

# **Foreign Economic Policy-Making in China**

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## **Abstract**

*Understanding the inner dynamics influencing the ongoing process of economic reform in China, especially the flexibility achieved by government bureaux is important for strategic policy makers in India. The brief study seeks to determine the relationships of dominance, correspondence, and contradictions as well as the direction of influence, the sequencing between government bureaux, and the end results of their joint operations by applying the micro-macro linkage approach. The dynamics of foreign economic policy-making, are revealed by the mutual influences as well as the channels and mechanisms between and among the micro and macro-level elements.*

## **Introduction**

China's open door policy (*duiwai kaifeng*) is largely the adoption of a liberal economic framework, driven by the demands of a centralised state, whose economic agencies are at the forefront of a process of development that is couched within the rhetoric of "socialism with Chinese characteristics." Studying China's foreign economic policy-making reveals the highly personalised dynamics of power politics at the top and the relatively fluid role of the Chinese Communist Party's (CCP) politburo and secretariat, and their *ad hoc* working groups.<sup>1</sup> This paper argues that the political legitimacy<sup>2</sup> of the Chinese leadership is shifting from revolutionary ideology to economic performance. The success of the economic reforms and the transformation of government structures to enable the emergence of a market facilitating state is increasingly the *raison d' etre* of the leadership elite. The study adopts the micro-macro linkage approach as a methodological framework to examine the issue of foreign economic policy-making in China in the reform period.

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# I

## Micro-Macro Linkage Approach: Definitional Approaches

The micro-macro linkage approach<sup>3</sup> concentrates on three dimensions. First, it analyses the changes over time in Beijing's interpretation of the external environment and China's internal developments; the impact on foreign policy of learning and adaptation; and the leadership's changing priorities in foreign policy. Second, it illuminates the societal and institutional inputs to Chinese foreign policy; changes in the rules, norms and mechanisms in the policy-making process; and the scope and degree of participation in the formulation of foreign economic policy. Third, it studies the sources of Chinese power politics and authority; regime legitimacy; individual leaders' policy preferences; and Chinese foreign policy strategies, tactics and behavioural patterns. This approach makes it possible to offer a comprehensive interpretation of Chinese foreign economic policy-making without falling into the trap of 'historicism', or what Andrew Nathan has termed a "culturally particularistic" view.<sup>4</sup>

In his edited volume, *Linkage Politics: Essays on the Convergence of National and International Systems*, James Rosenau expressed the need for a *linkage approach* to analysis that would combine the influence of international constraints and domestic determinants as policy inputs to explain a country's foreign policy. The emphasis of the international-domestic linkage approach is on the interdependence and overlap of national and international systems.<sup>5</sup> Rosenau presented three basic linkage processes – *penetrative*, *reactive* and *emulative* – to elaborate his linkage theory.

- A penetrative process occurs when members of one polity serve as participants in the political process of another.
- A reactive process is the contrary of a penetrative one. It is brought into being by recurrent and similar boundary-crossing reactions rather than by the sharing of authority.
- An emulative process is established when the input is not only a response to the output but takes essentially the same form as the output.

Carrying the argument further, Robert Putnam advanced the connection between internal and external elements in foreign policy-

making and stated “the foreign policy-making process can be best understood as a ‘two-level game’, in which policy-makers play at the politics of both the international arena and the domestic environment.”<sup>6</sup> An aspect of the micro-macro linkage model highlighted by Jeffrey Alexander was the tendency toward macro-determinism, or an excessive reliance upon either macro or micro levels as prime determinants. Instead, Alexander emphasised the movement and mutual influence between the two levels as the prime determinant. Pointing out that the terms ‘micro’ and ‘macro’ are completely relativistic – what is ‘macro’ at one level will be ‘micro’ at another – one may regard this analysis as an examination of multiple levels of activity and/or causation. ‘Multiple levels’ refer to the international structure, domestic institutions (national bureaucratic, provincial, regional, societal etc.) as well as to individual leaders.<sup>7</sup> This study while highlighting the linkages will lay emphasis on the domestic determinants that comprise China’s foreign economic policy-making.

In his words, Alexander reconceptualises the legacies of theorists like Max Weber, Vilfredo Pareto and Talcott Parsons for whom macro-determinism and micro-determinism were represented by structural functionalism/conflict theory and symbolic interactionism/exchange theory, respectively.<sup>8</sup> Adopting this model, the micro level is defined as ‘the empirical reality of the individual in everyday life’ and the macro level refers to ‘social reality or the social world.’

**Table 1: The Micro-Macro Linkage Approach<sup>9</sup>**

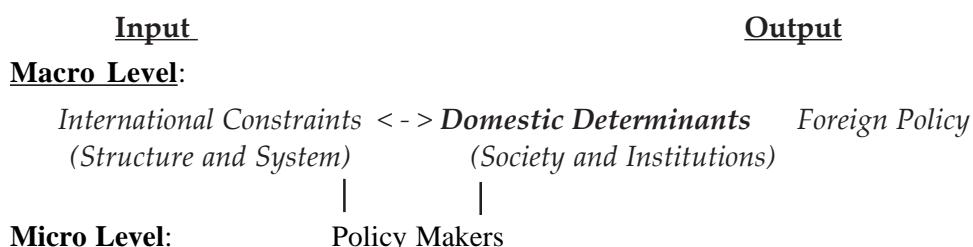


Table 1 depicts a three-way interaction, where international constraints and domestic determinants are involved in a dynamic relationship at the macro level: they also converge on, and receive feedback from individual decision-makers. Three aspects may be inferred:

- The channels and mechanisms through which demands from the international and domestic environments converge on the policy-

making process;

- How the changing dynamics of domestic and international environments affect each other in shaping a country's external behaviour, and;
- How they influence individual policy-makers in the formulation of foreign policy.

A corollary to Table 1, is the application of the Micro-Macro linkage model to Chinese foreign economic policy-making from 1949 to the present as collated from various sources.

**Table 2: China's Foreign Economic Policy-Making (Since 1949)**

Macro-Structures	Macro-structural Change	Micro-Processes in Beijing
Symbolic Macrostructure	From <i>Revolution</i> to <i>Modernisation</i>	Oriental change in the <i>interpretation</i> of the internal and external environments; learning and <i>adaptation</i> ; the changing <i>priorities</i> of foreign
Institutional Macro-structure	From <i>Vertical Authoritarianism</i> to <i>Horizontal Authoritarianism</i>	Increased scope and degree of participation in foreign-policy making; changes of rules, norms and mechanisms in policy-making process
Power/Regime Macro-structure	From <i>Rigidity</i> to <i>Flexibility</i>	Dynamics of individual leaders' power and authority; regime legitimacy; policy makers' preferences and choices; foreign policy

Sources: Zhao Quansheng, *Interpreting Chinese Foreign Policy: The Micro-Macro Linkage Approach*, Oxford University Press, Hong Kong, 1996; George Ritzer (Ed.), *Frontiers of Social Theory*, Columbia University Press, New York, 1990; Jeffrey Alexander, Bernard Giesen, Richard Munch and Niel Smelser (Eds.), *The Micro-Macro Link*, University of California Press, Berkeley, 1987.

Table 2 offers a comprehensive picture of the micro-macro linkage approach as applicable to the study of China's foreign economic policy-making. In this model, there are three dimensions of the macro-structure – *symbolic, institutional* and *power/regime* – and corresponding to each macro-structure is a different set of individual and group processes.

Each of these macro-structures featured under the three categories, involve various influences and exigencies, leaving room for micro-level policy-makers to react. Thus, the choices and preferences of individual policy-makers play an active role in the formulation of foreign economic policy. In totality, the micro-macro linkage model argues that neither the macro-structure nor the policy-makers at the micro-level has absolute control over a country's foreign policy, their influences being relative. *To understand the dynamics of foreign economic policy-making, one has to look at the mutual influences as well as the channels and mechanisms between and among the micro and macro-level elements.*<sup>10</sup> (Emphasis mine)

## II

### Foreign Economic Policy-Making

The reform period in China (post-1979)<sup>11</sup> has witnessed a significant change, in the organisation of the policy-making apparatus, which is widely accepted to be a shift from *vertical* to *horizontal authoritarianism*.<sup>12</sup> Vertical authoritarianism refers to a process in which a paramount leader dominates through a vertical command system. The paramount leader makes virtually all strategically important decisions regarding foreign policy issues.<sup>13</sup> Vertical authoritarianism is characterised by one-person domination, a single vertical command system, and one fundamentally unified foreign policy. Political institutions and governmental bureaucracy participate in the policy-making process in a passive manner.

Horizontal authoritarianism refers to a process that is essentially authoritarian and highly centralised, but in which several power centres at the top level represent and coordinate various interests and opinions. Multiple command channels, both institutional and *ad hoc*, exist simultaneously. More players participate in the foreign policy-making process and conflicting voices may occasionally represent different interests and policies.<sup>14</sup> Horizontal authoritarianism is also called 'collective authoritarianism.' Horizontal authoritarianism seems less personalised and

more institutionalised than vertical authoritarianism and therefore is interpreted as a more pluralistic policy-making system.

The transformation from vertical to horizontal authoritarianism and the relationship between domestic and foreign economic policy-making reveals three major characteristics to be examined in detail:

- the growing involvement of local interests in the central government
- the changing role of institutions involved in economic policy-making, and;
- the changing role of the state in China.

#### *1) The Central – Local Relationship*

Applying the micro-macro linkage approach to the issue of central-local relations in China, this study posits that there has been a significant transformation of the relationship in the reform period. This transformation is not always to the advantage of the centre.

The central-local relationship in China has long been one of the critical issues in Chinese politics. Even during Mao's period, this issue was of much importance and was reflected in his writings.<sup>15</sup> Under an austere central planning regime, the incentive structure was biased against provincial initiatives of promoting production and regional development, since the provinces were unable to figure out how much of a share they would get from an enlarged economic pie.<sup>16</sup> The dilemma the local authorities faced was: the more they produced, the more they lost. The policy responsible for such a paradoxical situation was metaphorically called "to catch the fish by draining the pool" (*jiezū eryú*). It had, in some sense, driven the central-local distributive relationship into a 'zero-sum game.'

Noticeable changes in central-local relations have taken place with the intensification of the reform process. At first, the central government gradually eased its control in an attempt to increase local authorities' power. This process involved the decentralisation of the decision-making power over production and distribution, resource allocation and policy-making on broad social issues. This adjustment has indeed brought tangible benefits to economic development in many regions. In this respect, the fast growth of the special economic zones (SEZs) and the coastal regions provide the best example.<sup>17</sup> The successful experimentation of the SEZs brought to the fore a new model of central-local relationship based on economic

growth. The main trend seen in recent years in the central-local balance-of-power relationship is the gradual ascent of localism.<sup>18</sup>

A prime indicator of 'localism' is revealed by changes in the relative financial strengths of the central government and the localities. For years, the central government has been suffering from severe budget deficits, while local shares of the revenue pie have been increasing.<sup>19</sup> Not surprisingly, the rise of local power is parallel to the decline of central authority. As a matter of fact, this phenomenon has attracted considerable attention from both Chinese policy-makers and academic researchers.<sup>20</sup>

A broad consensus among policy-makers is that the decollectivisation and household responsibility system in rural China transferred income rights over agricultural production from collectives to individual households. While this significantly enhanced the production incentives of peasants, the change deprived local governments of a major source of income. At the same time, China's fiscal reform granted local governments the right to retain part of the extra tax revenue they raised.<sup>21</sup> That is, the higher the economic growth rate, the higher the tax revenue, and greater the income of local governments. Given such a stake in economic growth, local governments were motivated to mobilise and coordinate resources under their jurisdiction to engage in entrepreneurial endeavours. The local governments established and ran rural enterprises and used the profits they generated to pay for expenditures and reinvestment. In this manner, local governments functioned like a large corporation with diversified business interests, thereby serving as the engine of China's economic growth.<sup>22</sup>

Worried about the decline of central power, the CPC leadership has tried to make some policy adjustments. In addition to reasserting the party's discipline and central government power over macro-economy issues, a new type of tax system (*fenji shuizhi* – central-local separate tax system) was introduced in 1992.<sup>23</sup> In this system, certain ratios used to define the share that central and local governments should take from the total tax income, respectively, are separately determined.<sup>24</sup> This tax system was introduced to ensure for the central government a stable increase in its revenue as the localities increased theirs from economic growth. Importantly, localities have retained their exclusive rights over sources of income, including sales tax, local-enterprise income tax and individual income tax.

At a personal level, increased revenues in local government coffers have translated into lucrative (and legal) economic rewards for local officials, with local governments using the ‘residual’ for bonuses. Linking cadre bonuses to the size of the ‘residual’ therefore gave local officials a direct stake in the economic growth.<sup>25</sup> Besides earning bonuses, individual officials who achieved outstanding economic growth were promoted to higher ranks within the bureaucratic hierarchy. These personal incentives explain why Chinese officials were motivated to promote economic growth in their localities and not obstruct market reform. To quote Oi, “[C]hina’s economic reforms took off in many parts of the countryside precisely because the key entrepreneurs leading the charge were those who had the economic and political resources – the cadres themselves.”<sup>26</sup>

In criticism, it must be stated that inter-regional imbalances can largely be ascribed to a national policy that is biased in favour of certain regions against others. The central authority has bestowed much more autonomy, privileges and resources to coastal provinces and municipalities. Besides this policy partiality, other factors, such as variance of natural resources, geographic conditions and industrial foundations inherited from the past have also contributed to lopsided regional development. While economic problems have always been at the core of central-local relationships, changes in this relationship also help us to understand the imbalanced development of political reform and political stability among different regions.<sup>27</sup>

## *2) The Changing Role of Institutions*

The Chinese government has embarked upon no fewer than seven major programmes for structural downsizing of the organs of the State Council since 1949. The more recent programmes to streamline the State Council were carried out during the period of reform and openness in 1982, 1988, 1993, and most recently in 1998.<sup>28</sup> Many departments and organisations have been created to meet the needs of economic development and the modernisation programmes since the late 1970s. Most of the new organisations in the 1980s were created to perform macro-planning and management which the old administrative institutions could not handle.

The key element for the development of a market economy in China is a redefined relationship between government and enterprise. The organisational reforms in the 1980s cut most of the party bureaux from economic management retaining only important political functions such

as propaganda and personnel management.<sup>29</sup> It is noteworthy that the main guiding principle since the 1988 reforms has remained the 'separation of government and enterprise' (*zheng qi fen jia*).<sup>30</sup> Lending further credence to the entire exercise of streamlining the functioning of the government apparatus in ensuring smooth progress of the reforms, the Fourteenth National Congress of the CCP in October 1992 reaffirmed the need for administrative reform.<sup>31</sup>

The 1998 State Council's reorganisation has been the largest streamlining attempted so far – certainly in terms of the number of organisational units targeted for abolition or merger. A prominent feature was functional consolidation, wherein administrative units performing similar tasks were merged with the purpose of reducing overlapping functions and hierarchical redundancy. Three departments of particular interest to this study, and which play a very important role in China's foreign economic policy-making are: the National Development Planning Commission (NDPC); the State Economic and Trade Commission (SETC); and the Ministry of Commerce (until recently the Ministry of Foreign Trade and Economic Cooperation – MOFTEC). According to the official explanation, "[T]he main responsibilities of these departments are to maintain an economic aggregate balance, curb inflation, optimise the economic structure, bring about sustained, rapid, and sound economic development, strengthen the macro-control system, perfect economic and legal means and improve macro-control mechanisms."<sup>32</sup> Interpreting the reorganisation of government departments as 'micro-processes at work' in transforming the 'macro-structure' (China's economy in the reform period) the following case studies detail the process.

2a) The National Development Planning Commission (NDPC): Established in 1952 as the State Planning Commission (SPC), the NDPC has undergone several transformations. It has played a crucial role in the management of China's centrally planned economy. The former SPC was responsible for approving government spending and subsidies, and setting production quotas for large and medium-sized state enterprises. Foreign investors had to get its approval for implementing large projects in China. With market-oriented reforms since 1978, the former SPC's role of being the fulcrum of economic policy-making diminished. During the reform period, the plans have stopped being an exercise in statistical performance and mass mobilisation (*dongyuan*) efforts, becoming an attempt at a macro-economic assessment and statement of government intent. Under the

institutional restructuring of 1998, the Commission changed its nature, became a think-tank and was renamed the National Development Planning Commission, to be responsible for drawing up macro-economic policy and foreign economic policy-making proposals.

The NDPC has been overseeing the implementation of China's Tenth Five-Year Plan (2001-05) that adheres to six principles. These are: pursuing economic efficiency while maintaining rapid growth and increasing reliance on science and technology; granting market mechanisms a greater role in development; harmonising economic development with population growth; natural resource exploitation and environmental protection; redressing regional imbalances by developing central and western China; and balancing reform and opening up with the protection of state economic safety.<sup>33</sup>

To attract foreign investment, the NDPC plans to simplify the existing procedures for approving foreign investment; open up the service sector to foreign investment; grant more autonomy to local authorities/governments to approve foreign-funded projects; work to ensure a fair and competitive market order by punishing price-related violations and abolish random fees on foreign firms. The reform of the financial sector, encouraging consumer credit, supporting medium and small-sized enterprises and reforming property rights to shareholding or joint stock cooperative systems, promoting exports and ensuring stability of the Renminbi (RMB) exchange rate are also tasks the NDPC has charted out for itself.

2b) The State Economic and Trade Commission (SETC): The SETC has evolved from the State Economic Commission (SEC), itself an agglomeration of the State Agricultural Commission, the State Commission for Machine-Building Industry, the State Energy Commission, the Ministry of Building Material Industry, the State Administration of Standards and the Patent Bureau in the early 1980s. In early 1992, the State Council established a Production Office, headed by a vice-premier, to deal with the serious problem of declining profitability of the state enterprises, which dominated the economy. The Production Office had wide-ranging powers, which included the authority to put a set of revitalising policies into effect by setting production targets. These were to influence material distribution, stimulate exports, coordinate different sectors and guide enterprises on improving management, imparting technical skills, etc.<sup>34</sup> In June 1992,

this office was renamed the “State Council Economic and Trade Office”, and this body in March 1993, was renamed the State Economic and Trade Commission. The SETC after several transformations in the 1980s was established as a component department of the State Council following the Chinese cabinet institutional restructuring scheme, passed in March 1998 by the First Session of the Ninth National People’s Congress (NPC).<sup>35</sup> Its main functions and responsibilities included the following:

- to organise the formulation of, and, coordinate the country’s domestic and foreign trade policies as well as import and export policies;
- in conjunction with the SDPC/NDPC, draw up import and export plans for staple and crucial industrial products and raw materials critical to the nation’s livelihood;
- to coordinate foreign trade cargo shipment;
- to conduct international exchanges and cooperation, guide technical innovation, introduce technology, localise key equipment as well as direct research and development of key technologies and equipment;
- to guide the strategic reorganisation of state-owned enterprises (SOEs), and;
- to organise the drafting of comprehensive economic laws, regulations and policies governing industry, commerce and trade.

The SETC, while specified as having the sole responsibility for reforming state enterprises, is expected to focus more on the macro-control of the industries. Its job is to formulate long-term strategic development plans and to draw up policies for the industrial bureaus under its supervision. Perhaps learning from the lessons of the Asian financial crisis of 1997, the roles of fiscal regulation and fiscal policy implementation assumed by the MoF and the PBoC have been strengthened and these agencies are undergoing major organisational restructuring to accommodate regulatory functions.<sup>36</sup>

**2c) The Ministry of Commerce (MOFCOM) – formerly the Ministry of Foreign Trade and Economic Cooperation (MOFTEC):** Evolving from the earlier Ministry of Foreign Economic Relations and Trade (MOFERT) and structured on the lines of Japan’s Ministry of International Trade and Industry (MITI), the MOFCOM, in accordance with the strategic aims of

China's economic and social development as outlined by the State Council has to perform the following tasks:

- to study and formulate strategic guidelines, planning and country policy and other related policies in foreign economic cooperation and trade, and to be responsible for the organisation of their implementation after their approval by the State Council;
- to compile long-term and yearly foreign economic and trade plans, and to be responsible for the supervision, management and data collection in foreign economic and trade businesses;
- under the authorisation of the State Council to enter into multilateral, bilateral governmental economic and trade treaties and agreements on behalf of China and to be responsible for their implementation;
- to be responsible for the organisation and coordination of negotiations regarding foreign governmental loans, foreign business investments, technology imports and the utilisation of foreign capital;
- to oversee sectoral management of economic and technical cooperation and exchange with United Nations and other related international organisations; and
- to organise research and study on international economic and trade situation and markets, and to keep abreast of international economic and trade information.<sup>37</sup>

The MOFCOM is the primary bureaucratic institution responsible for deciding China's foreign trade and economic aid strategies and planning and is guided by the State Council. As decisions regarding China's foreign trade and economic relations with foreign countries are often considered politically less sensitive, the MOFCOM often has a higher degree of control over these decisions which often have a strong domestic linkage. Most of the policy-making decisions are handled by the powerful Central Finance and Economic Leading Study Group (CFELSG), which to a large extent influences China's trade relations with the rest of the world. With China's accession to the World Trade Organisation (WTO), the role and functions of the MOFCOM have undergone a transformation. This external determinant emerges as a prime linkage for this study and fulfills Rosenau's 'linkage approach' to economic policy-making.

On December 11, 2001, the People's Republic of China (PRC) became the 143<sup>rd</sup> member of the WTO.<sup>38</sup> China's entry into the WTO is expected to herald a new phase of the reforms that are bound to test the strength of its institutions. In anticipation of the changes that are bound to take place, the MOFTEC set up two departments in November 2001. These two departments were the Department of World Trade Organisation Affairs and the Fair Trade Bureau of Import and Export.<sup>39</sup>

The Department of World Trade Organisation Affairs will take charge of China's multilateral negotiations in the new round of trade liberalisation talks of the WTO. The main tasks of the department are to make sure that China carries out its promises in the WTO goods trade and service trade agreements, and that it lays down laws and rules in line with WTO rules. Under the department are two offices that are responsible for answering the WTO's enquiries into China's trade policies and notifying the WTO of China's policies, laws and rules on trade and investment. The Fair Trade Bureau's responsibilities lie in conducting investigations into imports and determining whether anti-dumping, anti-subsidy and protective measures are applicable, together with the SETC. The bureau is also to guide local companies in responding to foreign charges of dumping and subsidy.

Perhaps the most significant commonality of purpose revealed in the above three organisations/ economic bureaucracies, is their emphasis on attracting not only foreign investment into China, but the necessity of importing foreign technology. As the Chinese perceive it, a high rate of economic growth cannot be sustained by increasing capital and labour inputs alone. The total factor productivity must be raised essentially through technological advancement.<sup>40</sup> In this process, technology transfer can upgrade technological levels, enhance China's ability to develop new products, introduce new marketing and managerial techniques, improve quality, reduce costs and boost competitiveness in international markets.<sup>41</sup> A notable change in China's acquisition pattern is the shift of emphasis from buying turnkey plants to buying key components, and from buying machinery and equipment to buying technical know-how. The effort seems to be in the direction of attaining a technological transformation of existing enterprises and insisting on transfer of technology to used plants and equipment.<sup>42</sup>

### 3) *The Changing Role of the State in China*

Most scholars agree that the leaders of post-1949 not only inherited China's traditional statist disposition but also sought far greater control over society than their predecessors.<sup>43</sup> This desire for control derived in part from pre-1949 experiences as also from the power consolidation phase of the 1950s. For Tang Tsou, this particular form of the state was 'feudal totalitarian.'<sup>44</sup> The preliminary task of the new state was to assume the traditional role of being the provider of society's moral framework and compass. The central organising principle of the state was hierarchical, with parallel vertical structures that made horizontal relationships impossible to sustain.<sup>45</sup> Under such a centralised structure, there was no significant role for the market in allocating goods and services. Not only did this have a detrimental effect on the quality of rural and urban life, but it also led to the eradication of intermediary organisations that operated within the market economy and in the space between local state and family.<sup>46</sup>

After the internal upheavals brought about by the Cultural Revolution, the Chinese state underwent a remarkable transformation in the post-Mao period. This process is far from complete and largely revolves around the dynamic forces generated by the reforms. The Chinese state today can be labelled a 'market facilitating state'.<sup>47</sup> Elements of this market facilitating state are a result of the various structural adjustment programmes initiated over the last two decades and in the changing social base of the ruling CCP and its emerging power elite. The key features of this market facilitating state are: a) it is *entrepreneurial* – it both promotes entrepreneurship and engages in risk taking, profit-seeking economic pursuits; b) it is *legalistic* – it legally defines relations between economic actors in the marketplace and settles economic disputes through due process of law; c) it is *technocratic* – the state is increasingly being run technically and professionally by a technocratic elite, and d) it is *regulatory* – the state seeks to regulate the market at the macro-economic level while withdrawing through deregulation.

Substantiating this evolving role of the state is published Chinese analyses of the reform process that accord the state a crucial role as benign protector of national interests.<sup>48</sup> From foreign investment, the state obtains capital (hard currency, equipment and technology) and develops economic capacity with its equity control and eventual ownership of joint ventures.

Through foreign trade, the state can develop hard currency earnings while restraining deficits by means of state planning, management, encouragement of exports, and import protectionism. The periodic campaigns against foreign influence (spiritual pollution, *bourgeois* liberalisation, etc.) including reiterations that news media must remain mouthpieces of the CCP, rely on the state to control the side-effects of China's reform process. The goal of liberalisation enunciated by Chinese leaders and commentators is neither class transformation nor *laissez-faire* global interdependence, rather, it is national economic strengthening with partial decentralisation (which Chinese officials believe) will make the state more flexible and effective.

The transformation of economic bureaucracies from being instruments of a centralised command economy to one that adheres to market forces has perhaps led to the bureaucracies themselves being a power base despite their flexibility and accommodation to a changed situational reality. This evolving structure of powerful bureaucracies and a policy-making state give rise to possibilities of whether the Chinese state, while firmly declaring itself as communist in orientation is practically adopting traits associated with corporatism. In corporatism, the state takes a central role in capitalist development in the name of economic growth and national order.<sup>49</sup> The state is seen as not interfering with the efficiency of a free market economy, but as essential to its rationalisation. In order to achieve society's material and security aims, the populace are asked (for their own good) to consciously turn over power to an absolute value-neutral state.

### **Inferences**

A nation's international behaviour is based on norms, values and processes through which the country's policy-makers deal with issues internal and external. In applying the micro-macro linkage approach to foreign economic policy-making in China, and the linkages emerging, this study reveals the following:

- A vital component in China's policy to open its economy and integrate it into the world economy was the decentralisation of the foreign trade apparatus. From a highly centralised system of foreign trade agencies governing international economic relationships, China has managed to introduce a flexible structure that promotes, nurtures and facilitates economic policy-making that is not entirely

dependent upon state diktats.

- China's foreign economic policy-making is reflective of its commitment to modernisation and this will remain a priority for the years to come. China's desire to be an important player on the world stage means that it must adapt to policy-making norms prevalent in the international system. With the efficacy of the reform process yielding the desired results, perhaps the next stage could involve the levels of influence China has in determining trends, not merely restricted to matters economic.
- While the policy of reform and openness has gained momentum, it has gradually managed to transform China's policy-making structure from a vertical to a horizontal structure, which encompasses elements of collective policy-making as opposed to arbitrariness. This very process has created a powerful constituency that among others includes the many supporters and beneficiaries of economic development and modernisation efforts, and the technocratic bureaucrats that are emerging among the elites.

Also, there has been a progressive decline in state control of the economy and a shift in powers devolved from state agencies to enterprises. The retreat of the planning mechanism has given way to a concomitant increase in the role of market forces to guide distribution and increasingly, production choices. These changes are redefining the social structure and influencing the distribution of power between state and society. While there is more pluralistic input to policy-making, with different think tanks or agencies preparing reports, a weak link that emerges is the problems regarding implementation of policy choices. It is here that the Chinese state reveals itself as a bargainer and negotiator.<sup>50</sup>

Another trend that emerges from the shift in focus to economic policy-making and development is the centrality of the economic factor in the making of foreign policy decisions. The restructuring of the economy and China's consequent growth as a leading trading power are yet other manifestations of a strategic impetus for the future that bears scrutiny. This contrasts with the Maoist era, when the focus was exclusively centred on national security and Beijing's political consideration dominated foreign policy-making.<sup>51</sup> Foreign trade and economic aid were but instruments to serve its international political objectives. With the open door policy, China's foreign policy is required to serve the nation's paramount interest of

economic development. It is also to be stated that this economic bias has resulted in a dilution of the foreign affairs establishment and the strengthening of economic bureaucracies, as detailed earlier.

The emergence of Jiang Zemin and now Hu Jintao at the centre of political power represents a transition of the Chinese political leadership from a generation of revolutionary cadre to a generation of technocratic leaders. This new technocratic leadership is characterised by their lack of absolute authority and are represented by their small narrowly confined power base. This shift in leadership traits has, however, led to a more collectivised policy-making process with checks and balances reflected in the structure and composition of the Politburo Standing Committee, which represents bureaucratic interests.

Like many transitional economies, the sheer scale of success China has achieved in the economic sphere glosses over concerns arising from the restructuring of SOEs, internal migration, the patchy implementation of a legal framework, etc. These very aspects could in the years to come undermine the relative progress made in the reform period.

### References/ End Notes

- <sup>1</sup> Carol Lee Hamrin and Suisheng Zhao (Eds), *Decision-Making in Deng's China: Perspectives from Insiders*, M.E. Sharpe Inc., Armonk, NY, 1995, p. xxiii.
- <sup>2</sup> Max Weber had classified 'legitimacy' as belonging to three types – a) *rational grounds* – resting on a belief in the legality of enacted rules and the right of those elevated to authority under such rules to issue command (legal authority); b) *traditional grounds* – resting on an established belief in the sanctity of immemorial traditions and the legitimacy of those exercising authority under them (traditional authority) and; c) *charismatic grounds* – resting on devotion to the exceptional sanctity, heroism or exemplary character of an individual person, and of the normative patterns or order, revealed or ordained by him (charismatic authority) as cited in Max Weber, *Economy and Society: An Outline of Interpretive Sociology*, Guenther Roth and Claus Wittich (Eds.), University of California Press, Berkeley, 1978, 1, p.215.
- <sup>3</sup> See, Zhao Quansheng, *Interpreting Chinese Foreign Policy: The Micro-Macro Linkage Approach*, Oxford University Press, Hong Kong, 1996.
- <sup>4</sup> Andrew Nathan, "Is Chinese Culture Distinctive?" *The Journal of Asian Studies* (Ann Arbor, MI), 52 (4), November 1993, pp. 923-36.
- <sup>5</sup> See James Rosenau, *Linkage Politics: Essays on the Convergence of National and International Systems*, The Free Press, New York, 1969. Rosenau's emphasis on

interpreting linkages follows in the tradition of hermeneutical analysis that 'seeks to uncover the internal coherence amongst ideas, beliefs, intentions, actions and practices to show how the understanding of participants makes sense in terms of the institutions and relationships within which they are located.' Also see, Michael Gibbons, "Introduction: The Politics of Interpretation", in Michael Gibbons (Ed.), *Interpreting Politics*, New York University Press, New York, 1987, pp. 3-4; Paul Rabinow and William Sullivan, *Interpretive Social Science: A Reader*, University of California Press, Berkeley, 1979, p. 5.

- <sup>6</sup> See, Robert Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games", in Peter Evans, Harold Jacobson and Robert Putnam (Eds), *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, University of California Press, Berkeley, 1993.
- <sup>7</sup> See, Jeffrey Alexander and Bernard Giesen, "From Reduction to Linkage: The Long View of the Micro-Macro Link" and "Action and its Environments", in Jeffrey Alexander, Bernard Giesen, Richard Munch and Niel Smelser (Eds), *The Micro-Macro Link*, University of California Press, Berkeley, 1987.
- <sup>8</sup> See, George Ritzer, "Micro-Macro Linkage in Sociological Theory: Applying a Metatheoretical Tool", in George Ritzer (Ed.), *Frontiers of Social Theory*, Columbia University Press, New York, 1990. Due to space limitations only brief definitions will be provided here: *Structural Functionalism* – It identifies society as a unit of analysis independent of individual action. This approach seeks to explain certain structures and institutions in a society by identifying the functions they fulfil in maintaining the working of society as a whole. *Conflict Theory* - Its basic themes are the following: a) the central feature of social organisation is stratification, the kind and degree of inequality among groups and individuals and their domination over one another; b) the causes of what happens in society are to be sought in the interests of groups and individuals; above all their interests in maintaining their positions of domination or evading domination by others; c) who wins what in these struggles depends on the resources controlled by different factions, and, d) social change is driven especially by conflict; hence long periods of relatively stable domination are punctuated by intense and dramatic episodes of group mobilisation. *Symbolic Interactionism* – It has three premises; 1. Human beings act towards things on the basis of the meanings the things have for them; 2. The meanings of such things are derived from social interactions one has; and, 3. These meanings are handled in, and modified through an interpretative process used by the person in dealing with the things he/she encounters. *Exchange Theory* – It focuses attention on the relationships between interconnected actors, be they individuals, corporations, or nation-states, rather than represent actors as isolated entities – processes like the exercise of power and influence, the potential for coalition formation and other power-gaining strategies, the normative aspects of exchange, especially conceptions of fairness and unfairness, inequalities in the distribution of resources and perceptions of the legitimacy of power.

- <sup>9</sup> See Zhao Quansheng, no. 3.
- <sup>10</sup> The author would like to qualify that, the micro-macro linkage approach only lays out an analytical framework as a starting point to study foreign economic policy-making issues (in this case China) and that the model is essentially an approach to interpreting causal relationships among various factors, and is not intended to be a tool for predicting future events.
- <sup>11</sup> The year 1978 is generally regarded as the year in which the Open Door Policy was officially introduced. Actually, the political shift towards the Open Door Policy materialised in several stages. The reference date chosen for this study is the Third Plenum of the 11<sup>th</sup> Central Committee in late 1978, where the members called for the establishment of a legal system to promote economic and social modernisation.
- <sup>12</sup> Zhao Quansheng, "Domestic Factors of Chinese Foreign Policy: From Vertical to Horizontal Authoritarianism," *The Annals of the American Academy of Political and Social Science* (Philadelphia PA), 519, January 1992, pp. 159-76.
- <sup>13</sup> Under Mao, Premier Zhou Enlai, in consultation with members of the Politburo and a small group of foreign affairs specialists, was primarily in charge of the conduct of foreign affairs. Governmental bureaucracies, particularly the Ministry of Foreign Affairs, implemented foreign policy. See, Doak Barnett, *The Making of Foreign Policy in China: Structure and Process*, Westview Press, Boulder, CO., 1985.
- <sup>14</sup> The early days of China's reform process and opening up were marked by the debates between the Deng Xiaoping and Chen Yun camps. These debates concentrated on distinguishing between 'economic growth' and 'economic stability under reform.' The Deng Xiaoping group preferred 'rapid growth even at the expense of stability' while the Chen Yun group argued for 'stability as the paramount goal' – *wending yadao yiqie* – even overriding considerations of growth. As cited in Lowell Dittmer and Yu-shan Wu, "The Modernisation of Factionalism in Chinese Politics", *World Politics* (Baltimore MD), 47 (4), July 1995, p. 475.
- <sup>15</sup> See Mao Zedong, "On the Ten Great Relationships", in Stuart Schram (Ed.), *Chairman Mao Talks to the People: Talks and Letters: 1956-71*, Pantheon Books, New York, 1974, pp. 61-83.
- <sup>16</sup> Chung Jae Ho, "Regional Disparities, Policy Choices and State capacity in China", *China Perspectives* (CEFC, Hong Kong) 31, September-October 2000, pp. 23-29.
- <sup>17</sup> Joseph Fewsmith, *Dilemma of Reform in China*, M.E.Sharpe Inc., Armonk, NY, 1994, p. 122; Susan Shirk, *The Political Logic of Economic Reform in China*, University of California Press, Berkeley CA, 1995, p. 116. Shirk examines the specific directions and actions undertaken by Deng Xiaoping in the establishment of the special economic zones (SEZs) in the early 1980s against the covert and indirect opposition of Chen Yun and his followers. In January 1984 during a heated debate on the desirability and effectiveness of the SEZs, Deng had to intervene and push for their firm consolidation and further urge an increase in the number

- of open cities, all in an informal capacity.
- <sup>18</sup> See, Gerald Segal, "China Changes Shape: Regionalism and Foreign Policy", Adelphi Paper 287, International Institute for Strategic Studies, London, 1994.
- <sup>19</sup> In the mid-1980s, highly respected central leaders including Deng Xiaoping, Chen Yun and Yang Shangkun, would have yearly tours of some rich coastal provinces and municipalities, such as Guangdong and Shanghai, to solicit out-of-budget financial contribution to the central government.
- <sup>20</sup> See, Jia Hao and Lin Zhimin (Eds), *Changing Central-Local Relations in China: Reform and State Capacity*, Westview Press, Boulder, CO., 1994; Wang Shaoguang and Hu Angang, *Zhongguo Guojia Nanni Baogao (China's National Capacity Report)*, Oxford University Press, Oxford, 1994.
- <sup>21</sup> See, Jean C. Oi, "Fiscal Reform and the Economic Foundations of Local State Corporatism in China", *World Politics*, 45 (5) October 1992, pp. 99-126.
- <sup>22</sup> Shu-Yun Ma, "Understanding China's Reform – Looking beyond Neoclassical Explanations", *World Politics*, 52 (4), July 2000, p. 587.
- <sup>23</sup> World Bank, *Sharing Rising Incomes: Disparities in China*, The World Bank, Washington D.C., 1997.
- <sup>24</sup> See, Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform*, University of California Press, Berkeley, 1999.
- <sup>25</sup> Ibid., p. 49.
- <sup>26</sup> Ibid., p. 192.
- <sup>27</sup> The differentiation in political development between the more liberalised coastal regions on the one hand and the inner provinces still tightly controlled by the central authorities, may best be illustrated by the case of Guangdong province. In the early 1980s, the "anti-spiritual pollution" campaign was not well received, and interestingly enough, neither did the student movement of 1989 have as striking an impact on Guangdong as on other regions.
- <sup>28</sup> The major contents and rationale of these streamlinings can be found in Wu Jie (Ed.), *Zhongguo Zhengfu Yu Jigou Gaige [The Chinese Government and the Organisational Reform]*, Guojia Xingzheng Xueyuan Chubanshe, Beijing, 1988, pp. 138-75; Liu Zhifeng, *Di Qi Ci Geming: 1998 Zhongguo Zhengfu Jigou Gaige Beiwanglu [The Seventh Revolution: Memorandum of the 1998 Organisational Reform of the Chinese Government]*, Jingji Ribao Chubanshe, Beijing, 1998, pp. 289-379; and, Che-Po Chan and Gavin Drewry, "The 1998 State Council Organisational Streamlining: Personnel reduction and change of government function," *Journal of Contemporary China* (London), 10 (29), pp. 553-72.
- <sup>29</sup> Xia Hai, "Zhengque renshi 1982 nian de jigou gaige" ["A correct understanding of the 1982 organisational reform"], *Zhongguo xingzheng guanli [Chinese Administration and Management]*, Beijing, 6, June 1987, pp. 23-24.
- <sup>30</sup> See, Che-Po Chan and Gavin Drewry, "The 1998 State Council Organisational Streamlining: Personnel reduction and change of government function", *Journal*

*of Contemporary China*, 10 (29), pp. 553-72.

- <sup>31</sup> See, Jiang Zemin's political report to the Congress, "Jiakuai gaige kaifang he xiandaihua jianshe bufa, duoqu you zhongguo tese shehuizhuyi sheye degangda shengli" ["Accelerating the Pace of the Reforms, Opening up to the Outside World and Undertakings of Modernisation to Achieve Greater Victory for the Cause of Socialism with Chinese Characteristics"] in *Renmin Ribao – Haiwaiban* [The People's Daily Overseas Edition], October 14, 1992, p. 3.
- <sup>32</sup> *Beijing Review*, April 27-May 3, 1998, p. 21.
- <sup>33</sup> See <http://www.sdpc.gov.cn/>
- <sup>34</sup> Wang Yiming and Piet Vandeen Abeele, "Economic Policy-Making and Implementation in China: Changing Patterns on a Changing Background", in Dong Lisheng (Ed.), *Administrative Reform in the People's Republic of China since 1978*, Working Paper Series 1, International Institute for Asian Studies, Lieden, 1994, p. 83-85.
- <sup>35</sup> <http://www.setc.gov.cn/>
- <sup>36</sup> You Ji, "China's administrative reform: constructing a new model for a market economy", *Issues & Studies* (IIR: Taipei) 34 (2), February 1998, pp. 69-103.
- <sup>37</sup> Lu Ning, *The Dynamics of Foreign Policy Decision Making in China*, Westview Press, Boulder, CO., 1997, pp. 191-95.
- <sup>38</sup> China was one of the original signatories of the General Agreement on Tariffs and Trade (GATT) in 1948. After the People's Republic of China was established in 1949, the Government in Taiwan announced that China would leave the GATT system. Although the Government in Beijing never recognised this withdrawal, since 1986 when China notified the GATT of its wish to resume status as a contracting party, negotiations continued which came to a successful conclusion on September 17, 2001.
- <sup>39</sup> Nicholas R. Lardy, *Integrating China into the Global Economy*, Washington D.C., Brookings Institution Press, 2002, pp. 65-105.
- <sup>40</sup> Kungchia Yeh, "Foreign Trade, Capital Inflow, and Technology Transfer under the Open-Door Policy", in Susan H. Marsh and Michael Ying-Mao Kau (Eds), *China in the Era of Deng Xiaoping: A Decade of Reform*, M.E.Sharpe Inc., Armonk, NY, 1993, p. 141.
- <sup>41</sup> Technology imports as defined here refer to the acquisition of licences, patents, technical services, and technology-embodied equipment. If we define technology imports more broadly to include the transfer of technical knowledge through training, scholarly exchanges, and so forth, the contrast between recent and past developments will be even more striking.
- <sup>42</sup> Liu Hu, "Technology Import Reaches New High", *Beijing Review* (Beijing), 10, March 1986, pp. 23-24; Bai Yiyan, "Open Policy Boosts Technical Growth", *Beijing Review*, 29, August 1987, pp. 18-22.
- <sup>43</sup> See, Karl Wittfogel, *Oriental Despotism: A Comparative Study of Total Power*, Yale

University Press, New Haven Conn., 1957; Tang Tsou, "Back from the Brink of Revolutionary-Feudal Totalitarianism", in Victor Nee and David Mozingo (Eds), *State and Society in Contemporary China*, Cornell University Press, Ithaca, 1983.

<sup>44</sup> Tang Tsou, *Ibid*, p. 56.

<sup>45</sup> Tony Saich, *Governance and Politics of China*, Palgrave, New York, 2001, p. 196.

<sup>46</sup> This represented a repeat of the experiences of many new states in East Asia and Latin America of that period when the quest to evolve as a 'developmental state' led to a burst of industrialisation that sought to reinforce a strong and autonomous state which can push ahead with contentious but necessary policies.

<sup>47</sup> See, Robert Kleinberg, *China's "Opening" to the Outside World: The Experiment with Foreign Capitalism*, Westview Press, Boulder CO., 1990; Joyce K. Kallgren (Ed.), *Building a Nation-State: China After Forty Years*, University of California Press, Berkeley, 1990; Merle Goldman and Roderick MacFarquhar (Eds), *The Paradox of China's Post-Mao Reforms*, Harvard University Press, Cambridge MA, 1999.

<sup>48</sup> Chu Baotai, *Foreign Investment in China, Questions and Answers*, Foreign Languages Press, Beijing, 1986, pp. 90-91; Weizao Teng and N.T. Wang (Eds), *Transnational Corporations and China's Open Door*, Lexington Books, Lexington MA, 1988, pp. 233-50.

<sup>49</sup> See, Bob Jessop, *Theories of the State*, New York University Press, New York, 1983; James O'Connor, *The Corporations and the State: Essays in the Theory of Capitalism and Imperialism*, Harper & Row, New York, 1974.

<sup>50</sup> See David M. Lampton (Ed.), *Policy Implementation in Post-Mao China*, University of California Press, Berkeley, 1987.

<sup>51</sup> Charles Zeigler, *Foreign Policy and East Asia: Learning and Adaptation in the Gorbachev Era*, Cambridge University Press, Cambridge, 1993. To quote Zeigler, "In closed systems central policy-makers are relatively isolated from lower level foreign policy organisations, and from factors that might contain their behaviour. Closed systems also tend to buffer their populations from influences in the international environment which might introduce ideas challenging the structural basis of the system." (p. 13).

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