The Prelude to Government Reform in China?

The Big Sale in Shunde

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Abstract This article discusses two aspects of government reform in Shunde County in Guangdong during the 1990s, ahead of national developments. One was the restructuring of the government, including: marketization; delinking of enterprises and government bureaus; rationalization of organizational boundaries; and streamlining of the top city leadership structures. The other involved the divestment of public assets and a substantial redefinition of the role of the government in the economy. The role of local agency is highlighted in the processes of change, and the national impact of Shunde's early reforms is noted.

Keywords administrative reform, agency, government reform, ownership reform

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The urgency for government reform is mounting in China after two decades of flirtations with the market, and a deepening crisis in governance. Today is not unlike the times around the 13th Party Congress in 1987, when political reform once rode high in the official agenda, and discussions amongst the intelligentsia on the link between economic and political reforms abounded. In 1998 central leaders officially endorsed 'public finance' as the direction of fiscal reform, under which public monies would be directed primarily to the provision of 'public goods', and the government would gradually withdraw from the competitive sector.¹ But political reform is a daunting task. The central government attempted a 50 percent cut of civil service strength in 1998 and a restructuring of ministries and bureaus in line with the demands of a market-based economy. The results so far are mixed at the best.² At the grassroots level, villagers are being encouraged to elect their own village committee directors and officials in an attempt to alleviate the strife between grassroots cadres and the villagers, and in some cases the elected officials

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have become natural opinion leaders and helped the villagers to organize even more effective collective action against the government.³ The state sector economy continues to drain blood from the state coffers and the financial system, and the hastily restructured social security system is on the brink of bankruptcy.⁴ With China's accession to the World Trade Organization (WTO) in December 2001, the incompetence of the state sector and the governmental system is being further exposed.

Against this national backdrop of deepening crisis, the achievements of Shunde in government reform are considerable. In this well-off county-level city of a million people in southern Guangdong,⁵ the process of dismantling the old governmental structure of the planned economy started back in the early 1990s. Shunde's leaders had severed links between government bureaus and enterprises; radically reorganized bureaus and departments; trimmed the strength of the civil service; and put publicly-owned assets on sale in a controversial *de facto* privatization process. Unlike other localities initiating early administrative reforms, where reform momentum had often suffered setbacks and failed to be sustained, reforms in Shunde have stayed on track.⁶ A decade after the initial changes, new measures were launched recently to consolidate the early changes. New strategies were mapped out in 2001 to address issues of urbanization and rural governance.⁷ The sustained momentum of reform suggests that genuine changes have taken place, at least to some extent.

Reforms in Shunde have also started to make an impact on national reforms. *The Economic Daily*, a major national newspaper with wide nation-wide circulation, published, on 28 June 2002, a comprehensive report on Shunde's reforms since the 1990s. The report comprised 20 separate pieces and spanned four full pages of the paper. The leading article described Shunde's reforms as 'pioneering' and the people in Shunde as 'explorers' in the national reform process.⁸ A report on corporate reform by the State Council Development Research Center, released in November 2002, referred to the ownership reform experience in Shunde as a model to be emulated in future ownership reforms of state enterprises.⁹ According to a report in the *Shunde Daily*, some 200,000 people came to Shunde on various official study tours and delegations between 1994 and 2002, of which 140,000 were led by a central or provincial government official.¹⁰

This article takes a close look at reforms in Shunde from the early 1990s to 2002, using information drawn from fieldwork, archival research and literature review.¹¹ The discussion focuses on two areas of change: the

restructuring of government, and ownership reforms in the state and collective sectors. The following sections outline the changes in detail, and explain how it was possible for them to take place. The findings point to the importance of agency in the processes of change. Both national policy and local circumstances played an important part in local changes. But reforms in Shunde were not merely local implementation of national policy, nor were they entirely predetermined by circumstances.

Administrative reforms

Unlike previous rounds of administrative restructuring in the 1980s, which were essentially local implementations of top-down measures, administrative reform in Shunde, during the early 1990s, started with a self-appraisal of development strategies ahead of a national plan.¹² The four highlights in the changes were: 1) simplifying and merging leadership structures; 2) merging parallel government-party departments; 3) marketization; and 4) downsizing. As we shall see, what made Shunde's administrative reform stand out from subsequent national developments was not only its early timing, but also the scope of change.

Leadership structures

A major move in the reforms dealt with the top echelons of the city governance structures. In 1993, all major leaders in the local political map were incorporated into the Standing Committee of the Shunde Party Committee.¹³ When distributing policy portfolios to members, only one member was assigned for each of the portfolios to avoid duplication. The objective was to enhance efficiency of decision making at the top, and thereby improve implementation in the lower echelons of the hierarchy. One consequence of this move was that the Party Standing Committee had a larger membership than usual, totaling 17 in September 2002.¹⁴

Despite the hegemonic position of the Party, the relationship between the Party Secretary and the executive leader had never been easy, and a good number of national reform measures in the 1980s had been specifically aimed at improving this relationship.¹⁵ The leadership structure changes in Shunde sought to: first, delineate exclusive zones of jurisdiction for each member of the collective leadership; and, second, make one agency effectively *the* exclusive and definitive forum of decision making. From Table 1 it is clear

Affiliation	Portfolio	Incumbent
City Party Secretary	- Overall-in-charge of the Party Committee - Liaises with Daliang District	Yang Haoming
Mayor	 Overall-in-charge of the government Oversees fiscal finance, taxation, Secretariat of the City Party Committee/City Government, City Government Offices in Hong Kong/Macau Liaises with Ronggui District 	Zhou Tianming
Vice-Party Secretary	 Oversees party and mass organizations, 'spiritual civilization' (ideology), establishment, party school, youth/trade union/women's affairs Liaises with Beiau Town 	Yang Xiaoying
Executive Vice-mayor	- Assists the mayor in the day-to-day work of the City Government - Oversees rural affairs and agriculture, water works, civil affairs, climatology, and disability - Liaises with Xingtan Town	Wu Hongsao
Chairman of City People's Congress	- Overall-in-charge of People's Congress - Liaises with Leliu Town	Huang Jinqiu
Chairman of the City People's Political	- Overall-in-charge of the PPSC	
Consultative Conference (PPSC)	 Oversees united front, foreign and overseas Chinese affairs, education, health affairs Liaises with Longjiang Town 	Liu Shiyi
Secretary of the City Committee for Discipline Inspection	- Oversees the work of discipline inspection and supervision - Liaises with Junan Town	, Jiang Zuozhong
Secretary of City Committee for Political and Legal Affairs	- Oversees the judiciary, the procuracy, public security bureau - Liaises with Ronggui District	Liang Chaopeng

 Table I
 Standing Committee of City Party Committee, Shunde (As of September 2002)

Secretary of the Ronggui Town Party Committee	- Overall-in-charge of Ronggui Town affairs	Deng Weigen
Director of Organization Department, City Party Committee	- Oversees personnel and organizational matters - Liaises with Lunjiao District	He Qingxi
Secretary of the Daliang District Party Committee	- Overall-in-charge of Daliang District affairs	Zhang Xianbang
(not known)	- Oversees propaganda, culture and sport affairs - Liaises with Leliu Town	Li Yueping
Political Commissar of the City	- Liaises with Xintan Town	Zhu Weihua
Vice-mayor	 Oversees transport, electricity, postal service, communication, family planning, armed forces Liaises with Lecong Town, Liannan xian and the Three Gorges areas. 	Zhang Gen
Vice-mayor	 Oversees construction, land use planning, environmental protection, and centralized enforcement of administrative regulations and penalties Liaises with Daliang District 	Zuo Taoqiang
Vice-mayor	 Oversees labor and social security, audit, industry and commerce administration, technical and quality supervision, finance and insurance; assists the mayor in the administration of fiscal finance and taxation. Liaises with Chencun Town. 	Zou Guoxiang
Vice-mayor	 Oversees trade and the economy, safety in the workplace, development and planning, statistics, prices, technology, medicine regulation, ports, public assets management Liaises with Ronggui District 	Liu Zhixiang

Source: Shunde City Document No. 16, 2002, issued on 4 September 2002.

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that, with two exceptions, there was no overlap in the distribution of portfolios among the members of the Party Standing Committee. The two exceptions were first, liaison duties, in which up to three members may be assigned to the same locality, and second, in the case of two vice-mayors being required to assist the mayor in two policy areas.¹⁶ With all major players incorporated into the expanded Party Standing Committee, differences in opinions could be ironed out within the context of a meeting, rather than requiring the often protracted coordination and bargaining between different bodies, as before.

Under this new streamlined structure, the Party Committee became the natural candidate to act as the definitive forum. One may say that this has centralized power even more in the Party Committee, and thus reversed the trend of role differentiation between Party and state institutions. Checks and balances between agencies were traded, apparently, for greater efficiency. Such an interpretation would, however, face immediate rebuttal from local officials.

It is misleading to describe the change (in leadership structures) in 1993 as instituting a single center for decision making, since the Party (and its Party committee) has always called the shots. That is, the Party has always been the center! What matters most in the move is the end of 'cross-cutting' portfolios. Since 1993 the practice is that, in order to avoid coordination problems and shirking of responsibility, no two members in the city leadership would be given the same portfolio. The purpose is to facilitate a clearer sense of responsibility and improve efficiency. (Respondent no. 7, Shunde interviews, April 2002)

The question of the leadership structure reform weakening checks and balances between the institutions is actually a non-question. In the final analysis, the political system has always been led by the Party, and thus, with or without the current change, there can be no genuine checks and balances (of the kind you external observers expect). . . . There is, nevertheless, room for some kind of monitoring. This may come from the existence of the democratic parties, the non-CCP deputies in people's congresses, and the media. The best possible source of checks and balances within the existing political system rests, however, not in institutions, but in the quality of the participants – for instance, whether the people's deputies possess the appropriate intellectual and physical capacity to deliberate meaningfully public policies. (Respondent no. 6, Shunde interviews, April 2002)

Improving efficiency was thus the prime motive behind the change. Decisions needed to be made more efficiently at the top to lay a firm foundation for effective implementation. Considerations about the need for checks and balances were dismissed as irrelevant. As part of the move, a joint secretariat, the Joint Office of the City Party Committee and Government, was formed to serve both institutions, though the City People's Congress retained its own secretariat. Similar reorganization was conducted at the town/district level two months after the move at the city level.¹⁷ There, even the Town's People's Congress did not keep its own secretariat, and was made to share staff support with the Town Party Committee/government.¹⁸

Merging the parallel bureaucracies

A corollary of the cooption of leadership structures was the merger of the parallel party and government bureaucracies underneath. In fact, some of the mergers and reorganization of agencies predated the 1993 change in leadership structure. In September 1992, the Supervision Bureau in the City Government merged with the City (Party) Committee for Discipline Inspection.¹⁹ In February 1993, the City Personnel Bureau merged with the City (Party) Organization Department, and in March the merger extended to units concerned with agricultural policy.²⁰ Altogether, a total of ten Party/state agencies were amalgamated into five units. As shown in Table 2, the newly constituted units were sometimes placed in the Party hierarchy, and at other times in the government. In either case, what was important was that from now on, there would be only one agency responsible for policy formulation and implementation.

Marketization

Another main theme in the administrative reform was marketization. The government needed to reorient its role in the new circumstances of market economy, so that some functions formerly performed by the government, through traditional government departments, would have to be spun off and take on different forms. Some departments in Shunde government were, as a result of this process, transformed into enterprises, and others into non-profit-making service organizations. Included in the former type were the Commerce Bureau, Materials Bureau, Grain Bureau and the Broadcasting and Television Bureau, which were all abolished in late 1992 when many of their former activities were taken over by newly formed corporations. The City Archives, organized as a service agency, replaced the Archives Bureau,

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Table 2Restructuring the Shunde City Agencies

As of Early 1992	f End 1993 A ging Parallel Party/State Agencies	s of April 2002
P Party Committee Secretariat (General Office) G Government General Office	, , , , , , , , , , , , , , , , , , ,	/G Joint Office for Party Committee and Sovernment
P Organization Department G Personnel Bureau	rganization Department P	Organization Department
P Committee for Discipline Inspection G Supervision Bureau	ommittee for Discipline Inspection P	Committee for Discipline Inspection
P Agricultural Work Department G Agriculture and Fisheries Bureau G Water and Husbandry Bureau G Office of Green Commission		Agricultural Development Bureau Party agency to exist in name only)
P United Front Department	nited Front Department P	United Front Department
PPCC Office of the People's Political Consultative Conference	e office of PPCC to exist in name only) (The office of PPCC to exist in name only)
Subtotal (no. of) agencies): 12	5	
Intra-hierarchy Reorganization		
P Veteran Cadres Bureau	erged with Organization Department)	
P Propaganda Department P Office of Party History	opaganda Department P	Propaganda Department

G Planning Commission G Statistical Bureau	G Planning and Statistical Bureau	G Planning and Development Bureau (The renaming was intended to align with the higher level governments. In 2001, prices and grain were added to the portfolio of the bureau.)
G Economic Commission G Bureau of Industry G Bureau of Township Enterprises	G Industrial Development Bureau	G Bureau of Economics and Trade (The Bureaus
G Commission for Foreign Relations and Trade G Office of Finance and Trade G Bureau of External Trade G Office of Ports Affairs G Association of Material Supply and Trade	G Bureau of Trade Development	<pre>of Industrial Development and Trade Development merged in 1999 to form this new bureau.)</pre>
G Science Commission G Bureau of Technical Supervision	} G Bureau of Science and Technology	G Bureau of Science and Technology
G Office of Foreign Affairs G Office of Overseas Chinese Affairs	} G Bureau of Overseas Chinese and Foreign Affairs	G Bureau of Overseas Chinese and Foreign Affairs
G Education Bureau G Office of Adult Education	} G Education Bureau	G Education Bureau
G Bureau of Industry and Commerce Administration G Price Bureau	G Bureau of Price, Industry and Commerce Administration	(Price merged with the Planning and Development Bureau; Industry and Commerce ceased being under local jurisdiction in 2000.)
G Culture Bureau G Sports Commission	} G Bureau of Culture and Sports	G Bureau of Culture and Sports
Subtotal: 23	9	7
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As of Early 1992	As of End 1993 Merging Parallel Party/State Agencies	As of April 2002
Marketization	Administrative functions to be assigned to (if any):	G (Trade Development) Bureau)
G Bureau of Tourism	G (Trade Development Bureau)	
G Bureau of Broadcasting and Television	P (Propaganda Department)	P (Propaganda Department)
G Bureau of Commerce		
G Bureau of Materials		G (Planning and Development Bureau) ñ In
G Grain Bureau	G (Bureau of Economics and Trade)	6/2001, grain policy was transferred to the Planning and Development Bureau in line with the portfolio mixes at the national level.)
G Bureau of Archives		
Subtotal: 6	0	0
Other Changes		
G Taxation Bureau	(In flux: Reorganization into the National Taxation Bureau and Local Taxation Bureau)	(The Local Taxation Bureau came under the supervision of provincial government in 1999.) G Bureau of Administrative Enforcement (New bureau established in 2001) G Office of Public Assets Management (The Commission of Public Assets Management, estab- lished in 1995, was replaced by the Office in 2000.)

Agencies with Little Change

P Politics and Law Committee P Politics and Law Committee PC Office of People's Congress PC Office of People's Congress G Public Security Bureau G Public Security Bureau G Justice Bureau G Justice Bureau G Courts G Courts G Procuracy G Procuracy G Finance Bureau G Finance Bureau G Bureau of Water and Electricity G Bureau of Water Works G Transport Bureau G Transport Bureau G Labor Bureau G Labor Bureau G Health Bureau G Health Bureau G Civil Affairs Bureau G Civil Affairs Bureau G Family Planning Commission G Family Planning Bureau G Audit Bureau G Audit Bureau G Environmental Protection Bureau G Environmental Protection Bureau G Construction Commission G City Construction Bureau G Land Administration Bureau G Bureau of Land Administration and Planning MO Federations of Trade Unions MO Federations of Trade Unions MO Federation of Women MO Federation of Women MO Communist Youth League MO Communist Youth League MO Federation of Industry and Commerce MO Federation of Industry and Commerce Subtotal: 21 21

P Politics and Law Committee PC Office of People's Congress G Public Security Bureau G lustice Bureau G Courts G Procuracy G Finance Bureau G Bureau of Water Works G Transport Bureau G Labor and Social Security Bureau G Health Bureau G Civil Affairs Bureau G Family Planning Bureau G Audit Bureau G Environmental Protection Bureau G City Construction Bureau G Bureau of Land Administration and Planning MO Federations of Trade Unions MO Federation of Women MO Communist Youth League MO Federation of Industry and Commerce

21

Total Number of Agencies

63

33

Sources: Figure 3 in Jiang, Zuozhong, 2000. Institutional Change: 163-4; author's interviews; http://www.sc168.com/outlook/shundehistory/200201100121.htm

Key: G = Government; P= Party; PPCC = People's Political Consultative Conference; PC = People's Congress; MO = mass organization.

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which was a government department, and the Human Resources Exchange Center, formerly a subunit under the Personnel Bureau, was made an independent service delivery organization.²¹ As shown in Table 2, the six agencies affected under marketization accounted for 20 percent of the total decrease in the number of agencies.

Intra-hierarchy reorganization

A major part of the administrative reform took place within institutional boundaries. Often several agencies in the government, or the Party, were combined into one to streamline functions. A prime example was the Trade Development Bureau, which when newly created in 1993 incorporated six government bureaus, including foreign trade and economy, finance and trade, external trade, ports' affairs, material supply and trade, and tourism. The Industrial Development Bureau was formed on the basis of three separate departments: the Economic Commission, the Bureau of Industry and the Bureau of Township Enterprises. In 1999 the Trade and Industry Bureaus were merged into one - the Economy and Trade Bureau. Another area of merger was in planning and statistics, and price and industry and commerce administration. In 1993 the Planning Commission and Statistics Bureau became the new Planning and Statistics Bureau, whilst the Price Bureau and the Bureau of Industry and Commerce Administration merged into the Bureau of Price, Industry and Commerce Administration. Then, in 2000, industry and commerce administration came under provincial jurisdiction, triggering off a new round of reorganization. In January 2001, price policy was incorporated into the Development and Planning Bureau and in June, grain policy, originally assigned to the Bureau of Economics and Trade (in 1993), also came under the Development and Planning Bureau to align with the portfolio distribution in the central government.²² Other mergers in the government included culture and sports (forming the new Culture and Sports Bureau), science and technical supervision (the new Science and Technology Bureau), and education and adult education (the new Education Bureau). Within the Party hierarchy, the Veteran Cadres Bureau was downgraded to an internal unit within the Organization Department. and the Office of Party History became part of the Propaganda Department.

Table 2 gives the full list of city agencies as of spring 2002, both before and after the 1992/3 change. Altogether the reorganizations in 1992/3, both within government and across Party and state bureaucracies, reduced the

total number of city agencies (Party, government and congress) from 63 to 35. The 2002 figures, which see the total number of city agencies shrink further to 33, showed that whilst there had been further organization changes since 1993, these were largely consolidation and a continuation of the earlier exercise. Moreover, Table 2 covers the streamlining of standing agencies only. In addition, there was also a major effort targeting the 'temporary' agencies and internal units within standing agencies. Some 100 temporary agencies were abolished during the 1992/3 reform, together with about 125 internal units within agencies.²³

Two characteristics of Shunde's administrative reform, in the eyes of Shunde's officials, were its depth and scope. A full assessment of the first will have to await the following discussion on ownership reform. The substantial abolition of internal units within agencies does, however, suggest that the change went beyond simple adjustments to organization boundaries. In scope, unlike developments in Beijing and elsewhere, administrative reform in Shunde was not confined to the government. Thus, as seen in Table 2, city agencies included not only those in the government, but also Party organizations, representative bodies and traditional mass organizations. As one Shunde official pointed out, the criterion for inclusion was whether the organization was funded fully or mostly with government money, and was manned by staff from the 'administrative establishment'.²⁴

The question arises of the extent to which these reorganizations had a real impact on the size of government and how government performed its role. An initial indication may be obtained through the impact on staff numbers. As a result of the 1992-3 reorganization. Shunde achieved a 26 percent cut in the number of city-level serving officials – a reduction by 319 from 1235 staff. Moreover, a total of 123 officials lost their leadership positions, being moved to lower-rank leadership posts, or even to non-leadership positions.²⁵ Out of the 319 outgoing staff, the majority (89%) became staff members in government-agency-turned-enterprises as a result of the 'marketization' of the original government functions and agencies. The rest either retired early, left the public sector altogether and started their own businesses, or moved to townships and other cities.²⁶ On the face of it, the impact on staff appears to have been rather small, since most affected were still employed in the public sector, albeit now in state-owned enterprises rather than as officials in government or Party agencies. The impact on the size of payrolls was still less noticeable, as, in fact, the need to retire some staff early required a *larger* outlay from the state coffers.27

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On this point Shunde's officials have never denied that downsizing was costly: the price tag being made up of the following five parts.²⁸ First, the newly retired were guaranteed their pre-existing pay and perks. Second, those close to retirement age were allowed to take early retirement, and enjoy retirement benefits in full. Third, those leaving the public sector altogether were given a three-year period of grace during which they could choose to return. Fourth, for those joining the newly formed state-owned enterprises (and this group constituted the majority of the affected staff), previous experience and seniority would be fully recognized in the new organizations to ensure no loss in immediate and future benefits. Fifth, in the 123 cases of 'demotion', the affected staff would retain their original level of pay and perks. In other words, they would be paid more than the going rate for their current jobs.

The rationale behind such generosity was that entitlements needed to be honored to minimize resistance to reform. It was argued that it was inequitable to dismiss the entitlements of serving staff as merely stumbling blocks to reform, since individual staff had done nothing wrong to warrant their removal or demotion. The change of circumstances had called for the restructuring and the loss of their positions was not their fault. Existing staff, therefore, had a legitimate claim for compensation, and their interests needed to be fully respected in the course of change.²⁹ Moreover, it was argued that because of this generous package, administrative reform had encountered no serious resistance when implemented, enabling the results of reform to be sustained over time.³⁰ For almost a full decade, the number of serving officials at city-level agencies was kept at roughly the 1993 level.³¹

However, it still left the question of whether the reform had a genuine impact on how the government performed its role unanswered. A lack of resistance from the vested interests may not mean that a reform has been successful. It could, rather, indicate a failure, since it could be precisely because the reform has failed to make a difference that those affected did not bother to stage a resistance. Thus, to assess the effects of the administrative reform, we need to move beyond its measures and immediate results – number of agencies and personnel, size of payroll, etc. – and investigate the larger question of the role of government. In other words, did administrative restructuring achieve what it started out to do, namely facilitate a reorientation of the role and functions of the government? This leads to the following discussion of the ownership reform.

Ownership reform

Shunde's leaders started a big 'sale' of its 'public enterprises' in late 1993. In barely two years they sold off almost 30 percent of the public assets, and retained sole ownership in only 94 public enterprises at the city and town levels. By 2002 only 11 enterprises remained wholly owned by the government – all at city level and providing infrastructural services such as water, electricity, ports, public buses, roads and bridges – and the trend of divestment has continued.³²

Before we ask how this could happen, let us take a look at the terminology. Shunde's officials, without exception, when discussing their ownership reform made reference to 'public enterprises' and 'public assets', rather than state-owned enterprises and state assets.³³ One obvious reason for this was that there were only a small number of state-owned enterprises (28) in Shunde, and they were all of a relatively small scale. The vast majority of enterprises at the city and town levels were established with governmentsupported bank loans and other funds, and operated under the label of 'collective enterprises'.³⁴ A general term, 'public enterprise', was thus adopted to refer to both types of non-private enterprises, as, in the course of reform, Shunde's officials sought to simplify the ownership classification. Of course, one may point out that since the town and city governments underwrote virtually all the bank loans, the collective enterprises were in effect 'government', or 'state' enterprises, and could be so called. However, city and town leaders were keen on emphasizing that the state budget, national or local, had made little or no contribution to the initial formation of the collective enterprises. As it turned out, Shunde's officials had an interest in making a distinction between the two, as some analysts pointed out, since branding the enterprises as state-owned would have made intervention by higher levels easier.³⁵ On the other hand, calling the enterprises 'public' – and thus 'camouflaging' them all (including the state-owned ones) as collective enterprises, may have helped Shunde to ward off criticism of its ownership reforms. If the enterprises had always been collectively owned, changing the mix of shares between different groups of people would not drastically change the 'public' nature of the enterprises, at least not on the surface level, and Shunde could not be accused of privatizing state assets.

If such care was taken to avoid risks by 'camouflaging' all the enterprises as public enterprises, we need to know what motivated the ownership reform in the first place? Shunde's officials appear to have reached a consensus on this question, pointing to the interplay of circumstances, culture and the agency role of leaders.³⁶ One official described the juncture of change in 1993 in this way:

It was a matter of when, not whether we would go for the change. The people of Shunde have, historically, adapted well to changing circumstances. Indeed in 1993 we got the Agricultural Bank (Shunde Branch) Report. It sent out a warning about the huge liability our government had built up through its previous close involvement with enterprises. The enterprises were gradually losing their edge in the increasingly competitive market and the quality of the loans had deteriorated. The report then prompted deep reflection among our top leaders, kicking off a series of ownership reform measures from 1993 onwards. However, even if we had not had the report then, I believe we would still have come to notice the problem sooner or later. People here are well known for their vision and foresight for change. During the days of communes, when national agricultural policy called for a near sole focus on grain, I tell you, five of the 10 communes in Shunde did not grow any grain, and the rest used only half of their land to implement assigned tasks from above. Commune leaders made their best judgment and economic crops were grown instead, with [the] tacit blessing of the local government. (Respondent no. 7, Shunde, April 2002)

Thus, to many Shunde officials, the local initiatives in ownership reform were embedded in Shunde's history and culture – the fact that the people of Shunde had long been notorious for going their own way and being receptive to change, as long as local circumstances demanded it.³⁷ So what were the circumstances that in 1993, on the eve of change, precipitated the move?

Perception of a problem

As noted in the quote above, a routine report from a local bank had caught the eyes of the city leaders, causing them to confront hidden problems in the enterprises, and review the ways the government had previously handled the economy. The report disclosed that despite the recent high economic growth rate, the financial situation of many enterprises was worsening at a spectacular speed. In Shunde, 10 percent of the enterprises were discovered to be technically insolvent; their total liabilities exceeding assets by RMB 460 million.³⁸ In half of the city-level enterprises, the aggregate liability-to-asset ratio was as high as 80 percent, with net assets totaling only RMB 2.35 billion out of RMB 11.7 billion on the books.³⁹ What was more worrying was that an increasing number of enterprises were starting to fail to repay, as the escalating ratio of non-performing bank loans indicated. In the Agricultural Bank alone, the ratio of non-performing loans to total loans borrowed by town-level enterprises in Shunde had doubled in two years, from 17.2 percent at the end of 1990 to 35 percent in March 1993.⁴⁰ The message was clear: the city and town governments were facing an increasingly high risk of being required to repay the huge debts as underwriters of the loans.

Still, the risks were potential and not immediate. At that time, Shunde's economy was growing fast, and its model of economic development, through extensive use of bank loans and strong government stewardship, had been commended as one of the successful approaches to quick industrialization in the Pearl River Delta Region.⁴¹ As one senior official in Shunde remarked: 'Shunde could have chosen to ignore the warning; why bother to tell your boss that you have a lot of problems when, in fact, nobody but yourself has noticed them?'⁴²

One way to understand the choice for reform is to place it in the context of a continuous process of review and self-examination from within Shunde. Indeed, in autumn 1992, the City Party Secretary, Chen Yongzhi, had conducted a 'self-criticism' in an expanded meeting of the Party Committee. Shunde was said to be falling behind Shanghai in terms of attracting foreign investment to the service sector; trailing Tianjin in preferential policy over development zones and high technology development; outshone by Shandong in decentralization and delegation of powers; and surpassed by Beijing and Weihai in city infrastructure and management.⁴³ The then mayor, Feng Rensheng, had expressed frustration to friends that his major duty as mayor was to secure bank loans for enterprises.44 In fact pilot ownership reforms had started in one town as early as April 1992,⁴⁵ and in May Shunde had petitioned the provincial government for expanded powers to undertake innovative reforms.⁴⁶ In other words, the top leaders in Shunde had already started to see problems and contemplate change, at the time when the Agricultural Bank report was completed in March 1993.47

The role of the Agricultural Bank report was to provide clear information on the extent of the problem. As one respondent put it, the leaders knew that things were not good underneath the official growth figures, but they were still rather shocked when they saw the exact extent of the problem.⁴⁸ The government had provided a guarantee for the enterprises' bank loans and, in return, was given a management fee of 0.5–1 percent of the enterprises' total turnover revenue. That was a meager sum, if the government had to repay the enterprises' debts. The feeling was that it was a losing business which the government could not afford to continue.⁴⁹

Incremental steps

The next question was what to do about the problem. How did Shunde's leaders come to choose the path of ownership reform as a solution? Here it is worth noting that upon closer examination, Shunde had not, initially, aimed at a wholesale disposal of the public assets and enterprises. Instead, the final shape of the reform came as a result of several incremental steps, each taken separately.

First, by spring 1993, an understanding had arisen within the city leadership that the lack of clarity in ownership had led to a lack of accountability within public enterprises, whether in the formal state sector or Shunde-style government-supported collective enterprises, which had, in turn, led to the enterprises' losing their competitiveness. The various adjustments in management mechanisms implemented in Shunde and nationwide since the 1980s, centering on the enterprise director responsibility system and the Enterprise Law, had gone nowhere towards resolving the agency control problems.⁵⁰ For instance, it was acknowledged that a large amount of public assets had 'disappeared' as a result of mismanagement or sheer corruption on the part of enterprise directors, local bank managers and their government supervisors.⁵¹ One local saying vividly captured the absence of financial scrutiny: 'one can take a bag of fruit to the local banks and get a loan in return'.⁵² The state-owned banks operated as cashier of the local party/ government and provided no independent check on the local leaders' enthusiasm for a project. In addition, enterprise managers did not keep a check on the day-to-day management of enterprise assets. With ownership ambiguous and responsibility diffused, the room for shirking responsibility was huge and theft was easy. In fact, one might even say that the enhanced autonomy of enterprise managers under the director responsibility system reform had facilitated such abuses.

In July 1993, Shunde embarked on its plan to develop a 'mixed' economy. The previous reliance on the collective sector was to change, with the non-public sector now having a higher share of a new mixed economy.⁵³ The idea was that by turning the former agents into principals – through selling shares to enterprise managers and workers – or at least co-principals with the government, many efficiency and management problems in the enter-

prises would be eradicated from their roots. Thus, the slogan of the reform read, 'get the managers close to the profits and loss (of enterprises)'. 54

That did not mean that Shunde's leaders had abandoned the government's role in enterprises. Total withdrawal was not the plan in the initial years of the reform. Rather, any sale of public assets was intended to enable a *better* and *stronger* portfolio of public assets. Table 3 depicts the configuration of ownership reform as of 1993–4.

From Table 3, it is obvious that full transferal of ownership to private individuals and entities, outside the government, was restricted to the smaller and the less profitable, if not loss-making, enterprises. The government was not prepared to lose complete control of the larger enterprises or those in more 'strategic' industries, and only partial secession of ownership was likely to be given to foreign investors. Of course, since the majority of enterprises belonged to the former types, numerically the government had forgone control in more enterprises. Table 4 shows the distribution of different modes of ownership in the course of reform.

Types of Enterprises Applicable	Content/Characteristics of Reform Measures
Govtsolely-owned enterprises in strategic sectors	 To improve mode of operation and institution in line with the Company Law; Govt. to continue to maintain the controlling stake if not sole ownership of the enterprises
Enterprises that had recently introduced shareholding system on a trial basis	 To further improve the shareholding system in line with the Company Law, and to work toward public listing either in domestic or overseas stock exchange in the near future
Larger enterprises with good potential	 To attract foreign investors as new shareholders, in order to inject new capital into the enterprises, know-how and connections to overseas markets
Average enterprises	 To sell part of the assets to enterprise managers/workers, and lease the rest (premises, land) at a fee; enterprise staff to be in charge of enterprise management and profit and loss
Small enterprises in labor intensive industries	 To sell all assets to enterprise staff; enterprises becoming wholly owned by staff through shares
Small enterprises operating in red/ meager profit	 To transfer ownership wholesale through public auction

Table 3	Modes of	Ownership	Restructuring,	1993-4
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Source: adapted from Deng, "Shunde in Transition," p. 318.

	End 1993	End 1994	April 2002
Govt. solely owned	838*	94	+
Govt. shares > 50%		48	
Govt. shares < 50%	30#	21	28+
Leasing out	90	3	
No govt. shares, owned by all or majority of enterprise staff	0	235	
Controlling stake	0	249	
Sale by public auction	29		
Ceased operation	0	23	
Total	1001	1001	

Table 4 Distribution of Ownership Modes

* Enterprises which had not yet been completely reformed; the pre-reform "public" ownership still applied.

These 30 enterprises were all joint ventures with foreign investors.

+ The 2002 figures refer to city level enterprises only, whilst those for 1993 and 1994 refer to both city and town enterprises. The former totaled 468 before reform in 1993, and as of April 2002 only 11 remained solely owned by the government, and 28 partly owned, with the ratio of shares held by the government ranging from 5% to 51%. Available information suggests that town governments no longer held shares in enterprises by 2002. Sources: Xu, The Lonely Road, pp. 104-5, 2002. Respondents Nos. 6, 8, Shunde interviews, April 2002.

As late as 1995, a senior local official wrote that the government would still remain 'a major investor and operator of the infrastructural sector and public facilities', and that the ongoing ownership reform only planned for a gradual introduction of non-public, societal elements in the ownership make-up of enterprises in the 'competitive' sector, '*reducing* the proportion of publicly owned shares in the process'.⁵⁵ On the other hand, a catchy slogan of Shunde's ownership reform at the time was 'to marry out the prettiest daughter', which demanded that ownership reform should start with the best enterprises. But, if the withdrawal was selective, why should Shunde put emphasis on selling off the most profitable and largest enterprises? This can be explained by the fact that a parallel goal was to attract external investors. The then Party Secretary, Chen Yongzhi, remarked in a city meeting announcing the ownership reform in July 1993:

If all of our large enterprises with turnover value of RMB 100 million or above got linked up with large international companies, with over 51 percent of their shares sold, I would regard our ownership reform to have been settled. This reform would have accomplished its goal. This is the best strategy ('marrying off' the largest enterprises to the large international firms). We must work towards this direction.⁵⁶

It is in the context that adequate returns, or the potential for adequate returns, had to be offered to preferred investors that the strategy of 'marrying out the prettiest daughter' has to be understood. In 1993 and 1994, the strategy certainly did not imply that the government was prepared to forego its control over the better enterprises entirely.

Not all enterprises could find, or were selected to be offered to, external investors, so that sweeteners were also provided to attract investment by incumbent management personnel. These often took the form of undervaluing enterprise assets, and various preferential practices in the detailed mechanism of ownership transferal. In one case, an enterprise was sold for RMB 2 million to a group of incumbent workers and managers after open and competitive bidding, although its total asset value was originally estimated to be only RMB 0.62 million. The enterprise could have been sold for a fraction of the eventual amount had there not been competing bidders.⁵⁷ In another case, the incumbent managers paid only 10 percent of the share price in cash at the time of ownership transferal, the rest to be paid from future earnings, whilst workers received no such preferential treatment.⁵⁸ Despite the premium offered, many enterprise personnel still hesitated to take up the offer, due to sheer inertia and a risk avoidance mentality and, even within Shunde quarters, the 'marrying out the best' strategy was attacked as unnecessarily selling off profitable assets.⁵⁹

Notwithstanding much disquiet, ownership reform continued steadily after the initial start in 1993–4. In late 1995, a new and powerful 'Public Assets Commission', chaired by the city mayor and consisting of all heads of major government/Party departments, was established to replace the preexisting city investment corporation as the umbrella body overseeing ownership reform. It was also the sole government department to represent the government in government-owned (partly or wholly) enterprises.⁶⁰ Moreover, whilst reform in 1993–4 had primarily targeted enterprises in the competitive sector, 'administrative enterprises' directly under the government bureaus also came under assault in 1996. These enterprises, undertaking both commercial and quasi-administrative activities, were then required to sever links with their government supervisors. Several stateowned investment companies were formed under the Public Assets Commission to act as 'holding companies' for these enterprises. By July 1998 not a single enterprise remained linked to the government bureaus, and the government started to sell off those government shares it had retained in the first wave of reform.⁶¹

In early 2001, the Commission was replaced by a lower-status Office of Public Assets Management. In the words of Shunde's officials, this was because the ownership reform was by then largely complete – the bulk of public enterprise assets had been sold – so that the powerful Commission had fulfilled its historical function.⁶² As noted in Table 4, by 2002 there were only 11 enterprises in the infrastructural and public service sector still wholly owned by the government, while in a further 28 enterprises the government owned 5 percent to 51 percent of the shares. Altogether, these 39 enterprises under government ownership amounted to only 39 percent of the number as of 1994. The drop in wholly government-owned enterprises was even more marked, the 11 enterprises accounting for only 11.7 percent of the 1994 number. Moreover, the plan was to continue with the process of divestment. In 2002, the freight terminal had recently been sold, and the sale of the water supply and passenger pier was under discussion with potential investors.⁶³ In the words of an official, 'there were no "forbidden" areas'.⁶⁴

What then led Shunde's leaders to drop their earlier hesitation from a total withdrawal? The local official overseeing the divestment program said the following in an interview:

As ownership reform progressed and more detailed policies were formulated, so people's understanding of the reform, and of the need for change, deepened. Resistance to reform thus receded gradually. Did it mean that there was a master plan towards the ultimate goal of total government withdrawal at the outset? Of course, not all top leaders had the same degree of understanding from the beginning. But back in 1993 we had instituted a new leadership structure, and our top leaders then were largely unified in terms of policy direction. The new structure ensured that there was no shirking of responsibility within the leadership. This made possible the formation of a relatively clear strategy regarding government reform at that time. (Respondent no. 8, Shunde interviews, April 2002)

The messages from this are fourfold. First, it was admitted that the fine print of the policy on ownership reform had undergone changes over time. Second, that at the beginning, there had been differences in opinion among Shunde's leaders – not to mention the middle and lower echelons of the Party/government hierarchy – regarding the scope and depth of ownership reform. Third, despite differences in opinion, the gaps were not huge and had been kept under control. The new streamlined leadership structure, instituted in 1993, had been instrumental in achieving all of this. It had proved to be an effective institutional forum, enabling the city leaders to achieve a working consensus among themselves, and to formulate and adapt policies in response to changing needs. Fourth, as a result of effective policy making and firm leadership, resistance to reform from within the government and the enterprises receded gradually. This, in turn, fed back to the decision-making process, increasing the leverage of those leaders arguing for an extension of the reform.

Central to this process was a gradual change in the understanding of the role of government in the economy. Back in 1993, Shunde's leadership was still preoccupied with finding a better means to help with the management of its own enterprises. The Agricultural Bank report alerted local leaders to the need for more drastic measures. But there was no clear-cut strategy regarding where, and to what extent, the government should withdraw or retain ownership. This was why the 'marrying out' strategy was so much contested - opponents could not understand why the profit-making and strongest enterprises should be 'disposed' of first, since the publicized objective was to save enterprises and lighten the government's financial burden. This strategy only made sense in the context of the broader repositioning of the government's role in enterprise, and economic management. If the objective of a parent was to marry out *all* daughters, then it made sense to start with the prettiest one, so that: 1) she would not grow old whilst waiting for the others to get married; and 2) the resources the parent obtained, or saved, from marrying her out, might be used to facilitate the marriages of other daughters. However, whilst such broader repositioning of the role of government may have informed the thinking of individual leaders, it was not, as yet, the official and explicit policy in Shunde as of 1993-4. Measures of ownership reform prescribed in those days still emphasized the utility of the reform as a means of *strengthening* the public sector.

A dividing line appeared to emerge around 1996–7, *after* the Public Assets Commission was established. Initially, at the time of its establishment in 1995, there had been indications that one major aim of the Commission was still to enable the government to manage public assets and enterprises in a better way.⁶⁵ In 1996, however, the city leaders began to show concern over the danger of the newly reformed enterprises backtracking on the reform. There were indications that sheer inertia was causing old habits in government-enterprise relations to claw back. In this context, the city leadership decided to step up ownership reforms to include those enterprises directly managed by government bureaus.⁶⁶ Moreover, in 1997, encouraged by the central endorsement of a mixed economy policy in the 15th National Party Congress, Shunde's leaders made a clear-cut decision that the government China Information XVIII (1)

would no longer hold shares in the competitive sector.⁶⁷ Thereafter, the sale of government shares in enterprises sped up, and the Public Assets Commission, together with the Public Assets Management Office have, since 2001, seen themselves primarily as a catalyst for facilitating this withdrawal process. In fact, if we exclude government assets of a non-enterprise nature (such as government offices, schools and hospitals), a mere RMB 7 billion of public assets remained on the government books as of April 2002.⁶⁸ Several officials in Shunde jokingly remarked in interviews that the Public Assets Management Office should be renamed the Public Debts Office, since there were not many public assets to be managed.⁶⁹

Conclusion

What messages may we draw from this discussion on Shunde's administrative restructuring and ownership reform? How may Shunde's experience with these reforms enhance our understanding on government reform processes in a wider context?

First, it is important to have the right institutional framework in place, in order that the changes initiated may have a better chance of being sustained. In Shunde's reforms, two institutional arrangements – a streamlined top leadership structure and a powerful Public Assets Commission – played a key role in ensuring effective decision making and, thus, good management of the reform process. The 'impeding' effect of a divided leadership on policy formulation and implementation is a well-known theme in the literature. In some cases, it has been argued that the primary cause of ineffective policy implementation can be attributed to a divided center, and local selective implementation explained as a result of central choice.⁷⁰ Whilst there may be many reasons that contribute to a divided center, obviously 'cross-cutting' and overlapping policy portfolios among members of the leadership are not conducive to good coordination. By removing overlaps of duties, Shunde's leaders achieved more unity and better coordination amongst themselves. This had a positive knock-on effect on lower levels, as agencies could no longer look to their respective leaders-in-charge in the city leadership to protect their bureaucratic interests indefinitely.⁷¹ It was only then that the attempt to restructure the organizational boundaries and roles of agencies could possibly begin to scratch beneath the surface.

Reforms in Shunde also benefited from the creation of a strong implementation arm. Headed by the mayor, a senior member in the top city leadership, and comprising heads of all major government departments, the Public Assets Commission had a monopoly of government representatives in public enterprises. It was thus in a strong position to implement measures regarding public assets, including their disposal. This was in stark contrast to the inefficacy of the state assets management departments in the central government and other localities before their abolition in 1998.⁷² Moreover, the fact that the Commission was headed by a top leader enhanced the likelihood that it would remain an agent of the city leadership, rather than develop independent bureaucratic interests of its own. This perhaps explains why, since 2001, the officials in both the Commission and the Office have not been excessively concerned about the independent survival of their organizations. Back in 1999, they had anticipated that the successful completion of their duties would in due course make them redundant.⁷³

A second observation is that different programs of reform – administrative and ownership restructuring – have interacted to result in the deepening of each. On the one hand, as noted above, the putting in place of the right institutional framework has enabled ownership reform to kick off in Shunde. On the other hand, the progress of ownership reform and especially the 'delinking' of government supervisors and enterprises, has ensured that administrative restructuring has not been mere cosmetic tinkering with organization boundaries.⁷⁴ It should be recalled that the perceived danger of a return to old-style government-enterprise relations after the first wave of reforms in 1993–4 had, in 1996, caused Shunde's leaders to further *extend* the scope of ownership restructuring. Informed by their knowledge of the ineffectiveness of previous enterprise management reforms in the 1980s, Shunde's leaders had no illusions regarding the difficulty of sustaining change. As long as enterprises remained in public ownership, any instruction to sever linkage and manage at arm's length would likely be futile.

A cycle of mutual influence between reforms then set in. The expanded sale of public assets caused a direct shrinkage in the scope of government purview. Freed from the burden of micro-enterprise management, both top leaders and middle government managers could afford the time for strategic planning and social management.⁷⁵ In 1999, the then mayor compared his life as mayor before and after the reforms:

In the past, what I did (in my job as Mayor) was all about enterprises: investment projects, financing... There was no end to these. People even phoned me at home to continue the discussions! Now it is all different. The number of phone calls is

one-third of the previous level. I get 80-90 percent fewer visitors. Those coming to my home are half as many as before. Now I have time for my family during the weekends, an impossible luxury in the past.⁷⁶

The reduced scope of government purview has also facilitated reforms in other areas. More recently substantial improvements have been made to fiscal/tax institutions.⁷⁷ This was partly motivated by the search for more revenue, now that fiscal revenue has become the almost sole source of government revenue, as the sale of public shares continues. At the same time, a smaller government has also made fiscal rationalization easier. There are simply fewer agencies whose interests need to be taken into account. As government departments cut ownership links with enterprises, the interest configurations in each department became a lot simpler. Thus, public finance reform measures that aroused a lot of resistance elsewhere became much easier to implement in Shunde. The issues that were so contentious elsewhere were, simply, no longer relevant there.⁷⁸

What stands out from this discussion of Shunde is the role of agency. There are two parts to this. First is the central-local interface. To what extent were Shunde's reforms local initiatives rather than implementation of national policy? The second part is the structure-agency interface within the locality. To what extent were the local actions 'determined' by local circumstances? How much role was left for agency?

The research on which this article is based focuses largely on the local scene, so that a definitive statement of the precise interactions between central policy and Shunde's reform is premature. Still, available evidence does suggest a case of local initiative - that Shunde's reform was more than a straightforward implementation of central policy. First, the scope of changes in Shunde went far beyond the national reforms. For instance, Shunde's administrative reforms in 1993 also covered the Party organizations and mass organizations, whilst the 1993 and 1998 national reforms focused only on the government. The powerful Public Assets Commission, established in 1995, centralized all management functions of government assets. In March 2003 the central government took a similar step in this direction by reestablishing the National State Assets Management Commission. Whilst the new organization had yet to fully claim the power to manage all state assets, the influence of Shunde's Public Assets Commission was apparent here.⁷⁹ The 'big sale' of public assets in Shunde in the 1990s was, at the time of reform, controversial nationally at least, but it has since been partially vindicated by national level studies.⁸⁰ Above all, the very abundance of the local processes described in detail in this article would be sufficient to carry the local initiative argument some distance.

The role of agency has a second, more central, meaning; it ensures that reform is not predetermined solely by circumstances. Many problems that local leaders identified in the early 1990s were more of a warning nature. Given the strong local economic performance at that time, Shunde's leaders could have chosen, as many localities did, to ignore the warnings. But they did not. What is illuminating about Shunde's reforms is that they were to a significant extent a product of conscious choice. The reforms came into being as a result of a series of choices by the local leaders in the context of national policy and local circumstances. What this article has attempted is to describe how these choices were made.

Notes

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¹Vice-Premier Li Nanqing first announced the adoption of the new approach in December 1998, after several years of discussion in academic and semi-official research institutes. *People's Daily*, 16 December 1998, p. 1.

² The 1998 national-level administrative reform has been discussed in Hon S. Chan, 'Downsizing the Central Government: The Case of the People's Republic of China,' Management 2 no. 3 (1999): 305-30; Dali L. Yang, 'Rationalizing the Chinese State: The Political Economy of Government Reform,' in Remaking the Chinese State, ed. Bruce J. Dickson and Chien-Min Chao, London: Routledge (2000), 19-45; and Kjeld Erik Brodsgaard, 'Institutional Reform and the Bianzhi System in China,' The China Quarterly (June 2002) no. 170, 361–86; and official reports by the Office of the State Commission for Public Service Structure and Establishment Administration have claimed that 1.15 million posts nationwide have been slashed in the administrative reforms since 1998, officials are getting younger on average, and the number of bureaus and departments has been significantly trimmed down. See Liberation Daily, 1 November 2002 and People's Daily, 20 June 2002, p. 1. On the other hand, officials have suggested during interviews that many staff were still employed beyond the establishment limits, their salaries supported by various extra-budgetary means of revenue, but that even when head counts were slashed expenditure had not gone down due to the need to buy off resistance through 'sweetening the change.' The bill for the State Council downsizing exercise of 1998 amounted to some RMB 70 billion. Author's interviews in Beijing and Hubei, 2002; Hong Kong, 2003.

³ Lianjiang Li, 'Elections and Popular Resistance in Rural China.' *China Information* 15, no. 2 (2001) 1–19.

⁴ According to official statistics, non-performing bank loans accounted for 27 percent of the total in the four major state banks and went up to 50 percent in estimates by foreign analysts. See http://www.pbc.gov.cn/search_Result.asp and James T. Areddy, 'Moodys Sets Stage for China Sovereign Upgrade,' Dow Jones Newswires, 22 November 2002. The central government injected 31 billion yuan into locally managed social security funds in 2001 as outlays increased with surging unemployment. The year-end balance of pension insurance funds nationwide, at 105.4 billion yuan, stood at less than half of the total outlay in the year 2001. See http://www.news.online.sh.cn/news/gb/ content/2002–03/10/content_309220.htm and http://www.molss.gov.cn/ index_tongji.htm (websites last accessed 22 November 2002).

⁵ In a major restructuring of administrative boundaries, in the context of encouraging urbanization and fostering better development planning, Shunde was made a district of the expanded Foshan Municipality in December 2002, along with Nanhai, Sanshui, and Koming (see http://202.130245.40/chinese/PI-c/250186.htm, last accessed 14 March 2003).

⁶ See, for instance, the discussion of Hainan's 'small government, large society' experiment in the late 1980s in Brodsgaard, 'Institutional Reform'.

⁷Feng Rensheng, Party Secretary of Shunde until July 2002, outlined the three waves of reform in Shunde shortly before his departure: the industrialization wave in the 1980s, the institutional wave in the 1990s, and the current wave of urbanization, in *China Economic Times*, 18 July 2002 (available at: http://www.cet.com.cn/20020718/ yaowen/200207181.htm, last accessed 14 November 2002).

⁸ He Zhenhong and Caixia Pang, 'Shunde chaoyue.' (Shunde is surpassing (the Rest of the Country)), *Economic Daily* (Beijing), 28 June 2002.

⁹ See http://www.sc168.com/allnews1/topnews/200211010158.htm (last accessed 6 September 2002) and http://www.people.com.cn/GB/paper66/7740/737847.html (last accessed 6 October 2002).

¹⁰ Jian Deng, 'Shunde gaige: weile Zhongguo chuang tianxia.' (Shunde's reforms: Searching for lessons for the national reform.) *Shunde Daily*, 25 October 2002 (available at: http://www.sc168.com/titnews/shizhengz/2002shiliuda/

..%5C..%5Cjinjiz%5Csdzz%5Csdaaa%5C200210250622.htm, last accessed 25 October 2002).

¹¹ I was attracted to Shunde when supervising a student's doctoral dissertation, Lue Li, 'Changing State–Society Relations: The Unfolding Shareholding Cooperative System in China.' (Ph.D. dissertation, City University of Hong Kong, 2002), discusses and compares Shunde's ownership reforms with another locality in Shandong. Shunde's reforms have also received more systematic reporting and discussion recently in China, but as much of the literature was written by participants in the reform it constitutes a valuable source of insider perspectives rather than independent analysis. This material includes two books by senior Shunde officials: Weigen Deng, *Reform of Property Rights: One Step Ahead in China Towards Market Economy* (Guangzhou: Guangdong jingji chubanshe (1996); and Zuozhong Jiang, *Jingji fazhanzhong di jidu bianqian* (Institutional change in economic development: a theoretical and empirical study on Shunde) (Beijing: Central Party School Press, 2000). The City University of Hong Kong funded the field research for this article, conducted in 2001 and 2002. ¹² Jiang, *Institutional Change*, 165–66. This did not preclude central influence of some kind, however, as it was noted that central officials had taken some interest in Shunde's developments and reforms at the time (Communications with John Burns, University of Hong Kong, during the 'Governance in Asia' International Conference, City University of Hong Kong, December 2002). However, data available from Shunde suggests that the administrative reforms in Shunde since 1993 were the result of local initiatives in the absence of instructions or plans from the central authorities.

¹³ These included leaders in the five 'ruling bodies' at the city level of government: the City Party Committee, City People's Congress, City Government, City People's Political Consultative Conference, and the City Committee for Discipline Inspection (Party). See Jiang, *Jingji fazhanzhong de jidu bianqian*, 166–67.

¹⁴ This had several more members than the pre-reform Standing Committee (respondent no. 6, Shunde interviews, April 2002). In comparison, the Party Standing Committee of Conghua City, a county-level city northeast of Guangzhou, had twelve members in 2002. Whilst the mayor was also Deputy Party Secretary and one vice-mayor was a member, the chairmen of the City People's Congress, and the City People's Political Consultative Conference were excluded (see http://www.conghua.gov.cn/chzf/zf001.htm, last accessed 18 November 2002).

¹⁵ Deng Xiaoping commented in the December 1978 Central Work Conference that collective responsibility became, in effect, the absence of responsibility. Attempts to improve accountability lines and efficiency included, in the enterprise context, the Enterprise Director Responsibility System put in place in 1986, which assigned primary responsibility to the factory executive rather than the party secretary. The political report of the 13th Party Congress in 1987 attempted to address this issue within the government, and asked for a clear delineation of the roles of the Party groups/committees within a government agency. For a summary of these developments, see You Lin et al., *Zhonghua Renmin Gongheguo guoshi tongjian* 4 (1976–1992) (Beijing: Hongqi chubanshe, 1993, 90, 97, 367–68).

¹⁶ 'Liaison' duties were part of the long-established control mechanism the higher levels used to monitor, and support, the work of the subordinate levels. There seemed to be no strong reason why an exception to the rule of 'no duplication' was made in this case, other than for administrative expediency (author's telephone interviews, June 2003).

¹⁷ A decision of the city Party committee/government on 29 May 1993 announced that: the party committees and government at the town level would share offices; that economic management at town level would cease to have a separate team of leadership independent of the Town Party Committee; and that the number of party and government agencies at town level would be substantially reduced (see

http://www.sc168.com/outlook/shundehistory/200201100121 .htm, last accessed 29 October 2002). There were no People's Political Consultative Conference and Committee for Discipline Inspection at the town level so that the expanded town Party committee would only comprise leaders of three bodies (Party committee, town government and People's Congress) (respondent no. 6, Shunde interviews, April 2002).

¹⁸ Respondent no. 6, Shunde interviews, April 2002.

¹⁹ Notice was issued on 16 September 1992, 'A Decision on the Organization Reform of the City Committee for Discipline Inspection and City Supervision Bureau' (see

http://www.sc168.com/outlook/shundehistory/200201100121.htm, last accessed 29 October 2002).

²⁰ City Party Committee and Government notice on 'A Decision on the Organization Reform of the City Organization and Personnel Departments,' 23 February 1993 (available at: http://www.sc168.com/outlook/shundehistory/200201100121.htm, last accessed 27 October 2002).

²¹ http://www.sc168.com/outlook/shundehistory/200201100121.htm, last accessed 27 October 2002. See also Jiang, 2000, ibid., p. 169.

²² Respondent no. 7, Shunde interviews, April 2002.

²³ Only about twenty temporary agencies survived the cut by late 1993. Jiang, *Jingji fazhanzhong de jidu bianqian*, 167 and Nantie Xu, *Dadao cangmang* (The lonely road: a report on the ownership reform in Shunde), (Guangzhou: Guangdong renmin chubanshe, 2002), 65.

²⁴ Respondent no. 6, Shunde interviews, April 2002. See also Jiang, *Jingji fazhanzhong de jidu bianqian*, 187, endnote 3.

²⁵ The Chinese Civil Service Regulation (Trial Implementation) of 1993 classifies positions in the government into positions of 'leadership' and 'non-leadership' (Article 9). The former refers to positions above the rank of section chief. In Shunde's 1992/3 reform, thirty-nine officials of the deputy-bureau chief rank and above lost their leadership posts altogether. Another sixty-eight were demoted to a lower leadership rank, of whom twentyone deputy bureau chiefs were transferred to positions at the section chief or deputy section chief level. Another sixteen officials were transferred to research posts, which belonged to the 'non-leadership' category (Jiang, *Jingji fazhanzhong de jidu bianqian*, 169). Here it is interesting to note the discrepancy between the official definition of leadership posts and the practice. Section chiefs and their deputies were among the non-leadership posts in the official definition, but they were taken as among the leadership posts in Shunde's discourse on administrative reform. A possibility was that this was deliberately intended to reduce the resistance to the demotions if the new posts were also regarded as being of a 'leadership' rank.

²⁶ Jiang, *Jingji fazhanzhong de jidu bianqian*, 169. The breakdown of these categories are: early retirement (15), starting own business (12), moving to township units or other cities (8).

²⁷ Xu, *Dadao Cangmang*, 71. A Beijing-based researcher reportedly said that, in 2002, the 'marketization' reform of one major central *shiye* unit (non-profit-oriented organization) alone had cost RMB 10 billion. *Ming pao* (Hong Kong), 9 June 2003, B12.

ganization) alone had cost Kills 10 billion. Wing pub (hong Kong), 9 June 2003, B12

²⁸ Jiang, Jingji fazhanzhong de jidu bianqian, 171; Xu, Dadao Cangmang, 70–72.

²⁹ Xu, *Dadao Cangmang*, 70–72; Author's interviews.

³⁰ Respondent no. 7, Shunde interviews, April 2002.

³¹ Serving officials at the city level, excluding 'shiye' units (such as schools and hospitals), stood at around 910 as of 2002 (respondent nos. 5, 7, Shunde interviews, April 2002).

³² Respondent no. 8, Shunde interviews, April 2002.

³³ According to respondent no. 7, the concept of 'public enterprises' (vis-à-vis state enterprises and private enterprises) traced back to the beginning of the ownership reform in 1992/3 (Shunde interviews, April 2002).

³⁴ Weigen Deng, 'Shunde in Transition: China's Market Economy in Making,' *Guangdong Economy* no. 12, reprinted in Deng, *Ownership Reform*, 314–25.

³⁵ Li, 'Changing State–Society Relations, 160–61.

³⁶ Author's interviews, Shunde, September 2001 and April 2002.

³⁷ A full chapter (Chapter 4) in Xu, *Dadao Cangmang*, is devoted to the discussion of the defiance culture in the history of Shunde.

³⁸ Xu, Dadao Cangmang, 24.

³⁹ Deng, 'Shunde in Transition,' 316.

⁴⁰ Xu, Dadao Cangmang, 27.

⁴¹In 1992 Shunde's GDP grew by 37 percent over 1991. Shunde stood among five other models of development in the well-off Pearl River Delta Region. The other five are those of Nanhai, Zhongshan, Dongguan, Weizhou, and Wanfeng. See Yan Wangxian, 1993. *Zhujiang sanjiuzhou jingji fazhan moshi yu silu fenxi* (An analysis of the economic development models and strategies in the Pearl River Delta Region), Guangzhou: Guangdong Jingji chubanshe, chapter 4.

⁴² Zhou Tinming, mayor as of 2002, and once director of the Joint Secretariat of the City Government and Party Committee, made this comment on Shunde's decision to embark upon ownership reform in 1993, and to request support from the Guangdong authorities, quoted from Xu, *Dadao Cangmang*, 57–58.

⁴³ Ibid., 53.

⁴⁴ Feng told the chief of the Agricultural Bank, Guangzhou Branch, during an overseas visit in August 1992 that his job was primarily to visit the banks and secure loans for various investment projects. This was recalled by the Bank Chief in Xu, *Dadao Cangmang*, p. 49.

⁴⁵ See http://www.sc168.com/outlook/shundehistory/200201100121.htm, last accessed 29 October 2002. This refers to the reform of the shareholding system implemented by the Guangdong Midea Holding Co. Ltd in Beiau Town, which had been designated as the county pilot company for the township enterprise shareholding system reform. This took place five months earlier than the ownership system pilot reform at the Beiau Construction Company, which took place in September 1992, as reported in Xu, *Dadao Cangmang*, 90.

⁴⁶ Just as Guangdong had petitioned the central government in 1978 for reform pioneer status, this time Shunde's leaders also asked for enhanced power to undertake comprehensive reforms, including reforms that carried a certain degree of 'controversy'. Shunde's request was granted in September 1992. See http://www.sc168.com/outlook/ shundehistory/200201100121.htm, last accessed 29 October 2002 and Xu, *Dadao Cangmang*, 52–53.

⁴⁷ In preparation for the impending bank reform, the Shunde branch of the Agricultural Bank started a review of the bank loans in 1990 and conducted surveys of Shunde's enterprises, resulting in the 1993 report (respondent no. 7, Shunde interviews, April 2002).

⁴⁸ Respondent no. 7, Shunde interviews, April 2002.

⁴⁹ One development that contributed to the feeling of non-affordability was the impending fiscal reform, which under the new system of tax-sharing would substantially centralize resources and reduce the fiscal capacity of local governments (respondent no. 8, Shunde interviews, April 2002).

⁵⁰ Weigeng Deng. 'Dui woguo qiye chanquan zhidu geming di ruogan sikou' (Some thoughts on enterprise ownership reforms in China), reprinted in Deng, *Ownership Reform*, 301–13. See also Jiang, *Jingji fazhanzhong de jidu bianqian*, 123–30.

⁵¹ Deng, 'Shunde in Transition,' 316.

⁵² Of course, it had to be the right person carrying the fruit—the local government or party chiefs. Xu, *Dadao Cangmang*, 30.

⁵³ Chen Yongzhi, then Shunde's Party Secretary, declared a three-pronged plan to further develop Shunde's economy, the first part of which was the development of a mixed economy. The other two changes were more service sector (instead of a primary focus on manufacturing industry), and more high technology industries and professionalization. Shunde City Document no. 8 (1993), July 1993, as discussed in Xu, *Dadao Cangmang*, 54. A discussion paper, 'On Enterprise Ownership Reform and Developing a Mixed Economy— Tentative Methods' was circulated in June 1993 within the city government on the same subject (Xu, *Dadao Cangmang*, 91). The paper was issued formally as a city document in September (see http://www.sc168.com/outlook/shundehistory/200201100121.htm, last accessed 29 October 2002).

⁵⁴ The slogan in full included four parts, as extracted from the September 1993 City Party/Government Document on Ownership Reform. These were: 'clarify ownership relations; get the managers close to the profits and loss; share profits and benefits; and share risks' (chanquan mingxi, tieshen jingying, liyi gongxiang, fengxian fendan) (see Xu, *Dadao Cangmang*, 91).

⁵⁵ Deng, 'Shunde in Transition,' 317–18.

⁵⁶ Xu, Dadao Cangmang, 91.

57 Ibid., 98.

⁵⁸ Li, 'Changing State–Society Relations,' 171–72.

⁵⁹ One notable 'dissident' to the official line was Chen Wei, then Vice-director of the City People's Congress and Party Secretary of Rongi town, a prosperous area with some of Shunde's then most successful enterprises. See Xu, *Dadao Cangmang*, 108–13. See also 103–104 for a vivid description of the mood and hesitation among enterprise workers on the eve of reform in one enterprise.

⁶⁰ Li, 'Changing State–Society Relations,' 173.

⁶¹ Jiang, Jingji fazhanzhong de jidu bianqian, 136.

⁶² Respondent no. 1, Shunde interviews, September 2001.

⁶³ Respondent no. 8, Shunde interviews, April 2002. The author was told that Anglia Water of the UK had expressed an interest in buying 50 percent of Shunde's water supply facilities, and was in the process of further negotiation at the time of the visit. A domestic company in Guangdong was in discussion over the port.

⁶⁴ Respondent no. 8, Shunde interviews, April 2002.

⁶⁵ Li, 'Changing State–Society Relations,' 175.

⁶⁶ Ibid., 173, quoting a speech by the city mayor in 1997.

⁶⁷ Shunde City Government Document, 'Perfecting the Reform: Constructing the Framework of Socialist Market Economy,' 1997, discussed in ibid., 175.

⁶⁸ The 7 billion yuan had not discounted debts, which were still being calculated and estimated to be in the range of 7–8 billion yuan. This meant that there may not be any *net* public assets left (respondents nos. 6, 8, Shunde interviews, April 2002). There are no official statistics showing the total public assets before the onset of ownership reform. The Agricultural Bank report mentioned total assets of 11.7 billion yuan for 197 city enterprises, out of a total of 1001 city and town enterprises. Another indicator is the fixed assets investment statistics, the cumulative total in 1978–1993 is 15.5 billion yuan. See Shunde Planning and Statistics Bureau, ed., 2000. *Shunde 50 Years' Statistics* (1949–1999), neibu (internal publication), 117.

⁶⁹ Respondents nos. 6, 8, Shunde interviews, April 2002. Whilst this is an exaggeration, such remarks indicate the extent to which the government has withdrawn from industries.

⁷⁰ This is an old theme in the field, and a recent piece upholding this interpretation is Maria Edin's 'State Capacity and Local Agent Control in China: CCP Cadre Management from a Township Perspective,' *The China Quarterly* no. 173 (March 2003): 35–52. A critique to this thesis of 'central predominance', pointing out its tautological nature and weak explanatory power, is found in Linda Chelan Li, 'Towards a Non-Zero-Sum Interactive Framework of Spatial Politics: The Case of Center-Province in Contemporary China.' *Political Studies* 45, no. 1 (March 1997): 49–65.

⁷¹ Of course, agency interests would still be represented by the leader-in-charge in policy deliberations within the Party Standing Committee. The major difference was that negotiation and interest representation was much less protracted under a streamlined leadership structure.

⁷² Since its establishment in 1988, the authority of the National State Assets Bureau to represent the state in exercising ownership rights in state enterprises has been contested. The Bureau eventually lost out in the contest for power and was abolished in the State Council reshuffle in 1998. Since then general supervision of state assets has fallen under the jurisdiction of the Ministry of Finance, whilst practical representation of state ownership rights in enterprises has remained dispersed over various government departments and localities.

⁷³ Li, 'Changing State–Society Relations,' 175–76.

⁷⁴ The positive impact of an expansion of the market on rationalization of state structures is also the argument in Yang, 'Rationalizing the Chinese State.'

⁷⁵ In 2001, Shunde embarked on a new wave of reforms, this time focusing on the grassroots levels of town and village as well as on an overall urbanization strategy (see

http://www.cet.com.cn/20020718/yaowen/200207181.htm, last accessed 14 November 2002).

⁷⁶ Feng Rensheng spoke in an interview with *Guangzhou Evening News* in Summer 1999, reported in Xu, *Dadao Cangmang*, 88.

⁷⁷ Shunde's Local Taxation Bureau has undertaken a series of management reforms since 1996 that have substantially improved its efficiency and contributed to a quadrupling of local tax revenue between 1996 and 2001. It won the national award of 'Progressive Unit' of 2001 amongst local fiscal departments nationwide. See reports in *Shunde Daily* (The Local Taxation Bureau Special Supplement), 27 January 2002.

⁷⁸ These comments are based on the author's research on Shunde's public finance reforms and field interviews. A full exposition of this theme would have to await another article.

⁷⁹ Eventually, the new commission is intended to take charge of all ownership matters of all state enterprises and assets, a responsibility now scattered among various ministries (author's interviews, Beijing, January 2003, and *Ming pao* [Hong Kong], 16 February 2003, p. A14).

⁸⁰ As late as June 2003, officials of the newly established National State Assets Management Commission remarked that national guidelines remained to be drawn up to regulate local disposal of state assets (see *Ming pao* [Hong Kong], 3 June 2003, B16). For a partial vindication, see the report on corporate reform by the State Council Development Research Center in 2002, mentioned in note 9.

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