreign investment.³⁵

Soon after that, a formal proposal was promoted by Wu in a work meeting of the Guangdong Party Committee. The proposal suggested that the experiment should be acted upon and a special export zone in Shantou Prefecture set up. In this zone preferential treatment and flexible measures should be adopted to attract foreign investment and technology. At the same time, foreign methods of management and business practice could be brought into the zone for an experiment. Wu also recommended himself to be in charge of the preparation of the zone. In the atmosphere of pragmatism and orientation toward the opening door, the proposal gained the support of most members of the Guangdong leadership. Some of them even suggested that the special export zone should be experimented with not only in Shantou, but also in Shenzhen and Zhuhai, two coastal cities neighbouring Hong Kong and Macao respectively. They claimed that as long as the Central Government could authorise Guangdong Province, the Province would use its advantages in geography and foreign relations to speed up the economic development.³⁶ By this time, the first official proposal concerning the SEZs was worked out.

³⁵See Ding Lisong, Records of Genesis of the SEZs, in The Ten Years of the Guangdong SEZs, Guangdong Science and Technology Press, 1990, P.23.

³⁶Ibid.; and Diao Zi, Fighting to Open up a Bloody Way, in *Journal of Southern Window*, P.4.

6.2.3. Ratification and operationalization of the local proposal

After the work meeting, the Guangdong Provincial Party Committee made a report to the Party Central Committee. The report suggested that the Centre "utilize the advantages of, its proximity to Hong Kong and Macao, having a large number of overseas townsmen and, its maintenance of close relations with the outside world, to set up special export processing zones."³⁷ In April 1979, a work conference of the Party Central Committee was held in Beijing. At the conference, officials of Guangdong Province introduced their proposal in more detail. The proposal was then reported to the paramount leader Deng Xiaoping. Deng talked to the Guangdong leaders:

"It is a good idea to establish special zones. In the past the Shanxi-Guansu-Ningxia Border Region³⁸ was just a special zone. The Centre has no money to give you. You have to do it by yourselves and fight to open up a bloody way."³⁹

Then in July 1979, the Party Central Committee and the State Council ratified the report of Guangdong, authorized Guangdong province and Fujian Province to adopt preferential treatment and flexible measures in foreign economic activities, and to experiment with establishing "special export zones" in Shenzhen, Zhuhai, Shantou,

³⁷Zhang Pingli, *The Great Experiment in the Chinese Economic Reform*, in *People's Daily*, 10th February 1992.

³⁸The Communist occupied region during the civil war.

³⁹Ding Liang, *Records of Genesis of the SEZs*, in the Ten Years of the Guangdong SEZs, P.23.

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and Xiamen.⁴⁰

Up to then the proposal to establish the special export zones was still an unpolished policy initiative. A further step needed to be taken to design a specific programme. If the leaders at the top were decisive in ratifying the proposal, then the local leaders and bureaucrats were more active in transforming the proposal into an operational plan.

Soon after the proposal was ratified by the Centre, a working group was organized in Guangdong Province to be given responsibility for the planning and preparation of the SEZs. Wu Nansheng was appointed the head of the group, his assistants including a few senior bureaucrats in the Provincial Party Committee and the government. As usual practice in Chinese policy-making process, the first task facing them was to seek a rational basis for their new policy programme, that is to say they were faced with the task of finding some proofs from the official doctrine for legitimizing the policy. However, in this process an important difference from the previous period can be found, that is, the policy programme was not derived from ideological principles, and ideological principles were not the authoritative criterion to judge the correctness of the policy. By contrast, quotations from the "classics" of Marxism-Leninism were merely used to support the necessity of the policy design. As can be seen in retrospect by the participants of the policy-making, at that time they consulted a number of "classic works" in order to find some favourable

⁴⁰Ibid.

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quotations. From the Manifesto of the Communist Party by Marx, proof was found: Socialist economy should be established on the Basis of a well developed capitalist economy, and socialism should utilize material wealth created by capitalism, and borrow its management methods to develop socialist society. From works of Lenin, they took another passage which seems to be favourable to the idea of the special export zones: The summation of Soviet system, the railway management system in Prussia, American technology and trusts, and American civil education etc., equals socialism. According to these passages, they claimed that the new policy accorded with Marxism-Leninism, and the special export zones should be established.⁴¹

The second task for the designing group was to clarify the aims of the zones. In this process, policy-making activities particularly reflected Deng's pragmatic values. In their view, one of the objectives of the zones was to utilize foreign capital and import sophisticated technology into China, so as to develop local production and rejuvenate the local economy faster. But according to Deng, this was still not the most important aim. A more fundamental purpose of creating the zones was to spread foreign technology and management methods around China and provide useful experience of economic reform for other areas to draw on. Therefore, the local leaders asserted that the special export zones should become a "window" through which Chinese managers can observe the development of the economy, technology and markets in the outside world, and can learn about the use of sophisticated technology,

⁴¹Diao Zi, Fighting to Open a Bloody Way, in *Journal of Southern Window*, P.7.

⁴¹12

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management methods and business practices. Furthermore, the zones should become a base from which Chinese managers can try different methods of running the economy, and accumulate experience for the economic reform in the whole country.⁴²

A further task for them was to consider the development mode and procedures in establishing the zones. In this aspect, the designers recognized that they lacked both knowledge and experience. Thus, a piecemeal, "trial and error" approach was emphasized. It was suggested that although a development plan should be worked out, this plan would be continuously adjusted rather than rigid from the outset. In the process of implementation, different policy measures could be revised on the basis of experiment. Also, the foreign regulations and practices of running a business, including the right to hire and fire, use of the price mechanism, following market demand, promoting sales and other features long absent from China, could be brought into the zones for experiment. Through the persistent and step by step process of experiment, those aspects that were suited to the country's situation could be kept and others might be given up.⁴³

With regard to the name of the zones, it was said that the planners had considered more than ten alternatives, such as "export processing zones", "special export zones",

⁴²Ding Lisong, Records of the Genesis of the SEZs, in The Ten Years of the Guangdong SEZs, PP.23-24.

⁴³For the description of the "trial and error" approach in the Chinese SEZs, please see Zhang Pingli, A Great Experiment in the Chinese Economic Reform, in *People's Daily*, 10th February 1992; and Wang Chu, Ten Years Construction, Ten Years Experiment, and Ten Years Leap-forward, in *People's Daily*, 17th August 1990.

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"free trade zones", and "free port", etc., with "special export zones" being adopted at the beginning. But finally, most of the participants reached a consensus that the zones they wanted to set up did not fit identically with the above-mentioned names. The zones should be wider in concept, including not only industry, but also agriculture, commerce and other services that can be developed in the zones. As a result, the name, "special economic zone" was chosen at last.⁴⁴

6.2.4. Formulating the first legal document concerning the SEZs

Deng Xiaoping had suggested that it was necessary to enact a law on foreign investment.⁴⁵ Therefore, the local leaders set forth to stipulate a legal document concerning the SEZs, so as to ensure that there would be a law to provide guidelines. But there was still a problem: lack of trained people and experiences in economic legislation. In formulating the document, Deng's experimental way was used again:

"Legal provisions will have to be less than perfect to start with, then be gradually improved upon. Some laws and statutes can be tried out in particular localities and later enacted nationally after the experiences has been evaluated and improvements have been made."⁴⁶

At the top level, the senior Vice-Premier Gu Mu was appointed to be in charge of

⁴⁴Ding Lisong, Records of the Genesis of the SEZs, in The Ten Years of the Guangdong SEZs, P.23.

⁴⁵See Selected Works of Deng Xiaoping, P.158.

⁴⁶Ibid..

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preparation of the SEZs and drafting the "Regulations of the SEZs". At the local level, a drafting group was organized, including several local leaders and staff. On 20th September 1979 Gu Mu came to Guangdong to preside at a forum to discuss some issues surrounding the SEZs, including the drafting of Regulations. Participants included all the key leaders of Guangdong: the First Secretary of the Provincial Party Committee Xi Zhongxun; the Second Secretary Yang Shangkun; the Governor of Guangdong Liu Tianfu, the Vice-Governor Wu Nansheng and Zeng Dingshi.⁴⁷ After that, on 30th October 1979, Wu Nansheng called another meeting to discuss some specific regulations about the SEZs. At the meeting, a Report Concerning Some Issues in the Establishment of the SEZs was produced and sent to the Party Central Committee and the State Council. This report considered some concrete regulations and preferential treatment to be provided in the SEZs.⁴⁸

On the basis of the above-mentioned activities, Regulations of the Guangdong SEZs were drafted out at the end of 1979. This document has two salient features. For one thing, this is a rough and tentative legal document which covers a wide range of policy areas⁴⁹, but lacks clear stipulations on some specific issues. For example, the document encourages foreign businessmen to invest in the SEZs to initiate productive enterprises and scientific research undertakings, but it has not mentioned which

⁴⁷The Administrative Committee of the Guangdong SEZs, *Chronicles of the Guangdong SEZs*, in The Ten Years of the Guangdong SEZs, P.26.

⁴⁸Ibid..

⁴⁹Including six chapters: General Provisions; Registration and Operation, Preferential Treatments; Labour management; Administrative Organization; and Supplementary Provisions.

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patterns of investment can be taken by investors(eg., joint ventures, cooperation, solely foreign-owned enterprises, compensation trade, and leasing, etc.); also the document emphasizes the importance of technology exchange and cooperation between Chinese and foreign partners, but it fails to provide articles to stipulate what kinds of technology are encouraged to be brought into the SEZs, and by what means this technology can be brought in(eg., license trade, technological association, cooperative research, import of technology data, etc.); in addition, preferential treatments for investors, in this document, are too general and short of detail and quantitative stipulations.⁵⁰ All these omissions were supplemented in later years through continuous probing.

For another, this document is an audacious policy design rather than a conservative piece. As the first legal document relating to the SEZs, it breaks through the traditional restrictions on the import of foreign capital and technology within the central planning framework, recognizes the legal position of profits and foreign investment in China by foreign investors, vests full authority of operation to enterprises in the SEZs, and encourages investment in comprehensive areas. Further more, despite the fact that it is still a preliminary design, the document provides some legal preferential treatments for foreign investors for the first time in the history of P.R. China. So, it is a valuable policy attempt from the point of view of the Chinese.

⁵⁰The Guangdong Provincial Government, Regulations of the Guangdong SEZs, in Selected Documents Concerning the Reform in the Shenzhen SEZ, edited by Shenzhen Economic System Reform Committee, 1989.

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In December 1979, the Regulations were examined and adopted by the Second Plenum of 5th People's Congress of Guangdong Province. Four months later, the Standing Committee of the Guangdong Party Committee decided to set up the Administrative Committee of the Guangdong SEZs, and appointed Wu Nansheng as the Director of the Committee. In May 1980, the first solely foreign-owned enterprise with investment from a printing and dying mill in Hong Kong, was approved to be established in the Shenzhen SEZ. Until 26th August 1980, the National People's Congress held the 15th meeting of its Standing Committee. At this meeting, the Regulations of the Guangdong SEZs, was ratified officially. It meant that the SEZs had gained a legal position.

6.2.5. Supplement and adjustment of the policies in the operation of the Shenzhen SEZ

Before the Regulations of the Guangdong SEZs was approved by the National People's Congress, the Shenzhen SEZ had gone into its actual operation. As already noted, the Shenzhen SEZ was the largest and the most important one among the original four zones, so the policy makers paid more attention to its development. By 1980, the power of policy-making on specific issues had been vested to the Administrative Committee of the Guangdong SEZs and the Municipal Government of Shenzhen.⁵¹ At that time, the first problem confronting the local leadership was the question of what was to be the starting point of the development of the Shenzhen

⁵¹Liang Xiang, a deputy-governor of Guangdong was appointed as the Mayor of Shenzhen.

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SEZ. According to the original programme, the first priority should be placed on industrial development. Thus, it was suggested that the first step in the development of the Shenzhen SEZ should be to open up a processing area for export commodities, and that the location could be Huanggang District or Shangbu District, since the two places were suitable for industrial projects. But the suggestion was soon recognized to be unrealistic. The difficulty was how to raise the first fund for the infrastructure construction in the processing area. It is common sense that in order to attract foreign investment, some basic facilities, namely, water, electricity, communication, storm water drainage, sewage, and land levelling, must be provided by the authority of the zone. All this construction needed a large amount of capital. In similar zones in other countries, the basic facility construction is usually financed by central governments, but in China the Central Government did not have enough funding resources to cover the investment. On the other hand, at the initial stage of the development, most investors preferred to invest on the projects with instant benefits rather than on the infrastructure constructions which need longer time to yield returns. Therefore, it seemed difficult to find the first fund for the development of the processing area. This circumstance impelled the local leaders to seek other ways of raising money. Some suggested that at the beginning it was necessary to choose a place to develop a commercial district in which different retail establishments, commercial undertakings, and financial organs would be concentrated. This kind of district should be attractive enough for the businessmen from Hong Kong and some other places. By selling buildings in this district in advance, land rent could be collected, then the budgetary problem would be solved. This idea actually drew on the

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experience of the Shekou's mode. The Shekou Industrial District, although within the Shenzhen SEZ, is run by a firm in Hong Kong, the China Merchants Steam Navigation Company(CMSNC). This was established as long ago as 1872 and was taken over on 15th January 1950 by the Ministry of Communications of the new Government in Beijing, which still runs it. The CMSNC is regarded in China as a state enterprise. Effectively, Shekou is run by the CMSNC, and is very independent of the Shenzhen leadership. On January 1979, when the SEZs policy had not yet been made, the Central Government had authorized the CMSNC to develop and operate the Shekou Industrial District. At the initial stage, the CMSNC leased a part of the land-use rights in the district to foreign investors. The rent was used for capital construction. By this way the CMSNC successfully developed the district. This strategy was recognized by the leader of the Shenzhen SEZ as an effective way to raise money. Therefore, they decided to choose the Luohu District, an important port between the mainland of China and Hong Kong as the starting point of the development.

However, in the existing policy document, there was no specific stipulation relating to land-use in the SEZs, hence the planners had to reconsider the policy in this aspect. In light with their calculation, if the SEZ leases 0.8 square kilometres of land in the Luohu District to foreign investors for constructing service facilities, including banking, tourist, and residential sectors, and if the land rent per square meter is 5,000 HK\$,⁵² then the total land rent will amount to 4 bn HK\$. On the other hand, the cost for infrastructure construction in Luohu is only 300 HK\$ per square metre and the

⁵²This price was only one-third of land-rent in Hong Kong at that time.

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total cost will be 240 mn HK\$. That is to say, the local authority can not only raise enough funds for Luohu itself, but also gain extra money to exploit another export processing area in Shangbu District. Consequently, a new policy was made: the Shenzhen Municipal Government would grant land-use rights in Luohu District to foreign investors at the price of 2,000 RMB yuan,⁵³ and the period for the rights varies from the nature of business and their actual purpose.⁵⁴

This new policy was accused by some orthodox leaders and theorists of "bartering away territory", "exploitation through land rent", and "abandoning socialism", because the concept of "land rent" was always related to "exploitation" in China, in particular, leasing lands to foreigners had made some people to recall the "concessions" in the humiliating history. In this situation, the policy makers had to find an ideological basis for the new policy. At the first press conference of the Shenzhen SEZ in 1980, Huang Shiming, the Vice-Mayor of Shenzhen, tried to defend the legitimacy of their policy by stating the following,

"In the Shenzhen SEZ, the political power, administrative power, legislative power, and custom are all controlled by proletarians and the granting of some rights of land use will never change the socialist nature of the SEZ. With regard to the charges of land-use, we don't take it as 'land rent', but just take it as 'land-use fee', which is a proper charge for using the public transportation and environmental facilities

⁵³Equivalent to 5,000 HK\$.

⁵⁴The last two sections draw on Ding Lisong, Records of the Genesis of the SEZs; Diao Zi, Fighting to Open up a Bloody Way; The Economic System Reform Committee of Shenzhen Municipality, The Selected Documents of the Reform in the Shenzhen SEZ; and the interviews with officials of the Policy Research Section of the Shenzhen Municipal Government, January 1991.

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provided by the government."

At the same time, Ren Zhongyi, the First Secretary of the Guangdong Party Committee encouraged the local leaders when he said,

"The establishment of the SEZs is the decision of the Politburo of the Party Central Committee. You should dare to take experiments and create new experiences for the reform in other areas of the country."⁵⁵

Since then, the "Grant of Land-use Rights" programme has been implemented in the Shenzhen SEZ.

6.2.6. A controversy over the policies concerning the SEZs

As mentioned in the introduction of this case study, the policies relating to the SEZs have produced both intended achievements and unintended consequences. For this reason, a controversy over how to evaluate the policies emerged in late 1984 and early 1985. The attack on the policies was launched by some researchers from the mainland of China and Hong Kong. They asserted that the policies concerning the SEZs had failed to reach the intended aims, and criticised the policy makers' lack of "economic brain" in their decision making, leading to a series of mistakes in the

⁵⁵See Diao Zi, *Fighting to Open up a Bloody Way*.

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site selection, aim designing, and growth rate determination.⁵⁶

Representative of this criticism was the article by Chen Wenhong, a research fellow of the Asian Research Centre at Hong Kong University.⁵⁷ Chen's article collected some data to demonstrate the problems of the Shenzhen SEZ:

First of all, although the speed of Shenzhen' development is very high, the growth rates are produced by massive capital investment. For example, of the 720 mn RMB yuan of industrial output in 1983, the output of the building industry accounts for more than 600 mn RMB yuan; without the inclusion of the building industry, the total industry output from 1980-1984 is only 230 mn RMB yuan. This record is not an intended consequence.

Secondly, the retail sales in the Shenzhen SEZ persistently exceed industrial output. In 1979 the retail sales surpassed industrial output only by one mn RMB yuan, the gap was less than one percent. The situations in 1980 and 1982 were similar to 1979. But in 1983, the retail sales exceeded industrial output by 74 percent, amounting to 530 mn RMB yuan. The figures indicate that the boom in the Shenzhen economy was not a result of industrial development, but rather an outcome of speculation encouraged by the preferential treatments authorized by the Central Government.

⁵⁶For the retrospect to the controversy over the policies about the SEZs, please see He Bochuan, China at Half Way up to the Mountain, Guizhou: People's Press, 1989, PP.127-140.

⁵⁷See Chen Wenhong, What Are the Problems of Shenzhen, in *Wide Angle Lens*, No.149, February 1985, PP.48-56.

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This is not the intended developing mode of the SEZs.

Thirdly, foreign capital accounted for only a small portion within the total investment(less than 30% in 1983) in Shenzhen. In the same year, the output of inland-owned enterprises in the Shenzhen SEZ accounted for 82 percent of the total industrial output, much higher than that of foreign-owned enterprises. This means that the SEZ had not attracted enough foreign capital. Therefore, Chen's article concludes that the policies for the SEZs had failed to realize the goals of its designers.

The policy makers themselves, however, rejected these accusations. They argued that it was misleading to measure the development of the SEZs merely by one or two criteria. Proper conclusions should draw on a comprehensive examination of the SEZs. By doing so it can be seen that there have been a lot of intangible achievements due to the policies. For example, the SEZs have brought new management methods and business practices to China, provided training for managers and the labour force, increased employment in local areas, and stimulated competition within the Chinese economy, etc.. Hence, generally speaking, the policies for the SEZs have achieved success.

A further argument in favour of the SEZs' policies drew on pragmatic values. Some leaders claimed that all the policies concerning the SEZs were experiments to accumulate experience for further reform. So, in the sense that the SEZs have provided useful experiences for policy makers at different levels, the policies should

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be seen as successful. A representative defence of this kind is a speech by Li Hao, the First Secretary of the Shenzhen Party Committee. In 1985, Li talked to some correspondents from different news agencies,

"Since the establishment of the SEZs in a socialist country is still an experiment that has never been taken by predecessors, and its experience can be used for reference by the whole country, the policy experiments should be allowed to pay some 'tuition fee'..., If our aim is to walk a hundred metres, but at the moment we just complete half of it, can you say we have failed?"⁵⁸

Although the policies concerning the SEZs have produced some unintended consequences and aroused different attacks, political leaders at the top, particularly Deng Xiaoping, always took a favourable attitude to the SEZs. In January 1984, when Deng inspected the Shenzhen SEZ, he wrote the following words: "The development and the experience of Shenzhen have proved that our policy of establishing the SEZs is correct."⁵⁹ A few months later, Hu Yaobang, the Secretary General of the Party Central Committee, also came to Shenzhen and wrote a few words of encouragement.⁶⁰ Under the circumstance, the policies of the SEZs can be executed continuously, and even extended to many other areas.

6.2.7. Summary

⁵⁸Li Hao, A Speech to Correspondents, in *Journal of Explorer*, No.11, 1985, P.2.

⁵⁹Chronicles of the Guangdong SEZs, in The Ten Years of the Guangdong SEZs, P.27.

⁶⁰Ibid..

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The establishment and the development of the Shenzhen SEZ indicate that the Chinese policy-making mode in the partial-reform period had been transformed from the "political-factionalism" to the "experiential-pragmatism". This process of transformation is characterized by the following features:

First, the policies concerning the SEZs were the products of the pragmatic leadership. As can be seen in the Shenzhen case, the re-emerging pragmatic leaders, particularly the top leader Deng Xiaoping, played a key role in the policy process. His significant impact on the policies were manifested in the initiation, approval, and support of pertinent proposals, suggestions, or documents. Without his enthusiastic support, it would have been impossible to ratify any crucial policy proposal at the central level. But at the same time, departmental bureaucrats, especially the local officials, could exert strong influence on the policies as well. Their function was to collect and process pertinent information, design concrete programmes, draft policy documents, seek a rationale for policy proposals, or ensure that the directives from the top leaders were operationalized. These facts demonstrate that the participants in policy-making had been differentiated to a certain extent, while the power of top political leaders was still unchallengeable.

Second, the pragmatic values had been prevalent in the policy-making process. That is to say, not ideological principles, not power conflicts between political factions, but the considerations relating to economic development were the primary motivation behind the policy-making activities. The case demonstrates that in designing the

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policy proposals and documents, attention was focused on how to attract foreign investment and technology into China effectively, how to bring in foreign management methods and business practices and learn about them, how to motivate the local economy, and how to earn more foreign exchange, etc.. Indeed, some practical aims were given priority in policy-making.

Third, the policy-making relied heavily on experience accumulation and an experimental approach. At the initial stage of the SEZs, most policy proposals were tentative and partial but not fixed and systematic. Careful experiments were carried out to test the feasibility of different measures. Through trial and error, the outcomes of policies were observed, experiences were accumulated, and defects in policy programmes were found. Then, modifications and supplements could be made to improve the original policies, and those that did not work effectively could be replaced by others.

In general, the formulation of the SEZ policies presents us with a typical pattern of policy-making which is preferred by Deng Xiaoping and his allies: the Dominance of the pragmatic leaders with the assistance of their trusted bureaucrats, the prevalence of pragmatic values in policy-making, the incremental process via a series of trial and error experiments and persistent modifications and supplements.

Chapter Seven

Policy-Making in the Period of the All-round Reform:

Co-existence of Two Contrasting Patterns

(1984-1990) (1)

——Rise of Techno-rationalism

If in the previous period the partial reform was launched and carried out mainly in rural areas, then in the period from 1984 to the end of 1980s, an all-round, systematic reform unfolded, concentrating on urban areas. After several years of partial reform, the Chinese leaders believed that an all-round reform was a pressing necessity in the development of China. In the Third Plenum of the Twelfth Central Committee in October 1984, the CCP produced an important document for the reform——The Decision of The Chinese Communist Party Central Committee On Reform of the Economic Structures. The document indicates that

"The economic restructuring has been repeatedly explored and tested in recent years, and a number of important measures have been taken. These have yielded marked results and important experiences, and economic life has been invigorated to an extent unknown for many years. ...Our urban reform is only in the initial stage, however, and defects in the urban economic structure that seriously hinder the expansion of the forces of production are yet to be eradicated. The economic effectiveness of our urban enterprises is still very

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slow, the huge potential of our urban economy is far from being fully tapped, and there is serious loss and waste in production, construction and circulation. Expediting reform is a prerequisite for the growth of the urban economy. ...Conditions are now ripe for all-round reform of the economic structure. We both can and must raise and expound, in a rather systematic way, a number of major issues related to the reform so as to achieve unity of thinking and enhance it among all comrades in the party."¹

Apart from the continuation of the economic reform, the political reform was also pushed forward. In the mid-1980s many top Chinese leaders, such as Deng Xiaopin, Zhao Ziyang, Hu Yaobang, decided that the economic reform would not work well until they were matched with political reform. For economic enterprises to function in a market environment, the basic structure of governmental administration needed overhauling. Political reforms were also advocated to improve administrative efficiency.

In addition, with the emergence of unanticipated consequences of economic reform, such as a high rate of inflation, a runaway money supply, and an investment boom, and the involvement of the Chinese economy against the tough world competition, the Chinese leadership increasingly realized that it was necessary to seek more impetus for economic development from fields outside the economic system, particularly from the improvement of education, science, and technology. So these sectors received much more

¹The Research Institute of the Literature of the Central Committee of the CCP ed., The Selection from the Important Literature Since the Third Plenum of Eleventh Central Committee of the CCP, 1987, Vol.2, Beijing:People's Press, PP.767-768.

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attentions than before, the position of specialists was raised dramatically, also the adjustment of the educational system and restructuring of management system of science and technology entered the agenda of the reform.

The comprehensive reform in China brought together a combination of two contrast policy-making modes. On the one hand, the progress in social conditions and the involvement of specialists in the policy process brought in a mode which placed stress on the role of specialists and bureaucrats with expertise, rationalized and standardized means and ends, systematized and formalized procedures (particularly in centrally-controlled fields and sectors); on the other hand, economic marketization and power decentralization resulted in another mode which is characterized by the participation of different actors, interest conflicts, and a serial, incremental process (particularly in self-controlled, local areas and units). Even though the two strands have not replaced the previous patterns completely, their emergence indicates the new tendency of Chinese policy-making approach in the transforming environment.

This chapter and the next aim to depict the contextual transformations which led to the rise of two forms of policy making and to observe the operation of the two modes through analysis of two relevant cases separately.

7.1. Contextual transformation—the modernization of social conditions and

participation of specialists

In the course of striving for "Four Modernizations", remarkable changes had happened in social conditions, among which the following aspects exerted influences on the policy-making process.

First of all, the improvement of educational levels was seen as one of the decisive factors in the modernization programme. This had led to elitist replacement in leadership. Actually, that educational development was incorporated into the overall strategies of modernization had been started from the end of 1970s. The reformer's educational line includes the stress on science and technology as a productive force rather than as part of the superstructure, and the production of more qualified people to meet the needs of modernization.

Several facts indicate the progress of education in the first half of 1980s. Between 1979 and 1984, state appropriations for education increased from 11.15 bn RMB yuan to 24.27 bn, a 114.3 percent increase; their share in the total state expenditure thus went up from 10.1 percent to 17.3 percent.² Over the five years there was an increase in enrolment in the institutes of higher learning. Between 1978 and 1983 it went up from 856,000 students to 1.207 mn. The aggregate number of graduates from institutes of high

² Source: China Statistics Yearbook, 1988, P.760.

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learning, throughout the country, from 1949 to 1965 was merely 1.554 mn. Since 1979, the regulations for college entrance examination had been modified and the standards for admission had been raised to screen applicants. Academic excellence was again the top priority, and making up for lost time was the chief concern. Resources were concentrated on the best students and the best scholars.³

Over the five years, there was considerable development in higher education for adults (including TV universities, universities for workers and employees, correspondence universities, evening universities, universities for farmers, institutes for administrative officers and institutes for further studies). In 1983 enrolment in these universities ran up to 1.128 mn students, about 93.5 percent of the enrolment of the nation's full-time institutes of higher learning.⁴

By the mid-1980s, it seems that the role of education had been emphasized further. It was believed that education was extremely important in developing the Chinese economy. In order to accelerate the development of education, on 27 May 1985 the Central Committee of the CCP issued the Decision on the Reform of the Educational System, which consists of a series of policies concerning the educational reform. The main elements of the reform include:

³ Source: Liu Suinian *et al.*, *China's Socialist Economy*, Beijing: Foreign Language Press, 1986, P.447.

⁴ Source: *Ibid.*.

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—the granting of increased autonomy to colleges and universities in a wide variety of areas, such as student recruitment, foreign academic exchanges, curriculum reform, administrative appointment and scientific research;

—the expansion of technical and vocational education, leading to a tighter linkage between the educational system and the job market;

—the gradual development of a nine-year compulsory education system;

—the development of postgraduate education and research capability, especially in science and technology, and the encouragement of links with industrialized countries;

—a more important role for professionals in planning and management, with less daily involvement of party organization.

This document stressed the importance of developing more effective teaching methods, modernizing the content of courses, and increasing the relevance of learning to productive enterprise. In order to support these reforms, public expenditure on education will be raised further, and higher education will be expanded more rapidly.

The emphasis on the key role of education in the modernization of Chinese society led

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to stress being placed on the level of education and knowledge when promoting of officials in the party and the government. The reform leadership took elite replacement as one of the most important measures in the modernization programme. The necessity to promote a new generation of leaders had been emphasized repeatedly by the top Chinese leadership. According to the document of reform in 1984,

"Reform of our economic structure and the development of our national economy badly needs a large contingent of managerial and administrative personnel who are both knowledgeable in modern economics and technology and imbued with a creative, innovative spirit and who are capable of bringing about a new situation in whatever they do. The point now is that our contingent of managerial personnel falls far short of the above requirements. ...Large numbers of talented persons have come to the fore in economic construction, ... Party committees at all levels must take pains to discover and assess them and must not be fettered by outdated ideas and conventions."⁵

As a result, during the 1980s, the elements of the party itself had changed. For example, in 1985 three-quarters of the new members of the Party Central Committee were people with higher education, and all eight cabinet members added to the State Council in that same year, had attended universities. From 1984-1986, nearly one thousand well-educated people were promoted to key positions at central and provincial levels, and 71 percent of the party and government leaders at the provincial level had a college

⁵Selection of the Important Literature Since the Third Plenum of Eleventh Central Committee of the CCP, P.790.

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education. At the prefectural and municipal levels, another 30,000 cadres with higher education were selected for political and administrative responsibility. Also an additional 100,000 were chosen at the county level.⁶ By 1985 over half of the provincial party secretaries were graduates. At the bottom of the Chinese civil service, the criteria for recruitment had been changed in ways that should create more professional party and state bureaucracies. New recruits for the Chinese Civil service came mostly from the nation's college and universities, rather than from the factory, the commune, or the barracks, as was true in the past.

The net effect of the replacement of less-educated officers by better-trained successors has been a great change in level of education of Chinese officials. By the end of 1985, the percentage of leaders with a college education rose substantially: in the central state bureaucracy from 38 percent to 50 percent; in the provinces from 20 percent to 43 percent; in the prefectures and municipalities from 14 percent to 40 percent.⁷

Secondly, there was also fairly rapid progress in science and technology. The progress

⁶Source: Richard Baum, *Beyond Leninism? Economic Reform and Political Development in Post-Mao China*, in *Studies in Comparative Communism*, Vol.XXII Nos. 2 and 3, 1989, PP,111-124; and Xinhua News Agency, 23 January 1986.

⁷Source: Xinhua News Agency, 9 December, 1985.

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was a result of the shift in values, of the Chinese leadership, on the role of science and technology. Since the early years of 1980s, the reformist leaders had redefined the role of science and technology in economic and social development.

"The modern science and technology are the most active and decisive factor among the new productive forces. With the flourishing development of the technical revolution in the world, science and technology are increasingly permeating different aspects of material and non-material life of the society, turning into a significant source of improvement of productivity, and becoming an important foundation stone for modern civilization. In the course of socialist construction, the whole party must attach great importance on the role of science and technology."⁸

In this context, scientific knowledge and specialists started to be held in higher esteem.

"The Central Committee has pointed out on many occasions that in our drive for socialist modernization we must respect knowledge and talented people. We must combat all ideas and practices that belittle science and technology, the cultivation of intellectual resources and the role of intellectuals. We must take resolute action to redress cases of discrimination against intellectuals which still exist in many localities and to raise the social standing of intellectuals and improve their working and living conditions."⁹

⁸Selection from the Important Literature Since the Third Plenum of Eleventh Central Committee of the CCP, PP.837-838.

⁹Ibid., P.791.

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The effects of the new orientation of the Chinese leaders on development of science and technology were obvious. In 1952 the number of scientists and technicians in units owned by the state was only 245,000, but had risen to 4.435 mn in 1978 and 6.85 mn in 1983. During the period, some achievements worth mentioning had been made, for example, the successful launching of a rocket carrier to a targeted area in the Pacific in 1980; the first successful launching in 1981 of three space satellites for physics probes with one rocket carrier; the successful test in 1983 of the "Milky Way" giant computer, which can process data at a rate of 100 mn calculations per second; the successful development of 1,800 channel analogue microwave system, the establishment of an optical fibre communications system for practical use; and the successful launching of a synchronous communications satellite into an optional orbit in 1984.¹⁰

A more important sign of the development was the revival of social sciences. The party and government decision makers, in seeking to restructure the stagnant economic and political system, have looked to the public for help. They started to recognize that adequate policies for such increasingly complex and heterogeneous societies cannot be formulated in the absence of feedback which reflects popular sentiment.¹¹ Moreover, reformist leaders tried to mobilize public opinion against conservative opposition. To enable the public to play its role, the leaders had made available a wealth of new

¹⁰Liu Suinian *et al.*, China's Socialist Economy, P.447.

¹¹See Zhao Ziyang, The Main Tasks in the Next Five Years, in Selection from the Important Literature Since the Third Plenum of Eleventh Central Committee of the CCP, PP.660-690.

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information about social-economic conditions and problems. One significant measure was to expand scope and improve the quality of statistics collected by the State Statistical Bureau. A great deal of the collection effort before the 1980s was done by ministries themselves. The ministries maintained their information in a way that often made it very difficult for other pertinent units to obtain necessary data, thus leading to a lack of empirical materials for social scientists. The 1980s effort to increase the power of the State Statistical Bureau and the wide dissemination of its results widely has reduced the inefficiency and provided more conveniences for social studies. These developments had contributed to a relatively greater autonomy of social scientists and an increasing use of social research as guides for policy-making. In the early 1980s, the information available, in China, on social and economic research methodologies rapidly expanded. Translated writings of prominent foreigners became a common feature in Chinese journals. Lectures by overseas Chinese and the publication of their writings was an important source for disseminating new research methods. Concurrently, important organizational and personnel changes were occurring. The Chinese Academy of Social Science was undergoing expansion, with many institutes established in early 1980s, There was a crash programme to recruit "social scientists". In 1982, Chinese social scientists established direct contact with their Western and overseas Chinese counterparts. A number of Western economists, political scientists, and sociologists were invited to visit different academic units in China. Also many Chinese social scientists had made their way to the

West. They engaged in research under a variety of national programmes.¹²

Thirdly, the reform have greatly increased China's interaction with the international world. The reform-minded leaders recognized that China would not be able to modernize rapidly or effectively unless it expanded international relations with the outside world, that an autarkic strategy of development would prevent China from absorbing the advanced experience and modern technology of other countries, and that an isolated China would remain relatively poor and weak. The top leader Deng Xiaoping cautioned that "any country that closes its door to the outside world cannot achieve progress "and attributed slow pace of China's modernizations to its international isolation from the middle of the Ming dynasty through the Opium War, and from the Sino-Soviet split of the late 1950s through the Cultural Revolution.¹³

The opening up toward the outside world was primarily manifested in broadening the range of international economic relationships. The reforms in the foreign economy resulted in a continued increase in the level of China's foreign trade. The combined total of Chinese imports and exports, which had been a bit more than 20 bn US\$ in 1978, rose to 82.6 bn in 1987. The ratio of exports to national output increased from less than 6

¹²See Ma Hong, New Strategy for China's Economy, P.245.

¹³Xinhua News Agency, 31 December 1984.

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percent in 1978 to nearly 13.3 percent in 1986.¹⁴ Furthermore, the Chinese Government welcomed direct foreign investment, accepted aid loans and credits from foreign governments, international organizations, and commercial banks; and had multiplied the channels through which it hoped to acquire advanced technological know-how and managerial experience.

As an important measure of the opening up policy, the Chinese Government also dispatched unprecedented number of students and scholars for training and research abroad. This measure created a new channel for acquiring advanced technology and information of development in developed countries. Between 1978 and 1985, the number of Chinese students and scholars sent to overseas totalled about 38,000.¹⁵ In addition, the Chinese Government also signed many government to government protocols with advanced industrial nations for technological exchange, management training, and academic communication. As of 1985, these included no fewer than twenty-five exchange agreements with the United States, and a total of eighty-six arrangements with West Germany, Britain, France, and Italy. Foreigners were also invited to serve as advisors on Chinese development strategy and industrial management.¹⁶

¹⁴Source: China State Statistics Bureau, China Statistics Yearbook 1988, 1988, P.721.

¹⁵Source: Harry Harding, China's Second Revolution, The Brookings Institution, 1987, P.155.

¹⁶Ibid., P158.

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These dramatic changes in social conditions had redefined the decision situation. A series of new features of the decision situation had emerged with the development. Primarily, the element change in the leadership and bureaucracy means that more better-educated people had taken key positions in policy-making process, and more people with expertise enter into the high ranks of bureaucracy which affect policy-making effectively. The speed of organizational turnover had increased the signs that the Chinese bureaucracy had greater ability and willingness to bring technical competence to bear on the assessment of policy alternatives. At the same time, there had been increasing opportunities for participation by scholars and specialists both inside and outside the government, largely through the proliferation of policy staffs and "think tanks" throughout the party and state bureaucracies. In the mid-1980s, the State Council created two research centres on domestic policy. The Party Secretary had a general policy research office and a second research centre on agricultural policy. Most ministries have established their own research institutes. And growing number of provinces, municipalities, and counties had created their own policy planning staffs, largely composed of younger intellectuals.¹⁷

Correspondingly, the policy-making arena had been expanded to research community outside the party and the governmental bureaucracy. Scholars in the national and provincial academies of social science, and in many important universities, participate

¹⁷See Harry Harding, China's Second Revolution, PP.212-213.

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actively in discussions of alternative proposals of economic policy. Professional academic associations and scholarly journals had proliferated, providing forums for sharing ideas and communicating them to policy planners in the bureaucracy. Groups of young reform-minded intellectuals had organized their own salons, associations, and periodicals as a way of developing proposals for economic development. In the investment area, for example, the China Capital Investment Research Society, organized in 1983, helped specialists from various sectors to coordinate research in investment policies. Committees of experts, which cut across bureaucratic divisions emerged at the initiative of high leaders.¹⁸ The professional societies held periodic meetings and issued publications to express their policy suggestions. Intellectuals started to debate to a limited extent over some policy issues in the meetings and the specialized academic journals.

Moreover, with the development of education and science, and opening process, more rational methodologies and techniques of policy-making had been available for policy makers. Up to the mid-1980s, more and more socio-economic research methodologies were introduced into the policy process. The reform leaders and the specialists involved in the policy-making realized that the traditional methods of analyzing a typical example in China was not enough for a scientific research of a sophisticated society, but more rational, quantitative, comprehensive and interdisciplinary research methods should be employed in policy-making process. These views were manifested in the well-known

¹⁸Wang Hua *et al.*, Guidance Book of Investment for Contemporary Chinese Enterprises, Shanxi: People's Press, 1991, P.2.

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speech of Wan Li, the Vice-Premier at the National Forum on Research in "Soft Science" in July, 1986. He indicated that the use of quantitative analysis based on "typical" cases, particularly as drawn from the personal investigations or experiences of some top leaders, had caused great damage to China in the past. Policy-making must rely on the most advanced quantitative methods offered by modern sciences, combining the insights from such fields as systems engineering, operations research, information theory and cybernetics. Wan also pointed out that in order to create a democratic environment for policy-making, it was necessary to adopt some legislative measures to give legal protection to those engaged in policy-related research, to guarantee their relative independence from political forces. He also called for necessary support to be provided for the researchers in finance, and sources of data and information.¹⁹

As a result, rational procedures created by Western scholars were introduced into the policy-making process concerning economic issues, that is, finding clear objectives; figuring out alternatives; choosing one of them on the base of evaluation; implementation; adjusting the policy through feedback. Since 1983, feasibility studies have come in to being in China. The stress on them has provided a strong organizational impetus toward greater consultation and cooperation in the planning stages of major projects. The planning commissions and other policy agents not only commissioned specialized studies pertinent to major project proposals, but also convened conferences

¹⁹ See *People's Daily*, 1st August 1986.

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with key specialists from many pertinent units to analyze the proposals in detail to determine project feasibility. This process of determining project feasibility thus attempted to compensate for the arbitrariness of political leaders in earlier stages of the policy-making process. By 1986, the techniques of feasibility study were becoming more popular in China, they were formally introduced into the procedure of capital construction and taken as the key link of it. The State Planning Commission made a determination to spread new techniques of feasibility study and project appraisal, and stipulated that all major projects of capital construction should be submitted to a feasibility study and economic evaluation.²⁰

In brief, the changes of the contextual variables had resulted in a situation in which the techno-rationalism rose. By the second half of the 1980s, specialists, including professional bureaucrats, economists, social scientists, policy analysts, etc., had started to play an important role in many occasions of economic policy-making. The economic policy-making process was getting more rational and systematic. More scientific means had been applied to solve complicated policy problems.

However, it is not appropriate to exaggerate the extent of rationalization in the Chinese policy-making process. By that time most policy research organizations remained small,

²⁰See Jin Jiading, Rationalization of Investment Decision and Procedures of Capital Construction, in *Journal of Finance and Economics University of Middle-South China*, Vol.6, 1988, P.57.

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understaffed, and undertrained, with a weak grounding in either theory or practice. Cost-benefit analysis and feasibility studies, although undertaken much more frequently than in past, were still fairly primitive by the standards of advanced societies. But China had created the basis for a more systematic and knowledgeable consideration of economic policies. The remaining of this chapter will provide a case for identifying to what extent the Chinese policy-making process had been rationalized and to what extent the techno-rationalism had become the norm in the economic policy-making.

7.2. The founding of the Guangzhou Economic and Technological Development Zone: a rationalized process of policy-making

7.2.1. Introduction

The Guangzhou Economic and Technological Development Zone (GETDZ) is one of the sixteen Economic and Technological Zones (ETDZs) approved and sponsored by the Chinese Central Government. Like the Special Economic Zones (SEZs), the ETDZs also give preferential treatment to foreign investors and investors from Hong Kong and Macao, and the decision making power of the local government to which the ETDZs are subordinated has been extended to include the use of foreign capital, importing advanced technology and initiating areas for economic and technological development. The decision to establish the ETDZs is another step of the Chinese Government in

opening up to the outside world.

While the decision concerning the ETDZs was an extension of the policy concerning the SEZs, as both of them embodied the opening policy and the desire to attract more foreign capital, the context of policy-making for the later had changed dramatically—the changes led to the corresponding alteration of the policy-making pattern.

As mentioned in the first section, in seeking increased economic efficiency and improved competence of enterprise through economic reform, some of the Chinese leaders realized that the original mode of policy-making by trial and error was not always effective and easily produced unintended consequences, so they turned to encourage the use of rigorous, objective and quantitative methodologies in decision making. This new orientation of the leaders toward policy-making aroused a large wave of "making decisions by scientific methods", which laid stress on greater use of technical expertise, more discussion of technical issues, the introduction and employment of scientific methodologies invented by Western scholars, and the requirement of feasibility studies before launching any policy programme or projects.

Under the circumstance, although the approach based on personal experiences and influences of political figures still played a role in policy-making, rational methodologies

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started to be adopted in site selection, overall planning, formulation of regulations and preferential treatments, and the introduction of projects by the policy makers of the ETDZs. By analyzing the case of the GETDZ, it is hoped to reveal the extent to which Chinese policy makers have avoided political interference (political campaigning, ideological preaching, etc.) and experiential approach, but tended toward technorationalism in the economic area.

The GETDZ, situated on the eastern fringe of the Huangpu District of Guangzhou, covers a total area of 9.6 square kilometres. It is about 32 kilometres away from the centre of Guangzhou and 88 nautical miles away from Hong Kong.

Since the zone was founded in December of 1984, the infrastructure investment had reached 1.843 bn RMB yuan covering about 4.6 square kilometres of land to be developed in the first stage (by October 1991). Earth filling and land levelling have been carried out; the infrastructure projects such as roads, water supply, power supply, steam supply, communications and drainage works have been finished; industrial workshops with a construction area of 946,900 square metres and public utilities, such as a hotel, restaurants, a school, residences, an office building, a recreational and sports centre have been established. Within seven years, a number of foreign investors were attracted to make investments, 315 enterprises have been approved by the zone for their establishment, the total investment in their agreements reaching 1.992 bn RMB yuan. 96

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productive enterprises have gone into production and 90 other enterprises have gone into production. The money actually invested in these projects totalled 607 mn RMB yuan.²¹

For the purpose of understanding the policy-making process of the GETDZ, it is helpful to describe the background of the establishment of the ETDZs. By 1984, China had implemented the policy of opening up to the outside world for a few years. In 1980, the SEZs were set up in the municipalities of Shenzhen, Zhuhai and Shantou in Guangdong Province and in the municipality of Xiamen in Fujian Province in order to import foreign capital and technology and carry out experiments in economic management reform. Several years later, while the controversy over the evaluation of the policies concerning the SEZs had not ended, the Chinese chief leaders believed it was necessary to carry out the opening up policy further still. In January 1983, after inspecting the SEZs, Deng Xiaoping, Chairman of the Advisory Committee of the Central Committee of the CCP, said,

"The development of the Shenzhen Special Economic Zone has proved that our policy concerning the establishment of the SEZs is correct." He said, "In establishing the special zones and implementing the policy of opening up to the outside world, we should have a clear-cut guiding ideology and implement the policy on a broader scale instead of retreating from it."

²¹Source: *People's Daily, Overseas Edition*, 24th October, 1991.

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On 24th February 1984, Deng also proposed opening up more places, such as port municipalities. He explained that these places won't be called special economic zones, but some policies of the four existing zones can be implemented there.²²

From 26th March to 6th April 1984, the Forum on Port Municipalities was convened to discuss the proposal and study ways to develop the existing SEZs quickly and effectively and open Hainan Island as well as 14 port municipalities——Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai. The policies and measures discussed at the forum were approved by the Central Committee Of the CCP and the State Council. On 25th May, the Premier Zhao Ziyang announced the decision in his "Report on the Work of Government" at the Second Session of the Sixth National People's Congress. The report asserted that, with their convenient transportation facilities, the 14 port municipalities are relatively developed. They already have a strong industrial, scientific, educational and cultural base and a higher level of technical competence and management, and, they have experience in carrying out economic activities and trade at home and abroad. To speed up their economic development, more flexible policies will be introduced, and the existing management system will be partially restructured. The industrial structure will also be reshaped with the help of foreign capital, technology and markets.

²²The Administrative Committee of the Guangdong SEZs, Chronicle of Events of Guangdong SEZs, 1990.

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As a measure of the policy programme of opening 14 port municipalities to the outside world, the Chinese leadership decided to establish some ETDZs within the municipalities through adopting the model of Shenzhen and other SEZs. The municipalities authorized by the Central Government to establish the zones include Dalian, Qinghuangdao, Tianjing, Yantai, Qingdao, Lianyungang, Nantong, Ningbo, Fuzhou, Guangzhou, Zhanjiang, most of which are major industrial cities and foreign trade ports of China.

According to the main policy document concerning the ETDZs—"The Summary of the Forum on Port Municipalities", the ETDZs will concentrate on importing advanced technology urgently needed by China and build new enterprises and research institutions to be jointly run by China and other countries. They will concentrate on co-production, joint research and design, technology development and high quality products. Some of the zones can also develop into intermediary centre for trade and transshipment. As for the preferential treatments the document stipulate that the ETDZs will be given greater power to examine and approve projects between 5 mn and 30 mn US\$; in the zones, the income tax shall be levied at the reduced rate of 15 percent on the income derived from production, business and other sources from joint ventures cooperative ventures or wholly foreign-owned enterprises, and foreign investors will be exempt from paying tax when they send their legitimate profits home; preferential treatments to foreign investors and management methods in force in the SEZs will be

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applied to the development zones in regard to the export or domestic sale of products and the import of building materials, equipment, raw materials, parts, transportation facilities and equipment for the enterprise's own use.

In this atmosphere, sixteen ETDZs were approved by the State Council and established in succession between September 1984 to August 1986. The GETDZ is one of the earliest zones approved by the Central Government.

7.2.2. Preconditions and early decisions concerning the GETDZ

Guangzhou is the leading metropolis in South China, situated on the north part of the Pearl River Delta near the South China Sea, it is a hub of land, sea and air transportation which links the nation's north and south with railway lines. The municipality's highways lead to any cities in and out of Guangdong Province as well as to Hong Kong and Macao. Inland river ships can stop at any harbours along the Pearl River. Aeroplanes take off from its airport and are bound for major and medium-size cities in China and major cities around the world. The coastal port municipality has two big ports—Huangpu Port and Guangzhou Port. The former is ranked the fifth biggest in the country, with more than 30 berths suitable for ocean-going ships when the tide is in. Ocean-going freighters can go to more than 110 countries and regions.

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Guangzhou, as the industrial centre of Guangdong Province and the South China Region, covers 147 items of China's 164 industrial categories. The municipality has relatively well developed light and textile industries as well as a base for heavy industry. The total industrial output value amounted to 17 bn RMB yuan in 1984. The municipality has 4,077 industrial enterprises, in addition to 7,690 individual ones, which in total employ 770,000 people.²³

Guangzhou has long been China's important port for foreign trade. The international trade fair has been held here twice a year since 1957. Each fair receives an average of 20,000 foreign businessmen across the world and the annual export volume has been handled by the Port of Guangzhou. By 1984, foreign, overseas Chinese, Hong Kong and Macao firms had set up 46 representative offices in Guangzhou, 38 of which are relevant to trade. Guangzhou is also a financial centre for South China. 14 foreign banks have offices in the place. The Guangzhou and Zhujiang branches of China Bank had established business relations with more than 1,000 banks of 140 countries and regions.²⁴

With these favourable conditions for development, Guangzhou had attracted the attention of the highest leadership since the beginning of the reform and open-door

²³Source: The Guangzhou Municipal Government ed., *the Yearbook of Guangzhou*, 1985, P.101.

²⁴ Ibid, P.315.

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policy. When the Central Government decided to set up ETDZs in some port municipalities, Guangzhou was naturally selected as one of the locations.

Before the Forum on Port Municipalities, the leadership of Guangzhou had acquired the message about the policy of the Central Government for further opening and approval to establish an ETDZ in Guangzhou. At the end of April 1984, when the forum had just been completed, the Guangzhou Municipal Committee of the CCP convened a meeting of members of the Standing Committee to discuss the issue of establishing the GETDZ. All the chief leaders of Guangzhou at that time attended the meeting, they included Xie Fei, the First Secretary of the Party Committee (who has been the First Secretary of the Guangdong Provincial Party Committee since 1990); Ye Xuanping, the Mayor of the Guangzhou Municipal Government (who is a son of Marshal Ye Jianying); Zhu Shenlin, an Assistant Mayor of the Government; and Shi Anhai, another Assistant Mayor. These leaders belong to the third generation of the Chinese leadership. They are different from the founding fathers and veteran leaders of the CCP in educational background, knowledge level, and personal experience. Generally, most of them have received higher education and, relatively speaking, paid more attention to rational methodologies and expertise in policy-making. For example, the Mayor Ye Xuanping was sent to the Soviet Union in the 1950s for study, after that he had been a senior engineer and a president of a manufacturing factory for a long period, therefore he prefers to use rigorous and

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quantitative methods in policy-making,²⁵ the First Party Secretary Xie Fei likes to absorb knowledge, ideas and information through communication with scientists and experts. For example, between 1984-1987, he personally organized two informal think tanks for policy-making of the leadership, one was composed of ten aged specialists in different areas, another one consisted of ten young scholars and experts. He called the members of the groups together as necessary to seek policy suggestions from the scholars with different background of knowledge and experience,²⁶ the Vice-Mayor Zhu Shenlin, who graduated from Beijing University in the 1950s, inclined to promote those with expertise, professional techniques to higher ranks of administration.²⁷

In the meeting of the Party Standing Committee, the chief leaders required that

"The planners of the GETDZ should draw lessons from the establishment of the SEZs, avoid subjective decision making on the basis of personal experiences, adhere to scientific attitude, adopt scientific approaches, attach importance on formulation and feasibility studies of the overall planning of the zone and the unified arrangement of projects."²⁸

²⁵ Interview with staff members of the Policy Research Section of the Guangzhou Municipal Government, January, 1991.

²⁶ The author took part in the activities in 1987.

²⁷ Interview with staff members of the Policy Research Section of the Guangzhou Municipal Government, January 1991.

²⁸ The Administrative Committee of the GETDZ, A Report on the Preparation of the GETDZ, December, 1984.

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Two other decisions were made in the meeting: (1) setting up the Administrative Committee of the GETDZ, which was headed by Vice-Mayor Zhu Shenlin; Shi Anhai, Miu Enlu took the post of vice-head of the Committee; the Secretary General was Guo Peinan; members of the committee include Dong Mingxun, Huang Reiyuan, and Hu Daren, all of whom had a background of higher education and were believed to be expert in organizing economic activities; (2) organizing a research team which consists of specialists in economics, management science, technology, geology, geography, etc., and requiring the team to spend half year for studies in site selection, overall planning, development mode, and formulation of preferential treatments.²⁹ After the meeting, the GETDZ entered the orbit of preparation.

7.2.3. Decision making on the site selection³⁰

In deciding the location of the GETDZ, the policy makers tried to eschew the way of site selection for the Shenzhen SEZ in two aspects. For one thing, the decision no longer relied on the subjective inference of a few political leaders and their senior staffs, but was based on the careful investigation and analysis by different specialists. In this process, more than thirty economists, engineers, geologists, and geographers from

²⁹ Ibid..

³⁰ This section draws on the thesis by Wei Qingquan, An Appraisal of the Site Selection and Development of the GETDZ, in *Journal of Zhongshan University*, Vol.2, 1987; A Report on Preparation of the GETDZ, December 1984; and interview with Zhu Bingheng, the Head of the Office of the Administrative Committee of the GETDZ, December 1990.

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Zhongshan University, the Geology Bureau of Guangdong Province, the Science Academy of Guangdong Province, etc., were invited to join the investigation and analysis; for another, the policy makers required the expert team to investigate several sites and produce no less than two alternatives for comparison and selection.

In September 1984, after investigating several sites, the expert team set forth three alternatives for the policy makers. The first one was the existing site, which is situated on the eastern fringe of the Huangpu District of Guangzhou, and is about 32 kilometres away from the city centre.

The advantages of the alternative are:

(1). There are very convenient transportation conditions——the second class Guangzhou-Shenzhen highway, 18 metres wide, passes by the north of the zone; the Guangzhou-Shenzhen-Zhuhai motorway is planned to be built in near future; the Huangpu New Port located within the zone along the Pearl River has twelve 20,000 tonnage deep water berths, the port also has special wharfs for coal and petroleum with an annual total freight traffic capacity of 15 million tons; the Xin Sha Port is being built on the opposite bank of Dongjiang River, in which ten berths for vessels with the freight traffic capacity of 5.6 million tons will be built very soon; the Huangpu New Port has a freight transport railway branch, which can undertake the freight transport for the manufacturers in the

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zone; in addition, the Baiyun Airport—one of the three largest international airports in China, is about 41 kilometres away from the zone.

(2). The site is surrounded by rivers which forms a natural boundary to segregate the zone from the outside. This land is at the joint of the main stream of the Pearl River and the northern trunk stream of the Dongjiang River, bounded by the Hengjiao stream to the north, the Dongjiang River to the southeast and the Pearl River to the southwest. It is believed that the isolated site is more suitable for establishing a development zone, because within the site it is convenient to carry out preferential treatment and flexible policy measures without interference from the outside.

(3) There are few residential spots in the place—only two village are located in the site, and the agricultural population is only 4,100. Therefore, it is easier to arrange the original labour forces and there will be less trouble in removing old buildings.

(4). Choosing the site coincides with the overall planning of economic development and civil construction of Guangzhou Municipal Government. According the plan, Guangzhou will expand eastward and the Huangpu District will be a key area of development. Considering it, choosing the site as the location of the GETDZ is helpful to realize the overall plan.

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The disadvantages of the first alternative are:

(1). The geological base is not ideal for industrial projects. According to the geological survey, the land formation of the site is part of a marine alluvial plain of the Pearl River Delta. The ground-water level is 0.6-1 metre deep. The bottom batholith is shale, sandstone and conglomerate rock, above which are quaternary loose sediments whose thickness varies from 12 to 23 metres ranging from south to north. From top to bottom are strata of marine silt, gravel and sand with clay. Some geologists assert that the ground water level is quite high and the silt layer is too thick, this kind of base may result in some difficulties in constructions and increase the cost of the zone if it is chosen as the location of the GETDZ.

(2). Taking over a large area of cultivated land. Most of land in this area is fertile land. If locating the zone in this area, the high-yield fields will be occupied. Considering the principle of rational use of land resources, this site is not the best choice.

(3).The site is quite far from the old city proper. It is about 32 kilometres away from the centre of Guangzhou and by bus it takes one and half hours. Hence the zone will not be attractive enough for qualified technicians and skilled workers who live around the city centre.

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The second alternative is a place nearby Xintang Town, which is under the Guangzhou Municipal Government. The site is about 37 kilometres from the city centre.

The strong points of this alternative include:

(1). A fine geological base. It is a platform within a hilly area. The ground water level is much deeper than that of the first one. There is no silt layer. From top to bottom are strata of clay, gravel and shale. The earthquake intensity is about 6 or stronger. Locating the zone in this area will reduce difficulties and expenditure on infrastructure construction and save costs in long-term maintenance of the buildings within the zone.

(2). Fairly good transport conditions. Both the Guangzhou-Shenzhen railway and the Guangzhou-Shenzhen highway cross the area, and it also border on the Dongjiang River.

(3). Convenience in water supply. The site is close to the Xintang waterworks which can supply sufficient fresh water for industrial and living use. The supplying scale in the near future is 30,000 tons a day and 60,000-70,000 tons in the future. The water standard is 130 mH₂O.

(4). It occupies much less cultivated land, in particular, fertile land.

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But the alternative has some critical shortcomings compared with the first one:

(1). The site is further away to the city centre than the first one. It takes more time to travel between the two places. Therefore, fewer technicians and skilled workers will be willing to work in the zone.

(2). While the transport conditions are not bad, compared with the first one they are still not ideal.

(3). A more important disadvantage is the lack of natural defence to segregate the zone from the outside area, thus it is not convenient to administer the enterprises within it and which will enjoy the preferential treatment.

The third alternative is a place in Tianhe District which is just 5 kilometres from the city centre.

The merits of this site can be listed as follows:

(1). Rich scientific and technological resources. The Tianhe District is the Science and technology intensive area of Guangdong Province. Within it there are 44 scientific research institutions, 17 universities and colleges, several thousand senior research

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fellows and engineers. These research units and staffs have made some mature achievements in quite a lot of high technological fields, such as in microcomputer, information and communication, biological engineering, new materials, and new energies. Establishing the zone in this area will be favourable in utilizing the scientific research forces and their achievements.

(2). Relevant geological base. The site is also a platform with similar geological conditions to that of the second one, so it is suitable for industrial development.

(3). Near to the city centre. It is quite easy to recruit technicians and skilled workers.

(4). Various infrastructures and public facilities in the old district may be utilized by the zone, so that the capital investment of the zone can be reduced correspondingly.

There are also some obvious drawbacks for this consideration :

(1). A too densely populated area. The place is an old city proper with a large number of residents concentrated in this area. There would be a lot of trouble and high expenditure in removing the people and pulling down the old buildings.

(2). Inconvenience in administration. The site is too close to the city centre, and there is

no natural barrier to isolate the zone from the outside area, so it will lead to many problems in implementing preferential treatment to enterprises within the zone.

(3). Less ideal conditions for transportation. Although there are several highways crossing the area and a railway lying on the edge of it, comparatively it is far from ports. The water transport is not so convenient as that of other ones.

All these results of investigation and research by experts were submitted to the Administrative Committee of the GETDZ and then presented to the leadership of Guangzhou. Of the three alternatives, the chief leaders preferred the first one, because they were inclined to create a development zone with a "replicating international environment for foreign investment", so "it should be totally distinguished from old districts in both 'hardware' and 'software'."³¹ That is to say, the policy makers believed that in order to shape an attractive environment for investment, the zone should follow the international standards and practices, provide good facilities and services not only in transport, power and water supply, communication, workshops, etc., but also in preferential treatment and administrative efficiency. Therefore they attach importance on the natural boundary which can segregate the zone from the old districts. In addition, they were particularly satisfied with the transport conditions in the first site. As regard the geological conditions, they hoped to remedy the defects through technical measures

³¹Chen Yue *et al.*, Studies in Chinese the ETDZs, Bohai Gulf Publishing House, 1989, P.46.

in the construction process, such as by driving deeper piles to strengthen buildings. In this situation, the first alternative was chosen as the location of the GETDZ, and the decision was reported to the State Council. On 5th December 1984, the State Council issued a document—The Official Reply to the Report of Guangzhou Municipality Concerning the Programme of Opening up to the Outside World, which approved the decision of the site selection. From January 1985, the GETDZ began with its infrastructure construction.³²

The site selection process reflected the transformed feature of the policy-making by the leaders. On the one hand, unlike the previous pattern of decision making in establishing the SEZs, the policy makers had no longer over relied on their personal experiences and subjective judgements, but were becoming more rational and attentive to specialists; on the other hand, the case demonstrated that they were still not skilful in rational policy-making. When facing the multiple-purpose restriction, they were inclined to over-emphasize one or two of them according to their preference but neglect others, so it would probably produce more unintended consequences. Virtually, the decision on the site selection which sought to create a totally new zone with "replicating an international environment of investment" but underestimated the defects in its geological base, increasing the cost of construction dramatically in later years, correspondingly, it led to the rise in land use fees in the GETDZ and weakening of the competence of the zone in

³² A Report on Preparation of the GETDZ, December 1984.

attracting foreign investment.³³

7.2.4. The contention over the objectives and strategies of development of the GETDZ

Among the series of problems which puzzled the policy makers of the GETDZ, the most crucial one is the question over what pattern of development should be followed by the GETDZ. Specifically, in making the over-all planning of the zone, how to determine the objectives for the zone? What type of technologies should be imported from foreign countries? What kind of industrial structure should be founded within the zone? Once the aims have been decided, what strategies should be adopted to realized them, and how to define the stages for the development, etc..

For the purpose of absorbing more ideas and suggestions from scholars in the academic circle, the Administrative Committee of the GETDZ convened several symposiums to discuss these issues from August to December 1984. Participants included the staff of the Economics Department of Zhongshan University, the Economic School of Jinan University, the Institute of Economics of South China Teachers College, research fellows of the Guangdong Social Science Academy, the Guangzhou Institute of Social Science, the staffs of the Policy Research Section of the Guangzhou Municipal Government, etc.. As expected, a controversy over the aims and strategies of the GETDZ occurred in the

³³Wei Qingquan, An Appraisal of the Site Selection of the GETDZ.

discussion. The various opinions can be divided into three categories.

The first view is that the GETDZ should be constructed into a base for importing advanced technology and management expertise of the world and developing intellectual-intensive industries. Some of scholars claim that the establishment of the ETDZs is the extension of the opening up policy. In opening up to the outside world, the zones should play the role of pioneers. Since the Centre has stipulated that the zones should "concentrate on importing advanced technology urgently needed by China and building new enterprises and research institutions jointly run by China and other countries"³⁴, the ETDZ should strive to introduce high technology, founding its own technology-intensive and intellectual-intensive industries, and developing highly sophisticated products. Through this approach, the GETDZ may change the backward situation of Guangzhou in foreign trade, and improve its occupation proportion of international markets. Therefore, the GETDZ should lay stress on introducing advanced projects from the Western countries, such as projects in microelectronics, information technology, biological engineering, and new materials.

To ensure the outstanding feature of imported projects, claimed the scholars, the Administrative Committee of the GETDZ should adhere to three principles in examining applicants for investment: not to approve the projects which produce low technology

³⁴The Secretary Section of the Forum on Port Municipalities, The Summary of the Forum on Port Municipalities, April 1984.

goods; not to approve the projects of processing industry; not to approve the projects which are unhelpful to transform the original enterprises in Guangzhou. Briefly, the GETDZ should set up a newly rising industry group, which will restructure the economy of Guangzhou and propel it onto a new stage.³⁵

The second viewpoint is that the GETDZ should be constructed into a base for earning foreign exchange for Guangzhou. The scholars who held this view criticize the first one to be an over idealistic suggestion and only somebody's own wishful thinking. In their opinion, several factors make the policy programme unfeasible. (1) Generally, the orientation of foreign investment in China is not evolving into technology-intensive and intellectual-intensive industries but labour-intensive industries. In light of the practices of developing countries in importing foreign capital and technology, the dominant objective of investors from developed countries, investing in developing countries is to utilize the cheap labour force and preferential treatments in taxation, land rent, etc., to gain benefits from comparative advantages, reduced cost of production, and supply markets in these countries. Thus they mainly concentrate their capital on labour-intensive, low technology projects and products. Due to various reasons, such as the low level of technological development and lack of skilled workers in developing countries, few foreign investors are willing to introduce high technology projects into these

³⁵ See Zhang Lie *et al.*, On the Features of the GETDZ and the Measures to Speed up its Development, in the Research Centre of Economic and Social Development of Guangzhou ed., A Tentative Discussion Concerning Issues of Guangzhou Economy and Trade, Zhongshan University Press, April, 1985.

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countries. Virtually, most projects in export processing zones in Asia belong to labour-intensive industries, including textiles, clothing, plastics, food processing, metal works, and electric goods assembly. So the Chinese policy makers cannot expect that these projects will advance technological progress in China; (2) Specifically, by analyzing the components of investment, the major proportion of capital in Guangzhou comes from Hong Kong. Comparatively, Hong Kong's manufacturing industry is still a traditional one with labour-intensive and low technology features. Hence the import of Hong Kong's capital is not accompanied by high technology projects. That means most projects with direct foreign investment cannot obtain high technology concurrently; (3) Considering the quality and experiences of scientific and technical personnel in the GETDZ, it is unrealistic to construct the zone into a scientific and high technology base within a short time. At present, the zone has no way to gather so many scientific and technical talents who are the precondition for developing high technology projects.

Conditioned by the above-mentioned factors, the aims of the GETDZ should not be high technology development, but economic development. That is to say, policy makers should give more attention to introducing the projects which can earn more foreign exchange for the zone, and then use the foreign exchange to purchase patents and licences of high technology from foreign countries. It is a more feasible way to realize technological development through technology transformation. According to the experience of Japan since the World War II, the main approach to importing advanced

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technology and realizing technological progress is by earning foreign exchange to purchase patents and licences of high technology, and then to digest and improve them.

In order to construct the GETDZ into a base for earning foreign exchange for Guangzhou, the scholars suggest that all policies, strategies and management systems should be adapted to this goal. The criterion to define which projects may enter the zone, and which ones may not, should not be by the technological grade of the project, but by its capacity to earn foreign exchange. Preferential treatments should not only be made to encourage foreign investment, but also be made to encourage product export. The GETDZ should reduce restrictions on import and export trading, provide a greater convenience for enterprises in export, the extent of trading authority, taxation, credit, and foreign exchange subsidies, etc.³⁶

The third proposition was held by a greater number of participants in the discussion. They believe that it is necessary to distinguish short-term aims and long-term aims. The short-term aims of the GETDZ should be mainly earning foreign exchange and making as much profit as possible, but in the long run, the zone should aim to develop high technology and intellectual-intensive industries. An important mission for the policy makers of the GETDZ is to investigate how to reconcile economic development with technological development. That is to say, how to use economic development to drive

³⁶ See The Research Centre of the GETDZ, "Discussion concerning the Aims of the GETDZ", in *Reference for Policy Making*, 10th December 1984.

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technological development, and conversely, to use technological development to improve economic development.

The consultants who held this point also oppose the first view. In their opinion, under present circumstances where the protectionism is prevalent in the world and the technological, and capital forces are weak in the zone, the schedule requiring the GETDZ "to concentrate on importing high technology projects at the advanced level of the world" and "to refuse ordinary projects of traditional industries" is unrealistic. But at the same time, they disagree with the second proposal which only lays stress on profit and foreign exchange making. They assert that in setting the aims of the GETDZ at just earning foreign exchange, the zone will lose the significance of its existence. For one thing, one of the original intentions of the Central Government to establish the ETDZs is

"to import, digest and spread new technology, and to found technology-intensive and intellectual-intensive industry groups at relatively high level. So technology introduction should be the major function to distinguish the ETDZs from other opening areas; for another, the GETDZ has no comparative advantages in attracting export processing which is the main approach for earning foreign exchange within a short period, because the price of labour in the zone is relatively high due to the long distance to the city centre and inconvenient living conditions, also the land-use fee is higher than in other places owing to the large amount of cost in infrastructure construction. These factors have weakened the competence of the GETDZ in attracting export processing projects. Thus from a long-term point of view, the GETDZ cannot become an export processing zone

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which just functions for foreign exchange earning.³⁷

Then, is there any possibility to introduce some high technological projects into the GETDZ? The scholars give a positive answer. They claim that at present the tremendous progress in modern science and technology has been made and international trading has developed remarkably. There is a widespread excess of capital in the world and in particular there is the conditions where that technological renewal has been sped up, and a lot of technology is becoming obsolete in developed countries. However, for developing countries, this technology is still relatively advanced and suitable. With the process of capital export, part of the relatively advanced technology may be transferred to developing countries. This situation demonstrates the possibility of importing some projects with relatively high technology; in addition, compared to many other places in China, the GETDZ has more advantages in importing high technology: its mother town—Guangzhou is an economic and cultural centre and has a fine industrial and technological foundation. Eighty percent of all scientific research personnel of Guangdong province are concentrated in the city where the senior and middle-rank scientific research personnel amounts to more than ninety percent of that in the absorption and application of advanced technology. Finally, there are a large number of overseas Chinese whose home town is Guangzhou, hence it is possible to introduce

³⁷See Zhu Bingchen, *A Study on Developmental Strategies of the GETDZ*, in *A Collection of Academic Papers Concerning the GETDZ*, the GETDZ, February 1985, PP.47-59, and Wei Qingquan, *An Appraisal of the Site Selection and Development of the GETDZ*.

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some high technology projects through the approach of the overseas Chinese.³⁸

Considering the restrictions and possibilities of technological and economic development, the scholars set forth a graduate strategy: at the preliminary stage the GETDZ should lay stress on economic development, import some low technological but profitable projects to earn foreign exchange; after accumulating a certain amount of capital and experience, the zone should turn to developing technology, import a portion of high technology projects. Generally, the whole industrial system of the GETDZ should be composed of four ranks of projects: the first rank is the projects with advanced technology compared to the world; the second one is the projects with advanced technology compared to within the country; the third one is the projects with technology to be suitable for the transformation of the industrial structure of the municipality; the last one contains the projects with low technology but high profit. The third and fourth one should be developed first, on the base of their development, the first and second one will be established further. All these projects will be integrated into a unified system within which they combine with and support each other.³⁹

The academic contention produced a strong influence upon the policy selection

³⁸Ibid.

³⁹See Wu Qihua *et al.*, The Internal Economic Circulation and the External Economic Circulation Must Be Integrated in the GETDZ, in The Research Centre of Economic and Social Development of Guangzhou ed., A Tentative Discussion Concerning the Issues of Guangzhou Foreign Economy and Foreign Trade, Zhongshan University Press, 1985, pp.212-223, and the Administrative Committee, The Retrospect of Development of the GETDZ, November, 1990.

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concerning the developmental pattern of the GETDZ. In the "Overall Plan of the GETDZ" and the "Rules for Encouraging Technological Development in GETDZ", the third view is taken as the guiding ideology of the zone.

7.2.5. The formalization of legislation and the role of specialists in formulating legal regulations for the GETDZ

Traditionally, Chinese enterprises were administered by commendatory planning but not legal regulations.⁴⁰ Till the time of the emergence of the SEZs, the Chinese leadership had not realized the necessity for formulating laws and regulations in economic administration. For example, except for the "Regulations of the Guangdong SEZs" which just provide a general guideline for economic activities in these zones, there were no other specific laws, regulations, and rules concerning preferential treatments to foreign investment, land use, introduction of technology, foreign exchange control, taxation, or labour management within the SEZs. However, up to the date of the establishment of the ETDZs, part of Chinese leaders had started to devote their attention to the strengthening of legality in the economic sphere. In addition to general contextual alterations, two more specific reasons led them to change their attitude. First of all, experiences of the SEZs demonstrate that foreign investors pay close attention to laws and regulations which provide legislative preferential treatments for their investment

⁴⁰See the examination concerning the operation of Chinese economic system in the Chapter Five of the thesis.

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and safeguard their proper rights. Lack of pertinent laws and regulations in different aspects of economic activities would decrease their confidence and enthusiasm to make investment in these zones; secondly, there will be a variety of enterprises to be established in the ETDZs, most of them are joint-ventures and enterprises fully owned by foreigners. The traditional way of issuing administrative commands will no longer be effective in administration. This situation made the leaders employ the means of law rather than by the means of commendatory planning. Before the GETDZ was established, the leaders of the Guangzhou Municipal Government had required the planners of the zone "to give priority to the formulation of laws and to administer the zone by laws."⁴¹

In August 1984, the Regulation Office of the GETDZ was founded. The office was authorised to be in charge of drafting, amending various laws and regulations of the GETDZ and submit them to the Administrative Committee of the GETDZ or higher administrative, legislative authorities for approval. The office was allocated 12 members of staff who were transferred or recruited from other legislative departments or graduates from universities. Among them three had master degrees, five held bachelor degrees, nine possessed law qualifications and had long-term experience of legal business.⁴²

⁴¹Miu Enlu, A Speech on a Press Conference, 29th June 1984.

⁴²The Regulation Office of the GETDZ, The Legal Construction of the GETDZ, September 1986.

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As soon as the Regulation office was founded, it started to draw up legal documents on the investment in the GETDZ. The legal documents in the GETDZ usually take the forms of regulations , provisions, rules, implementation procedures, measures, etc.. Unlike the pattern of drawing up the "Regulations of the Guangdong SEZs" which mainly derived from personal experiences and ideas of a few political leaders and their senior staff, the legislative procedures in the GETDZ and Guangzhou Government tended toward formal procedures. Whenever it is necessary to formulate a legal document, the Regulation Office should put forward a suggestion to the Administrative Committee of the zone first. Upon the approval of the Committee, the Office started drawing up a draft of the document. In accordance with the power and applicable scope of the document, the working procedures of legislation can be divided into two types.

The first type of procedures is as follows: the laws or regulations which are crucial to the development of the GETDZ and involved the duties of higher authorities in charge of the zone should be drafted by the Regulation Office first upon the consent of the Administrative Committee of the zone. The Office should comprehensively heed opinions and suggestions of pertinent departments of provincial, municipal government and different units within the zone before finalizing a draft. Then, in light with their authentic ranks, the drafts shall be submitted by the Administrative Committee to provincial or municipal government, provincial or municipal people's congress for final approval and promulgation.

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The second type of the procedure is: the regulations or rules which are only involved in specific issues of the GETDZ and within the limits of authority of the Administrative Committee of the zone can be drafted by the Regulation Office, then signed and promulgated by the head of the Administrative Committee directly. Other regulations formulated by different offices or bureaus of the GETDZ due to their demands shall be transferred to the Regulation Office for tentative examination, then submitted by the Office to the working meeting of the zone for discussion. Once adopted by the meeting, they are promulgated by the head of the Administrative Committee.⁴³ Based on the above procedures, more than 60 pieces of legal document were worked out between 1984 and 1990. These documents can also be divided into two categories.

One category concerns the general guideline, crucial policies, and important regulations of the zone. Among them the Regulations of the GETDZ is the most important one. The document was initially formulated on April 1985, and was named as the Provisional Regulations of the GETDZ. After several times of amendment, it was adopted at the 22nd Session of the Standing Committee of the 8th People's Congress of the Guangzhou Municipality on 7th October 1986, and approved by the 24th Session of the Standing Committee of the 6th People's Congress of Guangzhou Province on 22nd January 1987. The Regulations are the guiding document of the GETDZ and the basis of other specific regulations, rules and procedures. The main contents of the document include the

⁴³Interview with Liu Zhihuang, Director of the Regulation Office of the Administrative Committee of the GETDZ, January 1991.

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general principles to which the GETDZ shall adhere, the functions and powers of the Administrative Committee of the zone, the rights and duties of investors in the zone, the preferential treatments of investment, and the measures for encouraging technology introduction.

In accordance with the Regulations, another six documents were worked out: (1) Interim Regulations of Concerning Technology Introduction in the GETDZ; (2) Tentative Procedures of the GETDZ for Land Management; (3) (Tentative) Procedures for the Implementation of Industrial and Commercial Taxes in the GETDZ; (4) Tentative Procedures for the Registration and Administration of Enterprises in the GETDZ; (5) Tentative Procedures for Labour and Wage Management in Enterprises in GETDZ; (6) Regulations of the GETDZ Concerning the Joint Ventures with Domestic Investment. (All these regulations and procedures were promulgated by the Guangzhou Municipal Government on 9th April 1985.)

In drawing up the legal documents, some specialists in pertinent areas from Zhongshan University, the Foreign Economic Commission, the Economic Commission, Taxation Bureau, Administrative Bureau for Industry and Commerce, and People's Bank were invited to participate in the drawing group.

"The group carried out an extensive investigation, gathered a large number of materials, and studied experiences of the SEZs. After repeated discussion and amendments, the

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documents were formulated and translated into English. Whenever the documents were promulgated, many foreign firms and businessmen asked for copies. The Consul of U.S.A in Guangzhou believed that these regulations and procedures were helpful documents for foreign investors with detailed information, strong applicability, and standardized language."⁴⁴

Another category is those more specific administrative regulations and implementing procedures, such as: (1) Procedures of the GETDZ for the Management of Construction Planning; (2) Tentative Procedures of the GETDZ for Land Management and Rules for Implementation on Management of Land Use; (3) Interim Provisions of the GETDZ for Enrolment of Labour-contract Workers; (4) Interim Provisions of the GETDZ for over-all Planning of Social Labour Insurance Fund; (5) Certain Provisions of the GETDZ for the Assistance to the Processing Base of Exporting Commodities; (6) Procedures of the GETDZ for the Statistics Management; (7) Tentative Provisions of the GETDZ for the Management of the Construction Fund; (8) Provisions of the GETDZ for the Management of Retained Foreign Exchange; (9) Tentative Provisions of the GETDZ for the Handling of Goods and Materials.

In the course of drawing up the legal documents, two dimensions were emphasized by the drafters. For one thing, these regulations should coincide with international practices, so as to create a fine environment to meet the needs of foreign investors. Therefore, the

⁴⁴See The Legal Construction in the GETDZ, February 1987.

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drafters consulted a number of pertinent legal documents from other countries and areas, in particular, those of newly industrialized countries and areas, including South Korea, Taiwan, Hong Kong, and Singapore; for another, the regulations should be rigorous and quantified as much as possible, so as to avoid ambiguity in implementation. Therefore, some quantitative methodologies were used in the policy-making process. For example, some participants of the policy-making established several dynamic models of tax-economy of the EDTZs, with the help of these models and computer simulation, the following issues were discussed quantitatively:

- (1) The economic tendency of the EDTZs under existing tax policies;
- (2) The influences of different tax preferences (including categories of tax preference, degree of preference, years and objects of preference, etc.) on economic development of the EDTZs;
- (3) What are the rational tax preferences.⁴⁵

This probably is the earliest attempt to use modern quantitative methodologies to help decide the tax rate levied on foreign enterprises in China, thus it indicates the rational trend in Chinese policy-making.

⁴⁵See Chen Baoshu *et al.*, Economic Results of Tax Preference in the EDTZs, in Chen Yue *et al. ed.*, Studies in the Chinese EDTZs, PP.294-304.

7.2.6. Standardization of investment procedures and employment of feasibility studies and project appraisal in project introduction

Project introduction is the lifeblood in the construction of a development zone. The leadership of the GETDZ realized the importance of providing an effective and efficient investment service for foreign investors, avoiding blindness and arbitrariness of individual leaders in project introduction. As a step to improve the investment environment, standardized investment procedures were founded in the zone through referring the stipulations on capital construction by the State Planning Commission and patterns of other countries. Normally, there are five stages that should be gone through in introducing a joint-venture or co-operative project into the zone.

(1). Looking for partners.

At this stage, the project sponsors may choose foreign partners according to the project introduction plan issued by the Administrative Committee (or projects introduced by foreign investors favourable to the development of the national economy). On the basis of preliminary negotiation and investigation of the partner's capital and credit, a letter of intention, or memorandum can be signed.

(2). Compiling the project proposal.

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In accordance with the intention document, the Chinese sponsors shall put forward a project proposal in which an accuracy error of the overall targets of beneficial results should not exceed 30%. The Enterprise Management Office of the Administrative Committee will make a reply on approval or disapproval within 20 days starting from the day it receives the project proposal and all the attached documents submitted by the sponsor.

(3). Compiling the feasibility study report.

Upon the approval of the project proposal, a feasibility study of the project concerned will be carried out, and a feasibility study report will be worked out jointly by both Chinese and foreign parties to a joint ventures or a co-operative enterprise.(In the report the accuracy error of the overall targets of the beneficial result should not exceed 10%.) The report signed by the compilers,the leaders of the Chinese sponsors and officially sealed will be submitted to the Enterprise Management Office who will make a reply within 20 days. But the report can be submitted to the Administrative Committee for examination and approval only after the proof of specialists or relevant departments.

(4). Approval of the Contract and Articles of Association.

Upon approval of the Feasibility Study Report, the Contract and Articles of Association

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⁴⁴See The Legal Construction in the GETDZ, February 1987.

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POLICY-MAKING IN THE PERIOD OF THE ALL-ROUND REFORM (1)

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Upon the approval of the project proposal, a feasibility study of the project concerned will be carried out, and a feasibility study report will be worked out jointly by both Chinese and foreign parties to a joint ventures or a co-operative enterprise.(In the report the accuracy error of the overall targets of the beneficial result should not exceed 10%.) The report signed by the compilers,the leaders of the Chinese sponsors and officially sealed will be submitted to the Enterprise Management Office who will make a reply within 20 days. But the report can be submitted to the Administrative Committee for examination and approval only after the proof of specialists or relevant departments.

(4). Approval of the Contract and Articles of Association.

Upon approval of the Feasibility Study Report, the Contract and Articles of Association

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of the joint ventures can be negotiated and drawn up. The candidates for the Board of Directors and the Business Management Office of the joint venture should be decided in negotiation of the Contract and Articles of the Association. Then these drafts of the documents will be submitted to the Enterprise Management Office before they are officially signed. The Office Should give a reply within 10 days. The Contract and Articles of Association agreed upon by the Project Examination Group and signed by the investors will be submitted to the Administrative Committee which will make a reply of approval or rejection within 30 days.

(5). Drawing the Approval Certificate and the Business License.

After the approval of the Contract and Articles of the Association, the Chinese-foreign joint venture or co-operative enterprise will, subject to the approval documents of the Administrative Committee, draw the certificate of Chinese-foreign joint venture or co-operative enterprise at the Enterprise Management Office, and subject to the certificate, register with the Guangzhou Administrative Bureau of Industry and Commerce, Development Zone Branch, and obtain a business licence. The enterprise is regarded as established thereafter.⁴⁶

Compared with traditional procedures for capital construction and project introduction

⁴⁶See the Administrative Committee of the GETDZ, Investment Handbook of the GETDZ, April 1987.

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in China, these investment procedures have two salient features. The first feature is that project proposal and feasibility studies are emphasized in these procedures. This was believed to be a decisive step toward "scientific decision making". Even though project appraisal and feasibility studies in capital construction and project introduction were required by the Central Government in early years of 1980s, little attention had to them until the mid-1980s. From 1979 to 1983, there were quite a lot of cases of blind or repeated project introduction in China due to a lack of serious feasibility studies. For example, within these years more than 100 production lines of colour TV set were imported, their production capacity surpassed domestic demands.⁴⁷ By 1985, more and more Chinese leaders and managers of enterprises realized the importance of feasibility studies in project introduction, so they started to take it as a key link in investment procedure. The project introduction in the ETDZs particularly embodied this tendency.

According to the requirements of the authority of the GETDZ, a project proposal is a formal written suggestion in which an enterprise proposes to its superior department the establishment of a joint-venture. What should be mainly explained in a proposal are the necessity, feasibility and tentative ideas for the establishment of a joint-venture, so that the higher authority can decide whether or not to carry out the project.

⁴⁷Source: Jin Jiading, Rationalization of Investment Decision and Procedures in Capital Construction, in *Journal of Finance and Economics University of Middle-South China*, Vol.6, 1988, P.57.

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A feasibility study report is a written document in which the benefit and risks of the investment project are analyzed in detail. Every aspect is investigated and studied, from economic, technological, production and sale to society, environmental and legal. Finally, it is decided whether the investment project is feasible or not.⁴⁸

In practice, these requirements were implemented quite well in the GETDZ. The writer has referred to the files of a number of projects in this zone. It was found that most big or high technology projects accord with the requirements. Their feasibility studies have been done seriously. For example, the feasibility study report of Guangzhou Pacific Biomedical Products LTD(Australia), includes the following contents: (1) General introduction; (2) Market analysis and forecasting; (3) Material requirements and the supply coverage; (4) Choice of the site and the engineering coverage; (5) The technology to be introduced and equipments to be imported; (6) Waist control measures and the results indices; (7) Analysis of the investment benefits; (8) The organization of the enterprise, the fixed number of staff and the personnel training; (9) The implementing plan and progress requirements of the projects; (10) The overall evaluation of the technological and economic results of the project. In this report quite a lot of modern methodologies of economic and market analysis were employed.⁴⁹

⁴⁸Source: The Regulation Office of the GETDZ ed., Hundred Questions and Answers on Investment Rules of the GETDZ April 1987, P.21.

⁴⁹Source: the Industrial Development Corporation and the Pacific Biomedical Holding LTD, Feasibility Study Report on the Artificial Heart Valves Project, 20th January 1986.

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The second feature is that project appraisal by experts was added to the procedures. An authoritative group—the Project Examination Group was organized by specialists in different fields and professional bureaucrats of the Administrative Committee to be in charge of the examination and approval of projects. In the course of examination, various methods of project appraisal were adopted, such as the payback period method, peak-profit method, average profit method, discounted cash flow technique, net present value method, benefit/cost ratio, internal rate of return, etc.. The adoption of these methods was believed to increase the liability of projects introduced into the zone. However, there is an obvious defect in the project examination: in calculating the economic profitability of investment projects, the actual prices had not been replaced with shadow prices(also known as accounting prices or adjusted prices). It is probably a misguide to evaluate the economic benefit and cost of the projects. This situation reveals the unmaturred nature of project appraisal in China.⁵⁰

7.2.7. Summary

The case of the GETDZ shows the tendency of Chinese policy-making in economic areas toward techno-rationalism which can be observed from the following dimensions:

(1). Policy-making on economic issues is no longer dictated by a few political leaders and

⁵⁰Interview with Zhen Hanrong, the head of the Enterprise Management Office of the Administrative Committee of the GETDZ, January 1991.

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their senior staff, but involves the participation of more specialists and professional bureaucrats with expertise. They play a more important role in the policy-making process which has never existed in the history of PRC. As can be seen from the narrative of a few key issues concerning the establishment and development of the GETDZ, each of them involved related experts from different units. They were either taken as consultants to be asked for ideas and suggestions or invited to join the decision making group directly. This situation manifests diversification of components of the kernel group of policy-making.

(2). The aims and procedures of policy-making is also tending toward more rationalization. Unlike the usual practice of policy-making in the first thirty years of PRC, which was dominated by power conflicts, ideological consideration or politician's ambitions, the policy-making in this case were to seek favourable investment environment, reasonable economic and technological structures, high and suitable technology projects, and optimized benefit-cost ratio, etc.. In looking for the means to reach the ends, the procedures also become rationalized and formalized: empirical investigation and material gathering before decision making were emphasized, systematic studies and analysis were adopted in searching for alternatives, debates and confrontations between different opinions in the decision making process were encouraged,...

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(3). More rigorous and quantitative methodologies were employed in the policy-making process. As demonstrated in this case study, quantitative models of econometric and computer simulation were used in discussing preferential rates of tax for the ETDZs, methods of feasibility study were introduced into the investment procedures, and a series of approaches criterion, created by Western scholars, were applied in project appraisal.

While the emergence of the techno-rationalism implies a progress in policy-making process compared with the previous patterns which were dominated by power contention, ideological principles or followed the personal experiences of a few leaders, it does not mean that the new pattern always fares well. In some situations, such as in site selection of the GETDZ and in evaluating imported projects, the rational approach operated poorly, even produced unintended consequences. This is due to two causes. Specifically, at the moment the Chinese policy makers and their consultants can not master the various rational approaches properly nor utilize the analytical techniques skilfully, because these approaches and techniques have only been introduced from the outside world and could not be digested by them within a short time; generally, the Chinese policy makers come across the same barriers faced by any one who employs the rational mode: ambiguous and poorly defined problems, incomplete information about alternatives, and incomplete information about the consequences of supposed alternatives, etc.. Briefly, the rise of techno-rationalism in China indicates again the

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dynamic and contingent characteristic of Chinese Policy-making.

Chapter Eight

Policy-Making in the Period of the All-Round Reform:

Coexistence of the Two Contrasting Patterns

(1984-1990) (2)

——Tending Toward the Bureaucratic-Incrementalism

Over the time that techno-rationalism appeared in China, and specialists played a more important role in the Chinese policy-making process, the tendency towards disjointed incrementalism was also becoming obvious. With the development of market-orientated reforms and administrative decentralization, some of the features of the policy-making process in the Western types of political systems were found in China as well, particularly for economic policy-making. These features include erosion of central control over local decision making, interest conflicts among different areas and agencies, competition for loans and projects, mutual adjustment through bargaining and consensus building, a piecemeal and incremental process of decision making, etc..

However, the incrementalism in the Chinese political system is not the equivalent of the Western-style pluralism and liberalism. China, like other communist systems, lack the largely autonomous and well organized interest groups. Thus, interest conflicts and mutual adjustment have not occurred between interest groups and governments, or among the interest groups themselves, but have unfolded between localities and the centre, or among different regions, cities, and governmental agencies. Bargaining

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in China between localities and the centre and among different local governments is not equivalent to bargaining in United States or in Britain among autonomous interest groups and the state, but reflects the interest differentiation among bureaucratic agents.

In tracing the contextual transformations of policy-making and studying another representative case, this chapter will make an observation about the "incremental" nature of policy-making in China.

8.1. Contextual transformations—economic marketization and administrative decentralization

The most striking changes occurring in China during the mid-1980s were a series of market-orientated reforms. From the experience of previous experiments in reforming the economic structures, further effort was made to create "a socialist commodity economy", which means that an open-ended experiment to introduce the factors of market economy into the economic planning system could be carried. In light of the reform document in 1984,¹ the reform of the economic system had been driven toward a transition from a centrally planned economy to one based largely on market relations.

¹The Central Committee of the CCP, The Decision of the Chinese Communist Party Central Committee on Reform of the Economic Structures, in Selection from the Important Literature since the Third Plenum of the 11th Central Committee of the CCP edited by the Literature Research Section of the Central Committee of the CCP, Beijing People's Press, 1987.

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The leadership of the reforms realized that it is impossible for the central government to incorporate all the local details into a giant national plan. Any such effort would create new difficulties through misinformation and top heavy bureaucratization. Implementation of a detailed national plan by administrative orders, rather than through natural market conditions, can be very inefficient. Particularly considering the vast size of China, her regional diversity, its huge population, the lack of transportation, the inadequacy of micro-information for any detailed planning, and the uneven economic and cultural differences in various parts of the nation, it is more urgent to substitute the rigid "command economic system" by a "commodity economic system", with great flexibility. The reformers warned that

"We must be realistic and admit that for a considerably long time to come, our national economic plans on the whole can only be rough and elastic and that we can do no more than strike an overall balance in planning and through regulation by economic means, exercising effective control over major issues while allowing flexibility on minor ones."²

Therefore, the reform programme emphasized that central commands should give way to "guidance" type directives and to market forces.

Since 1984, a number of measures aimed at expanding enterprise autonomy and reforming planning had been introduced into the economic system. Enterprises had

²The Literature Research Section of the Chinese Communist Party Central Committee ed., Selection from Important Literature since the Third Plenum of the 11th Central Committee of the CCP, P.776.

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been granted the power to trade materials not procured by the central government. The number of commodities handed by the state's distribution system had also declined sharply, from 256 in 1978 to only 20 in 1986. By the summer of 1987, a new mode of management had been introduced in 75 percent of China's 12,398 larger state-owned industrial enterprises. Known as the "contract responsibility system", it was to give managers added control over their enterprise operations. A new profit retention scheme was also pioneered, under which profits retained by enterprises rose to 39 percent of total profits, a three-fold increase over what they were allowed to keep at the beginning of the reform era, in 1979.³

The Annual Plan of Socio-Economic Development for 1985, was drawn-up to map out a new planning system. The new central planning system incorporated the following guidelines (1) to reduce the scope of central government's "mandatory planning"; (2) to incorporate all the economic levers and market forces and; (3) to expand the scope of "guidance planning" with more flexibility and choices available for low level planning agencies. The 1985 development plan emphasised the "provisional regulations on the improvement of the planning system". Mandatory planning in China will be applied to products or areas which have a "vital bearing on the national economy and the people's welfare". Local governments will be given the role of balancing the planning functions between "guidance planning" and "market forces", while the central government will strictly enforce "mandatory planning". Local

³See Dorothy Solinger, *Urban Reform and Relational Contracting in Post-Mao China: An Interpretation of the Transition from Plan to Market*, in *Comparative Communism*, Vol. XXII, 1989, P.177.

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governments in the future will have to decide how to coordinate such plans with those of enterprises. The state will guide and help their implementation primarily by a flexible use of such economic levers as pricing, taxation, and credit, and through the allocation of economic funds, foreign exchange, and other major resources and equipments at its disposal.⁴

The most significant and dangerous step toward "commodity economic system" was the price reform. The leadership realized that pricing was the most effective means of regulation, and that rational prices constitute an important condition for a dynamic yet not chaotic economy. But the irrational pricing in China was a crucial barrier that had blocked the economic development, so they were determined to break this barrier. Chinese and foreign economists argued that markets could not function effectively until prices were made rational. For a long time the Chinese government held prices stable, so eventually price adjustments were needed in prices to compensate for changes in the availability of resources, the changing needs of a growing population in an industrializing society, the changing world prices, and changes in product forces and technology. However, if the method of mandatory price adjustment was used, then a rational price system could never be established, because

"there were up to one million prices, cost calculation for each and every product was extremely complicated. There were endless disputes between producers and users

⁴See The National People's Congress, *The Third Session of the Sixth National People's Congress: Main Documents*, Beijing:Foreign Language Press, 1985, P.62.

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who held divergent interests. Therefore, no single price control agency, no matter how competent, could hope to handle these complicated problems effectively through subjective plans."⁵

In fact, the mandatory control had led to different irrational aspects in pricing, including unfair price ratios between different commodities, inadequate price differentials for a given product with diverse quality, ridiculous price differences between farm goods sold cheaper on the open market and the same goods sold with a higher price to the government. Thus, the economists and the Chinese leadership started to recognize that it would be better to allow the prices of some goods to be set by market interaction. In the 1984 document, the task of reforming the irrational price system was set forth.

"In readjusting prices, we must reform the over-centralized system of price control, gradually reducing the scope of uniform prices set by the state and appropriately enlarging the scope of floating prices within certain limits and of free prices."⁶

Then at the end of 1984, the State Planning Committee issued a set of proposals for reducing the number of products subject to mandatory planning and which would allow prices to fluctuate in response to market conditions. In 1985 the prices of meat, poultry, fish, eggs, and vegetables were deregulated. By 1986, the proportion of items with fixed prices, set by the state decreased dramatically from 98 percent in 1978 to

⁵Xue Muqiao, Current Economic Problems in China, Westview Press, 1982, P.76.

⁶Selection from Important Literature Since the Third Plenum of 11th Central Committee of the CCP, P.779.

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only 20 percent in 1986.⁷ By 1987, the output and price of only 26 raw materials were still fixed by the central government. Only 60 final products were included in China's central plan and the price of most consumer goods were no longer set by the state.⁸ In 1988, a bigger step toward price reform was taken which resulted in a dramatic price increase in most parts of the country.

An emphasis on urban reform is also given to the development of more diversified economic forms and various methods of management . The thrust toward market-orientated reform had led Chinese economists and leaders to call for four different forms of management where: (1) production is carried out under mandatory state planing. This applies to key enterprises and major products which are most vital to the people and the economy; (2) production is based on changes in market demands, but limited to the specified categories in the state plan. This type of production includes a great variety of small commodities which are made by a large number of small enterprises and individual producers; (3) goods are produced largely according to the state plan but where a small part of them are made by enterprises or individuals on their own; (4) goods are made according to changes in the market demand, and where only a small part of them are made under the state plan.⁹ Such a managerial structure indicates that previously unified state control has given way to a multi-layered decision system which limits the functions of government to a

⁷*Beijing Review*, no.34, 24th August, 1987.

⁸See Connie Squires Meaney, Market Reform in a Leninist System, in *Comparative Communism*, Vol.XXII, 1989, P.209.

⁹See David Wen-Wei Chang, China under Deng Xiaoping, The Macmillan Press LTD, 1988, P.174.

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certain area only.

Combined with the market-orientated reforms, a new wave of administration decentralization was launched in the mid-1980s. Administrative decentralization in China means that the powers of economic planning, coordination and management are devolved from central agencies to lower levels of state administration.¹⁰ Reformers envisaged granting local governments greater power to enact their own regulations, adopt their own legislations, and adjust central policies to meet local conditions. This measure, according to reformers, can play some role in remedying the defects of the previous system of central planning. While key areas of macro-economic policy and regulation should still be reserved for the centre, reformers admit that there are economic benefits to be reaped from the devolution of certain powers, which the centre is unable to wield effectively, and from a clearer and more rational division of labour between levels of government.

The first manifestation of the decentralization process was the delegation of financial power from the centre to local governments. Starting from early years of 1980s, more and more financial power has been transferred to local levels. The reform involved budgetary process and the national banking system, and it strengthened the provincial and lower level territorial components of this structure and placed a smaller percentage of the country's monetary and fiscal resources under the direct

¹⁰For the discrimination between "administrative decentralization" and "economic decentralization", see Gordon White, Urban Government and Market Reforms in China, In *Public Administration and Development*, 1991, Vol.11, P.150.

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control of the centre. The budgetary reform had permitted provinces and municipalities to retain increasing portions of the revenues they generated, so leaving more funds under the control of the localities. Some research suggests that the trend toward financial decentralization has brought about a significant loss in the central government's control of resources. In 1979 government revenue as a whole accounted for 31.9 percent of national income; by 1984 that rate had dropped to 26 percent; and by 1988 to 19.2 percent. Moreover, the percentage of such revenue controlled by the centre also fell from a high of 70 percent in the 1950's, to 60 percent in the early 1980's, and to 42.8 percent in 1989. Also, by 1988 the proportion of foreign exchange under the control of the central authorities accounted for only 40 percent of the total. This trend suggests an overall increase in control over foreign exchange by local levels.¹¹

The level of extra-budgetary funds controlled by localities and enterprises has been growing at the rate of more than 20 percent per year since the mid-1980s. In fact, by late 1989, the Ministry of Finance announced that almost as much money was circulating outside the state budget as within it.¹² Through various kinds of discretionary levies, local authorities sought to drain off part of the retained funds of enterprises which had increased greatly over past years. The central authorities also tried to levy or restrict these funds and to control their use, without great success.

¹¹Source: Michael D. Swaine, China Faces the 1990's: A System in Crisis, in *Problems of Communism*, May-June 1990, P.24.

¹²Source: Ibid..

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To give localities and enterprises greater incentive to produce for the international market, they had been allowed to retain a portion of the foreign exchange they earned through foreign trade. At the end of 1985 the Central Government received only 75 percent of the country's foreign exchange receipts. The rest was retained at the local level, where it was divided between local governments and the exporting enterprises.¹³

The reform had also expanded the role of the banks. During the early years of the 1980s, the banks became a major additional source of funds for investment capital. This development created new sources of funds that local governments used to promote projects not approved at the centre. In addition, various enterprises and local government units had long had pockets of money which were controlled by themselves, and the reform had increased substantially the revenues of this category. Their magnitude grew during the 1980s to the point where they became a significant source of investment capital. These changes enhanced the power of local level units to make their own decisions. They exercised some of their increased autonomy in ways that ran against the general policies of the centre. Thus the increasing economic power for local units widened the gap between the centre and localities.

The administrative decentralization also manifested itself in some other important aspects. One of them was the investment decentralization—the decline in the proportion of total fixed investment that is controlled directly by the central

¹³See Harry Harding, China's Second Revolution, P.138.

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government and the increase of the proportion controlled by localities. The decline in central government control over investment and the increasing local control over resources can be seen from the change in the percentage of the total fixed investment under local control. According to the data published by the Chinese authority, in 1978, only 34 percent of fixed investment was controlled by local governments. However, this proportion grew steadily then onwards. By 1981 the proportion jumped to 58 percent, and by 1982, to 63 percent. Up to mid-1980s, the rate was even higher.¹⁴ Although central planners attempted to control this tendency, they failed to recentralize investment control. The proliferation of funding sources that were created by different measures of reform had made such control impossible. The major funding resources of local investment included: retained depreciation funds; retained profits; bank loans; and extra budgetary income of local governments and nonprofit organizations. Each of these is composed of different subcategories, including special depreciation programs, numerous lending programs and various uses of local government funds. Given the proliferation of funding sources, the rather clumsy attempts by the state to reduce the total volume of financial resources had not succeeded.¹⁵

In the field of management of direct foreign investment, steps were taken to decentralize decision making power from central to local authorities. The reform's

¹⁴Source: China Statistics Yearbook, 1988, P.559.

¹⁵With regard to the detailed analysis concerning investment control, see Barry Naughton, *The Decline of Central Control over Investment in Post-Mao China*, in David M. Lampton ed., Policy Implementation in Post-Mao China, University of California Press, 1987, PP.51-80.

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leadership granted local governments and enterprises a considerable degree of autonomy in negotiating investment contracts with foreigners. Most direct foreign investment projects no longer needed central approval and many local governments and enterprises, especially in the coastal cities, were free to look for potential foreign partners on their own initiative.

Another sign of the administrative decentralization was that the central government positively encouraged several economic development zones, such as those of the Pearl River Delta, the lower Yangtze, and the Bohai Rim that crossed provincial boundaries. In this case the intention was that economic cooperation would emerge separately from the hierarchy of the state administration, but, emphasis was placed on cooperation over relatively large areas in the more developed parts of the country. At the same time, some metropolitan areas were given economic independence (Chongqing, Guangzhou, Shenyang, Harbin, Xian, Dalian, Wuhan, Qingdao, and Ningbo). These areas were directly subordinate to the centre for all economic affairs. In budgetary terms these metropolitan areas are treated like other provincial-level units. They each have an agreement with the centre that stipulates the levels of tax in their areas, the ratio of revenue dispersal from the metropolitan area to the centre, and the period the agreement will be in operation.¹⁶

In retrospect, the contextual transformation between the mid-1980s and the end of the decade, has seen two striking trends: the economic marketization and the

¹⁶See David S.G. Goodman ed., China's Regional Development, Routledge Press, 1989, P.24.

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administrative decentralization. The key issue for our analysis is, what are the impacts of these developments on policy-making patterns in China.

The economic marketization or the administrative decentralization had produced some new attributes of the decision situation: participation of the policy-making had diversified; policy-making arena about economic issues had been expanded, part of which was shifted to local levels; local interests, and willingness of local leaders had been a dominant factor in policy-making by local agents; bargaining, negotiation, and *consensus building* had become a usual way to solve the interest conflicts in policy-making process. Now let us examine these changes more specifically.

Primarily, the market-orientated reform created market forces which, on the one hand, are against the domination of political power and which downgrade the role of purely political-ideological factors playing in economic policy-making. On the other hand, it also introduced more actors into the policy-making process. For example, the change in central command planning to "guidance" type planning shifted more functions of economic management to local governments and enterprises, left more room to accommodate the opinions and preferences of local interest. The reform of the price system, which allowed the prices of more goods to be set by market forces, also eroded the power of central planning and enhanced the centrifugal force of local units, and encouraged them to pursue their own interests. Local leaders and bureaucracies became more vigorous in creating their own policy programmes. In addition, while they usually did not challenge the policies from the

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Centre directly, they skilfully used their increased autonomy to turn the policies to meet the regional demands. As noted by scholars who study the economic localism in 1980s, local officials in different provinces and municipalities set forth their own targets and programmes, called for more preferential treatments from the Centre, and seek increasing own extra-budgetary revenue, and discretionary resources.¹⁷

Correspondingly, the consistent trend toward administrative decentralization led to a fragmented and dispersed policy-making arena. The central government increasingly lost its control over funding sources, foreign exchange, raw materials and investment, and local governments at different regions and levels gained more power to control these resources. This change necessarily resulted in a proliferation of "policy-making centres" at local levels which generated independent policies to protect their separate regional interests and which resisted general policies from the Central Government. Therefore, local governments had become an important arena of policy-making. More and more economic policy formulation had been shifted from the centre to local levels.

The differentiated interests and fragmented authority had inevitably brought about interest conflicts, regional competitions, and clashes between localities and the centre. These clashes had increased dramatically in the mid-1980s. One representative

¹⁷See, for example, Victor C. Falkenheim, *The Political Economy of Regional Reform*, in Bruce Renolds *et al.*, *Chinese Economic Policy*, New York: Paragon House, 1988, PP.285-310.

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example which had been investigated by some scholars¹⁸ is the competition between coastal provinces, municipalities, inland provinces and municipalities for foreign investment and projects. As Shirk discovered, the new foreign trade and investment opportunities, combined with the policies allowing local governments and enterprises to negotiate independently and retain a proportion of their foreign exchange earnings, have stimulated economic competition among Chinese cities and provinces. Local political authorities seek to develop their local economies with the profits of trade and foreign investments. In this new competitive environment, the coastal areas appeared to be winning most of the prizes. Foreign investments are concentrated in a few coastal provinces and municipalities, especially Guangdong, Fujian provinces, and Shanghai Municipality. As centres of light industry, the coastal areas were the source of a large percentage of China's manufactured exports. The coastal ports also ship exports for many inland enterprises.

The inland areas, on the other hand, had obtained few benefits from the opening policies and saw the gap between themselves and coastal areas widening due to the policies. The inland economies are based on the extraction of minerals and the manufacture of industrial equipment. These industries stagnated because the reform policies divert investment funds from heavy industry to light industry and agriculture. Officials in the inland provinces are trying to break into the light consumer goods industries but find it difficult to compete with coastal provinces and cities. Therefore, to an extent, the inland provinces relied on administrative

¹⁸See Susan L. Shirk ed., The Challenge of China And Japan, Preager Publisher, 1985, P.296.

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regulations and conservative cultural appeals to defend themselves against the threat of foreign and domestic competition. They had established local blockades and other forms of what central leaders sometimes condemn as "administrative interference" to protect their infant consumer goods industries.

With power delegated to the lower levels, the interest conflicts between the central government and local governments were also intensified. One example is that the central government frequently contended with the provinces over who should pay for infrastructure investments which were needed to stimulate economic development and facilitate trade. Fujian province and Beijing clashed over the finance of the new Fuzhou airport which is vital for tourism as well as foreign business. Guangdong Province was required to pay for its new rail line. Both of these projects would have been financed by the central government in the past. Large energy projects had also sparked conflict between the provinces which sought to guarantee their own energy needs, and the central government which was concerned about maintaining a balance among regions, energy sources, and foreign and domestic equipment.

Under the circumstance, available means to resolve the interest conflicts, policy disputes, and competition for loans, projects, or other resources in China, is mutual adjustment through bargaining and negotiation. One example had been provided by Naughton in his study on Chinese investment control: the approval of many individual investment projects was the result of a long process of accommodation and

negotiation between numerous power centres.¹⁹

So, "incrementalism" which is characterized by interest conflicts, mutual adjustments, incremental changes, etc., has become another distinct feature in the Chinese policy-making process, particularly in the economic field, but bearing in mind that these interest conflicts, bargains, mutual adjustments mainly occurred among bureaucratic agents rather than among socio-economic interest groups.

8.2. The founding of the Daya Bay Economic Development Zone in South China: a policy process dominated by the "bureaucratic-incrementalism"

8.2.1. Introduction

During the late years of the 1980s, a hot spot of foreign investment appeared in the coastal area of South China. The new spot, which was denominated as the Daya Bay Economic Development Zone(DBEDZ), is subject to the Huizhou Municipal Government, Guangdong Province. Within a few years, the zone had aroused great interest from a number of foreign investors. A series of giant projects were brought into the zone. The projects included the Panda Motors Corporation(PMC), which would invest one bn US\$ from American businessmen; a petrochemical complex which was a joint venture between Royal and Dutch Shell Ltd and the China

¹⁹Barry Naughton, *The Decline of Central Control over Investment in Post-Mao China*, in David M. Lampton ed., Policy Implementation in Post-Mao China, 1987, PP.51-80.

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National Offshore Oil Company(CNOOC), etc. The investment would amount to 2.4 bn US\$ and; the Zhuang's Industrial Section invested 3 bn HK\$ by Zhuang's Hong Kong Ltd.. These giant projects have given strong impetus to the development of the zone. By the end of 1990, a number of projects exceeding 5 mn US\$ had been invested by firms from the United States, Britain, Germany, Hong Kong, and Taiwan. It is estimated that the total investment amounted to more than 4 bn US\$ within the 300 square kilometre zone. This figure accounted for one fourth of foreign direct investment in China during last ten years and was 1.74 times of foreign investment in Shenzhen, the first special economic zone in China, in last ten years.²⁰ With the development of the zone, Daya Bay has become well-known to Chinese people. Several top leaders of the Chinese Party and the Government were fascinated by the until recently unknown and poor land. Also more and more correspondents have shifted their attentions to this area.

However, it is worth noting that the DBEDZ was neither sponsored by the Central Government nor supported by the provincial government. Unlike the case of other special economic zones and the economic and technological development zones, where development were determined by the Central Government, the policies concerning the establishment and development of the DBEDZ were entirely products of the local government. The process of policy formulation and implementation was full of interest conflicts, adjustments, and bargaining between the local government and the Central Government and between different local governments. Different

²⁰Source: *People's Daily*, 10 January 1991.

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actors were involved in the policy process and made different impacts on the policy-making. This case indicates another strand which is distinguished from previous ones: under the circumstance of economic marketization and power decentralization, policy-making was tending toward incrementalism. Therefore, examining the process should be helpful to understand the contingent nature of policy-making in China.

The place, which was named as Daya Bay by native people, is situated in South-East part of Guangdong Province, and borders on the South China Sea. It is only 47 nautical miles away from Hong Kong. Also, it is close to the major cities of Guangdong Province, such as Guangzhou, Shenzhen, Foshan, and Dongguan, which are the wealthiest areas of contemporary China.

With vast areas of hill land, the zone covers a total area of 300 square kilometres. This land is so sparsely populated that there are few residents and few buildings needed to be displaced. Thus, the land is very suitable to accommodate different industrial projects. Not only the resource of land, but also the resource of fresh water is very abundant. In contrast with Hong Kong and Shenzhen, which are often threatened by droughts, the zone is very rich in fresh water—within the zone there are 11 small reservoirs and the total storage capability reaches 42 million cubic metres. In addition, two branches of Pearl River go through the area, and so can meet the demands of a new metropolitan with several million population.²¹

²¹Source: *Nanfang Daily*, 9th September 1989.

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More importantly, there is a good natural harbour within the zone. The harbour(Huizhou Harbour) can provide an ideal shelter for ships from the wind because there are more than 90 small islets nearby to constitute a natural defence. The average depth of water is 7 metres and in some places reaches 20 metres. The coastline is more than 20 kilometres long where 200 berths can be constructed, among which more than half will be deep-water berths. The total handling capacity will be up to 200 million tons per year.²²

Briefly, this is a virgin land which has all the natural conditions required for the development of modern industries. However, in this golden coastal land with good conditions for industrial development, the economy was in a very backward state during the early years. From 1949-1976, the general strategy of the Chinese Government in coastal areas was "in preparing them for wars". The Huizhou Prefecture, to which the Daya Bay subordinates, was a frontier area. Therefore, the Central Government had not introduced any capital and industrial projects into it. During the 28 years, there was only a sugar refinery and a farm machine factory located in this prefecture. Even these two small projects were initiated by the provincial government. The total output of industry in this area was only 200 mn RMB yuan annually. In the period of the Cultural Revolution industrial construction degenerated even further. Thus, up until the start of the reform it was entirely a traditional agricultural area; its industry was virtually nonexistent and the local

²²Source: interview with Xie Shiqiang, the Secretary General of Huizhou Municipal Government, January 1991.

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government had very little revenue. Even the salaries of public officials had to be subsidized by the provincial government.²³

Owing to the backward economy and poor living conditions, large number of residents of the area fled to some other places(particularly to Hong Kong). The short distance between Huizhou and Hong Kong provided a convenient way for the illegal emigrants. In those years the attractiveness and advantages of the coastal area were manifested in its convenience for emigrating. According to the memory of former leaders of this area, there have been three waves of secret escape in the last several decades. The first one happened in the early years of the 1960s when improper policies of the Great Leap Forward worsened the economic and living conditions. The local people lost their means to maintain a basic life so they left their home town for Hong Kong. The second wave appeared in the period of the Cultural Revolution. the brutal factional struggle became a threat to the personal safety of the people, so many people risked their life to escape. The third wave took place at the beginning of the reform when the door was ajar. Seeing the gap between themselves and people in the outside world in living conditions, many local people fled again. The tide of emigration produced a strong influence on the development of the area. It led to a sparse population, and left a large uncultivated land. When the writers visited this place in 1984, the leaders of that time were still depressed and complained of the infertile soil and poor resources. Certainly, they had not realized the advantages of

²³This paragraph draws on interview with Xie Shiqiang, the Secretary General of Huizhou Municipal Government, January 1991.

the area and could not imagine the significant change to come in the near future.

8.2.2. The development at the first stage of the reform—an interest differentiation process

For many places of Guangdong Province, the years between 1979-1984 was a golden period in development, but, Huizhou failed to seize the opportunity. Relying on the preferential policies given by the Central Government and its geographical advantages (being a coastal province and near to Hong Kong), Guangdong's economy gained strong impetus. In these years the GNP increased by 12.2 percent annually.²⁴ The growth did not only change the situation where Guangdong's economic development was continually below the national average level, but also narrowed the economic gap between Guangdong and Hong Kong. Some places were especially fortunate in obtaining wealth. At the initial stage, Huizhou's neighbouring counties—Dongguan, Shunde, Nanhai, Zhongshan, etc. utilized their expanded autonomy, advantages in trade, and the big price gap between commercial goods inside and outside the area by engaging in speculation and even smuggling. By this way some enterprises, individuals, and local governments made considerable amounts of money. But after accumulating a certain amount of capital, these regions turned to industrial exploitation. In cooperation with foreign investors, some of them founded joint ventures and some created compensation projects. Gradually, these

²⁴Source: The Guangdong Provincial Government, A Retrospect of Economic Development in Guangdong, 1986.

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places realized a strategic transformation from a circulating sphere to an industrial sphere and set up their industrial bases.

Compared with its neighbours, the Huizhou Prefecture lacked this kind of "good luck". The impoverished area had not gained so much autonomy and preferential treatment. Though people in this region also made some money through speculation, they had not transferred the money into industrial development. As for the local government, it's fault was that it had not paid attention to infrastructure construction and did not make proper policies to encourage investment in industrial projects. As a result, the region missed the "first high tide of getting rich".

8.2.3. "Catching up the train of enrichment"—the preliminary decisions concerning the development of Daya Bay area motivated by economic competitions²⁵

The economic "take-off" experienced by the neighbouring regions put the leadership of the Huizhou Prefecture in an awkward situation. The wide gap in living standards between this region and the neighbouring regions resulted in a crisis of confidence with the local people. The people complained of the incapability of the leadership and took a sceptical attitude towards existing strategies of development. The continuity of the "escaping wind" demonstrated the inefficiency of previous policies and the necessity of changing the strategies.

²⁵The following section draws on the interview with Deng Huaxuan, the former First Secretary of the Huizhou Committee of the Chinese Communist Party, and Xie Shiqiang, the Secretary General of the Huizhou Municipal Government, January 1991.

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In 1983, the chief leaders of the Huizhou Prefecture were replaced. Deng Huaxuan, a former leader of another poor region in the north part of Guangdong Province was appointed as the First Secretary of the local party committee. Deng was well-known for his active implementation of the policy for "fixing output quotas on a household basis" in the countryside during the late years of the 1970s.²⁶ According to the appraisal of his colleagues he is a typical pragmatist who emphasises the need for practical results in administration. He followed the pragmatic route of Deng Xiaoping, dared to "shatter the spirit shackles" and sought anti-orthodox approaches in making policy guidelines for local development. Another middle-age man, Lin Shushen, who was generally acknowledged as intelligent and flexible in dealing with economic affairs, was appointed to the position of standing deputy mayor, in charge of foreign investment and trade within the prefecture. After contacting the old leadership, the new leadership reached the conclusion that there was little time to be wasted in the competition with other regions; the most important thing for Huizhou at present was to "catch the train of enrichment", so as to win people's confidence and trust in the local government.

However, the key issue was how they could reach the goal of development. For the local leaders, even though there were some advantages in the natural conditions for industrial development, many disadvantages still existed. For one thing, the industrial base was very weak in this traditionally agriculture area; for another, the local

²⁶The formulation and implementation of the policy marked the beginning of the reform launched by Deng Xiaoping.

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government was deficient in financial resources; third, there was a large part of unemployed agricultural labour but a lack of qualified technical personnel for industrial development. Considering these disadvantages, the local policy makers recognized that it was impossible to "catch up the train of enrichment" if the usual procedures were followed (e.g, waiting for aid from senior governments, or by extracting capital from the revenue of the local government). Therefore, it was necessary to try different methods at the same time. That is to say, any means may be adopted so long as it was effective.

Based on this attitude, the policy makers followed up the example of their neighbouring counties which had not waited for authority from above, laid down the following strategies for economic development from 1984-1987.

(1). Imitating the model adopted by neighbouring regions for developing the industries that process materials provided by foreign clients, processing according to buyer's samples, and assembly of foreign components.

The local policy makers believed that they faced the urgent problem of how to accumulate sufficient capital which was necessary for the further development of industry. In light of the experience in other regions, a shortcut way of raising money was through developing processing industries, because these sectors did not require the input of massive amounts of capital and natural resources, and did not need a lot of technical talents, only labour and land. For the Huizhou Prefecture, both the labour

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force and land were plentiful, thus, it was a convenient way to accumulate capital to develop processing industries at this stage.

There were different forms of processing industries in China. As a region which wanted to acquire more foreign exchange, Huizhou Prefectural Government focused its attention on three main kinds: processing materials provided by foreign businessmen; processing according to buyer's samples; and assembly of components supplied by foreign clients. These forms of processing industry have the advantages that they need less input but provide instant benefits. Some of these projects, cooperating with foreigners, even did not need any capital funds and equipment but only land from the local site. So, the local government made some concession policies to encourage the development of the industries:

"Raw materials(including auxiliary materials and packaging goods and materials), component parts and equipment that are required to be imported for contract processing projects, assembly projects, medium or small-scale compensation trade projects should be exempted from product tax or value-added tax. Processed or assembled products which are exported shall be exempted from product tax or value-added tax. For compensation trade projects, the products shall be subject to tax during the production stage but upon export are refunded the tax already paid."²⁷

(2).Strengthening the construction of the infrastructure and improving the investment environment.

²⁷The Huizhou Prefectural Government, Rules for Encouraging Contract Processing Projects, Assembling Projects, Compensation Trade Projects and General Processing Projects, 1984.

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From the mid-1980s, the chief leaders of Huizhou, including Deng Huaxuan, the First Secretary of the Party Committee, Lin Shushen, the Standing Depute-Mayor of Huizhou, and Zeng Tan, the Director of the Economic Commission, visited some Western countries and Hong Kong. Through their contact with enterprises and investors in the outside world, they increasingly realized the importance of a good environment for investment. Thus, they were determined to strengthen capital construction in the land. Through different approaches, including bank lending, financial allocation, and foreign loans, the local government raised around one bn RMB yuan in three years. With the use of these funds, a highway connecting Huizhou with Guangzhou and Shenzhen was constructed, a new communication system was built, a large number of factory buildings were erected, and in addition, the power supply was improved.²⁸

(3). Adopting the gradual strategy of development to advance the external sector.

The local leaders recognized that in such a short time they would have difficulties in obtaining enough financial resources needed for capital construction in all the area of the prefecture, so they laid down a gradual strategy for development. In the Representative Conference of the Communist Party of Huizhou, held in September 1987, an official decision was made: during the late years of the 1980s, two coastal sites—Danshui and Aotou(Daya Bay zone) would be taken as the key area of development. This meant that at the first stage, priority in financial support would

²⁸Source: interview with Deng Huaxuan and Xie Shiqiang.

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be given and most imported projects would be located in the area. Then, from the beginning of the 1990s, the development zone would be gradually enlarged to cover other inland areas, including Huizhou City(the centre of the prefecture) and Fangcun District(the Northern part of the prefecture), etc..

On the basis of this decision, the Daya Bay Economic Development Zone was to be established. The Command Post of the zone was composed of most chief local leaders: the First Party Secretary Deng Huaxuan held the concurrent post of commander; the mayor, the directors of the Planning Committee, the Economic Committee, the Financial Bureau were concurrently members of the Command Post; part of staff members of the Prefectural Government constituted a working body which was in charge of concrete affairs, such as negotiation with foreign investors, arrangement of specific projects within the zone, power and water supply, and the planning of land, etc..

It cannot be denied that these strategies were successful in some important aspects. Stimulated by the preferential treatment given to processing industries, the whole prefecture(including four counties and one city) introduced 1,800 processing projects in this period. The foreign investment in processing industries amounted to 200 mn US\$.

The improvement in the investment environment attracted foreign capital to a greater extent. Even investors from Taiwan came to the zone quietly in the name of Hong

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Kong businessmen. By 1988, the investment of Taiwan businessmen in the region reached 60 mn US\$, which accounted for one sixth of the total foreign investment.

The gradual strategy of development enabled the prefecture to establish its own industrial system along the coastal area. The industrial output increased dramatically from 6 mn RMB yuan in 1983 to more than 1.8 bn RMB yuan in 1987. The fiscal condition of the prefectural government also changed visibly, from relying on fiscal subsidises from superior governments, to 60 mn RMB yuan revenue.²⁹

Although the improvement was impressive, a gap still existed between Huizhou and its neighbouring regions. The leadership recognized that comparatively Huizhou only enjoyed some surplus investment from its neighbours, who had shifted their attention from processing industries to other capital or technology-intensive industries. With regard to the investment environment, the original conditions in infrastructure, after all, were too weak. Thus, even though the local leaders had tried their best in improving it, for the time being the zone was not attractive enough for giant industrial projects. Generally, Huizhou had still not extracted itself from the awkward position it found itself in and could not keep up with neighbouring areas in this period.

8.2.4. Seeking new opportunities for "take-off"—a bolder programme brought by conflicts of interest

²⁹ Wang Zhigang, A Development Report of the Daya Bay, in *Cultural Journal of Guangdong*, Vol.6, 1990.

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In the mid-1980s the Chinese economy was overheating. At the beginning of 1988, Wang Jian, a young research fellow of the State Planning Commission, offered a policy proposal to top Chinese leaders, that was titled, "participating in the big international circulation". According to the proposal, at present some developed countries in the world were experiencing an adjustment in their industrial structures. Due to currency appreciation and an increase in the cost of labour power, these countries need to shift their labour-intensive industries to developing countries and areas where labour power is relatively cheap. Since China is facing a significant economic transformation, the Chinese Government should seize the opportunity and make full use of the comparative advantages of her coastal areas, especially the cheap labour power and plentiful land resources, in order to develop labour-intensive industries. Processing industries should adopt the strategies of "two ends on outside"(i.e.,raw material purchase and commodity sales should be aimed at international markets), and "great scale of export and import" whereby coastal areas should strive to establish enterprises using foreign capital by attracting direct foreign investment. This would develop the coastal areas as rapidly as possible with the aim of expanding into inland areas.³⁰

These policy suggestions appeared to meet the approval of some top leaders, particularly Zhao Ziyang, the General Secretary of the CCP. Hence they were immediately adopted as a general guideline for economic development, which

³⁰ See Jia Rihua *et al.*, Guidebook of Foreign Economy, The North-East Financial and Economics University Press, 1989, P.3.

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became the well-known "economic development strategy in coastal areas".

This policy guideline produced a strong stimulus to local leaders in coastal areas. Many regions were involved in the new wave of "big international circulation" and competed with each other to establish processing projects. Consequently, there was a sudden expansion in processing and assembly industries.

However, for the leaders of Huizhou, the policy orientation toward the coastal areas at top level did not only provide a condition to further develop their processing industries, but also created a new opportunity to import bigger projects and through this approach catch-up with or overtake neighbouring economies.

By this time, the Huizhou Prefecture had been changed to Huizhou Municipality, governing four counties and one district. In terms of population and area, Huizhou Municipality was no less than its neighbouring municipalities, such as Foshan and Dongguan, but as regard economic strength it was still far behind them. Up to the end of 1987, industrial output in the Foshan Municipality was 14 bn RMB yuan, in the Dongguan Municipality it was 15 bn RMB yuan, but in Huizhou it was only 1.8 bn yuan.³¹ Since the beginning of the reform, conflicts of interest had occurred among these regions. By utilizing their advantages in industrial infrastructure, science and technology and labour quality, the neighbouring regions took the lead in drawing on preferential treatment, the import of processing projects, and gained

³¹ Source: interview with Xie Shiqiang, January 1991.

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tremendous benefits. In contrast, although Huizhou had adopted the same strategies, it could not achieve similar success, partly because it was facing strong competition from opponents in the same province. The emergence of the "economic development strategy in coastal areas" intensified the interest conflicts, as every municipality intended to use the favourable atmosphere of "participating in the big international circulation" to attract more foreign capital and import more projects.

Under the circumstances, the local leadership of the Huizhou Municipality recognized that by simply imitating development models of other regions it would be impossible to gain the same results. So, it needed to seek new approaches to realize an economic leap. Actuated by economic competition, the First Party Secretary Deng Huaxuan designed a bolder programme, named as "the strategy for take-off with a leap". The rationale of the strategy was: the greatest advantage of Huizhou is its long coastline,(along the coastline there are many potential deep-water berths) most other regions do not have this favourable condition; furthermore, Huizhou has had four years of experience in importing projects with foreign investment; more importantly, Huizhou has founded the Daya Bay Economic Development Zone, which can provide more than 200 square kilometres of industrial-use land for investors. This last advantage was probably the best condition to realize the programme of "take-off with a leap". Therefore, if Huizhou expects to surpass its economic opponents, it should utilize these advantages to the full and thereby attract "super-projects"(with investment of more than 500 mn US\$).These "super-projects" will play a leading role

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in propelling the development of the whole region.³²

Five years ago there was a very different situation and it was difficult to imagine that such an ambitious programme could be generated by a local policy maker in China, for he had neither the authority nor the motives to draw a plan which covered such issues as land-use, and super-project introduction, etc.. It could be born only after a period in which market-orientated reform, power decentralization, and interest differentiation had been carried out to a great extent.

In a "conference of cadres at three levels"(municipality, county, and town) held in March 1988, Deng Huaxuan presented his policy suggestions. Although the programme was still rough in design, it caught the enthusiasm of the officers who had long felt envious at their "wealthy neighbours". Most people who attended the conference favoured the programme, but the problem was how to turn the ideas into realistic measures.

After all, importing "super-projects" was not an easy task for the local leaders at that time. Even Shenzhen, the first special economic zone which enjoyed the all-round support of the Central Government and the exceptional advantages, had not imported any giant project which exceeded 100 mn US\$ of investment in its early years. For the DBEDZ, the existing conditions were not attractive enough to super-projects, because

³² This section draws on the interview with Lin Hongzhao, The Director of the Administrative Committee of the DBEDZ, January 1991.

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its infrastructure was still weak and lacked a good "soft" environment—an efficient administrative system with well-designed legal regulations. Acknowledging the disadvantages, the local leaders sought a specific approach to improving the investment environment furthermore.

As mentioned above, the DBEDZ was established and managed by the local government itself. Unlike the cases of other centrally sponsored zones, the zone had no direct relations with superior governments in finance and administration. This situation was concurrently a disadvantage and whilst advantage. On the one hand, the zone might not obtain the financial support, preferential treatment, and supply of information from the Central Government; on the other hand, the zone enjoyed more autonomy and discretion than others. It meant that the policy-making concerning the zone did not have to go through over-laboured procedures and checks for approval at different levels. Thus, it was possible to make more audacious and more flexible policies by utilizing discretion. Actually, the local policy makers had worked out the policy measures for improving the investment environment in just this way.

First of all, the local leaders sought to build up a more efficient administrative institution with more simplified procedures for examining and approving investment projects in the DBEDZ than in other SEZs and ETDZs.

With regard to the administrative institution, the number of branches of

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administration in the DBEDZ were much less than in other zones. For example, in the Shenzhen SEZ, there were 53 administrative agencies before 1984. After the administrative reform in 1987, there were still 48 agencies, including 4 committees, 5 leading groups, and 39 bureaus or offices.³³ In the Guangzhou ETDZ, the Administrative Committee was composed of 19 bureaus or offices, including an administrative committee office, a labour & personnel office, an overall economic office, a regulation office, planning office, an enterprise management office, a land regulation Office, a finance and taxation bureau and an auditing bureau, etc.³⁴ But in the DBEDZ, the Command Post was composed of only 6 agencies: the Investment Administration Office, to be responsible for examining and approving investment projects; the Planning Office, for formulating economic and social development planning and the arrangements for its enforcement, dealing with expropriation, planning and construction of the land in the zone; the Financial Office, for administering and supervising the finance and taxation; the Development Office, for developing industrial projects invested by the local government itself; the Secretary Office, for drafting of legal documents for the zone, drafting and promulgating of administrative rules; and the Reception Office, for receiving visitors and handling foreign affairs of the zone. Each of the offices only employed a few staff members, so each of them had to be in charge of different affairs.³⁵

³³ Source: The Shenzhen Economic System Reform Committee ed., Selection of Documents concerning Reforms in the Shenzhen SEZ., January 1989.

³⁴ Source: The Regulation Office of the Guangzhou ETDZ ed., Investment Rules of the Guangzhou ETDZ, April 1987, PP.5-6.

³⁵ Source: interview with Li Yinzhu, the Deputy Director of Investment Administration Office of the DBEDZ, January 1991.

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As for the procedures for investment administration, it was also greatly simplified in the DBEDZ compared to the SEZs. In the Shenzhen SEZ a foreign investor needed to contact the Investment Centre, the Industrial Planning Department, the Examination and Approval Department, the Industrial and Commercial Administration, and was required to go through the procedures for the registration for tax, customs and make an application for import licence, etc.,³⁶ whereas in the DBEDZ he just needed to contact one agency—the Investment Administration Office. The Office was authorised to provide the same functions as the Municipal Government in approving projects,(i.e, it can approve the projects with investment under 30 mn US\$) but played different roles in project reception, examination, and approval instead of involving other agencies. Also the office had the responsibility to deal with different registration procedures on behalf of foreign clients.³⁷ These measures made foreign investment easier and more convenient within the zone.

Secondly, the local leaders decided to provide as much of the preferential treatment given in other zones in the DBEDZ as possible. On top of this they would provide additional concessions to foreign investors. For instance, investors in the zone might enjoy preferential treatment on taxation as occurred in other zones: the income tax rate for foreign-funded enterprises is 15%; no local tax will be collected and when a foreign investor remits abroad his share of profit no more tax will be levied on the remittance; no product tax or value added tax are levied on export goods produced

³⁶The Investment Centre of Shenzhen, Shenzhen Investment Guide, 1991, P.23.

³⁷Source: interview with Li Yinzhu, the deputy director of the Investment Administration Office, January 1991.

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by foreign-funded enterprises using imported materials; industrial enterprises are not asked to pay business taxes for the immediate future on the income they make through wholesale business; enterprises engaged in processing and the assembly of products for export shall enjoy a 3-year business tax holiday for income from the work done etc.. Simultaneously, investors in the DBEDZ might enjoy more favourable conditions than those in other zones—an example of this is the low charge for land-use. In 1989 land-use fees in the Shenzhen SEZ (for ready-levelled industrial site) was approximately 450 RMB yuan per square metre with a maximum period of 30-50 years;³⁸ in the Guangzhou ETDZ it was 273-455 RMB yuan depending on category of the project.³⁹ However, in the DBEDZ it was only around 60 yuan, although the charge increased five times one year later.⁴⁰

Thirdly, it was planned to adopt further measures to strengthen the infrastructure within the zone. The following items were brought into the plan: (1) to build 86 kilometres of railway which would connect the Huizhou Port in the DBEDZ with the mainline of Beijing to Shenzhen; (2) to construct 70 kilometres of motorway from Huizhou to Shenzhen; (3) along the coastline of Daya Bay, to build a highway from the western end to the eastern end; (4) to extend the Huizhou Airport to enable the use of large aircraft. In the field of communications, 25 thousand computer controlled phones would be installed from Huizhou to each county which would be connected

³⁸ Source: Shenzhen Investment Guide, 1989.

³⁹ Source: The Administrative Committee of the GETDZ, Investment Handbook of the Guangzhou ETDZ, 1989.

⁴⁰ Source: The Administrative Committee of the DBEDZ, Investment Guide in the DBEDZ, 1990.

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to international networks. In addition, there would be projects in power and water supply, and port construction. According to a rough estimation, all these projects needed at least 2.5 bn RMB yuan of funds. For a municipal government this plan was probably too ambitious, but under the specific circumstances of the southern coastal area of China, its feasibility could not be totally denied. For one thing, the zone may copy the model of the Shenzhen SEZ, to collect funds by transferring the right of land-use; for another, people in Huizhou have many relatives who live abroad, by the help of the overseas Chinese, the government may raise part of the capital; moreover, local government revenue, non-governmental finance, and bank loans can also provide the financial resources. In this situation the ambitious plan was put into operation.⁴¹

So far, all the policy designs seemed to be attractive, but the weak point was that they were rarely known by outsiders, particularly foreign investors. As a locally supported zone, the DBEDZ was not so well-known, as that of other centrally sponsored zones, in the outside world. If the zone could not expand its influence on investors rapidly, it would not achieve the intended results——attracting super-projects. Therefore, the local policy makers tried to seize some opportunities to "sell" the zone and their preferential treatment to foreign investors.

One step to improve the reputation of the DBEDZ was the involvement of a special

⁴¹Source: interview with Xie Shiqiang, the Secretary General of the Huizhou Municipal Government, January 1991.

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unit—China Kang Hua Corporation (CKHC) in Beijing. This corporation was founded to provide a welfare service to disabled people in China. This was set up according to the suggestion of Deng Pufang, who is the eldest son of the top leader Deng Xiaoping and whose legs were broken by the "red-guards" when his father was purged in the Cultural Revolution. Due to its special name—with the aim of improving the welfare of disabled people and with its special position—headed by Deng Pufang, who maintains comprehensive relations with top leaders and government ministries, the CKHC enjoyed various privileges and preferential treatment in business. Only within a few years it had become one of the biggest and most famous corporations in China and had become well-known to many foreign businessmen. In July 1988 a delegate of the corporation contacted the chief leader of Huizhou Deng Huaxuan to present their intention to buy 30 square kilometres of land-use rights in the DBEDZ. The local leader knew that the real purpose of CKHC was to resell the land to gain speculative profits (the Corporation was engaged mainly in the business of speculation sphere) as it was impossible to use the land for industrial projects. However, recognizing the influential power of CKHC and the potentially stimulative effects of the deal, the local leader still agreed to meet the needs of the corporation. After signing the contract the Huizhou Government immediately released this piece of news. As expected, the news that CKHC had been involved in the development of the DBEDZ made an impact and gave greater publicity to the zone so that it would become well-known by many businessmen in Hong Kong and some other countries. They believed that the area, in arousing the interest of CKHC would have great potential. Since then some investors have started

to pay attention to the DBEDZ.⁴²

Another incident enabled the DBEDZ to become more well-known to the outside world. Not long after CKHC's involvement, a vice-governor of Huiyang (one of the subordinating counties of the Huizhou Municipality and the location of the DBEDZ) visited Hong Kong to seek capital and projects. In a meeting with fellow townsmen of Huizhou, who were reporters in Hong Kong, the vice-governor requested that the fellow townsmen in the press circle should carry out a favour for the home town's construction by encouraging businessmen to invest in the DBEDZ. In introducing the policy programme for the development of the DBEDZ, the original planning figure for investment in the infrastructure, by the Huizhou Municipal Government, was unintendedly inflated by ten folds. He announced that the local government had raised 4 bn RMB yuan (in fact it was only 400 mn yuan) for strengthening the infrastructure of the DBEDZ. The large figure stimulated the reporters to take up their pens. Then, a piece of news appeared in the newspapers of Hong Kong: "the Huizhou has raised huge capital sum for developing the DBEDZ". The news resulted in a shock in the Hong Kong business circle. Some businessmen wondered, not only why did CKHC invest in the DBEDZ, but also why did the local government dare to raise such enormous capital for its exploitation. Therefore, the businessmen, including Hu Yingxiang, a powerful entrepreneur in Hong Kong, were attracted to the DBEDZ to investigate the investment environment.⁴³

⁴² This section draws on interview with Deng Huaxuan, the First Party Secretary of Huizhou, January 1991.

⁴³ Ibid..

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The outcome was comical. The vice-governor concerned, was blamed by his superior for his exaggeration, but the propagating effects aroused by his mistake can not be underestimated. The incident placed the DBEDZ in front of overseas investors.

8.2.5. Competing for giant projects—a disjointed and conflicting process of policy-making and implementation

By the end of 1988, the policy programme of the local leadership appeared to be effective. More and more investors, who were previously only interested in other zones or more prosperous places, started to shifted their attention to the DBEDZ. Nevertheless, it was still a disjointed and conflicting process in making further decisions and realizing the programme.

The first foreign firm to express an interest in the DBEDZ was a sports shoe company from the United States. Attracted by the advantages of cheap labour, cheap land, and the geographical position, the decision makers of the company were planning to invest 500 mn US\$ to found a sports shoe town within the zone. The project would recruit 50 thousand workers and produce around 100 mn pairs of high quality sports shoe annually. However, just before the signing of the contract of cooperation, the investors changed their mind because a neighbouring municipality interfered with this project. The Zhongshan Municipal Government sent a group to contact the negotiators of the company and offered them more concessions. As a result, the firm

transferred the project to Zhongshan.⁴⁴

Another entrepreneur who showed interest in the DBEDZ was Wang Yongqin, the Chairman of the Board of Directors of the Taiwan Plastic Corporation. According to an interview with the Vice-mayor Lin Shushen, who was in charge of receiving Wang Yongqin, Wang led a group of experts, by himself, to investigate the DBEDZ. After consulting the experts, he decided to establish a petrochemical project in the zone and signed a tentative agreement for investment. But no sooner had he left Huizhou than Wang was invited to Fujian Province by the Provincial Government. In the place where he was born his fellow townsmen gave him a rousing welcome and the local leaders received him with great enthusiasm. Possibly moved by his fellow townsmen, or possibly due to his affection to his home town, Wang finally decided to shift the petrochemical project from Huizhou to Fujian.

After this, businessmen from South Korea, Taiwan, and Thailand set their foot in the zone: a South Korean firm intended to invest 500 mn US\$ to found a container base and a Taiwan businessmen appeared willing to invest 100 mn US\$ for a chemical project... But, for different reasons, none of the negotiations had reached agreement.

Despite the intense competition, the DBEDZ "hooked a big fish"—the "Joint Venture of the South China Sea Petrochemical Complex"(SCSPC), up to then the biggest joint venture project in China since China opened it's doors to the outside world.

⁴⁴ Source: Xin Hua News Agency ed., *Domestic Development*, No.2115, 30th August 1990.

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The SCSPC project received investment from the Royal and Dutch Shell Ltd. and from a group of several state-owned firms from China. The total investment amounted to 2.5 bn US\$. Each of the two investment groups would contribute 50% of the funds. The Chinese group included the CNOOC(20%); the China National Petrochemical Industry Company(10%); the China National Oil and Gas Industry Company(10%); Guangdong Provincial Government(5%); and the CMSNC(5%).⁴⁵ The complex is mainly composed of an oil refinery which can process 5 million ton of heavy crude oil yearly and ethylene splitting decomposition equipment which can produce 450 thousand ton of ethylene yearly. The project aimed to process heavy oil, extracted from the South China shore, into high quality petroleum and petrochemical products by introducing advanced technology.⁴⁶

The project was a product of oil exploitation in the South China Sea. Since the end of the 1970s the oil resources of the mainland of China have decreased gradually, so the Chinese Government started to pay more attention to offshore oil resources. In order to develop offshore resources, the CNOOC was founded. During the last ten odd years, the company has signed 44 contracts with 45 foreign firms for exploiting offshore oil in China. Towards the end of 1988, the foreign companies had invested a total of 24 bn US\$ in Chinese maritime waters. Consequently, more than 50 potential oil-gas fields had been found, among which 17 had been discovered to contain oil or gas; 800 million tons of geological oil reserves had been gained; 3 oil

⁴⁵ Source: The Huizhou Municipal Government, the Report about the Joint Venture of South China Sea Petrochemical Complex, February 1990.

⁴⁶People's Daily, 29th July 1991.

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fields had gone into production; 6 oil and gas fields had been put into development and would go into production soon.⁴⁷

According to an authoritative estimation, the capacity of offshore oil production in China will reach 5 million ton per year by 1992 and three years later it will reach 8 million tons.⁴⁸ Therefore, it is necessary to establish a petrochemical processing complex in coastal areas. A key issue is where can an ideal location of the project be found.

The news that the giant petrochemical project was searching for a location aroused great interest in different provinces and regions of China. Many local leaders realized that it would be a very profitable project. Once the project goes into production, it can not only refine oil, but also produce 3 million tons of oil products, 0.7 million tons of raw materials for the production of organic chemicals and more than 100 thousand tons of refined chemical raw materials in every year. All of these products are scarce resources in China. More significantly, the super-project may drive the economic development of the whole region in which it is located.⁴⁹ Therefore, a number of local governments and agencies were involved in the competition for the project. The participants included Liaonin Province, Shanghai Municipality, Zhejiang Province, and Guangdong Province, etc.. In order to find a suitable site for the project,

⁴⁷Ibid..

⁴⁸ Nanfang Daily, 1st January 1991.

⁴⁹Ibid..

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an investigating group, containing a dozen experts, was organized to inspect different places. During the inspection of potential sites, each local government tried to persuade the experts, using different ways, to locate the project in their own regions. But the investigating group showed more interest in Guangdong Province. One important factor to affect the attitude of the decision makers was that the Guangdong Provincial Government itself is a shareholder in the project. Thus, its influence carried substantial weight in the decision making. However, no sooner had it decided to locate the project in Guangdong than a new round of competition occurred within the province.

Taking into account the even distribution of industries in the province and in order to give a stimulus to the economy of the western part of the province, the Provincial Government vigorously advocated that the project should be sited in the Zhanjiang Municipality, a western region of the province. But some other coastal areas, such as Maoming, Shantou, and Dongguan municipalities, hoped to win the project from the Provincial Government. They sent their delegations to try to persuade the investigating group to choose a site in their areas. Because these areas were relatively developed in the field of industrial economy and education, their persuasiveness also put pressure on the decision makers. Just while the experts hesitated in making a choice, the chief leaders of Huizhou warmly invited them to visit the DBEDZ. Actuated by the hospitality and curiosity to the newly established zone, the experts promised to make a short visit and whenever they inspected the zone they were *attracted by the excellent natural conditions for industrial investment*. The experts

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acknowledged that the DBEDZ faces the Daya Bay which is a natural deep-water harbour; has vast areas of land to meet the needs of a giant project; and in addition the zone can provide the project with quite good conditions in transportation, communications, fresh water and power supply. All these aspects are rare advantages for a petrochemical project. So, without further hesitation, the experts chose the DBEDZ as the location for SCSPC.⁵⁰

If the site selection process for the petrochemical project has shown the interest conflicts existing between different provinces and regions, the story of the birth of the Panda Motors Corporation(China) further demonstrated the disjointed and incremental nature of Chinese policy-making at the end of the 1980s and early 1990s.

In September 1988 an American transnational corporation, the Virginia Commercial Group, established a sub-corporation—the Panda Motors Corporation(PMC). Douglas MacArthur, a former professional diplomat, held the position of Chairmen to the Board of Directors; the President was Charles C. King, a Korean with American nationality, who had twenty years experience in the marketing of motor spares. Some other members of the Board of Directors were also marketing specialists in America and played an important role in promoting the sales of Japanese and South Korean

⁵⁰ These two sections draws on the interview with Lin Hongzhao, the Director of the Administrative Committee of the DBEDZ, and Li Yinzhu, the Director of the Investment Administration Office of the DBEDZ, January 1991.

Motors in North America during 1970s.⁵¹

The PMC aimed to establish a motor manufacturing plant in China. According to its feasibility study report, the plant would produce a popular style of car to meet the needs of developing countries. The initial investment would be 250 mn US\$. Within ten years the total investment would amount to one bn US\$. By the end of 1990 the project would go into production; by 1991 it would produce 50 thousand cars; and by the end of 1995 the production capacity would be 300 thousand cars annually. All these cars would be exported to other developing countries.

For local governments in China this was an attractive project, but for the Central Government this seemed to be a project that would threaten to the national motor industry. Thus, the project resulted in a competition between the local governments and a bargain between the local governments and the Central Government.

In October 1988, the PMC sent a group to China for the purpose of site selection and negotiation. As soon as the delegates of the PMC arrived China, they were invited to visit Xiangfan Municipality in Hubei Province, which is the location of the Second Motor Manufacturing Plant of China(SMMPC). The place is an industrial and commercial centre which links South China with North China. It is through here that the Yangtze River flows and through which a main line railway runs, so the place

⁵¹ Yang Zhi, Notes about the Establishment of the Biggest Foreign Operated Project in China, in *Wide Angle Lens*, Hong Kong, August 1990.

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enjoys developed transportation. As an important base for the motor industry, the place also has a powerful machining capacity and a galaxy of technicians to meet the demands of a motor project. At the beginning of the negotiation, the delegates showed great interest in the place, but after further contacts their enthusiasm decreased because the local leaders were only interested in a joint-venture and not an exclusively foreign-owned project. The local policy makers were sceptical whether PMC could really sell all its products in international markets or not, so they were highly sensitive to the possible threat, from the outsiders, to their own domestic market.

Frustrated in Hubei, the PMC group received an invitation from Shanghai. In the biggest industrial centre of China, the PMC negotiators saw the former mayor Wang Daohan, who was then a leading figure in the Economic Cooperation Circle of East China. Wang explained the intentions of the Shanghai Municipal Government to the delegates——there are two alternative ways for the PMC project in Shanghai: one was to found a joint-venture; another one was to establish their own project in the Pudong Economic Development Zone⁵². Obviously, the first choice could not meet the requirement of PMC, so they wanted to try the second way and so travelled to the Pudong Economic Development Zone for investigation and negotiation. Like the case in Hubei, no sooner had substantial negotiations started than the warmth of the negotiators began to go cold, because the charge of land-use in the zone was too expensive(300 RMB yuan for a square metre) and there were still a number of

⁵² This is a central-sponsoring zone which enjoys the most preferential treatment in China.

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residents and old buildings within it that needed to be moved. For the motor manufacturing project, it needed at least 10 square kilometres of land so that the land-use fee alone, would amount to three bn RMB yuan. The cost would exceed the budget of the project.⁵³

After two frustrations, the delegates were wondering where they would find an ideal location for the project, even though there were other places to choose. Under the circumstance, the former mayor Wang Daohan suggested to them that they should consult a businessman from Hong Kong. That businessman was Wang Jikuan, a key figure liaising between the Chinese Government, companies and Hong Kong business circles.

As an international financial and trading centre, Hong Kong is a treasured land for the Chinese Government. In order to fully use the advantages of this land for the economic development of the mainland, various Central Government ministries and different local governments set up a large number of corporations in Hong Kong, which have been called, "Chinese operated corporations" by the Hong Kong people. Wang Jikuan is the president of one of these corporations—Hong Kong Yongxin Technology Development Ltd. Before leaving Beijing for Hong Kong, Wang was a senior officer in a vital department of the State Council. After moving to Hong Kong he maintained a close relationship to the high leadership. One of his missions in Hong Kong was to build a bridge between mainland corporations and Hong Kong

⁵³ Source: The Xin Hua News Agency ed., *Domestic Development*, No.2116, 30th August 1990.

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businessmen and introduce industrial projects into China, so he was regarded as a key figure by both sides.⁵⁴

Acting as a go-between, Wang Jikuan had inspected different coastal areas in China, including the DBEDZ. He was deeply impressed by the excellent natural conditions for industrial investment in the zone, and hoped to introduce the virgin land to the outside world. In 1988, he tried to encourage a brown goods project to locate in the DBEDZ. For various reasons his effort did not succeed, which he regretted. Therefore, when the PMC delegates visited him in Hong Kong and consulted him about the suitable location for the motor manufacturing project, Wang's first thought was to the DBEDZ. In December 1988, Wang showed the PMC group around on a visit to Huizhou.

For the leaders of Huizhou the PMC project fitted in exactly with their wishes. Hence most of the chief leaders, including Deng Huaxuan(the First Party Secretary), Lin Shushen(the Standing Vice-Mayor of the Municipal Government) and another vice-mayor who was charge of industrial development, attended the negotiations with the PMC group.

On 19th December, accompanied by the chief leaders and Wang Jikuan, the President of PMC, Charles King, and his colleagues inspected the DBEDZ. As soon as they

⁵⁴Wang Zhigang, A Development Report of the Daya Bay, in the *Cultural Journal of Guangdong*, Vol.6, 1990.

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entered the extensive coastal land they were attracted to the favourable environment for the industrial project. Examining the zone from the perspective for potential investments, the motor manufacturing company recognized that there had been good pre-conditions for a motor project within it: convenient transportation, a deep-water harbour, cheap and vast land, the proximity to Hong Kong, sufficient fresh water supply, and a reasonably good "soft" environment (preferential treatment and efficient administration). According to the recollections of Deng Huaxuan, at that time there were few complicated calculations or intense bargaining, since Charles King, from the start, had intended to base the project in the DBEDZ. After on-spot inspection, the two parties started to negotiate specific issues on the same day and had reached a tentative agreement by the evening. For the purpose of reference, Charles King suggested that a memorandum, for recording the results of the agreement should be written. The memorandum was drafted by the Standing Vice-Mayor Lin Shushen on that night. On the second day it was translated into English and sent to the Head Office of PMC. According to the memorandum, PMC selected the DBEDZ as the location of its motor manufacturing project and production capacity will be 300 thousand of cars of a popular style per year. All the products shall be exported. The initial investment was 250 mn US\$ and the total investment within 10 years will be one bn US\$. The Huizhou Municipal Government would provide all necessary convenience for the establishment of the project.⁵⁵

On 21th December, Charles King and his party left Huizhou for America. On his

⁵⁵ Source: People's Daily, 23rd November 1990, and interview with Deng Huaxuan, January 1991.

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departure King made an appointment with Deng Huaxuan: he would come back to sign an official contract one month later.

As expected, on 20th January 1989, King arrived with a team of experts containing engineers, designers, programmers and translators in Huizhou for further official negotiations and to sign the contract. Everything seemed to be going smoothly, but changes were stirring within the Chinese party. Originally, both sides of the negotiation agreed to keep the process of the project a secret, but in practice it is difficult to restrict all the channels of information in such a way. Just before the PMC team came back to Huizhou, the Chinese Motor Industry Association(CMIA) and pertinent ministries of the State Council heard the news. The project aroused their suspicions. A series of doubts were set forth: why is the investment for a big motor project, such as this, not coming from the old brand motor manufacturing corporations but from a few motor retailers of America?; is it really possible that PMC will export all its products without seizing the domestic market of China?; is it true that the investment for the project is all from foreign firms but dose not contain any shares from Chinese overseas corporations?...⁵⁶

Out of concern for the interests of the national motor industry, the Central Government began involving the negotiations for the project. The first step was to send a group of a few officials and experts to Huizhou to investigate the negotiation

⁵⁶ Source: Yang Zhi, Notes about Establishment of the Biggest Foreign Operated Project in China, in *Wide Angle Lens*, Hong Kong, August 1990.

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process. But up to then, no specific measures were adopted to interfere with the project, and so the negotiations in Huizhou went on as normal.

The local leadership of Huizhou attached great importance to the negotiations. The First Party Secretary Deng Huaxuan was the chief negotiator and Mayor Li Jinwei also attended the negotiations. On the basis of the memorandum, more specific issues concerning the project were discussed. Without any great trouble, an agreement was reached: at the initial stage PMC needed 2 square kilometres of land in the DBEDZ for the project. The Huizhou Municipal Government transferred the right of land-use to PMC under a payable condition. The period of land-use rights is 50 years at a land-use fee of 20 mn US\$.

The negotiations only took one day to reach a conclusion. By mid-night everything seemed to be resolved and a Chinese-English contract had been drafted out. Then the Mayor Li Jinwei and the President Charles King signed the contract on behalf of each party.⁵⁷

According to The Law of the People's Republic of China on Enterprises Operated Exclusively with Foreign Capital,

"The application to establish an enterprise exclusively with foreign capital shall be submitted for examination and approval by the department under the State Council,

⁵⁷ Ibid..

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which is in charge of foreign economic relations and trade or by other authorities entrusted with such powers by the State Council".(1986)

Thus, the PMC project shall be subject to approval by the Guangdong Provincial Government, which had been authorized such powers.

On 17th March 1989, the Foreign Economic Commission and the Planning Commission of Guangdong Province issued the document: "The Official Reply to the Application of the American Panda Motor Corporation Concerning the Establishment of the Chinese Panda Motor Corporation in Huizhou". The document officially approved the establishment of the project. With regard to the document, the DBEDZ immediately issued the business instruments to PMC and handled the matters concerning land-use.

By this date, all the initial negotiations and preparation had been completed, therefore, PMC entered the implementation stage of the project. It set up an office in Huizhou, opened two accounts in the Hong Kong and Huizhou branch of China Bank, transferred 50 mn US\$ to the Hong Kong account and 12 mn US\$ to the Huizhou account, and paid the initial charge for the land use. Then, more than 70 American and Japanese specialists, hired by PMC, arrived in the DBEDZ to oversee the overall planning of the project and the design of the first assembly shop.

While PMC was launching its new enterprise something quite unforeseen happened.

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On 9th May 1989 the Guangdong Provincial Government received a notice from the General Office of the State Council ordering them to freeze the PMC project immediately. It was said that the notice represented the opinion of the highest leadership and ministries of the State Council concerned. The preliminary investigation by the State Council group deepened the suspicions of the highest leadership surrounding the PMC project. For one thing, the feasibility study report, submitted by PMC seemed to be too ambitious. According to the report, the annual output of the motor project would amount to 2.1 millions cars within the first 15 years and the corporation would rent 81 square kilometres of land. But the report had not provided any reliable base for the targets. It was hard to convince the high leaders that PMC could set up an enterprise which would cover an area five times as large as Macao; for another, it was unsure whether PMC was really capable of selling all its products in international markets, because, recently the American motor industry had been in recession and the industry was not prosperous in other countries. The high leadership was worried that the founding of the PMC project would compete within the domestic market. Furthermore, it was suspected that some Chinese overseas corporations had been involved in the project, because at that time many cases came to light where companies had used investment, given to them by the government for the specific purpose of investing abroad, to invest domestically. In this situation, Premier Li Peng attacked the local leaders of Guangdong Province, particularly Huizhou Municipality, when he said "Why did you not consult the ministries of the Central Government concerned and other corporations in the motor industry before approving such a giant project." Then he sent another group, which

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was headed by the President of the CMIA, Chen Zutao and composed of 7 senior experts on the motor industry and law, to investigate the background and credit status of PMC in detail.

Due to the abrupt change, and the political disturbances between May and June of 1989 in China, the PMC project was postponed for the time being and its capital in the Huizhou branch of the China Bank was transferred to Hong Kong.⁵⁸

On 18th July 1989, the investigating group arrived in Huizhou. From 18th to 29th, the local leaders of Huizhou presented different documents concerning the project to Chen Zutao and his colleagues in order to convince them of the reliability of the project, and took them to an on-the-spot survey of the DBEDZ and the workshop location of the project. Through a series of hard negotiations and bargaining, the local leaders succeeded in changing the attitude of the members of the investigating group. In the report to the Central Government, the following conclusions were made by them:

The first point was that the DBEDZ contains ideal land for industrial development and the different aspects in the investment environment are really suitable for a motor manufacturing project. "If I was the investor, I would also choose the zone as the site of investment." Chen Zutao said. As for the ambitious targets of the PMC, the

⁵⁸ These few sections draw on Yang Zhi's article in *Wide Angle Lens*, August 1990, and interviews with officials of Huizhou in January 1991.

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President of PMC, Charles King, has given an explanation. He recognized that the feasibility study report exaggerated their targets to some degree, but was done so as to attract the Chinese policy makers. He believed that the bigger the targets, the easier it would be to have the project approved in China. Actually, the target of producing 2.1 million cars annually was only a wish and not an operational plan. Also PMC would not let their funds lie idle by renting too much land.

Secondly, the background of PMC is reliable and its credit status is trustworthy. The Chairmen of the Board of Directors of PMC, MacArthur, is an ambassador to four U.S. Presidents, from Eisenhower to Nixon, and unlikely to gamble his own reputation. Furthermore, in light of the bank statements provided by PMC, it can be seen that the corporation has a good reputation with several banks.

Thirdly, the documents of legal effect, signed by the two parties, agree that all the products of PMC will be exported and according to the product design plan, the site selection, the marketing survey and strategies, PMC genuinely aims to export its products. The investors believe, even though international car markets are tending toward saturation point, that PMC, relying on cheap labour and land in China, may produce popular style cars at a low cost and competitive price. Thus, it would be possible to capture a share of the markets in third world countries. Therefore, the founding of the project will not threaten the Chinese national motor industry.

Finally, it has been ascertained that PMC is a wholly foreign-owned corporation

without Chinese overseas capital and that the Guangdong Provincial Government has checked this before approving the project. Therefore, the Chinese party will not share risks associated with the investment.⁵⁹

The report seemed to dispel the doubts of the high leadership and this time another political factor occurred that made the project unfreeze faster. As mentioned before, the PMC project was born at the time of the political disturbance in China. The events around 4th June 1989 led to economic sanctions being imposed on China by Western countries and so frustrated foreign investment in China. A large number of foreign investors and managers were withdrawing from China. Only a few foreign corporations and projects still remained in the country. PMC was one such corporation. A particularly important sign observed by Chinese leaders was that Chairman MacArthur of PMC flew to Huizhou to preside over the foundation ceremony of the PMC project on 27th June, when the "4th June" event had just passed by. This was seen by the Chinese leadership as a positive act by the PMC. At that time the high leadership was not only concerned with the economic benefits from the PMC project, but also paid attention to its potential political influence—the foundation may be helpful to break through the economic sanctions and recover the confidence of foreign investors in the Chinese Government. In this situation, the Premier Li Peng decided to personally unfreeze the PMC project at the beginning of

⁵⁹ These sections draw on Lin Gang, Panda Motors in China, in *People's Daily*, 23 November 1990; Yang Zhi's article in *Wide Angle Lens*, Hong Kong, August 1990; and interviews with officials of Huizhou, January 1991.

August 1989.⁶⁰ From this date the PMC project at long last obtained a "birth certificate".

Generally, in the competition to attract giant projects to the different regions, Huizhou surpassed its neighbouring opponents by exploiting its fine natural conditions and making audacious policy measures. The location of several super-projects improved the reputation of the DBEDZ greatly, and further propelled the introduction of capital. Attracted by the boom in Huizhou, many investors from foreign countries, such as Hong Kong and particularly those from Taiwan, came to the DBEDZ to search for a site for their projects. The number of medium and small projects with foreign investment increased abruptly. Within the first half of 1990 alone, more than 100 projects with foreign investment were introduced into the zone, with the capital amounting to 190 mn US\$.⁶¹ The boom in the DBEDZ also attracted the attention of the top leaders of China. In 1990 almost all the chief leaders (including the Party General Secretary Jiang Zemin, the Premier Li Peng, the State Chairman Yang Shangkun, and the President of the National People's Congress Wan Li) inspected Huizhou, where no top leader had ever presented himself. These events made the DBEDZ more famous and precious. After no more than one year, the price of land-use, in the zone, had risen by five times. This tendency led to interest conflicts within the Huizhou Municipality. On the one hand, the policy makers of the Municipal Government realized that it was more and more necessary to device a

⁶⁰ Ibid..

⁶¹ Source: interview with Wu Zhoudai, the director of the Policy Research Office of The Huizhou Municipal Government, January 1991.

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unified plan for the development and overall arrangement of land-use in the DBEDZ as the amount of foreign investment increased. Therefore, the Administrative Committee of the DBEDZ was established to replace the original Command Post created in September 1990. The Administrative Committee was "authorized to be in charge of the overall planning, examination and approval of the application for land-use and with the formulation of specific regulations."⁶² On the other hand, disagreements over land-use, among governments and organizations at lower levels, was becoming more intense. The DBEDZ is composed of two counties(Huiyang and Huidong), ten odd towns, and a number of villages. As the zone increasingly thrived with economic activity, the local officers of the counties, towns, and villages also began to realize the value of the land on which they were living, so they ignored the announcement of the Municipal Government and looked to seize as much of the land as possible. Without any overall planning, the lower governments sold much of the land-use rights by themselves, or constructed a lot of simple, irregular buildings within the zone. These buildings were used for business, in the short term, but in the long term were used to increase the bargaining powers of the local governments with superior governments or investors. The leaders of Huizhou recognized that the interest conflicts had produced a lot of trouble in the Municipal Government's overall planning.⁶³

8.2.6. Summary

⁶² The Huizhou Municipal Government, The Announcement of the Huizhou Municipal Government Concerning the Land-use, Planning, and Construction of the DBEDZ, No.86, 1990.

⁶³ Interview with the Director of the Administrative Committee of the DBEDZ Lin Hongzhao, January 1991.

The case of the DBEDZ denotes another tendency in Chinese policy-making which resulted from economic marketization, administrative decentralization and interest differentiation. The evolution converged with the current of incrementalism of Western style political systems, even though it is not the equivalent of it. From the case study, several features of policy formulation may be summarized and the features seem to fit the framework of "incrementalism" constructed by Charles Lindblom *et al.* to depict the policy-making process in the United States.

First of all, with the extension of the reform, the central control over local policy-making concerning economic issues had been eroded to a large extent. Local governments had gained more autonomy and discretion and this enabled them to make independent decisions according to their regional interests. As can be seen from the founding of the DBEDZ, which was neither sponsored by the Central Government nor supported by the Provincial Government, it was possible for local leaders to make some audacious policy programmes without the worry of interference from superior governments. All the decisions over key issues concerning the DBEDZ, including the method of land-use, concessions to foreign investors, and the efforts to attract super-projects, were taken by the local government itself. Some of the local policy measures were different from and even went against the general policies (e.g, the zone provided more concessions and charged a cheaper rate for land-use to foreign investors). The facts demonstrate the growth of a more dispersed decision making power in policy formulation.

Secondly, policy-making had become a more complicated process with a variety of participants. Although political leaders still played an important role in policy formulation, most of the decisions were no longer simply derived from their subjective wishes but were shaped by the influences of different actors. For example, the initial plan of enrichment by the Huizhou leadership was born mainly due to pressure and complaints from local people concerning their poor living conditions in comparison with their richer neighbours; in negotiation with the PMC project, an outsider, Wang Jikuan was involved in playing a key role in helping to bring about an agreement between the local government and the foreign investors; also in various negotiation processes and in the overall planning for the DBEDZ, more and more specialists played a greater role in different policy-making.

Thirdly, interest conflicts and regional friction had developed to such extent that they had significant bearing on economic policy-making. The case study shows us that policies surrounding the DBEDZ involves interests from different sides and resulted in a considerable amount of contention between different sides. Competition, bargaining, and consensus building ran through to the end. For example, the early strategies for the development and the programme of "take-off in one leap" originated from the economic competition between Huizhou and its neighbouring regions; the shifting of the petrochemical project, invested by the Taiwan businessmen Wang Yongqin, was a result of competition between Guangdong Province and Fujian Province and the struggle for the SCSPC reflected the interest conflicts between different provinces and regions, and between the superior governments and lower

governments. The decision to freeze the PMC project revealed the clash between local governments and the Central Government and the strive for land-use in the DBEDZ involved interest conflicts between the communities within the zone. It cannot be denied that these interest conflicts also existed in the previous period, but they had never been so prevalent and so intense, therefore they had never exerted such an influence on policy-making in the period of the "All-Round Reform".

Finally, policy-making was not a process with sudden and sweeping changes but was a serial and incremental process. This can be seen from the evolution of a series of policy programmes concerning the establishment and development of the DBEDZ. In the initial programme for enrichment, the policy makers set forth three policy measures for Huizhou's development: imitating the model of the neighbouring regions to develop processing industry; strengthen the infrastructure ; and to adopt the strategy of gradual development. The second and the third measures were kept in the later "take-off" programme, but the first measure was replaced by a new stress to introduce both capital-intensive and labour-intensive projects. Likewise, the "take-off" programme was not fixed but was adjusted step by step in light with contextual changes. It indicates that the local policy makers cannot draw out a perfectly acceptable programme but have to accept relatively acceptable programme and make small adjustments to previous policies.

Chapter Nine

Conclusion

The thesis has drawn on the literature concerning policy-making, using models designed to study Western-style systems on the one hand, and the Chinese system on the other, to help us construct our own theoretical model. The study has applied the model to explain the movements in Chinese policy-making patterns. This chapter summarizes the major findings of the study and makes additional observations on the most recent development in China's policy-making system.

9.1. Summary of the principal findings

This thesis focuses more on changes in the policy-making pattern than on any tendency in policy outcomes. The preceding analysis suggests that the economic policy-making process in the China during the years between 1976 and 1990 was marked by an evolution from "political-factionalism" to "experiential-pragmatism" and, in turn, to the co-existence of "techno-rationalism" and "bureaucratic-incrementalism". The movement was driven by four contextual forces, each of which was activated in different periods and to a different extent. This study also offers an explanation of how the changes in the contextual variables brought about the transformation of the policy-making pattern by taking into account the alterations of the decision situation. However, it is necessary to note that this study only highlights the major characteristics of the Chinese policy-making patterns in different periods

CONCLUSION

and in a particular sector rather than providing an all-embracing description of the process. The Chinese policy-making process in each period may not be so pure as suggested by any one of the four approaches, but rather a mixture or a hybrid. For instance, when we say that the policy-making pattern in the transitional period can be characterized by "political-factionalism", it does not imply the non-existence of any impact brought about by interest conflicts among the governmental agencies in their policy-making activities. Rather it means that the influence of factional struggles were so powerful that other factors were submerged by the power consideration; and vice versa, when we claim that the policy-making pattern in the comprehensive reform period can be described as a process dominated by "bureaucratic-incrementalism", it does not mean the extinction of factional struggles in the policy process. Rather, it means that the interests had been so differentiated and the power had decentralized to such an extent that the influence of factional struggles could no longer cover up the interest conflicts between bureaucratic agencies. Thus, the political power consideration had to make way for the economic interest calculation of the participants. Nevertheless, in order to highlight the key features of the policy-making patterns in different periods and depict the main stream of the movement, we have to exclude some minor factors and dimensions to chart a clear-cut outline of the process, which may yield a slightly "distorted" image of the reality.

Our observation of the Chinese policy-making process begins with 1976, when the paramount leader Mao Zedong passed away and the "Gang of Four", an extreme-leftist faction, was defeated. Through a causal analysis and a case study, we find that

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in this transitional period the decisive role of economic policy-making was played by the higher political leaders who formed factions around their common interests. Policy initiation and formulation was mainly motivated by the power consideration rather than national or regional interests, and policy changes were realized through political struggles and factional rivalry surrounding the power distribution. This pattern of policy-making was a product of the heritage from Mao's era, they involved the command planning system of economic management, the over-concentrated power structure, persistent factional struggles, underdeveloped social conditions, and the prevalence of dogmatic ideology. These legacies generated a decision situation which was compatible with "political-factionalism".

With the process of moderate reform, we saw the development of an alternative pattern of policy-making. This appeared at the end of the 1970s, and was characterized by a series of new features: the pragmatic leadership took over the control of the policy-making process; participation was extended to departmental bureaucracy and local officials; pragmatic values replaced orthodox doctrines and power consideration as the main motivating factor behind policy-making; and experience accumulation and an experimental approach were adopted as the fundamental means for policy formulation. The driving forces behind the transformation encompassed the changes of a few contextual variables, including a moderate pace of marketization in the economic system, a preliminary separation and decentralization of decision making power, a temporary subsidence of tense factional struggles, and a significant switch in official ideology. These changes led to the

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corresponding shifts in the decision situation confronting the policy actors, and therefore brought about the replacement of the policy-making pattern.

Later there was a launching of the comprehensive reform in the mid-1980s. From then onward, two simultaneous tendencies have been evident. The first was a preliminary rationalization movement. It meant that on many occasions of economic policy-making, specialists, including professional bureaucrats, economists, social scientists, and policy analysts, etc. started to play an important role in policy design and assessment. Policy-making involved more rational calculations of social and economic values sacrificed or achieved by a policy alternative, and correspondingly, various newly developed rational means of decision making had been applied to solve complicated policy problems. This development resulted from the considerable changes in social conditions, such as the emphasis on the key role of education in the modernization of the society, the stress on the level of education and knowledge in promoting officials in the party and the government, the progress in science and technology, the revival of social sciences, and the increasing communication with the international world. These changes had created more opportunities for better-educated people to enter into the high ranks of the bureaucracy and to take key positions in the policy-making process, and had expanded the decision making arena to the research community outside the party and the governmental agencies, and made rational methods and techniques of decision making available for policy actors. So, the changes in the contextual variables had resulted in a situation in which "techno-rationalism" rose.

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Another tendency was more obvious and more significant in the transformation of the Chinese policy-making pattern. The tendency was characterized by the erosion of central control, the more dispersed power of decision making, the strengthening of the autonomy and discretion of local governments and bureaucratic agencies, diversified influences from different actors, the interest frictions between regional authorities, and an incremental process of policy formulation and adjustment. This pattern was generated by radical measures of economic marketization, administrative decentralization, and interest differentiation. The market oriented reform had produced a diversified participation in economic policy-making, had expanded the arena of policy discussion, had increased the weight of local interests and local leaders in affecting decision choice, and brought more bargaining and negotiations into the policy process.

Taken together, what we find in this thesis is a dynamic process, within which the dominant pattern of policy-making was changing constantly. Each pattern adapted to a specific situation, and each situation was the function of a set of contextual variables.

9.2. The most recent development in the Chinese policy-making process

The political upheaval that erupted in May and June 1989 seems to have been a serious setback and terminated the reform that had been carried out for a decade. In practice, this political event terminated only the political reform rather than the whole

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reform campaign. Since the end of the 1980s, the economic reform has gone further along the road of marketization and regionalization. In this process, the centre appears to have further lost control of the accumulation, storage, and allocation of capital—one of the most critical resources necessary for economic growth. Regional authorities had created their own financial instruments, accumulated capital, and used discretion in the employment of locally generated resources. In 1989, for example, out of China's total fixed social capital investment of 410 bn RMB yuan, the central government provided less than 10 per cent. Local authorities provided the remainder.¹

By 1990, local leaders had become increasingly assertive concerning their regional interests. For instance, the governor of Shandong Province, Zhaozhi Hao, insisted that local governments must be consulted by the centre on policy matters before any attempt is made to implement them.² More recently, the deputy mayor of Guangzhou, Lei Yu, declared that "our cadres cannot blindly follow Beijing's orders."³ Both the propositions indicate clearly the rise of regional power, and reflects the fact that administrative control over much economic modernization has gradually been transferred to agencies of the local governments. Other evidence of the power shift is illustrated by the fact that some 70 per cent of the delegates of the 14th

¹Source: Ye Zhiqiu, The Seventh Plenum of the Chinese Communist Party Central Committee Was Replete with Contradictions, in *Young China Daily*, 20th November 1990, P.3.

²See Lin Lijian, The Rise in Power of Regionalism, in *Weekly on Chinese Affairs and Documents*, No.445, 3rd December 1990, P.19.

³See *The World's Daily*, 8th May 1991, P.10.

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National Congress of the CCP were appointed by lower-level organizations. This compares with around 50% in 1987. Furthermore, more local officials entered the new central committee and the politburo.⁴

The power regionalization was accompanied and pushed by further economic marketization. In August 1990, Chen Yuan, deputy governor of China's Central Bank, reported on the continued expansion of China's bond markets, the development of a secondary market for bonds, the decentralization and expansion of foreign exchange markets, the increasing influence of markets in the establishment of pricing policy, and the growth of a domestic stock exchange. From January to February 1992, the senior leader Deng Xiaoping had an inspection tour of south China. During the tour, Deng stressed the need to speed up the pace of economic reform and opening to the outside world. He asserted that

"We need not worry that somebody accuses us of adopting capitalism. We should further import foreign capital, further import sophisticated technology and good experiences, and further increase the establishment of enterprises with foreign investment."⁵

Then in October 1992, the 14th National Congress of the CCP endorsed Deng's thesis that a socialist state could have a market economy without the risk of turning

⁴See *People's Daily*, 19th October 1992.

⁵Xi Chen, Quotations from Deng Xiaoping in the Inspection Tour of South China, in *The Nineties*, March 1992, P.31.

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capitalist. Hence the heart of the party's policies for the future years is the orientation to the "socialist market economy".⁶

All of this is symptomatic of the most recent developments in China. The new changes have strengthened the centrifugal forces that reduce central control over the constituent regions of China, and increased economic disparities between different regions. In 1990, the average annual per capita GNP of coastal Guangdong province and Shanghai City was 1500 US\$ while the comparable figure for inland Gansu and Guizhou province was only 100 US\$.⁷ Of a group of 36 cities having an average per capita GNP exceeding 800 US\$, 20 per cent of these are the SEZs and "open-door" cities.⁸ These facts show the growing income gap between the richest and poorest regions of China.

Economic disparities have developed not only between the coast and the hinterland, but even among the specific areas along the coast. Throughout much of the process of export-fuelled growth, Guangdong enjoyed an average annual rate of growth about twice that of other provinces. It currently accounts for more than 29 per cent of the total number of registered private enterprises in China and employs over 17 per cent of the nation's private enterprise workforce. Also, Guangdong has about half of all

⁶Correspondent of *The Economist* in Beijing, China's Sort of Freedom, in *The Economist*, 17th October 1992, P.79.

⁷Source: Zhang Xin, On Regional Economic Autonomy in China, in *The Chinese Intellectual*, No.23, Spring 1991, PP.43-44.

⁸See *Young China Daily*, 23rd 1990, P.3.

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China's projects involving foreign investment. In 1990, Guangdong exported 10.5 bn US\$ worth of commodities—about 17 per cent of China's total exports. Guangdong's average per capita income is almost double the national average.⁹

The substantial divergence of interests has intensified the conflicts between regional authorities and between regions and the centre. These conflicts have further prompted regional authorities to make policies that pursue and protect regional interests. Local governments compete over primary and secondary raw materials and production goods such as cotton, hemp, silk, pigs, cement, and processed steel. There has been restriction on the flow of goods to and from other provinces through outright prohibition. Taxes are imposed on "outside" goods. Incentives are offered in the form of low interest loans and generous profit retention formulas to those engaged in the production, purchase or sale of local products. Sanctions are levelled against those who utilize "outside" goods or supplies. Those sanctions included the denial of bank loans, the cancellation of business licenses, and the withholding of necessary supplies.¹⁰

With regard to the import of foreign investment and projects, a more tough competition has evolved. By May 1992, twenty two provinces, cities, and autonomous

⁹Source: Maria Hsia Chang, China's Future: Regionalism, Federation, or Disintegration, in *Studies in Comparative Communism*, Vol. XXV, No. 3, September 1992, P. 218.

¹⁰This section draws on Yang Manke, Protectionism Rises, the Mainland Necessarily Divides after a Long Period of Unity, in *Young China Daily*, 13th September 1990, P. 3; Lin Lijian, A Critical Analysis of Mainland China's "Economy of Regional Princes", in *Weekly on Chinese Affairs and Documents*, No. 1431, 28th August 1990, PP. 7-12.

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regions had established a variety of economic development zones for attracting foreign investment. These zones enjoy the preferential treatment made by local governments themselves. Heilongjiang, Liaoning, and Jilin Province proposed to build the economic development zones which would provide more preferential treatment than the original SEZs for foreign investors. They also required autonomy from the centre to levy customs duties and discretion to approve free trade with foreigners.¹¹

All this evidence shows that the policy-making power in the economic area has become further fragmented and dispersed during the last few years. The central government can no longer impose its dicta on regional and local authorities and can no longer simply dictate policy formulation. It must negotiate with lower level officials. This situation was recognized by Jiang Zhemín, the Party Secretary-General, when he said that "In economic matters, the days of the centre commanding localities are gone forever."¹² After more than a decade of reform, it appears that China has become irreversibly polycentric and differentiated. It is no longer a simple political and economic system in which the central government and a small number of political leaders enjoy a monopoly. More and more, the centre has to compromise and broker competing interests, and share power with regional authorities.

¹¹See *Cheng Ming*, No.175, May 1992, P.17.

¹²Cit. Maria Hsia Chang, *China's Future: Regionalism, Federation, or Disintegration*, P.226.

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APPENDIX 1

Christensen's Model concerning Contingent Planning Processes, from Karen S. Christensen, *Coping with Uncertainty in Planning*, in *Journal of the American Planning Association*, Vol.51(1) 1985, P.69.

		GOAL	
		agreed	not agreed
TECHNOLOGY	known	A <ul style="list-style-type: none"> • programmer • standardizer • rule-setter • regulator • scheduler • optimizer • analyst • administrator 	C <ul style="list-style-type: none"> • advocate • participation promoter • facilitator • mediator • constitution-writer • bargainer
	unknown	B <ul style="list-style-type: none"> • pragmatist • adjuster • researcher • experimenter • innovator 	D <ul style="list-style-type: none"> • (charismatic leader) • problem-finder

APPENDIX 2

Forester's Model concerning Rationality and Practice in Administration and Planning, from John Forester, Bounded Rationality and the Politics of Muddling Through, in *Public Administration Review*, January/February 1984.

Type of Boundedness of Rationality	Conditions of Administrative/Planning Action					
	Agent	Setting	Problem	Information	Time	Practical Strategy
Comprehensive (Unbounded)	Rational Actor	One Room (Closed System)	Well-defined Problem	Perfect Information	Infinite	Optimize/solve (algorithm, technique)
Simon: Cognitive Limits, e.g., (Bounded I)	Fallible Actor	Room Open to Environment	Ambiguous Scope, Basis of Evaluation	Imperfect	Limited	Satisfice/hedge, lower expectations
Socially Differentiated (Bounded II)	Several; Varying skills, insight; cooperative	Several rooms, phones, socially differentiated	Varying Interpretations	Varying Quality, Location, Accessibility	Varying with Actors	Network/search and satisfice
Pluralist (Lindblom) (Bounded III)	Actors in competing interest groups	Rooms in Organizations Variable Access	Multiple Problem Definitions (Senses of Value, Right, Impacts)	Contested, Withheld, Manipulated	Time is Power	Bargain/increment, adjust/check
Structurally Distorted/ Political-Economic (Habermas) (Bounded IV)	Actors in Political-Economic Structures of Inequality	Rooms in Relations of Power: Differential resources, skill, status	Ideological Problem definitions; Structurally Skewed	(Mis)information ideological; contingent upon participation, "consciousness"	Time Favors "Haves"	Anticipate/counteract, organize/democratize

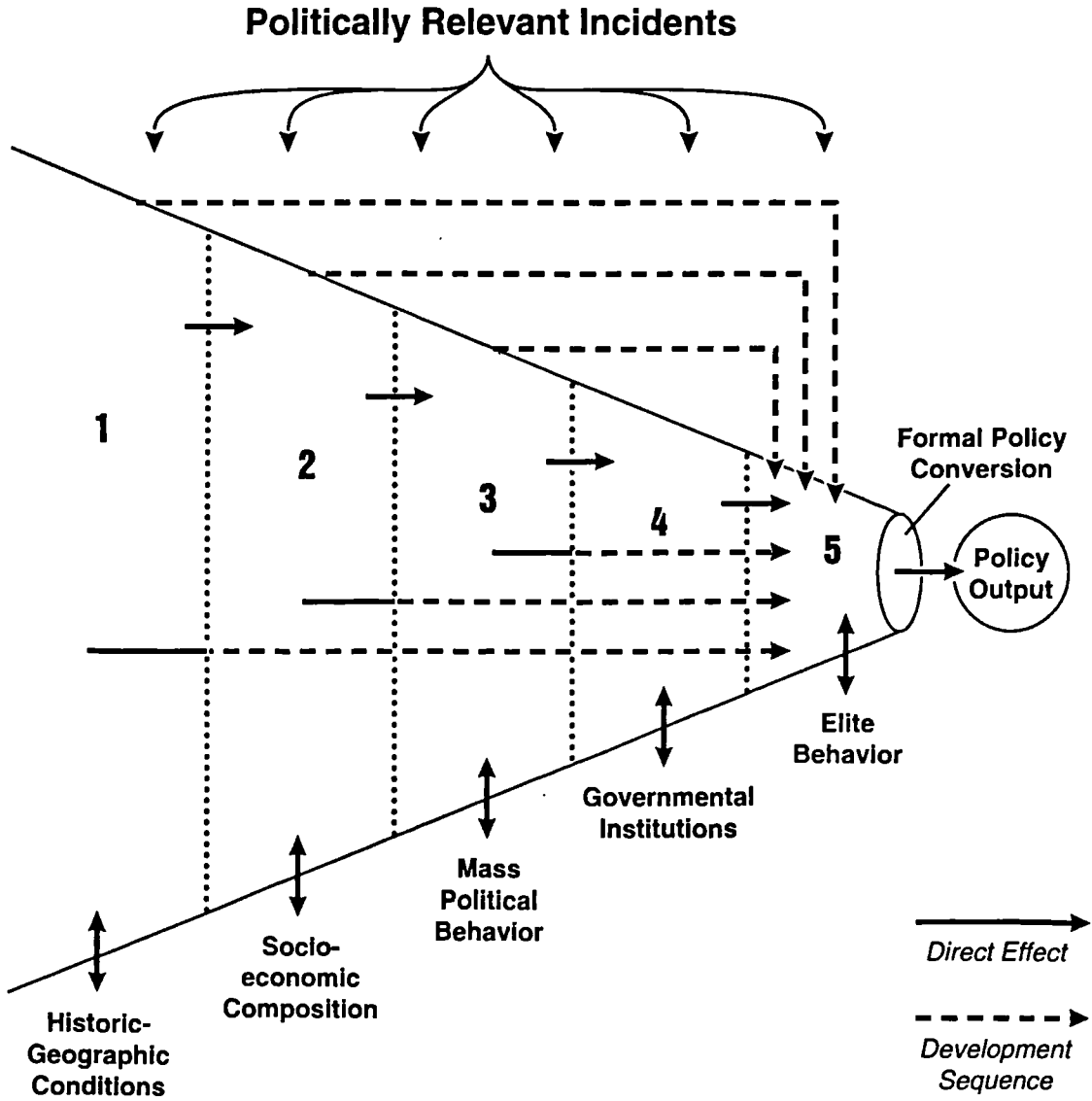
APPENDIX 3

Healey's Contingent Approach concerning the Continuum of Process Forms against Different Decision Rules, from Pasty Healey, *Policy Processes in Planning*, in *Policy and politics*, Vol.18 No.1 1990, P.99.

Process form	Potential political/administrative benefits	Criteria as to who is involved/on what terms	Criteria as to the relations between those involved	Criteria as to what constitutes a good decision
CLIENTELIST	Direct political support	Individuals with specific demands; in return for specific or general support	Patron-client dependency; populist politics	Maintenance of dependency relations
POLITICO-RATIONAL	Direct political support	Politicians; politically selected policy analysts; conformity with political ideology	Conformity with party ideology and politics	Conformity with political ideology
PLURALIST POLITICS	Legitimacy of state action determined competitively	Politically active groups	Competition between positions	Agreement of all parties and/or fair competition between participants
OPEN DEMOCRATIC DEBATE	Legitimacy and effectiveness of state action	Politically determined — via political ideology and voice; terms of entry politically negotiated	Open debate — fair hearing; discursive and/or oppositional; resolution by vote	Informed by knowledge and values of those affected by an issue
BARGAINING	Efficiency and effectiveness of state action	Mutually dependent parties in occasional relation; involved to resolve a blockage, to allow each to proceed	Negotiation around individual positions	Agreement of all parties
SPECIAL COMMITTEES	Legitimacy and effectiveness of state action	Expert etc personnel selected politically/administratively; agenda limited but open within these limits	Discursive debating mode	Informed by specialist knowledge and values
CORPORATIST	Efficiency and effectiveness of state action	Mutually dependent parties in continued relation; to maintain dominance by excluding other interests	Negotiation around a stream of present and future positions;	Agreement of all parties and maintenance of continued working relations among those involved
BUREAUCRATIC-LEGAL	Legitimacy of state action	Legally/administratively defined interests; administrative process	Correct use of formal procedures	Correct use of pre-determined rules
JUDICIAL/SEMI-JUDICIAL	Legitimacy of state action	Legally/administratively defined interests, around a legally/administratively filtered agenda of issues	Open debate, in investigative/adversarial form;	Fairness, reasonableness in UK (in Europe; conformity with legal rules?)
TECHNO RATIONAL	Legitimacy and effectiveness of state action	Technical experts define issues and interests, using expert knowledge and values	Scientific rationale of the issue in hand	Ends and means are related in a systematic way, informed by available knowledge
MARKET-RATIONAL	Efficiency of state action	Those with direct functional role	Functional rationale of the issue in hand	Efficiency — minimising return on investment, or minimum input/output costs

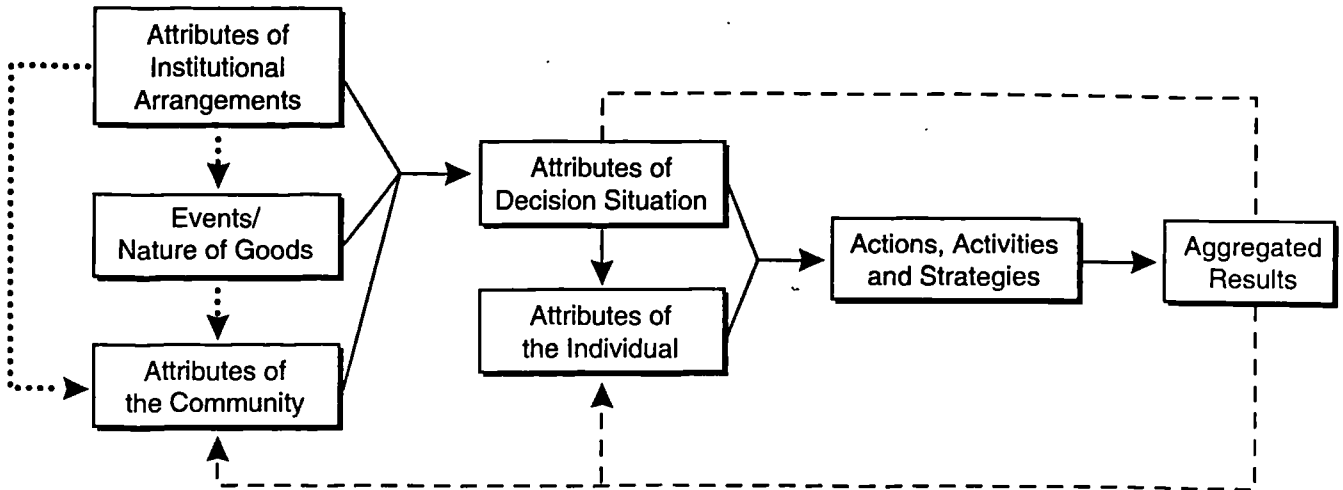
APPENDIX 4

Hofferbert's Model for Comparative Study of Policy Formation, from Richard I. Hofferbert, The Study of Public Policy, Indianapolis:Bobbs-Marrill, 1974, P.228.



APPENDIX 5

Ostrom's Framework for Institutional Analysis, from Elinor Ostrom ed., Strategies of Political Inquiry, Sage Press, 1982, P.187.



APPENDIX 6

Sabatier's Advocacy Coalition Approach, from Paul A. Sabatier,
 An Advocacy Coalition Framework of Policy Change and the
 Role of Policy-Oriented Learning Therein, in *Policy Sciences*,
 21(Fall) 1988, P.132.

