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**FROM BUREAUPRENEUR TO HNWI
CHANGES AND EMERGENCE OF HIGH NET WORTH
INDIVIDUALS (HNWIs) IN CHINA**

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YEAR OF PRESENTATION: 2012**

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Abstract

Economic growth in China is attributed by many people to the reforms initiated in 1978. Some individuals, who were previously agents of the state, party cadres, or peasants, have become *High Net Worth Individuals* (HNWIs) within a relatively short period in the wake of certain institutional changes. Before economic reform, China's political elites seized administrative controls and material privileges and yet were relatively restricted in money income and private wealth; however, the market transition and privatization added additional value into those controls and privileges and created unique opportunities for those political elites. These political elites retain intact power and privilege regardless of market reforms or regime change. During the transformation, redistributive mechanisms are shaped by these elites, who discriminate in favour of themselves, their families, and like individuals; subsequently, some of those from the political elites migrate into HNWIs, and unjust wealth re-distribution is created accordingly. Development and the changing role of elites in transitional China, like all societies, is constrained and shaped by heritage (resources, pre-existing institutions, geography, culture, etc.); these constraints maybe stronger in transitional societies than in open market economies and enhance the importance for transitional society elites to maintain their footholds of power in state and regulatory institutions. Therefore, these elites exert influence to maintain their existing privileges for accumulating wealth from competition. This research adapts institutional change theory to incorporate the concept of resource dependences in order to give practical expression to an analysis of how the transition between these roles is played out during the institutional changes and to explore the relations between the leading social actors and their institutional environment. It draws on the example of the housing market to illustrate that there is a trade-off between conformity to external institutional pressure and exercising influence over external resources whilst pursuing stability and legitimacy in China's reforms.

1. INTRODUCTION

After 1978, as Garrick (2012b:144) states, a new form of socialism entered into China's proletarian ideology, allowing the private economy to co-exist with the socialist public economy. The purpose of this research is to identify the relationship between transition and institutional change in China by analysing the roles in the transition of leading social actors, including state agents, party cadres, HNWI, their institutional contexts, and the relationship between them. Since the roles of leading social actors vary with institutions over time, institutions and time therefore affect the functions of these roles. Institutions simultaneously create power by giving individuals control over resources and social function. Therefore, power is shaped through institutions that structure human organizations and relationships in most societies (Sachs and Woo 1994: preface). On the other hand, institutions reflect the resources and power of those who make them and, in turn, affect the distribution of resources and power in society, becoming powerful external forces that channel and regulate conflict ensuring social stability (Campbell 2004:1). Herein lies my fundamental research proposition is that people holding more privileges try to maintain stability and prevent any unexpected chaos by retaining existing favourable institutions or making new institutional arrangements that follow the existing pattern (North 1990:94;1994) through the exercise of existing influence over external resources (Pfeffer and Salancik [1978] 2003:45).

On the contrary, people possessing relatively fewer benefits also try to alter existing institutions in order to pursue an anticipated better institutional environment despite their relatively weaker motivation and power. Because those existing interest groups can share relatively more benefits and have stronger motivation and power to manipulate institutional arrangements (Olson 1971), the stability and persistence of existing institutional environments may consequently incline towards provisional disequilibrium. After struggling and bargaining (the process of compromise), the new institutional environment will reach stability and be in equilibrium (Campbell 2004:1-2). By this logic, I incorporate the power dependence concept into institutional change theory to justify my research arguments.

A few years ago it would have been difficult, if not possible, to imagine European leaders, begging bowl in hand, turning to Beijing for a financial bailout (Financial Times 2012). What path led China to such impressive economic growth? In China, reforms bring unprecedented opportunities to those people who know how to grasp them in pursuit of individual benefit. As a result, there could be a high risk of social turmoil and conflict, e.g. Wukan protest¹, in part due to such prosperous opportunities interfacing with a relatively uncomplicated economic system (*see Note 1*). These people are bureaucrats and also entrepreneurs, or ‘bureaupreneurs’ (Bouckaert 2007), that embody a gradual privatisation of political power, perhaps heading towards institutional arrangements of genuine private enterprise and the full separation of business and administration.

The path of reforms consists of different institutions, that are institutional capital at this moment rather than institutional costs (Bresser and Millonig 2003b) to China. Many former socialist countries, e.g. the former Soviet Union (FSU) and Central Eastern European (CEE), introduced strikingly different economic reforming policies in the 1990s (*see Note 2*). The fundamental divergence in China’s reforms has been to embark on economic reforms without political ones (Shirk 1993:4). For instance, there was neither any sign of a demise of the Chinese Communist Party (CCP) regime nor any noticeable agitation within the existing political system in China after the commencement of reforms in 1978. Conversely, the CCP not only remains intact and in control of the institutional environment but also dominates society and manipulates its institutional arrangements. Although economic reforms have so far been working properly in this specific context, these institutions, however, could eventually become an institutional cost if there are no corresponding and comprehensive reforms.

Presumably, the institutional changes, the emergence of HNWI, and economic growth in China are inseparable following the economic reforms. To comprehend the context of China’s transition may help us to reveal the distinct reform path of China’s institutions. It is inadequate to analyze China’s transition simply by looking

¹ In December 2011, a large-scale protest in Wukan Guangdong revealed the longterm outstanding economic performance in China seems dulcorated.

at explicit economic performance. Without comprehensive institutional arrangements, economic growth in China may not be sustainable. That is to say, excessive political intervention on the economy, biased jurisdictions, unquestioned and ingrained habits, and long established shared beliefs could ultimately constrain economic growth.

In this research, I conduct in-depth interviews with some of the economic elites as supplementary evidence. Every interviewee, in accordance with the definition of HNWI in China, has more than one million US dollars in liquid assets (Hurun 2008). In addition, many of them were previously bureaucrats, privileged party members, or both before the economic reforms were initiated. Therefore, they were bureaupreneurs and became HNWIs in tandem with China's transition. In the polity of any one-party dictatorship, political constrains may hinder market activities as soon as they render the former vulnerable. In China, economic problems can become political ones if they jeopardize the one-party regime. Therefore, only astute businesspersons could make corresponding changes instantly in anticipation of adverse or inauspicious policy announcements. Therefore, I argue that the main problem between China's transitions and its HNWIs is the co-opetition: HNWIs have to cooperate with, as well as compete with the political powers in China (a compromised model).

1.1 THE INSTITUTIONAL CONTEXT IN CHINA

The concept of institution denotes stability and persistence (Scott 1995:78); therefore, an institutional environment may end up in anarchy if stability cannot be maintained and sustained. To prevent any unanticipated disruption, people holding more interests, assets, and privileges in any given institutional environment may therefore try to maintain stability in order to secure their existing benefits by retaining the existing favourable institutions, making new institutional arrangements in the existing mould (North 1990:94;North 1994), or exercising their influence over external resources (Pfeffer and Salancik [1978] 2003:45). However, those people who possess relatively fewer benefits than the well-established ones will try to change existing institutions in order to pursue a more advantageous institutional

environment. Consequently, the stability and persistence of the existing institutional environment may tend toward provisional disequilibrium. After a period characterised by struggles and bargaining (Campbell 2004:1-2), the new institutional environment will become stable and be in equilibrium (*see Fig 1*).

In China, economic reforms are not ordinary but closely related to political power, especially those that influence and determine the allocation and distribution of scarce resources (Shih 2004a), and most groundbreaking policies are implemented quietly and implicitly, constantly evolving through a steady drip of leaks, hints, denials and oblique official statements (Dyer 2010b). In this regard, state agents at different levels could translate and implement reforms at their discretion with varying consequences. These discretionary interpretations may eventually result in grotesque phenomena reflected in economic reforms owing to political interventions, e.g. profiteering in dual-track pricing, unclear Land-Using Rights (LUR) auction, etc. Nevertheless, many unwavering political contrasts impact on the re-allocation and re-distribution of scarce resources and are deeply associated with the implementation of property rights. In this research, I will lay emphasis on the protection and transition of property rights that are indispensable to long-term economic growth. Nevertheless, the cost of defending property rights is not insignificant (Buchanan and Tullock 1962 ;Lin 1989 ;Cooter and Ulen 2007). Next, I will illustrate the theoretical premise of this research.

1.2 THEORETICAL PREMISE AND RESEARCH PROCESS

In this research, I try to comprehend the institutional changes and/or roles of leading social actors and their inter-relationship in the transition in China may benefit. For example, people focusing on institutional changes may find transition in China that hardly can be adequately interpreted through any single school of theory. Instead, institutional changes in China are deeply related to politics, economy, culture, and others. Arguably, social actors in China, as in other places, may not be rational and may change or improve existing institutions for reasons of personal utility, self-consciousness, culture, and others. As for people focusing on roles of leading social actors in China, they may find that the dominant social actors exerting influence over the actions and minds of other groups (Dijk 1996:84-85) are dynamic. That is to say,

the roles of social actors in transitional China are deeply influenced by and associated with varying institutional arrangements.

According to the previous statement, institutional change theory is suitable for interpreting China's transition. Many scholars analyze China's transition simply from an economic perspective (Lin 1989 ;Bian and Logan 1996 ;Peng and Heath 1996 ;Yang 1996a ;Qian 1999 ;Nee 2000 ;Nee and Cao 2005). However, some other scholars focus on the institutional environment (Ding 1994 ;Wang 1998 ;Yang 2004), roles in the transition of social actors (Bouckaert 2007), or politics (Chen 2003a). Among them, Bian and Logan (1996) attempt to unpack the relationship between the roles in the transition of leading social actors, institutional changes, and market transition in China. Bian and Logan offer an in-depth discussion regarding the transition of bureaucracy, income inequality, and reform policy in the urban cities of China; however, they do not interpret the associations between them from the institutional change perspective, and fail to address the interrelationship between state agents and leading actors in the markets' framework. On the other hand, Lin (1989) has examined China's transition, especially in relation to the economics of information, property rights, transaction costs, induced innovations, and imposed institutions. He analyses the functions and choices of social institutions and considers the mechanisms of institutional change, and demonstrates that institutions provide useful services and that institutional choices and changes can be analysed within the demand and supply framework and pays attention to the role of the state in the process of institutional change. Nonetheless, Lin pays little attention to the market transition and institutional changes despite a full discussion regarding institutional changes and property rights. Lin's article eventually falls short of illustrating the roles in the transition of leading social actors within the institutional change process of China.

In this research, I synthesise different theoretical perspectives to explain the relationship between institutional change and role transition of HNWI's in China. These institutions can be seen to form the cornerstone of social life through their formal and informal rules that define the context within which individuals and

groups operate and interact with each other. In this way, such institutional change may re-define the sets of opportunity, re-distribute the scarce resources, re-allocate social wealth, and re-position people's social status. In this research, I will use elite interviews to complement the shortcomings of missing secondary data, which is fragmented due to discontinuities and inconsistencies in statistical information and political constraints. I adopt the triangulation method (Denzin 1978:295) to reduce any negative side effects of biased interview data and the discontinuous secondary data.

In chapter two, I will depict the background to the dissertation, which describes the reasons behind initiating the research and my own experiences in China. It refers to the context of China's transition, the emergence of HNWI's, and their impact on the emergence in China. In the last two sections of next chapter, the research questions and purpose of the study are set out respectively. The third and fourth chapters relate to the literature review and elucidation of the theoretical perspectives of this dissertation, the adopted theories, and their parameters. In the fifth chapter, research methods, major controversies, and main research problems are tackled. In the sixth chapter, I will analyze the methodology and associated issues. In chapter seven, I will have the final analysis justifying my research propositions. Finally, I will conclude this research and make suggestions for further research in the eighth chapter.

2. Dissertation Background

In this chapter, I will explain not only the dissertation background but also how different schools of institutional change theory could account for the emergence of and changes in China's HNWIs together with their relationship to the markets. In June 1999, I was appointed as the first managing director of the Asian-Pacific department of a German company, which was one of the largest architectural fabric companies in the world. During my time in office, I had signed some remarkable projects for the company, e.g. National Stadium (Birdnest) of 2008 Beijing Olympic Games. I also had experience of living in Xiamen, Shanghai, Beijing, and Dongguan, and frequent business trips to different cities, e.g. Hangzhou, Chongqing, Yangzhou, and Mohe that experienced varied economic development. In my experience, all my clients desperately wanted the most sophisticated and expensive roofing material for their public facilities whether or not they could afford it.

Through the in-depth understanding of different kinds of people in various industries, regions, and socio-economic strata, I have been able to recognize that most people in China share one characteristic – that of capriciousness. This specific characteristic reinforces the comment from Dixit et al. (2008) that China is too volatile to challenge its assumptions and compel it to innovate. In 2006, I decided to leave my career after working for six consecutive years in China in order to undertake further disciplined academic training. Because I was deeply involved in a variety of projects, I recognized that China is caught between misinterpreted socialism and crony capitalism² with the result that it suffers from the worst of both systems. Urban residents, government agents, and Communist Party officials in China have harvested most of the fruits of reforms (Pocha 2005). Because the CCP remains intact and in tight control, the self-correcting mechanisms within the CCP may eventually fail. Consequently, they may lose their legitimacies as well as their control of regime.

² Crony capitalism in terms of the control exerted over a large part of a country's corporate assets that are held by a small group of families (Morck *et al.* 2005).

Many scholars (Kornai 1980 ;Burns 1989 ;Przeworski 1991 ;Dewatripont and Roland 1992 ;Kornai 1992 ;Stark 1996 ;Kornai 2000) argue that reforms in China and other former socialist countries are different in terms of the pattern that is gradual in China but radical in other countries. The only difference between these countries, from this perspective, is the point at which to get over the political constraints; however, the CCP eventually needs to leap over the Communist political barrier. In the former Soviet Union (FSU) and central and eastern European countries (CEE), they jumped over the political hurdle at the beginning of reforms, even before the emergence of interest groups. However, China may start to get over these political hurdles only in the middle of reforms following the emergence of interest groups. These interest groups may put pressure on ruling elites to oppose any further reforms that will take away their existing privileges. Because the pressure is dynamic, it inevitably skews the predictability of institutional change in China.

In China, the constant economic growth has not brought wealth to most people. The continuous GDP growth in China presents a striking contrast to its relatively poor GDP per capita. As Huang (2010) argues, the greater the differences between the GDP and GDP per capita, the higher the risk to the stability and sustainability of the state. From this perspective, successful long-term economic growth should bring substantial wealth to the mass majority instead of merely strengthening the economic power of the state. Shirk (1993:11) argues that economic reforms in China politically re-allocate the major wealth and power involved in the transition from central planning to market competition. Therefore, political leaders have to mobilize groups who will benefit from economic reforms, into an effective coalition of support and neutralise the groups who will lose out because of the reforms.

China has evolved from a proletarian society to a bourgeoisie following the economic reforms, and has developed a unique and unusual framework of institutional changes (*see Fig 2, 3 and Note 3*). In the early period, China's reforms had essentially improved the standard of living of most people (*see Fig 4, 5*) because people in the lower tier(s) could influence institutions made by the top tier(s) whilst

the CCP focused more on the wider populace, especially people in rural areas. Most institutional changes in this period were seen to be bottom-up and spontaneous, e.g. Household Responsibility, TVEs (Town-Village Enterprises), etc. However, opportunities to appeal successfully were relatively reduced after the 1989 Tiananmen protests because of the increasing constraints between tiers to curb and eliminate these strengths. In China, the dynamic political institutions, which make economic reforms unpredictable and less comprehensible, dictate those accompanying economic reforms. In addition, because of the pressure from existing interest groups and volatile political institutional changes, the context of economic reforms has been modified as will the bargaining power over economic reforms. In this sense, economic reforms conducted by political elites will be tightly related to and seriously affected by political elements.

China's economic reforms brought vitality to a previously deteriorated economy and improved the living standards of most people in China before 1985. However, the political system remains preserved in the Communist nature whilst simultaneously presiding over the reforms of the economic system (Dickson 2004). Economic reforms in China symbolize the introduction of a relatively complicated market competition system into a simple command economic system in which enterprise has no autonomy in terms of input, output, and human resource delegation. Nevertheless, the main impediment to the economic reforms in China is that those relatively complicated social behaviours, formal and informal rules that people take for granted in the market competition system, were not so taken for granted in the command economy system. Therefore, reforms in China mainly comprise two aspects: (1) a social reform from a traditional, rural, agricultural, and semi-closed society to a modern, urbanised, and open society, and (2) an economic reform from a highly centralised planned economic system to a socialist market economy with Chinese characteristics that integrates a market competition system into a command economic system (Deng 1983).

The perspective of the remarkable economic growth or the party-state misinterprets China's transition. Optimistic researchers (Goldman and Goldman 1988 ;Naughton

1993 ;Cannon 2000 ;Chen 2002 ;Chow 2004 ;Lin 2004 ;Naughton and Yang 2004 ;Chow 2007 ;Hwang 2007 ;Goodman 2008 ;Chang *et al.* 2009) analyse China's transition from the perspective of economic growth. In contrast, pessimistic scholars (Leung 2004 ;Hongyu and Yue 2005 ;Bouckaert 2007 ;Dyer 2010a) suggest that the CCP will confront economic impasses due to overcapacity, social inequality (Bian and Logan 1996 ;Chen 2003b ;Fleisher 2006b), or social discontent (Yang 2005). There are some scholars (Chen *et al.* 1992 ;Ding 1994,2000b ;Choi and Zhou 2001 ;Dickson 2003 ;Chancellor 2010) in the pessimistic school who even consider that one crisis will lead to another. Nevertheless, both schools contain grains of truth and, as Oi (2010) points out, may not convey China's institutional changes impartially. For instance, the optimistic school focusing on economic performance, relies heavily for its arguments on the economic index (i.e. GDP), which counts only goods and services that are traded in the market or supplied by government that have prices attached to them. Therefore, it may take a superficial view in examining China's economy because this kind of index can hardly measure all of the social activities that are not traded in the market but nonetheless contribute to the entire well-being of our society (Baumol *et al.* 2007:23).

Although China's reforms are politically logical but not necessarily economically logical (Shirk 1993), the result of economic reforms in China remains praiseworthy. More than one billion people's lives are fundamentally improved within a relatively short period compared with many developed countries. However, as Oliver (1992) argues, previously institutionalized practices established before the reforms seemed unsustainable or failed to function well after the reforms and can be referred to de-institutionalization. This de-institutionalization refers to the de-legitimation of established organizational practices because of organizational challenges to reproduce previously legitimated or taken-for-granted organizational actions. In this regard, organizational behaviours and changes will not be explained by social consensus around the meaning and the value of an activity or by conformity to institutional pressures (Oliver:ibid). Therefore, institutional pressures for conformity and shared interpretations of institutional rules and expectation fail in their predictable consequences on organizations. This research not only reflects

established theories or the conclusions of past research regarding transitional China, but also discusses the previously mentioned institutional contradictions existing in contemporary China. Therefore, I argue that China's transitions are composed of a series of de-institutionalization and re-institutionalization (*see Note 4*).

2.1 THE CONTEXT OF CHINA'S TRANSITIONS

In this section, I explain the context of China's reforms that focuses on the parameters, timescale, and actors. Some scholars (Lieberthal 1984 ;Shirk 1989 ;Chen *et al.* 1992 ;Goldstein 1995 ;Naughton 1995 ;Rawski 1995 ;Yang 1996b ;Cui and Gan 1997 ;Oi and Walder 1999 ;Zhang 1999) focus on China's transition concluding that Deng Xiaoping primarily initiated economic reforms in 1978. In a nutshell, Deng and his collaborators were pragmatists (Lo 1989) and only legitimized various '*faits accomplis*' rather than making innovative institutional changes. It was Liu Shaoqi, the former President of China and General Secretary of CCP between 1959 and 1969, who initiated economic reforms (Fei 1986 ;Xu 1997). Nonetheless, the economic reforms since 1978 continue to be implemented under the Communist political constraints (Dickson 2004). That is, the economic reforms could not but be skewed due in part to political intervention and result in inefficiency and loose planning.

Because China's reforms consist of various transitions, I adopt the institutional change approach to the understanding of the context. However, institutional theory has long been criticized for its lack of attention to political process and other non-institutional factors that respond to institutional pressures (Powell 1985 ;Di Maggio 1988 ;Oliver 1991); thus, I need to incorporate political and social institutions into it to facilitate my research. Since some important variables affecting economic development were not economic but concerned with politics (Fukuyama 2004:22-23), political institutions may, therefore, play a vital key role in China's transition.

The chronology of China's reforms began with the Household Responsibility System (*Dabaogan* or *Baochan Daohu*), which was initiated in Anhui province in 1976, and followed by the TVEs (Town-Village Enterprises) in rural areas and shareholding

and privatizing of State-Owned-Enterprises (SOEs), which were legally owned by the public, in urban areas (*see Note 5*). Subsequently, the acquisition of SOEs, particularly those made by incumbent managers, became the prevailing pattern for reducing the financial burdens incurred by the legacy of full employment. Many of these newly emerging enterprises, in particular those that were previously collectively-owned, were vague about property rights and emerged in circumstances of lax regulations that went on surprisingly to create economic growth (Wei 2001). Zhang (2003), a Chinese advocate of SOE privatization, argued that collectively owned enterprises or TVEs were literally privatized. Because many former managers of SOEs became the nouveau HNWI (Shirk 1993 ;Oi and Walder 1999 ;Steinfeld 2002 ;Tsai 2008), I assume that manipulated institutional changes caused subsequent embezzlements and infringements after the reforms.

In China, many groundbreaking shifts of policy do not take place with one big, cathartic announcement, but are noiseless, tacit, and constantly evolve through a steady drip of leaks, hints, denials and oblique official statements (Dyer 2010b). Different agents may exercise discretion in the interpretation of such vague policies, resulting in different consequences due to the blurred literal meaning of reform policy. Hence, the relations between transitions of roles played by HNWI and political elites, need to be unpacked to facilitate this research. After the reforms, the CCP withdrew from accepting all associated social costs whilst retaining control and allocation of the main scarce resources (Zhou 2004:22). Because the state per se is not an individual nor is it a single organization (Aharoni 1981) and consists of individuals and organizations, the state has, therefore, to rely on bureaucrats at different levels to manage the control and allocation of resources. These bureaucrats are bounded by restricted tenures, rationalities, and lives (Williamson 1981,1986,1991). In order to maximize their utilities, they may endeavour to pay lower costs in the pursuit of personal benefits. By paying less, the political elites exploit the monopoly of legitimate coercion given to them in order to influence economic reforms regardless of long-term national policy. Therefore, the reform targets may fluctuate reflecting the bargaining and compromising between politics and economy (*see table 1*).

From table 1, it can be seen that China's economic reforms are neither consistent nor deliberate; instead, they are experimental and tentative (Pei 1999 ;Zhang 2003 ;Bouckaert 2007), and compromised, swinging between different factions. Because of the characteristics of the party-state regime and legacy of previous social conflicts such as the Cultural Revolution, state agents in China were able to exploit their coercive power that allows states to protect property rights as well as to confiscate private property (Fukuyama 2004:1-2), and to devise unique and favourable property rights. These property rights reforms in China closely resemble the truncation of ownership rights (Demsetz 1988 18-19) as a consequence of the elimination of vital elements (Alchian and Demsetz 1972) (i.e. alienability and exclusivity) that were deliberately assigned to or taken over by the state agents, party cadres, or other elites.

After 1979, property rights have been gradually, but informally, granted to Chinese people in order to motivate them to pursue private interests enthusiastically. In addition to that, the coexistence of market competition and the planned economy also gave state agents the leeway to exploit the rights of re-distribution and re-allocation. Therefore, social discontent and conflicts with existing political constraints have been developed (*see Note 6*). What actually produces the polarizations in China, e.g. high economic growth and low GDP per capita? What are the reasons and causes behind the CCP's doctrinaire adherence to the communist political system? Who are those HNWI's in China? How did they accumulate their wealth under these unstable conditions? I intend to unpack these controversies in following sections.

The property rights transition seems to be at the heart of China's reforms. There were very few peripheral self-employed entrepreneurs (*ge-ti-hu*) in the command economic system. They were significantly prejudiced in proletarian China (Shirk 1989 ;Hubbard 1995 ;Putterman 1995 ;Li 1996 ;Wank 1998 ;Choi and Zhou 2001 ;Carrillo 2008 100). After the late 1970s, Deng and his followers advocated increasing the market activities and giving more autonomy to self-employed entrepreneurs, peasants, and rural enterprises without changes to the existing political

institutional environment. Subsequently, the privatization of urban SOEs apparently became apposite to the purpose of economic reform. However, privatization created huge information asymmetries in China (Sinn *et al.* 1997 ;Trujillo *et al.* 2002) as there was a substantial lack of institutional capability for implementing privatization appropriately. Therefore, public assets and ownership rights cannot be properly identified, valued, and transferred. Some bureaucrats may exert coercive power enabling them to re-allocate property rights and re-distribute public resources in their own interests or the likes.

Although China is on the road to exiting from the communist economy to market competition and from rural society to urbanization since 1978, the party-state polity remains in tight control of most activities (Wang 2004:10). Consequently, the reforms in China have been merely confined to economic activity instead of expanding to the more comprehensive domain of institutional changes such as political institutions and the legal framework. As Rutherford (1994:1) says, most economic initiatives attempt to incorporate institutions and institutional changes. Therefore, it may not be inappropriate to explain China's institutional changes from, but not to limit them to, the economic perspective.

Because economic growth in China continues to broaden the income gap between rural and urban areas, poorer and conspicuously affluent people have been concurrently emerging as a major contradiction in China under the partial reforms. As reforms in China are too volatile and are the embodiment of politics, therefore, the more the reforms are made, the deeper the politics interfere. The cause of the intricate relations between the economy and politics was artificially created in China because Deng and his collaborators intentionally put economic reforms far ahead of political reforms in order to retain control of political power at the beginning of the reforms. As White (1991:13) said, they created a market economic system in China that was presided over by a Communist political system.

Demsetz (1983) and Barzel (1989:5) contend that people are inclined to capture wealth from the public domain, especially people who actually enjoy control of

rather than legally have ownership of scarce resources. In this regard, many scarce economic resources and opportunities monopolized and allocated by CCP at different levels during the pre-reform era have been largely privatized to privileged groups after reforms. Zhang (1999:143-162) argues that state ownership in China resembles 'absentee ownership' (Veblen 1990:157). Zhang's argument is controversial because state property is in everybody's ownership rather than in absentee ownership (Zhou 2000:176). In China, the problem with public property rights lies with the word 'public' but not "property rights" because public in this sense means nobody. Therefore, this lack of clarity allows leeway to agents to embezzle and usurp public assets because of the vague definition of public property rights.

In China, bureau-preneurs actually have control over the legal rights of re-allocation and re-distribution of resources that led to direct engagement in profit seeking and market competition during the economic transition. In order to perpetuate the rent-seeking opportunities and economic growth, some bureaucrats have created a wide variety of *ad hoc* patronage for private and foreign investments within their administrative areas in order to attract foreign investments and encourage domestic entrepreneurship (Wu 1997) and therefore improve economic growth. Consequently, bureau-preneurs can jump on the bandwagon of perpetuating economic growth and continue to seize rent-seeking opportunities. In addition, the intricate network in China (*guanxi*) tilts the level playing field to an extremely distorted situation in terms of resources re-allocation and re-distribution in transitional China. Chow (2004:67-83) argues that the imbalance and special network is inevitable during China's transformation, and believes this imbalance to be a trickle-down whereby some people have to be very rich in order to encourage others. His argument corresponded to Deng's advocating, "Make some people rich first". However, Chow later (ibid:69) admits that social discontents were generated among poor and rich because of unrealized trickle-down effect. That is, the "make some people rich first" mantra could not be convincing if this specific scheme deliberately excluded other people from equal opportunities to do likewise.

In China, around 80% of Town-Village-Enterprises (TVEs) were essentially private enterprises in the disguise of the “red caps” (colloquial meaning for the collectively-owned) of collectivized enterprises (Zhu *et al.* 2003). They enjoyed an unrecognised social status in China before 1988 (Shirk 1989 ;Hubbard 1995 ;Putterman 1995 ;Li 1996 ;Wank 1998 ;Choi and Zhou 2001 ;Carrillo 2008 100) because private enterprise was only legally granted after then. Since 1988, the popular image of private entrepreneurs has been transformed to that of an upwardly mobile group. Today private entrepreneurs display ‘*conspicuous consumption*’ (Veblen 1899:53) in China in a way commensurate with their new social status. Next, I will discuss if present-day HNWI have evolved either from the previous self-employed entrepreneurs or from the bureaucrats-bureaupreneurs.

2.2 Bureaupreneurs and HNWI in Transitional China

I continue to analyse the constituency, emergence and transition of China’s HNWI in this section. It is important to know the components of any social phenomenon in order to reach a better understanding and ability to predict its consequences (Hallinan 1997). In China, private enterprises were legitimately recognized after 1988 although they were launched in 1980 (Zhu *et al.* 2003). Today China has the largest and fast-growing numbers of HNWI in Asia (Aerni *et al.* 2008). However, it is unclear how early HNWI accumulated their wealth while capital market and private property rights were not comprehensively granted. Some HNWI became affluent through recent IPOs that only emerged up to 1990 (*see Note 7*). Before 1978, people in China were equally poor and had no decent private properties owned by them except for valueless personal belongings (Zhou 2004:52). Some political elites had better material lives (e.g. official car, fresh meat and vegetables, more staple food); they retained administrative controls and enjoyed material privileges, but were relatively restricted in money income and private wealth. In this regard, those who became wealthy in the early reform stages could hardly accumulate their primitive capital before economic reform.

Because market transition and privatization injected additional value into public assets and created unprecedented opportunities, those social elites retained a potent

social base of power and privilege from which to accumulate their individual wealth regardless of market reform or even regime change. Thus, following the reforms initiated in 1978, many precious public assets have fallen prey to the manipulations of some people who have tended not to commence the comprehensive restructuring, which might disadvantage their acquisitions of these valuable assets. I therefore argue that early HNWI's have one specific characteristic in common, which is either that they are able to control the resources allocation/redistribution or that they benefit from political protection from their parents, relatives, or close friends. To be noted, those early reform policies are far different from current intricate ones (*see Note 8*). Nonetheless, a fundamental problem remains that since the beginning of reforms there is an institutional hole (Yang 2004), which gives a leeway to certain people to exploit the deficiency in the pursuit of their own interests and retention of their existing privileges.

Before the reforms, social class struggles in China were ideologically oriented. Workers, peasants, and soldiers were the predominant strata in the society, and intellectuals and the minor numbers of self-employed (*geh-ti-hu*) were outcast groups, despised and with marginal social standing (Lieberthal 2004:121). Today millions of rural migrant workers and mass urban unemployed labourers have been created by the industrial restructuring and economic reforms resulting in new social subservient stratum (Dyer 2010a); the main distinction between different social strata now is material assets instead of ideological beliefs. Ironically, the ways of accumulating wealth in contemporary China usually prevail in capitalist societies instead of in communist countries. In other words, they are sponsored by and growing out of the 'womb of socialism' (Dutton 1998:3). Therefore, China's society is becoming increasingly divided into both social and economic domains (Wang 2004:viii), and those bureaupreneurs represent the gradual privatisation of political power, resulting in the formation of a realm of genuine private enterprises with the full separation of business and administration (Bouckaert 2007).

Because China's Bureaupreneurs are state agents still controlling all resources critical for the development of business, but at the same time involved in firms,

operating in competitive markets, especially integrating into the rural enterprises or the Town-Villages-Enterprises (TVEs, *xiangzhen qiye*) that prevailed from 1979-1985; therefore, they are the unique recumbent of bureaucrat and entrepreneur that has been emerging along with economic reforms and social conflicts. TVEs in China are broadly referred to as small individual-owned-enterprises, rural collective-enterprises, and rural industries in many documents (Putterman 1992). With respect to TVEs, myriad scholars have provided abundant accounts of their emergence (*see Note 9*). In China, political constraints and economic opportunities confronting entrepreneurs have a direct relevance to the selection and outcome of their strategies and survival, it is not practical to explain transitions that do not take political constraints into account (Roland 1994). Therefore, without corresponding restraining institutional measures, any differential and biased treatment from reform policy may significantly tilt the balance of gains between people (Lin 2001:6). Thus, bureaucrats controlling all resources critical for the development of business have the leeway to access wealth when the firms involved operate within competitive markets, and arguably become HNWIs consequently.

In Mao's last decade (1966 – 1976), political decentralization diluted monopoly and special privileges helping Mao to contend with his political rivals during the Cultural Revolution (Solnick 1996 ;Yang 1996b). Consequently, political decentralization at different hierarchical levels in China had sown the seed of its own future predicament, which is believed to be the cause of rent-seeking activity and embezzlement of public assets thereafter (*see Note 10*). When political struggles continued with varying degrees of intensity, the CCP regime became fragile and fragmented (Lampton 1987). Therefore, in order to retain the balance of powers, political stability, and supports from localities, the reformists deliberately overlooked those implementations carried out by local state agents. In this case, unconstrained politics allows leeway to bureaucrats at different hierarchical levels. At first, the economic reforms were a “reform without losers” (Lau *et al.* 2000) because this was the most painless way towards reform without eliminating the pre-existing rents of state agents (Ronald 2000). In other words, political supports were exchanged for maintaining the stability. Under these unusual circumstances, many compromised

institutional changes were established and consequently enabled bureaupreneurs to accumulate their early base capital and become HNWI. For example, dual-track pricing systems, reforms with ambiguous ownership rights, and SOE privatization all went awry and were translated into profiteering (*Guan Dao*), embezzlement, and collusion respectively.

Because bureaupreneurs control essential resources critical for business development and are simultaneously involved in competitive market operations, they are, on the one hand, referees setting up and implementing formal regulations and, on the other hand, they are entrepreneurs competing with other ordinary players in markets where the rules are established by themselves (Lin 2001:98,102). In this regard, bureaupreneurs have been extremely successful in the newly introduced market economic system. As Pierson (2004:112) argued, the institutional environment will differ over time as political actors and social environments change and China is no exception. After the succession of President Hu Jintao in 2003, poverty relief (*Fu Pin*) and equality-and-harmony (*Jun Fu He Xie*) have become the prevailing political policies rather than economic invigoration. The Economy and Nation Weekly (2010), a major representative of the China State News Agency (*Xin Hua She*), firmly advocated that the subsequent income redistribution should be approached more impartially and drastically since huge social injustices existed in the preceding income redistribution. In this regard, any existing interest groups or HNWI may be likely to be blamed or accused for whatever they have done in terms of the pursuit of private interest whether it was permissible or illegitimate (*see Note 11*).

Arguably, the CCP has been adopting a zero-tolerance policy on politics since the first day they took control of China. Under the circumstances, if culprits do not conflict with the political interests of those in power, most problems can be more or less solved in an economic way. Therefore, once a new faction(s) takes over the political controls, tacticians should adapt their previous institutional arrangements to the new institutional environment promptly to avoid any potential damage from adverse institutional arrangement(s). This statement confirms that the reform package in China is politically logical but not necessarily economically logical

(Shirk 1993:17). So far, I have gained more information regarding the origin, emergence, and transition of bureaucrats and HNWI in transitional China, and can see that whether the HNWI evolved from ordinary people or bureaucrats, they (HNWI) emerged along with political coercion. This research argues that HNWI in China largely depend on political institutions to achieve their economic achievements. Therefore, any individual people or group (HNWI) with existing interests customise their previous schemes agilely and rapidly to the new institutional environment in order to retain pre-eminence. Otherwise, they may be replaced by emerging counterparts when new political potentates come into power.

At this moment, I am focusing on the identity of HNWI; therefore, I will discuss the legitimate identity of the private owner accordingly. Before 1988, there is no official record of private enterprise because of the absence of any legitimate identity and recognition. In the previous paragraph, I argue that people, who controlled resource allocation and distribution in the pre-reform era, will have a greater chance of becoming HNWI after the reforms. If this argument is correct, the early HNWI must have been at certain hierarchical levels of government before the reforms. Actually, this argument has been justified by the survey done by the China Academy of Social Science (CASS) in 2002 (*see Note 12*). This note has justified that people, who have control over resource allocation and distribution (*highlighted in table 1, Note 12*) before initiating their companies, actually dominate the constituency of private owners. From my interviews, I also have collected a lot of useful information to justify the preceding argument. For the time being, I continue to maintain my argument that most early HNWI previously dominated resource allocations and distribution before initiating their own private businesses.

As a consequence of the decentralization, officials at different politically hierarchical levels, de facto embezzled state properties 'within the red line', that is to say within the party interest. In the meantime, property rights were increasingly granted to ordinary people and this motivated people to pursue private interests enthusiastically. In addition, the co-existence of the market economy and the planned economy also gave officials the leeway to exploit the partial reforms. Because property rights and

ownership matter in the transition since they are only feasible under well organized and functioning legal and administrative institutions and vice versa (Nellis 1999:V), private property rights give incentives to state agents to pursue their private profits through the institutional holes, which are generated in the process of incremental and partial reforms.

People in China were equally deprived before economic reforms except those very few in the highest bureaucratic hierarchical positions. After private property rights were re-introduced to China, people definitely needed decent private properties more so than the previous scanty ones. Under the new given private property rights, the new private properties, which are at people's disposal, are no longer those meagre ones that people possessed before reforms. However, it is not possible for an individual to accumulate "*primitive capital*" (Marx [1906] 1990:714,715,873-940) and only state assets could be counted as genuine properties until the reforms were initiated. A legitimate and newly introduced mechanism, that can be employed to transfer properties from state to private, is therefore imperative. With such a legitimating mechanism, the acquisitions of state properties can be justified at different levels. The nature of this acquisition is actually to transfer public assets from state ownership into private possession. This privatization process can be either formal or informal although the process may be forbidden or discouraged by central government (Ding 2000c). Occasionally however, a certain degree of pragmatic consents had been given to those prohibited or discouraged transfers of state assets by local authorities (Ding 2000a). These arbitrary consents can be attributed to the political decentralization initiated in pre-reform China. On the one hand, state policies were actually becoming the instrument by which those controversial acquisitions of state properties were legitimated through the deliberate distortion by authority at different hierarchical level; on the other hand, these policies helped people, who then controlled the state properties, to legitimate their embezzlements. Next, I will discuss the impacts associated with the emergence of HNWI's in China.

2.3 IMPACTS AND IMPLICATIONS OF HNWI'S IN TRANSITIONAL

CHINA

Although economic reforms have provided Chinese people with unprecedented economic growth and a variety of opportunities, the income gap, unequal wealth redistribution, and social polarization has soared in this rapidly commercializing society (Zhang 2008:23). That is to say, the changing institutional arrangements, which were set to loosen policies and inspire privatization, did mostly enhance economic growth and this growth subsequently increased the average national wealth and created HNWI's (Chow 2007 ;Naughton 2007). Why do I have to be attentive to the emergence of HNWI's in transitional China? In what situation and time did they emerge? What is the implication of their emergence? How important was, is, and will be their emergence in China and how will they develop? In this section, I attempt to unpack these questions and explain why and how important the impact and implications are in transitional China.

Before the economic reforms, the term of "rich people", to a large extent, was ideologically disgusting in China to a population where all were equally deprived and proletarian in orientation. From 1976 onward, China gradually started to loosen policy controls and extended the reforms from policy domains to institutional domains in order to achieve permanent impacts. In general, the previously missing capitalist stratum has been gradually resurfacing along with the economic reforms and these people have been adroitly amassing wealth and swiftly. Consequently, speculation became prevalent and people signed up to the changes and joined the affluent social strata becoming HNWI's in transitional China (Oi 1999 ;Chow 2005,2006 ;Naughton 2007 ;Goodman 2008).

China, to some extent, is on the path that privatizes many SOEs, decreases legal unfairness against non-state and non-collective forms of ownership, and increases economic opening to the outside world whereas the CCP hardly foresaw the path of the reforms from the outset. In 1978, all urban workforces were nearly employed in either the state or collective sectors. By end of 2002, more than 33 per cent of urban employment was located in the private or non-SOEs sectors, including self-employment (Ministry of Labour and Social Security and State Statistics Bureau,

2002). In this regard, these ongoing economic reforms have created massive opportunities for private activity amongst bureaucrats and HNWIs. After the economic reforms, many people began to pursue their private interests, with the acquiescence of the CCP, in different ways, e.g. dual tracking pricing, SOE reforms, MBO, corporatizing, and other innovative schemes. Some bureaucrats consequently abandoned government duties and ideological beliefs, and directly participated in business operations (*Xie Hai*), collusions, embezzlement, or recombining public and private interests by means of complicated interpersonal relationships. Therefore, the emergence of HNWIs in transitional China may well represent the changes and paradoxes of property rights, ideology, and re-distributions of social resources (Goldman and Goldman 1988 ;Nee 1989 ;Birdsall and Nellis 2003 ;Economy & National Weekly2010) (*see Note 13*).

China's contemporary HNWIs are different from their counterparts in advanced capitalist countries or their previous comrades in the former FSU and CEE; and in this regard, their specific features are bound up with the processes of institutional change of social, political, and cultural economics in China (Chow 2007 ;Zhang 2008). Apparently, many HNWIs in China, whether they were previous state bureaucrats, peasants, scholars, and technicians, have been seizing the opportunities and their gains have outweighed the costs by virtue of institutional changes. Therefore, with so many economic changes varying according to the unusual set of political circumstances, it is hard for people to comprehend straightforwardly the economic reforms. For example, many unusual economic institutional arrangements often run counter to the general wisdom, such as long-term negative interest rates, illegitimate SOEs privatization, or profiteering from the corporatizing system (Shih 2009). At the very outset, the ruling elites, first and foremost, chose to tackle the politically less risky reforms in order to maintain the stability of CCP's regime (Pei 1999). Zhang (2003) and Bouckaert (2007) both contend that the emergence of the newest institutions in transitional China seem to be parallel to or follow the emergence of the market instead of any deliberate planning. Therefore, there were and are neither consistent nor deliberate reforms as such reforms that do occur are

strongly experimental and tentative, nor is the outcome necessarily in line with initial expectations.

In China, bureaucrats, whether they are conservatives or pro-reformists, represent the interests of different factions of the ruling class instead of the interests of the working class or populace, which the CCP claimed to represent (Lee 1992:55). Therefore, any conflict among these bureaucrats hardly benefits ordinary people. In retrospect, the reforms were initiated in the late 70s because of a deficit of legitimacy for Deng Xiaoping (Naughton 1993 ;Woo 1999 ;Dittmer 2003) to topple Hua Guofeng, who then was the legitimate successor after Mao's death. Therefore, Deng had to advocate different political propositions, which became the insurance for Deng Xiaoping in the power struggle with Hua Guofeng. In fact, the struggle between them was raised to the international level. The 1979 Sino-Vietnamese war was due in part to Deng trying to establish credibility for himself and his supporters (Chen 1992:17-23). In this regard, the initiation of reforms was unlikely to improve the well being of ordinary people. Unsurprisingly, given this fickle political environment, Chinese entrepreneurs concerned about their existing benefits, will endeavour to exert influence on any adverse reform policy, whether these entrepreneurs are parasitic or self-made (Chen 2002). Therefore, these entrepreneurs have to act swiftly and agilely as speculators to retain existing privileges and survive robustly in such an inconsistent and unpredictable environment (Tsai 2004:20;Kshetri 2007 ;Tsai 2008). That is to say, adaptability, flexibility, and legitimacy of entrepreneurs will be patently associated with politics (*see Fig 3*).

In order to keep the stability of the CCP's regime, political conflicts between interest groups in transitional China will assume a peaceful version of struggle rather than the gory one, e.g. Cultural Revolution (Shih 2004b,2004a). However, as Fligstein (1991:313) argues, unless there is a new set of agents taking over the controls, the organization's goals will otherwise persist.. This statement explains why after Deng Xiaoping returned to power in 1976; the reforms were subsequently initiated soon after. Unequivocally, there is little chance to implement reform in China without the acquiescence or support of the CCP. Therefore, as many scholars argue (Shirk

1989,1993 ;Oi 1999 ;Woo 1999) the economic reforms in China are actually the result of political deadlock and compromises within the CCP between conservatives and liberals, and a general lack of consensus in society rather than arising from any particular theory of reform. In this regard, I argue that reforms in China have been artificially constructed with provisional political purposes in mind.

As noted, the Chinese economic reform process was initiated from the least conflictual position instead of the most imperative one. Furthermore, the entrenched ideological constraints confine many non-economic features of the economic operation because economic reform is more than simply institutional change but also the changes in people, including human behaviours, customs, and values. Looking back, the reform process essentially reflects the demand-and-supply of institutional changes in contemporary China whether it appears to be absurd or rational. Actually, the evolution of ownership rights in transitional China may be one of the best indicators for evaluating the demand-and-supply of institutional changes because there were few pre-existing beneficiaries of wealth accumulation. As Barzel (2000) mentions, individuals will increase output only if provided with rights, e.g. ownership, movement, and voting. Dictators can guarantee them these rights by relinquishing part of their own (despotic) power. In this respect, economic output grows in the aftermath of the exchange-of-interests between dictators and subjects, i.e. economic reforms. Because not every subject can help dictators to maintain their legitimacy, the exchange-of-interest is unfairly distributed and has to benefit specific interested people (groups) implicitly. This unfair distribution and treatment are mainly presented in the form of unequal access to social opportunities, e.g. medical care, education, and housing policy, instead of seemingly impartial economic opportunity.

From the very outset, China's administration assumed the economic reforms would be completed by the mid-90s according to the plans of three, five, and eight years (*SAN WU BA GAI GE GUI HUA*). However, it has already taken 30 years since 1978 and the reforms are still ongoing and will be so for the foreseeable future. Manifestly, it seems that reforms, supposedly based on a socialist economy, have not

completely espoused what the PRC administration expected. Under such circumstances, China's institutional arrangements could be merely made in accordance with the prevailing reality rather than the other way around. As North mentions (1990), the prevailing reality is actually derived from previous habits, behaviours, formal and informal rules. According to his argument, previous small events will lead one to a particular path (1990:94). I therefore can be certain that the economic reforms in China will mainly serve the prevailing political condition instead of being efficiency-driven.

Many core economic features in China were far more uncomplicated and unambiguous in the pre-reform era rather than the complex and abstract counterparts after the reforms, e.g. ownership rights and transaction costs (Ding 2000a). To those state agents, who have been working since the pre-reform era, the straightforward ownership rights were institutionalized as habitual assumptions that they have acquired and take for granted (Commons 1931). Therefore, I understand why the previously taken-for-granted habits, customs, and resulted-in formal and informal institutions persisting in society, have serious effects on the bureaucrats' behaviours (*see Note 14*).

Yet, I have learned that the relation between the bureaucrat and economic elites in China resembles the relationship of patron-client because state power can be bought, sold, and exchanged between bureaucrats and entrepreneurs (Pearson 1997:3;Wank 1999:227). Although economic elites become more structurally autonomous and ideologically hostile, it seems they hardly attempt to transfer this patron-client relation into strong pressure on politics. On the contrary, these elites initiate a new pattern of clienteles closely tied to the state administration (Pearson 1997). The pervasiveness of the patron-clientele in transitional China reveals the truth that business elites or, HNWI, tend to maintain, first and foremost, a pragmatic commitment to putting business first as in other developing countries (Becker 1983 ;Pearson 1997:101) and to rely on state agents to ease the constraints of the socialist market economy (Nee and Opper 2006a).

I have briefly discussed the economic reforms in relation to loose policy control, incomplete policies, innovative economic schemes, and the economic growth. Nevertheless, there is one important common thread that relates these issues to the economic reforms. That is, most economic institutional arrangements have been subjectively imposed by state agents, not created spontaneously. The emergence of HNWIs in China is certainly an epochal breakthrough for a previously proletarian country. The implications of the emergence of HNWIs not only reflected in their different social status economically but also suggests that bureaucrats might give up future streams of revenue by accepting present gains (Rose-Ackerman 1999:118); therefore, entrepreneurs will become inter-dependent, inter-penetrated and share a new kind of addiction to the state's resources (Solinger 1992:121). Therefore, HNWIs in transitional China can efficaciously seize the profitable opportunities via the institutional holes (Yang 2004) and essentially dominate the new institutional arrangements because oligarchic political elites will empower and enrich the few (HNWIs) at the expense of the rest of the people (Huang 2008).

Regarding the HNWIs' pursuits of self-interest, there are negative impacts on Chinese society as a whole. First, HNWIs and their political collaborators are from the highest strata of society and therefore, they run relatively few risks in terms of the pursuit of their interests even they are illegal. Second, those initiatives followed by HNWIs or their relatives, whether they are illegal, unethical, or immoral, are for the purposes of enhancing the power, profitability, or influence of the organizations involved. Third, if these pursuits are illegal, the punishments inflicted were lenient compared to those given to common criminals (Simon 2006:12). In general, HNWIs not only possess great fortune and the ability to make decisions that affect the ordinary population, but they also exert a great deal of control over scarce social resources, e.g. prestige, opportunity to access better education, medical care, and wealth, etc. In next section, I go on to examine the social circumstances in transitional China that give rise to the emergence of HNWIs.

2.4 POLITICAL CONSTRAINTS AND ECONOMIC REFORMS IN CHINA

The consequence of China's economic growth, as Simon (2006:28) contends, may have contributed to an elite deviance that is virtually out of control. In China, administrative interventions have increased income disparity and social discontent in transitional China; however, the situation of widening income disparity between the rich and the poor not only arises in contemporary China but also exists in other capitalist societies founded on private ownership of property. In this section, I will discuss the relationship between the economy and politics in transitional China and examine the uniqueness of this relationship, embodying the nature of China's system that is neither Capitalistic nor Command.

In general, what had changed in transitional socialist countries in the 1990s was not their economic difficulties, widespread cynicism, or corruption, but the institutional mechanisms that served to promote order in the past, but had now lost their capacity to do so (Walder 1994). Likewise, institutional mechanisms in transitional China have to maintain the order derived from the old regime regardless of its chronic and manifest economic problems and political liabilities. Therefore, the CCP has had to create new institutions to connect state and society, make up ideological deficiencies, and subsequently vacate some existing seats for newly appointed pro-reform elites into the Party. Because the emergence of a new stratum in China is not just the new mercantile stratum that has grown rich along with reforms, but also of the subaltern that has not (Dutton 1998:3); therefore, any superficial measure from government is unlikely to withstand the backlash of conflicts between long-standing ideologies and entrenched interests. In this regard, the intense and incomplete market-oriented reforms in China are in the disguise of a socialist market economy but with the actual practices of political economic power within them, they will inevitably bog down and become difficult to turn around. In other words, these reforms deepen and deflect the cultural, economic, and ideological contradictions along with its progress (Zhao 2008:339). Likewise, the forces of unrestricted transfers of wealth and assets from public to private reinforce the hubris and privileges of new bureaucrats, entrepreneurs, and HNWI in contemporary China (Kampfner 2009:5).

In fact, any economic system, whether Capitalism or Communism, is not monolithic and homogenous in its nature (Baumol *et al.* 2007:viii). Therefore, China's transition from planned economy to socialist market economy cannot be exempted from transformation. The socialist market economy, which is prevailing in China and Vietnam (Vuong 2010:345), allows private properties as any Capitalist state does, but leaves them within the hands of few elites, who are resourceful and well connected as earlier mentioned. It is said that the essence of a socialist market economy is the planned economy in the disguise of the market economy. In authoritarian countries, ruling elites often have sought to legitimize themselves through their capacity to sustain economic growth. However, once economic growth comes to an end or starts to decline, their legitimacies disappear and instabilities ensue, e.g. Suharto's Indonesia in 1997. Likewise, it seems that the side effects of partial reforms backfired on the Chinese government because the economic vicissitudes are unable to sustain legitimacy permanently, e.g. the social discontent incurred by illegal housing demolition (Wukan protest).

Economic reforms in China, on the one hand, have proceeded at a pace exceeding political reforms (Goldstein 1995) and, on the other hand, release social power so that existing institutions cannot cope with the changes without equivalent political reforms. In terms of reforms, the CCP essentially seeks the separation of politics from the economy (Zhang 1997). Politically, China must remain socialist or, specifically, under the control of CCP; economically, China introduces the market economic mechanism that can be no different from any capitalist society. The overtone is that the CCP expects economic growth that will persistently legitimate its claim to be the sole ruling party in China (Dickson 2004) and never needs to justify whether its decision about separation is appropriate or not. Since a market needs not just any liberal regulation or private ownership but is also carried by adequate institutions (Kolodko 1999), the CCP needs institutions, as Barzel (2002:250) mentions, to sustain the economic growth, devise favourable ownership rights, and maintain tight control of China in order to retain the balance of power between protector and clients .

In China, economic growth occurred at top speed and satisfied people at all levels of the society with ease (*see Fig 5 and 6*) in the early stages of the reforms between 1979 and 1985. The income disparity between rural and urban areas had reduced to a record-low level. However, the ensuing reforms, e.g. dual-track pricing, SOE privatization, pushed the inflation rate and income inequality to an all-time peak. Thus, most people began to suffer from social inequality from 1985 onwards as the many negative consequences of partial reforms became manifest, intensified, and more intractable, e.g. infringed resources, increasing inflation, plummeting real interest rates, dual-track pricing, and increasing income disparity between rural and urban areas (*see Fig 6 and 7*). Under the circumstances, these bad results provided the backdrop for and inevitably gave rise to the 1989 Tiananmen protests.

Although China's reforms in and of themselves created noticeable economic growth, there are yet many structural weaknesses existing in the economy and politics. These structural defects have mainly been derived from the legacies of the party-state regime, driving the reforms towards unanticipated and undesirable consequences. Further they may not be reflected in the economic growth because the CCP changed the economic base of China's socialism by introducing private economic activities as an essential supplement to the state-owned economy without corresponding political institutional arrangements (Chan *et al.* 2008:5). That is to say, privatization in China does not principally improve industrial performance by increasing the role of market forces (Beesley 1997:27), but manipulates the combination of political and economic interests of social elites while pursuing their personal interests, and to some extent illicitly transfers public assets to private hands through a complex body of devices and techniques (Ding 2000a). Therefore, the transition of ownership rights in China may resemble a cynical appropriation of other people's property and rights because the economic benefits have never been fairly shared by the public but have been widening the gaps between different social strata (Luxemburg 1951:432).

In China's economic reforms, TVEs, which can be any rural enterprise legally owned by all inhabitants of town or village but actually controlled by local bureaucrats or

party cadres. To a certain extent, there is no fundamental distinction between TVS and SOE in terms of legitimate property rights (Walder 1995c) because there is no specific owner for both economic entities. Some people (Zhang 2003) argue the ownership of SOE in China is equivalent to the absentee owner (Veblen 1997 ;Levy 1998); however, this argument is logically unacceptable because the status of SOE is infringed ownership rather than absentee owner. Nevertheless, bureaucrats at town-village level, who manipulate TVEs, often exploit those corresponding scarce resources that large SOEs left far behind. Besides, these lower level agents, who were delegated administrative power by the state, were significantly uneven in terms of education, integrity, and vision (*see appendix 4*) and effectively controlled the TVEs and appointed or dismissed TVEs' managers, or by delegating this power to another designated agency (Clarke *et al.* 2008:391).

China was actually in an economically promising era (*see Fig 5 - 6*) while TVEs were roaring in 1978-1985, and opaque property rights prevailed. During the same period, income disparity and social discontent had been eliminated to an unprecedented low level since the reforms first began (*see Fig 5*). In this period, the rural income growth rate was explicitly superior to the urban counterpart during the same period (*see Fig 5*). However, China's economic growth was accompanied by a variety of urbanization; that is, the more the cities are dominant, the less so is the agrarian land. The number of new cities in China has increased from 193 to 663 between 1979 and 1999, and in the meantime, the registered urban population had increased from 18 per cent in 1978 to 39 per cent in 2004 (State Statistics Bureau, 2000, 2003). Consequently, rural migrant workers increasingly move into urban areas owing to insufficient agrarian land. Many scholars attribute the economic growth in part to the liberation of the rural migrant workforce after the collective agricultural productions of the People's Communes were dismantled (Oi 1986,1989 ;Putterman 1992 ;Shirk 1993 ;Weitzman and Xu 1994 ;Lin 1995 ;Naughton 1995 ;Yang 1996a ;Xu 1997 ;Oi and Walder 1999 ;Wang 2004 ;Lin and Ho 2005). In my opinion, the growing rural migrant workforce is due in larger part to fast urbanization.

In China, People's Communes once played an important role before the reforms. They were efficiently utilized by the CCP to control and gather agricultural residuals, which was the only financial resource in pre-reform China because the agricultural residual is the only financial resource to support national structure plans prior to comprehensive industrialization (Gollin *et al.* 2002). After the reforms were initiated without destroying the previous ownership rights and incurring overall social discontent in rural areas, the CCP agilely used collective-owned property rights, which remained tightly controlled by itself, to replace parts of private ownership rights and therefore lead to the truncation of ownership rights (Demsetz 1988:18-19).

Regarding China's transition, researchers should attend to the transitional role of bureaucrats in the institutional changes of China. Because of the established decentralization, bureaucrats and entrepreneurs became reciprocal and symbiotic or, legitimizer and legitimizee. For example, once bureaucrats and entrepreneurs merged into bureaucrats, they could exert a crucial influence with supports from local state agents and the likes to accumulate their primitive capitals with few economic and political limits (Adoratskiĭ and Torr 1942:231,533). In many cases, bureaucrats re-arranged public assets, which are state assets or the like, under their control, and created new property forms that were to their own benefit and that of their peers (Stark 1996). In this regard, they are good at exploiting and manipulating the institutional arrangements, which are frequently epitomized as provisional government policies (Yang 2002). In the circumstances, bureaucrats are likely to legitimize their strategies and practices that are not clearly specified in existing institutional arrangements. To them, the point is not whether institutions provide favourable incentives but whether opportunities for profit-making activities are actually implicit in the institutional structures. It seems that bureaucrats are "as-if" rational (1994:653-657) because they act for sufficient reasons, which are their beliefs and desires in light of which the action appears to be appropriate (Elster 2009:2). Nevertheless, because a bureaucrat is an entrepreneur with the capacity of a state agent, bureaucrats may be rational or act as-if they are rational.

However, the empirical support for rational-choice explanations of complex phenomena is weak (Elster 2007:26). As mentioned earlier, ordinary people, state agents, bureaupreneurs, and HNWI's may not be rational although they may think themselves as-if they are (Friedman 1994:653-657). In addition, Oliver Williamson (1996) argues that economic man to whom hyper-rationality is often attributed, indeed does not exist in the real world. Therefore, even an individual is possibly rational, his or her rationality is limited by his ability to receive, store, retrieve, and process information to make knowledge or feelings understood by others (Williamson 1975). In this respect, people will inevitably pursue maximization of self-interest with cognitive limitations and bounded rationality (ibid Williamson). For that reason, people may be in pursuit of maximization of self-interest (rational) without comprehending consciously and be influenced by the prevalent or established institutional environment.

Before the economic reforms, state wealth was actually under the control of the CCP cadres and state agents. Therefore, the state wealth could not be transformed into valuable assets or monetary value but ostensibly belonged to the people. One must know that state wealth cannot be fairly converted into valuable assets or monetary value that previously belonged to the public, if there is no adequate institutional arrangement to guide the transition of property rights (De Soto 2000 ;Boyle 2003). As a general rule, wealth can only become a valuable asset with monetary value if they are carried by corresponding property rights. In Note 15, I have explained the crux of all consequent maladies afflicting China's reforms. Following this, I will examine the reason(s) behind this and how it triggered events from the perspectives of ideological belief, property rights, rationality, organizational behaviour, resource dependence, and institutional change.

In general, the CCP has discriminated against political reforms and in favour of economic ones since the beginning of the transition. Surprisingly, the consequences of the partial reforms led China's economy to a remarkable growth. On the one hand, emerging HNWI's in China followed the footsteps of their counterparts in other Capitalist countries; on the other hand, the Communist political system, from all

aspects, remained technically intact and under tight controls in China. Therefore, political elites can direct reforms along their preferred path and devise new ownership rights in favour of themselves and the like. They agilely replace the important parts of private ownership rights with deliberately contrived ones, which are wholly manipulated by them, without dramatically changing previous ownership rights. The consequence of this replacement soon results in the revised ownership rights becoming truncated (Demsetz 1988:18-19). As a result, the manipulated reforms, which result in social discontent and income disparity, are no longer relevant to the ideological foundation of PRC but to an economic value after the fashion of Capitalism. Therefore, I argue that China's reforms are essentially reflected in the transitions of property rights.

I have explained and discussed how the early transition of property rights and political interference in China (1978-1985) jeopardized subsequent economic reforms and made previously healthy economic growth becoming ephemeral. In China, the blurred property rights (TVEs) startlingly improved the economic growth between 1978 and 1985 (*see Fig 5*) and led to people explicitly experiencing the promising economy at the same time. Most of these TVEs, however, were in the guise of private firms (Nee 1992 ;Stark 1992a ;Peng and Heath 1996 ;Huang 2008:xiv), which is obviously in conflict with the basic economic doctrines: ambiguous property rights impair economic growth (Furubotn and Pejovich 1972 ;North and Thomas 1973b ;North 1987,1990). They (basic economic rules) are provided for the protected realms of free action (property rights), voluntary cooperation between agents (contract law), and tort law, and protect internalization of external cost that should prohibit the government from awarding privileges to particular agents, who may distort markets and allow governments to build up networks for dependent clients (Bouckaert 2007). Ironically, China retains economic growth for thirty consecutive years, whereas many of the existing economic institutions are in conflict with those general economic rules that are allegedly successful in other countries. In this regard, I need to explore what the genuine but little known, feature lies in the transition to produce such economic growth in China. For example, do blurred property rights, which resemble institutional costs

(Williamson 1979) rather than institutional capital (Trebilcock 1995 ;Bresser and Millonig 2003a), actually improve economic growth or are there other factor(s) which we do not know about that offset the disadvantage of this institutional cost? In my opinion, although there are different patterns of institutional change in different countries, there always are some basic rules that commonly apply, not unlike those in basic mathematical operations of arithmetic.

Now, I continue to scrutinize how institutional changes in China have arisen among different state agents (cadres) and have diffused into relevant interest groups. In China, transitions do not explicitly point to the reform policies but implicitly and tentatively alter institutional arrangements (Bian and Logan 1996 ;Baum and Schevchenko 1999 ;Batjargal and Liu 2004). Most reform policies, which will be applied to different testing points through different levels of state agent, have been proclaimed prior to any formal regulation. As a result, these different policies benefit different agents in different domains, e.g. local and provincial government, light and heavy industry, SOEs and TVEs. Therefore, these different agents inevitably engage in contests of benefit. For instance, the establishment of SEZs (Special Economic Zones) in the early 1980s was not just any decree by Deng Xiaoping or other reformists but one that challenges the light industry department and heavy industry department, provincial governments and central government, and conservatives and pro-reformists (Shirk 1993 ;Nathan and Tsai 1995 ;Tsou 1995 ;Shih 2004a ;Shih 2009). In this regard, state agents can hardly fully follow diverse policies and long for a clear principle to guide their implementation of the reforms. They have to, instead, choose the side, which will possibly maximize their individual benefits (Wank 1995 ;Bian and Logan 1996 ;Shirley 1999 ;Rozelle and Park 2000 ;Duckett 2001 ;Le 2004).

Although China's transition has been manifestly moving from a planned economy to market competition and from a traditional rural society to modern urban one, it has not fundamentally changed from socialism to real capitalism, which is based on the rule-of-law, clear property rights, and mature democracy (Wang 2004:10). As described earlier, vague property rights and other inconsistent reforms are the likely

causal factors of the success of economic reforms. This argument becomes contestable and sceptical because sustainable economic transition can hardly be sustained without simultaneous transitions in political, social, and cultural spheres. Rolland (2000:xviii) also argues that the large-scale institutional changes involved in transition are among the most complex economic and social processes. In the meantime, those countries that had made progress in economic transition, had done so because they have been successful in reforming their political and social systems to create the institutions which support economic reform (Wang 2004:9). However, the paradox is that nobody can be for sure how long the transition will continue or whether the countries engaged in this process will end up transformed into comprehensive capitalist economies (Bradshaw and Stenning 2000:121). Therefore, it is indispensable and essential for me to comprehend the CCP and its organizational strategies and to distinguish the differences of transitions between China and other socialist societies in order to understand the processes of China's transition and policy-making.

Owing to the legacies of party-state regime and political interference, bureaupreneurs and HNWI's in China became severely dependent on these legacies in terms of wealth accumulation, e.g. to buy, sell, and develop land, mining and trading concessions, and so forth (Fligstein 1996b). This is because the policy principles are, on the one hand, proclaimed by the central government but their implementation is, on the other hand, shaped by local financial conditions and the motivation of senior officials in different localities. Nee (1989) once argued that state agents would eventually lose their controls on the market within the economy as the transition evolved³; however, the status quo is that the CCP remains the ruling party in China and this is based on its monopoly over legitimate political organization, impeding the emergence of competing organizations that could pose challenges (Dickson 2004). As a result, the degree of manipulation of existing political resources and state policies has not declined relative to the increasing market forces along with the economic reforms (Yang 2002). Goldstein (1995) argues that the persistence of the party-state regime is due to its top leaders, e.g. Deng Xiaoping, persisting in tight

³ In Nee's recent article, he recognizes that his previous argument is no longer appropriate and needs to be revised (Nee and Cao 2005).

adherence to the communist regime and resisting any political reforms that would weaken incumbent controls, thus averting the same failure as Gorbachev in the former Soviet Union.

In terms of adherence to Communism, there are two main reasons why Goldstein's statement is inadequate and may only account for a part of the grounds. First, although Deng Xiaoping proposed the Four Cardinal Principles (*Si Xian Gji Ben Yuan Ze*) in 1979 (1983 vol 2:159) to uphold the socialist path and the leadership of the CCP, he then realized it was not suitable for economic reform without immediate political reform⁴. Secondly, China was extremely different from the FSU and CEE in 1978 although they all were derived from the legacies of Leninist Communism. Some researchers (Qian and Xu 1993) metaphorically consider China's reforms to override those of their counterparts in the FSU and CEE because China had low per capita income and less industrialization. In 2004, China had been struggling for more than a decade to overtake what the FSU had in 1978 (*Fig 4*). In general, there was very less space for the FSU to divert public attention by merely implementing economic reforms as China had done, owing to then high-income levels. That is to say, China could exploit her advantage of lower labour costs by liberalizing the redundant work force from rural areas and subsequently becoming the world factory; consequently, reforms surely improved the living standards of the ordinary populace. As a result, China is able to implement partial reforms, which purely focus on economic activities and deliberately ignore those legal, political, or comprehensive restructuring that were ostensibly implemented in China successfully (Chen 2010:59-62). On the contrary, Russia had no choice but to employ the big-bang method that drastically reformed most institutions.

As a consequence, most people in China have been passionate about economic institutional changes after the initiation of the reforms. This attitude is particularly endemic among those higher hierarchies in China's government and the CCP. In fact, from the twentieth century onwards, economic changes, as Bradford De Long (1998)

⁴ Deng mentioned the economic reform should come together with political reform in the Politburo Standing Committee (June) and the talks with Nakasone Yasuhiro, the former Japanese prime minister, in November 1986.

argued, became the driving force behind other changes that had rarely been seen before. The ability of social democracy to deliver constant economic growth together with a comparatively stable relative distribution of wealth has created influential consensus in favour of their current institutional setup; therefore, the pace of economic change has been so great as to shake the rest of history to its foundations. This argument seems to be a plausible explanation as to why Chinese people are so complacent and at ease with the economic perspective solely.

Nonetheless, it is impractical to judge history from the present perspective without considering the context of the past (*see Note 16*). Although China was a traditional rural society before reforms, there were considerable industrial bases and a fundamental infrastructure that had been established by Mao during the notorious Great Leap Forward era (Meisner 1986:211), e.g. steel plants, state roads, and petroleum refineries. These facilities essentially provided the vital foundation for the following economic reforms, which are manifest and remarkable. However, I wonder who has benefited the most throughout the reforms. Institutions are set up to reduce the uncertainty rather than increasing social efficiency, serving those people who are able to create or change institutions (North 1990), or prevent confiscation and use checks-and-balances to enhance the viability (Barzel 2000). Therefore, people will try to retain these institutions created by them whether these institutions are useful, suboptimal, or even at the expense of the mass majority.

Burns and Stalker (1961) argue that organizations attempt to develop ways of tackling any low controls in constrained situations (new entrants in open markets) and protect any controlled advantages in opportunity relations (*guanxi*) whether they are individuals, public organizations (SOEs, TVEs), private organizations (private firms), or third party organizations (court, policing forces). As Fligstein (1996b) asserts China's entrepreneurship is an interpretation not a reflection of institutional changes and entrepreneurs tend to exploit institutional rules instead of simply following them. Therefore, entrepreneurs, but not all of them, will try to take advantage of the institutional changes and vagueness of institutional arrangements to increase their chances of success and help to prolong the tenure of the political elites,

and may therefore deliver economic growth (Yang 2004). Therefore, China's bureaucrats and HNWI, as individual and small organizations, will unavoidably have to find alternative resources (expansion of regulatory power) from those held by SOEs, local government, central government, and other public administrations for example, in order to retain their established privileged positions. Therefore, a theory regarding resources may provide an appropriate framework for explaining the institutional circumstances under which major economic actors operate (Guthrie 1997).

It is indispensable for understanding the assumptions made by HNWI that are taken as beliefs and natural rights, and as such taken for granted. As Commons (1931:697) says, these assumptions are not inherent and established in advance through custom and practice by participants in the transactions. These habits and customs taken for granted results in institutional changes and people heavily depend on them. This specific phenomenon, whether it is known as path-dependent (North 1990:94) or positive feedback (Arthur 1994:112), is obvious in transitional China, and many HNWI accumulated their primitive capital through the assistance of these legacies of the previous Communist hierarchies. However, orders, regulations, and institutions hardly perpetuate themselves permanently in the real world. When people try to alter existing institutions whether it is good or not, they tend to break the current institutional stability in order to make new and favourable institutional arrangements. In the contrast, institutions may persist even when they serve no one's interests (Akerlof 1976) and they may persist even though they are collectively suboptimal once established (Zucker 1986). According to North (1990), institutions are set up to reduce uncertainty rather than increase social efficiency and to serve for those people who are able to create institutions. He also mentions that institutions have a variety of regulations, which are made according to different procedures, ethics, and morality that constrain individual behaviours in terms of the pursuit of wealth and maximization of individual utility (advantage) (North 1981). Therefore, conflicts of interest will inevitably arise along with the process of institutional change between different interested individuals and groups. Consequently, the

constraints and opportunities encountered will have a direct relevance to the selection and outcome of their strategies and survival.

Elster (2007:32,36) asserts that every academic argument should rest on a general law or mechanism that occurs frequently and in an easily recognizable causal pattern allowing us to explain, but not to predict the consequences; therefore, I need to unpack the mechanisms involved in creating and sustaining institutions. By examining these mechanisms, I may perceive how the effects are produced and know who and why with regard to the institutional effects. In fact, Williamson's perspective (1975) of bounded rationality matches the contentions of other scholars (David 1986 ;Arthur 1988) that under specified conditions, e.g. time limits, it is difficult to consider the use of alternative approaches even if these would provide better solutions. This argument is understood to arise from positive feedback. Arthur (1994:112) deems the conditions that support positive feedback are: (1) large set-up cost; (2) learning effects; (3) coordination effects; and (4) self-reinforcing expectations.

The process of institutional change in China, whether they are path-dependent or positive feedback, can be split into two major phases. In the first phase, many suboptimal institutions were created or prototyped because of economic reforms severely limited by political forces. Therefore, it is very difficult, if not impossible, to change these suboptimal institutions in the subsequent phase owing to large set-up cost, learning effects, coordination effects, and self-reinforcing expectations (Arthur *ibid*). Because most existing interest groups can neither afford nor are willing to pay substantial costs to develop alternative institutions; therefore, they are disinclined to consider alternatives because of the required investment in time and effort. In addition, they believe the current situation will prevail into the future through collusion and exploitation. Consequently, the institutional changes in the second phase are affected by the inertia from those suboptimal institutions and by following the established path. As mentioned earlier, conflicts between interested individuals and groups will inevitably arise at different times, and therefore coercion may be employed by different interest groups in order to alter existing adverse institutions or

retain existing privileged institutions. In China, Government (CCP) is the only organization that can legitimately exert coercion; therefore, conflicts of interest will arise between different factions/hierarchies within the CCP and their respective external interest groups that altogether are authorized to exert different public authority. Thus, these outside individuals or groups, who can surreptitiously exert coercion to effect or influence institutional changes but also to derive benefit themselves, establishing reciprocal and symbiotic reliance on their associated political alliances in this specific institutional environment.

In China, the incomprehensive, inconsistent and insufficient reforms, as Burt (1995: 5) comments, constantly create structural holes, which continue to provide opportunities for bureaupreneurs and HNWI and subsequently ensure on-going superb economic growth. Therefore, the institutional changes in China have an element of the vicious circle because structural holes give rise to those social contradictions along with the institutional changes throughout the reforms. Consequently, agile bureaupreneurs and HNWI accumulate wealth through this ambiguity, inconsistency and partiality. Meanwhile, they obtain legitimacy and protection from those institutions, which are clear, consistent, prompt, and complete (Yang 2002). These structural weaknesses are, to some extent, inherited from the socialist economy⁵ and eventually make China vulnerable to further reforms. As Neil Fligstein's (1996a) argued that people live in murky worlds where it is never clear which actions will have what consequences but it is mandatory to construct accounts of the world that interpret the murkiness, motivate and determine courses of action, and justify the action decided upon. The murkiness in China is explicitly embodied in the institutional environment. For example, there were no firms but only factories before 1985 because the then economic nature was not allowed to

⁵ A socialist economy is distinguished from a capitalist economy mainly by the high degree of state control of the economic assets of the economy. Under the institution of state ownership in a socialist economy, control of all assets is to be managed by people, since the "state" itself cannot manage anything. A person managing an asset will, to the best of his or her knowledge, try to derive the most benefit from it at the minimum cost or sacrifice to himself, in (a) utilizing its service directly to benefit himself or herself or (b) allowing others to use its services (Chow 2007:347-349). In the socialist China, the public sector was viewed as a personal fiefdom. The administration of state assets revealed a lack of differentiation between the "economic" and the "political" sphere and the absence of any clearly defined boundary between public and private property. Bureaucrats and state agents disposed of public sector resources as if they were their own (Rose-Ackerman 1999:116).

lower transaction costs or improve hierarchical management (Imai and Komia 1994:396). Consequently, the State-owned Assets Supervision and Administration Commission of the State Councils (SASAC) were purposely established in 2003 in order to improve the economic benefits of state assets, but it became a misfit and deviated from its original mandated purpose. This organization is essentially composed of different civil servants and represents the shareholders of these Chinese SOEs - the entire Chinese people. On the one hand, it actually controls nearly all SOEs and public assets; on the other hand, this special institute is not subject to any jurisdiction not to the National People's Congress (NPC) but only to those appointed by the State Council Politburo Standing Committee of the Communist Party of China. As a result, the murkiness in China is reflected in the inseparability between politics and economy. Thereafter and in my opinion, this murkiness leads SOEs towards infringed ownership rather than absentee ownership (Zhang 1996).

In China, the SOEs, whether before or after economic reforms, can enjoy all the privileges bestowed by the state, and their directors-in-office create many barriers to restrain private competitors. Owing to the vague property rights, the directorship becomes the endowment granted by the CCP; therefore, these directors of SOEs de facto pursue their own interests by means of the scarce resources given to SOEs. In this regard, these directors put SOEs and public assets at their own disposal and benefit from them at the expense of vast majority. In general, China has been in transition from a planned economy to "socialist market economy" since the late 1970s. Under the premise of abiding by the party-state framework, the ideology, property rights, customs, individual behaviours, social structure have been in the process of altering as a result. Because there is no clear blueprint for the transition in China, the direction of change is obviously not continuous or coherent; nonetheless, these changes are persistently confined by political constraint – the party-state regime. Zhang and Ong (2008) argue that China's governing strategy is to set citizens free to be entrepreneurs of the self, but this was made possible not by dismantling the socialist apparatus but rather by creating a space for people to exercise a multitude of private choices, but always within the political limits set by the socialist state.

Apart from the preceding structural weaknesses, the status quo in China is that many bureaucrats at different hierarchical levels continue to retain their coercive powers of the previous party-state regime but no longer take communism seriously (Lieberthal 2004:315). Therefore, reforms are always confined within the political framework, which, by all means, necessitates supporting the CCP and its legitimacy.

2.5 THE RESEARCH PURPOSES AND LEADING QUESTIONS

At the very outset, Special Economic Zones (SEZs) in China were established to attract FDI and cutting-edge technologies from advanced countries soon after 1978 and were expected to rectify the Communist Economy based on the framework of public owned property rights. Subsequently, the mechanisms of free competition and market pricing were introduced to China in order to invigorate the then moribund economy. That said there were emerging problems, such as inflation, inequality, corruption, and discontented factions that continually challenged the reform process. As a result, a command economy no longer exists in China and that also means it has failed to attain the goal of a socialist market economy successfully. Next, I will have an in-depth study of the research purpose and primary questions.

Many compliments have been heaped on Deng Xiaoping to whose reforms the economic growth has been attributed (see section 2.1) (Fleisher 2006a ;Smith 2006 ;Chow 2007 ;Donaldson 2007 ;Wong and Wei 2007). Luckily, as Fei (1986) argued, the reform per se has not been eradicated but implicitly rooted in China ever since the Cultural Revolution. Fei indicated that TVEs mushroomed under the economic circumstances of a less constrained and loosened-policy after 1976 because of intense famine and economic recession. Since this disaster was less easily or artificially resolved by the central government, the local governments, especially at the lower level, were compelled to introduce provisional reforms to restore the economy, notwithstanding any inconsistency and incoherence manifested in those reforms. This kind of “*institutional amphibiousness*” (Ding 1994) is at the heart of the political logic of China’s economic reforms (Shirk 1993) and incurred subsequent income inequality (Zhou 2000). Therefore, the bureaucratic system in

transitional China, as those counterparts in modern Western societies, has so much power vested in so few people, with so few rules, it cannot do better no matter how good the people at the top are (Cochrane and Zingales 2009). Their argument appropriately describes the phenomenon of an imbalanced relationship between power and constraint in China. Therefore, any bureaucratic systems across time and space tackle their problems likewise.

Even though there is a strong interaction between institutional changes and economic reforms in China, the institutional legacies, which are actually derived from practicing Communism, continue to exert strong inertia on the party-state regime. This specific phenomenon in China can be referred to as the path dependence (North 1990:94), which continues to, economically and politically, reinforce the privileges of existing elites. As Bassanini and Dosi (2001:41,43,47) state history matters in terms of path-dependent regimes because what social actors do today is shaped by what they did yesterday. This argument is commensurate with Bromley's individual actions (2006:7): individuals act with the future clearly in mind. Therefore, I argue that ongoing institutional changes in China are deliberately designed to create incentives for those elites, who have power over institutional arrangements, to secure their existing privileges and consequently form a business-political complex⁶. This argument responds to North's (1990) contention that institutions serve those people who are able to create or change institutions.

There are different social and economic structures emerging in contemporary China after three decades of reforms, which are built on the "ruins" (Stark 1992b). In other words, differing experiences withdrawing from socialism shape the possibilities of transformation in the subsequent stages. Minsky (1986:293) argued that the *Market Economy* probably is the most beneficial economic institution as yet, but it rests upon relatively fragile political foundations. This perspective is meaningful because markets cannot flourish without visible guidance from government setting up norms,

⁶ This term has been modified from the military-industry complex, which was mentioned by former US president Dwight D. Eisenhower in the Farewell Address to the Nation on January 17, 1961. In this speech, Eisenhower reminds American to guard against the influence by collusion between government and businesspersons.

regulations, and institutions and assuring compliance to these rules. That is to say, no trade can be implemented confidently and securely without government's oversight. However, in the market with public authority, there are continuous quests from capitalists and entrepreneurs for government protections from competitors to retain their existing privileges in accessing public resources with least cost. (Rajan and Zingales 2004:311). In this regard, the market economy can be manipulated as well under the continuous pressure of existing interest groups. Given that, China's economic reforms as they shift from a planned economy to a socialist market economy will repeat, to some extent, the failure of previous market economies. The importance of this research is to find out how far these failures resemble each other and how and why some people gain opportunities through the manipulation of institutional arrangements, assuming these institutional environment(s) can truly reflect the general situation. As well, I hope to make a contribution through logical analysis and the elite interviews that will explain those incentives in transitional China that might be attributed to the institutional holes arising from inconsistent and incoherent institutional arrangements.

Thus far, I have described the possible causes of reforms, the emergence of bureaupreneurs and HNWIs, and intricate political situations. Consequently, I could formulate the questions that can help me to understand the truth of economic growth, institutional changes, reforms, and the emergence of HNWIs in China. Because China's economic growth has been largely debated and examined by various scholars (Shirk 1989 ;Huang 1994 ;Naughton 1995 ;Qian *et al.* 1995 ;Peng and Heath 1996 ;Oi and Walder 1999 ;Wei 2001 ;Yang 2005 ;Fleisher 2006b ;Bouckaert 2007), it is redundant to discuss the subject further, instead my research focuses on the "why" and "how" process questions.

1. What are the reasons and causes driving China to the path of reforms at this specific time? When did China decide to take that path? and why? Why and how did the path bring China to such a different situation from other communist states?

2. What is the relationship between reforms and institutional change in China? What is the scale of institutional change in China? What makes institutional change? Through what path? And in which direction? What is the framework supporting institutional changes in China? What are the elements in the framework?
3. As one of those Leninist Communist countries, what is the fundamental difference of before-and-after reforms between China and her comrades, e.g. former Soviet Union, Central Eastern European countries? What causes that difference? Convergence or divergence? Any impact on ensuing reforms?
4. Were there any ideological conflicts arising between a long established command economy and prevailing market competition in China while the reforms were being initially implemented, and why? How does the CCP and Chinese Government resolve the conflict? To what extent does the conflict compound or ameliorate the situation for ordinary people, economic and political elites? What are the consequences? Any impact brought forth by that consequence? How does the impact influence subsequent institutional changes? Why?
5. Do institutional changes in China alter the definition of property rights and opportunity? How and why? Will institutional changes alter the way in which personal benefit is pursued? How and why? Will institutional changes make the interactions between individual and the collective? How and why? What is the impact and consequence thereof on the society and China as a whole?
6. Who exactly are those HNWI's in China after the reforms? Where, when, and how do they emerge? What is the impact of their emergence on the society and the country as a whole? What is the relationship between reforms, economic growth, and the emergence of HNWI's afterwards? In terms of the emergence of HNWI's, what is the impact and the consequence thereof on the

society and the country as a whole? How do the consequences affect the future of HNWIs in China?

Through these questions, I analyse the actual reasons giving rise to the emergence of HNWIs and their relationship with institutional changes in China. Since institutions define and specify opportunity sets or fields of action for the members of a going concern and represent collective restraint, liberation, and expansion of individual action, the benefits and costs to individuals and groups shall, may, or may not fall on those parties seriously affected by institutions (Bromley 2006:31,41). In this regard, institutions can be regarded as both a restraint on and liberation of individual and group action. That is to say, any change in existing institutions will re-define and re-shape the opportunity sets and the way people pursue them, and consequently affect the social status of and interaction between people, e.g. promotion, wealth, privilege, crony collusion, rent-seeking, and so forth.

As Bromely (2006:7) argued, every single cause starts with an underlying reason. Through this reason, people can acquire sufficient and essential information corresponding to the manifestation of the reforms and related processes in order to understand both vital factors that caused China's transition. Consequently, this information can elucidate the process and consequences of institutional changes in China. In this regard, it is convenient for people to understand why different people and going concerns (family, clan, firm, and nation-state) will choose dissimilar paths of reforms and therefore lead toward diversified consequences (Bromley *ibid*:32). After that, people could also interpret why China has chosen such a specific path of reforms via preceding studies. Because any successful reform should be, to a large extent, accompanied by comprehensive institutional change, otherwise, reform can only be a non-substantive one (O'Brien 1990:3-8). In this case, the researcher should not focus on either reforms or institutional change alone but try to acquire comprehensive knowledge of the relationship between them.

China has been moulded by the legacies from Leninist Communism since 1949; the fundamental ideology and social structure were therefore related to the proletariat. In this regard, the seeds of egalitarianism, an intrinsic belief, were deeply rooted in

most individuals, going concerns, and the state (Fewsmith 1994 ;Lieberthal 2004:249-251;Chow 2006). After Mao's death, serious famine, mass unemployment, and a skyrocketing deficit led the CCP to the verge of demise. In order to alleviate these problems, the CCP began to lift the ban on private property and re-shape ownership rights gradually. Yao (2009) argued that China has achieved its successes, to a great extent, by adopting the recommendations proposed by standard economic theory and that the government does not favor any section of the population but sets the long-term welfare of the whole society as its priority. However, this kind of sycophantic assertion is not only very unconvincing but also departs from the truth.

Reform in China is arguably, incontestably an epochal undertaking and gives the open-door signal to the rest of the world. Inevitably, there are resulting opportunities and pressures in the wake of an open-door policy. To respond to increasing pressure from the external world, the Chinese leadership does not have much choice but to import the structures of the market economy from without. Zheng (2004:36-37) maintained that:

The leadership has to borrow the form of Western states, even while loudly condemning such a practice and facing strong resistance from the conservatives and society. The leadership has learned much from the West in its efforts to rebuild the state system economically and politically. The question is not whether the leadership is "importing" the Western form of the state, but why the leadership has "imported" Western products (different building blocks of the Western state) selectively, and how these "imported" parts have been strategically sought after and integrated into the existing state system.

However, the context in China was different from those in the FSU and CEE while reforms were initiated (*see Note 17*). As a result, the Chinese leadership is caught between the tensions generated by tradition strategies and integrative ones. The integration of the market economy in China is essentially a selective and gradual process. However, this is not to say that the Chinese political leadership is erroneous

in choosing a piecemeal pattern. As Zheng (ibid:32-37) mentions that:

Integration must be accompanied by innovation, which is in the interests of the leadership and society as well. In other words, in integrating a market economy, China leaders have to meet various goals simultaneously, namely, coping with pressures resulting from globalization, meeting the interests of society, satisfying the interests of ruling elites, and ultimately transforming the state system.

As a result, the institutional changes in China can be neither comprehensive nor insignificant. To be exact, reform in China has been carried by the framework consisting of two conflicting elements, the Communist ideological tradition and the market economic reality, that leads to a compromised institutional environment. In the meantime, China's top leaders made their choices and recognized their incentives and rewards, hopes and expectations, and constraints by introducing selective elements of market economy. That is to say, not only can elites profit from the process of integrating the market economy, but more importantly, by doing so, these elites will also be able to realize the form of the market economy that they perceive to be the basis of power and wealth. In fact, the successful integration of the market economy depends on the strategies of the leaders and their choice of strategies in turn depends on their perceptions of globalization, the politics of identity, the political context of power relations among the elite, the political alignment between reformist leaders and conventional state social forces, and the way the existing system has been developed.

Through the abovementioned leading questions, I could methodically examine and figure out the real supports, implicitly manifest, behind China's economic growth that has relatively deep effects on the existing institutions and future changes. Many scholars (Burns 1989 ;Lee 1992 ;Bian and Logan 1996 ;Lau *et al.* 2000 ;Duckett 2001 ;Gallagher 2002 ;Zhang 2003 ;Lieberthal 2004) have argued that China's economic development has its uniqueness, which is increasingly crystal-clear that what has primarily supported economic activities are Western types of economic

institutions. Because there are entrenched ideological contradictions between Communism and Capitalism, Capitalistic reform measures inevitably challenge the CCP to cleanse itself of rigidity and inadequacy. Thus, it is the market economy of a “*market economy with Chinese characteristics*” instead of the Chinese characteristics to support the economic growth. Nevertheless, China’s rapid economic growth has been driven by Capitalistic economic measures that were unlawfully pursued initially as a way of economic development after the Chinese leadership began to implement the reform and open-door policy in the late 1970s. Therefore, Deng Xiaoping re-endorsed these measures during his southern tour in early 1992. From then onwards, reforms have brought about enormous changes to every aspect of economic and social life in China and created economic growth.

In terms of politics and laws, China appears to have remained in its traditional Leninist form. In fact, without changing the essence of previously unexpected or unlawful institutions, the CCP is able to transform them into legal and favourable ones, once these institutions become essential to sustain the legitimacy of the CCP’s regime. For example, Deng Xiaoping (1993:373) argued, during his notable Southern tour in 1992, that the planned economy cannot be equated to socialism since capitalism also has plans; the market economy cannot be equated to capitalism since socialism also has markets; both plans and markets are economic instruments. In this regard, Deng could introduce the market economy to China without breaching the basic concepts of governing Communism. As Zheng (2004:56) argued, the more successful China’s economic reforms are, the greater the threats posed to the present political system will be. Briefly, the diminution of central controls has released more power than the CCP anticipated and a power beyond their capacity to manage. Consequently, many divisions of government have failed to cope with those selective institutions. Further, rapid development benefited the enterprising and the audacious, but also the greedy and the corrupt. Accordingly, the atmosphere among the majority of ordinary people is for a stronger sense of direction, for greater checks on economic growth, and even nostalgia for those more certain and predictable characteristics of the old days. Actually, the Chinese leadership has been attempting to avoid any upheaval being triggered off by the integration of the market economy

because any discontent might bring new political forces and shake the political legitimacy of the CCP that has existed since 1949. After all, the ultimate goal of introducing the market economy is not to completely replace the existing institutional arrangements but to improve them, especially the political ones.

To sum up, China's HNWI's have come to prominence in such a contradictory situation and relate themselves more closely to politics than economy in order to sustain their privileges in the unstable milieu. That is to say, China's entrepreneurs realize where their privileges come from and they do not find the political mechanisms or state agents to be any problem, but an opportunity to access to scarce resources (Lawler 1992 ;Fligstein 1996b ;Fligstein 2001a ;Walder 2003).

3. LITERATURE REVIEW AND CRITICAL READING

The contributions of the previous chapter pay particular attention to the transition of China, of its people and of those associated institutions. I also indicated that the then political leaders were confronted with fundamental questions, e.g. whether to dismantle the core institutions of the communism; what new institutions to create; how to explain the new relationship between state; society and market; and in what timing and sequence? Although economic reforms in China have been underway since 1978 in a way that brought extraordinary results to China's economy, private property rights, however, became legitimate and were formally protected only thirty years later (issued in 2007). For this reason, this frail foundation makes property rights in China truncated (Alchian and Demsetz 1973) and renders them no more than empty institutions (Windhoff-Héritier 1991), with nothing more than a paper agreement or empty shell remaining. A stable basis for property rights reform is not only based on regulation but also on structural reforms (Adams *et al.* 2009). Because there is no separation of powers and formal rules, which is directly linked to the CCP's power (Weede 1990:5-6), structural reforms are least likely to arise in China. By this logic, China's institutional changes are not only hinged on economic parameters but also on those societal, political and cultural ones.

A convincing research argument should be justified through a critical literature review because research only becomes valid in relation to other people's contributions (Jankowicz 2004), which is made up of published and currently progressing articles in the chosen research area. Therefore, to highlight the limits within current knowledge and to locate the researcher's focus in the wider context (Gill 1997) is one of the best approaches to improving research ideas, enhancing the researcher's knowledge, and clearing up research questions. Because a literature review is by no means comprehensive but highly selective and focused on centrally relevant issues (Armingeon and Careja 2008:48-50), a much more comprehensive literature review in the research topics could have been done, but that would then make the research purpose and the research quite unstructured. For this reason, researchers set out research questions and carefully construct research designs, and this research is no exception.

As has been mentioned, China's entrepreneurs get privileges and grab scarce resources through political mechanisms or state agents (Lawler 1992 ;Fligstein 1996b ;Fligstein 2001a ;Walder 2003), e.g. exertion of political power requires resources gained endogenously or externally. For that reason, institutional change theory hardly stands up to explaining China's transitions; therefore, I need to commence a critical literature review from theoretical, legal and societal perspectives in order to give a solid premise to this research and ascertain which supplementary theoretical framework is required.

3.1 THE INSTITUTIONAL ENVIRONMENT IN CHINA

In China, rule-of-law is used to support those pro-market policies after 1992 (Adams *et al.* 2009). For this reason, the rule-of-law accompanied by marketization fills the ideological vacuum left by the fading of Maoism. Also, China's transition, rather than from a planned economy to market economy, is from a planned society to market society, in which every tangible product or intangible service, as Sandel (2006:10) argues, has a market price. By this logic, the rationale of the rule-of-law in China supports economic modernisation and indicates that the rule-of-law serves to subsidise the elite's interests more than ensuring equality before the law. Therefore, China's institutional environment consists in mostly formal rules that are nothing but lip-service, or as Thoreau (2012b:3) argued, they are not most likely to be in the right nor the fairest, and in all cases cannot be based on justice.

Nonetheless, people scarcely understand the real reasons that trigger these changes (*see Note 21*). Mainstream perspectives in relation to China's transition and the emergence of HNWI's are biased and mainly focus on corruption, cronyism, embezzlement and other negative social parameters (Oi 1985 ;Cheung 1986 ;Oi 1986 ;Shirk 1993 ;Ding 2000a ;Asher and Newman 2002 ;Chen 2003a ;Chow 2005 ;Shirk 2007), whereas the economic growth in China has been accelerating simultaneously (Glassman 1991 ;Oi 1992 ;Bian and Logan 1996 ;Fan 1996 ;Cannon 2000 ;Batjargal and Liu 2004 ;Djankov *et al.* 2006 ;Chow 2007 ;Naughton 2010). In China, the CCP has been the longstanding and only functioning ruling party since

1949 that treats people with almost identical characteristics in extremely different ways. For example, the Great Purge (*Su Fan*) campaign in 1955 was implemented in a way that severely discriminated against entrepreneurs in rural areas as well as rich peasants, and claimed the entrepreneurship process as a spontaneous force of capitalism. In 1922, the CCP oddly advocated preferential treatment at the fourteenth National Congress for countryside entrepreneurs and supported efforts to mobilise them to the full in order to establish technical-service organizations and to allow any rural economic organization to recruit them into their workforce. The discrimination and preferential treatment then and now is actually not exceptional and can be often seen in the various institutional dimensions. In other words, the CCP regulatively constructs legitimate structures for entrepreneurs that both the CCP and entrepreneurs have never experienced since 1949. Normatively, the CCP has oddly prescribed the goal of the pursuit of wealth as appropriate though this was disdained in the proletarian society. Cognitively, the CCP intentionally creates a social atmosphere in which people no longer recognise the pursuit of wealth as unethical and one that should be banned or eradicated. Taken together, after the reforms initiated in 1978, people gradually deemed that the pursuit of wealth was a taken-for-granted assumption.

After 1978, the CCP swiftly responded to environmental pressures by altering their mandated goals in order to survive and increase their legitimacy no matter whether these practices would reduce organizational efficiency or otherwise increase costs relative to benefits (Meyer and Rowan 1977) (*see Note 22*). From my perspective, state agents are the real forces for changing mandated goals and need transaction objects that all entail distribution and re-distribution of resources and wealth. Because there is no separation of political powers and the legal system, which is directly linked to the CCP's legitimacy (Weede 1990:5-6), any change of law will change the CCP's power accordingly. In this case, powerful people have to devise both political and economic rules to execute transactions within the pre-determined and favourable framework of resource re-distribution in transitional China (*see Fig 15*).

Except for the law, a flexible expediency – policy, which has the same legitimate function as the law has, is desperately demanded. In China, policy not only determines who earn more profits during institutional changes but also decides who earns the most of it (Walder 1996); this is exclusively and deliberately made within the CCP and implemented by state agents in ways that are opaque and elusive to the mass majority. Therefore, some scholars (Lieberthal and Oksenberg 1988:3) have argued that policy in China may be adopted for any of following reasons: (1) solving new policy problems pressing upon leaders; (2) keeping alive the ideological vision of its proponents; (3) rebuffing challenges from rivals; (4) rewarding its networks of loyalties; (5) as a feature of the structural dimensions of China’s bureaucracy. For example, the CCP failed to keep its promise of delivering a proletarian paradise following the Great Leap Forward (GLF) and the Cultural Revolutions, which not only devastated the Chinese economy but also pressurised the then political leaders. Meantime people asserted that core institutions began to worsen dramatically (Lieberthal 1984 ;Child and Yuan 1996 ;Goldman and Macfarquhar 2000:7,52;Gallagher 2002 ;Dittmer 2003 ;Lieberthal 2004:249-252;Chow 2006 ;Huang 2007), and increasingly questioned if the core institutions would make a better life for them. Therefore, the then political leaders issued several new policies, although in contradiction with the prevailing ideology but without shaking the foundations of the regime, to save the incapacitated economy of the time. Increasingly, as scholars argued (March and Olsen 1989:170-171), those self-reflexive political actors adjusted policies in ways that were constrained by given institutional practices, rules, routines, and cognitive schema, and therefore made a set of new fundamental institutional transformations after 1978.

In China, not only has policy frequently changed but also the purpose of reform, which represents the economic trends has rarely been predicted or remained consistent since 1978 (Woo 1999) (*see table 5*). Some scholars (Pei 1999 ;Zhang 2003 ;Bouckaert 2007) have indicated that there is neither a coherent process nor a deliberate blueprint for China’s reforms and any reform thereof is strongly experimental and tentative. By mapping table 5 onto the political changes (*see Fig 16*), however, I noted that the fundamental institutional arrangements between 1949

and 1989 had not dramatically changed. So, which factor(s) indeed caused the dramatic changes after the 1990s? Arguably, it is because the delayed normative and cognitive changes were occurring at full speed so as to catch up with the leading regulative changes and therefore, the three institutional dimensions (Scott 1995:Ch.3) were changing in different degrees.

A set of institutional arrangements were implemented as the last resort after 1978 to reduce social discontent and save the political legitimacy of the day (Naughton 1993 ;Woo 1999 ;Dittmer 2003) that ranged from full scale agricultural reforms to the dual-pricing systems between 1978 and 1989. In contrast, the command economic ideology remains persistently rooted in people's minds; therefore, normative and cognitive changes lagged far behind the pace of regulative changes that caused a gap, or institutional hole (Yang 2004). Because political elites retain their privileged positions, which were derived from the pre-reform era (Csanadi 1997:153), they distort normal economic development but also diminish the capacity for organic economic growth, and enabled the survival of economic elites in transitional China. Consequently, those biased preferences resulted in hyperinflation, collusion, and huge income disparity in the late 1980s (*see Fig 16*). Theoretically speaking, when those normative and cognitive changes accelerate and start to catch up with the regulative changes, protest (Tiananmen protest) will arise accordingly because elites and ordinary people started vying for those essential resources. After 1992 when Deng undertook his Southern Tour, those economic reforms were dramatically restored and pro-reformers were reinstated in power.

According to Scott (1995:Ch.3), the regulative dimension first constrains and regularizes social actors' behaviours, and consequently, the normative dimension dictates the goals of behaviour and the appropriate ways to pursue them. Lastly, the cognitive dimension entails the culturally shaped, taken-for-granted assumptions about reality and the frames through which it is perceived, understood, and given meaning. By observing how many of these dimensions of institutional change over a given period of time (time frame), the researcher can comprehend the pattern of institutional change (Campbell 2004:33-35;Walder 2004). As already argued, the

lagging normative and cognitive changes were at full speed to catch up with the leading regulative changes after 1992 and these three institutional dimensions were changing to different degrees. Nonetheless, political constraints remain, making certain dimensions resemble previous ones, e.g. the government persists in following the socialist road, steadily improving socialist institutions, developing socialist democracy, and improving the socialist legal system; thus, China's transition is not on the revolutionary path except in the economic domain.

Consequently, I also employ induced and imposed methods (Lin 1989) to examine these changes (*see Table 4*) and recognize that there is no significant quality of either evolutionary or revolutionary institutional changes manifest in China's transition because of the frequent inconsistency of institutional arrangements and goals. For that reason, I argue that China's reform pattern conforms to the punctuated-evolution pattern that is more evolutionary than revolutionary in the sense that it is initially characterized by prolonged periods of either equilibrium or stability, or that evolution is interrupted unexpectedly by some calamity (Krasner 1984 ;Hay 2001 ;Blyth 2002:Ch1;Campbell 2004:5). This pattern first creates turmoil until a new set of institutional arrangements is established, that then remains in equilibrium or evolves slowly for another long period that corresponds to the characteristics of China's transition.

Two results are derived from previous study. First, there are close associations between political changes and economic reforms in China that indicate major changes emerged once any vital political alteration arose (Weede 1990:4-5) (*see Note 23*). Second, reforms in China mainly start from the less-risky locus in order to maintain the stability of the CCP's regime (Pei 1999,2006) that embodies the consequence of one-party autocracy (Weede 1990:1-2). Taken together, I draw the conclusion that institutional changes in China intensely involve the exertion of political power. Consequently, the previous discussion becomes the criteria for selecting appropriate literature and constructing my theoretical framework.

3.2 MAIN THEORETICAL PERSPECTIVES

Scholars of institutional change theory try to analyze and explain social phenomenon in broader coverage; among them, Veblen (1898b) not only had the broadest coverage that consists of habits of thought, orthodoxy, and tradition, but also prompted the motivation to explore institutions among economists. Veblen (1898b ;2001) also ridiculed the *Conventional Economic* assumption regarding individual behaviours that he considered were actually governed by habits and conventions, being of an institutional character and varying as the institutional scene varies. Because of incorporating many generalised parameters into their arguments, Veblen and his colleagues (Old Institutional Economics, *OIE*, or *American Institutionalism*) have been criticized as being the least detailed. Coase (1984), among those criticisms, indicated that *American Institutionalism* was anti-theoretical and should wait for a theory of fire. Nonetheless, Coase's criticism on *OIE* appears biased and overstated (Rutherford 1994:9). In fact, *OIE* was not as lacking in a theoretical premise as Coase's criticism implies (Hodgson 1998). For example, Veblen connected the individual to the working rules of going concerns that is embodied in the essence of *cumulative causation* (1898b) because the choices made today are embedded in the actions of yesterday's volitional agents (Bromley 2006:25). North (1990:94,112) also said that:

The consequence of small events and chance circumstances can determine solutions that, once they prevail, lead one to a particular path...comes from the increasing returns mechanisms that reinforce the direction once on a given path.

In my view, if causation is not cumulative, yesterday's small events will have fewer effects on today's decision because of its weak influence. On the other hand, if there is no causation, the accumulation of yesterday's small events will have no effect on today's decision. For this reason, I argue that North's (1990:22) "*path dependence*" is not only similar to but also closely corresponds with Veblen's "*cumulative causation*".

After *OIE*, Hayek employed the concept of '*spontaneous order*' to generalize from the institutions made by human beings that originated from the study of the free

market economy exclusively. Hayek (1945) referred to the transition from market economy to planned economy as an '*irrational product*', which remains manifest and relentless in many Communist countries up to this day. Therefore, Hayek's evolutionary framework is inadequate to cover broader institutional changes because of a narrowed vision and strong ideological belief. Coincidentally, Veblen (1898a), Hayek (1945), and Zhang (2003) have developed similar arguments that institutional changes should be spontaneous, endogenous, and unwitting, instead of artificial and deliberate. They indicate that every individual and organization should participate in the social game from their respective interest point without any pre-arrangement or constraint so that everyone will unsurprisingly attain beneficial or, at least, consensual institution(s) consequently. However, if this scenario does exist, there should be no more conflicts between different social classes because conflicts between different social classes have never been ceased. According to my research, the truth of institutional changes in China only corresponds little to the *spontaneous order* in Hayek's argument; instead, these changes consist of imposed and induced institutional changes (Lin 1989).

Following *OIE* and the *evolutionary* school, institutions were referred to as encapsulating the rules of the game in a society or the artificially devised constraints that shape human interactions and reduce uncertainty by providing dependable frameworks for economic exchange (North 1990:6,33). North seemed to be trying to provide the predictability for individual behaviour. He had negative views on the individual purpose-oriented institutional changes because that individual purpose would normally hinder the emergence of efficient institutional arrangements and the benefits would not be fairly distributed to everyone but to specific individuals or groups (North and Thomas 1970:7). Thus, North and Veblen have similar perceptions because Veblen (1899) also deemed that institutional changes hardly ever changed in favour of the mass majority. North (1970:7) assumed that institutional change was driven by economic efficiency instead of the purpose(s) of policy makers, and that institutions would and should undoubtedly move forward in the efficient direction although the truth manifests otherwise. By this logic, North (1990:6) intentionally mentioned that institutions are dependable but not necessarily

efficient even though they can reduce uncertainty by establishing a stable structure for human interactions.

Because institutions are man-made, dependable but not necessarily efficient structures for reducing uncertainty (North 1990:6), institutions are powerful external forces to channel and regulate conflict ensuring social stability (Campbell 2004:1). In my argument, those forces causing institutional change are not endogenous and therefore should be considered together with those essential resources gained externally. Nevertheless, institutional change scholars pay most attention to organisations and environments with scarcely any clarification of environmental determinism, strategic choice, and the connection between external constraints and internal dynamics (Pfeffer and Salancik [1978] 2003:xiii). Therefore, a resource dependence framework may enhance our understanding of those parameters driving the institutional changes because it is more concerned with power and interests in terms of organisations and environments (Di Maggio 1988:9,13). By this logic, organizations should be incorporated into the discussion because they are embedded within networks of inter-dependencies and social relationships (Granovetter 1985) and then need resources, both tangible (utilities, financial) and intangible (human capital, social relationships) to ensure their survival. Those intangible resources are more likely to create a competitive advantage because they are often rare and socially complex, making them difficult to imitate (Black and Boal 1994 ;Rao 1994). Resources are therefore significant to the survival of organisations because no organisation can be completely self-contained and has to depend on others temporarily or permanently for essential resources (Pfeffer and Salancik [1978] 2003:2); thus, those resources obtained externally will render organizations reciprocally and indirectly dependant on those external sources.

Because organizations depend heavily on those external sources, the environmental pressure is most likely to make organisations change mandated goals to ensure their survival. March (1996) argued that organizations sought to act appropriately vis-à-vis their environments rather than instrumentally vis-à-vis their mandated goals. Selznick (1949:125,259) also asserted that organizations are neither always rational

nor act independently because the real goals of agents or authorities, in many circumstances, deviate from the mandated purposes. By this logic, the underlying reasons possibly derive from a mimetic process, normative process, or coercive process (Di Maggio and Powell 1983). In terms of the deviation from mandated goals, the rational choice school adopts the all-purpose concept of maximization of interests to explain it. However, social actors may not have enough time to get information and a clear sense which goals will maximize individual interests when uncertainty occurs (Williamson 1975). Thus, I embrace the concept of Clemens and Cook (Clemens and Cook 1999) that the normative and cognitive scripts may constrain actors' behaviours and enable their actions by providing them with guidance. Nonetheless, the environmental pressure may paradoxically result in confronting institutional changes if it involves open struggle over the very core of the institutional status quo (March and Olsen 1989:170-171). For example, institutional change was firstly initiated in China in 1976 during the severe draught; therefore, peasants and local cadres together signed the consent to death disclaimer (*Sheng-Si-Zhuang*) (Lin 1988) to initiate primitive household responsibility (*Da Bao Gan*) that actually conflicted with the then core institutional status quo, e.g. egalitarian ideology, public ownership, etc. This change actually resulted in the subsequent fundamental economic reforms in 1978.

In every society, organizations vary in essential resources and the capabilities derived from these resources, which are valuable, unique and difficult to imitate, and that can provide the basis for organizations' competitive advantages (Amit and Schoemaker 1993 ;Peteraf 1993). Therefore, the key factor for organisations' survival (individual, firms, and state authorities) is their ability to acquire and retain these essential resources (Uhlenbruck *et al.* 2003). Consequently, they try to make environments small-scale and become subject to new and different constraints as the pattern of inter-dependence alters. Because not every essential resource can be produced indigenously, organizations relying on essential resources will endeavour to, by all means, acquire them or replace them with substitute ones gained externally. It should be noted that institutional constraints, which are often derived from previous legacies, would constrain organisations' abilities to find substitute resources

to replace the original, essential one. In this sense, dependence eventually eliminates the endogenous competitiveness of most organizations and makes them become heavily resource-dependent, whereas external institutional changes try to influence the environment.

In China the legacy of the previous planned economy sporadically restrained subsequent institutional changes (Guthrie 2002:25-26), e.g. restrictions over private property rights. On the other hand, the Household Responsibility System (*Da Bao Gan or Bao Chan Dao Hu*), the emergence of TVEs, shareholding and corporatized systems, and other newly introduced institutions borrowed from the market economy became adaptive to the circumstances in order to sustain the regime. In this regard, resource dependence therefore has a significant foothold in this specific institutional environment because there always are some individuals, who can exploit their formal relations with ruling political elites with control over resource re-distribution and affecting institutional changes.

So far, the real drive behind institutional change in China remains uncertain from the institutional change perspective. In fact, neither North nor other scholars can adequately clarify why and how institutional change should arise. Nevertheless, North (1990:73) did mention that entrepreneurs engage in purposive activity and in that role are the agents of, and shape the direction of, institutional change. Since the purposive activity will alter the institutional structure and not be essentially and socially productive, this purposive activity therefore resembles the incentive for institutional change. That is, institutions, on the one hand, have humanly devised constraints (North 1990:6,33) and will largely affect subsequent institutional changes. On the other hand, institutions, as Aoki (2001:41) argued, define the incentives for agents, who can affect or make institutional changes. For that reason, individual purpose will not only be constrained by existing institution(s) but also affect subsequent institutional changes; therefore, whether a new institutional arrangement will be efficient or not depends mostly upon individuals or specifically, the agents, who can seriously have an effect upon or make institutional change.

Economic interests are most likely the incentives that steer institutional changes (Bromley 1989) and institutions, which actually define economic interests⁷, may fill the gap in North's contention. Bromley (2006:40-41) asserted that individual purposes involve designs and changes in the institution:

Institutional change is motivated and acted upon with the future clearly in mind. Existing institutions are not explained by the choices and actions of those living at this moment...the values and priorities and commitments of the past are projected into the present in the form of the prevailing institutions under which we live.

In Bromley's argument, institutions come before economic interests and individuals exist earlier than institutions because institutions are humanly devised. I illustrate this concept (*see Fig 8*) in order to make explicit the relationship between these parameters. With this concept, I argue that visions for better societies in the future are used to assess the efficiency of new institution.

Because institutional arrangements and policy-making made by elites are often not the most favourable to the majority (Veblen 1899 ;North and Thomas 1970:7), the policy or arrangement may not be the most efficacious or beneficial in the least (*see Note 19*). In my opinion, the major restraint confining China's reforms to the economic domain is the determination to continue the legitimacy of the CCP regime. In China, the context of exclusive politics and predatory practices actually render the CCP a self-serving, ruling dictator rather than a proletarian party, which the CCP strongly proclaimed in the pre-reform era (Sun 2004:9). For example, property rights, governance structures, conceptions of control, and rules are actually built on the legacy of a planned economy and become a vital factor in shaping economic transition (Guthrie 2002:25-26) in many different aspects. Guthrie indicated that

⁷ Throughout the social sciences, structure (institution) tends to be conceptualized as patterns of incentives outside actors' heads, and culture as attitudes, values, and beliefs inside actors' heads. From an actor's point of view, structure is a situation (or part of it) and culture is a set of attitudes (or some of them) that an individual brings to the situation. Structure in this sense is thought to impose the exogenous discipline of means-end rationality on the actors, while culture is the source of values that are not determined by structure and are in this sense non- (or pre-) rational. That is, given certain ends, the actor is constrained in the choice of means by structurally defined positive and negative incentives (Nathan and Tsai 1995)

new institutions are built on the previous legacies that closely correspond to North's *path dependence* (1990:94,112). Nonetheless, the lock-in often has effects following path dependence and makes new institutions difficult to reverse (North *ibid*:94) or with a very high reversal cost (Levi 1997). The farther along a path of developing a set of practices (institutions) an organization, a society, or a state is, the more difficult it becomes to shift to alternative paths (Hollingsworth 2006:424). By this logic, the inter-dependence between path dependence and lock-in may make China's further reforms vulnerable whilst trying to alter the present institutional environment. To conclude, institutional change theory hardly explains the dynamic relationship between organizations and external essential resources or specifically: how organizations acquire essential resources for themselves during institutional changes. Consequently, a novel theoretical perspective on institutional change is put forward followed by the elucidation of the specific case of China's transition that embraces and secures the exertion of external power and change of property rights.

3.2.1 INSTITUTIONAL CHANGE THEORY

I have elaborated on the history of China's transition in chapter two, on China's institutional environment, and on the emergence of HNWI's in previous sections. In China, making intimate institutional environments for the market economy seems a paramount goal of the CCP; however, this goal is not the only one as the CCP seeks to justify and sustain its rule (Hu 2012a:96). Therefore, politics in China is, on the one hand, a driver of reforms and, on the other hand, an impediment by restricting further reforms. This particular institutional environment suggests embracing the concept of resource dependence whilst commencing institutional analysis on China's transition. In this section, I will have an extensive literature review in relation to the institution, its change and the cause and reason for this change before incorporating resource dependence theory into my theoretical concept.

What is an institution? What are the causes and consequences of institutional change? To put it briefly, institutions are the foundation of social life (Campbell 2004:1) in every society. Without consistent institutions, society will become problematic and chaotic because the abrupt dwindling of old institutions causes confusion for people,

e.g. the FSU and CEE. Hence, institutions guide and mediate conflicts and consequently assure stability for the society, and become external forces that assist people to determine how to make sense of their world and act in it (Campbell 2004:1). By this logic, institutional change may re-define the sets of opportunity, re-distribute scarce resources, re-allocate social wealth and re-position people's social status.

Institutional change theory, actually, not only relates to the economy but also pertains intensely to sociology (Powell and Dimaggio 1991) and politics (Olson 1971). However, scholars from different institutional change schools⁸ often lay the emphasis on specific levels of institutional change confined to the economic domain. For instance, Justin Lin (1989) indicates that the main parameter for driving institutional change is the economy. In other words, Lin regarded profitable opportunities in the economic domain as causing institutional changes that results in people spontaneously choosing the new institutional arrangements in their own interests and arguably, he views the purpose of institutional changes as solely economically oriented. Lin's perspective is not exceptional and has often been seen in many institutional change schools (Alchian 1965a ;Barzel 1989 ;North 1990 ;Williamson 2000) that are inclined to constrain institutional change within economic domain.

Because society and its relationship between variables changes, the primary function of academic research is therefore to continually move theory forward. Therefore, any theoretical perspective focusing on specified problems may also narrow the field of the researcher's vision (Minsky 1986:109), e.g. some significant questions become meaningless through different theoretical perspective and some questions essentially noteworthy to research are ignored. Therefore, a theoretical economic-oriented perspective is inadequate to explain China's transition. For example, *Conventional Economic* theory takes institutions and associated evolution for granted and hardly studies how the force – institution, affects pricing change, e.g. Marshall

⁸ This kind of perspective can be largely seen in most schools of Institutional change theory, e.g. NIE, evolutionary theoretical framework of institutional change (Hayek 1978), and *OIE* (Veblen 1898b,1904).

argued that economic analysis could only be undertaken if historical and institutional features were taken as base-line values (Foster 1993) in order to simplify the analysis. Nonetheless, Lin (1989) criticized those *Conventional Economic* analyses because they presume well-defined property rights, perfect information, and frictionless transactions.

Institutional economics, as Hunt (1992:317-322) argued, became a stream of economic thought after Veblen. Other than his holism argument mentioned previously, Veblen (1898b) ridiculed the *Conventional Economics*' assertion of the existence of institutions without any explanation of the emergence of institutional change that is otherwise inadequate for analysing economic issues, especially economic institutions (Hodgson 1993a:50-77). In Veblen's (1899) opinion, institutions are not only themselves the result of a selective and adaptive process which shapes the prevailing or dominant types of spiritual attitude and aptitudes; they are at the same time special methods of life and of human relations, and are therefore in their turn efficient factors of selection. Therefore, Veblen (1898b) deemed institutions as unserviceable ceremonial factors, and the evolution and social progress as a technique with instrumental features that continually overwhelm institutions. Veblen (1899) considered that institutions might be seen as a way of thinking about some relations and actions, and is (1914:52) a widespread existing mind-set among human beings. In brief, an institution is the accumulation of history and an adaptive product of past that can seldom cope with current requirements (Veblen 1899).

There are many groups that benefit from existing institutions and have been regarded as *absentee owners* (Veblen 1904), e.g. kings, clergy, knights, or merchants, etc.: they hardly do any productive work but symbolic work to maintain and enforce existing institutions. After institutional changes, Veblen (1899) deemed that people have to be adaptive to the new institutions through new processes. Subsequently, the new means of living will be redistributed and the consequences of re-distribution hardly ever occur in favour of the collective. Veblen (1899:127) then went on to distinguish institutions and economic structure into two classes: institutions of

acquisition (pecuniary) or of production (industrial). The former categories have to do with business and serve either individual or non-individual economic interests whereas the latter are concerned with industry. Therefore, the latter class is not often recognized as an institution. In my opinion, these institutions can be defined as favouring those *absentee owners* rather than the rest. The former institutions are made by or for those *absentee owners* and therefore have effects upon those for non-*absentee owners*. Commons (1934:xxi,679), after Veblen, emphasized the importance of actions of transaction, property rights, and organizations, and (1931 ;1934:679) defined the social relations in capitalism as the relations of transaction. Because there are many interest groups in a society, there always will be many conflicts of interest. Therefore, it is essential to set up institutions to establish the regulation of actions and harmonise all parties within the transaction (Commons 1934). He deemed that scarce resources cause conflicts of interest among organizational members. These conflicts therefore induce institutional changes in order to eliminate the conflicts.

In my view, Veblen (1898b) took a prejudiced view of institutions regarding them as unserviceable ceremonial factors. He chose to ignore that institutions are the foundation of social life that guide and mediate conflicts and consequently assure stability for society. Furthermore, Veblen (1904) asserted that institutions were made by or for those *absentee owners*, who hardly do any productive work but only symbolic work in order to maintain and enforce existing institutions. In my opinion, Veblen implicitly indicated that institutional changes can be manipulated and therefore distort the re-distribution of social resources to benefit minor people. However, Veblen overstressed a holism that hardly links individuals with society, and inappropriately regarded the individual as the passive recipient of institutional change because the main body of economic activity is individual. Commons only defined social relations in capitalism and ignored those in other economic systems, e.g. the command economy, socialist market economy, and mainly focused on how to eliminate the conflicts rather than why scarce resources cause conflicts so that he might possibly understand the relationship between scarce resource and institutional

changes. Thus, *OIE*'s argument is not sufficient to explain institutional changes in China.

Besides *OIE*, there are scholars in the new version of institutional analysis (*NIE*), e.g. Coase, North, Williamson and other followers in the *Rational Choice Institutionalism* (Campbell 2004:8-12). The New Institutional Economics (*NIE*) mainly modifies the *Conventional Economics* presumption of institutions, such as cost-profit analysis, game-theoretic approach (North 1990:15,18-19) but keeps the legacy of *Conventional Economics* – the economic individual. Apart from that, many *NIE* scholars examine institutions in the pattern of decentralized research, e.g. property rights (Alchian 1965b,1965a ;Alchian and Demsetz 1972); agency of the internal organization (Jensen and Meckling 1976 ;Jensen 1994); and transaction costs (Cheung 1969,1970 ;Williamson 1980 ;1981,1986,1988). Nonetheless, they (except North) mainly take the market economic institutions as given and then focus on specific types of organization and the formation and change of corresponding institutions.

As argued, not every individual is rational and will always pursue maximization. Commons (1936) argued that an individual is not an economic man, who is assumed to have sufficient knowledge of the relevant aspects of his environment that are unrealistic in the real world because of the exorbitant costs and time. Likewise, Williamson (1996) argues that the economic man to whom hyper-rationality is often attributed, does not exist in the real world. He (Williamson 1975) asserts that an individual is possibly rational, his or her rationality is limited by the ability to receive, store, retrieve, and process information and to convey knowledge or feelings understood by others. In this sense, people are within a bounded rationality that puts limits upon the ability of human beings to adapt optimally or satisfactorily to complex environments in the pursuit of maximization of self-interest but with cognitive limitations (Williamson 1975). Therefore, the concept of maximizing personal interest is inadequate for application to the China's transition and the emergence of HNWI's.

North (1973b ;1981,1990) indicated that institutional changes for human beings within a general theoretical framework are supported by and interrelated with three basic parameters: property rights, state, and ideology. In contrast to holism, many *NIE* scholars (Commons 1931 ;Williamson 1986 ;North 1990 ;Jensen 1994 ;Lin 2005) asserted that individual rationality does not essentially imply collective rationality because it is in the interest of each individual to seek the most favourable result for him or the maximization of self-interest. Therefore, conflicts between different personal interests and transaction costs of institutional restructuring will arise (Pejovich 2003). Likewise, new formal rules often begin with the process of a legal culture (Sunstein 1992-1993:918) that has solid judicial protection of individual rights indicating that the primary mechanism of control is coercion (Di Maggio and Powell 1983). These new rules therefore create behavioural incentives that are not in tune with prevailing informal rules and, in turn, increase the transaction costs of enforcing new formal rules. In this regard, ideology becomes a practical tool for reducing the transaction costs and providing services for new institutional arrangements.

Regarding transaction costs, North and Wallis (1988) considered that in the long run transaction costs will decline while economic growth increases. Coase (1937), Williamson (1985:15,211), Wallis and North (1986) all asserted that the criteria for selecting appropriate proxies and the tendency of institutional change is to reduce transaction costs. It seems that transaction costs can explain any economic situation whatsoever. However, transaction costs differ as a consequence of differing physical attributes of inputs and outputs of differing institutional arrangements, and of differing sets of stipulations that require varying efforts in enforcement and negotiation (Cheung 1969). The transaction cost is therefore inconsistent and unpredictable in transitional countries due in part to varying institutional arrangements. In brief, when changes in formal rules are in accord with the prevailing informal rules, the incentives they create will tend to reduce transaction costs and free up some resources for the production of wealth. In other words, when new formal rules conflict with the prevailing informal rules, the incentives they

create will raise transaction costs and reduce the production of wealth in the society (Pejovich 2003).

There has never been any formal rule (law) in China that has been an expression of popular will; in contrast, it has been shaped by different understandings of the relationship between state and society (Weede 1990:1). In this sense, an efficient ideology, which is adaptable enough to secure the loyalty of new groups and the counterpart of older groups (North 1981), is arguably the best way to administer this country. For example, the CCP exploits ideological propagandas to maintain efficiently the state's legitimacy by giving limited and selective autonomy to entrepreneurs in order to retain economic growth and reassure conservatives' discontent.

Likewise, there are theoretical gaps in the New Institutionalism. For example, Coase (1974,1984,1988) ignored income distribution but laid stress solely on the impact of legal rights arrangements on efficiency. He asserted that income (or wealth) distribution is the middle link of institutional change and therefore neglects the relationship between rights and income distribution as well as the impact of income distribution on resource allocation. Coase (1960) assumed that there is no impact on demand and allocation of resources while legal rights could have an effect on income distribution. He disregarded the income effect arranged by legal rights. As a result, Coase ignored the conditions of wealth accumulation in institutional change. In other words, Coase focused on the institutional arrangement and its impact on efficiency; therefore, he barely considered the negative effect of resource allocation on wealth distribution owing to his own presumptions. On the other hand, Alchian and Demsetz (1972) paid more attention solely to the effects of property rights on resource allocation instead of on income distribution. In China, property rights are defined and implemented by the CCP and therefore become truncated; only the CCP and associated individuals can successfully transform resources to wealth regardless of property rights. Davis and North in their institutional changes study (1970) deem positive gain itself as the reason for institutional arrangements but do not lay emphasis on the distribution of positive gain that will have effects on consequent

changing institutional arrangements or not.

State or government, as any organisation, cannot implement any policy per se, and has therefore to entrust this specific function to agents, the bureaucrats or officials in different hierarchies (Jensen and Meckling 1976). By this logic, I need to discuss Organisational Institutionalism. These agents, bureaucrats and officials in any organisation are individuals, who are prone to maximize self-interest as much as possible (Buchanan and Tullock 1962 ;Mueller 1976 ;Tullock *et al.* 2000) even under constraints and encountering limitations (Friedman and Friedman 1980 ;Williamson 1985). In other words, these state agents may try to pursue the maximization of self-interest with cognitive limitation and bounded rationality because they are human beings as well (Williamson 1975 ;Simon 1991 ;Anderson *et al.* 1998). Government, as argued, is intrinsically unable to remove imperfections, which exist in any economic system between individuals and firms, that have to be corrected by individuals, who are free to adapt themselves to changing conditions of demand and supply (Tullock *et al.* 2000:xi). Therefore, government, in all respects, is often inefficient in making premature policy interventions that are unduly prolonged (Tullock *et al.* *ibid*:xi), to cure social problems but in fact only benefit interest groups at the expense of the mass majority. This argument exactly explains China's economic reforms, the essence of which is the political survival of the ruling elites that act as the rent protection in critical economic sectors (Pei 2006:96). Buchanan and Tullock (1962), two prominent organisational institutionalists, assert that by choosing diverse common rules, dissimilar political institutions will create different social wealth distribution. This statement exactly explains why some people exploit their relationship with reigning elites to effect institutional change that makes favourable resource distribution, consequently becoming HNWI's in China.

Economists regard human beings as primarily concerned with their own interest whereas political science assumes political actors are mainly concerned with the public interest; thus, economists amended this bifurcated view of human behaviour and applied the analytical framework of economics to political science (Tullock *et al.* 2000:5). In my opinion, these economic and political actors correspond to the same

kind of people but in different sectors who engage in economic activities and in politics; therefore, their behaviours have equal motivation in both sectors. Olson (1971,1993) puts the emphasis on the collective activities and individual activity that can be more appropriate for explaining the situation in transitional China. Olson (1971:33-34) indicates that members of small groups can be more effective than their counterparts in large groups because of the free-riders phenomenon (Olson *ibid*:33) and have a more substantial portion of collective goods than in large groups, without relying on coercion. Olson's contention appropriately explains how small interest groups (elites) in transitional China need no coercion and spontaneously perpetuate the survival of the ruling regime because of their collective benefit. This assertion justifies my presumption that collective benefits produce a symbiotic relationship between the ruling elites and economic elites (HNWIs).

Some scholars (Romer 1990 ;Nee 1991 ;Dewatripont and Roland 1992 ;Yang 2004) regard China's transition as one of gradual and partial reforms, which are considered as organic reforms. For example, Zhang (2003) asserted that spontaneous institutional changes in China are regarded as evolutionary reforms on several counts: (1) there is no artificial and consistent target in China's reforms; (2) these reforms are step-by-step and from-easy-to-difficult; (3) many reforms in China are not top-to-bottom or instructional. Presumably, the uniqueness of partial reforms in transitional China is in response to Hayek's *Evolutionary* perspective (1998:293-294) that institutional change cannot be consciously and rationally man-made to order. In contrast, the entire process of gradualist reforms in transitional China might be less artificial but that key-links within them are largely distorted by political or social elites, who play vital roles in many crucial reforms in the decentralized power structure (Nee 1991 ;Solnick 1996 ;Stark 1996 ;Yang 1996b ;Walder 2003,2004). In other words, these misguided changes of key-links have significant impacts on the direction and tendency of institutional changes. Therefore, to generalize China's economic reforms by employing the *Evolutionary* framework is, in my view, a blinkered approach (Royston 2004), i.e. using a closed system to model an inherently open social world .

In my opinion, no single school within institutional change theory can explain China's transition and elites' behaviours adequately without synthesising with other theories. For example, Zhang (1996,2003) considered that institutional change in transitional China is spontaneous and not man-made. However, he neglected many key-links that were critically disturbed and influenced by vested interest groups, e.g. Special Economic Zones, Contract Responsibility, Dual-Pricing System, etc. Some other scholars (Woo 1999 ;Lieberthal 2004:118-130;Shirk 2007:45;Shih *et al.* 2010:66) regarded these synthetic key-links as embodying the confrontation between conservative and pro-reform in China. Some scholars (Chen *et al.* 1992) note that three points should be emphasized with regard to institutional change in China. First, it is critical to realize that many of these reforms are enabling reforms. Second, many reforms have followed a "*fait accompli*" pattern. Third, many reforms remain unsanctioned. That is to say, central government authorizes local initiatives but does not promise the achievement of their intended effect, sanctioning important reforms only after they had become widespread. Therefore, such authorization and consent are deliberately triggered because central government is unable to envisage the results.

Because of these considerable debates in relation to institutional change, Scott's (1995:Ch.3) three major institutional paradigms – the rational choice, organizational, and historical paradigm, may further facilitate this research. The efficacy of these paradigms is obvious from a wide range of fields, e.g. the account of cultural organization (Di Maggio 1991:267-292); the account of economic organization or modern corporations (Williamson 1985 ;Fligstein 1990); the account of property rights (Barzel 1989); the account of economies and states (North 1990); and the account of economic policy (Hall 1986). These diverse approaches are underpinned by differing rationales and consideration that reflect the diversity of institutional change theory. The point is, however, not to focus upon their different approaches but their distinctive dimensions. If I apply North's argument to China's transitions, the emphasis will fall on the constraints on human behaviour at the expense of considering the logic of procedure, ethics, and morality, let alone the pursuit of personal benefit. Therefore, it is appropriate to consider institutions as the outcome

of struggle and negotiation (Campbell 2004:1) that reflect the resources and powers of those who made them and affect the distribution of resources and powers in a society that clearly displays the status quo of contemporary China.

Regarding the three major paradigms of institutional analysis, there are extensive and contentious debates about which is the best approach in terms of analysis (Di Maggio 1991:1-40;Thelen and Steinmo 1992:28;Kiser and Hechter 1998). To avoid being limited to any one of these paradigms, a synthesized approach is proposed that can complement and reconcile these paradigms leading to a more comprehensive approach to institutional analysis. First, I will examine institutional change through these three different paradigms. Second, the cause and reason of institutional change must be identified. Third, a distinction must be made between ideas and interests in terms of institutional change. Consequently, I perceive the all-purpose assertion of maximized utility or self-interest from rational choice institutionalists, which does not offer a reason but rather a rationalization because utility or interest in itself is not a driver of institutional changes.

Some scholars (Rutherford 1994:Ch.3;Langlois 2001) mentioned that these micro-level individual actions give rise to institutions motivated by maximization of personal utility, based on the logic of maximizing benefits relative to costs. From this perspective, institutions are built to advance actors' self-interests. Therefore, rational choice institutionalism, as Rutherford (1994:4) argues, is oriented toward the more abstract, formal, individualistic, and evolutionary. However, actors will create institutions to maximize their interests that may not come about owing to uncertainty and time. When uncertainty arises, an actor may not have enough time to collect sufficient information to make clear goals and maximize individual interests. Consequently, the normative and cognitive scripts not only constrain actors' behaviours but also effectively enable their actions by providing actors with guidance (Clemens and Cook 1999).

Unlike rational choice institutionalists, many organizational institutionalists, e.g. Scott and Meyer (1994) and Thomas *et al.* (1987), produce empirical studies in

which behaviours and formal structures of organizations are defined by their institutional environments. They consider that organizations will seek legitimacy from their environments to ensure their survival even when they deviate from mandated objectives. Some organizational institutionalists (except Selznick, who focuses solely on individual organization) extend their theoretical coverage to all organizations that share a common environment. These organizations, which are in the same institutional environment, tend to adopt similar structures and practices and reproduce themselves over time (Jepperson and Meyer 1991:145). Therefore, the phenomenon is distinct from rational choice institutionalism, which states that actors will instrumentally maximize their benefits relative to costs, because organizations try to conform to their environments. From the perception of organizational institutionalism, actors not only respond to normative pressure in their environments but also stress cognition, that depends on taken-for-granted scripts, habits, and routines. Through these normative and cognitive scripts, actors therefore interpret their institutional environment (Scott 1995:Ch.2).

In fact, the intention of individuals plays a vital role in creating new institutional arrangements in China. However, I need to unpack the reasons why people want to influence institutions. As rational choice institutionalists argue, the individual desire to perpetuate institutions is favourable to the retention of self-interest. Nonetheless, it may not be attainable or only at exorbitant cost. Therefore, from one country to another, institutions will ultimately change and follow different patterns, which can be evolutionary, gradual, punctuated equilibrium, or other formats⁹ (Veblen 1898b ;Hayek 1978 ;North 1990), within a given period. Because institutions reflect the distribution of power and resources, those individuals, who have the rights to distribute resources and power at their disposal, can distort any originally benevolent institution.

⁹ There are diverse arguments from various scholars (Veblen 1898b ;Zhang 2003) that state decent institutional change can only be an endogenously evolutionary process instead of the artificial, or “spontaneous order” and instead of “deliberate design” (Hayek 1978). However, on the one hand, we cannot yet confirm that institutional changes in China are spontaneous or deliberate. On the other hand, we cannot make sure any suitable institutional change is completely evolutionary or spontaneous.

In China, the status quo resembles that of a market economy system, which is implemented and translated on clear and disjointed political restraints. In contrast, partial reforms in this country continue to re-define the institutional parameters, which were set by the previous command economy and the enduring CCP. Thus, any institutional innovation in China may put an end to persistent institutional parameters, perpetuated by existing interest groups. In other words, former institutional parameters cannot cope with the pace of emerging economic reforms, and market efficiencies will be reduced and generate speculative opportunities or institutional holes (Yang 2004). Many institutional legacies in China continue to be derived from the practice of previous socialism whereby the influence of the party-state exerts a strong inertia in the period of transition. This specific phenomenon resembles the *path dependence* idea (North 1990:94) and continues to strengthen the privileges of China's elites¹⁰. Therefore, strong and privileged interest groups and commercialized local governments will endeavour to hamper equal distribution of the benefits of economic growth throughout society, thereby rendering futile the CCP's strategy of trading economic growth for people's consent to its absolute rule (Yao 2010).

Under this odd circumstance, many good or refined institutional innovations, which can benefit most people, are deliberately blocked or postponed in China if these constructive improvements make it more difficult for privileged groups to continue to access their economic benefits, e.g. the first Land-Use Right (LUR) was auctioned in Shenzhen in 1987 but the nationwide auction was not enforced until 2004. The reasons for deferring the nationwide LUR have mainly arisen in two dimensions (Foldvary 1998 ;Lau *et al.* 2000 ;Ding 2003). First, after decentralization, local government has to raise a sufficient budget to afford the local infrastructures and boost local GDP growth; thus, opaque land transfer can be a significant economic resource to assist ailing finances. Second, obscure land transfer can, to a large extent, help local bureaucrats to acquire an extra budget in their private coffers and that

¹⁰ History matters in terms of path-dependence because what actors do today is shaped by what they did yesterday (Bassanini and Dosi 2001:41,43,47). Institutionalists refer to path-dependence as a process by which contingent events or decisions result in the establishment of institutions that persist over long periods of time and constrain actors' options (North 1990:93-95;Powell 1991:192)

turns into corruption and embezzlement subsequently, or embezzlement of state assets in disguise (Lang *et al.* 1995).

Up to now, I have examined the *pros and cons* of different institutional change schools that reveal a high level of indifference to dependence on external essential resources. In my view, Veblen and Commons ignore that privileged individuals, or the leisure class (Veblen 1899), are not passive recipients of institutions and they will exploit external resources to effect institutional changes, which may consequently benefit themselves and cause conflict with the entire society. Coase deems that legal rights, e.g. property rights, could solve the issue of income distribution; however, those agents enforcing legal rights are highly likely to be affected while their essential external resources are exploited by privileged individuals. Davis and North (1970) argue that people seek positive gain, which should bring in more opportunity to the entire society, and consequently change current institutional arrangements in order to increase self-interest. However, they hardly refer to the truth that people possess asymmetric negotiating power, which will make new institutional arrangement biased towards those people who can capitalize on external resources. In my view, institutional changes consist in the changes of and transfer of various rights, which can alter or create the rules of the game within society. Furthermore, there always are some people exerting external resources (power) to change or affect current institutional arrangements in order to increase their personal positive gain: environmental constraints really affect internal organizational dynamics (Pfeffer and Salancik [1978] 2003:xix). By this logic, the dependence on and exploitation of external resources play integral roles within institutional change. Therefore, to integrate resource dependence theory into institutional change theory is meaningful and essential to my research.

3.2.2 RESOURCE DEPENDENCE THEORY

Institutional changes have been occurring fitfully since the late 1970s in transitional China as a last resort to the then hesitating leaders. Those rural reforms initiated in the early 80s provided a baffling success to the then Chinese government and sustainability to the then political leaders. Consequently, those ruling elites applied

those quasi-rural reforms to urban areas. However, those reforms hardly attained similar results as their rural reforms predecessors. Meanwhile, exertions from HNWI's over state wealth and social resources were simultaneously afoot. While institutions were varied in urban areas, they were exploited to halt any effort to transform the oligarchic-exclusive market into a liberal-inclusive market, in order to remain prosperous in the competition-oriented market. This particular phenomenon is in line with Tolbert's (1985) assertion that a stable flow of scarce resources from external sources determines the survival of individuals or organizations. This stable flow of resources, however, may soon be exhausted since resources are finite, and widespread requests in any institutional environment shared by isomorphic constituents in the same organizational field (Di Maggio and Powell 1983 ;Polit *et al.* 2001) results in costly and scarce resources (Leblebici *et al.* 1991 ;Pfeffer 1992 ;Pfeffer and Salancik [1978] 2003). In this circumstance, constituents have to innovate to acquire alternative essential resources (Leblebici *et al.* 1991 ;Pfeffer and Salancik [1978] 2003) thus avoiding costly scarce resources and thereby changing the current settings of the standard. By that logic, the resource dependence theory could provide an adequate theoretical premise for explaining the institutional circumstances under which major economic actors operate (Guthrie 1997 ;Sherer and Lee 2002).

Resource dependence theory suggests that no matter how self-sufficient in resources organizations are, how well institutional arrangements organizations are made, and how much authoritative power organizations possess, they will depend on other individuals or organisations for certain essential resources they themselves need, temporarily or permanently (Pfeffer and Salancik [1978] 2003:2). In other words, any resource obtained externally creates dependency on the external source of essential resources. Any individual or subunit of an organization that is best able to cope with critical organisational uncertainties, will come to have relatively more power inside organisations (Perrow 1970) and exploit that power to ensure their existing privileges. In this sense, social actors will always vie for scarce resources to achieve their goals and make themselves competitive within the same standard (organisation, society, state). Therefore, that competition for scarce resources are

likely to be the cause of institutional change (Sherer and Lee 2002), or resource dependence, from my perspective, will have serious effects upon consequent institutional changes and vice versa.

Because organizations always rely on others to acquire essential resources, organizations may therefore, try to reduce their dependence on external resources and search for the means to assure the acquisition of those resources that are significant in relation to the survival of those individuals or organizations. Therefore, they attempt to capture alternative resources and may consequently depart from the standard, which is shared by the constituents of the organizational field making the essential resource more scarce and costly (Leblebici *et al.* 1991 ;Pfeffer 1992 ;Pfeffer and Salancik [1978] 2003). In this regard, only those organizations that have the legitimacy to vary from the standard, or alternatively, are prestigious or sufficiently high status, are enabled to be different (Rogers 1983:288). These organizations, as Sherer and Lee (2002) argue, are able to develop and disseminate technical rationales for their innovations because they have the legitimacy to differ, and create legitimacy for those who follow (Tolbert and Zucker 1983).

Different organizations have been vying with each other for similar essential resources in the same institutional environment that can be marked as a best practice conferring legitimacy on organizations (Meyer and Rowan 1977 ;Di Maggio and Powell 1983 ;Tolbert and Zucker 1983 ;Leblebici *et al.* 1991). In China, after the 1990s, the most significant institutional changes were effected or imposed by these economic or political elites and most Chinese people had no right to participate in the process of making new institutions. Therefore, most ordinary people in China become passive recipients of new institutions. The aforementioned statement corresponds to the proposition of Pfeffer and Salancik ([1978] 2003:114) that organizations will try to expand control over vital resources through vertical integration, and attain dominance, consequently increasing power in order to reduce the uncertainty generated from the competition of vying for external essential resources and finally diversifying the dependence on others. Arguably, legitimacy and the origin of the scarce resource are vital parameters driving institutional

changes in response to the standard (institutional environment) (Scherer and Lee 2002).

Except for tangible and intangible resources, the source of these essential resources can be endogenous and exogenous occurring in response to change (Leblebici *et al.* 1991). The endogenous resources can be secured within the organization and the exogenous ones can be acquired externally; nonetheless, both resources eventually become scarce and costly because they are finite and in large demand in the same institutional environment. Although organizations may have internal access to endogenous resources, the increasing demands on them in response to the standard required will be rapidly exhausted. Therefore, this exhaustion will also lead organizations to seek external resources and those exogenous scarce resources will likewise have results. In the circumstances, organizations seek more autonomy (legitimacy) to adopt alternative resources, which are less costly and available to them, to avoid facing the resource scarcity.

Those alternative resources may not be in response to the criteria of existing standards and may tend to change existing institutional settings, permitting organizations to get more power through the alternative resources and over the constraints from existing the standard. Therefore, organizations, which have the autonomy to legitimize the alternative resources and new institutional settings, can depart from previously accepted standards and consequently accomplish the institutional change process. However, there are many organizations in the same institutional field (a standard) trying to adopt their alternative resources, which are exclusively cheaper and available to them while the previous resource has become scarce and costly. In Fig 9, the available and cheaper alternative resource to organization A may not have the same effects on organization B. Thus, organization B will also try to make its alternative resource, which is exclusively cheaper and available to organization B, become legitimized. In this regard, the autonomy and power of organization A may become a constraint on organization B because there should be only one standard in the organizational field (institutional environment).

As argued, organizations not only vie for scarce resources but also the legitimacy of their exclusive alternative resource.

The aforementioned argument vindicates the argument that institutional change theory barely elucidates institutional changes comprehensively without incorporating the resource dependence explanation. Additionally, the resource dependence perspective describes how organizations vie for resources in a standard context in order to become more competitive. In my view, if organizations cannot acquire sufficient resources to become competitive in this way, they will try to reduce the uncertainty confronting the institutional field by seeking autonomy to employ alternative resources and consequently get sufficient power to legitimize the process. The process of seeking-autonomy manifest in contemporary China is that people manipulate political power to retain their existing privileges.

As argued, organizations need legitimacy to adopt alternative resources to replace existing scarce and costly resources, and therefore legitimacy becomes a force for constraining change and pressurizing organizations to act alike and organizations at the margin are likely to innovate first (Di Maggio and Powell 1983 ;Leblebici *et al.* 1991). Tolbert and Zucker (1983) argue that early adopters of alternative resources provide the legitimacy for these resources and other organizations are then under pressure to adopt it; however, they are unable to explain in what ways early adopters of the alternative resources are able to be different. If organizations are at the margin that means they are much less competitive in the standard context, and this being the case, they may be the most eager ones to innovate but with relatively poor autonomy to legitimize their alternative resources. Therefore, they should be the ones least successful at innovating, let alone legitimizing the alternative resources unless through other intense processes, i.e. revolution. Therefore, those parameters, which can successfully connect legitimacy with early adopters who employ alternative resources, need to be established.

In terms of those missing parameters, the concept of privilege may throw some light on this matter (Rogers 1983:115). Rogers mentions that early adopters with high

prestige will possess the legitimacy to try innovations and employ alternative resources that have not yet been legitimized. In other words, those individuals or organizations use their prestige or status to achieve success in creating and disseminating new technical rationales. For example, many reform policies in China were actually conducted by elites before they were approved or after they were sanctioned to cease by the higher authority, e.g. the prohibition of public housing allocation was initiated in 1998, but many privileged state institutes (bank, military) continued to allocate public housing to high-ranking staff until 2000. This example explains how an organization with prestige is the one best placed initially to facilitate change. Therefore, those people, who are at the margin, may legally use alternative resources by connecting with those prestigious people with the result that power imbalance and mutual dependence will be derived from this connection.

Nonetheless, Pfeffer and Salnick ([1978] 2003:38) do not specifically describe power imbalance and mutual dependence. In my view, the notion of power and dependence can be traced back to Emerson's (1962) classic volume on power-dependence relations. Emerson indicates that the power capability of A over B is the inverse of B's dependence on A in a simple context where there are only two of them in the organizational field. He conveys, nonetheless, an unprecedented concept that power is not an attribute of any social actor but a property of social relationships and that there should be an object for that power. If we say that a HNWI in China has power, for example, it is not a complete description unless we say this specific HNWI has power over ordinary people, bureaucrats in the low-hierarchical level, or other less powerful economic entities. Moreover, power is not an attribute of HNWI but a property of a specific social relationship. Once the object is a high-rank state agent, HNWI is no longer powerful but is subservient to the high-rank state agents.

From Emerson's argument, I therefore derive two concepts that A's dependence on B is dependent upon (1) A's need for resources that B can provide and (2) the availability of alternative resources to A. Therefore, it implies the power capability of A and B should be considered simultaneously, and two distinct dimensions of power, power imbalance and mutual dependence, are derived from the dyadic

approach to resource dependence (Casciaro and Piskorski 2005). Power imbalance indicates the difference in the power of each social actor over the other. This can be defined as the difference between two actors' dependencies, or the ratio of the more powerful one to the lesser actor (Lawler and Yoon 1996).

Because the process of role-playing is dynamic, therefore, those varying determinants have decisive effects on social transition. I have applied the power-dependence relations, which vary along with reforms, from Emerson's volume (1962) to the scenario in transitional China (*see Fig 14*). Before economic reforms were initiated, the role performance of the bureaucrat was simple owing to its rudimentary attributes and a smaller number of demands. In society at that time, they only needed to perform the tasks assigned by the higher hierarchical authority owing to the planned economy system. Apart from that, there was very little economic incentive to attract bureaucrats let alone any embezzlement or infringement of state assets. Therefore, bureaucrats at the same hierarchical level had very low levels of dependence on each other because none of these bureaucrats could change the demand-and-supply of critical resource in the economic system at that time (*see Configuration 1 of table 2*).

In the early reform era, bureaucrats in China were not acquainted with the newly introduced market economy system; therefore, they had to learn it from people familiar with market operations. Some bureaucrats had therefore grasped the institutional holes (Yang 2004) due in part to the partial reforms, which introduced ownership rights, even though truncated (Alchian and Demsetz 1973), and therefore became the bureaupreneurs (Bouckaert 2007). However, they remained insecure and had to rely on political power to secure legitimacy for their social status, and recently accrued wealth. Therefore, the power imbalance between these bureaupreneurs and bureaucrats increased as well as the higher mutual dependence between them (*see Configuration 2 of table 2*).

Following those initial reforms, some bureaupreneurs became HNWI's owing to an enhanced acquaintance with the profit-oriented economic system and accrued

substantial wealth along with the economic reforms. Meanwhile, ownership rights have been legitimately defined; however, those associated ideologies, enforcement mechanisms, legal systems, and financial systems remained behind the pace of the newly defined property rights. In this regard, structural and institutional gaps (institutional holes) remain between these parameters (*see Fig 10*), and deliberately exploited by those powerful vested interests (HNWIs and associated political elites). These institutional gaps provide interest groups with large opportunities to access wealth and privileges. However, these gaps, lacking in regulative, normative, and cultural-cognitive institutional supports, make for vested interests, wealth and privilege in an unstable situation. Thus, HNWIs have more dependence on bureaucrats than entrepreneurs and therefore cause a higher power imbalance in addition to a deeper mutual dependence (*see Configuration 3 of table 2*).

I have explained that organizations need to acquire resources from other organizations in order to survive in an organizational field (Tolbert and Zucker 1983 ;Pfeffer and Salancik [1978] 2003:2-3), with two subsequent scenarios. First, some organizations will become more influential in the environment because other organizations rely on them in order to acquire essential resources. According to a previous illustration (*see Fig 9*), the power imbalance between them is at a high level as is mutual dependence. In this regard, these influential organizations become the external controls for those vulnerable counterparts and consequently affect the internal power arrangements of these less powerful organizations. The second scenario is a derivative of the first scenario that less powerful organizations will accordingly try to be more autonomous in order to get rid of the external controls exerted by those powerful organizations. In the circumstances, less powerful organizations may try to acquire and legitimize the alternative resources that are available and less costly to them. The second scenario essentially corresponds to the previously mentioned dynamic process (*Fig 9*).

I therefore perceive three notions that: first, power actually resides in the other's dependency; second, the availability of alternative resources refers to the low transaction costs to the vulnerable organization; and third, the constraints from

powerful organizations impede vulnerable organizations in acquiring alternative resources. The first notion is self-explanatory. The second notion is hidden and has been implicitly argued. If vulnerable organizations have alternative resources that are associated with low transaction costs, the vulnerable organizations' dependence upon the powerful organizations will be accordingly reduced. For example, many people in China have had to pay very high prices for private housing from 1991 onwards (*see Fig 11*). For example, if a public affordable housing project is reasonably priced, in sufficient supply, practically designed, and in a comparable location in comparison with private housing projects, ordinary people will consequently reduce their dependence upon private housing and pay less to acquire it. In this regard, private housing developers will have less power over the ordinary people owing to available and inexpensive alternative resources. This will result in the third notion that powerful organizations will try to sabotage the supply of alternative resources or delegitimize the alternative resources in order to prevent the vulnerable counterparts acquiring them. For example, China's private housing developers deliberately restrict the budget of, postpone the development of, or even cancel projects of public affordable housing by means of manipulation, lobbying or bribery (Lee 1988 ;Walder 1992 ;Wu 2001 ;Zhang and Fang 2003 ;Quigley and Rosenthal 2004 ;Chan *et al.* 2006 ;Doling 2006 ;Quan 2006 ;2007) to keep their excessive profit.

Following previous discussions, I assert, unfalteringly, that resource dependence theory provides the premise for a wide range of actions that organizations take in response to the changing institutional environment. The aforesaid first and second scenarios, indeed, correspond to the '*power use*' operations and '*power restructuring*' operations (Casciaro and Piskorski 2005) respectively. The '*power use*' indicates that power imbalance facilitates the influence of powerful actors over power-disadvantaged actors and allows the former to extract a higher share of exchange surplus from the latter. That is to say, powerful actors have external control over less powerful ones (Pfeffer and Leong 1977 ;Burt 1980 ;Provan *et al.* 1980). The '*power restructuring*' operations, which can be unilateral or bilateral, aim to change the power-dependence structure within an environment (Casciaro and

Piskorski 2005). The unilateral power restructuring operations correspond to the aforementioned second scenario that tries to reduce the demand for the given resource and cultivate the alternative ones. Nevertheless, unilateral restructuring operations claim that organizations are allowed to change their dependencies without involving the other party. This situation may only happen if the organizations that want to change are the powerful ones. If vulnerable organizations try to change their dependencies on the powerful organizations, they will face constraints from the other party that are the powerful organizations. This will lead the situation towards the third notion that powerful organizations will try to sabotage the supply of alternative resources or delegitimize the alternative resources in order to prevent the vulnerable counterparts acquiring them.

Casciaro and Piskorski (2005) propose bilateral power restructuring operations as supplementary to unilateral restructuring operations and deem that organizations will often have to engage in bilateral restructuring of dependencies. However, the two-scenario pattern does not explain the relationship between power and dependence comprehensively. I therefore develop another scenario, *realized power*, in chapter 6 (see Fig 23) that corresponds to the previously mentioned third notion or bilateral restructuring operations.

From the preceding discussion, I argue that the major contents of the resource dependence theory consist of the following substance. First, organizations try to pursue more resources to protect their interests and reduce or avoid those given impacts from the institutional environment that arise because of the uncertainty and scarcity of essential resources. Second, the sustainable competitiveness of organizations is derived from good management and accumulation of scarce resources. Third, as Pfeffer and Salancik ([1978] 2003:xiii) argue, the emphasis on power as opposed to economic efficiency distinguishes resource dependence from transaction cost theory (Williamson 1975), which focuses more on the inter-organizational relationship amongst actors- namely buyers, sellers, and competitors. Lastly, because those valuable and scarce resources are finite, those organizations,

which can acquire more of these resources, will have more autonomy and will influence other organizations lacking in the scarce resource.

No organization is self-sufficient and has to exchange resources with the environment (Pfeffer and Salancik [1978] 2003:2). Therefore, resource dependence theory stresses organizational power and deems that an organization as a political actor that will attempt to obtain advantages from government agents either through direct monetary support, protecting their market from foreign or domestic competition, or from competition from substitute goods and services (Pfeffer and Salancik *ibid*:213-214). Apart from external representation, resource dependence theory also considers internal factors of organization. It deems that people who can best cope with critical organizational uncertainties, including how to acquire scarce resources, come to have relatively more power inside the organization (Perrow 1970 ;Pfeffer and Salancik [1978] 2003:xix,6). These people consequently exploit power to ensure that their perspective in their best interests prevails, and that they become more important than other members do in the same organization. This argument should be virtually extended to the relationship between different organizations and the organizational field (the standard).

Based on the aforesaid examinations, I affirm that the organizational environment is not a substantial object rather it is created through a series of interactions (choices, comprehension, and participation) between participants, organizations and institutions that vary from one organization to another. In this sense, organizations may change, manipulate or control other organizations to obtain essential resources in order to keep themselves independent and competitive. In other words, organizations may try to control or change organizational environmental factors, e.g. legitimacy establishment or participation in political activity, to ensure their competitiveness in the organizational field. In conclusion, I argue that resource dependence theory consists of three layers of meaning: first, organizations and their surroundings are inter-dependent; second, organizations can also adjust their dependencies on the current environment through acquiring alternative resources instead of following the existing institutional environment; third, the existing

institutional environment should not be regarded as the unchangeable and objective truth (*see Fig 14*). Next, I will examine the main parameters in resource dependence theory and institutional change theory and their relationship to China's transition.

3.3 MAIN PARAMETERS

In section 2.4, I have espoused the idea that institutional changes in China are clearly connected to the transition in property rights, which is devised in a way that maintains the legitimacy of the CCP and sustainability of the ruling elites. Therefore, to discuss these parameters will enhance the researcher's knowledge regarding this specific institutional environment, e.g. property rights (Demsetz 1964,1967 ;Cheung 1968 ;Williamson 1980 ;North 1994 ;Barzel 2000), transaction costs (Cheung 1969 ;Williamson 1979 ;Williamson 1981 ;North 1987 ;Lin 1989 ;North 1991), *path dependence* (North 1994 ;Stark 1994 ;March 1996 ;Knight and North 1997) and associates. Nevertheless, there is one parameter that has been overlooked, namely legitimacy, which is not only concurrently significant in both institutional change theory and resource dependence theory but is also a nexus between these two theories. As Scott (1991:169) mentioned, legitimacy explains and justifies the social order that makes institutional arrangements subjectively. Parsons (1995) also argued that legitimacy was a significant concept for understanding organisations and their relationships regarding the social environment. As argued, vying for external essential resources may be the cause of institutional change. However, without legitimacy, people can hardly legitimately exploit external essential resources to retain their existing privileges because the constituents have consumed society's resources and will be evaluated according to the usefulness and legitimacy of their activities (Pfeffer and Salancik [1978] 2003). In the circumstances, to understand how an individual or organization obtains legitimacy during institutional change becomes an essential task.

Following legitimacy, I turn the focus to rationality, which should be explained in terms of the limitations of human abilities and of the surroundings in which they live. A fundamental controversial argument in *Conventional Economics* is that human beings are rational. In my view, a human being may not be egoistic but can only be

altruistic to the extent that the returns on his or her altruism outweigh the costs of being altruistic. Rational persons, on the other hand, will not repeat the same fault if the perceived benefits from amending the mistake outweigh the costs (Downs 1957). However, individual rationality is bounded by the ability to receive, store, retrieve, and process information in order to make knowledge or feelings understood by others (Williamson 1975). Consequently, transaction costs will arise in the face of other opportunists or specifically, free riders. Maximization of individual usefulness, in this sense, will not be guaranteed in this complex environment. The other reason for the failure to achieve maximization is that obtaining all information is costly and technically not always possible.

Nonetheless, economic growth cannot exist without market regulations derived from and supported by institutions that are a series of rules, a process of tenacity, have criterion of morality and ethics that are set up to constrain individual behaviours in terms of the pursuit of the maximization of wealth and individual utility (North 1981). North (1990) gave the definition of institution as the “rules of the game”, both formal rules (constitution, law, government decrees) and informal constraints (norms, conventions, and codes of conduct) that provide the structure for human interaction. He also argued that the institution is set up to minimize transaction costs and to facilitate market exchange within the state. Because state is as an instrument for achieving collective action (Buchanan and Tullock 1962) or defined as a team of people seeking to control the governing apparatus by legal means (Downs 1957), with the result that people can hardly ensure that every new institutional arrangement will be made to benefit most people instead of maximizing individual (government official) interests.

Until now, legitimacy, transaction costs and rationality that make up institutions have been examined and they will unavoidably be transformed along with external institutional changes. However, different tendencies exist concurrently within the same parameters that is both old (well established) and modified (newly initiated) intrinsic qualities. Institutional changes may therefore replace habitual nature with a new one; therefore, institutional change can be characterised by competition between

the old and new characteristics of the parameters. In transitional China, reform is difficult to implement because of previous socialist constraints, e.g. political and cultural together with the protection from previous socialist legacies. Thus, there is superficial institutional change that may not be intrinsic change or improve the nature of the parameter. In this regard, only some apparent institutional changes can emerge in transitional China. Therefore, I argue that HNWIs could largely rely on and intensify these habitual parameters favourable to the retention of their wealth and privileges rather than improving their competitiveness outside the structure of social constraints that might alter the social sphere.

There are certain parameters and phenomena mentioned in most schools of both theories (see table 3); therefore, they need to be mostly examined if they correspond to the coding of interviews. In table 3, I have noted that *path dependence* appears in different schools of institutionalism. Apart from that, dependency is also another vital parameter in resource dependence theory. Some other parameters are present in resource dependence theory and different schools of institutional change theory, i.e. legitimacy, scarcity, power, and property rights. Subsequently, I will contemplate the meanings of and the relationship between these parameters in following paragraphs.

Path dependence is essentially a process consisting of many parameters that is widely cited among different schools of institutional change theory. Therefore, some institutionalists consider that *path dependence* is based on feedback, increasing returns, and choice within institutional constraints (Alt and Shepsle 1990:1-8; North 1990:94; Nee 1998:1-16) or maintain that once people are on a particular institutional path they tend to stick to it rather than jump onto another one (North 1990 ;Arthur 1994). In fact, *path dependence* is not only a vital process in institutional change theory but also relates to many parameters within resource dependence theory. Powell (1991:191) contends that *path dependence* is a process starting from power exercise, inter-dependency, taken-for-granted assumptions, and becomes path-dependent. In this process, *path dependence* not only simply is a process but also relates to power, dependency, and normative and cognitive ideas and vice versa, during its evolution. As a result, once path dependence is embedded, powerful

people will be enthusiastically committed to ensuring its survival (Stinchcombe 1968:107).

Enlightened by Powell's notion, I consider that *path dependence* may result in isomorphic organizations. That is, once a particular practice is deeply rooted in an organizational field, changes in any one aspect require change in many other elements (Thompson 1967:145). Therefore, altering institutional rules involves high switching costs and many political, financial, and cognitive considerations opposed to such changes (Stinchcombe 1968). For that reason, many organizations in the same organizational field will resemble each other and become isomorphic. Because they are isomorphic, it is difficult for them to become more competitive in the same organizational field. These isomorphic organizations consequently have to vie for essential resources, which will make them become more competitive. As has been argued, there are many essential resources shared by constituents (isomorphic organizations) of the organizational field, and consequently the resources become scarce and costly (Leblebici *et al.* 1991 ;Pfeffer 1992 ;Pfeffer and Salancik [1978] 2003). Consequently, organizations may try to innovate with the aim of acquiring alternative resources (Leblebici *et al.* 1991 ;Pfeffer and Salancik [1978] 2003) that avoid the costly scarce resources and therefore change the current settings of the standard (*see Fig 9*).

Based on the perspective of resource dependence theory, prestigious social actors normally have the legitimacy to try innovations and employ alternative resources that have not yet been legitimized (Rogers 1983:115). That is to say, in the development process of *path dependence*, power-exercise can legitimize the alternative options and lock them into the organizational field. These lock-in options are mandated by their environment to ensure organizational survival because external agents, who are legitimized to a coercion, supply these locked-in options (Powell 1991:190). Consequently, these options become taken-for-granted assumptions and ultimately reach the status of the development process of path dependence. The obvious question is how people effectively and economically maintain existing institutions

without fear of them being changed. In addition, if they have been changed, to what extent are there constraints between alternative options and existing institutions?

The power-exercise is either the starting point of a path dependence process or the diverging point of a new process: individuals or organizations search for alternative options or continue enhancing existing path dependence processes that start from here. For example, if essential resources become scarce and costly, organizations may seek alternative resources to make them competitive. In this regard, only powerful individuals or organizations with prestige will have the legitimacy to try innovations and employ alternative resources that have not yet been legitimized (Rogers 1983:115). However, the speed with which a switch to alternative options can be made, depends on how scarce the essential resource is; on how influential the power exercised is; on how deeply rooted the taken-for-granted assumptions are; on how competitively individuals or organizations vie for resources in the same institutional environment; on how strongly constrained the employment of alternative resources is; and on how expensive the switching cost is. All those factors interlock with each other tightly in the development process displayed in figure 14. In the left cycle of this figure, the introduction of private property rights triggers a power-exercise because individuals and organizations may maximize their interests legitimately. For example, Chinese peasants, after the economic reforms, were privately rewarded for their hard work that used to be allocated and distributed collectively. Arguably, with the incentive and support of newly introduced private property rights, powerful people may legitimately maximize their utilities without additional effort; therefore, institutional changes in China consist of legitimacy, power (prestige), and property rights.

Before moving forward, it is worth recalling that the essential condition of the market economy is that of private property rights, which not only allows and enforces each individual's right to own private property but also respects the rule-of-law broadly by facilitating and enforcing private contracts, by preventing deliberate coercion, and by inhibiting arbitrary taxation (Rajan and Zingales 2004:129-130) and should be thoroughly respected. The essence of private property rights, *de facto*,

conflicts with the basic ideological ideas of the CCP that are open-ended interpretations of normative and cognitive institutions embodied in communal ownership, the proletariat, and the end of waged labour and private property (Lagasse 2008). Because the essence of property rights is a form of monopoly giving the owner of an asset the exclusive right to use the asset and exclude others from its use (Rajan and Zingales 2004:131), the indispensable element in ensuring the security of private property rights may not be completely abided by in China even though private property rights are allegedly promulgated.

By that logic, property rights may be the dividing line between the command economy system and the market competition system, as it maximizes motivation for self-interest, and causes inequality of wealth redistribution in transitional countries. Property rights, as Nellis (1999:v) mentioned, can only be feasible under well-functioning legal and administrative institutions and vice versa. In a society without well-defined property rights, ordinary people cannot identify who owns what, resources cannot be turned into valuable assets, descriptions of assets are not standardized and cannot be easily compared, and the rules that govern property vary from one place to another (De Soto 2000:11). It is because of the exclusivity and alienability of private property rights reflecting the market value and privileges of ownership (Cheung 1970 ;North 1990:28;Barzel 1997:21) that these rights are particularly sensitive to reflecting scarce resources.

In my view, private property rights may not be either the cause or reason but the trigger for the embezzlement and infringement of public assets. This embezzlement or infringement may occur because of ill-conceived attempts to maximize the monetary value of production violating the most cherished and precious property rights (Block 1977). However, what is the cause of these ill-conceived attempts? For example, flipping a switch or lighting a candle is the cause of making a room brighter. The reason is that people tend to make themselves more comfortable in a brighter place. However, before deciding how to make the room brighter, actors must make a preliminary decision concerning the quantity of resources she or he is prepared to invest in looking for the brightness. In terms of the expected cost and

benefits, as Elster (2009:27) argued, a lot of optimal investment depends on the actor's preferences and beliefs. If an actor cannot afford the electricity bill, she or he has to stay in a dim room with candle lighting. In the worst-case scenario, the actor may have to stay in a darkened room because she or he can afford neither the electricity bill nor candle-light. Likewise, it is very important to develop a multi-faceted understanding of the constituent elements that compose private property rights in order to understand the process of the pursuit of their personal utility.

With regard to reason, actors are acting with the future clearly in mind rather than the present. Or, people are moved by the realization that if they do not act now, the future will be worse than the present (Campbell 2004:7). If property rights are not only the watershed between the command economic system and market competition system but also the trigger for inequality of wealth redistribution in transitional countries, they may have polarized different consequences. What exactly do property rights consist of? Hernando de Soto (2000:42-53) has developed a unique outlook regarding the constituents of property rights that are: first, fixing the economic potential assets; second, integrating dispersed information into one system; third, making people accountable; fourth, making assets into tradable commodities; fifth, networking people, and sixth, transaction protection. Before economic reforms, there were public assets with different economic potential values that could be transformed into active capital with adequate institutional arrangements, namely property rights and market jurisdiction. As de Soto (ibid:42) argued, people can separate out the resource from its restrictive context and concentrate on its potential value by transposing the physical assets into artificial representatives, such as contracts, deeds, securities, titles etc. These artificial representatives (institutional arrangements), unlike the physical asset, can be falsified, manipulated, and infringed by those people who have control over the production of the representative article. Once they are institutionalized, they have a direct and profound effect upon the remaining constituents of property rights. Under these circumstances, such physical assets will be allocated and distributed legitimately but unfairly, especially in transitional countries. Therefore, the legitimization of property rights in transitional China becomes the trigger for inequitable wealth allocation and distribution.

Consequently, ownership, transaction, and legitimacy of properties, which are allegedly unfair, will be unwaveringly defended through the widespread connections of powerful people. Therefore, the false move (the emergence of property rights) in the first place will result in undesirable and unforeseen consequences along with the path dependence process.

After step A in figure 14, the process of path dependence becomes complex. The existence of bilateral dependencies in the organizational field are formed as mutual dependencies (Bacharach and Lawler 1981). Apart from that, different individuals and organizations have various dependencies upon each other; therefore, power imbalance and mutual dependence are interrelated to a complicated extent. Following step A, step B not only consists of interdependence but also of the outcome of power struggles at different hierarchical levels. At this stage, the institutional environment remains unstable and power struggles emerge sporadically until the shaped normative and cognitive constraints emerge restraining social actors' behaviours in terms of the pursuit of their interests. In step C, the taken-for-granted assumptions or normative and cognitive constraints have been shaped and therefore restrain the behaviours of actors in the same organizational field. In the circumstances, actors become isomorphic to be rewarded for being similar to other actors in the organizational field. This makes it easier to conduct exchanges, to attract support, to maintain legitimacy, and to be eligible to make profits (Di Maggio and Powell 1983). Following this step, most of these taken-for-granted assumptions are established, supported, and promulgated by those powerful individuals and organizations that benefit from these prevailing conventions. Thus, social elites may be both the architects and products of the formal rules and informal expectations they have helped to develop (Powell 1991:191). At this moment, the path dependence process is nearly accomplished and those established institutional arrangements further enhance the power-exercise that helps the development of this process.

Because some organizations are unable to acquire sufficient resources to become competitive in the organizational field because of costs, time, and formal and informal constraints, they try to seek autonomy by employing alternative resources,

and consequently obtain sufficient power to legitimize the process. Therefore, prestigious organizations will have the legitimacy to try to innovate and employ alternative resources that have not as yet been legitimized (Rogers 1983:115). These prestigious organizations therefore develop alternative path dependent processes as seen in the cycle on the right in the above figure. For example, the establishment of SEZ in the early 1980s was not simply decreed by Deng Xiaoping or other reformists but arose from competition between light industry and heavy industry departments, provincial government and central government, and conservatives and pro-reformists (Shirk 1993 ;Nathan and Tsai 1995 ;Tsou 1995 ;Shih 2004a ;Shih 2009). In the early 1980s, Deng was trying to introduce large-scale economic reforms but Chen Yun and other conservatives, who represented the then interest groups such as powerful party cadres and heavy industry, opposed Deng's radical idea given that it would be time and resource heavy in budget, land, and power. Therefore, utilizing his remaining influence, Deng started introducing SEZs in distant offshore areas, e.g. Shenzhen, Xiamen, Shantou, and Hainan. Under the circumstances, Deng's new reforms could only be implemented in these SEZs and light industry before they came to prevail nationwide. Nevertheless, Deng's reform programs have eventually surpassed the previously prevailing conservative policies and are now broadly accepted in China.

Representing these different parameters, figure 14 illustrates the relationship between resource dependence theory and institutional change theory embodied in the following process (*see Fig 14*). In phase one (initiation of institutional change), state agents try to maximize their personal interests and the state gives up its economic goals in favor of political ones. As an important function of political power as is allocating economic resources, they need external resources to keep themselves in power (phase two). Because of the complex interdependence between HNWI and government agents, their relationship shifts from hierarchical allocation to reciprocal dependence (phase three). Then, this shift turns institutional change and resource dependence into an inter-dependent cycle.

The consequence of de-institutionalization is the collapse of old institutions which

made up the previous hierarchy that social actors used to access power and resources (Hsu 2007:5) (*see Note 20*). However, any de-institutionalization may signal the re-emergence of re-institutionalization. In turn, new institutions of hierarchy emerge and produce new inequality in transitional China. A social hierarchy comprises three types of institutions (Grusky 2001:3): the first determines the worth of various forms of capital; the second determines the allocation of valued forms of capital across occupations and positions; and the third links individuals to different positions that generate unequal access to valued forms of capital. Arguably, there is an internal consumption (Fagen 1969) between old and new institutions which consist of different hierarchies in the transitional process. This internal consumption will consequently change those valued forms of capital consisting of economic capital (Remenyi *et al.*), social capital (*Guanxi*), and human capital (educational credentials and formal knowledge) which can be exchanged at different exchange rates from one society to another depending on the local institutions (Bourdieu and Wacquant 1992:99). In transitional China, political capital persists in importance (Walder 1995b); it can be converted into sums of money (economic capital) at a preferential exchange rate. For example, political elites who control the rights of resource re-allocation and re-distribution in transitional China can have public assets at their disposal without equivalent cost, e.g. dual-track pricing, opaque LUR acquisition, etc. As these valued forms of capital are essential resources, elites compete with each other in order to reach a dominant position within their surroundings and retain their existing privileges and wealth.

3.4 CONCLUSION

Institutions are man-made, dependable but not necessarily efficient structures that guide and mediate conflicts and therefore reduce uncertainty. By this logic, institutions become external forces assisting people to determine how to make sense of their world and act within it; therefore, any change of institution may re-define the sets of opportunity, re-distribute the scarce resources, re-allocate social wealth and re-position people's social status. Reforms have been under way in China since the late 70s that not only sustain the outstanding economic growth but also justify the legitimacy of the CCP. Because these reforms are mainly embodied in the economic

domain especially those property rights transition, China therefore is in the process of re-organising, re-distributing and re-allocating its resources and wealth, and consequently subsidises the interests of the emerging entrepreneurial class. Accordingly, the legitimization of these newly introduced property rights accompanying those partial institutional changes create a new social class: HNWI's.

Most theoretical institutional change perspectives cannot fully explain China's institutional changes, which manifest a high level of exertion of external power to affect or alter institutions. In contrast, only few of them implicitly indicate that the exploitation of external resources may cause institutional changes, e.g. Commons and North; however, they continue not to engage in any research that furthers study in relation to this manipulation. Additionally, most theoretical institutional perspectives engage in the discussion in relation to market economic systems rather than the particular socialist market economy. For these theoretical resource dependence perspectives hardly engage in the discussion of the causes and reasons, that trigger institutional changes from an economic perspective. Together these themes indicate the original contribution of this research in incorporating the resource dependence concept into institutional analysis with respect to China's transition and the emergence of HNWI's. Nonetheless, to understand China's transition is not an easy task for most researchers. This chapter not only enhances my understanding in relation to these themes but also justifies the synthesis of two different theories that helps me to ascertain my research questions, research method, and data collection. Next, I will have a discussion with respect to the theory and reality of China's transition.

4. THEORY AND REALITY OF CHINA'S TRANSITION

Following the literature review, I have identified that institutional changes in China had become the core of those hasty economic and social transitions since 1978. From a theoretical perspective, the rule-of-law (Hoff and Stiglitz 2005) constrains state power (Nee 1989 ;Mcfaul 1995 ;Barzel 2002) and comprehensive property rights (Demsetz 1967 ;Barzel 2000) form the premise of decent economic growth. However, none of these elements can be completely located in China, which has manifested outstanding economic growth for thirty years. Thus, there is a discrepancy between the theoretical propositions and the reality existing in China.

In 1949, the CCP emerged as a Stalin-style political party, pledged to eradicate the bourgeoisie and provide the proletariat with wellbeing. Nonetheless, Deng Xiaoping, in 1985, strongly advocated that some areas and some people should get rich first, leading and helping other regions and people to gradually achieve common prosperity; nonetheless, this idea has never yet been realized. In contrast, this ideological transformation has brought about unforeseen results, e.g. fast economic growth and huge social disparity, mounting sovereign-wealth and a dwindling middle-class, and increasing GDP index and mounting housing costs. Therefore, these consequences accompanied by those devised formal rules make China's institutional environment peculiar and incomprehensible.

This chapter is an extensive study not only complementing the literature review that proves no single conventional theoretical perspective can explain those peculiar and incomprehensible institutional changes in China that are comprehensible only through a synthesized theoretical viewpoint, but also explaining how ideas can evolve into formal rules that have effects on further reforms in China. The result will inform the research methods, data collection, and research questions.

4.1 IDEAS AND LEGAL CORRELATES

How and why entrepreneurs' ideas can be developed into formal rules in transitional China. In this section, the evolution of formal rules will be scrutinized exhaustively. There are four different types of ideas and their varying effects on decision-making

and institutional change: paradigms; public sentiments; programs; and frames. Additionally, there are two types of ideas and associated effects: (1) ideas can be underlying and implicit in the assumptions embedded in the background of decision-making debates, (2) ideas can be either cognitive or normative consisting of values, attitudes, and identities (Campbell 2004:93-94). In the first scenario, ideas are either institutions in the sense generally intended by organizational institutionalists or theories located in the foreground of these debates, where they are explicitly articulated by decision-making elites. In the second scenario, cognitive ideas are outcome-oriented, but normative ideas are not. I therefore illustrate these four types of ideas in table 6 (*see Note 24*) and indicate that the frames are normative concepts located in the foreground of decision-making debates, enabling elites to legitimize their programs and institutional changes (Campbell 2004:98). However, one must know that frames can be manipulated and used to block institutional change or to facilitate it. For example, after 1949 the CCP had shut down private businesses and subsequently confiscated their assets in line with proletarian ideological beliefs. These beliefs that prohibit capitalists and the free market economy privileging the few to concretize their property rights, and resulting in relative poverty in the large under-capitalized sector incapable of leveraging their own assets (Marx [1906] 1990:880), were essentially trying to eradicate private businesses. After the economic reforms, there were contradicting results for some decision makers and the same programme identity through different normative frames (*see table 6*), and private companies (capitalists) therefore were recognized as the engine of China's economy and highly welcomed by CCP, and they shared seats with long-standing Communists cadres after 2001.

I have illustrated two first-level concepts in the foreground: programs and frames. They are underlined by those second-level concepts: paradigms and public sentiments, in the background. As such, these second-level concepts are constraints that limit the range of options for decision makers while they are trying to tackle their political, economic, and organizational problems. In this regard, decision makers may test, try, and revise their first-order concepts to fit into the existing constraints imposed by dominant paradigms and public sentiment. Thus, decision

makers may ignore the evidence of a poor fit with their cognitive assumptions (Jones 1999), interpreting the evidence differently and consequently making different choices (Knight and North 1997). For example, in the early days of reforms, the CCP and governments at different hierarchical levels within China ignored the emergence of mushrooming private businesses and remained proletarian-oriented in terms of their cognitive assumptions. Therefore, in order to survive, private businesses operated under the guise of the “red cap”¹¹ in different areas and industries, e.g. collective enterprises, towns-and-villages enterprises (TVEs), joint-venture enterprises, etc. To this extent, the dividing line between what is public and what is private in transitional China is often still impossible to detect (Mcgregor 2010:197,203). Consequently, public assets could be embezzled by state agents without any difficulty under the circumstances of vague property rights. That is to say, institutions can send both positive and negative signals concerning individual behaviours that restrain some individual, groups, or class of individuals on the one hand, but on the other, they can liberate other individuals, groups, and class of individuals (Bromley 2006:46). Apart from that, markets cannot exist without an underlying institutional structure that indicates ownership; what is a cost; and who must pay whom in certain situations (Bromley *ibid*:46).

Denzau and North (1994,2000:35) argue that ideologies are the shared framework of mental models that groups of individuals possess, and that these provide both an interpretation of the environment and a prescription as to how that environment should be structured. Following this logic, ideologies in part provide both interpretation and prescription for market institutions that define ownership, transaction costs, and transaction rules. The essence of legal relations (Hohfeld 1913,1917) among individuals in society that are characterised as a right-duty, privilege-no right, power-liability, and immunity-no power (*see table 7*) may be distorted in transitional China because of the pervasive proletarian ideology and dictatorship. This research has mentioned the ‘*Legal Correlates*’ that are the essence of legal relations among individuals in a society. However, those social elites, who

¹¹ Red cap means that private enterprises are de facto run by private individuals but de jure are owned by collective or semi-public bodies. Sometimes, private owners even registered their companies under SOEs in order to get protection.

derive political control from the pre-reformed era, enjoy privilege, right, immunity, and power corresponding to the right, privilege, power, and immunity of government (*see table 8*). Under these circumstances, they enjoy privilege and immunity but shift their duty and liability to the ordinary populace (*see Fig 18*).

The newly introduced property rights realized the economic value of properties in those ex-Communist countries. Without these innovative property rights, most essential resources were actually valueless in Communist society. As for property rights, it means that owners of property can rely on the authorities to protect their claim to the benefit stream – her or his property (Alchian 1965a ;Demsetz 1966,1967 ;Bromley 2006:56). In contrast, property rights, which are allegedly proclaimed in transitional China after the reforms, remain the privilege of some elites in a society but not essentially available to all members of the society. In this regard, the embodiment of this particular legal correlate pertains to privilege and no right can be perceived between those elites and ordinary people. That is to say, property rights become the privilege of some elites. Therefore, elites may undertake action that will be detrimental to ordinary people but need hold no particular concern for their interests in the face of such interference. For example, in transitional China, some economic and political elites together, directly or indirectly, deliberately exert state coercive power to expropriate rural land and demolish existing urban housing with no corresponding equitable compensation (Li 1997 ;Zhang 1997 ;Ding 2003).

To sum up, an application of new ideas can promote institutional change, but once new ideas become institutionalized, their implementation capacities tend to become constrained in path-dependent ways as long as institutions remain stable themselves. In Communist countries, as Lenin ([1918] 1992:26) describes, there is “as much centralization as possible” at the top of the system, allowing self-appointed professional revolutionaries to dictate downwards to a working class considered incapable of rising above their day-to-day struggles. In this way, the ideological beliefs at the top of the system will shape paradigmatic and public sentiments. In this regard, these paradigm and public sentiments constrain the frames and programmes of these Communist countries and consequently define the nature of

policy-making. Without serious change in the institutional environment that will undermine political stability, there will be less possibility for rectifying existing institutions in communist countries. In addition, the normal legal correlates may be different in Communist countries in which property rights cannot be disinterestedly maintained and protected because those inveterate ideological beliefs will influence the interpretation of those rights. Therefore, these distorted legal correlates only favour those people, who have privileges and immunity to shift their responsibility and liability to other people, even though reforms are allegedly made. For that reason, any reform program will be implemented in the circumstances given by political elites in a communist country. Thus, reform becomes a mechanism for helping political elites achieve their goals, such as securing political legitimacy, stabilizing the political situation, and overcoming political dissidents.

4.2 THE EMERGENCE OF HNWIS

Previously, those ideas, which have been developed into institutions, were fully scrutinized. In transitional China, these new institutions, which have been constrained by paradigm and sentiment that were actually shaped by ideological belief, are the legacy of ex-reformed China and compromise the truncated property rights, opaque legal system, and party-state regime. By this logic, legal correlates are inevitably distorted in a China that only favours those people with privileges and immunity to shift their responsibility and liability to the mass majority. For that reason, HNWIs emerge, of course, as a consequence in China within a short period.

In China, the early HNWIs had one common characteristic- that is, either being able to control resource re-allocation or having access to political protection from their parents, relatives, or close friends. However, there remains insufficient knowledge behind the emergence of HNWIs. Rational institutionalist may argue that the pursuit of maximization of individual utility and wealth plays a crucial role in terms of the HNWIs' emergence and this is just how it should be (North 1981,1990:45). This argument, however, is a generalization rather than a comprehensive reason explaining their emergence in China (Campbell 2004:13-17). Thus, it is necessary to trace back to the early reforms in rural China since the late 1970s.

Before peasants were formally allowed to work in part for themselves, household responsibility (*Da Bao Gan*) had been actually implemented for years in many rural areas (Chen 1981:100;Lin 1988). In this sense, Deng Xiaoping could do nothing but legitimize the *fait accompli* rather than made any innovative arrangement or prohibited it. This legitimization did get instant results in increased food production that also benefited urban areas. From 1978 to 1988, the GNI (Gross National Income) per capita was increased from US\$ 228 to US\$ 370 and there was an average growth rate of 5.4% (*see Fig 19*). The result of early rural reforms in China was successful because the then rural population made up 80% of the Chinese population. The success of household responsibility in rural areas also increased the demand for consumer goods and other products. Therefore, the majority of the Chinese population began to prosper accordingly and the success of the reforms made them into a vested interest group.

Consequently, reformists deemed this success as concrete evidence of effective economic reforms. Therefore, Deng prompted reforms in urban areas and industrial sectors along similar lines. From a Marxist perspective (Marx *et al.* 1991:283-293), peasants are referred to as labourers in the household responsibility, and farmland is referred to as the subject of labour (objects transformed by labour) (*see Note 26*). Correspondingly, factories are referred to the instrument of labour in the industrial sector. Deng and pro-reformists tried to utilize these factors of production efficiently in urban areas. Hence, the government adopted a similar schema to the countryside arranging to lease or contract the operation of industrial and commercial enterprises. In fact, whatever the leasing schema in urban areas or household responsibility in rural areas, China's government *de facto* ignored those unfavourable property rights and retained control over the ownership of agricultural, commercial, and industrial properties that had been confiscated from previous land owners and business men in 1956 (Wu 2002).

In China, those leasing- or contracting-plans in urban areas are similar to their counterparts in the West that lessees keep what is earned or absorb losses after the

payment of a specified amount. As for household responsibility in rural areas, lessees of the leasing schema can be individual, collective, corporate groups, party cadres, and bureaucrats as well. Notably, there are distinctions between leasing- and contracting- arrangements. The leasing arrangement often is used for small and nearly failing enterprises. The contracting arrangement is otherwise employed for medium and barely sustainable SOEs. Unlike the party cadres in the countryside, who can benefit from the re-allocation and re-distribution of land and other local enterprises, their counterparts in urban areas or industrial sectors gain relatively less profit. Therefore, urban and industrial cadres adopted alternative approaches to accessing benefits through the negotiations of contracts with lessees, who were subordinates, colleagues, or superiors of those negotiators from government of all levels. They (the negotiators) can agree to easy terms if there is any personal interest in exchange. In many cases, the lessees can become wealthy in a short period through beneficial terms and consequently develop into early HNWI's (Goldman and Goldman 1988 ;Chen 2003a ;Dickson 2003 ;Batjargal and Liu 2004 ;Djankov *et al.* 2006).

Policy-making is a process of writing, re-writing, or changing current rules, regulations, and laws. Occasionally, it is about confirming informal rules and practices as recognised and legitimate assumptions (Campbell 2004:24,92). As some scholars (Thelen and Steinmo 1992:3) argue institutions constrain and refract politics but they are never the sole cause of outcomes (*see Note 27*). In fact, China, with its regular political class struggle and socialist slogans, has been under normative political guidelines since 1949. For example, the harmonious society (*He-Xie She-Hui*) movement is not only about fusion of different social classes but also means dictatorial rule of speech, thought, and behaviours (*Yiyantang*) (Fan 2006). That is to say, a society, which is full of discontents, will become harmonious only under the strangulating regulations.

Up to now, I have explained that policy-making programmes in China, at first, will not directly make changes to institutional arrangement but play the role of a normative political guideline in China; in other words, there is a time lag between

initiation and enforcement. During this regulative vacuum, people may behave as March and Olson (1989:160) contend that:

Behaviours are driven by preferences and expectations about consequences, therefore, behaviour is wilful, reflecting an attempt to make outcomes fulfil subjective desires, to the extent possible.... a sane person is who is "in touch with reality" in the sense of maintaining consistency between behaviour and realistic expectations of its consequences.

Although there is no appropriate regulatory guideline in transitional China, the legal rules remain effective. Therefore, people will take the calculated approach (Chen 1981) to prevent any unanticipated and undesirable consequence.

Now, I am going to explore the distinctions between cause and reason for their emergence that is not as opaque as it previously was. In my opinion, cause is relatively comprehensible and more straightforward than the reason. As for cause, it indicates that officials at different levels of the bureaucratic hierarchy were able to infringe state properties at their discretion and in line with party interest owing to political and economic decentralization. In the meantime, private property rights were increasingly granted to the people who were then motivated people to pursue private interests enthusiastically. However, the juxtaposition of the market and command economies left officials directionless and with the leeway to exploit the incomplete reforms. Consequently, owing to the institutional loopholes incurred by incremental and partial reforms, bureaucrats are able to pursue private profits. Nevertheless, property rights and ownership matters in the transition can only be feasible under well-functioning legal and administrative institutions, and vice versa (Nellis 1999:v). Before economic reforms and with the exception of very few people in the highest bureaucratic hierarchical positions, most people in China were equally deprived and only had bleak private properties at their own disposal. In other words, when private property rights were legitimately granted to people in China, they needed real private properties rather than the previous insecure counterparts at their

disposal. Under the circumstances, people needed substitutes to be transferred to them through the newly introduced mechanism – private ownership. Inductively speaking, the new private properties at their disposal during the early reforms were definitely not the private properties they possessed before economic reforms.

Many scholars (Ding 2000c,2000a ;Bai *et al.* 2006 ;Bromley and Yao 2006 ;Chow 2007) consider that most of the collective-owned properties were *de facto* state-owned before the economic reforms. In addition, only state assets can be counted as valuable properties in the early stage of reforms. Coincidentally, the legitimate novel mechanism of private ownership, can be employed to transfer properties from other formats to privately owned ones, and is therefore imperatively essential. As for legitimacy, this mechanism can legitimize the acquisitions of state-owned properties. The privatization process can either be formal or informal, whereas the process may be forbidden or discouraged by central government (Ding 2000c). By this logic, these consents, attributed to political decentralization in the pre-reform era, were given to those transfers of state assets forbidden or discouraged by local authorities from time to time (Ding 2000a). On the one hand, state policies were actually becoming the instruments for legitimizing these controversial acquisitions of state properties through the deliberate distortion by authorities at different hierarchical levels; on the other hand, these policies helped people, who then controlled the state properties, to legalize their embezzlements. However, since the regulatory rules remain ineffective in transitional China, those who have rights approving or governing the privatization process can legitimize their personal benefits through reliable channels such as their next of kin, cronies, subordinates, colleagues, and successors, and soon legitimately became the first generation of HNWI in transitional China.

As for the reason that some people exploit the ‘given’ rights and consequently become HNWI, it is relatively complicated. Before the economic reforms and openness policy initiated in 1978, China was an enclosed society that had limited connections with international society. Those institutional pillars (Scott 1995:45) were designed to support the legitimacy of the Maoist-Communist system. After

Mao, Deng Xiaoping initially lacked regulatory legitimacy and was starved of endorsements from other senior party leaders and local cadres in order to overthrow political dissidents and launch his reform programme at the stage of the early reforms (Shirk 1993:23-25). Owing to the political constraints and legacies of previous unpredictable social conflicts in China, the supporting measures of normative and cognitive pillars were not secure when reforms were initiated in late 70s. In fact, after the end of Cultural Revolution along with Mao's death in 1976, the Chinese people lacked a normal cultural-cognitive environment, which could provide orientation and guidance to individuals while they constructed and dealt with the social reality of everyday life (Zucker 1977). People in China, as Scott (1995:36-38) mentioned, could and can only acknowledge the existence of the regulatory system without necessarily believing that the rules were fair or justified. By this logic, they can scarcely define appropriate economic goals and choose proper ways to pursue economic improvement.

Following the sequence of interminable significant social conflicts since 1950¹², both normative and cultural-cognitive pillars had collapsed, leaving only the regulative pillar, inappropriate to upholding the institutional environment at the outset of the reforms. Even now, the normative and cognitive pillars have not been fully restored. For example, China's companies have continued over the last decade to use prohibited ingredients in their products e.g. the melamine in baby milk powder, toxic soy sauce, remade waste cooking oil, lime flour, to name but a few. Whilst not saying that these prohibited products are only manufactured in China, which has the largest foreign currency reserve and is the second largest economy in the world, such illegal occurrences should not happen. By Scott's (2008:51) logic, I argue that there is instrumentality (regulatory logic) but limited appropriateness (normative logic) and orthodoxy (cultural-cognitive logic) in transitional China after the economic reforms. Thus, lacking in appropriateness and orthodoxy, people cannot define their goals and ways appropriately in terms of maximizing individual interests.

12 There were incessant large-scale social conflicts from early 1950, e.g. the Campaign to Suppress Counterrevolutionaries (zhenfan) in 1950; the Anti-Rightist Movement (Fan Youpai Yundong) in 1957; the Great Leap Forward (Dayuejin) in 1958; the Socialist Education Movement (Siqing Yundong) in 1962; the most notorious Cultural Revolution in 1966. In three decades, these irrational social conflicts led to the death of tens of millions of Chinese people.

Meanwhile, lacking in orthodoxy, people have lost the orientation and guidance to achieve appropriateness. I therefore assert that maximizing private utility could hardly be the reason for approaching private economic benefit.

Because of the continuing destruction of commonly held beliefs and shared logic of actions, people will largely pursue the instrumental aspects of newly introduced regulatory rules. For example, after the market economy was gradually introduced into China after the Cultural Revolution, people have consistently pursued personal interest. Owing to the absence of appropriate transformation mechanisms for appropriateness and orthodoxy between the command economy and market economy, the maximization of personal utility becomes the most vital purpose within the newly introduced economic system. Thus, the maximization of personal utility determines the corresponding appropriateness and orthodoxy, not the other way around. For this reason, people's only concern is about guilt or innocence rather than shame/honour and certainty/confusion regarding their activities of pursuit of wealth (Scott *ibid*:51).

After the reforms, 'getting-rich-quick' was advocated by the then supreme leader and became the overriding regulatory purpose in transitional China (Liu *et al.* 2001:34,83,89;Walter and Howie 2001:2). It indicates that expedience has replaced social obligation and was established in this transitional society. By aggregating all these scenarios, it is not difficult to comprehend why people maximize individual utility at all costs if they can hedge their bets in a legally sanctioned manner in transitional China. In the light of previous analyses, it can be claimed that the reason behind the emergence of HNWIs in transitional China turns on the absence of normative and cultural-cognitive pillars, on the regulatory pillar governing the institutional environment and providing the orientation and guidance for people. However, owing to the legacy of political constraints, the regulatory pillar is biased towards and implemented by those individuals with powers. Consequently, the biased regulatory pillar leads to an institutional environment that deviates from the norms.

In China, the CCP prioritises economic growth rather than other reforms in order to restore the devastated country to normality after the chronic ravages of social conflicts. Because of the destruction of normative and cultural-cognitive pillars during the previous social struggles in China, pro-reformists distorted the entire institutional environment through obstinate and exclusive focusing on economic restoration. Soon, only the regulative pillar can support the institutional environment, which is without suitability and orthodoxy. In my opinion, when Deng's regime started to introduce a market economy to replace the previous command economy system, it concurrently brought in the objective of 'getting-rich', which becomes the sole economic propaganda and the prominent regulatory purpose of government and people follow in its wake because of the missing normative and cultural-cognitive logics. Once the episode becomes pervasive in society and people regard it as given or habitus¹³, they will neglect normal binding expectations and constitutive schema only if their behaviours fulfil the requirement of regulative rules. From my perspective, previous accounts dilute the reasons why HNWI emerged in China after the economic reforms. In next section, I will explain which political environment incubates these HNWI in China.

4.3 POLITICS AND MARKETS IN TRANSITIONAL CHINA

As noted in the preceding section, regulatory logic replaces both normative and cultural-cognitive pillars of the institutional environment in transitional China. Consequently, people designing regulatory rules will set up binding expectations and constitutive schemas. In other words, people in power will control the coercive, normative, and mimetic mechanisms; therefore, the mass majority will regard these elites' expediencies as social obligations and shared understandings in China's society. For this reason, the institutional environment in China is sustained merely by the regulatory pillar that is solely controlled by powerful people or elites. I therefore argue that China's institutional environment is exclusively regulated by social elites, and their thoughts and behaviours are deemed as the norm in the society.

¹³ Habitus refers to the existence of a system of lasting and transposable dispositions which, integrating past experiences, functions at every moment as a matrix of perceptions, appreciations and actions (Bourdieu 1977:82).

By regulating this specific institutional environment in China, elites often maximize their individual utility through these rules, which is in the guise of formal rules, laws, and informal codes (North 1990:4;Scott 2008:52-53). Because of the uniqueness of China's institutional environment, arbitrating agents, party cadres, and political elites are often the same persons. Therefore, state authority, the coercive power legitimated by a normative framework that should be undertaken by a neutral third party, is frequently influenced by the individual utility of these third party agents, party cadres, and political elites because of the duplication of roles (Skocpol 1985:3-37;North 1990:54,64). By the power-dependence logic, political elites can therefore trade power for their benefits with other elites, and vice versa (Emerson 1962) (*see Note 28*).

Because consolidated political restraints are derived from the Communist legacy in China causing the market economic system to malfunction, people with power to allocate and distribute resources will have greater privilege in accessing economic benefits than do others. By this logic, politics deeply intersects with economy in the unparalleled arrangement that is the market economic system with socialist characteristics, i.e. the Socialist Market Economy. Following its implementation, this system has supplemented the centrally planned economy in PRC and contributed in part to the high growth rates in GDP during the past decades.

This section does not particularly focus on any specific institutional environment in China that promotes or inhibits this environment, but on detecting how entrepreneurs handle the subtle political-business relationship in this complicated atmosphere to retain their privileges consistently (*see Note 29*). By this logic, to have a comprehensive understanding of entrepreneurs' thoughts and experiences are surely required. Because these thoughts and experiences can unlikely to be acquired comprehensively through any literature source, a direct discussion with these entrepreneurs will be the best approach. In this regard, I had several interviews with entrepreneurs in order to collect adequate information. According to these interviews (Appendices 1-8), a businessperson is unlikely to get sufficient resources (both economic and political) to grow rapidly if they try to become politically

insulated. Thus, when people discuss the political-business relationship, the main issue should not be how far away from politics but how close to politics they can get without being pigeon-holed as a briber. From this perspective, the recipe for handling this subtle situation successfully is to get close to authorities without intimate friendship with certain bureaucrats, or doing so implicitly. In other words, they have to rule out any possibility of consideration with particular state agents.

In this research, I translate this subtle relationship through the GDP and its underlying constituents. Regarding the GDP index, to develop economies for local governments and departments, state agents desperately need enormous support from these economic elites. Further these demands change as the benefits given to these economic elites vary according to the changes in the macro-economic environment occasionally. For example, from the end of 2008, businesspersons paid lower LUR (Land-Use right) prices because governments were trying to revitalize the economy that had been affected by the Western Credit Crunch. Alternatively, they could get bank loans without difficulty at the end of 2009 as the government tried to raise domestic demands in order to improve the economy by retaining 8% annual growth rate of GDP. To most state agents, economic development is equivalent to excellent political performance and a consequent avenue to promotion. The political promotion often leads to two outcomes: (1) it means more controls over social resources, (2) it means that state agents can acquire more economic benefits in return. In other words, in the system of centralization and pursuit of high GDP growth rate, there is plenty of room for legitimate rent seeking in China.

In China, the introduction of private ownership rights was arguably the most significant cause triggering the emergence of HNWI's because of the exclusivity and alienability of private property rights reflecting the market value and privileges of ownership (Cheung 1970 ;North 1990:28;Barzel 1997:21). These rights are particularly manifest and reflected in scarce resources. Under many circumstances, institutional changes arising from previous institutional arrangements can no longer adapt to the re-distribution and re-allocation of scarce resources. Therefore, I split up the process of resource distribution into four stages (*see Fig 20*). First, the

motivation for institutional change is to pursue those scarce, essential resources. If resources are not scarce, people do not need to define property rights and everybody can have endless supplies of the resource. Because these essential resources are scarce, people who hold the scarce resource can therefore define the property rights and retain these essential resources. Other people who tend to acquire these scarce resources have to obey the given rights. Ultimately, people need new institutions (institutional changes) to acquire these essential resources or alternatives.

Second, as scholars (Pfeffer and Salancik [1978] 2003) argued, each organization's power is based on the other's dependence on them, not their own dependence on the other. By this logic, the greater the scarcity of the resource, the more the dependence on it will be. Whoever owns these scarce resources will have more power than others will have. Thus, owners of scarce resources have the most rights to increase or reduce the corresponding transaction cost; this will eventually have effects on relevant institutional changes. Thirdly, there are different demands for scarce resources in different periods; therefore, the scarcity of resource will vary accordingly. In other words, people who are able to effect institutional change vary from time to time. At the last stage, owners, who hold diverse essential resources from time to time, will become differently entrenched interest groups and construct different privileged levels and institutions in transitional society. The distribution process in China, however, is different from the figure 21. The market economic system was re-introduced in China in the late 70s because of then devastated economy and struggling of political power. However, the re-introduced market system was deliberately devised by political elites and different from other mature market economies in advanced countries, e.g. Japan, U.K., and USA (*see Note 30*).

Some scholars (Demsetz and Villalonga 2001) have argued that indigenous ownership rights cannot be incubated in an artificially made market. In other words, private owners in China never have full rights to make the desired allocation at their own will. The most useful ways of assessing the ownership right, as Demsetz (1988:21) argues, is arguably by examining two fundamental components: alienability and exclusivity. Alienability refers to the right to re-assign ownership to

someone else. It includes the right to offer for sale at any price. As for exclusivity, it refers to the right to determine who may use a scarce resource and including the right of the owner to determine whom else may use a resource.

Furthermore, because ownership is more valuable in some circumstances than in others, there are extra benefits to be gained by enforcing private ownership of scarce resources (Demsetz *ibid*:23). Therefore, people will endeavour to pursue the exclusivity and alienability of any scarce resource whether it is in the command economy or market economy. However, it seems that comprehensive exclusivity and alienability do not exist in China completely. For example, governments can confiscate people's properties without equitable compensation in a way that seriously contradicts the essence of alienability and exclusivity. Thus, people in China, on the one hand, try to secure private property rights at all costs. On the other hand, government can deliberately infringe such alienability and exclusivity. For that reason, searching for more political protection to secure existing property becomes significant to people in China.

As noted previously, to have private ownership rights is tempting in any economic system, and invariably induces people to possess the exclusivity and alienability of scarce resources. Once the values or prices of scarce resources are relatively buoyant, the intention to pursue exclusivity and alienability will become stronger. Even in a society with public ownership, people still try to implement exclusivity and alienability in a way, which is extremely different from those in a completely private ownership market, let alone the society with vague private ownership rights. For example, in a society with vague and weak ownership rights, exclusivity can be obtained through *de facto* use of the scarce resources. In other words, people consider the right of use as temporary ownership in that society. As for alienability, by using political power, powerful people can alienate ownership rights from specific people or groups. For example, in China, some people, who have actual use of public resources, can manipulate the political power to transfer these public scarce resources to themselves, relatives, cronies, and other such, e.g. privatization.

According to my interviews, there are some features in common among my interviewees. First, they are disgusted at a return to having the meagre lives that they had previously. Second, they regard that whatever they have today was bestowed on them by the state and the CCP, whether the processes are consented to or not. Finally, the state and the CCP deem the processes are acceptable and confer legitimacy on their existing privileges and wealth. They recognize and perceive that many of the acts, policies, and laws, which were promulgated by government and the CCP, are irrational and undesirable; nevertheless, irrational and undesirable regulations have not only arisen in China but in nearly every country and society. They therefore are not interested in the rationality and desirability of those regulations. As long as they fully obey and follow the decisions made by government and the CCP, they are fully convinced that they will be protected by the authorities and continue to retain our privileges and wealth.

In China, the CCP as a governing body stipulated in the PRC's constitution that its position is that of supreme political authority and its power is realized through its control of all state apparatuses and of the legislative process¹⁴. As many of my interviewees mentioned, from the Beijing Central Government to any small town house in Uighur, or from a conglomerate like the CNPC (China National Petroleum Corporation) to a trivial TVE, there always is a party cadre within any individual economic entity. In fact, within all SOEs, the party secretary *de facto* manages the enterprise together with top-ranked managers, or sometimes they themselves are these managers. Moreover, every decision ranging from daily administration to business development within SOEs has to be approved and recognized by its party secretary. In the best scenario, the general managers or chairpersons themselves are the party secretaries that mean they obtain the trust from the higher hierarchy in the CCP and will have great chance of promotion. Under this profound political penetration, it is easy for the CCP to influence and regulate any activity at any hierarchical level before and after reforms in China.

14 Under the leadership of the CCP and the guidance of Marxism-Leninism and Mao Zedong thought, the Chinese people of all nationalities will continue to adhere to the people's democratic dictatorship and follow the socialist road, steadily improve socialist institutions, develop socialist democracy, improve the socialist legal system and work hard and self-reliantly to modernize industry, agriculture, national defence and science and technology step by step to turn China into a socialist country with a high level of culture and democracy (the preamble of the Constitution of the PRC, adopted on 4th of December, 1984).

Because the party-state polity remains unchanged, bureaucrats continue to have effective controls over resource allocations and distributions, and the newly emerging private property rights are of course under the control of state agents. Owing to the previous political decentralization, local state agents therefore implement these mechanisms without restraint and at their own discretion. By this logic, many economic elites trying to emerge from this contradiction continue to have vague relations with political elites in order to retain their privileges of wealth accumulation. In this sense, the power-for-money cluster actually impedes the control from central government to local authorities.

By comprehending the relationship between the CCP and markets, I try to explore further the interactions of specific perspectives on the institutional environment in China. Markets cannot be sustained without the visible hand of government setting up norms, regulations, and assuring conformity to these rules (Minsky 1986:293) whether it is communist or capitalist. Therefore, ownership rights should not be assumed to be without constraint at all (Furubotn and Pejovich 1972) because it is exclusive. Without the visible hand, exclusive ownership can hardly be successfully implemented in any society. Thus, when we mention the exclusive benefits from ownership, we have to understand why state or authority enforces property rights because it involves the effectiveness of the protection provided by state (Alchian 1965b:243).

In my opinion, the state will not provide the protection of ownership without cost. Therefore, ownership rights, which are entangled with the state from the very beginning, are not exclusive and independent at all. People acquire the protection of the state through paying taxes because government is the only organization that can exert 'violence' legally (North and Weingast 1989 ;North 1990:33,49). The relationship between the state and ownership is therefore not different from any agreement or contract (Cooter and Ulen 2007:80). In transitional China, a property or resource that is state-owned or private-owned is often tangled. Because property rights are a bundle of rights, ownership rights in China are truncated and emerge as

part of the property rights taken by state. I therefore perceive that property rights in China, on the one hand, can only be successfully implemented with the protection provided by state; on the other hand, the intervention of the state may inevitably lead to the truncation of ownership. In transitional China, this contradiction is palpable because of the distortion in private ownership. Therefore, this conflict results in the *North's Paradox* (North 1981:25). In North's proposition, he deems that efficient arrangements of ownership play the key role in economic growth (North and Thomas 1973a). However, North also finds that efficient arrangements are only one potential consequence among many possibilities rather than the absolute one (North 1981:25,1990). He (North 1981:25) therefore raises the paradox that the state, on the one hand, tries to maximize its rent; on the other, it tries to reduce the transactional cost in order to maximize the social productivity. Because of this conflict, many but not all, economies are unable to retain continuous economic growth.

Habermas (1989:14-26) argued that a bourgeois public sphere can coordinate different private authorities and represents civil society as monitoring, governing, constraining, and resisting any activity from the state that will encroach on society. Therefore, a public domain is a counterbalancing mechanism between civil society and the state. Nonetheless, Habermas's logic cannot explain the distinction between France in 18th century and England in 17th century in terms of economy. For example, both civil societies were mature enough in these two countries in order to reach compromises; however, there were more conflicts in France than England. In my opinion, a civil society is necessary but not sufficient to arrive at a compromise between the state and civil society. Only the collective actions from newly emerging ownership rights and their owners are strong enough to force the state and its agents to protect these emerging rights and owners in order to retain their own benefits. In other words, the compromise cannot be reached at once. On the contrary, the state and civil society have to repeatedly proceed with institutional negotiation to make final political decisions (Mann 1984).

Taken together, I therefore argue that the counterbalance can merely be attained through dialogue, negotiation, and transaction between state and civil society. In

China, ownership has always been defined and conferred by state and its agents, therefore, the effects of truncated ownership rights (Demsetz 1988:18-19) are manifest in the implementation of private property rights because many ingredients of the private property rights have already been assigned to the state in the first place. Therefore, any further dialogue, negotiation, and transaction are not necessary at all. For example, many housing demolitions and expropriation of farmland caused by the notorious infringement acts have occurred in China after the reforms (Walker and Hin 1994 ;Zhu 1994 ;Chan 1999 ;Wu 2001 ;Ding 2003 ;Ren 2003 ;Zhu 2005), which is a consequence of the effect of the truncation of ownership and deliberate neglect by state.

After the establishment of the PRC, only SOEs and very few marginal self-employed businesses (*Ge-ti-hu*) existed in urban areas and the numerous People's communes prevailing in rural areas. These communes are not like their counterparts in other countries, e.g. New Zealand, Canada, Israel, and the USA (Staatz 1987:87-107). In contrast, they are based on state-owned organizations required to follow all kinds of instructions given by the state with regard to cultivation, purchase and sale, transaction, and immigration. The state therefore became the sole decision-maker, ruler, and beneficiary of this specific collective-owned economy (Zhou 1995). Under the circumstances, the state is no longer acting to protect and arbitrate in the ownership matters but to control the ownership. Interestingly, whilst the CCP controls property rights in the name of nation (*Quanmin*), they not only wipe out traditional ownership, but also eliminate ownership in general terms. Because the CCP controls all national economies, the most vital and exclusive institutional arrangements therefore become redundant. In addition, after wiping out the exclusivity of ownership, the trade of scarce resources (alienability) consequently becomes needless. In other words, the CCP eliminates the exclusivity and allows free access to the use of certain types of resources in the disguise of nationally owned resources. Thus, the CCP becomes the only owner of scarce resources but an entrenched interest group making all institutional arrangements in transitional China (*see Fig 20*).

To sum up, incomplete property rights have been artificially created and deliberately taken over by some state agents and party cadres, so that any further dialogue, negotiation, and transaction between government and civil society becomes pointless ultimately. In this regard, the invasive acts from government consequently give rise to truncated property rights and state agents can accordingly control most resources in the guise of a national economy (*see Note 31*). In the next chapter, I will tackle the difference between theory and reality of China's institutional changes and move towards some theoretical answers.

4.4 Conclusion

The previous chapter indicated that any single theoretical concept is unable to translate China's institutional changes adequately without synthesising complementary theory. In other words, neither a pure economic perspective nor institutional change theory can comprehensively explain the institutional changes in China. In this chapter, I have expounded how people's thoughts can be developed into favourable institutions and making them well off in a relatively short period after China's economic reforms. Therefore, I assert that China's institutional changes follow a compromised pattern because the reformists require support from leading social actors to sustain their political legitimacy; consequently, these reformists give benefit to those actors in exchange for their support. In short, those newly granted private property rights in China not only are manipulated by elites but also become a legitimate mechanism legally, converting public or disadvantaged people's assets into powerful elites because of a lack of corresponding institutional arrangements.

In chapters three and four, I have learned that there are various parameters actually affecting economic returns (*see Note 32*). The economy definitely is a significant factor affecting the trend of institutional change in transitional China. Additionally, social aspects, peer pressure, family influence, formal rules, ideological beliefs, and political constraints altogether have effects on the trend of institutional changes as well. Although Campbell (2004:157) mentions that prevailing beliefs legitimize particular social practices, and that these practices consequently provide a

justification for particular institutional arrangements suited to those beliefs and practices; however, this argument is inadequate to explain institutional changes in China. In many cases, prevailing beliefs in China do not legitimize the social practices. As has been argued, the normative and cognitive pace could not catch up with the regulative one after the reforms initiated in 1978. In other words, reforms in China are inconsistent with the then prevailing ideological beliefs.

This chapter argues that the crux of the matter is how and why the government/CCP regulate prevailing beliefs to suit for intended social practices. Reform in transitional China initially was at a slow pace but most people supported it because Deng and other reformists tried to protect everyone's interests (Shirk 1993:130). However, after introducing newly devised private property rights, the established popularity of the reforms started to weaken, e.g. dual-track pricing, MBO of SOEs, and unclear transition of LUR. In this regard, the newly introduced private property rights may well explain why reforms started to diverge from the original beliefs that increased the living standards and wealth of the vast majority in China. In table 9, I have displayed the gap between the theory and reality of institutional change in China that is captured, and thereby sets out the context for the key focus of this research. Thus, the gap is the threading of the research question between the theory and reality of institutional changes in China. In the next chapter, I will apply the results of these two chapters to the research methods, which are used to conduct and implement this research.

5. RESEARCH METHODOLOGY AND RESEARCH METHOD

Research methodology, in general, refers to the theory of how research should be undertaken, and consists of, but is not limited to, the following concepts: (1) a collection of theories, concepts or ideas; (2) comparative studies of different approaches; and (3) critiques of the individual methods (Webster 1967). By this logic, methodology is the philosophical logic behind research methods, and the scope is wider than that of the research methods, which constitute a part of the research methodology. In other words, methodology refers to more than a simple set of methods; rather, it refers to the rationale and the philosophical assumptions that underlie a particular study. There is a significant distinction existing between research methodology and research method: the former is the science and philosophy behind all research, whereas the latter is a way of conducting and implementing specific research (Adams *et al.* 2009:25). In other words, research methodology is a way to systematically solve research problems, and a method or techniques that is supported by a clear grasp of methodological approaches (Kothari 2006:8). By adopting appropriate methodology, researchers will know in what way knowledge and answers to research questions can be created and then they are in a position to understand what might be wrong.

Few will disagree with the view of Wodak (2001:64) that effective research does not necessarily need to be based upon a grand theory such as those of Bourdieu, Marx, and Weber. However, good research always needs conceptual tools capable of interpreting abstract philosophical theories, concepts, and ideas to make them relevant and manageable (Alvesson and Sköldbberg 2000:foreword). Research collects facts or information with a clear purpose, then re-assembles and re-orders these facts or information through purposeful interpretation (Walliman 2001:9); therefore, it is more than just reading a few books, articles, talking to a few people or asking them a few questions (Saunders *et al.* 2003:2). In this chapter, I will thoroughly set out my understanding of the various methodologies, and provide a critique of their strengths and weaknesses as well as their applicability to my study.

5.1 RESEARCH METHODS AND METHODOLOGY

This research particularly lays emphasis on the inter-relationship between institutional change and the emergence of HNWI in transitional China; therefore, it is arguably social science oriented. In the context of social science research, there mainly are three kinds of methodology (Saunders *et al.* 2003:83): *Positivism*, *Realism*, and *Interpretivism*. *Positivism* implies that from the end product of research generalizations, similar to those produced by the physical and natural scientists, can be made (Remenyi *et al.* 1998:102-104). Because HNWI in China vary with the changing political environment, therefore, the inter-relationship between them is unlikely to produce any law-like generalization. For this reason, *Positivism* is not suitable for my research, which attempts to unpack the dynamic process of institutional changes in relation to the emergence of HNWI in China. As for *Realism*, it is based on the belief that an existing reality is independent of human thoughts and beliefs, and implies that social forces and processes will affect people without their necessarily being aware of the existence of such influences on their interpretations and behaviours (Saunders *et al.* 2003:84-85). Therefore, there exists an apparent paradox in the methodology of *Realism*. On the one hand, *Realism* does not recognize people as the objects to be studied in the style of natural science. On the other hand, it identifies the importance of understanding people's socially constructed interpretations and meanings, or subjective reality, within the context of seeking to comprehend broader social forces, structures, or processes that influence and perhaps constrain the nature of people's views and behaviours (Saunders *et al.* 2003:85).

Whilst *Positivism* tries to reduce the complexity of our world to law-like generalizations and *Realism* does not recognize human beings as research objects, *Interpretivism*, which advocates every situation is unique to a particular set of circumstances and individuals, may offset the generalization of *Positivism* and the ignorance to human beings in *Realism*. Generalisability within Interpretivism may be less valued than within *Positivism* because the circumstances of today may not apply in three weeks' time. *Interpretivism* tries to discover the details of the unique social situation in order to understand the reality or perhaps a reality working behind

the situation that is also related to the concept of constructionism, or social constructionism (Remenyi *et al.* 1998:35). Saunders *et al.* (2003:84) indicated that:

Social constructionism regards reality as being socially constructed and, in turn, people may place many different interpretations on the situations in which they find themselves... different interpretations are likely to affect their actions and the nature of their social interaction with others... people not only interact with their environment, they also seek to make sense of it through their interpretation of events and the meanings they draw from... their own actions may be seen? As being meaningful in the context of these socially constructed interpretations and meanings... interpretivists to seek understand the subjective reality of those that they study in order to be able to make sense of and understand their motives, actions and intentions...

In other words, for example, powerful elites in China not only subjectively perceive knowledge from their own contexts but also use that perceived knowledge to affect their behaviours and those of ordinary people; consequently, the nature of the entire society will be permeated by it. In this regard, these elites only make sense of their behaviours through their own understandings of the specific context, and therefore deliberately promote their knowledge and realize it in the form of policy. Therefore, I may only have an insightful perspective on this research from people's direct lived experience instead of abstract generalization. In other words, I only can capture the core of meaning and contradictions through people's (HNWIs) experiences (Denzin 1978) that can be neither reduced to a law-like generalization nor be irrelevant to human discourse and activity. As argued, human discourse and action, which is seen as text or a collection of symbols expressing layers of meaning, can scarcely be analyzed by the methods of natural and physical sciences (Dilthey [1911] 1977:141). With this in mind, *Interpretivism* is arguably an appropriate methodology for this particular research.

In my opinion, nearly each methodology is equally important but some of them are better at conducting specific research because of different research questions to be answered. As indicated, I can capture the core of meaning and contradictions involved in people's experiences. By this logic, the qualitative approach is arguably more suitable to my research rather than a quantitative one. In next section, I will introduce two major processes for analysing qualitative research (Saunders *et al.* 2003:388): the deductive and inductive approaches. In the deductive approach, researchers use existing theories to shape their approach, which they apply to qualitative research processes and to aspects of data analysis. In the inductive approach, the researcher collects data and develops theory as the result of data analysis or data collection and analysis, followed by theory development.

5.2 RESEARCH DESIGN

As indicated in last section, there are two major approaches, the deductive and the inductive, for researchers to analyze qualitative data. According to Saunders and other scholars (Saunders *et al.* 2003:88-89), if researchers try to adopt the deductive approach to analyse this specific research, they should:

1. Start with the proposition or arguments that reforms in China are likely to be compromised along with institutional changes.
2. Decide to research a population within which I would have expected to find evidence of compromise in the behaviours of HNWI's in transitional China.
3. Distribute a questionnaire (questionnaires) or interview(s) to a large sample of HNWI's in order to establish the extent of compromise (either actually experienced or witness).
4. Be particularly careful about how I defined compromise, institutional change, and HNWI's.
5. Standardize the compromised responses to the institutional changes from HNWI's in transitional China.

Although this process is logical, there are many risks in it if I apply it to this research, such as:

1. It may be strongly biased in presuming the institutional change pattern in China is compromised without further data collection, interviews, and personal experiences, and therefore distract from the intended research objective.
2. Because of biased assumptions, this research may not be able to gather adequate data, information, and evidence of compromised institutional changes in China.
3. It is not feasible to collect a large sample of HNWI's because they are a rare breed and essentially inaccessible to most people.
4. Because HNWI's are human beings and the institutional environment in China is unique, it is not adequate to generalize HNWI's' responses to institutional changes or to have a predictable result.

Alternatively, if I embrace an inductive approach, I only need to interview few HNWI's, who had been subjected to the compromised institutional changes in China. Because this research is interested in HNWI's' feelings about what they have experienced, how they coped with the problems they encountered, and their perspectives on the likely causes and reasons of the compromised institutional changes in China, it seems more feasible to conduct this specific research productively through an inductive approach. However, researchers should be aware that both deductive and inductive approaches can generate valuable data at different stages and each is better adapted to different things. Therefore, neither of them should be considered as better than the other one.

I have argued that any insightful perspective on this particular research can be acquired only through people's direct lived experience instead of abstract generalization. For this reason, an interview may be the best way to conduct this particular research because people's actual experiences provide constructive advice and valuable insights into how researchers can successfully gain access to and further understandings of complex social phenomena (Hirsch 1995:72-80). In China HNWI's and other leading social actors among different communities together comprise those elites, who are difficult for researchers to study because their

accessibility is constrained by their status and rigorous time schedule (Hertz and Imber 1995:1). Hertz and Imber (1995) have a thorough discussion about how useful information is given, and how valuable data can be collected by researchers through elite interviews, so that researchers can realise their study and write about their subjects. For this reason, I will adopt elite interviews method in this research as I am fortunate by virtue of my previous work experience and personal contacts to be able to access top-level executives in order to gain rare and first-hand data.

In my opinion, different research approaches can be deployed on a mixed method basis to benefit research in different ways. In other words, it is advantageous to employ multi-methods in one research because (1) different methods can be used at different stages in the research; and (2) it enables triangulation to have effect. For example, in-depth interviews of elites are about getting comprehensive perspectives on many important issues of institutional change relevant to my objectives. Apart from the in-depth interviews, this research will adopt different data collection methods in order to confirm that (1) the data are telling the researchers what they think respondents are reporting; and (2) test the validity of the conclusion of this research (triangulation). By this logic, a better way of conducting this research is to adopt a multi-methods strategy (qualitative-quantitative-qualitative) (Tashakkori and Teddlie 1998a:23). Nonetheless, there is no easy way to answer this question because each method has its unique strengths and weaknesses (Smith 1975:89,309) and the result of research will inevitably be subject to ‘method effect’ (Cote and Buckley 1987). Therefore, it makes sense to employ multiple research methods to neutralise the method effects. As a result, if researchers have clear research purposes in mind, they should be able to adopt appropriate methods to conduct research at different stages.

5.3 RESEARCH QUESTIONS, ARGUMENTS, AND RESEARCH METHODS

In this section, I am going to discuss my research questions, research hypothesis (argument) and research method. Research question differs from research hypothesis or arguments (Miles and Huberman 1994b:75;Maxwell 2005:53), the former refers to what researchers want to know and the latter are researchers’ tentative answers to

the former. The hypothesis or argument, which is grounded in collected data, personal experiences and the interviews conducted, is generally formulated after beginning a study. In a previous chapter, I have formulated my research questions and arguments in table 10. These arguments are inductively developed during a study (or series of studies) and in constant interaction with the collected data from that study and therefore become grounded theory (Glaser and Strauss 2009). They are unlike existing theories in qualitative research that are developed conceptually and then simply tested against empirical data, or those in quantitative research that are prior ideas and can be tested against statistical data.

In table 10, I have set out generalizing questions vis-à-vis a broad population (HNWIs) and then have selected a small group (HNWIs interviewees) from them in order to answer these questions. Therefore, I need to justify my sampling strategy for generating the specified data collected and the relationships between these data, or statistical conclusion validity (Cook and Campbell 1979:41), for the population sampled in this particular research (*see section 5.4.3*). Those research questions are about understanding both the meaning of China's institutional changes and activities for the HNWIs involved in these changes and the influence of the social context on these changes and activities. Therefore, these questions probe what actually happened in terms of observable behaviours or China's institutional changes (*descriptive questions*), and the meaning of these things to those HNWIs: their thoughts, feelings, and intentions (*interpretive questions*), why these things happened, and how they can be explained (*theoretical questions*). These descriptive, interpretative and theoretical questions include most of the types of research questions that qualitative research develops (Maxwell 1992). In this research, I not only measure but also interpret the phenomena in China that closely correspond to the characteristics of a qualitative study (Sayre 2001:7; Maxwell 2005:59).

The table 10 indicates that the research subjects are the institutional changes, HNWIs, and the context of China's reforms. In addition, there are other sub-objectives in this research, e.g. private property rights, resources dependence, allocation-and-reallocation and distribution-and-redistribution of resources and power. As Kumar

(2005:45) mentioned, once the research questions have been determined, the remaining steps will fall into place, i.e. the type of study design, the type of sampling strategy, the research instruments and the type of analysis. Thus, research question is a signpost that helps the researcher to identify the right route. The focus of my research questions is on understanding, explaining, exploring, discovering and clarifying situations, feelings, perceptions, attitudes, values, beliefs and experiences of HNWI in China. By this logic, I argue that a qualitative approach is most appropriate because it provides immense flexibility to my research.

Before any further clarification of methodology, I would like to discuss the research purpose and consequently collect and interpret data systematically. The purpose is about understanding the role-transition of leading social actors, institutional changes in China, and their inter-relationship after economic reforms. In other words, the researcher should examine his or her research from the perspective of its application and differentiate one from another, and therefore group it into different categories: the pure (basic) research or the applied one (Kumar 2005:9). In table 11, I display the main distinctions between the previous two categories. From the table 11, I perceive the contents of chapter 3 and 4 of this dissertation corresponding closely to the purpose of the applied research. As argued (2005:9), most social sciences research is applied-oriented. Likewise, this particular research, which sets out to understand the complex phenomena of institutional change in China, is applied social research. In this regard, the 'applied' approach can present a suitable template for this particular research. Next, I will discuss the method and methodology for this particular research and consequently explain why qualitative research was adopted in this research.

5.4 COMMON RESEARCH APPROACH TO INSTITUTIONAL CHANGE

Many scholars (Davis and North 1970 ;Lin 1989 ;North and Weingast 1989 ;North 1990 ;Mcfaul 1995 ;North 1998 ;Clemens and Cook 1999 ;Lin 2001 ;Zhang 2003 ;Campbell 2004 ;Nee and Cao 2005) lay emphasis on qualitative research methods to conduct their research regarding institutional changes. As argued, I will take the same approach as they do. Yet, some scholars consider that qualitative

research is limited in scientific relevance. For example, Kerlinger (1979:270) argued that scientists are not, and cannot be, concerned with the individual case and have to seek laws, systematic relations, explanations of phenomena, whose results are always statistical. Calder (1977) contends that quantitative research seeks scientific explanation, which can be referred to as the scientific approach. These arguments, as Kvale (1996:67) argued, may be ontological and regard that everything exists in number or the social world is basically a mathematically universe.

Nonetheless, both qualitative and quantitative research methods, in my opinion, are seen as instruments of different research designs and are equally important, but their utility depends on their capacity to bear on the research questions asked. As suggested by Webster's (1967), qualitative analysis is designed to discover the components of a substance but quantitative analysis is designed to identify the numerical amounts of the components of a substance. This research aims to unpack the components of institutions and their functions and inter-relations within the specific institutional environment. Through this unpacking, I can analyze the existing social phenomena in transitional China. The data collection and data analysis in this research feature both qualitative and quantitative methods. Consequently, the tables, graphics, and results require qualitative interpretations. Apart from that, this research will adopt qualitative interviews of elites, which is a sensitive and powerful method for capturing the experiences and lived meanings of their daily lives; therefore, interviewees are able to convey their situations from their own perspectives and words. At last, I intend to employ China's housing market to exemplify the research argument that is unique within other comparable studies because the attributes of housing market embody the transition of property rights in China.

5.4.1 QUALITATIVE RESEARCH

As argued, some scholars (Calder 1977 ;Kerlinger 1979:270) have discounted qualitative research because they regarded scientists as being concerned less with individual cases than the search for 'theoretical laws', systematic relations, explanations of phenomena that carry statistical significances. Maxwell (1998:69)

was critical of some people regarding research designs as (1) fixed or standard arrangements of research conditions and methods that have their own coherence and logic, as possible answers to the question; and (2) of the logical progression of stages or tasks, from problem formulation to the generation of conclusions or theory, that are necessary in planning or carrying out a study. On the one hand, these contentions are ontological and deem that everything exists in numbers or that the social world is basically a mathematically universe (Kvale 1996:67). On the other hand, they do not represent the logic and process of qualitative research (Maxwell 1998:70). Therefore, how can the logic and process of qualitative research be understood? Briefly speaking, qualitative analysis is designed to identify the components of a substance, and quantitative analysis is designed to identify the amounts of the components of a substance. From this perspective, qualitative and quantitative approaches are both research tools and equally important, but their utility depends on their capacity to bear on the research questions asked. In other words, if the researcher wants to utilize qualitative research, the research questions in his or her research should be answerable through qualitative research.

This research is purposive and sets out to unpack the components of institutions, how they function within the specific institutional environment, and analyze the existing social phenomena in transitional China. As has been argued, many scholars conduct institutional change research through qualitative research methods. For example, Barzel (1989) mentioned the way people organize the use of resources in order to maximize the value of their economic rights over these resources. Lin (1989) draws on progress in the economics of information, property rights, transaction costs, induced innovations, and the theory of the state to analyze the functions and choices of social institutions, and to consider the mechanism of institutional change. North (1990) attempts to describe the origin of political and economic institutions in order to build a better understanding of how institutions work, change, and either promote or prevent economic growth. The reason these research studies can be deemed to be qualitative in their design rests on their essentially interpretive and naturalistic approach to their subject matter and to the study of phenomena in their natural

settings. Further, they attempt to make sense of, or interpret, phenomena in terms of the meanings that people bring to them.

Because institutional changes are dynamic and varying over time, researchers have to develop and modify their theories, elaborate and refocus their questions, and collect and analyze their data constantly and simultaneously. As a result, this research, as Grady and Wallston (1988:10) argue, also needs a flexible, non-sequential approach to investigate institutional changes and connected phenomena in contemporary China. Next, I will borrow Chenail's (1992) scenarios to explain why qualitative research method is the suitable one for my research.

5.4.2 WHY QUALITATIVE RESEARCH

I already introduced the qualitative research method and explained how people apply it to the study of institutional change. In this section, I borrow five scenarios from Chenail (1992), which can be used to justify the choice of qualitative research methods. Furthermore, I also demonstrate the extent to which each scenario is applicable to my research.

Scenario One

Much of qualitative research is dominated by the research traditions of education, sociology, and anthropology. Researchers from these fields favour such methods as ethnography, participant observation, and naturalistic inquiry (Atkinson and Hammersley 1994 ;Riley and Love 2000:248-261). Apart from these popular methods, qualitative research can also include methods from fields like communication (e.g. discourse analysis or conversation analysis (Antaki 2008)), literature (e.g. narratology (Bal 1990) or figurative language analysis (Pollio and Barlow 1975)), or Biblical studies (e.g. exegesis or hermeneutics (Ricoeur and Thompson 1981)).

Scenario Two

Much of qualitative research is essentially practised from a scientific viewpoint. It is legitimized by its juxtaposition with quantitative approaches (i.e., qualitative research as pre-quantitative, qualitative research as post-quantitative, or qualitative

and quantitative research in triangulation configurations (Ambert *et al.* 1995)) and it is undertaken with similar goals in mind as quantitative approaches (e.g. to predict, to confirm, etc.). There also are various qualitative research methods, which do not embrace a scientific way of knowing and doing. For example, artistic or literary qualitative research is based upon an artist's way of practicing and knowledge production (Brenda 2011). Another type of this research is clinical qualitative research, which constructs its investigations by examining clinicians' methods and applying those ways of knowing in research inquiries (e.g. the use of circular questioning in data collection and analysis).

Scenario Three

Knowledge is produced from the practice of research, qualitative or quantitative, and is usually placed above awareness derived from the practice of practitioners as in the case of educators reflecting on their teaching or therapists re-searching their work in the clinic. Chenail (1992) states that researchers can take their place along side other practitioners and engage in dialogue towards the creation of a community of knowing and not knowing.

Scenario Four

As Sandelowski (1995) argues that aesthetics in qualitative research results in researchers attempting to approximate a known, well-practised, and established form or tradition in their research project at hand (e.g., "In this study, the researcher employed a grounded theory approach.") or improvise on a well-known approach (e.g., "The ethnographic interview was modified in the following ways..."). Other qualitative researchers feel that the particularities of each research project are so unique that they require a distinctive method for every study. They may identify research tradition(s) that inspired their method for a specific project, but they will also allow each study to have its own project-specific method, which emerges from the special characteristics of the project.

Scenario Five

The qualitative researcher has a habit of focusing on what is familiar and central to the study at hand. That which was known through literature reviews and previous

observations before the study was commenced, becomes central in the unfolding process of the research. In addition, phenomena observed as occurring the most during the study garners the lion's share of the spotlight. What may be missed through this style of inquiry is an opportunity for investigators to know what they might not have known before the study. Space and time have to be allowed in research to create room for such discoveries. In addition, the margins of a project often provide some of the most interesting and informative patterns for investigators if they include a curiosity for the 'exceptions' in their work and a tendency for adopting explanations that might turn out to be premature.

Among these five major scenarios of qualitative research, scenarios two and five correspond most closely to this particular research. In scenario two, qualitative and quantitative research can be juxtaposed and complement each other in the conduct of the research. The way to apply qualitative approaches to this research is different from many institutional change studies that simply take descriptive evidence to conduct their qualitative research without the verification of further concrete specific evidences. For example, both Veblen and North argued that path dependence has serious effects on institutional changes. Veblen (1899) deemed that an existing institution is an adaptive product of the past and can seldom cope with current requirements. North (1990) mentioned that prevailing reality is actually derived from previous habits, behaviours, formal and informal rules, and previous small events may lead reform to particular path. Nonetheless, they both conduct their research without empirical evidence to justify their arguments.

Although I have embraced various theories and descriptive evidence in my research to explain the institutional changes in China, they still cannot satisfactorily explain phenomena of institutional changes in China. Seen only from a third party's point of view, these theories and descriptive evidence of institutional change lack adequate persuasiveness and validity to justify my propositions. As argued, I adopt a qualitative approach to interviewing elite groups that constitutes a sensitive and powerful method for capturing the experiences and lived meanings of their daily lives, and therefore can let interviewees convey their situation from their own

perspectives and in their own words. On top of that, interviews allow me to understand my subjects by probing those elites who have comprehensive knowledge of institutional changes in China. Therefore, I can obtain useful information and valuable data through interviewing those elites (Hertz and Imber 1995), who know the reforms comprehensively because of years of profound engagement with the development of institutional changes in China. However, elites are difficult for ordinary researchers to study because elites' accessibility is constrained by their status and rigorous time schedule (Hertz and Imber *ibid*:1). Because of my direct and indirect very strong relationships with these elites built whilst I was the managing director of a German company in China between 2000 and 2005, I am able to access these elites and gain their trust with relative ease. In this regard, I can get adequate and useful first-hand data from them.

In addition to those adopted approaches and elite interviews, I have also collected a variety of statistical data *vis-à-vis* economic growth, income distribution and disparity, and from the housing index to justify these qualitative data (elites' interviews) and theories, and vice versa. Many scholars (Becker 1958,1970 ;Murray 1996) have adopted a similar method, known as Quasi-Statistics, to conduct their research. For this reason, the data collection and data analysis in this research will be interactive between both qualitative and quantitative methods. Consequently, the tables, graphics, and result require qualitative interpretations. Without this complementary process, the statistical data will become a collection of meaningless numbers and the qualitative data will become nonsensical prattle. Lastly, this research draws on China's housing market data to justify these research arguments, which to a large extent distinguishes this research from that of others on a similar topic.

In scenario five, although literature reviews and previous observations have occupied significant attention, it is essential that researchers pay attention to what might not have been known prior to their studies. Apart from that, space and time have to be taken into consideration in research to create room for such discoveries. Without considering these exceptions, research may become outdated and of no use at all.

For example, although China, the CEE and FSU all derived legacies from Leninism, it is simplistic to assume analogous reforms within them that will lead to erroneous assumptions about the consequences: these countries may eventually resemble each other after reforms.

I have borrowed Chenail's (1992) five scenarios to show why qualitative research is applicable to this research; nonetheless, the qualitative approach may be not the only method to be applied to this research. As argued, the rationale for applying a qualitative approach to this research rests upon by the research questions, and the path to finding answers to these research questions constitutes the research methodology (Kumar 2005:18). In other words, research questions decide the research path that researchers should take. By this logic, I need to demonstrate when to use qualitative research, and the strengths and weaknesses of this particular approach. Because the purpose of this research is to unpack the transitional roles of leading social actors in China's transition after the late 1970s, therefore, it will inevitably involve human experience, which is allegedly subjective and not without suspicion. In other words, the purpose of this particular research closely corresponds to the paradigm of qualitative research that is a tool employed in understanding and describing the world of human experience (Myers 2000). Myers also regards one of the strengths of qualitative research as the depth in which examinations are conducted and explanations are written, resulting in sufficient detail for audiences to grasp the peculiarities of the particular situation, phenomenon, context, etc.

Because the emphasis of qualitative research is to comprehend and explain perceptions, beliefs and experiences of people, it lacks the clarity of quantitative research; thus, the study design of qualitative research is more often non-linear and non-sequential in its operationalization because it (the study design) mainly entails the selection of people from whom the information is explored and gathered. As a result, the distinction between study design and data collection methods is far less clear in qualitative research because qualitative research is more flexible and emergent in nature and evolving (Kumar 2005:104). In this regard, there are various weaknesses in qualitative research: it is less specific and precise, and does not have

same structure and depth as quantitative research. Nevertheless, there is an overlap between study design and methods of data collection in qualitative research. For example, in-depth interviewing, which will be applied to this research, is both a research design and a method of data collection (Kumar *ibid*:104). Because qualitative research heavily involves human beings, who are unique and dynamic, and therefore, any replication of qualitative study design becomes less feasible. Finally and importantly, because of the flexibility and lack of control, it is more difficult to check for researcher bias in quantitative research.

I have discussed the major weaknesses of qualitative research; nonetheless, there are strengths that could offset these weaknesses in terms of my research. For example, qualitative research is more appropriate for exploring variation and diversity in any aspect of social life because it is more appropriate for studying values, beliefs, perceptions, and meanings to interpret processes, events, structures, and emerging relationships logically, e.g. researching old issues, examining new solutions, using new ways-of-working and new terminologies. All these features closely correspond to this particular research. The ultimate purpose of qualitative research is to offer a perspective on a situation and provide well-written research reports that reflect the researcher's ability to illustrate or describe the corresponding phenomena (Myers 2000).

As argued, there are strengths offsetting the weakness of qualitative research. For example, the richness and depth of explorations and descriptions is the strength of qualitative research. Thus, qualitative research is arguably the best way to help me to approach my research purpose. As indicated, qualitative research has long been criticized for lacking in standardized research tools owing to its multiple research methods and procedures that are both flexible and evolving. In this regard, this research may need specific data (primary) and statistics (secondary) to verify the research arguments. By this logic, a qualitative-quantitative-qualitative approach may be an appropriate strategy because this composite approach is able to test the validity and reliability of qualitative research even without standardized and

structured methods and procedures that are the bases for testing validity and reliability in quantitative research.

Some scholars (Guba and Lincoln 1994:114) use alternative ways to judge the value of inquiry in qualitative research by setting out the criteria of trustworthiness and authenticity, which parallel validity and reliability in quantitative research. Scholars deem that trustworthiness is determined by four indicators, credibility (internal validity), transferability (external validity), dependability (reliability), and confirmability (objectivity), that too reflect validity and reliability in qualitative research (Guba and Lincoln 1994:114; Trochim and Donnelly 2007:149). In my integrated method, I therefore start with qualitative methods to ascertain the spread of diversity, using quantitative methods to measure the spread, and then going back to qualitative methods to interpret the observed patterns. In the next section, I will examine the method and steps of data collection of this research.

5.4.3 Steps of Qualitative Research

I have set out most of the major features of qualitative research, which arguably is the appropriate method for this particular research, and is a diverse, rich, but sometimes self-contradictory inquiry. Meta-analyses of qualitative research methods and philosophies are quite common in the field and serve as a good introduction to this diversification of approach. Following on, I will introduce five essential sequences, which are borrowed from Maxwell (1998:73-91), of qualitative research and each of them deals with a different set of issues that are essential to the coherence of my research.

Step 1 Purposes: Why am I doing in this research?

There must be a clear sense of purpose in every research; otherwise, it will be inclined to lose its focus. The term *purpose* indicates motive, desire, goal, or anything that researchers hope to accomplish through their researches. In all aspects, research purpose is the most fundamental to all researchers because it guides researchers' designs and ensures their research is worth doing. In this research, there are four major purposes, which correspond to a qualitative approach. First, to

understand the meaning of the events, situations, and actions that HNWI's are involved with and how their understandings influence their behaviours. Therefore, this design is known as the *interpretive approach* to social science (Rainbow and Sullivan 1987:398). Second, it sets out to understand the particular context within which HNWI's act and the influence of this context on their actions. Third, it will develop the causal explanation for HNWI's' actions and the particular context. Lastly, it will generate a result that is comprehensible and credible to the respondents and others (Bolster 1983). Nevertheless, researchers have to restrict the impact of their personal motivations for conducting their research, to avoid arriving at invalid conclusions.

Step 2 Conceptual Context: What do I think is going on?

The conceptual context is the system of concepts, assumptions, expectations, beliefs, and theories that supports and informs my research (Maxwell 1998:77). The conceptual context not only explains the main things, which are the factors, concepts, or variables, to be studied in the research, but also presumes the relationships between those things (Miles and Huberman 1994a:18). Therefore, the conceptual context formulates what I think is going on with the phenomena I am studying, which is a tentative theory that provides me with a model of why the world is the way it is (Strauss 1995). In fact, the conceptual context is more than a conceptual framework but is about what I think is happening and why that gives new insights and broadens the understanding of the phenomenon.

Because researchers cannot always find specific phenomena from previous literatures or studies, the conceptual context is often artificially constructed. In other words, it incorporates sections adopted from somewhere else; however, the entire structure and overall consistency are not something that exists ready-made but are built by the researcher to work effectively with his/her research (Becker 2007:141). Becker indicates that there are four main sources: the experiential knowledge, the existing theory and research, the pilot and exploratory studies, and the thought experiments.

1. Experiential Knowledge

For most researchers, personal background often affects their research and its impact should be eliminated from research designs (Johnson 1997). However, in my view, personal background should be treated as valuable component in the research design (Berg and Smith 1988 ;Jansen and Peshkin 1992:681-725) because it can provide a major source of insights, hypotheses, and validity checks (Grady and Wallston 1988:41). However, it is not to say that any personal background or experiential knowledge can be indiscriminately employed in research. On the contrary, Reason (1988:12) sets up the criterion, which is called critical subjectivity, that should be imposed on personal assumptions about the research. From Reason's perspective, critical subjectivity is a quality of awareness in which researchers do not suppress primary experience nor allow themselves to be overwhelmed by it, but rather use it to raise consciousness and as part of the inquiry process. Thus, if researchers can use personal background and experience appropriately, they may gain more support for their research.

2. Existing Theory and Research

This particular source can be found in published or unpublished works, papers, dissertations, and conference presentations (Locke *et al.* 2007:48-49); however, there are both advantages and risks in employing existing theory in qualitative research. A practical existing theory is always helpful to researchers to organise and analyze their collected data, and to fit seemingly unconnected or irrelevant information into their interpretation of research findings. Nonetheless, existing literature and assumptions embedded in it can also distort the ways researchers frame their research because the ideological hegemony in existing literature makes it difficult for researchers to see other phenomenon in ways that are different from those are prevalent in the literature (Sallach 1974 ;Becker 2007:149). By this logic, existing literature may deform research and lead researchers to focus on the dominant questions in the literature and therefore ignore the most interesting implications and possibilities of their research (Becker 2007 *ibid*:146,149). As scholars (Mills 1959 ;Becker 2007:149) argued, the researcher should use the literatures, and not the other way around. According to the foregoing explanation, I therefore synthesize these two sources of the conceptual

context together and consequently form a valid conceptual framework for my research design.

3. Pilot and exploratory study

A pilot study, or so-called feasibility study, is often used in two different ways in social science research studies that are small scale versions or trial runs, done in preparation for the major study (Polit *et al.* 2001:467). A pilot study is designed to test logics and gather information before a larger study, to improve the quality and efficiency of the larger study. A pilot study can reveal deficiencies in the design of a proposed experiment or procedure and these can then be addressed before time and resources are consumed on large-scale studies. Although pilot studies are a crucial element of a good study design, conducting a pilot study does not, however, guarantee success in the main study, but it does increase the likelihood. Nevertheless, the pilot study fulfils a range of important functions and provides valuable insights for other researchers.

Pilot studies can be based on quantitative or qualitative methods and large-scale studies might employ a number of pilot studies before the main survey is conducted. Thus researchers may start with qualitative data collection and analysis on a relatively unexplored topic (Tashakkori and Teddlie 1998b:47) by using the results of in-depth interviews to establish the issues to be analyzed in a large-scale study. Nevertheless, it is unlikely that a pilot study alone can provide adequate data on variability for this research that explains the institutional changes and the changes of leading social actors in China. To offset it, systematic literature reviews are adequate for enhancing the credibility of this research. While I was working in China, I conducted several pilot studies such as studying the emergence of some HNWI in China that together with experiential knowledge essentially built up the conceptual context of this research that China's institutional changes are occurring under a compromised model.

4. Thought experiment

Thought experiment often takes place when the method of variation is employed in entertaining imaginative suppositions. They are used for diverse reasons in a variety of areas, including economics, history, mathematics, philosophy, and physics, e.g. veil of ignorance (Rawls 1971) or the prisoner's dilemma. Although Becker (2007) indicated thought experiment as a source of the conceptual context, the common goal of a thought experiment is to explore the potential consequences of the principle in question. In other words, thought experiment may be of limited help for and unlikely to be relevant to my research, which focuses on the real world.

Step 3 Research Questions: What do I want to understand?

Research questions, which specifically represent what researchers want to know by conducting their research, are at the heart of the research design and directly connect to all other parts of the research design. Therefore, research questions will have a strong influence on, and respond to, those parts and to the research design as a whole. Because of these features, research questions in qualitative research should not be established in detail before the purposes and conceptual context of research have been clarified rather than being assumed *a priori*. This is, however, not to say that qualitative research should not begin with questions in their research. In fact, researchers frequently have substantial questions about the phenomena investigated based on their considerable experience and previous theoretical knowledge. These initial questions will frame their studies, influence their research methods, and consequently become the basis for further focusing on and development of more specific questions (Maxwell 1998:81). In this respect, researchers might not establish research questions specifically at the very beginning of qualitative research.

Research questions primarily provide two main functions that are (1) to help the researcher to focus on the study and (2) to give guidance for conducting the research. The former function relates to the research purpose and conceptual context, the latter relates to the research method and validity. By this logic, research questions can help researchers to know what site or informants to choose, which data to collect, and how to analyze these data (Miles and Huberman 1994a:22-25). If researchers are premature in constructing their research questions, those immature questions may

lead researchers to neglect many important parts of theory or previous experience that are relevant to the researchers' understandings of what is going on and to pay less attention to a wide range of collected data in their studies, which may reveal important and unanticipated phenomena and relationships. Some researchers unconsciously import unexamined assumptions into, or impose an unsuitable conceptual framework on their research questions. For example, if I put "Why do HNWI's affect institutional changes in China?" as the research question, it arguably assumes that HNWI's have an influence on China's institutional changes. This kind of assumption needs to be carefully examined and justified beforehand, and therefore, it might be better to put the question as a tentative sub-question to broader a question. For example, the preceding question can be changed to "What is the relationship between HNWI's and institutional changes in China?" Apart from inaccurate assumptions, research questions should take what researchers want to accomplish and what is already known into account in order to avoid positioning themselves for already available answers, or irrelevant questions to research purposes. More succinctly, there is no value in posing any unanswerable or already existing question.

Finally, there are three main issues applied to social research when framing research questions. First, it is more appropriate for researchers to formulate their questions specifically when their purposes relate to understanding some particular programmes, situations, phenomena, and behaviours. Secondly, unlike basic or quantitative research, questions in applied qualitative social research should be stated in terms of inferred behaviours, beliefs, and causal influences (realist) rather than in terms of information that can only be directly observed or reported from respondents (instrumentalist or positivist) (Norris 1983 ;Maxwell 1992). For instrumentalists and positivists, they often formulate questions in terms of observed or measurable data rather than inferential ones, which cannot be defined as data for these people (Maxwell 2005:70-74). For example, they would reject a question such as, "How do HNWI's affect institutional changes in China?" and replace it with a question like "How are HNWI's observed to affect institutional changes in China?" On the other hand, realists (Cook and Campbell 1979:21,28-29;Maxwell 1992 ;Campbell 1998:xviii) assume research in terms of feelings, beliefs, intentions, previous

behaviour, and effects can be framed as useful data for their studies. Realists treat these data as imperfect facts about studied phenomena that can be used to develop and test ideas in terms of their research.

In this research, I prefer to adopt realist research questions and systematically and vigorously consider them as *validity threats*. However, I deem these threats not to be as serious as instrumentalists do and positivists indicate. As Tukey (1962:13) argued, to adopt inference data that may provide appropriate answers to right questions rather than merely employing observed and measurable data that can only provide exact answers to irrelevant questions to my study. Finally and importantly, I focus my research questions on process questions rather than variance questions because the nature of my research is qualitative-based. Process questions centre on how and why things happen rather than whether there is a particular difference or relationship or how much it is explained by other variables (variance questions) (Maxwell 1998:84). It is risky to frame research questions focusing on differences and their explanation in qualitative research because these inappropriately framed questions may lead researchers to consider findings in variance terms, identify variables that explain observed differences, and consequently overlook the real power of qualitative research, which is often better at showing how things happen.

What are the questions then that qualitative research should focus on? They are (1) questions about the importance of events and activities to the people involved in them and (2) questions about the influence of the physical and social context on these events and activities because these kinds of questions involve situation-specific phenomena and engage an open-ended, inductive approach. As has been argued, formulating research questions is one of the most important parts in a research design. Therefore, the researcher not only pays attention to the question itself but also to the relationship with all the other parts of the research design. By this logic, good research questions can serve the research purpose, imply conceptual context, select appropriate methods, and tackle validity threats.

Step 4. Methods: What will I actually do?

There is no universal instruction manual for qualitative research. Although qualitative researchers try to adhere in their research methods to methodological rules as much as possible, the value and feasibility of their research cannot be assured because the research relies heavily upon the specific setting and phenomena of what researchers are studying with consequences for the research method. (Maxwell 1998:85). I already have described how unstructured approaches are favoured in qualitative research because they allow researchers to focus on particular phenomena and are useful for understanding the processes that lead to specific outcomes (Huberman and Miles 1988). However, this is not to say that every qualitative researcher should utilise an unstructured approach in their research. Even though an unstructured approach is useful for exploring ‘exotic’ cultures, understudied facts, or complex social phenomena, it is risky for inexperienced qualitative researchers to adopt this approach to understanding the above issues within a familiar culture or subculture (Miles and Huberman 1994a:17).

The choice of a structured or unstructured approach is not concerned with the extent to which researchers frame their studies, but with the ways in which researchers do so and why. In other words, both approaches can help researchers to reach similar goals. For example, researchers can adopt unstructured and open approaches to data collection, but use these data for a confirmatory test of explicit hypotheses based on a prior theory (Festinger *et al.* 1956:17). Alternatively, researchers also can adopt a highly structured approach (ethnoscience or cognitive anthropology) to data collection but interpret these data in a inductive manner and with very few pre-established categories (Werner and Schoepfle 1987a:100,261,1987b:73,94,121). At the point of inception, researchers may have tentative plans for some characteristics of their studies in detail but leave open the possibility of revision to take account of emergent insights, new sampling plans, different data, and different analytic strategies. Following on, I will elucidate my own research approach/design.

1. The relationship between research and what researcher study

The relationships between researchers and their respondents are complex and changeable; this will have an influence on the researchers and implications for other

parts of their research designs. The changing relationships between participants not only profoundly affects the mentality of the researcher, but also influences whom the researcher will be able to interview, the opportunities for observation of social life, the quality of their collected data, the questions the researcher is able to answer, and researcher's ability to test the conclusions. Therefore, it is essential to think about the relationships researchers want to have with those participants whom they study, and what researchers need to do in order to establish such relationships. These relationships should be considered as part of research design rather than external forces although they are not completely under the researchers' control and cannot be defined precisely in advance.

2. Sampling: where, when, who, and what

Researchers are faced with a sampling decision once they have any choice about when and where to observe, whom to interview and be observed, or what data sources to focus on. In qualitative research, most sampling is purposeful (Patton 1990:169) in that particular settings, persons, or events are deliberately selected for their important information that cannot be derived from other sources. There are mainly four functions of purposeful sampling. First, it can be used to achieve representativeness or typicality of the settings, individuals, or selected activities. To systematically select a small number of samples for typicality and relative homogeneity can adequately represent the average members of the observed population than accidentally or randomly select substantial samples. In my research, the sampling strategy largely resembles Patton's (1990) approach. Second, it can capture the heterogeneity in the population that ensures the research results can represent the whole range of variation, rather than only the typical members or some division of this range. Third, a purposefully selected sample can be used to examine the research while researchers have subsequently developed theories. Last, it can be used to make particular comparisons to reveal the reasons for differences between settings or individuals.

There were two rounds of interviews held separately in my research. I had been acquainted for years with most of the interviewees in the first round interview.

Those remaining few elites were introduced through either other elite interviewees or friends. The atmosphere in the first round interview was enthusiastic and pleasant. I therefore got an abundance of useful and hard-to-extract information from those interviewees. However, because of the cordial atmosphere, there was very less challenge to my questions from those interviewees in the first round. Additionally, the heterogeneity in the population may not have encompassed and represented the whole range of variation. I therefore arranged the second round interviews with participants who were not well acquainted with me. Nevertheless, because of my extensive experience in dealing with elites, the second round interview atmosphere was warm and I got some necessary challenges from them to my questions. I have displayed the detailed information from those interviewees in table 5.1.

No.	Name	Age	Gender	Pre-reform Status	Current Industry	Generation
1	Mr. G	35-40	Male	Non-cadre	Electronic	Post-reform
2	Mr. H.	Over 40	Male	Non-cadre	Food Manufacturing	Post-reform
3	Mr. Q	55-60	Male	Former bureaupreneur and Senior Cadre	Manufacturing	Pre-reform
4	Mr. N.	55-60	Male	Current bureaupreneur and Senior cadre	Manufacturing	Pre-reform
5	Ms. W.	Over 60	Female	Senior cadre	Housing	Pre-reform
6	Ms. Z.	55-60	Female	Non-cadre	Housing	Pre-reform
7	Mr. R	Over 60	Male	Non-cadre	Mining	Pre-reform
8	Mr. Z.	55-60	Male	Former bureaupreneur and Senior cadre	Mining	Pre-reform

Table 5.1 Interviewee Sample

According to this table, half of the interviewees participated in my interview because of aspirations. For the remaining interviewees, they participated in the interview at the request of friends initially. However, after explaining my intentions to them, they became enthusiastic and highly interactive as soon as the interviews were initiated because they never had any chance to confide their beliefs, concepts, and experiences to other people without fear of being arrested. These interviews successfully brought abundant constructive and unheard-of information to this research.

3. Data collection: how does the researcher gather information that will be adopted in the research

There are mainly two designs in selecting and adopting data collection methods: the relationship between research questions and data collection methods, and the triangulation of different methods. It is unlikely that research questions can be converted into practical research methods; the latter are the tools for answering, rather than transforming the former. The selection of research methods depends not only upon the research questions, but also on the actual situation and what will work most effectively in that situation for the provision of essential data. For example, the researcher may convert the research questions into interview questions if the interviewing method is selected. However, the point is not whether the interview questions derive from research questions, but whether the interview questions can provide the necessary data to answer the research questions. In other words, interview questions or observational strategies are not a mechanical translation of research questions, but are focused, context-specific and diverse questions to define what the researcher seeks to comprehend in conducting the study.

As argued, I will adopt an elite interview approach entailing interview questions to collect primary data for this research. As indicated, interview questions should not be mechanically translated into research questions, but rather extracting necessary information to respond research questions. Before conducting the interviews, I categorized my research questions according to essential characteristics e.g. cultural, economic, and political. Secondly, I used combinations of these questions during the interviews, e.g. cultural-political, economic-cultural, or political-economic, etc. In this way, my interviewees would be less likely to feel bored or alerted to my objectives while responding my questions. Thirdly, there is no specific question such as “how do you assess” or “how do you judge”. Instead of that, I employed an unstructured interview method, which is a conversation, a statement to grasp the point of view of people’s conversation (Malinowski 2002), but with purpose (Bergess 1989:107) to induce my interviewees to tell me the essential information. My interviews often began with ‘telling- the-story’ of the interviewees’ experiences. Within these conversations, we often exchanged opinions vis-à-vis specific events or persons. However, it should be noted that in the second stage of the interview, these conversations always the encompassed research questions without directly indicating

them to my interviewees. This kind of method can dispel their doubts about the interview and, in turn, get a closer relationship between interviewees and myself.

4. Data analysis: what researchers deal with the collected data in order to comprehend their studies

Analysis is not separate from, but is a part of research design. Researchers should decide how their analyses should be conducted, to what extent their decisions will influence and be affected by the rest of the research design. There is a common problem in qualitative research that researchers often pile up unanalyzed data and transcripts, making final analyses difficult and disappointing. Thus, researchers should start analyzing their interview data or observations as soon as possible and continually analyze other data as long as they are working on the research. This process will allow the researchers to focus their interviews and observations increasingly, and to decide how to test the emerging inferences.

There are two strategies about qualitative analysis: categorizing (Coffey and Atkinson 1996:108) and contextualizing strategy (Dey 1993:120-136). Categorizing strategy is coding, which intends to fracturing the data and re-arranging it into different categories that facilitate comparison between things in the same category and between categories (Strauss 1987:29). These categories can be derived from (1) existing theory, (2) inductively generated during grounded theory (Glaser and Strauss 2009:5), or (3) drawn from the categories of what people studied (Williams 1974). The categorizing strategy enables researchers to develop a general understanding of what is going on, to generate themes and theoretical concepts, and to organize and retrieve data to test and support these general ideas (Dey 1993:129,132). Nevertheless, fracturing collected data may lead researchers to neglect some contextual relationships, which rely upon contiguity rather than similarity (Maxwell and Miller 1988) among those data, and therefore create analytic blinders that prevent the researcher from seeing alternative ways of understanding his or her data, and eventually may be fragmented into constituent themes (Atkinson 1992:458-459). In this regard, contextualizing strategies are developed in part to resolve those problems in the categorizing strategy (Atkinson 1992). These

contextualizing strategies attempt to interpret those collected data in context (interview or other textual material) and adopt a variety of methods for recognizing the relationships among the different constituents of the text, rather than fracture the text into separate elements and re-sorting it into new categories. These strategies have something in common in that they seek relationships connecting statements and events, which are within a particular context, into a coherent entirety (Atkinson 1992:460).

Nevertheless, researchers have to distinguish categorizing strategies from contextualizing ones in order to employ them appropriately. If a research question is exploring how events in a specific context are connected, this question cannot be answered by a categorizing analysis (coding) exclusively (Agar 1993:181-194). On the other hand, if a research question is asking about similarities and differences across settings or individuals (comparison), it cannot be answered by a contextualizing strategy. The analysis strategies have to be compatible with the questions the researchers are asking. There are many computer programs available for analyzing qualitative data, however, most of them are devised primarily for categorizing analyses and may distort researchers' contextualising strategies into categorizing ones. Apart from this, if a less experienced researcher relies on computer programs too much, he or she may fail to answer the key questions of study. For this reason, I do not intend to utilize such computer programs to analyze my textual data because of unfamiliarity and inapplicability.

Step 5 Validity: How might I be wrong?

There are various validity threats in qualitative research. Unlike quantitative researchers who can control and design expected and unexpected validity threats in advance, qualitative researchers have to try to rule out most validity threats after the research has begun, and use evidence collected during their research to make alternative hypotheses implausible (Maxwell 1998:91). Qualitative researchers need to develop the skill of recognising the specific threat in any question and the way that particular threat can be excluded. There are two main types of validity threats, researcher bias and reactivity, which are often raised in relation to qualitative studies.

From Webster's Dictionary (1967), bias represents a leaning of the mind, or propensity or prepossession toward an object or view, which cannot not leave the mind impartial. Apparently, bias is a prejudice or a predetermined conclusion, and researcher bias may distort the collection and analysis of data because of the researcher's values, preconception, and ideologies. Because every researcher has an individual identity, therefore, he or she has a different background, such as education, family, culture, experience, etc. Thus, it is not possible to eliminate their biases or to standardize researchers to achieve reliability. Instead of that, people should try to comprehend how a particular researcher's values influence the conduct and conclusions of the study. As for reactivity, it is not likely to control or eliminate the actual influence of the researcher, but to understand it and to utilize it productively (Hammersley and Atkinson 2007:101).

As argued, I adopted an interview approach to collect primary data; thus, personal bias may have negative effects on an interview because the interviewer and the interview situation have a powerful and inescapable influence on the interviewees and data collected (Briggs 1997:41-42). Therefore, interviewers should realize how they influence what the interviewees say, and how they affect the validity of the inferences interviewers can draw from the interviews (Fletcher 1990). Regarding validity threats, there are many strategies for tackling it and thereby increasing the credibility of a study in qualitative research. Many of them do not verify conclusions, but test the validity of conclusions and the existence of potential threats to those conclusions (Campbell 1988:vii,xvii). Nevertheless, the emphasis of these strategies of validity testing is on searching for evidence that either challenges the conclusion or makes the potential threat implausible. In Table 11, I have displayed different strategies that can be employed to test validity.

As argued, the centrality of these research steps is research questions. These steps form a distinctive model whereby each step closely relates to each other through research questions (*see Fig 21*). Herein, this model merely intends to emphasize the central role of research questions, rather than neglecting the relationships between methods and purposes or validity and conceptual context, etc. The vertical line of

this model- purpose, questions, and conceptual context, should be one integrated unit. The research questions ought to have a clear relationship to the purposes of my research and should be informed by what is already known about the subjects I am studying and any theoretical tools that can be applied to my questions. Apart from that, the purposes should be directed by both existing theory and knowledge and the questions I actually can answer: my choices of relevant theory and knowledge depend upon the purposes and questions. On the other hand, the horizontal line- validity, research questions, and research methods, should be another integrated unit. The methods I adopt ought to facilitate those answers to my research questions and handle possible validity threats to these answers. These questions consequently need to be framed to take into account of the feasibility of the methods and the significance of particular validity threats. The plausibility and relevance of particular validity threats, on the other hand, depend upon the questions and methods I have chosen. Therefore, the research questions are the hub of this model, connecting the other four steps into a coherent entirety, as well as responding to the other four steps.

At last, the value of qualitative research is in the development of a theory that can be extended to other cases (Becker 1991 ;Yin 2009:38) that is recognized as transferability rather than generalisability in qualitative research (Guba and Lincoln 1994:191-216). Nevertheless, qualitative research design needs to pay attention to the connections among the different parts of the design. Following the above discussions, I therefore developed my own research approach to create a coherent qualitative research design and the components needed (*see Table 12*). In this table, I give an in-depth explanation of my research approach, which is distinct from the general ones. In the following explanation, I will illustrate the data collection methods and their applicability to this particular study in next section.

5.5 METHOD OF DATA COLLECTION

There are many data collection methods used in qualitative and quantitative research distinguished by restrictions imposed on flexibility, structure, sequential order, depth, and freedom. These restrictions, however, are more favourable for quantitative research than qualitative. As Kumar (2005:138) suggests, there are some premises

that may help researchers to determine the classification of a data collection methods into qualitative or quantitative categories (*see Table 13*). For example, if I try to collect data through interviews and consequently record these data in a descriptive or narrative format, this kind of research becomes a qualitative one. On the contrary, it becomes quantitative research if I record data in response to categories or that are quantified in numbers.

Whether qualitative or quantitative research, there are mainly two sources of data that can be collected: primary and secondary data. The distinction between these two sources depends upon whether the data is first-hand or second-hand. For primary source data, there are three ways to collect them, observation (participant and non-participant), interviewing (in-depth and interactive), and written questionnaires (open-end and closed questions). For secondary data collection, this normally indicates information available to the public, e.g. census, government publications, earlier research, statistical data (*see Table 14*). The choice of these methods depends on the research purpose, available sources of data, and researcher's skills. For example, even if a research method is appropriate for achieving the research objective, it sometimes cannot be employed because of other constraints e.g. lack of available resources or sufficient research skills, etc. Nevertheless, no matter which method of collecting primary data is used, the researcher needs to know the socio-demographic characteristics of the population studied, such as the educational level, age structure, socioeconomic status, and ethnic background. In addition to that, respondents need to comprehend the purpose and relevance of the research. In Table 15, I have illustrated those major methods from the perspective of their applicability.

In this research, I use interviews instead of observations (*see Table 16*) because observation only gives a sense of context but not an understanding of how people think and feel (Sayre 2001:134). Therefore, observations can only let the researcher see the present actions and contexts of respondents, which is not suitable for this particular study. As for questionnaires and interviewing, they both are suitable for a qualitative research in terms of collecting primary information from respondents and therefore can sharpen research. Nevertheless, there are three major shortcomings in

questionnaires that impede comprehensive data collection. First, respondents may be reluctant to give me their spontaneous responses via a questionnaire approach. They may instead give their answers selectively that will consequently mislead this particular research. Secondly, respondents may be influenced by the responses to other questions. Thus, I may not be able to get an unbiased response. Thirdly, respondents may consult other people while they are answering the questionnaire or ask other people to finish the questionnaire on their behalf. Therefore, I may get the responses actually answered or adapted by people other than the respondents. Finally, I cannot either observe or explain to the respondents directly while they are answering the questionnaire. On the contrary, I may comprehend and acquire accurate answers through observation and explanation in interviewing. In this regard, interviewing may help me to acquire essential and precise information for this research by comparison with a questionnaire.

I have suggested that the interview is the most suitable method for collecting primary sources of data for my research. Individuals, academic institutes, or governments have already collected considerable data (secondary data) that is essential to other ongoing research on similar topics. In this regard, researchers merely need to extract the required information from those data for their own research. Because secondary data (*see Table 13*) can be used in both qualitative and quantitative research, researchers can extract descriptive and narrative information in qualitative research, or take categorical and numerical information in quantitative research. Because the validity of secondary information may vary from one source to another, researchers should recognize some problems, such as availability, format, and quality, no matter which category of information researchers are going to use from secondary sources. For example, data obtained from the government publications is likely to be more valid and reliable than that obtained from magazines, personal records, etc. In addition to that, information obtained from government statistics, census, and publications has more rigour because of less personal bias. In this regard, the priority of secondary information in my research should be (1) government publications (statistics, census, written record); (2) earlier academic research (journals, conference papers); and (3) magazine and personal records. Apart from

that, secondary information can be used as a tool to verify or correct those first data collected through interviews, observations, or questionnaires.

5.5.1 COLLECTING INTERVIEWING DATA

Collecting interview data is not simply a matter of recording some descriptive or narrative information and transferring them to text, or grabbing a recorder, going out and find some interviewees, and questioning them deliberately. Rather, interview data collection will restrict interpretation of the research outcomes if there is no coherent data collection and management procedure (Kammen and Stouthamer-Loeber 1997:375-376). I will employ the unstructured interview for this research because of the nature of qualitative research (Kvale 1996:13). Consequently, I will have complete freedom in terms of the wording I use and the way I explain questions to those respondents. Apart from this, I can formulate questions and raise issues depending upon what occurs to me in the context of the discussion.

At this point, a paradox emerges that researchers, on the one hand, have complete freedom in terms of the wording they use and the ways they explain questions to their interviewees; on the other hand, only constant and careful data collection can bring forth high-quality research results. That is to say, although researchers have the freedom to use wording, raise issues, and formulate questions in unstructured interviews, these interviews indeed involve themes such as the trustworthiness of researchers' work (Kvale 2002:310). Thus, all the questions asked in interviews have to surround the research themes, and the researchers must continually check all information obtained from interviews. In Table 17, I have displayed the prerequisites that should be noticed before collecting data from my elite respondents.

Because flexibility, freedom, and spontaneity in contents and structure underpin and interact in all kinds of unstructured interviews (Kumar 2005:160) such as in-depth interviewing, focus group interviewing, and narrative and oral histories, I have therefore, had to select the specific type of unstructured interview that can appropriately collect relevant data from my interviews. In this research, I will use in-depth interviews that help me to understand those respondents (elites) and their

perspectives on daily life, experiences, or situations as expressed in their own words through face-to-face encounters (Neuendorf 2002:77). As already mentioned, whether economic or political elites, they have been either connected with or involved in institutional changes in China, and therefore, I can access valuable information through interviewing them. Apart from this, these elites will only share exclusive information with people once they feel confident and safe. In this regard, focus group interviewing will not be an option for data collection in my research. In the light of the understanding and confidence between those elites and myself, I can however generate access to in-depth and constructive information during individual interviews.

My data collection approach is different from other scholars (Kvale 1996 ;Sayre 2001) because of my perception and the particularity of this research. For example, contrary to Kvale's argument (1996:191-193), I put categorization prior to condensation because any potential term (category) may be eliminated during the condensation process. After transcribing those interviews, I should carefully examine the most repeated terms or themes vis-à-vis literatures, objectives, and sub-objectives to indicate all the potential categories, e.g. institutional changes, property rights, reforms and openness, economic growth, SOE privatization, acquisitions and mergers, banking loans, land reforms, housing policy, imbalanced development, unequal re-allocation and re-distribution of resources, HNWIs, rich-hatred, harmonious society, etc. Consequently, I can proceed with condensation based on these categories extracting from the interview transcripts. At this stage, I should condense the interview texts without eliminating those category terms. Following the condensation, I can sort out the condensation according to established categories. After previous steps (transcribing, categorizing, condensation, sorting), I therefore can go on with interpretation, which is the most important part within the entire data collection process.

Interview interpretation is beyond a structuring of the manifest meanings of texts to less speculative interpretations of texts (Kvale 1996:193), and entails re-contextualization of those condensed texts. During the categorization process,

interview texts have been de-contextualized. This is not to say that these categories have been isolated from the context. Instead, if I consider the broader context, some categories may become relatively less important. Therefore, I may only refer to those comparatively vital categories and neglect those less important ones during categorization. For example, I can neglect inter-party democracy and rotation, which too have significant impacts on institutional changes, while I am focusing on the political constraints in China.

Nevertheless, interpretation goes beyond what has been directly said by interviewees that may be absent in interview texts. With different conceptual frameworks, the same verbal or nonverbal statement, e.g. word, sentence, gesture, and even a sigh, can lead to different interpretations by different researchers (Schefflen 1978). These different conceptual frameworks, to some extent, resemble a bias or propensity toward an object or view that compromises impartiality. (Webster 1967). As Schefflen (1978) argued, different conceptual frameworks will lead interpretation to an entirely different result. For example, some interpreters focused on the interviewee in isolation, some brought up the preceding context and the relationship between interviewer and a third party, some included the succeeding context and other relationships, and some followed from a closer focus on the interpersonal interaction (Schefflen 1978), and all these interpretations were gathered from the same interviewee. Nevertheless, these interpretations are convincing from their own perspectives, and strategically practical at some point. In other words, interpretation is trying to interpret what a person directly says and a text manifestly expresses, into something that is directly said, which is a hidden intention (Kvale 1996:203). To prevent personal conceptual frameworks becoming biased vis-à-vis interpretation, I shall therefore employ abundant statistical evidence regarding this particular study that can present objective facts to either verify or correct my interpretations concerning those interviews.

As previously mentioned, data collection in unstructured interviews, on the one hand, are not simply recording some descriptive or narrative information and transferring them to text, or grabbing a recorder and going out to find some interviewees and

question them deliberately; on the other, they cannot be collected through a set of predetermined questions. Instead of that, researchers should raise issues around different areas of inquiry with an interview guide. The interview guide not only is a loose list of issues that researchers want to discuss with respondents, but also ensures desired coverage of the areas of enquiry and comparability of information across interviewees.

5.5.2 COLLECTING DATA FROM SECONDARY SOURCE

Previously, I have argued that scholars, semi-government and government institutes occasionally collect and produce some essential data, evidence, or information from which I only need extract the required parts (*see Table 13*). The reliability ranking of secondary source is (1) government or semi-government publications, (2) earlier research, (3) personal records, and (4) mass media. All of these have been discussed in section 5.4 and it is redundant to repeat them here. Note that I should focus on the availability, format, and quality of secondary source data and adopt them as the above ranking mentioned.

5.6 DATA PROCESSING

I have already discussed the ways of collecting data through different sources and their prerequisites. Next, I will discuss the ways researchers plan to communicate their findings that will determine the processing and analyzing of the data collected. There are three major ways that researchers can express their findings in qualitative research: (1) to develop a narrative to describe situation, episode, event, or instance, (2) to identify the main themes that emerge from field notes or transcriptions of in-depth interviews and writing about them, quoting extensively in verbatim format, and (3) in addition (2), to quantify the main themes in order to provide their prevalence and thus significance (Kumar 2005:277). In this research, I will adopt the third approach that closely corresponds to my research purpose.

Content analysis is about to capturing the essence, e.g. what is the perfume, the flavour, and the nature of the phenomenon (Mayring 2000). Researchers often conduct content analysis (Neuendorf 2002:10) analysing the contents of interviews to recognize the

main themes that emerge from the responses given by respondents. As researchers go further along the research paradigm spectrum, from quantitative to qualitative assumptions, then they tend to immerse themselves experientially in the holistic nature of the phenomenon. In content analysis, there is immersion in text, and researchers can use a variety of approaches for analysis. It may be that via deep, personal reading and thinking about textual data, a researcher can develop an accurate conceptualization and understanding. However, it may also be that using more structured, analytical techniques, involving sorting, categorizing, naming themes, and counting, is required. As always, the specific method will depend on the nature of the situation, the personality and expertise of the researcher, and the financial and political context. I therefore set out the description and application of data analyzing process in the Table 17, and will explain in the following paragraph why I conducted this four-step process in this particular research and how I processed them.

Qualitative research generates a large amount of data from multiple sources that can help researchers to explore their perceptions, experiences, feelings, and beliefs about people; therefore, systematic organizing of the data is important to prevent researchers from becoming overwhelmed by the piles of data and to prevent researchers from losing sight of their original research purposes and questions. In my research, much of the descriptive data is obtained from those elite interviewees, who participated in my research for confirmation, congruence, validation, and approval. Therefore, those elites may be the best persons to decide whether the research results have been able to reflect their opinions and feelings appropriately. In this regard, advance preparation assists in handling large amounts of data in a documented and systematic fashion: categorizing, coding, sorting, and retrieving (the four-step process).

As most data in qualitative research are descriptive and the research purpose is to explore perceptions, experiences, feelings, and beliefs of people, the major strength of the qualitative approach is the depth to which explorations are conducted and descriptions are written, usually resulting in sufficient detail for readers to grasp the idiosyncrasies of the context (Dhar 2008). The above-mentioned purposes of

qualitative research are applied to explore the role-transition of leading social actors and the relations between them and institutional changes in China. Therefore, I expect the four-step data analyzing process can help my readers to grasp the idiosyncrasies of China's institutional changes. The application of the four-step process, which is shown in the Table 18, will enhance and sharpen my argument. Next, I will explain the data analyzing process of my research.

5.6.1 DATA ANALYZING

In qualitative research, researchers often inspect raw data using as many interpretations as possible to find linkages between the research objects and the results vis-à-vis the original research questions. Throughout the evaluation and analysis process, researchers should remain open to new opportunities and insights. In this regard, the qualitative research approach with its use of multiple data collection methods and analysis techniques provides researchers with opportunities to triangulate data in order to strengthen the research findings and conclusions. In this section, I will explain how I rely on the technique to come up with (1) developing my own theory or (2) finding some suggestions from the scattered qualitative literature.

In the interview approach, data analysis will come about through listening to repeated playing of the recorder and by cutting and pasting selections from some pages of transcripts. These are exhausting tasks and became more overwhelming than I had originally anticipated at the beginning of those interviews. At the beginning, it seemed that I could be confident of having analyzed those responses sufficiently or having worked out the main structure and meanings. Therefore, I occasionally wanted to withdraw from my hard won studies because of exhaustion, and consequently, I did not succeed in absorbing and processing the original richness of the interview stories in a methodological and justifiable way. By acknowledging the efforts of several scholars (Tesch 1990 ;Miles and Huberman 1994b ;Wolcott 1994 ;Silverman 2006), I have found several qualitative analysis methods that classify the interview into: categorization, condensation, sorting, interpretation, and ad hoc. Some of these approaches indeed helped me to analyze data more efficiently

than in my initial efforts which were interpretative and ad hoc. Within these approaches, the results of condensation and interpretation are mainly in a descriptive format. As for categorization, its form can be either in numbers or in descriptive form that can be applied to both statistical analysis and qualitative study. As for the ad hoc approach, it is eclectic and can be descriptive as well as in numbers.

In the categorization step, interviews are coded into categories to denote the strength of a specific phenomenon (Kvale 2002:192). As mentioned in section 5.4.1, I will not assign any code to a theme but from its descriptive nature. Condensation entails a synopsis of the responses expressed by interviewees, or the main sense of what is said and rephrased in a succinct format (Kvale 2002:192). In fact, data with rigor and discipline expressed in terms of ordinary language can be highly useful without transforming them into quantitative formats if researchers deal with data systematically (Giorgi 1975:95-96). Now, I will split interpretation into two parts: narrative and interpretation. With respect to narrative, it focuses on the stories told during interviews, and consequently works out their structures and plots. Most respondents told their stories during interviews. In this regard, I may create a coherent story out of the many incidents reported throughout the interviews that did not tell stories. There remains one important issue regarding narrative that I have to identify the main themes and classify their responses within the vernacular to prevent any incorrect theme-identification and response-classification. Narrative may sometimes rephrase interviews in brief format, however, I need to develop the potentialities of the interviews into elaborate texts and therefore get more descriptive notes than in the original interviews.

Apart from that, Interpretation entails the subjective consciousness of the qualitative researcher, who must go beyond the manifest meanings of interviews to the speculative interpretations of them (Kvale 2002:193). As mentioned, researchers will therefore re-contextualize the descriptive statements given by respondents within broader frames of reference. That is to say that interpretation can be a turning point within interview research because it may guide researchers to the factual result, or mislead them to a preconceived conception. In this regard, the quality of

interview questions, reliability of interviewee, and skill of interviewer are imperative for the researcher to conduct high-quality interview research. In terms of the ad hoc approach, it literally represents a special approach, which is eclectic, various, and can be in words, in numbers, in figures, and in their combination as well.

Nevertheless, no matter whichever approach is adopted in my research, the premise is to read the statements from my interviewees thoroughly with the least preconception and to thematize their statements from my own perspective. In order to elaborate this particular analyzing process, I have extracted a process from Giorgi (1975) that may help me to analyze the research process thoroughly (*see Fig 22*).

Before any further discussion and exemplifying my analysis approach, I need to further explore the role of interpretation within the research interview. An interview is a conversation between two persons about a theme of mutual interest; therefore, the interview is a specific form of human interaction in which knowledge evolves through a conversation (Kvale 1996:125). Apart from that, in interview research, the transformation from spoken language to written text was depicted as a translation and interpretation; therefore, analysis has actually permeated an entire interview inquiry rather than at an isolated stage. Besides, interpretation also continues during verification and reporting in a research interview. Nonetheless, there remains a common question with respect to the interview interpretation that different researchers find different meanings in the same interview. This query to interpretation, as Kvale (1996:210) mentioned, involves the demand for objectivity that a statement has only one correct and objective meaning, and the task of interpretation is to find this one and only true meaning. However, the fact is that interpreters' preconceptions may be often integrated into the research questions and therefore result in different meanings in the same interview. In this regard, the researchers' purposes may play the major role in interview.

In this research, I am about to find out how institutional changes could affect the role of leading social actors in China. Because interpretation in an interview involves a related distinction, therefore, the purposes of this particular interview research can be

either (1) comprehending interviewees' understandings of China's institutional changes or (2) developing, through the interviewees' descriptions, a broader understanding of how institutional changes affect the interviewees and the like in China. These two different purposes may therefore bring forth different research questions to the same interviewees in the same interview and get different results and meanings. In scenario one, I may get a result that merely reflects an individual and subjective perspective on institutional changes in China. Therefore, I may interpret the institutional changes in China from a macro perspective as scenario two does. In this regard, the interpretation acquired from scenario one may not be applicable to this particular research because of the micro perspective.

Another issue in interpretation is that the researcher analyzes the statement from the interview on (1) a manifest level, or (2) the latent meanings, which are not explicitly conscious. If my purpose is to get the latter one, I must be very careful to avoid being misguided by any preconception because I may only notice the evidence that supports my own preconceptions, selectively interpret and report statements justifying my own conclusions, and consequently overlook any counterevidence. Therefore, different interpretations seem subjective that may in part be because the research questions asked are not clearly stated and without specifications. In order to prevent any being wrongly interpreted, an explication of the perspective and specification of the research question should be posed at interview. In this regard, different interpretations of the same interview will contribute to the richness and strength of interview research. I have already illustrated the data collection and data processing, which includes data processing procedure and data analyzing. In the following section I will discuss the limits on generalisation

5.7 LIMITS ON GENERALISATION

A generalisation is an approximate quantitative measure of the numbers of objects belonging to some class or a statement about certain common properties of objects (Sayer 1984:100). For example, "80% of HNWIs in China exploit their access to resources in order to retain their existing assets and privileges", or "most HNWIs in China become rich because of a distorted and unfair housing policy". These

examples may suggest a necessary relation; however, most interpretations remain sceptical about the causal relationship.

Because of the dissertation topic, many people persistently asked me questions, such as “what do these HNWI have in common?”; “what are the distinguishing characteristics of HNWI in China?”; “how many of these HNWI have these characteristics?”, etc. That is, once those people hit upon something, they simply pose analogous questions that primarily seek out relations with previous persons or situations. Those questions were mostly derived from some rough predictions that may be either simple descriptive summaries of a given situation or extrapolations. The central theme of generalisation in social science is that human behaviour will be successful although there is hardly a piece of evidence to justify it, whether deterministic or probabilistic (Sayer 1984:100). Many positivists in social science try to produce laws of human behaviour that could be generalized universally (Kvale 1996:232); however, a contrasting fact is that every situation is unique and each phenomenon has its own intrinsic structure and logic. In other words, to search for generalisation in this research is improper and unattainable.

I have explained that HNWI in China have changed from time to time and the institutional environment varies along with those shifting economic and political situations as well. Likewise, today’s HNWI are different from those in earlier years. Not only are their educational backgrounds, social status, and the explicit ways of becoming rich different, but also their beliefs and behaviours have changed dramatically. Nonetheless, one thing that is immutable is the intrinsic quality of accessing wealth. Most HNWI in China need political power unceasingly to keep their wealth; otherwise, they are highly likely to lose everything, e.g. Yang, Rong (2001 3rd richest, fled to USA), Hwang, Guang-Yu (2008 ranked 1st richest, incarcerated), Zhang, Rong-Kun (2005 ranked 16th richest, incarcerated), Zhou, Zen-Yi (2002 ranked 11th richest, incarcerated), etc. They were imprisoned not only because of economic crimes but also because of the loss of their political protections. For example, the arrests of Hwang, Guang-Yu and Chen, Shaoji (former chairman of

CPPCC Guangdong province) and the arrests of Zhou, Zen-Yi and Chen, Liangyu (former Shanghai CCP secretary) are closely related.

Nevertheless, generalisations may be misleading in the context of de-historicization because people regard some properties allegedly as common to society(s), which can be the same or different, at different times and try to give a transhistorical, pancultural character to phenomena, which are essentially historically specific and culture-bound (Kay 1979:55;Menzies 1982:127-129;Sayer 1984:91). Therefore, to generalize about the relations between HNWI's and institutional changes in China is unrealistic. However, owing to the unchanged political polity, China remains a country with a one-party dictatorship since 1949. Although there have been many changes within the CCP, e.g. establishing a rotation system, intra-party democracy, but the CCP still masters all major resources, whether they are cultural, economic, or political. In this regard, people who can access these resources will have more chances of becoming wealthy in this particular society. Therefore, it is likely that I may generalize about relations between HNWI's and institutional changes in China as a constant and unchanging aspect of the environment.

The more a social object is internally related to other objects, the less likely is it to be invariant across time and space (Sayer 1984:92). Therefore, it is important to scrutinize this immutable nature and its relationship with other objects. As mentioned, unchanged political constraints are a coercive measure to force ordinary people to conform to decrees, which were promulgated by local or central authorities, whether illegitimate or counter-constitutional, e.g. Changes in Urban and Rural Construction Land (issued by Minister of Land and Resources in 2008). These kind of coercive measures often restrain people from legally accessing public resources. In this regard, to access public resources becomes the manifestation of people's privileged social status and good political and commercial relations. Consequently, these people can have more and better chances to become well off than ordinary folks.

This intrinsic quality of accessing wealth arguably relies upon political institutions that make this unaffected intrinsic quality a contingent fact, which has to be determined by means other than generalisation (Sayer 1984:92), rather than a necessary fact. In this regard, generalisation may not be applicable to that intrinsic quality. However, if the political institutions are practically necessary facts in China, I will be able to generalize this intrinsic quality of accessing wealth in accordance with the rule of necessary fact. In this regard, this research becomes meaningful and necessary. However, I have to be aware of the fallacy of composition (Elster 1978:97-99); namely, that what is possible for an individual must be possible for all individuals simultaneously. For example, a HNWI has accessed wealth because of exploiting his or her power to access public resources owing to institutional holes (Yang 2004); therefore, all HNWIs can get rich by the same means. This extrapolation or common-sense thinking essentially underestimates the interdependence of positions. Likewise, I cannot infer that each HNWI will get rich by exploiting his or her control of access to public resources because most HNWIs do so. This downward inference of one kind of strength; another would be the instance of the fallacy of division. In fact, many HNWIs in China become wealthy because of intelligence and industriousness.

In addition to the fallacies of composition and division, I would like to mention the ecological fallacy (Elster 1978:99), which is the inference from a correlation at the community level to a similar correlation at the individual level. In Elster's example, a high proportion of Ethnic groups in a community goes together with high crime rates; that we conclude that Ethnic groups commit more crimes than whites that is invalid because it may be due to people of ethnic origin being more victims of crimes. In this respect, I may not be able to say that HNWIs commit more collusion than other people do because HNWIs in China's business world goes together with more collusion. The above discourse actually corresponds with my interviews that many economic elites did not want to collude with bureaucrats but were forced to do so. In my opinion, all the above fallacies make similar mistakes that they make inferences inappropriately and subjectively. Consequently, I note several limits on generalisation in the Table 19.

The value of generalisations depends upon the qualitative nature of the objects to which they refer. They only, at most, allow indirect reference and change, and require causal analysis, e.g. what enables or leads to doing it. In my opinion, generalisations can only complement and enhance but never replace orthodox qualitative research methods. Next, I will discuss the ethics issue concerning this particular research.

5.8 ETHICAL ISSUES

Ethical means conforming to accepted standards of conduct (Webster 1967) or in accordance with the principles of conduct that are considered correct, especially those of a given professional group (Collins 1979). Within this definition, several keywords “accepted standards of, or principles of, conduct” and “considered correct” raise subsequent questions: (1) what are these accepted standards or principles of conduct, (2) who determines them, and (3) in whose judgment must they be considered correct. More queries arise following the above questions that (1) are there any universal principles of conduct that can be applied to all professions? (2) do these principles vary with time?; and (3) what happens when a professional does not abide by these principles? (Kumar 2005:242). In this particular research, the aforementioned questions become the determinants of ethical issues.

Society is continuously changing according to the needs and expectations of that society; therefore, the ethical codes governing society also need to change. In other words, what has been considered ethical in the past may not be ethical at present or in the future. Therefore, any practice whether ethical or not, is made because of the principles of conduct prevalent at the time. Because the principles of conduct vary from profession to profession, there is no such ethical code that can be universally applied across all professions. In this regard, each profession has its own ethical codes. In social science research, any derivate of a moral quandary is the basis of ethical conduct and certain behaviours in this research are considered to be unethical, e.g. breaching confidentiality, using information improperly, and bias introduction, etc. (Kumar 2005:242).

Ethics is debatable and contestable because it is concerned with how people ought to behave and suggests how social and individual behaviour can be improved; therefore, it is the conflict of values, interests, sentiments, and choices between principles, decisions, and choices (Preston 2007:16). In other words, ethics can only be interpreted rather than followed because it seldom provides definite answers to the normative choices to be made during a research process (Kvale 1996:110). Without deeper examination and accurate definition, it is difficult to perceive how important ethics will be to my research and the extent of the consequences if I do not comply with them. Therefore, how I resolve these ethical issues depends on myself, and the conditions under which I am working. Honesty, fairness, knowledge, and experience, which constitute the integrity of every researcher, are always the decisive factors (Kvale 1996:117). Next, I will discuss ethical issues at different stages of the research and relations between these issues and participants in my research.

There is an ethical protocol, which illustrates some questions at the various stages of interview study shown in Table 19. This protocol can be very useful for me to prepare the outline of my research design because this protocol can make me bear these ethical and moral issues in mind while making research design and normative decisions. In my opinion, Table 19 can be reduced to three essential subjects: informed consent, confidentiality, and consequences. Informed consent entails informing the research respondents about the overall purpose of the particular research and any possible risks as well. In my research, I have informed all my interviewees before interviewing that they are free to withdraw at any time and all informed consent directly received from them rather than their spouses, parents, and superiors. In this regard, my interviewees will normally not feel any pressure to participate and voluntarily partake in the interviews. Because the informed consents were obtained directly from participants without reluctance, therefore, the information given by them during interviews is abundant and useful most of the time. Some scholars (Lincoln 1990:286) want to replace informed consent by a dialogue format and assert that this may shape the final research result. However, this innovative format does not seem practical in my research because those respondents

in my interviewees scarcely felt comfortable without any prior disclosure of my interview purposes.

Confidentiality in this research is enormously important, possibly more so than with other subjects because of the peculiar institutional environment in China. Since many people in China continue to be subjected to unfair and illegitimate convictions because of truth telling, e.g. AI Weiwei, RAN Yunfei, etc., securing the confidentiality of the identities of my interviewees and private data is imperative and became the first priority in my research. Because these interviews entail a large number of investigations of institutional changes, especially those of dual-tracking pricing, SOE privatization, land auction, the data obtained from these interviews may jeopardize the existing interests and privileges of some incumbents, and consequently bring serious problems to my interviewees and their families if they are identified. Although some of my interviewees are even keen to identify themselves to the public because of their discontents against those incumbents, I continue however to keep the identities of all my respondents in confidence in order to avert any potential risk to all respondents of my research.

Nevertheless, other researchers may claim that they are not able to reproduce the findings or have intersubjective control from my research because of the unknown identity of respondents (Smith 1990). Thus, I have detailed descriptions about the criteria for selection of respondents in this research, e.g. they were previous SOE managers and party cadres and are owners of private companies or high-ranked managers of an SOE, their wealth positions, etc. In other words, researchers who are interested in my research may identify their own qualified respondents to conduct similar research to check the results of my research, and correct, verify, or extend it consequently. Finally, I am going to discuss the last subject of ethical issues, consequences. For every interview study, it is the researcher's responsibility to inform respondents regarding the potential harms and expected benefits of participating in their studies. The purpose of doing so is to reflect on those possible consequences for both the respondents participating in the research and the people they represent.

Now, I am going to discuss ethical issues vis-à-vis different stakeholders of research. In general, there are three major stakeholders in research, the research participants or subjects, the researcher, and the sponsor organization (Kumar 2005:243). In this research, there is no sponsor organization; therefore, I will only discuss ethical issues from the perspectives of participants and myself. Participants in social science research are those who provide information to help researcher to gain understanding of a phenomenon, situation, or issue. There are several things concerning ethical issues and participants that researchers need to notice (*see Table 19*). In the light of this table, I have illustrated several ethical issues that should be noted concerning the research participants, and have displayed those issues that are related to the researcher pertaining to ethics in Table 21.

In my opinion, researchers need to consider ethical issues not only from their own perspectives but also from those participants of their research. Apart from that, ethical issues change from one stage to another in the same research. Next, I shall try to arrive at a conclusion of my study of methodology.

5.9 CONCLUSION

This research employs the qualitative approach, which tries to understand phenomena in context-specific settings (Golafshani 2003) and produces findings not arrived at by means of statistical procedures or other means of quantification (Strauss and Corbin 1990:17). It also gathers information of HNWI's behaviours and actions and the structures and processes of institutional changes in China. Consequently, I have encountered several questions such as how their behaviours and actions are understood, how those changes are explained, etc. Scholars often respond to these questions by incorporating some theories into accounts of these issues, and theorization (conceptual framing) therefore becomes the value-added element of qualitative research (Llewelyn 2003). However, I need to know what composes this theorization. Is it better and essential for me to employ any grand theory to provide comprehensive explanations of HNWI's behaviours and actions, and structures and processes of institutional changes in China? In my opinion, any grand theory has to be brought down to a level where it becomes relevant and manageable in a

qualitative methodological context (Alvesson and Sköldberg 2000:foreword); therefore, these grand theories may lose part of their essence. By this logic, it may be better for me to clarify conceptual tools and to build new ones by following the criteria of utility.

Arguably, it may be time consuming or even time wasting to create new theories if I could apply available theories to this research with certain alterations and supplements. From my perspective, theory is not restricted to “an order set of assertions about a generic behaviour or structure assumed to hold throughout a significantly broad range of specific instances (Sutherland 1975:9)”, or not only having an unfamiliar and esoteric character in relation to lay vocabularies, but rather a diverse and multifaceted understanding (Sayer 2000:146). Apart from that, I should not ignore the contextualization of behaviours and structures (Llewelyn 2003) because theory can scarcely be equally successful in every context and this applies equally to its constituent elements (Sayer 1984:73). That is to say, people should not try to expect any theory to effectively explain similar action, behaviour, events, or relationships in different contexts. Thus, even though I try to apply any obtainable theory to this research, it is less likely to be fully applicable without any change to the original one. Therefore, I integrate institutional change theories with resource dependence theories because the initial contexts of both theories differ from the context in China, and, in turn, appropriately apply this new combination to my research (*see Fig 9*).

Theories reflect the contestation of meaning and significance in social and organizational life (Sayer 1992:83), and significance differs across cultural, economic, and political contexts. In contrast, meaning is concerned with how an event is connected into an episode or how social actors are related in an organizational structure (Polkinghorne 1988:6) and is relatively stable. Significance varies due to interaction effect and unintended consequences: a relatively trivial and not very meaningful event may assume huge significance within a particular context (Alvesson and Sköldberg 2000:58-59). For example, the *Arab Spring* would not have happened without advanced technology of communication, people’s

intelligence, and desire of freedom varying with the times. Likewise, it is unlikely to take place in China because of the different cultural, economic, and political context. Even the Tiananmen Square protest may not happen again in China for the same reasons.

Nevertheless, in preference to any theory, people need theorizing or conceptual framing in order to decide what to do or think next. Thus, researchers have to describe the theorizing process more explicitly, operate it more self-consciously and decouple it from validation more deliberately in order to improve the theorizing process and, in turn, ameliorate theory (Weick 1989). As mentioned, the theorizing process is not restricted only to one orthodox type, but rather to a diverse and multifaceted understanding: (1) metaphor, (2) differentiation, (3) conceptualization, (4) theorizing settings, and (5) theorizing structures (Llewelyn 2003). According to Llewelyn (2003), theory has been restricted to the higher levels (four and five). Those lower levels (one, two, and three) that are essential to understanding and explaining action, agency, emergence and change have not been considered as theories. The lack of theorizing at lower levels has led to an inappropriate use of higher levels of theories to understand and explain action, agency, emergence, and change.

In this research, I only focus on the lower three levels of theorization, metaphor, differentiation, and conceptualization. For example, metaphor in China is frequently adopted by ordinary people towards state leaders because of the implicit culture of expressing feelings or cautioning directly. Therefore, metaphor is an alternative and effective method for people to express inside feelings and thoughts. For example, my interviewees often say that they do not need to expose their underpants to others because people already knew what it is. Deng Xiaoping and Chen Yun once said that a good cat, whether black or white, could always catch mice, or cross the river by feeling the stones respectively. In China, people often can hear and see this kind of metaphor everywhere. The underpants, cat, and feeling the stones mentioned above are metaphors that essentially represent the implicit and pragmatic essence of China's reforms. In the light of a pragmatic perspective, I therefore comprehend

why many reforms merely change within political restraint because most bureaucrats deal with changes sensibly and practically. Additionally, via re-working relationships with resource dependence theory, the adaptation of the institutional change theory effectively corresponds to the context of China after the late 1970s

Truth is not objective but rather subject to a conceptual system in social science (Lakoff and Johnson 1981:159); therefore, the so-called truth is a concept of practical adequacy (Bhaskar 1998:142). Put differently, truth is not universal and may vary with different conceptual systems. For example, the truth of China's housing pricing is poles apart owing to different conceptual systems. From the perspectives of my interviewees (HNWIs), housing prices will continue to rise because of the shortage of land, expanding urbanization, the growth of wages, and increasing immigrant labourers. For them, buying a house is as simple as poor people buying a cabbage. In the HNWIs' conceptual system, they mostly think about the up-side potential of the house instead of the excessive price now. For them, the perceived truth is that the housing price will always rise. However, ordinary people think the housing prices should and will stop increasing because of the decline in real wages, oversupply of housing, the upsurge of social justice and grievances. For them, buying a cabbage is sometimes as difficult as buying a house because of inflation. In their conceptual system, they mostly think about the affordability and interest rates instead of the up-side potential of housing. For those ordinary people, the truth is that house prices are already too high and will tumble eventually.

Thus, what is the truth of housing prices in government? Prime Minister Wen Jiabao has consecutively issued a series of injunctions aimed at restraining the rising cost of housing since late 2009. However, the Minister of Land and Planning Division, Mr. Dong, claimed that the problem of land shortage was extreme in the Council of National Land Supply Report on 7th of April, 2011, and his declaration consequently insinuates that the rising price of housing is valid. As for provincial or local governments, they seriously rely on the land use fees to sustain local financial

expenditures and thus expect and promote the skyrocketing housing prices. Therefore, the truth of housing prices in China varies with different conceptual systems of rich people, poor people, central and local governments, let alone the institutional changes in the economic system.

Following the above discussion, I comprehend that entire institutional changes vary with different conceptual systems in China. Therefore, in terms of institutional changes, behaviours and beliefs of leading social actors, and their relations in China, any observation, which is theory-laden (Hanson 1958:19), can reach different conclusions via different theories. As Hanson (1958:6-7) says, people, not their eyes, see; there is more to seeing that meets the eyeball. In this regard, people, whether they live in China or abroad, can see the same things happening in China, the disparity in their accounts arise from the interpretations they put on these things. In other words, people without adequate cultural background and plentiful personal experience, even if they live in China and have rich academic foundations, whether Western, Chinese, capitalist, or socialist, have limited appropriate interpretations of institutional changes in China.

Now, I am able to sort out the theorizing process of this research. Insofar as it can be ascertained, observation, which is not seeing an object without any perception, is pre-theorized. In other words, people may only understand something through particular ways of seeing. They need their own conceptual systems to breed their specific perceptions and theorizing or conceptual framing to decide what to think next, and, in turn, ameliorate their theories. Therefore, social scientists should not begin at any grand theory, but at the conceptual framing work. Finally, the same social object appears differently through different theories. From the above description, the most important constituent within this process is, arguably, the theorization that essentially consists of more than one orthodox academic method. In next chapter, I will use the synthesized conceptual framework and research methods to analyze the collected data.

6. DATA INTERPRETATION

The approach for conducting data analysis in this research is through interpreting the raw data collected, and then finding associations between research objects and research questions. This approach is in order to make sense of what people have said, put together what is said in one place with what is said in another place, and integrate what different people have said. In section 5.6.1, I have indicated the technique for classifying interview data, which are quotations from my interviewees (*see table 5.1*) that cannot be replaced. In this research, I have consistently embraced the concept of property rights in order to re-conceptualize the reform process in China for two reasons: (1) the evolution of property rights embodies the institutional changes taking place in China and (2) property rights are inseparable from control (power) or the support of the state. Next, I will justify the appropriateness of the above rationales through reference to the synthesis of institutional change and resource dependence theories (*see Fig 9*).

6.1 CONCEPTUAL FRAMEWORK

Before further commencing any analysis, it is necessary to briefly re-introduce the conceptual framework for this research. In China, people did not have private properties and associated property rights before the economic reforms; therefore, it is least likely that China's HNWIs possess their wealth by way of *creatio ex nihilo* but through corporatization or privatization of previous state or public properties. The process of corporatization or privatization per se is essential for revitalizing state wealth if it is initiated with fairness and transparency. In China, however, the rules of the game relating to these processes were usually ambiguous in terms of the transaction prices and scope that actually embody the integration of the theories of property rights (Barzel 1989 ;Barzel 2000), power process (Lawler 1992), and resource dependence (Pfeffer 1992 ;Pfeffer and Salancik [1978] 2003) according to my research arguments (*see Fig 23*). In this figure, the role of the social elites, the function and scope of property rights, the value of public and private assets, and the extent of reliance on political power are dissimilar from one stage to another. There are two critical points, 1980 and 1990, in the process of power changes which were embodied in many important economic indexes such as the GINI index and GDP

growth. (*See Fig 5*). The GINI index or income disparity, for example, started to decline in 1980 because of the successful rural economic reforms. On the contrary, after 1990, not only did the GINI index and income disparity start to increase but also HNWIs started to mushroom in China. The conceptual framework for this research is manifested in the aforementioned evolution process.

6.2 CONNECTIONS BETWEEN THE REFORM CONTEXT, CONCEPTUAL FRAMEWORK, AND INTERVIEWS

I have introduced the conceptual framework anew in last section. In my opinion, China's institutional changes amount to alternative economic predatory activities under the guise of economic reforms that transit public resources into the hands of a few. For this reason, it is essential to re-examine the reform context and comprehend the connection between this context and the conceptual framework, and then embodying them in my interviews.

China's institutional changes, in my view, consist of four main historical strands. The first one is the planned economy and class struggle that brought the state economy to the brink of collapse in the first thirty years (1949-1979). The second is the restraint of free movement of labor forces being confined within rural area. The third is the globalization that provides huge economic opportunities for China. The fourth is that much of the workforce was accustomed to a low-wage system derived from the previous planned economy at the beginning of economic reforms. By weaving these four strands into a whole, I therefore can explain why rapid economic growth in China happened after the economic reforms. In the economic globalization era, China's surplus labour force that was used to getting relatively low wages, was suddenly unleashed from rural areas to offshore cities, effectively sustaining the competitiveness and growth of labour-intense industries in China. However, such competitiveness and growth can hardly be sustainable through low wages in an era of rising consciousness of rights resulting in increasing discontent. Therefore, so long as sustainable economic growth supports the legitimacy of the CCP, prolonging economic growth will be the highest priority for the survival of the CCP. By this logic, state interventions, which are an effectual operating mechanism in China for

the sake of immediate interest and derived from the contradiction and dislocation of the state's role, are highly likely to be counter-competitive and ultimately eradicate market competition. In other words, to intervene in any social activity to maintain sustainable economic growth is the indispensable means for upholding the CCP's legitimacy.

In rural areas, the CCP obtained a preliminary success after the economic reforms were initiated; therefore, the CCP continued to transplant the rural reforms into urban areas after 1985. However, urban areas required far more sophisticated reforms than the rural areas. Thus, the results of urban reforms were not as initially expected and led to endless modifications without sufficient supporting measures and consistency. As argued, reforms in China are different from time to time; therefore, I split modern China's chronology into five timeframes in Table 23, each of which presents different characteristics and consequences. Through this table, I perceive a noticeable fact that the CCP has long been accustomed to dominating the allocations and possessions of all social resources since its establishment. Although the CCP supports and continues economic reforms to maintain persistent economic growth, these deliberate reforms result in unexpected consequences and call on additional reforms to remedy these deficiencies.

Institutional changes in China embody the process whereby the market economic system replaces the planned economic system. The forms of allocation and ownership of resources in China, however, are antithetic in these two economic systems. In Note 33, I have comprehensively discussed this peculiar relationship between the transition of property rights, economic reforms, and the emergence of HNWI in China. As no one can reverse and scrutinize the process of China's institutional changes anew, to interview HNWI, who have greater understanding regarding the exploitation of public and state resources to access massive wealth, becomes the most appropriate way to rebuild the process and reconstruct the scene. By this logic, my interviews with these HNWI should highly relate to who they were before the reforms, how they became rich after the reforms, and what they are doing and thinking now.

6.3 INTERVIEW APPROACH AND CHANGES OF PROPERTY RIGHTS

In China, the changes in property rights did epitomize the reforms since 1978. Basic property rights in China have long been withheld by state authorities; thus, state agents are able to exploit their power to pursue their own interests in such a peculiar institutional environment. By this logic, a decent state agent in China, being authorized with so much power (exploitation license, tax evasion, construction permit, bank loans, favourable policies) without much corresponding restraints, could be lured into altering his/her mandated purposes because power is always accompanied by a rent-raising capacity inevitably sought by opportunists. For example, entrepreneurs (bribers) who can make one million Yuan profit may have to pay half of the profit over to state agents in order to get the permits to start their projects. Therefore, these entrepreneurs will lose half of their anticipated profit, which will be transferred to those state agents and result in an eccentric income re-distribution.

For those state agents and bribers, bribery may be a *Pareto Improvement* that harms none of them but helps both parties (Zhang 1998) – the power to consent is not worth much in the agent's hands but is valuable in the briber's hands. However, there is a loss for society as a whole because other developers may make more profit from the same project than the briber and therefore contribute more to society through taxation. In other words, not only is the utility maximization of a scarce resource not attained but also minor people make a profit, which is the external cost spilling over the entire society, and at the expense of the vast majority. Nevertheless, China's entrepreneurs have long been restrained within such a confined environment after the economic reforms (*see Note 34*). Because regulations have a self-expansory feature that eventually may eradicate market competition (*see Note 35*), those deteriorated regulations and excessive concentration of power together eventually form a symbiotic relationship.

The consequences of China's reforms, as some scholars (Lieberthal and Oksenberg 1988:3) argued, are "negotiations, bargaining, and the seeking of consensus among affected bureaucracies." Thus, there may be no direct relationship in China between

problem and solution, and a policy outcome may not reflect the problem that previously prompted the decision-making process (Lieberthal and Oksenberg 1988:4; Saich 2001:212). For that reason, any policy in China may be deployed for either of the following reasons: (1) to solve new policy problems pressing upon leaders; (2) to keep alive the ideological vision of its proponents; (3) to rebuff challenges from rivals; (4) to reward its networks of loyalties; (5) reflecting a structural dimension of China's bureaucracy (Lieberthal and Oksenberg 1988:3). The previous debates essentially reflect the policies adopted in China's reforms, and provide the source of categories for my analysis. The evolution of the policies displayed in figure 6.1 was sloganeered at different stages that resulted in sequential consequences justifying my conceptual framework: institutional change theory alone, without introducing a resource dependence parameter, can explain China's transition. This concept will be adopted to justify my interview questions, guide categorizing and coding, and explain how to apply them into the data interpretation.

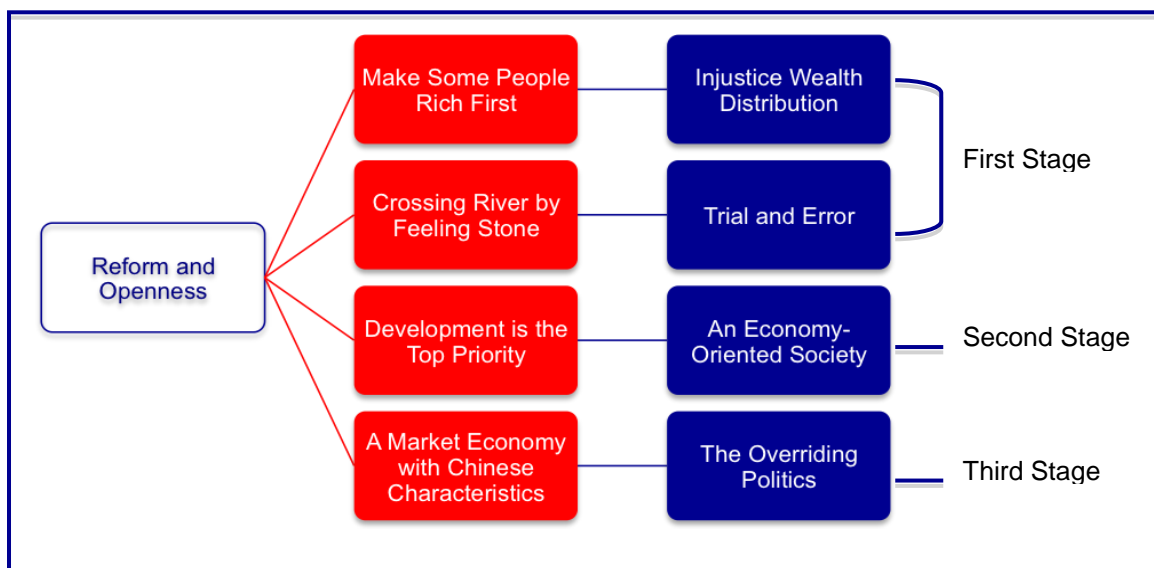


Figure 6.1 Policy and consequences at different stages of China's reforms

6.4 CATEGORIZING AND CODING OF TRANSCRIPTS

I have argued that interviewing HNWI is essential to this research from both the literature and practical perspectives, and have mentioned that data processing consists of four steps: categorizing, coding, sorting, and retrieving (*see Table 18*). As for categorizing, I have identified the main themes from the pilot interview with interviewee 3, a party cadre and senior manager of a former SOE, which ultimately

became his own company after the economic reforms. In other words, his representativeness is significant. In this particular interview, there are many terms (*see Table 24*) essentially corresponding to my presupposition – institutional changes in China are highly related to and constrained by politics. As mentioned, I will use appropriate wordings (themes) to categorize the transcript into suitable themes. This process is not straightforward and interpretation requires considerable care. For example, interviewee 3 always referred to re-distribution as distribution because it is his first time to benefit from the wealth distribution. However, for those people who used to own enterprises, factories, or farmland before 1949, these distributions initiated after 1978 were actual re-distributions after confiscation of their properties in favour of the populace in 1950s.

At this moment, I shift my focus to four main features of property rights: alienability, control rights, ownership rights, and tenure. For ownership rights and control rights, the former refers to the power to appropriate income accruing to the means of production and to dispose of it; the latter refers to the power to make production and exchange decisions. In China, the CCP intensifies its control rights and, in turn, deliberately devises ownership rights to decide tenure and to restrain alienability. As for tenure and alienability in China, they are rarely coherent and are restrained by inconsistent policies. As the sixth interviewee indicated, many farmlands and urban dwellings are expropriated by different hierarchies of authority with disproportionate or no compensation. By this logic, people who seize control rights of property in China actually take hold of ownership rights, tenure, and alienability and therefore access wealth (*see Fig 24*). Thus, the CCP, on the one hand, gives the ownership rights of public properties to designated individuals by way of gratuitous alienation (Quilliam 1970) or private deals; on the other hand, they limit tenure and restrain the alienability of all properties. The seventh interviewee also mentioned that the entitlement of ownership in China is useless because government can take away people's ownership anytime by means of any high-sounding excuse. Therefore, legal authority in China can have significant control or influence over property without the ownership that essentially embodies the previous process.

One question remains: why was the third interviewee unwilling to use the term “re-distribution”? From my viewpoint, if there is a wealth re-distribution then there should have been wealth distribution in earlier times; therefore, the transition from the distribution to the re-distribution should be examined and compensated for. For example, his company was a COE, which was arguably owned by the villagers but essentially controlled by the CCP. However, villagers never had a penny from their own company that they should have been able to appropriate income accruing to the COE. The truth is that interviewee 3 unwaveringly deemed the transition to be merely between him and the state rather than the villagers. There are two reasons for upholding his insistence. First, the CCP did transfer the previous COE into a co-operative system (*gu-fen-zhi*) instead of private ownership (privatization) at the outset of economic reforms¹⁵. Second, the COE was insolvent according to its accounting book at the time of transition. According to my interviews, many managers of former SOEs, in due course, became legitimate owners of these newly established corporations after the economic reforms because these managers might ‘cook the books’ to legally acquire public assets at least cost. This newly introduced co-operative system, which ostensibly was to promote efficiency, essentially removed the full-employment burden from the state and, in turn, transferred public assets to specific individuals to achieve the purpose of wealth re-distribution (*see Fig 25*).

Except for the terms of distribution and re-distribution, many terms’ definitions are confused and ambiguous as well. For example, the term “state” sometimes refers to the political leader (*yibashou* or *lingdao*), central or local government or the CCP. The terms “lay-off” and “dismissal” came into being during the process of privatisation, the term “private owner” sometimes indicates the nouveau riche, and this specific reform process is known as *Capitalism with Chinese Characteristics* (*see green dotted line in Fig 26*). In Fig 26, I unpack the relationship between the blue parts representing the operations within market economy and the red parts

¹⁵ His company was first transferred from COE (Collective-Owned Enterprise) to a shareholding corporation in which the government retained minor shares in 1992. In 1995, he purchased all the government shares at an unspecified price.

representing operations in pre-reform China. The purple dotted line indicates the privatization in China after the economic reforms.

In this research, interview data is often inconsistent within different respondents' experiences, perceptions and explanations of events. For this reason, categories can hardly be accommodated within pre-existing categories because of the rationale and justification for using a qualitative approach. By this logic, categories should be guided by the research purpose through the research questions and objectives. In other words, researchers with different purposes and objectives may be able to derive different categories from the same data (Dey 1993:105). Thus, categorizing entails a process of abstracting, a tool bringing greater clarity and precision in making comparisons, from within the enormous amount of detail and complexity of the collected data. There are two fundamental aspects of categorizing that are (1) implicitly meaningful in relation to the data and are (2) explicitly meaningful in relation to other categories (Dey 1993:96-97). Next, I will discuss how to abstract interview data.

6.5 INTERVIEW ABSTRACTING

Interview abstracting consists of examining the natural meaning units with regard to the research purposes. The main purposes of this research are to unpack the question “what on earth are the institutional changes in China?” and “what are the relations between these changes and emergence of HNWI?” Consequently, I developed central themes that dominate those natural meaning units. The central themes of the natural meaning units were addressed regarding such questions as, “what does this statement tell me about the institutional changes in China and the relationship with emergence of HNWI?” I then display the interviewing abstracting of interviewee 3 in table 6.1, and those details of all interviews in Appendix 1-8. Finally, the central theme of the entire interview set was tied together into essential descriptions and developed corresponding key terms (*see Table 24*). Subsequently, I will match these key terms to the parameters of institutional change theory and resource dependent theory.

Natural Meaning Unit	Central Theme
<p>1. I have experienced the transition from planned economy to market economy and regard the reform and openness as the second regime of China, and the country would otherwise fall behind without them. If people look back, they can comprehend that reform is necessary and both Deng's path and insistence are right. Seclusion will only lead the country to death, just like the Qing dynasty.</p>	<p>1. Reform and openness is imperative for China's survival.</p>
<p>2. There once were serious debates in higher level, however, theory and practice are extremely different in terms of reform and openness. When the municipal party secretary initiated the reforms, he had to get approval from someone among the central leadership. This is a matter of principle because the CCP attaches great importance to principle.</p>	<p>2. Reforms were not consistent and have to be endorsed by a higher ranking political leader.</p>
<p>3. As every movement in China, they initially put forward a slogan of "not seeking ownership, but seeking whereabouts" that local authorities did not want to own the SOEs but had to keep them located there. Therefore, the corporate tax still can be levied by local authorities and contribute to local prosperity.</p>	<p>3. Sloganeering is vital in China and consists of important meanings.</p>
<p>4. In my opinion, the main purpose of reform and openness is to change people's perspectives, especially those of the CCP cadres. Once this perspective is altered, the improvement and growth of the economy will only be a matter of time. For example, there are many people like me who became rich overnight after the reforms.</p>	<p>4. Reforms were mainly used to change the mentalities of the party cadres. Once the mentality had been changed, everything improved.</p>
<p>5. Of course there are many political leaders who are jealous, but this is the result of the reforms. As always, the CCP initiates every movement with a typical model, so does reform. In our province, unlike a universal model in other areas, the CCP put forward the "one policy for one plant", which is a scientific approach and actually activated the then doomed economy.</p>	<p>5. Political leaders did envy the success of HNWIs. There is no single model for reform in China. It varies from one place to another.</p>
<p>6. The status quo of the then SOEs was generally one of deficit. If you deduct that negative equity, these SOEs had nothing at all and no one else could get a penny back. Thus, banks had to hang their bad debts on their accounts until these SOEs, or the restructuring enterprises, made profits.</p>	<p>6. Before the reforms, most SOEs were insolvent and relied heavily on the assistance of state banks; all debts can only be paid off through the reforms.</p>
<p>7. As for the redundant labourers, the new enterprises had to lay off them within an approved range, e.g. 5% per annum in my company. Those local authorities also worried in case we laid off all labourers and sold the properties, e.g. land, buildings, machinery.</p>	<p>7. The restructuring enterprise has to deal with the issue of redundant labourers because the CCP repudiates its commitments to those labourers.</p>

Natural Meaning Unit	Central Theme
<p>8. Not all transitions, however, were successful. Some political leaders had serious conflicts of interest with plant managers; therefore, they were frequently replaced and resulted in poor efficiency. In general, unlike those heavy industries in Northeast provinces, all SOEs including collective-owned enterprises and TVEs were gone in one year once the direction of reforms was made in our province.</p>	<p>8. Some restructuring SOEs wound up in failure because of state intervention. Except the heavy industrial SOEs that could not be transferred owing to large debt, most SOEs or the likes were restructured once direction of the reform had been decided.</p>
<p>9. Nowadays, from the central government to local villages, they all are economy-oriented instead of class struggle oriented. In my opinion, China is definitely a market economy or a quasi-capitalist country. However, the path of the reforms is not as smooth as it is now. Between 1989 and 1992, I was worried about the direction and path of reform. However, I do believe that the development has to go on and cannot stop.</p>	<p>9. China almost is a capitalist country now unlike 1989-1992. Nevertheless, openness has to be carried on in China.</p>
<p>10. In China, the slogans associated with any development is very important and has to be loud and clear to let the populace understand. Deng then proposed “Capitalism with Chinese characteristics” and “development is the absolute principle” that were apparent to all indicating the direction without a shadow of a doubt.</p>	<p>10. Sloganeering is vital to promote any political movement in China.</p>
<p>11. For those Western capitalist countries that have spent three hundred years to reach existing economic positions. We only spent three decades to juxtapose with them. This is the advantage of backwardness and we should take advantage of it.</p>	<p>11. The tempo of China’s transition is swift and desirable exceeding what Western countries did hundreds years ago and is s a consequence of advantage from its ‘backwardness’.</p>
<p>12. In China, some people advocate the multi-party competitive democratic system that will bring this country to a dead end. For example, unemployment benefits and pension systems in the Western countries make their countries uncompetitive and none of the political parties can change the status quo.</p>	<p>12. China should not accept all Western institutions because some of them are awful or inapplicable to us.</p>
<p>13. I would say most of China’s people agree with the existing political system and are of the opinion that the multi-party system would destroy what we have now. This existing model actually plays the role that guides China on the right track. We have our own flexibility, e.g. one policy for one plant, which is very successful; therefore, it is unnecessary for us to adopt wholesale westernization in our reform.</p>	<p>13. China should adhere to the existing road, which has led us to the current success, and ignore inapplicable Western models.</p>

Table 6.1 Interview Abstracting of Interviewee #3

6.6 GENERATING CATEGORIES

I have inferred a set of key terms (*see Table 24*) from interview data that provide a resource for generating categories. Although generating categories is not as vague as it was at the outset, I continue to face a dilemma: should I develop them in a more detailed way (Strauss 1987) or in a holistic approach (Jones 1985:56)? The former method will generate detailed categories and therefore enhance efficiency, but at the expense of reliability and flexibility. The latter one, on the contrary, ensures flexibility, but at a high price in terms of efficiency. So far, I am not convinced that the distinctions between the data were sufficient to form a detailed category set that may have precluded particular lines of development and even prejudiced subsequent analysis. For this reason, I will adopt broad categories (Becker and Geer 1982) to develop a more flexible approach drawing some broad preliminary distinctions within the data. In my opinion, policy issues could potentially be used to identify the key terms for use in collecting data and the developed as categories because the CCP's regime is characterized by a rule-by-policy (Yang 2000:66). Therefore, interpreting those policies adopted in China's reforms may provide a reliable source of categories for analysis because the preceding flexible approach fits well with policy-oriented research. In Fig 25, I have displayed different policies sloganeered in China at different stages that resulted in sequential consequences, which will be adopted as a broad category set for this research at the outset.

To justify my arguments and to fill the gap between the broad category set and key terms regarding the in-vivo concepts of interviewees, I borrowed Flick's (2002:183) ideas to list my interview questions in following tables.

Question 1: What is it about here? Which phenomenon is mentioned?	
#1 interviewee	China is prosperous after reforms. Small-medium enterprises have to follow existing regulations, which benefit specific companies. Institutional changes in China are flexible and often without prior preparations.
#2 interviewee	China's economy is booming. The protections of property rights are not fully implemented and merely favour large and international companies. Position and quality of laws have been improved in the business environment only.
#3 interviewee	Reforms are generally used to change the mentalities of bureaucrats and are imperative to China's economic growth, but not always consistent and vary from one place to another. After the reforms, China is a quasi-capitalist country and ought to adhere to its existing mode in terms of development.
#4 interviewee	Reforms, in general, release the potential power from SOEs. After the

Question 1: What is it about here? Which phenomenon is mentioned?	
	reforms, SOEs were not improved if they continued to retain their previous ideologies and management style. SOE's performance was improved because of enhanced management instead of corporation restructuring. The worst burdens of SOEs were redundant labourers and bad debts.
#5 interviewee	Many previous state servants initiated their private businesses either by starting-up a new company or by acquiring previous SOEs or affiliates. These former bureaucrats keep close relations with incumbent state agents in order to facilitate business operations. China has a market economy and everybody has the right to become rich.
#6 interviewee	Reforms were literally initiated after 1992. Better education and higher living standards do not enhance the performance of bureaucrats because of entrenched ideologies. Regulations are selectively implemented that result in social discontent.
#7 interviewee	Some people became rich through restructuring SOEs; however, the restructuring was a move backward that led to deprivation of their ownership rights. The implementation of property rights protection is inefficient.
#8 interviewee	Some people became rich through SOEs restructuring. People, who do not comply with regulations, should be excluded from industry.

Table 25

Question 2: Which persons, actors are involved? Which roles do they play? How do they interact?	
#1 interviewee	State agents, skilled people, and opportunists are involved. State agents are in the dominant position and assist those conglomerates and vested interests through administrative power.
#2 interviewee	State agents, businesspersons, and opportunists are involved. Businesspersons can be in the dominant positions except for those agents. State agents help their friends and relatives through selective implementation of laws.
#3 interviewee	State agents and their former colleagues are involved. Incumbent bureaucrats are in dominant positions. Incumbent state agents may not always assist their former colleagues.
#4 interviewee	State agents are involved. Incumbent higher-ranked bureaucrats are in dominant positions. Inferior state agents mostly have to follow the instructions given by superior state agents.
#5 interviewee	State agents and their former colleagues are involved. Incumbent bureaucrats are in dominant positions. Bureaupreneurs or the like can adopt financial incentives in exchange for valuable information from their former colleagues who remain incumbent.
#6 interviewee	State agents and opportunists are involved. Incumbent bureaucrats are in dominant positions. It is not easy for state agents to comprehensively restrain these opportunists because of institutional holes.
#7 interviewee	State agents, their former colleagues and opportunists are involved. Incumbent bureaucrats and their former colleagues are in the dominant positions. Former bureaucrats will always get assistance from their incumbent colleagues. Opportunists eventually have to give way to incumbent state agents and bureaupreneurs.
#8 interviewee	State agents, their former colleagues and opportunists are involved. Incumbent bureaucrats and their former colleagues are in dominant positions. State agents can work together with large conglomerates to regulate business operations.

Table 26

Question 3: Which aspects of the phenomenon are mentioned (or not)?	
#1 interviewee	Interviewee did mention how certain institutions can benefit his company but not how they can jeopardize other companies. He also ignored the damages derived from those inconsistent but flexible institutions.
#2 interviewee	Interviewee overemphasized the domestic market and economic power of China but ignored how inequality and discontent can make the market economy go into doom and gloom. He did mention the quality and implementation of laws are enhanced in the business environment, however, he did not mention how they are in other environments, e.g. people's well being. In addition, he did mention that China pays attention to her international image but not to the domestic one.
#3 interviewee	Interviewee is relatively fair in terms of institutional changes in China in comparison with others. He did not mention how to cope with this if the existing mode in China changed.
#4 interviewee	Interviewee mentioned that management is most important to the performance of SOEs instead of the corporate structure. However, he ignored that an insolvent SOE can remain operational because of this unique corporate structure. He also mentioned that redundant labourers and bad debts pull down SOEs. However, he did not mention that cheap labour and unpaid debts kept the regime intact.
#5 interviewee	Interviewee did mention that he was one of those people who became rich first because of relationships with incumbent bureaucrats and information asymmetry. She did not mention how these abused relationships and asymmetric information distort the wealth distribution and may result in a potential uprising.
#6 interviewee	Interviewee is relatively fair in comparison with others. She considered that reforms were literally initiated after Deng's Southern trip in 1992. In this regard, she neglected the success of the reforms in rural areas that resulted in subsequent reforms in urban areas.
#7 interviewee	Interviewee did mention the vagueness of property rights in China. He also mentioned that the government could withdraw given property rights at any moment without the support of persuasive evidence and concrete regulations. However, these complaints could not exculpate his wrongdoing of initiating his existing company; he did not mention this at all.
#8 interviewee	Interviewee did mention the immediacy of acquiring and merging with his industry in a high-sounding tone. However, he did not say any word about the previous collusion with incumbent bureaucrats that helped him to start up his business. In addition, he mentioned a lot about the advantages of consolidation in his industry, however, he did not mention that the mandatory consolidation is essentially against the principle of the deified market economy.

Table 27

Question 4: How long? Where? Time, course and location	
#1 interviewee	Interviewee did mention his experience in Guangzhou province since 2004. He considered that reforms, in general, have been put on the right path (benefit domestic manufacturing industry).
#2 interviewee	Interviewee did mention his experience nationwide since 1994. He indicated that reforms have become image-considerations-oriented.
#3 interviewee	Interviewee said that that the reforms were initiated from the early 80s and specifically in Zhejiang province (especially not in the Northeast provinces). Reforms are mostly on track.
#4 interviewee	Interviewee traced reforms in Shanghai back to 1986. He considered

Question 4: How long? Where? Time, course and location	
	that reforms in Shanghai have been carried out warily.
#5 interviewee	Interviewee mentioned her experience in Wuhan since 1985. She considered that reforms have been absolutely put on the right path.
#6 interviewee	Interviewee considered reforms were literally initiated after 1992. She deemed that reforms have been distorted and deteriorated since 2005.
#7 interviewee	Interviewee mentioned his experience in Jiangxi province before 1979. He considered that reforms moved forwards and backwards frequently and deviated from Deng's original plan.
#8 interviewee	Interviewee mentioned his experience in Jiangxi province after 1987. He considered that reforms have been literally put on the accurate path.

Table 28

Question 5: How strong? Aspects of intensity	
#1 interviewee	Reforms are lacking in prior preparation and adopt a trial-and-error mode. The initial intensity of reform was low before reaching a consensus. After the consensus was formed, the intensity became very strong.
#2 interviewee	Reforms vary from one scenario to another. The intensity can be either strong or low and that is subject to the objectives.
#3 interviewee	The intensity of reforms was low without the consent of higher-ranked political leader.
#4 interviewee	The intensity of reforms was subject to the determination of actors and higher-ranked bureaucrats.
#5 interviewee	The intensity of reforms was subject to its implementation.
#6 interviewee	The intensity of reforms was varied and subject to the bureaucrats and vested interest groups.
#7 interviewee	The intensity of reforms was unpredictable and subject to the government agents and large companies.
#8 interviewee	The intensity of reforms was subject to the determination of government.

Table 29

Question 6: What for initially? With what intention, to which goal?	
#1 interviewee	Interviewee considered the intention was to make China prosperous and the purpose was to exceed Western advanced countries.
#2 interviewee	Interviewee considered the intention was to improve people's living standards and make China an international superpower in all aspects.
#3 interviewee	Interviewee regarded the intentions were to prevent China falling apart and keep in line with international norms and consequently juxtapose with Western advanced countries.
#4 interviewee	Interviewee considered the intention was to solve chronic domestic economic problems and to get rid of the heavy burden of redundant labour and bad debts.
#5 interviewee	Interviewee considered the intention was to make people rich, and eventually build up a market economy society.
#6 interviewee	Interviewee considered the intention was to remove collective-owned enterprises, and eventually become a rule-of-law country.
#7 interviewee	Interviewee considered the intention was to restructure ownership rights and return the controls of property rights to the populace.
#8 interviewee	Interviewee considered the intention was to restructure ownership rights and make a market economy and well-regulated society.

Table 30

Question 7: By which? Means, tactics and strategies for reaching the goal	
#1 interviewee	The CCP adopted the means of crossing the river by feeling stones, which resembles trial and error, to deal with reforms. They might waste some time and money because of error; however, they would never carry out any reform in an overwhelming manner.
#2 interviewee	Government adopted flexible but inconsistent means of dealing with reforms. The prime directive of the means is protecting the political interests of the CCP.
#3 interviewee	Before the death of Deng Xiaoping, no matter how flexible or inconsistent the reforms were, they eventually moved forward to the goal of opening up. After Deng's era, reforms remained very flexible and inconsistent because of the conflict in the political centre. They sometimes would have a plausibly consistent policy when those political leaders reached a tentative compromise; however, they eventually would change again because of the imbalance of interests.
#4 interviewee	To reap without sowing or paying the least cost is the guiding principle of the reforms. Therefore, they always hedge (change) once they encounter any problem attracting a high cost. They always deal with the reform with the least cost, rather than the most urgent one.
#5 interviewee	The CCP adopted all possible means to make some people rich first, so that they could then be the role model for other people and helpful for improving economic growth as well. Therefore, all policies and means were based on personal interests.
#6 interviewee	The beginning of the reforms was by all means to adjust the mentality of the bureaucracy in order to pursue higher efficiency that included benefiting certain groups of people.
#7 interviewee	The CCP initially fulfilled the commitment of handing state properties to the people through property rights restructuring.
#8 interviewee	The CCP kept its promise to restructure state properties and allocate them to the right people to improve economic growth through the maximization of the utilities of those properties.

Table 31

These questions related to four major aspects: frequency (never or seldom), extent (less or large), intensity (weak or strong), and duration (short or long). From the extractions, I show the answers from interviewees' perspectives that may fill the gap between this broad category set and key terms. In figure 6.2, I develop a concept that consists of preceding questions and a paradigm model to test and re-define categories. In this figure, the vertical line clarifies the relations between a phenomenon, its cause and consequences, its context and the strategies of those who are involved. As for the four horizontal dimensions, they are extracted from Table 25 - 35 to match the vertical axial. For example, to make some people rich first is the causal condition of the unjust wealth distribution (phenomenon). The context in this figure has been rephrased in section 6.2. In general, the political centre ultimately compromises with the local bureaucrats in exchange for their political support because of the established decentralization system. Therefore, many

strategies of exchange-of-benefits were developed, e.g. dual-tracking pricing system, official profiteering. Consequently, these strategies resulted in many bureaucrats who became HNWI and many serious social malcontents.

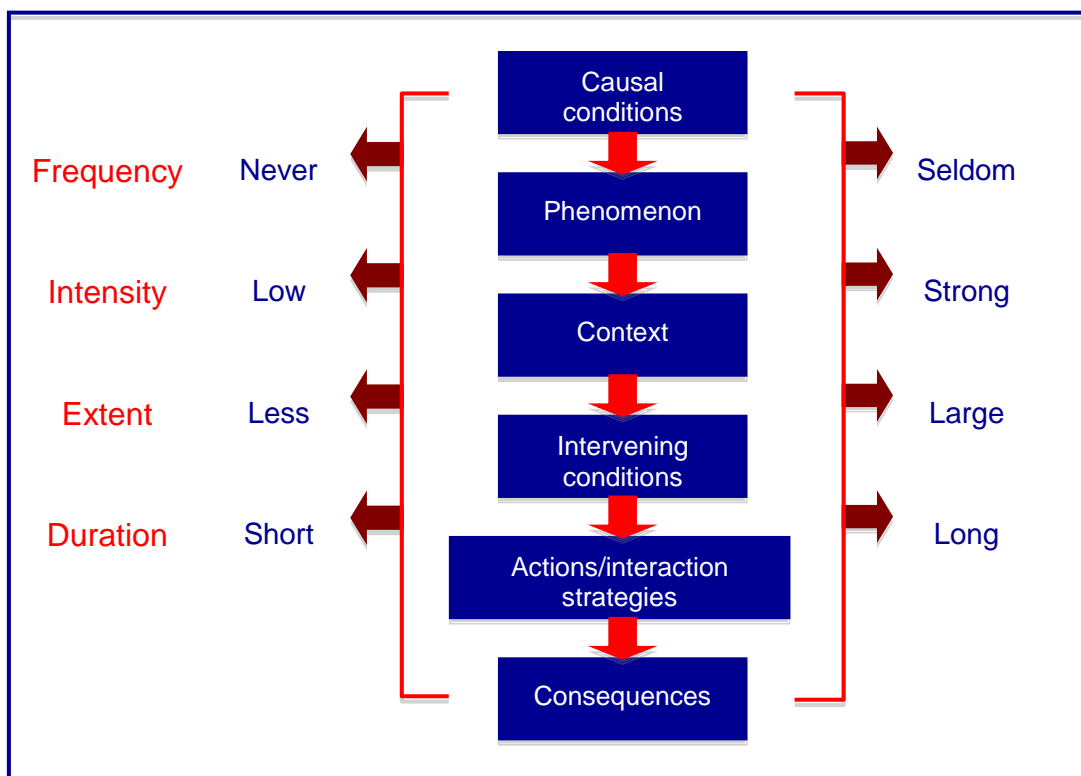


Figure 6.2 New Concept of Testing and Re-defining Categories, concept borrowed from (Strauss and Corbin 1990:99;Flick 2002:183)

Those key terms (*Table 24*) have been refined based on the main categories (*Fig 26*) in the light of preceding concepts (*vertical line in Fig 27*). Some of those key terms have been eliminated because they are inclusive of other terms. Hence, I have a preliminary category set shown in *Fig 26*. In the next phase, these preliminary category sets will be developed based on the four horizontal dimensions (see *Fig 6.2*). In *Table 26*, I have a preliminary analysis regarding the evolution of the relationships between those six category sets (see *Fig 28*) and four dimensions: frequency, intensity, extent, and duration (see *Fig 6.2*). From this analysis, a pattern emerges: frequency and intensity of most reform activities have become less frequent and weaker than they were, though reforms remain ongoing. However, their extent has been raised to a higher level than previously. This result, on the one hand,

corresponds to my contention (*see Fig 14*) that most previously taken-for-granted assumptions have been established and supported, and therefore promulgated by those powerful individuals, who benefit from these prevailing conventions. In other words, these social elites, as Powell (1991:191) argued, are both architects and end products of the formal rules and informal constraints they have developed. On the other hand, the reform objectives had been changed over time (*see table 1*). After 1992, the CCP set the tone of the reform objectives in the voice of “the Socialist Market Economy with Chinese Characteristics”; hence, reform activities moved forward vertically and their extent has been raised to a higher level. Consequently, competition for scarce and valuable resources escalated, some individuals were no longer able to acquire sufficient resources to keep their existing privileges and competitiveness in society. These individuals will therefore try to seek alternative resources to retain their power (*see Fig 9*).

Based on the preceding concept (*see Fig 24*), I continue the refining process by applying the parameters of both institutional change and resource dependence theories (*see Fig 13*). These parameters, however, were extracted from institutional change or resource dependent theories created by commentators on developed societies. Thus, they may be, as Chang (2006:70) mentioned, too demanding or out of line with the social norms or cultural values of developing countries. In this regard, I may need to modify them to fit this research. In Table 26, I not only set out the affiliations among those key terms (*see Table 24*), parameters (*see Fig 13*), and main category sets (*see Fig 25*), but also eliminate those duplicate categories, e.g. collusion, trial-and-error, extortion bribes, peasant labour, etc. However, many of these terms are related, and should be re-organized in an alternative category list displayed in Fig 26. In Fig 26, I have associated these categories with corresponding phases in China’s reforms that produce a distinct result for further analysis. For example, those categories associated with the phase of reform and openness can be further shown as an evolutionary process (*see Fig 28*). Therefore, I comprehend the relationships between, and constraints of, these categories, and subsequently make these categories as succinct as possible by grouping those with equivalent or similar meanings. Because beliefs and behaviours were not tightly coupled, people re-

asserted their self-interest, which ultimately undermined institutional stability and gave rise to institutional changes subsequently. Consequently, some resulting interactions between beliefs and behaviours will change in the social context. Thus, it was possible to continue the categorization at a higher-level refinement and conceive the core category.

The main reason for making use of the property rights approach to re-conceptualize the reform process in China is the introduction of private property rights. This introduction causes distinct purposes, pursuits, and causalities of the same issues existing before and after economic reforms, e.g. wealth distribution, competition of political power, ideological conflict, etc. The first de-institutionalization process of the conventional planned economy largely improved the agricultural output after the introduction of basic private property rights to China in 1979. The second and the most explicit one began subsequent to Deng's Southern trip in 1992 when he firmly persisted in a reforming and opening-up policy, and soon prompted the emergence of a large number of private enterprises and their owners (*see Fig 26*). The second one, however, caused widespread social discontent relating to income disparity and conspicuous consumption. As consistently argued, public wealth was more or less evenly distributed to ordinary people in China before economic reforms; thus, there was no specific economically advantaged group that could have an effect on the CCP's regime. After the economic reforms, the distribution of public resources was increasingly concentrated in the hands of few people (HNWIs). Indisputably, these people upheld the prevailing system that was legitimated by the government, to prevent their existing privileges from turning to dust (*see red line in Fig 31*).

According to my research, introducing partial private property rights to China not only resulted in de-institutionalization processes but also changed people's beliefs and behaviours. At the centre of this research is the compromise between legitimacy, power, distribution mechanisms, and resources that elaborate the transformation from public resources to individual wealth in China after the economic reforms (*see Fig 31*). Most derivative sub-categories actually encompass the centre, which has been presented in Fig 32. Although power plays a crucial role in China's reform, its

pursuit and purpose, however, vary with the appearance of private property rights and corresponding ideology. Hence, I argue that private property rights are the core category, which when developed to their fullest features and dimensions, links to virtually all other categories.

I have already displayed refined categories from previous analyses to develop a comprehensive category list. However, it is most likely to be amended if I encounter any data that does not fit within the existing list because residual categories for data cannot be readily assigned at this moment. As a result, to retain the flexibility and avoid premature judgements for the sake of efficiency, I adopted overarching categories that are neither mutually inclusive nor duplicated because the process of assigning categories might lead to modifying whatever categories are employed at the outset. In the light of the preceding elucidation, the overarching categories of this research are compromises of formal rules, ideology, legitimacy, mutual dependence, normative and cognitive ideas, path dependence, power, private property rights, rationality, resource, and transaction costs. Next, I will transfer original data bits to corresponding overarching categories.

6.7 ASSIGNING CATEGORIES

In this section, I will assign the corresponding overarching category to original data bits that mainly entails copying and filing, and is not simply a one-on-one process. For this reason, I assign more than one category to the same bits of data. Subsequently, I use the format to categorize data along with the sequence of interviews (*see Table 34*). In this research, I have analyzed China's reforms from two aspects: (1) a social reform from a traditional, rural, agricultural, and semi-closed society to a modern, urbanised, and open society, and (2) an economic reform from a highly centralised planned economy system to a socialist market economy with Chinese characteristics, which integrates a market competition system into a command economic system. I also categorized data regarding formal constraints according to the sequence of interviews. These categorized data includes not only those constraints resulting from formal rules but also from the phenomena derived from those rules (*see appendix 9-1*).

In appendix 9-1, I inspect all the databits that have been assigned to the category “formal constraints”. Arguably, this list is bold and has its drawbacks. There is a clear risk of misunderstanding or misinterpretation; therefore, re-examining databits is essential. In other words, a splitting that refines categories by subcategorizing data is essential. In appendix 9-2, some formal constraints were derived from different hierarchies of government or the CCP; others were those inflicted by interviewees on each other or their peers. Thus, I can distinguish between these formal constraints by differentiating between “formal constraints on HNWI” and “formal constraints on ordinary people”. I use the former to refer to any formal constraint experienced by HNWI or the likes, or to formal constraints inflicted by government, HNWI, or the likes upon ordinary people. In addition, I try to reverse the process, and start with some ideas about the category “formal constraints”. There may be several different distinctions, which occur to me in relation to this category. Therefore, I distinguish them between economic and political formal constraints. Consequently, I derive different levels of sub-classification from the subcategory “formal constraints” shown in Fig 33. In this figure, the category “formal constraints” has been subcategorized into three different layers of subcategory (see appendix 10-1) according to the constrained object, constraining method, and the nature of the constraint.

Except for formal constraints, ideology is another crucial category that weighs much in this research. As Sunstein (1992-1993:918) argued, new formal rules begin with the process of a legal culture with solid judicial protection of individual rights that embodies the introduction of private property rights in China. These new formal rules (private property rights) often create behavioural incentives (free to pursue private wealth) that are not in tune with prevailing informal rules (proletarian ideology) and will in turn increase the transaction costs of enforcing new formal rules. The most important institutional arrangement for reducing the transaction costs of providing the services of other institutional arrangements is ideology (Lin 1989:9). According to this research, ideology carries more weight in the normative and cultural-cognitive dimension rather than in the regulative dimension of the

institutions. An efficient ideology must also be sufficiently adaptable to secure the loyalty of new groups and its counterpart in previous groups as well (North 1981). According to North's perspective, propaganda is the best way to create ideological loyalty in people. In other words, the stronger the ideology the participants possess, the higher the price they will pay for change.

From North's perception (1981:49), there are three major features of ideology: (1) providing the ruler with an economizing and simple means of enhancing their decision-making by making people accept the status quo, (2) intertwining of moral and ethical judgements about the perceived fairness, and (3) developing a new set of rationalizations that better fit with people's experiences because of the inconsistency of their previous ideologies. In China, the CCP was successful in imposing proletarian ideology on the people from 1949 onward. After the economic reforms, the CCP exploited propaganda to justify the means of wealth distribution to change the perceived fairness of the previous ideology. By this logic, the inconsistency of proletarian ideology incurs a new set of rationalizations defying the status quo because of huge differences in ideology between different social classes. I therefore distinguish ideology into different levels of subcategories in light of political, economic, and cultural aspects (*see Fig 34*) and therefore derive six subcategories from the category "ideology" (*see appendix 10-2*). Though I have not taken the analysis further in this chapter, the result of appendix 10-2 indicates that imposed ideologies outweigh the inherited ones because ruling elites can manipulate formal and informal institutions to change or modify inherited ideology.

Next, I will scrutinize those databits relating to legitimacy, understood as social acceptability and credibility (Scott *et al.* 2000:237). To keep hold of such social acceptability and credibility, organizations and bureaucrats may not always act independently and rationally, and may respond to hierarchical pressures by altering initially mandated goals in order to survive (Selznick 1949). Legitimacy, from Scott's perspective (2008:59-60), is a condition reflecting perceived consonance with normative supports or alignment with cultural-cognitive frameworks that is not solely defined by what is legal or illegal. Therefore, a legitimate purpose will not

necessarily ensure resource allocation, nor will resource allocation necessarily ensure legitimacy. Legitimacy in China is not only a condition but also a resource, and can be extracted from the institutional environment (Dowling and Pfeffer 1975). Thus, the CCP can tactfully manipulate legitimacy by establishing the ideological foundation for sustaining those three institutional pillars: regulative, normative, and cultural-cognitive (Scott *et al.* 2000:50).

Nonetheless, legitimacy is the outcome of the process of legitimation, which is a unilateral process that only inferior individuals or organizations need to justify to peer or superordinate systems its right to exist and continue to import, export, and transform resources and power (Thompson 1967:11;Maurer 1971:361). Therefore, legitimacy embodies the equilibrium between social values and the norms of acceptable behaviours in institutional frameworks of which an individual is a part. Any actual or potential disequilibrium, which is in the form of legal, economic, or other social sanctions, may jeopardize the legitimacy of the individual. In Fig 33, legitimacy has been subcategorized into four different layers according to the perspective of the three institutional pillars, regulative, normative, and cultural-cognitive. Later, I derived five subcategories, rule (law, sanction), appropriateness, certifications (accreditation), prevalence, and isomorphism, from legitimacy (see appendix 10-3).

Any legal regime, supported by the political system of authority, actually underpins property rights: an affiliated structure but embedded in the economic order, as the order cannot exist without the political system and its derivatives. In authoritarian countries, however, only very few people can participate in the decision-making process, and these few people can impose consequent external costs on ordinary outsiders (populace) and retain welfare for themselves (Buchanan and Stubblebine 1962). By this logic, the more resources these few people gain, the more external costs will be imposed on the populace. In summary, to sustain property rights, which are unambiguous, secure and freely alienable, and ensure that any transaction and choice-of-interests based on this can be protected, is a major function for any authority (Rapaczynski 1996).

Following legitimacy, there remain certain unexamined main categories: property rights, resources and power, and transaction costs. Previously, I have explained the reform process, reform model, and private property rights in China in Fig 30, 34, and 35 respectively. From these illustrations, it seems that there are abundant inter-relationships between these categories that can be integrated as a whole. Therefore, it may not be necessary to assign data bits to, or subcategorize, these categories. I will explore the inter-relationships between these main categories in next section.

6.8 RELATIONS BETWEEN CATEGORIES

I have elucidated China's reforms, which mainly are the transformation from a planned economy to a market economy. Within this process, private property rights, which can swiftly give people access to wealth, have been introduced to China that are deliberately implemented without clear accompanying interpretation. This process essentially represents the economic reform and explains the emergence of HNWI's in China. Speaking briefly, the market economic system has been distorted in China owing to intervention from elites that results in a power-path-dependence process; the problems that arise are the result of state intervention and cannot be resolved by any existing instrument in the market economy but have to be resolved by the power of the higher hierarchy. For this reason, power, as an instrument, is developed to manipulate ideology and formal rules, and is exploited by a few individuals and interest groups in order to intervene in the market to attain their individual goals. As well, power can help them to retain their legitimacy for justifying their means. From my perspective, deliberately distorted property rights in China become a legitimized framework that underpins the predatory behaviours of the elites. Thus, power and resources are eventually used interchangeably in the pursuit of self-maximization (*see Fig 36*).

The mainstream of China's economic policies focus on efficiency, trends of reform, interests of private companies, and marketization but they neglect fairness, justice of process, interests of the populace, and democratization (Zhao 2008). Nonetheless, no matter how wrong the government or individuals get some of the initial

entitlements, e.g. property rights, people will try to correct it by appropriate private agreements since they are free to contract (Coase 1960). In China, however, these private agreements only further destroy the already distorted market with its tight political constraints, and eventually it ends up in a vicious spiral whereby the power-path-dependence market already hampers the cultivation and perfection of regular market mechanisms. Ultimately, this peculiar market, in my view, becomes nothing but a battlefield for political power struggles instead of market competition.

Yet, I have explained the roles of formal constraint, ideology, and legitimacy in China's reforms and assigned interview data bits to them, which bring forth various subcategories (*see Fig 33, 37, and 38*). I also explicated the relationships between these main categories, which not only complement each other but also explain reforms in China (*see Fig 36*). As argued, property rights underpin the distribution of wealth that is mainly subject to legitimacy and formal constraint. In other words, without legitimacy and formal constraint, property rights cannot really exist in any institutional environment, or specifically, legitimacy per se is necessary but not sufficient to underpin the private property rights framework. Because not every exchange in the market is identical with legitimacy (Dowling and Pfeffer 1975), formal constraint becomes indispensable in complementing the insufficiency of legitimacy. Note that any change in formal constraint could be delayed and must await a specific statutory enactment; thus, ideology can take over the role of formal constraint and complement legitimacy.

As argued, economic reforms in China are identical with the transition of property rights and power-path-dependence. Furthermore, power can, to some extent, be regarded as the combination of legitimacy and formal constraint that is developed to manipulate ideology in China's reforms. By this logic, formal constraint, ideology, and legitimacy will indispensably complement each other in China's reforms as they make the transformation from a planned to a market economy. These statements arguably justify that assigning interview databits to those three main categories, formal constraint, ideology and legitimacy, is necessary and sufficient. Next, I will link those assigned databits to re-capture the essence of my interviews.

6.9 LINKING DATABITS

I have refined the main categories to twenty-three subcategories (*see Table 35*). In the refining process, the original interview data have been divided up into different segments and some information about relationships between these different parts of databits was lost. To enhance the final analysis, I therefore recapture this lost information by linking these databits.

To recapture the lost information, I have to recognize the formal and substantive relationships between subcategories. Why and how do I differentiate between formal relations and substantive ones? The formal relationship (association) is concerned with how things can be related to each other in terms of similarity and difference, e.g. understanding how far things do or do not share the same characteristics. The substantive relationship (link) is concerned with how things interact, e.g. understanding how things are connected through interactions that need not be similar, and vice versa (Dey 1993:153). For example, the government inflicted formal economic constraints on ordinary people that are biased towards some actors, e.g. SOEs, HNWI. On the other hand, “appropriateness” is regarded as a proper behaviour or thought in a norm-abiding society. Despite the formal differences between “inflicting formal constraint” and “appropriateness”, there may be a substantive relationship between them. Lacking in appropriateness, government can hardly inflict formal economic constraints on ordinary people, e.g. levy strictly high taxes on peasants or confiscate people’s assets without proper compensation. Correspondingly, appropriateness can facilitate the imposition of formal economic constraints on ordinary people.

Substantive relationships are composed of internal (necessary) and external (contingent) relationships (Sayer 1992:88-89). The internal or necessary relationship is in the sense that one necessarily presupposes another. The external or contingent relationship is in the sense that one which may exist but need not to do so. For example, the formal economic constraint imposed by government that is biased towards to SOEs and HNWI. Without appropriateness, this bias cannot prevail in society because ordinary people will claim their rights that may conflict with this

economic unfairness and result in social discontent. In this sense, the relationship between formal constraint and appropriateness is external (contingent). On the other hand, government may presuppose those formal economic constraints inflicted upon people are necessary even without appropriateness. By this logic, the relationship between government and those economic constraints are internal (necessary). In the next chapter, I will use triangulation to analyze the literature, interview databits and my research arguments, and consequently justify the final analyses.

7. ANALYSIS AND JUSTIFICATIONS

This chapter contains the final analysis based on all collected databits whether they are from interviews, personal experience or public organizations followed by the justification for my research arguments. This process depends on the databits being analysed (how), the subject matter of the interview (what) and the purpose of the interview (why). As argued, I utilize a qualitative approach that provides me with direct evidence of the dynamics occurring since the analysis of data into categories can capture the main elements of social activities through noting and documenting how these categories interconnect. The interpretation of these interviews rested on the clarification of the topic and purpose of the interviews – an exploration of the institutional changes, power dependence, the emergence of HNWI and their inter-relationships in China's reforms. Thus, the research analysis actually permeates the entire process of the interviews and data collection and every stage provides both possibilities and constraints for later stages. Next, I will set out the relationship between China's reforms and my theoretical framework, including the theory itself and any insufficiency, or supplementary aspects, and a new argument adapted from institutional change theory. Lastly, I will use this new argument to explain these phenomena in China's reforms and exemplify it.

7.1 REFORM CONTEXT AND THEORIES

In section 2.1, 6.2 and Note 33, the reform context in China is explicated from different perspectives, especially that of post-reform. These explanations indicate that the peculiar context in China has been embodied in the process of reassigning public wealth into the hands of a few under the guise of economic reforms, e.g. corporatization, privatization, MBO, etc. Nonetheless, this section will account for why economic reforms have been exploited, chronically in China and in what context.

It seems that the "*Market Economy with Chinese characteristics*" performs well in China; however, it is because of the "*Market economy*" rather than the "*Chinese characteristics*" (Economist 2011). The "*Chinese characteristics*", from a legal perspective, suggest that laws turn out to be an instrument that is used as the state

sees fit (Peerenboom 2002:8;Pan 2003). The governing institutions in China between 1949 and 1978 were actually based on Mao's ideologies (Lieberthal 2004:120-123) and remained nearly unchanged from 1978 onwards from the viewpoint of power, rights and responsibility. By this logic, institutional change in this kind of context could be cut across largely and predictably by external political power.

Scholars (Denzau and North 1994,2000:35) argued that ideology only carries primarily the weight of normative and cultural-cognitive dimensions rather than the regulative dimension of the institution; however, Mao's ideologies not only replaced the normal normative and cultural-cognitive framework but also distorted the regulative structure. Mao's political ideology was that the state's capacity to develop the economy not only depended on the will and skills of prominent leaders, but on the lower organizations and social institutions (Zhen 1999:29). He therefore decentralized certain administrative powers to local bureaucrats in exchange for their support. Not only this has been the political guideline for nearly every political movement in China even after his death, it also intensified and consolidated the power of local bureaucrats after the reforms. This logic explains why local bureaucrats can control more resources by overtly agreeing with but covertly opposing central policies, leading to collusion between themselves and emerging economic elites.

Together with the pursuit of economic growth, power decentralization in China results in a feeble regulative environment after the economic reforms. As argued, the weak implementation of the regulative dimension is due in part to the absence of normative and cognitive dimensions, which resulted from previous social conflicts. By giving little autonomy to economic elites to uphold economic growth and putting conservative rivals at ease (Yang 1996b), these potentates continue after 1978 to exert influence over regulative dimensions to maintain the CCP's legitimacy. This two-fold strategy has been extremely successful and even rival conservatives defected to the pro-reform faction to get more scarce resources (Shih 2009:51). Therefore, resources and capabilities, which are conferred on elites gradually through

regulative institutions, are used interchangeably and refer to the tangible and intangible assets that both economic and political elites apply to develop and implement their strategies (Ray *et al.* 2004). In other words, in China, the regulative framework alone can effectively facilitate elites getting out of any predicament.

Mao and his comrades recognized that agricultural surpluses could become the accumulated capital on which the impoverished state could be industrialized (Gollin *et al.* 2002). In order to accomplish this ambition, Mao initiated the *People's Commune* movement between 1958 and 1960 by merging peasants' properties into these communes that essentially truncated peasants' ownership rights. Therefore, the state mechanism demolished the protective boundary of private ownership rights, and subsequently infiltrated and controlled every organization in China. In other words, the CCP could have its financial resources not only from agricultural taxation but also from these truncated rights applied to all available resources. In appendix 11, I have explained that how the CCP had confiscated rural lands from the original landowners and allocated it to peasants through the agrarian reforms of the early 1950s and technically took them back from these peasants. This appendix also shows how triple truncation of property rights was happening in China. First, the CCP invaded these property rights and gradually destroyed these main institutional pillars following the order of cultural cognitive-normative-regulative. Second, the CCP appropriated major parts of ownership rights at will; consequently, these parts of ownership rights were then adapted to suit the CCP's interpretations. Third, the CCP bestowed the newly artificially devised private ownership rights on those obedient people, who then become HNWI's. Ultimately, the CCP not only oversees but also has permanent control of ownership rights of scarce resources (Chen *et al.* 2008:39-46).

The children of the ruling elites (*Gaogan Zidi*) in China arguably initiated the infringements of property rights and embezzlement of public assets. However, not only them or their like, can exploit power but also people in the wider sections of society, who can make close connections with these ruling elites, can manipulate the incomplete property rights as well. The causes of these phenomena in China are the

absence of civil society and lack of dialogue between the ruling elites and the ordinary people (*see section 4.7*). That is, a public domain, which is regarded as a counterbalancing mechanism between civil society and the state, has long been absent in China since 1949. However, a civil society is not adequate for reaching a compromise between state and civil society, but the collective actions from newly emerging ownership rights and their owners are strong enough to force the state and state agents to protect these emerging rights and owners in order to retain their own benefits (Mann 1984).

Nevertheless in China, counterbalancing can rarely be reached through dialogue, negotiation, and transactions between state and ordinary people because all ownership rights are defined and given by state agents. Furthermore, local party cadres or state agents are often out of central control because of the legacy of decentralization. Nevertheless, local and central party cadres or state agents will not interfere in mutual operations unless there is a serious incident such as the Wukan protest (*see section 7.4*). In this context, once ruling elites change their minds, private ownership rights will become different and consequently have an impact on all the populace, including these economic elites.

The aforementioned descriptions indicate that the chronic exploitation of the right to interpret and implement property rights has been deeply embedded in the CCP whether before or after the economic reforms. From my perspective, the worst exploitation was the CCP's re-introduction of private property rights, which have never been intrinsic but imposed through a series of purposive governmental actions, without any matching institutional restraint on their exaggerated political power. Thus, the ultimate purpose of this change remains to control all scarce resources whereas they are legally owned by private individuals. In other words, the essence of institutional changes in China has never wavered and remains the control of scarce resources by means of political intervention; however, these changes in property rights have serious effects upon the ideology and behaviour of state agents.

The CCP attempts to supervise bureaucrats and cadres at different hierarchical levels and cannot save any of the costs involved in regulating these collective productions even though they eliminated the mechanism of residual claims before the economic reforms. Because the right of residual claim in China was already taken by the CCP before the economic reforms, the only incentive available for these regulators was the promotion of official positions. Once people were promoted to the core of the CCP, they could access the power to coerce, which could never be shared with any ordinary people outside the power centre (Stigler 1971). In other words, political power, a scarce resource, had been used as the incentive for those bureaucrats in China before the economic reforms, and it then converts into economic benefits while private property rights were re-introduced to China.

Before the economic reforms, the state was unable to provide any tangible economic return to or share residual claims with these low-echelon regulators; higher hierarchical bureaucrats could only sit by and watch these regulators infringe the existing trivial benefits of peasants, collectives and the state, e.g. extra staple food. Thus, the state mechanism can be sustained under such erratic circumstances because of the non-institutionalized residual claims providing the essential incentives to regulators (Zhou 2004:23). Without infinite state financial resources and a comprehensive capacity to supervise and regulate these regulators, there is otherwise no alternative method for replacing the existing governing mechanism. By this logic, institutional changes before the economic reforms were not too different from those after the economic reforms in terms of the exploitation of political power excepting the change of property rights.

The initiation of reforms in 1978 led to several explicit changes in the regulative dimension of institutions; however, the normative and cognitive dimensions neither closely followed the pace of regulative changes nor were present in the institutional environment. Therefore, social actors' behaviours remained guided by the normative and cognitive dimensions of a command economy, despite the regulative institutions of a market economy that were initially introduced to China. For this reason, a gap that results in consequent institutional holes (Burt 1995:191; Walker *et al.*

1997 ;Yang 2004) (*see Fig 10*) emerges between the ruling and leading dimensions of institution. Apart from that, the rewards that bureaucrats have received become relatively tangible because the CCP explicitly adapted to private property rights after 1978. Therefore, the mixture of tangible returns, chronic maladies, corrupt bureaucrats, and the re-introduction of private ownership rights after the economic reforms gave rise to the emergence of HNWI's.

In China, the delayed normative and cognitive dimensions of institutions, e.g. proletarian ideology and egalitarianism, confront these introduced regulative dimensions, e.g. private property rights, in a society that is politically inhibited. Those normative and cognitive dimensions changed slowly because of enduring political constraints; therefore, the progress of reforms was unlikely to be as rapid as they were in the FSU and CEE. Arguably¹⁶, there are two major factors, the political constraints and the pace of privatization, that differentiate transitions in China from other former socialist countries, and indeed have the strongest associations with the economic return and other consequences in China's reforms. On the one hand, the manifest distinction is that these political elites in China remain untouched and continue to effectively control the re-distribution of resources and hold political power accompanying the expansion of the market economy. On the other hand, the pace of privatization in China is not as spontaneous as for their previous socialist comrades that had led to considerable changes. Therefore, the CCP remains in effect in complete control over China, unlike CEE and FSU. In other words, privatization in China remains in effective control of nearly all unaffected communist polities after reforms.

I have already explained that lacking in any institutional dimension, whether they are regulative, normative or cognitive, will arguably impede and constrain consequent institutional changes. In China, many entrepreneurs, who are responsible for recombining institutional elements in innovative ways (Schumpeter [1934]

16 There are many scholars have focused on this issue since early 1990s (Lampton 1992 ;Solinger 1993 ;Fewsmith 1994 ;Bian and Logan 1996 ;Qian 1996 ;Oi and Walder 1999 ;Wank 1999 ;Chen 2002 ;Shih 2004a ;Walder 2004 ;Nee and Cao 2005 ;Yang 2005 ;Chow 2006 ;Dobbin 2006 ;Bouckaert 2007 ;Heilmann 2008 ;Tsai 2008).

1983:Ch.2), emerge after the economic reforms, e.g. political entrepreneur or business entrepreneur. By this logic, it is essential to understand the role of the entrepreneur and why one institutional change is created instead of another. Nonetheless, very little attention has been paid to this topic except by very few scholars (Di Maggio 1988:3-21; Fligstein 1997,2001b). In this research, I assess their roles within a set of social relationships and institutions rather than their individual qualities, e.g. charisma or talent. By understanding their roles, it is then possible for me (1) to grasp how social relationships, institutions, and entrepreneurial skill interact; (2) to shed the most light on why one institutional arrangement is made rather than another; and (3) to understand why some institutional changes are more evolutionary while others are more revolutionary (Rao *et al.* 2000) (*see Note 37*).

In Note 37, it is arguably obvious that when entrepreneurs' social, organizational and institutional locations influence their capacity for creative innovation, they confront institutional and resource constraints that shape their capability to make their innovation acceptable and vice versa. In addition, it is essential for entrepreneurs to realize their innovative institutions by accessing scarce resources. If these entrepreneurs fail to access the resources, their innovative ideas will either go wrong or will survive institutionally, regardless of how brilliant they are (Aldrich 1999:76). This argument is essentially compatible with my interviews of HNWIs: it is unrealistic for any businessperson in China to be successful without political protection. For example, interviewee 8 (9 of appendix 8) indicated that entrepreneurs must have sufficient social, organizational, and institutional resources to make their innovative ideas stick. He mentioned that they merged several small-medium coalmines under the guise of the *2004 Provincial Restructuring of the Coal-Mining industry*. He also mentioned that they had similar illegal mining problems as the small coalminers had, e.g. a multitude of coal-pits with the same permit, beyond-boundary exploitation. However, all his problems had been resolved by the consolidation of mining industry with the collaboration of the provincial government.

In China, state properties have been largely transferred to private hands under the disguise of the economic reforms post 1978. Many of my interviewees were located

in positions whereby they could legally and technically re-distribute resources¹⁷ and, in turn, were given significant opportunities for institutional improvisation, e.g. corporatizing or MBO, which is different from what KKR¹⁸ did to Nabisco or the likes. In light of my interviewees' comments, the prevailing way of China's MBO is that they first cooked the books or underestimated the net value of their companies. Second, lacking in knowledge of the market economy in the early reforms era, they gradually shifted public property to collective property, which was compatible with the then regulative institutional environment, under the disguise of efficiency-improvement. Third, entrepreneurs legally and technically had effective controls over collective ownership, e.g. the *Employee Welfare Association*, and transferred most shares to themselves. In other words, entrepreneurs in China, with assistance from the political potentates, unscrupulously acquire public wealth under the guise of economic reforms.

Entrepreneurs in China also confront the normative and cognitive backlash from a society that opposed their methods of accumulating wealth. Thus, they repeatedly use the regulative institutions to make up their normative and cognitive deficiencies. On the one hand, they often mobilize political power to make innovative regulations and suppress growing public indignation; on the other hand, they feel drained by the blackmailing from political actors. For this reason, entrepreneurs have to shift their political protection from one place to another. Lacking in mutual trust, this continuous shifting also raised the cost of the political protection and reduced the economic rent; therefore, it became a vicious spiral of institutional change and resource dependence (*see Fig 15*). By this logic, the institutional changes in China correspond to a compromised model.

The preceding descriptions justify that changes in any institutional pillars will produce constraints inhibiting entrepreneurs' capacity to interpret innovative

¹⁷ My interviewees were the directors or managers of different SOEs before privatization. They had effective control over employment, administration, finance, and manufacturing before privatization. They have been CCP members for many years and have very good connections with local government officials and party cadres, who can cover for them should the need arise.

¹⁸ In 1976, Kohlberg, Kravis, and Roberts established the KKR and made a takeover of a subsidiary of Rockwell. KKR made the acquisition together with the management team of the acquired company to realize the Managers-Buy-Out (MBO).

institutional arrangements. With all due respect, these economic entrepreneurs, no matter how brilliant they or their innovations are, will eventually wind up failing if they do not retain political protection in transitional China. For example, many previously ranked richest people in China were arrested after 2003, i.e. Hwang Guang-yu (2008 ranked 2nd), Zhang Rong-kun (2005 ranked 16th), Zhou Zen-yi (2002 ranked 11th), Zhu Guo-ping (2008 ranked 366th), Xie Guo-sheng (2007 ranked 348th), to name but a few. The cases of Hwang Guang-yu and Zhou Zen-yi are two clear examples that resulted from political power struggles (Dittmer 2003 ;Li 2005). The former was arguably implicated with Chen Sau-gee, the chair of the CPPCC (Chinese People's Political Consultative Conference) of Guangdong province. The latter could be perceived from a political view as implicated with Chen Liang-yu, the Shanghai municipal party secretary who had previously been loyal to the Shanghai political alliance¹⁹ rather than the so-called Hu-Wen coalition (Hu Jintao and Wen Jiabao). Politics aside, as Beesley (1997:26) argued, any new economic institutional arrangement reflects the prevailing political environment. In other words, economic reforms are not simply the result of an efficiency-driven economic transformation but also reflect the status quo of political power. By this logic, any innovative and regulative-abiding institution in China may not stick because political constraints can exploit normative and cognitive parameters to override the existing institution.

To conclude, the main causes instigating a trade-off between conformity to external institutional pressure and exercising influence over external resources in China are decentralization and the introduction of private property rights. Decentralization was mainly used to attack major political rivals, and consequently make the power-dependent effect intense and deteriorated. As for the introduction of private property rights, it ultimately adds precious market value to existing goods and services, and then pushes people to pursue the alienability and exclusivity of these goods and services. On the one hand, the CCP had loosened formal constraints by changing proletarian ideology and introducing a market economy and consequently brought about certain institutional changes, e.g. the maximization of personal utility, conflicts

¹⁹ The alleged leader of the Shanghai alliance is previous President Jiang Zemin, who was the Shanghai municipal party secretary before the presidency.

of property rights, the pursuit of better economic benefits, etc. On the other hand, the CCP had to mobilize political factions among different industries, provinces and administrative departments to support their reforms that entailed intense power dependence.

Because power is used to help people pursue better economic interests, regulate conflicts of property rights and ensure social stability, the scarcity of power soon becomes manifest because too many individuals and organizations vie for it. In this regard, those individuals and organizations will try to utilize alternative power, which is cheaper and exclusively available to them. Because China is a rule-by-policy regime, seriously influenced by political forces, different political factions interpret policy at their own discretion and consequently cause a disordered market. Under these circumstances, vying for the legitimacy of power not only protects existing privileges of economic elites but also keeps them competitive in this specific institutional environment. This symbiotic relationship between economic elites and power resources therefore constrains China's institutional changes in a compromised context.

7.2 JUSTIFICATION

Different scholars often interpret the same data in diverse ways. For example, optimistic scholars may interpret everything they have seen in China from a permanently optimistic perspective, e.g. the social disparity and special network (*guanxi*) were regarded as a matter of course during China's transformation (Chow 2004:67-83). Chow considered this disparity as a "one-step ahead" or trickle-down whereby some people would get rich first and have to be very rich in order to encourage others, although he subsequently assumed this might cause discontent amongst the general population. The fact is, the disparities generated by the "one-step ahead" approach becomes wider over the years (*see Fig 37*) and a trickle-down effect has never been attained because of political disjuncture. Chow interpreted this disconcerting phenomenon simply from a theoretical economy aspect.

In my interviews, many interviewees fell into the same error and firmly held egoistic

and specious arguments that everything, e.g. justice, legality, could be traded in China. Yet, this misconception has resulted in awful consequences and has become a prevailing ideology that is termed the *Thomas theorem* (William Isaac Thomas and Thomas 1928:572) - if men define situations as real, they are real in their consequences, even this belief is invalid in terms of veridical reading. As Kvale (1996:211) argued, interpreters' presuppositions will enter into the question with which they interrogate text or data and these questions co-determine what meanings can be found in the text or data. Therefore, in order to interpret the interview texts appropriately, researchers must comprehend which approach should be posed to the texts in the first place. In Table 27, I adopt Kvale's (1996:223) readings to enhance my interview analyses that are experiential, veridical, symptomatic and consequential. These readings drew on different contexts of interpretation in which the validation of the answers involved different communities, such as the interviewees, the public, and the research community.

In my interview databits, I adopt three main categories: formal constraints, legitimacy and ideology, that mainly cause the trade-off between institutional changes and resource dependence in China's reforms. In other words, any context relating to these three categories should be interpreted. In appendix 9 and 10, I have condensed and sorted interview databits according to the aforementioned three categories in order to facilitate my research. As argued in section 7.3, the seesaw between the introduction of private property rights and the decentralization has a serious effect on the trend of institutional changes because the consequences of these two parameters represent autonomy and reciprocity respectively. As argued (Ricardo 1821:144), autonomy and reciprocity are two major elements in the business context. In China, local state agents have more autonomy since decentralization and therefore can wield decisive effects on the re-allocation of scarce resources after the economic reforms. However, ordinary people are only allowed to use those scarce resources to maximize personal utility within existing political constraints after the introduction of private property rights. Because local agents can unilaterally affect or change existing political constraints after decentralization, the pursuit of interest is not reciprocal between individuals since the

political constraints only implicate those individuals without protections from local agents.

My research arguments can be justified not only from the interviews but also are embodied in the recent Wukan protest. This particular incident was triggered in September 2011 because the local CCP secretary, who was also the mayor in Wukan village, embezzled billions RMB by selling farmland, which is stipulated as collectively-owned in the Chinese Constitution, to real estate developers without properly compensating the residents of the village. Moreover, security agents abducted five village representatives and took them into custody in early December 2011. After one representative died whilst in custody in suspicious circumstances, this incident quickly escalated into a local uprising. Eventually, the deputy CCP secretary of Guangdong mediated in the dispute between peasants and local government. The Wukan outbreak arguably exemplifies China's economic reforms and the ways in which the CCP interprets and implements the property rights rather than any independent event.

7.2.1 RESEARCH QUESTIONS AND TRIANGULATION

In table 10, I have displayed my research questions and arguments that represent not only the essence of, but also the purpose of this research. Next, I will apply literature, interview data and my argument for answering these questions, and then justify my theoretical concept.

Question 1: Aside from the economy, what is the main feature in China's institutional changes?

The presupposition for this question is relatively straightforward that institutional changes in China comprise the interactions between culture, economy and politics. After an extensive literature review and in-depth interviews, this argument remains appropriate because the essence of China's institutional changes is embodied in the transition from a command economy to a market economy and the transition from controlling rights to property rights. By this logic, institutional changes in China entail political power, legitimacy, economic opportunity, scarce resources, and social

status that spread into the cultural, economic, and political spheres.

China, CEE and FSU, from a political perspective, all derived from the legacy of Marxism and Leninism, and should resemble each other in terms of institutional changes. However, the essence of culture and of the economy in these countries is different, and therefore results in dissimilar institutional changes. In the CEE and FSU, it was difficult to diversify people's foci by simply implementing pure economic reforms owing to the then relatively high-income level and intensive urbanization in these countries (*see Fig 4*). However, the CCP could utilize the relatively low labour-costs by liberalizing the redundant work force from rural areas, and then could make a success of the reforms if people focused only on the economic activities but deliberately ignored comprehensive (cultural, economic, and political) restructuring (Chen 2010:59-62). Ultimately, the institutional changes in China are different from those in the CEE and FSU (Szelenyi 1989 ;Rona-Tas 1994 ;Oi 1995 ;Walder 1995a ;Bian and Logan 1996 ;Kornai 2000). In other words, institutional changes in China, the CEE and FSU are similar to each other if those changes merely operated within the economy rather than the triad of culture, economy and politics.

In my interviews, most participants have largely expressed their concerns or experiences in terms of the constraints inflicted and their effects on elites, governments, and ordinary people. According to their experiences, most of these constraints relate to the economy and politics and often have decisive impacts on government agents (appendix 10-1). For example, the fifth interviewee commented that they could freeze their competitor's construction permit when she wanted to trade the on-hand package deals (3, case reference 5, appendix 9-1). By this logic, I understand, in the same city, why some people could easily get construction permits but some others did not. In fact, many of these constraints are stopgap measures and not legitimized through any lawful ratification processes but merely through a provisional policy issued by local or department state agents. In other words, the legitimacy of the constraint is often obtained through reciprocity and symbiosis between economic and political elites. There is another explicit example in case

reference 8. The eighth interviewee unscrupulously told us how he compelled other small coalminers to merge under the guise of consolidation issued by government (5-7, case reference 8, appendix 9-1). Apart from that, the eighth interviewee and his business alliances persuaded state agents to issue many favourable policies, e.g. small coalminers consolidation, that only privileged them and attacked others' existing benefits (7, case reference 8, appendix 9-5).

The main features of China's reforms were embodied in culture, the economy and politics whether from the literature reviews or my interviews. Therefore, focusing on theoretical economic perspectives alone cannot comprehensively explain the exploitation of institutions in terms of the pursuit of economic interest. On the other hand, neither can theoretical political perspectives explain the purpose of the exploitation of the institution in China's reforms. Moreover, neglecting the cultural essence in China's reforms will also lead an analysis that resembles that of other former communist countries. In other words, results failing to address any of these three spheres will not only be prejudiced and incomprehensive but also lead researchers in the wrong direction.

Question 2: Which factors cause institutional change in China?

The initial suggestion is that entrepreneurs recognized institutional changes might threaten to hinder access to scarce resources and then precipitate favourable institutional changes. Following the extensive literature review and in-depth interviews, this suggestion may only be an ostensible cause rather than the essential factor because it did not elucidate why those changes might impede the elites' access to wealth. As argued, the main factors causing institutional changes in China are decentralization and the introduction of private property rights; the former one is not only intense but also reduces the power-dependent effect, and the latter ultimately adds precious market value to existing goods and services, consequently making people pursue the alienability and exclusivity of those goods and services. Next, I explain why decentralization emerged and how institutional changes have been affected in China.

The reason that Mao had to manipulate decentralization to attract loyalty from different political factions, e.g. provincial, industrial, rural, and PLA (People's Liberation Army), to compete with his political rivals and achieve his political goals arose from various political crises confronting his power from the late 1950s that was particularly embodied in *Great Leap Forward* and *Cultural Revolution*. For example, Liu Shaoqi, the former President, the General Secretary of CCP between 1959 and 1969, and the major political rival of Mao, was unlawfully convicted by the *Red Guards*, who were provoked to assault Mao's political rivals during the *Cultural Revolution*, and consequently died without mention in 1969. This miserable example illustrates the notorious effect of decentralization in China: no scruples and no limitations. This kind of brutal clash had been eliminated to the smallest extent after Deng's reinstatement in 1976 because it was diluted by the newly granted personal economic benefit.

Presumably, decentralization has largely been exploited to pursue personal interests. However, decentralization is a generalization rather than a comprehensive reason. The reason that political actors in China stopped these brutal clashes and then shifted to pursue economic interests remains unidentified. According to my research, the roles of these leading social actors are profoundly associated with the varying institutional environments in transitional China. Because the normative and cognitive institutional pillars were ruined previously (see section 4.5 and 4.6), the institutional environment in China therefore is merely maintained by the regulative framework. Unlike the Communist ruling party in CEE and FSU, the CCP remained intact after the reforms. Therefore, many regulative institutions, especially those political regulations established in Mao's era, remained ineffective after the economic reforms. By this logic, people who have the rights to control or change rules can provide dependable and efficient frameworks for the economic elites in order to realize their economic exchanges.

I have explained why decentralization arose and how it shapes institutional changes in China. Now, I am going to explain why the re-introduction of private property rights makes China's institutional changes distinctive. In a market economy, state

authority not only allows and enforces each individual's right to own private property but also respects the rule-of-law broadly by facilitating and enforcing private contracts, preventing deliberate coercion, and inhibiting arbitrary taxation (Rajan and Zingales 2004:131). However, these essences conflicted with the fundamental ideologies of the CCP before the reforms, e.g. communal ownership, proletarian, terminating waged labour, and private property (Lagasse 2008). The spirit of property rights is to give the exclusive right to an owner of an asset to use and excluding others from its use (Rajan and Zingales 2004:131). In Article thirteen of the Chinese Constitution, the state has to protect those law-abiding citizens and their legal income, savings, houses, and other private property. In China, however, the fact is unlikely to correspond with this stipulation. Apart from that, some scholars (North and Weingast 1989) argued that the government will not expropriate its citizens if the countervailing power of parliament and the judiciary is constitutionally enhanced. However, this argument may not be applied to China because the CCP still arbitrarily expropriates the populace, e.g. demolishing urban dwellings and confiscating rural farmlands without legitimate reasons and fair reimbursement, even though they remain intact in terms of the political structure and dominate the state authority after the economic reforms. In other words, the status quo in China opposes not only North's arguments but also the stipulation of the Chinese Constitution. Therefore, the re-introduction of private property rights in China embodies a pretend and ineffective institutional change and becomes a device for assisting elites to lawfully grab public wealth.

In China, decentralization and partial reforms together give extra power to those incumbent state agents, who were in power before the economic reforms. In this regard, people who have the right to change institutions may become an object for rent-seekers because institutions can legally allocate the economic benefits and steer the consequent institutional changes (Bromley 2006). Because people are allowed to pursue the maximization of utility after re-introducing private property rights, these state agents can consequently swap their rights for substantial economic benefits leading them to collude with the emerging economic elites. Under the circumstances, state agents and economic elites become reciprocal and mutually dependent in terms

of retaining existing favourable institutions or making the institutional changes on the preferred track. By this logic, it is unlikely that the Chinese government or the CCP, as many scholars argued (Lee 1989 ;Folsom and Gonzalez 1999 ;Quiggin 2002) would only restrict itself to the roles of providing law and order, and protecting property rights.

Examining China's institutional changes merely from the legitimacy of property rights perspective cannot fully explain the collusion, embezzlement, and the emergence of bureaucrat-HNWIs. For example, Coase (1974,1984,1988) analysed the impact of legal right arrangements on efficiency but ignored the wealth distributions. In other words, he neglected the relations between rights and wealth distributions and the impact of wealth distributions on resource allocations. Coase (1960) wrongly assumed that there was no impact on demand and resource allocation while legal rights could have an effect on wealth distribution. By focusing on the institutional arrangement and its impact on efficiency, he ignored the effect of institutional change on wealth distribution. Likewise, Alchian and Demsetz (1972) only pay attention to the effects of property rights on the allocation of resources but ignored the distribution of wealth . Davis and North (1970) deemed the positive gain as the reason for institutional arrangements in their institutional changes study and hardly put any emphasis on the distribution of that positive gain whether the distribution would have effects on consequent changing institutional arrangements or not.

There are many examples in my interviews that correspond exactly to my argument. For instance, the fourth interviewee told me that local state agents have too much power to confiscate and demolish people's properties without fair compensation and legitimate reasons. What is worse is that state agents collude with developers to extort dwellings from ordinary people in the disguise of economic development. In China, it is almost impossible for ordinary people to win lawsuits by suing such state agents and developers (10-12, case reference 6, appendix 9-1). From the seventh interviewee, I learned that state agents have too much power to treat people without *Guanxi* (special relationships) unfairly, even though these people are wealthy

businesspersons. He told me that state agents often exploit their right to discriminately interpret property rights and then jeopardize those businesspersons without adequate *Guanxi* (2-4, case reference 7, appendix 9-1). The eighth interviewee mentioned that he was better informed because of decentralization and then he exploited this information to become affluent through the newly-introduced private property rights, and consequently was able to restrict his rivals and expand his own business successfully (2-4, case reference 8, appendix 9-1). Therefore, following those interviews and the literature review, I understand that even though the re-introduced private property rights in China are legitimate and ostensibly efficient, these newly introduced rights continue to function inadequately and distort wealth distribution because these state agents, through decentralization, have overwhelming powers to interpret and implement these rights arbitrarily.

Question 3: What effect does path dependence have on China's institutional changes?

At the outset, I assumed that *path dependence* was particularly manifest in the distribution of resources and power in transitional China. Because the choices made contemporaneously were embedded in the actions of yesterday's volitional agents (Bromley 2006:25), the results of the reforms we have today in China were determined by the past. As argued, *cumulative causation* (Veblen 1898b) exactly corresponds to *path dependence* (North 1990:22) that the consequences of small events and chance circumstances can determine solutions that, once established, lead one to a particular path. Those solutions consequently come from the increasing return mechanisms that reinforce the direction once on a given path (North 1990:94,112). If causation is not cumulative, the accumulation of yesterday's small events will only have very little effect on the path of today's decisions. Thus, path dependence not only plays an important role in the institutional change process but also affects future wealth distribution because institutions heavily impact on economic benefit (Bromley 2006). Likewise, the path dependence effect in China manifests itself in those political institutions, which are more evolutionary than revolutionary. However, the economic institutions are relatively revolutionary rather than evolutionary. Therefore, although economic reforms introduce significant institutions to China, these reforms cannot fairly allocate economic resources to

ordinary people because of the political restraints. Therefore, following extensive literature reviews and interviews, this argument remains adequate.

Because reform is not revolution, reformists have to respect existing interest groups no matter what their perspectives are and where the reform will be initiated, and China's institutional changes are no exception (Zhang 2003). Institutions presumably provide the mechanism that will affect laws and changes of property rights but do not completely replace legal challenges; the effect may be to re-allocate social wealth in a relatively short period and result in social discontent (Demsetz 1967 ;Coase 1988 ;North 1990). Thus, it is understandable that there will be intertwining of party-state and society in the financial elite's network with the legacies derived from Marxist's historical Materialism (Pearson 1997:33). In this regard, the transition from command economy to market economy is a complicated mixture of continuity and change (Rose-Ackerman 2004:2) because, in former communist countries, new institutions are often built on the legacies of the planned economy, and become vital factors in shaping economic transition in many different aspects (Guthrie 2002:25-26), e.g. property rights, governance structures, conceptions of control, and rule. This explains why path dependence has serious effects on China's institutional changes.

Following path dependence, lock-ins often have consequent effects once a solution is made and become either difficult to reverse (North 1990:94) or with very high reversal costs (Levi 1997). The farther along a path of developing a set of practices (institutions) an organization, a society, or a state is, the more difficult it becomes to shift to alternative paths (Hollingsworth 2006:424). Therefore, the reciprocity of path dependence and lock-in makes China vulnerable to further reforms that try to alter the present institutional environment. The institutional legacy in China derived from the practice of socialism, will decide economic benefit that together with the influence of the party-state results in strong inertia during transition (Chen *et al.* 1992 ;Bian and Logan 1996 ;Bromley and Yao 2006 ;Chow 2006). The specific phenomenon therefore indicates that the path dependence effect continues to reinforce the privileges of existing economic and political elites in China.

It is expensive to create new institutions or change existing ones, therefore, institutions tend to generate positive feedback and support from constituents and institutional elites, who derive increasing financial returns and other benefits from them (Campbell 2004:13), once created. Therefore, strong and privileged interest groups and commercialized local governments will try to hamper equal distribution of the benefits of economic growth throughout society, thereby rendering futile the CCP's strategy of trading economic growth for people's consent to its absolute rule (Yao 2010). Nevertheless, institutionalists, somehow, are unwilling to indicate that institutions are mainly maintained through the exercise of power due in part to theoretical reasons rather than ignorance. In fact, interventions made by social elites often play a critical role in creating institutions. Powell (1991:191) contends that path dependence is a process starting from the exercise of power, interdependency, taken-for-granted assumptions, and then becoming path-dependent. Therefore, path dependence not only is a process but also relates to power, dependency, and normative and cognitive ideas and vice versa, while it evolves. In other words, different patterns of power exercise, interdependency, and normative and cognitive ideas will result in dissimilar path dependence. As a result, once path dependence is embedded, powerful people will be enthusiastically committed to prolonging such power-exercise (Stinchcombe 1968:107).

Thus, I argued that path dependence, as Powell (1991) asserted, results in isomorphic organizations in an institutional environment where they consequently vie for essential resources. Once a particular practice is deeply rooted in an organizational field, change in any aspect requires change in many other elements (Thompson 1967:145). Consequently, it is costly to alter institutional rules owing to high switching costs and significant political, financial, and cognitive considerations discourage making such changes (Stinchcombe 1968). Under the circumstances, most organizations in the same organizational field (institutional environment) will arguably be similar to each other and become isomorphic ultimately. Because they are isomorphic, it is difficult for them to become relatively competent in the same organizational field. Therefore, these organizations have to vie for similar essential

resources making them more capable in the institutional environment. In sum, essential resources are shared by constituents (isomorphic organizations) in the same organizational field and consequently result in scarcity of resources and higher costs (Leblebici *et al.* 1991 ;Pfeffer 1992 ;Pfeffer and Salancik [1978] 2003). Therefore, organizations try to innovate with the aim of acquiring alternative resources (Leblebici *et al.* 1991 ;Pfeffer and Salancik [1978] 2003) that avoid costly scarce resources and therefore change the current settings of the standard (*see Fig 9*).

Following the development of path dependence, only powerful people with prestige have the legitimacy to innovate and employ alternative resources that have not been legitimized yet (Rogers 1983:115). Thus, power-exercise will legitimize the alternative options and lock them into the organizational field. These alternative lock-in options will become mandated in their environment and ensure organizational survival because powerful people will support these alternative lock-in options (Powell 1991:190). Consequently, these options become taken-for-granted assumptions and ultimately reach the goals of those powerful people. Thus, the power-exercise is both the starting point of a path dependence process and the diverging point of a new process.

In my interviews, nearly all participants agreed with my argument regarding the path dependence effect in China. For example, the first interviewee told me that SMEs (Small-Medium-Enterprises) have been performing relatively efficiently following the economic reforms, but that the banks continue to behave as though they were still in a command economy being biased towards SOEs and conglomerates in terms of bank loans (3-5, case reference 1, appendix 9-2). Likewise, the second interviewee informed me that state authority always acts arbitrarily as they did in the command economy era regardless of the severe competition in the market economic system (13-15, case reference 2, appendix 9-5). The third and the eighth interviewees enlightened me that only the CCP is capable of implementing successful reforms in China (15, 18, case reference 3; 10, case reference 8, appendix 9-5). That is, although the defining economic institutional changes have been underway since 1978, these HNWI remain brainwashed and believe that the way to implement these

reforms still follows the previous path of the command economy. In fact, the effect of ideological path-dependence is the worst and very difficult to eradicate.

Arguably, path dependence alone cannot affect China's institutional changes but merely provides the momentum to prolong previous arbitrary allocations and distributions in different formats. Nonetheless, to switch pace to alternative resources depends upon how scarce the essential resource is; how influential the power exercised; how deeply rooted the taken-for-granted assumption; how aggressively individuals or organizations vie for resources in the same institutional environment; how strong the constraint to restrict the employment of alternative resources; and how expensive the switching cost is. In sum, the introduction of private property rights essentially triggers power-exercise because individuals and organizations are allowed to maximize their utilities legitimately. For example, after the economic reforms, Chinese peasants were rewarded privately for their hard work in ways that used to be allocated and distributed collectively. This statement exactly corresponds to the suggestion of the third research question.

Question 4: Why do certain people pursue individual utility and consequently become HNWI in China? How precisely do some people become HNWI in China after the economic reforms and who are they?

After very informative interviews with the elites and a broad literature review, I concluded that this particular question should be amongst the most problematic research questions because of its intricate and multi dimensioned character. The initial conception was that the CCP has created unique private property rights through regulative mechanisms after the initiation of reforms; however, the newly given rights became distorted, and were then exploited to pursue the maximization of personal utility because of a lack of appropriate normative and cultural-cognitive mechanisms. Regarding this deviation of institutional pillars, Scott (1995:45) also failed to explain why it happens and to what extent. North (1981,1990:45) argued that the emergence of HNWI can be attributed to the pursuit of the maximization of individual utility. However, the social actor's rationality is limited by the ability to receive, store, retrieve, and process information to make knowledge or feelings

understood by others (Williamson 1975). Therefore, it is not feasible for social actors to maximize utility without cooperating with other people in the same institutional environment. According to this research, the pursuit of maximization of personal utility, at the outset, is the means rather than the reason many of my HNWI interviewees, who were former SOEs' managers, were literally forced to take over the then broken SOEs or establish a new company rather than embezzle from them. Thus, I argue that the market economy with Chinese characteristics, decentralization, and re-introduction of private property rights together answer this question.

In most societies, power and essential resources are scarce and consequently bring forth economic interest for people who hold them. However, there may not be sustainable competitive advantage and constant scarcity in the economy as a whole (Kay 1993). Therefore, to keep scarcity constant can simultaneously retain the existing privileges for such powerful people. Therefore, the CCP tries to control the scarcity (variable) and keep their competitive advantages sustainable along with the reforms. In transitional China, scarcity plays an important role that is embodied in decentralization and private property rights. In addition, scarcity not only is highly related to marginality but also is exemplified in corresponding rent (Ricardo 1821:53-75). Thus, those people who have advantages that are more competitive will not only gain more economic interests but also have the power to make less resourceful people ineffective while holding essential scarce resources. Therefore, only a market economy with Chinese characteristics, which is a milieu with controlled socioeconomic variables, can achieve the CCP's political goals and boost an ailing economy. In question two, I have argued that decentralization and re-introducing private property rights are the main causes of China's institutional changes. The former gives extra power to local state agents; the latter allows agents to legally exchange their existing control rights with those economic elites for substantial economic benefits. Therefore, state agents, on the one hand, can have more powers to exchange substantial economic interests; on the other hand, economic elites can continue pursuing the maximization of personal utility under the circumstances of power-for-money. These special features can only co-exist in the market economy with Chinese characteristics.

Many scholars (Shirk 1993 ;Oi and Walder 1999 ;Steinfeld 2002 ;Tsai 2008) have argued that former SOEs managers, who later became HNWI, should be condemned for pilfering public assets in the guise of efficiency-improvement. Following my interviews, I realized that his argument is arbitrary and subjective, and wrongly implies that these HNWI were infringing on public assets because many HNWI were literally forced to take over the then broken SOEs. Arguably, there is a prevailing problem in most societies: that is, how to allocate resources and wealth that depend upon the rights and power held by people. These rights and power allocated through different administrative regulations, contracts, ideologies, laws, and social norms (North 1992 ;Scott and Meyer 1994) are mainly derived from either *position* or *property* no matter what the decisive factor of the allocation is.

The position-based rights attach to certain hierarchic positions in the social structure and the property-based rights attach to property (tangible or intangible). The former rights indicate that people have to approach certain positions of influence in order to get corresponding rights; the latter rights indicate that people should possess certain properties before having corresponding rights. Thus, I argued that the emergence of HNWI in China intrinsically corresponds to the transition from position-based rights to property-based rights. The fundamental difference between these two rights is that the latter rights are better defined than the former ones because property-based rights are often clearly defined in, and protected by, laws and social norms. On the contrary, position-based rights are loosely defined and non-exclusive, and are subject to frequent administrative changes. In China, people holding position-based rights often abuse their discretionary power to change their rights and therefore create new subordinate positions to support them because rent seeking often pairs with position-based rights.

The second feature of position-based rights is that people cannot sell them in the market to exchange economic interests voluntarily and legally; therefore, they can only maximize position-based rights by exploiting these rights during their tenures. Unlike position-based rights where people are forced to transfer to others and cannot

receive any appropriate economic compensation from the new holders after tenure, people can generate long-term revenue streams through, or voluntarily transfer, property-based rights to others for adequate economic returns. The third feature of position-based rights is their limited availability due to the setting of hierarchic positions attached to control rights. Thus, people will lose their positions and those attached rights when others gain these positions. Instead, when a new position is created, the rights attached to other positions will be diluted. On the contrary, property-based rights can be created indefinitely through production and innovation; for example, producing a new computer will not damage other people's property rights.

In any society with well-protected property rights, people can possess a new property either through direct production or through free-will exchange; thus people can exchange other valuables for the desirable property. In my view, most competition for property-based rights occurs through creation whereas the competition for position-based rights is through re-allocation. In China, public property rights, which could be regarded as *absentee ownership* (Zhang 1999, pp.143-162) or everybody's ownership (Zhou 2000:176), remain controversial and therefore give scope for agents to embezzle and infringe upon public assets. In fact, they are one side of the same coin because everybody (public) means nobody in China. Nevertheless, the difference is that property rights are position-based in the state-own economic system but property-based in the market economic system.

Except for a period of stagnation between 1989 and 1992, economic growth in China has been remarkable since 1978 whereas property rights have remained vaguely defined and not well protected. However, it should not be regarded as evidence that property rights are irrelevant to economic growth because most property rights are at a particular end of the continuum between clear and unclear. Nevertheless, it seems that those vague property rights in China are on the right track towards clearly established ownership. For example, the success of rural reforms between the 1970s and 1980s was derived from the household contracting system rather than the ailing public commune system. Consequently, private ownership was granted legal status

in 1988, and the Constitution was ultimately amended to give legitimacy to private ownership in 2004. These economic institutional changes essentially give rise to economic growth and the consequent emergence of HNWI in China.

Thus, apart from the market economy with Chinese characteristics, decentralization, and re-introducing private property rights, the re-allocation of entrepreneurial people from different professions when position-based rights are transferred to property-based rights, plays the key role in terms of the emergence of HNWI in China. These talented entrepreneurs choose to work with incremental returns, whether they were peasants, labourers, or bureaucrats. Nonetheless, these entrepreneurs mainly worked in SOEs, public organizations, or government before the economic reforms because these are the only places that incremental returns were available. After the economic reforms, the economic environment increasingly shifted from a planned economy to a market economy and transferred from position-based rights to property-based rights although they all were devised by the CCP to fit a different political atmosphere; consequently, entrepreneurs from different industries have been allowed and motivated to pursue the maximization of personal utility. Afterwards, these entrepreneurs chose to engage in private business to access more wealth by means of those emerging property-based rights.

In a market economy, people are allowed to pursue the maximization of personal utility without restraint because they have comprehensive property-based rights. However, this kind of pursuit is not available to everyone in China because market access remains controlled by the CCP, and the pursuit of personal interest is therefore not on the same level as those people in advanced market economy countries. In China, only selected people within certain bureaucratic constraints can exercise such rights after the economic reforms. In other words, many distinguishing features of property-based rights such as clear definition, free exchange and unlimited amounts, remain under the control of the CCP. For example, many urban dwellings with well-defined property rights have been expropriated by different hierarchical administrations through illegitimate directorial orders with inadequate compensation policies. In rural areas, peasants remain forbidden to sell their

farmland because of the farmland protection policy; however, the usage right of the same farmland could be arbitrarily expropriated by government and then be auctioned on the market.

In China, people are not free to initiate ordinary businesses without advance governmental approval even those outside the state strategic industries e.g. food, garment, trading, etc. Therefore, trade-offs between entrepreneurs and bureaucrats to enhance mutual interests may prevail in this particular market economy with Chinese characteristics.

As indicated, the majority of my interviewees, except the first and the second ones, had experienced the transition of the economic system. Apart from that, these elite interviewees not only were re-allocated from different professions when position-based rights transferred to property-based rights but also have various unspecified *guanxi* with incumbent bureaucrats. I had a sudden epiphany when interviewing these HNWIIs that essentially epitomised my research argument: entrepreneurial people from different professions whilst position-based rights are transferring to property-based rights, can become HNWIIs in a politically restrained society where decentralized political actors re-introduce private property rights to a former planned economy. For example, the third interviewee informed me that the re-introduction of private property rights into China resulted from difficulties in sustaining full employment and from an ailing financial situation (2, appendix 3); in my view, this constituted one way of opening the door to maximizing personal advantage.

As indicated, most entrepreneurial people have special connections with incumbent administrators; for example, the fifth interviewee told me that his former and superior colleagues and him together established his company to buy-and-sell public housing (1-2, appendix 5). From the sixth interviewee, I can justify my argument that decentralization makes local bureaucrats powerful. These local bureaucrats can always exploit their power to manipulate institutions to maximize their utility no matter how institutions evolve (3, 5, case reference 6, appendix 9-1). The main reason that these entrepreneurial people were allowed and motivated to pursue the

maximization of personal utility can be found mainly in the re-introduction of private property rights (1, appendix 6; 1, appendix 7; 2, appendix 8). In my last interview, the eighth interviewee told me that by the tight-knit relationship with incumbent administrators, he feels free to pursue the maximization of personal utility without scruple (4-8, appendix 8). In other words, entrepreneurs can, on the one hand, legally pursue the maximization of personal utility in the reformed economic environment; on the other hand, they exploit the relationship with incumbent administrators to restrict their competitors' access to the market (37, 47, 50, 55, 56, appendix 9-2).

In sum, the study and data support the original proposition in question five that the liberal economic policy is a means rather than a reason for making people pursue individual utility. Due to the institutional disarray in China, it is readily open to individuals to pursue the maximization of personal utility especially when they have a chance to get close to the centre of re-allocation and re-distribution of resources or power. This proposition arguably is the reason behind how and why some people become HNWI in China. Nevertheless, the original argument does explain why some people become HNWI after the reforms instead of others. In conclusion, I have justified that entrepreneurship was released from every occupation after the economic reforms; however, only those talented people knowing how to seize the opportunity were able to utilize relationships to pursue personal interests.

Question 5: Why does compromised institutional change exist in China? How does it help HNWI in China, and vice versa?

Previously, various significant issues regarding China's institutional changes have been scrutinized in this research, e.g. the effect of path dependence on China's institutional changes, the reasons behind the pursuit of individual utility leading to some individuals becoming HNWI after the reforms, etc. As indicated, the purpose of this research is to verify if there are trade-offs between conformity to external institutional pressure and the exercise of influence over external resources that embodies the compromised institutional changes. In other words, this trade-off or compromised institutional change insulated China from the chaotic transformations

especially those resulting from the shock-therapy reforms emerging in FSU and CEE. The initial argument for this question is that entrepreneurship is increasingly granted to ordinary people in China after the reforms. The party cadres and political elites were correspondingly permitted a greater degree of entrepreneurial freedom; meanwhile, prominent political leaders advocated that when the nation, city, community, and individuals gain more economic capital, social problems would be accordingly resolved and people might experience higher standards of living. Under the circumstances, many social problems, e.g. biased distribution of public resources, profit-oriented behaviour, were glossed over and getting rich became the priority in China. Therefore, economic elites want to trade their obedience for more scarce public resources derived from biased wealth re-distribution. This vicious spiral ultimately provoked the compromised institutional changes emerging in China.

Following extensive literature reviews, data collection, and interviews, I detected a flaw in my initial argument, which did not fully explain why the compromised institutional changes emerged in China. Nevertheless, through this research, I can now explain how the compromised institutional changes benefit HNWIs. Compromise is, literally, a settlement by arbitration or by mutual consent, which is reached by concession on both sides, or is a reciprocal abatement of extreme demands or rights that result in an agreement. Therefore, a compromised institutional change is a settlement, which is devised by major players at the cost of the rest of the people, to benefit key players through various abatements of demands or rights. The last research question sets out to reveal the participants and the operation of the compromised institutional change in China. I have justified that the factors causing institutional changes in China are decentralization and re-introducing private property rights, which were essentially derived from cultural-political and economic-political spheres. This statement corresponds to another argument that the main features of China's reforms were embodied in cultural, economic, and political spheres. Apart from these factors, the regulative, normative, and cultural-cognitive pillars (Scott 1995:45) designed to support legitimacy have been deliberately damaged by powerful figures in China during the incessant social conflicts since the 1950s. I amended Scott's argument and explained why the regulative pillar is the

only one left to uphold the institutional environment of China. By this logic, people in China can hardly expect to reach appropriate economic goals through proper ways of pursuing personal benefits. Thus, they necessitate a normal cultural-cognitive environment to provide orientation and guidance for individuals as they contend with the social reality in everyday life (Zucker 1977). In other words, people in China, as Scott (1995:36-38) mentioned, can only acknowledge the existence of the regulative systems without necessarily believing that the rules are fair or justified.

By Scott's (2008:51) logic, there is instrumentality (regulative logic) but few appropriateness (normative logic) and orthodoxy (cultural-cognitive logic) in China after the economic reforms. In the absence of appropriateness and orthodoxy, people cannot define their approaches appropriately in terms of maximizing individual interests. Lacking in orthodoxy, people lose the orientation and guidance that can lead to appropriateness. Therefore, people in China intrinsically pursue the instrumentality of the newly introduced private property rights (formal rules) after the economic reforms because of the unceasing destruction of common beliefs and shared logic of actions. For this reason, the maximization of personal utility determines the corresponding appropriateness and orthodoxy, not the other way around. Therefore, people's only concern is that the pursuit of wealth pivots on guilt or innocence rather than shame or honour and certainty or confusion (Scott *ibid*:51), and to-get-rich became the overriding regulative framework in China.

Under the circumstances, expedience replaced social obligation and taken-for-granted assumptions in this transitional society (Liu *et al.* 2001:34,83,89;Walter and Howie 2001:2). Thus, it is comprehensible that some entrepreneurial people endeavour to maximize individual utility if they can hedge any legal sanctions. Consequently, the biased regulative pillar will make the institutional environment deviate from the norms and become the only support of the institutional environment, which is without appropriateness and orthodoxy. Once such an event prevails in society and people regard it as taken-for-granted or habitus, they will ignore the normal binding expectations and constitutive schema only if their behaviours fulfil the requirement of preferred regulative rules. As scholars (Sachs and Woo 1994:

preface) have argued, corroboration that power is created through institutions, which structure human organizations and relationships in most societies, simultaneously create power by giving individuals control over resources and social functions. Because these individuals control the rights to create formal rules, they will use any available instrument to legitimize their behaviours in terms of maximizing personal interests, whether economic or political.

As argued, there is no straight relationship between problem and solution in China, and the policy outcome may not reflect the problem that previously caused the decisional process in transitional China (Lieberthal and Oksenberg 1988:4; Saich 2001:212). In conclusion, any adopted policy in China can arise for any of the following reasons: (1) to solve new policy problems pressing upon leaders; (2) to keep alive the ideological vision of its proponents; (3) to rebuff challenges from rivals; (4) to reward its networks of loyalties; (5) from the structural dimensions of China's bureaucracy (Lieberthal and Oksenberg 1988:3). According to the policy paradigm (Hall 1992:90-113, 1993), not only have these instruments and settings frequently changed, but also the goal of reforms has been unpredictable and inconsistent since 1978 (Woo 1999) (*see table 5*). In sum, lacking in the normative and cultural-cognitive pillars and thus distorting the institutional environment, these ideas and behaviours of people, the conflicts between the essence of the market economy and the basic ideologies of the CCP, formal rules in China are very likely to be devised to satisfy these social elites in their pursuit of maximization of personal utility. The preceding statements not only explain why compromised institutional changes inevitably arise and persist in transitional China as distilled from the essence of my literature review, but also answer this specific research question. Next, I will examine the interview data to verify my argument.

In this research, I constantly argue that missing normative and cognitive pillars distorted China's institutional environment; this is ubiquitously embodied in my interviews. In the first interview, for example, the interviewee said that state banks fecklessly follow the superannuated regulations without confronting the status quo: expanding SMEs (5, appendix 5). Likewise, the second interviewee informed me

that different hierarchical administrations set up a series of strict regulations, which fail to protect SMEs against illegal business activities, e.g. counterfeiting (4-5, appendix 2). There are similar criticisms from other interviewees. For example, the third interviewee told me that he had to deal with bureaucrats in different hierarchies to restructure the then ailing SOEs (7-8, appendix 3). The fourth interviewee informed me that inefficient SOEs essentially resulted from poor efficiency of the bureaucracy and not the corporate structure (5, appendix 4). The fifth interviewee deemed that speculation in public resources with the assistance of state agents should not be blamed because he regarded these phenomena as the essence of the market economy (8-9, appendix 5). All these examples together essentially justify my argument that people in China only acknowledge the existence of regulative systems without necessarily believing that the rules are fair or justified, and therefore the maximization of personal utility determines the corresponding appropriateness and orthodoxy, not the other way around. Ultimately, people in China are only concerned that the pursuit of wealth is associated with guilt or innocence rather than shame or honour and certainty or confusion.

Without normative and cognitive pillars, the implementation of fiats issued by hierarchical administrations in China, become different from one place to another. For example, the second interviewee informed me that the investigation of counterfeit products has been strictly regulated by central government but the implementation of this investigation is deliberately ignored especially in Southern provinces and in the inner-lands (4, appendix 2). In China, state agents in different areas often behave as though they are in different states (institutional environment). In other words, different bureaucrats in China (the same institutional environment) have different interpretations of formal rules, and then implement them differently because of decentralization. Within my interviews, I recognized that many HNWI's pursued their personal interests irrespective of honesty, morality, appropriateness, and orthodoxy. As for the conflict between the market economy and communist ideology, it explicitly manifests itself particularly in those re-allocations of wealth. For example, although the market economy has been re-introduced into China after the reforms, many bureaucrats continue to use the out-dated thoughts derived from

the command economy era to allocate scarce economic resources, e.g. bank loans or permission to initiate business.

In most societies, economic growth is highly related to income distribution (Kuznets 1955). Because an economic system often determines the way that social actors obtain income and wealth, any economic institutional change will inevitably affect the distribution of income and wealth. In a market economy, both resource allocation and income distribution are often decided by the demands of market. In transitional China, however, the government continually allocates these scarce public resources although the market dominates income distribution. By this logic, income distribution will be highly distorted because of biased resource allocation. Consequently, the mixture of the previous two mechanisms makes wealth allocation biased towards those people who control resource distribution. This statement explains why economic elites, in collusion with legitimate state agents, can impose formal constraints on other people, e.g. business competitors, ordinary people, or other state agents, and help themselves to achieve or retain their privileges.

Under the circumstances, economic interest becomes the ultimate purpose for both economic and political elites in terms of institutional change. Meanwhile, economic elites offer tangible incentives to political elites, who will subsequently provide dependable and efficient frameworks to let economic elites access their economic interests. In other words, neither an economic nor a political elite will and can create or change institutions independently without introducing external resources whether economic or political. For example, in the fifth interview, the interviewee told me that many previous public servants started up their own businesses because of asymmetric information obtained from their incumbent colleagues or superiors (1-2, appendix 5). She also mentioned that people could only become rich with prior acquaintance and monetary transaction, which should be regarded as friendship. This kind of monetary transaction is necessary because nobody will risk their lives to help friends without any tangible return (3-4, appendix 5). In the sixth interview, the interviewee informed me that HNWI's share the benefits from the imperfect features and loopholes of transitions made by government agents (2, appendix 6). She also

advised me that even those highly educated state agents continue in the footsteps of their predecessors but with more sophisticated scheme (3, appendix 6).

Following my interviews, I have perceived many examples of even these economic elites being restrained from pursuing their personal economic interests. In other words, these elites hardly can infinitely manipulate institutions but have to count on external resources to continue their exploitation in order to restrain their rivals, and so retain their existing privileges. Thus, the interviews with these HNWI confirm my research argument that elites can only exploit institutions to overcome all obstacles and force others to do what they want in order to achieve their economic purposes, with the assistance of external resources.

7.3 SUMMARY

I have by now studied most significant elements of China's institutional changes, e.g. the cause, the path dependence effect, the reasons behind the pursuit of individual utility, the emergence of HNWI, and the compromised institutional environment. The précis is that any innovative and regulative-abiding institution in transitional China is often not adhered to because political constraints exploit normative and cognitive parameters to rebuff those non-beneficial institutions whether they are law-abiding or not. By this logic, entrepreneurs in China can exploit their economic possessions for political influence and protections with existing figures in power, who once had claimed to bring up more wealth for society as a whole at the outset of institutional changes. Without relying on coercion, as Olson (1971:33-34) argued, these entrepreneurs are a small group but are relatively more effective than the majority because these entrepreneurs have a more substantial portion of collective goods than those in the large group. Olson's statement and my argument are corresponded with each other that small interest groups (elites) in transitional China need no coerciveness and spontaneously sustain the survival of the ruling regime because their collective benefits cause a symbiotic relation between the political (ruling) elites and economic elites (HNWI), which then result in the compromised institutional environment.

The intricate resource (power) dependence process arises in China amid the emergence of the compromised institutional environment. Because of the scarcity of economic and political resources, those economic and political entrepreneurs either vie for those scarce resources or bring up new alternative resources to replace the existing expensive and scarce ones (*see Fig 9*). Therefore, the process of seeking alternative new resources indicates that political power and economic wealth, which are scarce resources, are inter-dependent, and then form compromised institutional changes in transitional China that remain tightly controlled by the CCP to fit the political atmosphere while China's economic environment has been increasingly changed from a command economy to a market economy. By this logic, the transition from position-based rights to property-based rights remains incomplete and biased towards those people who can dominate the trend of formal regulations. In the mean time, entrepreneurs from different industries have been allowed and motivated to pursue the maximization of personal utility. Together with the re-introduced private property rights, the economic elites can straightforwardly access more wealth with the assistance of those people who dominate the formal regulations in the compromised institutional environment. This rationale explains the complicated institutional change process and the emergence of HNWI in China.

To strengthen my research argument, I use China's housing market as a substantial exemplification to illustrate that institutional changes in China follow a compromised model. In China, according to Forbes China, more than sixty per cent HNWI have been involved in real estate industry whether directly or indirectly. China's housing industry, operating as many other monopolised industries (e.g. coalmining, wholesale), not only draws the most resources from different hierarchical governments and the populace but also has the most altered regulations applied to it (*see Table 23, 42*). By this logic, this industry could perfectly embody the compromised institutional changes in China (Nee and Cao 2005 ;Bromley and Yao 2006 ;Tsai 2006b).

Within this industry, those frequently changed housing policies epitomise the heightened confrontation between different interest groups. As noted, alienability

and exclusivity not only have been embodied in the market value and privileges of ownership respectively but also are two sides of property rights that are indispensable while people try to implement private property rights comprehensively. Additionally, I have examined other associated property rights, e.g. mortgages, leases, and pawns, deriving from alienability, which is based upon the foundation of exclusivity. Consequently, I perceive that alienability and exclusivity could not comprehensively exist in China because of the conflicts between private ownership in a market economy and the allocation of scarce resources in a planned economy. By this logic, people in China pursue by all means at their disposal, these scarce resources, e.g. house, money while property rights have been introduced and market value was added to those scarce resources.

In China, every single housing policy was tightly controlled by the CCP before the economic reforms that indicated no alienability and exclusivity in the administrative housing allocation (Chan 1999 ;Ding 2003 ;Buckley and Kalarickal 2005). On the contrary, the previous allocation system was dashed after the economic reforms because of the new economic goal: namely, the introduction of market mechanisms into effectual resource allocations to rectify government failures in housing allocation and to reduce the negative consequences of the land tenure system. In general, housing reform, like other reforms in China, has been commenced unexpectedly because of time limits. Additionally, there are many inconsistent measures inflicting massive damage on people that reflect the lack of purpose, guidelines, and on-going authoritative government in China's housing reforms. These inconsistent and lagging institutions of housing reform indicate that institutional change is difficult and costly and their emergence is constrained on the supply side (Balcerowicz 1994:163). In other words, these constraints may greatly inhibit institutional innovation and the people in power have access to extraordinary opportunities, and can use the instrumentalities of governance to dominate the allocation of resources.

As with other economic elites, most developers in China's housing industry have the privilege of ignoring administrative measures issued by central government to restrain the housing market. This deliberate ignorance actually results from political

decentralization and being protective of the benefits for themselves and their associated HNWI. China's housing reform essentially corresponds to the equilibrium of (1) the voluntary changes by a group of individuals in response to profitable opportunities arising from institutional disequilibria, and (2) the imposed changes introduced by government. Politically, the CCP will not allow any beneficial and indispensable institution to persist if it jeopardizes the legitimacy and sustainability of the state-party polity. Economically, the CCP hardly can impose any beneficial institution comprehensively without taking into account political considerations. In this regard, the process of housing reform and other institutional changes in China could only be commenced within the political constraints. Therefore, the institutional equilibrium, including the parameters and constituents of the institutional environment, will vary from one political situation to another. This phenomenon justifies my main research argument that resource dependence is deeply embedded in, and plays the vital role in effecting the compromised institutional changes in China.

8. CONCLUSIONS

It seems of paramount importance that the rise of China and her HNWI's and those conspicuous public and private external investments following the 2008 sub-prime credit crunch and the subsequent controversial sovereign debt crisis. However, the end does not, and should not, justify the means (Dickerson 2001); likewise, people should not use China's present-day economic performance to justify their ways of reaching it. By reading this research, people should comprehend that the resource allocation mechanism in China has long been dominated by CCP, which is the only authority to establish and implement all formal rules. To make laws for building a market economy has never been the only goal of the CCP (Hu 2012b:92) and there is no separation of powers and the legal system, which is directly subject to CCP power (Garrick 2012a:6). By this logic, the essentials, which determine the rise of China and associated HNWI's, are that power elites not only make the rules of the game to assure their access to wealth but also to choose the arbitrator to justify their means (Stiglitz 2012:85). Therefore, HNWI's in China only need to abide by the CCP's instructions and undertake the responsibility for boosting the state economy, which is used to uphold the legitimacy of the CCP; these HNWI's therefore can retain existing privileges under the peculiar institutional environment.

This research not only has thoroughly analyzed the transitions of role and power of those leading social actors and the associated institutional environment but also has explained the rise of China's HNWI's and the emergence of the compromised institutional environment. This specific process in China is complex, stop-and-go, and inheriting the legacy of proletarian ideologies, which are particularly embodied in the political domain. By this logic, politics becomes the ultimate guideline for regulating nearly every operation in the cultural and economic spheres. Nonetheless, those political leaders in China may provisionally tolerate the split interpretation and implementation of any activity if this tolerance eventually eases social discontent, toppling political rivals and maintaining the dominance of the CCP. From this research, people can perceive this prevailing phenomenon permeating the ongoing economic reforms. However, uncertainty arises because of previous processes whereby people were quick to consolidate personal interests as soon as possible

while their legitimate statuses remained unjeopardized, and the plunder of wealth, results in many unwanted social discontents that endanger the sustainability of the regime.

According to this research, people can learn that the institutional change process in China is embodied in the swing between the provisional disequilibrium and equilibrium of the stability and persistence of institutions that are ultimately used to sustain the legitimacy of CCP. Additionally, this research has provided insightful perspectives that help people to analyze whether the swing will escalate to an extreme level endangering the sustainability of China, CCP, and those HNWI as well.

8.1 CONCLUSIONS

By conducting this study, I have achieved my research purpose: to explain how the transition between these roles is played out during institutional changes and to explore the relations between the leading social actors and their institutional environment in China. Furthermore, I have explored several unique and insightful findings and significant results. Firstly, not every ordinary Chinese person can become a HNWI even if he or she obtains the opportunity and resource because HNWIs possess unique characteristics whether they are in a bureaucracy or business. That is, not only do they have good relations with political elites but also they are innovative and dare to take risks at any opportunity. Secondly, not every institutional environment will spontaneously become a compromised one in any restrained institutional environment. The key factor is the timing of the re-introduction of private property rights accompanying economic reforms because market values were added to major existing resources that had become relatively expensive since the reforms. Therefore, the higher the monetary value of the resource is, the stronger the pursuit of personal utility will be. Certainly, the way to pursue personal utility is highly related to the formal rules of the game and the informal constraints as well. Arguably, those existing interest groups will inevitably trade their obedience in exchange for the opportunity to acquire more wealth and the protection of their existing privileges in the restrained institutional environment.

Thirdly, to facilitate my research, I have synthesized the resource dependence theory and the institutional change theory, as it was difficult to explain the phenomena of mutually dependent/restrained and parasitized symbiosis in China's institutional environment. For example, North (1981) has asserted that institutions constrains individual behaviours in the pursuit of wealth and the maximization of individual utility but that may not explain China's institutional changes adequately because many pursuits of wealth in China are not effectively constrained by institutions; essentially economic endeavour amounts to no more than enhancing the CCP's control over people. Therefore, it is inadequate for elucidating China's institutional changes merely from an institutional change perspective. Moreover, institutional changes do not occur spontaneously in response to profitable opportunities as suggested by Lin's (1988) argument. Therefore, evolutionary theoretical frameworks (Hayek 1988) and economic purpose (Lin 1989) are hardly adequate for elucidating institutional changes in China. Additionally, the theory of economic man, who will be rational in the course of being economic, also cannot fully explain China's reforms because people display bounded rationality that constrains people's ability to adapt themselves optimally to complex environments (Williamson 1975). By this logic, I could only efficiently justify my research proposition after integrating the resource dependence theory because the institutional change theory alone can explain neither China's transition nor my research.

In this research, I have indicated that China's institutional changes became energised after Mao's death in 1976, because the CCP regime lacked legitimacy; therefore, the ruling elites had to seek alternative performance-based legitimacy by improving the living standards of Chinese citizens living under a then broken economy. Therefore, many previously existing resources became relatively expensive following the injection of market values and the market economy. However, because of the restrained institutional environment, the legitimate status of HNWIs is actually determined by the central or local ruling elites rather than by impersonal, unpartisan and universal formal rules. Therefore, China's HNWIs have to maximize economic benefits as soon as they can when their legitimacy is not yet jeopardized. In other

words, HNWI's may not know what rule they should follow but are on intimate terms with powerful bureaucrats in order to retain their existing privileges and pursue the maximization of utility. For those rational choice institutionalists, they deem individual action motivated by maximization of personal utility (Rutherford 1994:Ch.3;Langlois 2001). However, when any uncertainty besets these social actors, they may not have time to collect sufficient information and make clear sense of their goals. Therefore, they may not be rational in the pursuit of wealth and maximization of individual utility (North 1981,1990:45) in line with taken-for-granted cognitive structures. Thus, the normative and cognitive scripts not only constrain actors' behaviours but also effectively enable their actions by providing actors with guidance (Clemens and Cook 1999). Through these normative and cognitive scripts, actors interpret their institutional environment (Scott 1995:Ch.2). Nonetheless, neither rational institutionalists nor Scott explained how these social actors would behave in situations when any uncertainty comes to them and any of the three institutional pillars, normative, regulative, and cultural-cognitive, fail to function effectively. As has been argued, the normative and cognitive pillars have been malfunctioning since the notorious *Cultural Revolution* and the regulative pillar is tightly under the control of the CCP. Therefore, these social actors only need meet the criteria of regulative pillar, which is firmly under the ruling elites' control, in order to pursue the maximization of personal utility.

In my opinion, international change theory may only explain why people try to pursue the maximization of personal utility but fails to account for why some people become better off than others are. This research also sets out to unpack the catalyst that makes some people better off. As Tolbert (1985) argued, a stable flow of scarce resources from external sources determines the survival of the individual. Thus, these external resources may resolve this problem. Because of the inconsistent and lagging institutional changes, the piecemeal reforms, and the strong momentum from the re-introduced market economy, there are massive opportunities (institutional loop-holes) resulting from the discordance between them (reforms, institutional changes, and external momentum). In this regard, those people who know how to exploit these opportunities to achieve their goals will become better off than others.

These massive opportunities are the main reason that some people are better off than others; on the other hand, they are the result of the interactions between decentralization, the re-introduction of private property rights and the market economy with Chinese characteristics. In this regard, these opportunities (institutional loopholes) are the external resources for those people who then become economic elites. Nonetheless, this resource will shortly become exhausted because resources are finite and widespread requests in specific institutional environments by these constituents, consequently make the resource more scarce and costly (Leblebici *et al.* 1991 ;Pfeffer 1992 ;Pfeffer and Salancik [1978] 2003). In the circumstances, people will vie for this scarce and expensive resource or look for alternative ones in order to survive (*see Fig 9*). The replacement of previous resources with alternative ones provokes conflict and results in competition. In this competition process, institutional change will become unpredictable and involves not only those resources but also those people who try to use them. Because there are few institutions that are universally beneficial, powerful social actors will try to retain their preferred institutions or make institutional changes to the preferred path to benefit them in the preceding process of competition. This analysis not only explains why those measures, regulations and policies have been changed frequently but also clarifies why there are certain unexpected replacements of officials in influential positions during China's housing reforms.

In time, those economic elites may have sufficient robust economic strength to influence and attract the political elites; consequently, political elites will prejudicially or wrongly translate any stipulated regulation in favour of these economic elites in order to assist them in acquiring massive wealth easily and inexpensively. Consequently, the interaction between economic and political elites becomes unilateral, mutually restrained, and parasitically symbiotic that results in the compromised institutional environment and the rise of HNWI's in China. For the time being, this research not only explains what causes people to pursue the maximization of personal utility but also accounts for why certain people can become better off than others can after the initiation of China's economic reforms.

In retrospect, the performance-based strategy was successful at the beginning of economic reforms but there are signs that it may not persist because of growing income inequality and the internal and external imbalances it has created. The reason behind the inequality and discontent in China is the restrained institutional environment that was derived from the former proletarian ideology and other informal rules. Consequently, misinterpretation and erroneous implementation result in multiple forms of state ownership together with murky and entangled property rights that made it impossible to trade and extract value from any public goods. Therefore, it is difficult to define who owns what in the institutional environment. Because the state is fully under the CCP's control with its judicial discretion, people who have created tight relations with the political elites will take shortcuts to accessing massive wealth and become HNWI's. Therefore, the compromised institutional changes and the rise of HNWI's will only be triggered in the CCP dominated environment while the CCP tries to re-introduce the market economy to China (*see Fig 41*).

As argued previously, the main theoretical contribution of this research is to integrate resource dependence theory into institutional change theory in a way that not only explains China's institutional changes but also displays how resource dependence can affect institutional change in the institutional change process. This synthesis is the original contribution of my research and distinguishes it from conventional institutional change theory or resource dependence theory. Institutional change theory alone cannot explain the means of pursuing the maximization of personal utility. In other words, institutional change theory may give an account of why people pursue the maximization of personal utility but cannot explain how they exert external resources to affect institutional changes in order to maintain their dominant positions and existing privileges. In Fig 41, I have illustrated that the interactions between economic and political elites enable people to access wealth easily. For example, North (1990:6,33) mentioned that institutions are humanly devised rules of the game, that constrain and shape human interactions, and reduce uncertainty by providing dependable and efficient frameworks for economic exchange. He vaguely but actually described resource dependence in his argument, e.g. humanly-devised

indications that an institution is artificially imposed on people rather than spontaneously generated; the concept of constrain-and-shape indicates that institutions enforce people to do whatever institution's purpose is; that of reduce-uncertainty indicates that institutions will manage to overcome all obstacles; the dependable-and-efficient framework indicates that institutions will be legitimized to carry out the stipulated function; economic-exchange indicates that institutions will help people to access their economic interests. In my opinion, the implication of North's argument is that an institution is used to overcome all obstacles for powerful people, who can create or change institutions, and force others to do what they want in order to achieve their economic purposes. The statement "who can create or change institutions, to force others to do what they want" explicitly indicates that people can exert their influence to reach their goals. This argument essentially explains the main theoretical contribution of this research that the synthesis of institutional change and resource dependence theories can comprehensively explain China's economic reforms.

After employing the triangulation method in order to have an in-depth cross-reference of interviews, collected secondary data and literature in section 7.4.1, I consequently assert that my research results effectively answer the research questions displayed in table 10. These research questions can be characterized into three major categories, formal constraint, ideology and legitimacy that have been explained in chapter six. Because institutions are humanly devised rules of the game to serve those people who are able to create or change institutions (North 1990:6,33) and to channel and regulate conflicts in order to ensure social stability but not necessarily enhance social efficiency (Campbell 2004:1), institutional changes actually involve various factors instead of the economy alone. However, institutional changes in China mainly focus on economic activities or are economic-interest-oriented. In another words, the institutional changes embody the consequence of the interactions between culture, economy and politics although these changes are mainly manifested in an economic form. As Kuznets (1955) argued economic growth is related to income distribution, which is the way social actors get their incomes and wealth. This account corresponds to my argument that China's economic elites, in some way,

directly or indirectly sustain the economic growth, which upholds the legitimacy of the CCP. However, the mechanism of resource allocation in China seriously affects income distribution because it is tightly controlled by the CCP instead of being determined by the market. Thus, I can link those three main categories with preceding arguments coherently and get an incisive conclusion displayed as follows. From 1949 onwards, formal constraints began to permeate the society; however, the manifestation of these constraints varied from time to time. For example, most of China's people were equally poor and lived in a society with relatively low standards of living before the economic reforms; therefore, the formal constraints were mainly embodied in the political sphere, e.g. the loyalty to the proletarian dictatorship and the leadership of CCP. After the economic reforms, the CCP has gradually introduced the market economy with Chinese characteristics that endowed selected people with privileges that helped them to access massive wealth and consequently improve the economy of the state. At this stage, these formal constraints are embodied in economic, political and social spheres, e.g. the control of major resource allocations, the permission for major commercial activities, and the loyalty to the leadership of the CCP. This entire process is that the *legitimacy* of the CCP endows them with formal constraints, which in turn enhance the legitimacy of the CCP.

In previous sections, I have used the term legitimacy frequently; therefore, I have to define it appropriately. Legitimacy, as some scholars (Johnson and Solomons 1984) argued, implies acceptability in the face of uncertainty, and that, in turn, implies institutional durability. Schuman (1995) also argued that legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. Therefore, people accept the legitimacy, which is a generalized perception assumption, when they encounter uncertainty in a specific institutional environment. In China, the nature of legitimacy, however, varies from time to time across the spectrum of the restoration of national dignity, persisting with the proletarian ideology, the pursuit of prosperity, and maintaining social harmony in 1949-1956, 1956-1976, 1978-2003, and 2003-up-to-now respectively. For example, overtaking the UK and USA was the main purpose in the first period while the nature

of legitimacy was restoring national dignity; therefore, any way of completing major infrastructures and improvements in industrial output became the most essential institution. In this regard, the movements of Backyard Furnaces, People's Communes, the Great Leap Forward, and the Cultural Revolution are no longer astounding. These phenomena, as some scholars (Buchanan and Tullock 1962 ;Tullock 1967) argued, indicate that the legitimacy of a specific institutional arrangement cannot be meaningfully assessed without considering the propriety of the function it is intended to perform on behalf of the affected parties, and its ability to perform that function, given the environmental and other constraints under which it must operate.

As Max Weber ([1947] 1964) argued that there are three general grounds on which authority can be based. The first is the charismatic authority, which relies on the willingness of the constituency to follow a given individual. The second is the traditional authority, which relies on the willingness of the constituency to follow a pre-established institutional structure or social order because it has been followed by previous generations. The third is the national-legal authority, which relies on the willingness of the constituency to accept a particular institutional structure because of the logical secular advantages it offers. In this regard, legitimacy in China was initially based on Mao's charismatic authority after the establishment of the state in 1949, and consequently became traditional authority based and then was national-legal authority based. After the death of Mao, the charismatic authority soon began to disappear. The successors then needed to earn their own legitimacy; therefore, improving economic efficiency was the remedy not only to diversify people's foci but also to overpower political rivals. In my opinion, Deng Xiaoping successfully synthesized those three authorities (charismatic, traditional, and national-legal), to become a new one that not only varies from one institutional environment to another but also is tightly manipulated by the ruling elites. In other words, the nature of the CCP's legitimacy has not only been influenced by its pervasive controls and varied from time to time but also can sustain the CCP's regime while it is necessary.

In China, legitimacy is unlike some scholars' (Dowling and Pfeffer, 1975: 122; Parsons, 1960: 175) argument in that there is no congruence between the social values associated with or implied by organizational activities and the norms of acceptable behaviour in the larger social system. Rather, it is as Maurer (1971: 361) argued, a hierarchical, explicitly evaluative cast, asserting that legitimation is the process whereby an organization justifies to a peer or superordinate system its right to exist.

Nevertheless, legitimacy requires acceptance of a particular institutional structure by all, or at least an adequate portion, of its constituency because of the logical secular advantages it offers (Suchman 1995). In the circumstances, the CCP can successfully impose the ideology and constraint of one-party dominance on China's people who consequently give their absolute loyalty to the CCP. The rise of institutional change occurs because people try to have better-than-expected lives and consequently change current institutions. In China, only certain people who were endowed with privileges that can access massive wealth because of the unjust social wealth re-allocation and re-distribution. To be exact, these people have to rely on political power, which is an external resource to them, to retain their current privileges. Therefore, these political elites have to rely on economic power, which is an external resource to them, to retain their political legitimacy; this strengthens the one-party dominance and indirectly endows these economic elites with privileges. The vicious cycle, which corresponds to my research findings, can adequately account for my research questions.

The substantial significance of my research is that it not only explains the cause and the reason for China's economic reforms and the rise of HNWI's but also clearly indicates that resource dependence plays an important role in effecting institutional changes. Except for these theoretical arguments, I have employed the elite interviews and China's housing market as the exemplification justifying my research arguments. On the one hand, the elite interviews not only complement the insufficiency of secondary data but also verify the existence of the compromised institutional environment. On the other hand, the housing market exemplification

symbolizes the interactions between institutional changes and power dependence in the CCP dominated environment that every interest group always needs to rely on to retain the status quo, or influence new institutional arrangements in its favour. On the contrary, there are people in the same institutional environment who possess relatively fewer benefits but also try to change existing institutions in order to pursue their expected better lives. Consequently, the stability and persistence of existing institutional environment may incline towards provisional disequilibrium.

As indicated previously, the essential resource cannot be sustainable in any institutional environment because this stable flow of resources may soon be exhausted because it is finite, and subject to widespread requests and thereby increases in cost. To reduce the dependence on these increasingly scarce and expensive resources, individuals or organizations will search for alternative resources, which will have similar effects on their survival. Only certain individuals or organizations, which have the legitimacy to differ, and create legitimacy for those who follow, are able to develop and disseminate technical rationales for their innovations. The replacement process essentially explains the interaction between resource dependence and institutional change. Within such interaction, the members of small groups will be more effective and enthusiastic than those in the large groups because members in small group will have a more substantial portion of collective goods than in a large group without relying on coercion. This phenomenon justifies my argument that small interest groups (HNWIs) in transitional China require no coercion but spontaneously sustain the survival of ruling regime because of their private benefits.

Thus far, I have explained the significance and contribution that my research has made. Although I have asserted that resource dependence is embedded in the institutional process, the way of relying on resources varies from one place to another. For example, I have interviewed different people among many industries, e.g. housing industry, coal-mining industry, consumer electronic industry, and food industry. In the food industry, for example, the initial investment is huge compared with the housing industry. Therefore, these owners will not jeopardize their

investments by manipulating resources to change existing institutions arbitrarily in order to receive disproportionately small personal benefit. On the contrary, those in the housing industry can manipulate resources to influence bureaucrats to discriminatorily or wrongly interpret or implement stipulated policy to favour them individually, thereby accruing extra massive benefits, because of the relatively less initial investment compared with the food industry. Nonetheless, I need to explain the way of relying on resources explicitly that may leave to further study.

8.2 FURTHER RESEARCH

I cannot but ask myself what I would do if there were any chance of restarting this research. Alternatively, are there any changes I would suggest with regard to the structure, research proposition, or even the topic? The reply to this question is that if I could start over from scratch knowing what I do now, I would devote further time to enhancing the research methods in the first place because every researcher needs the conceptual tools to interpret abstract philosophical theories, concepts and ideas and make them relevant and manageable. Because dissertation backgrounds (research purpose) vary from person to person owing to their different interests and motivations it is unlikely that any fair judgment on different research purposes can be easily reached. An appropriate research method can save a lot of time and cost for the researcher by shunning those redundant data collections and replicated literature reviews; a decent research method will provide the researcher with guidelines for essential data collection and the necessary literature for his or her study. For example, lacking in an incisive research method, I actually spent an extra half year collecting unnecessary data and reviewing unnecessary literature. After locating the accurate research approach, I collected sufficient data and conducted essential literature interview in a relatively short period.

Secondly, I would devote more resources and time to interviewing more elites rather than trying to collect more secondary data; shortages and conflicts existing in China's secondary data actually offset the credibility of this research. In China, most secondary data was made by state agents, who had their own perspectives, preferences, and stand points and only started to record data systematically in the

1990s; therefore, these data can be prejudiced, judgmental and piecemeal. Under the circumstances, there are natural defects existing in the secondary data. Further, the most credible secondary data is from NBSC (National Bureau of Statistics of China). It was not necessary for me to find other sources of secondary data to fill in the gaps of the NBSC's data because most official data are derived from NBSC. Because of my acquaintance with these elites, I have learned a lot of inside and first-hand information that is regarded as taboo and not everybody can have it. Thus, I should have taken more time to interview more elites in order to learn more inside or confidential information to complement the insufficiency of secondary data. Consequently, this knowledge gained from this research would have been more robust for the purposes of carrying over my findings to a greater context of the real world.

Because research purpose varies from person to person, the contents and insights of research on the same topic vary as well. In other words, rarely can any single research cover all associated areas of the research topic and so does this one. Therefore, although I have obtained many insightful findings and a promising result from this research, there remain some missing arguments that should be further discussed. Except for applying my research to different industries, I also think I could apply my research results to a greater context, e.g. cultural or country level, making it available to more people. For example, in a country with more impersonal, non-partisan and universal institutions, people may rely on resources less to make institutional changes because there will be less personal benefit gained in this environment. On the contrary, people in a biased and particularistic institutional environment may rely heavily on resources to make institutional changes because of more private benefits gained. Nonetheless, I should not draw any conclusion from these hypothetical propositions before conducting any further study.

Nevertheless, I may be able to relate my research to a greater context by attaining generalizability. Although this research is very much influenced by individual attributes and perspectives, some abstract generalizations in this research could be feasibly drawn as a worthy effort by attaining generalizability. That is to say,

researchers may form their hypotheses, which could be transferred from the context described in my research to theirs depending upon the degree of fit between these different contexts (Johnson and Solomons 1984 ;Suchman 1995:119,120). Because this research provides a substantial amount of information about the relations between institutional change and resource dependence, the rise of China's HNWI's and China's institutional changes, people can analyze the degree to which my research matches the context to which they are interested in applying the concepts and conclusions of this research. Before applying my research results to a greater context, people need to comprehend the typical, the common and the ordinary in this research and pay attention to how present instances are likely to differ from their future realizations.

There are some concerns that people should be informed before embarking on this. First, they need to know the truth of the findings in the specific context of my research. The main theme of this research is how China, a previously proletarian regime, has transferred from a command economy to a market economy (with Chinese characteristics) in a relatively short period without changing the political regime. Secondly, they need to conduct their inquiry in ways that chronological and situational variations are irrelevant to the findings. If that condition can be met, the findings obviously will have relevance in any context. The main theoretical finding of this research is that people may manipulate and rely on resources to influence institutional changes according to their ideas in a restrained institutional circumstance. In fact, every institutional environment is restrained albeit to varying degrees. Therefore, they need to notice the pattern of resource dependence and the associated effects upon institutional changes of their research context. For example, it should be possible to apply my research results to the private banking industry whether it is in a democratic or autocratic country. This is because this industry, to a large extent, manipulates external political resources to affect or change undesirable regulations by lobbying congress and parliament, by monetary contributions to favoured political candidates or incumbent politicians, or by exchanging partial economic interest for more institutional protection. Once this industry can manipulate external resources to effect institutional change, the specific institutional

environment is somehow restrained. Thus, I can compare the pattern of relationships between resource dependence and the regulation changes with my findings. Nonetheless, generalizability is not a comprehensive reason for explaining certain facts or certain common properties of objects. Therefore, researchers should pay attention to the truth-value, the consistency, the applicability and the neutrality.

In my opinion, there remain many intriguing topics regarding China's reforms that may fascinate researchers, e.g. what would China look like if the CCP had not initiated reforms in 1978, or if they had stopped the economic reforms after 1989, or if there the Tiananmen incident had not occurred in 1989; why did economic liberation proceed after 1992 without political liberation; why did the market economy not bring about democracy in China, etc? These topics may acquire many useful insights from this research. In this research, I have mentioned that the ultimate purpose of China's reforms is to uphold the legitimacy of the CCP under the circumstances of one-party dominance. If economic reforms were not initiated or if Deng Xiaoping had not been reinstated in the late 1970s, China's reforms would presumably have taken place in time because of the worsening fiscal situation and the high unemployment rate that had already seriously endangered the then CCP's regime. But the reforms may have been implemented in an alternative way, e.g. much more slowly, more stop-and-go, dual tracking oriented and piecemeal, because of those conservative and proletarian-oriented political leaders. As for the topic "why economic liberation proceeds after 1992 without political liberation", researchers can get many insightful explanations from my research. As noted previously, the ultimate purpose of China's reforms is to uphold the legitimacy of the CCP under the one-party dominance circumstances. After Deng's reinstatement, he adopted the alternative way, namely improving the living standards of ordinary people, to uphold the CCP's regime. Therefore, within the political constraints, the market economy generally functions pleasingly with some minor problems. Under the circumstances, the CCP separated the economy and politics successfully in the institutional environment. Likewise, any economic growth in this regime will not spontaneously bring about democracy.

For the time being, I am convinced that this research is of help in the broader context because it not only contains comprehensive analyses of the relations of and interactions between resource dependence and institutional change but also provides a solid foundation for future researchers to build their theories.

Therefore, those people who are interested in the topic of the institutional changes in China, the rise of China's HNWI's, or the relations of and interactions between resource dependence and institutional change in China or other places, should be able to get useful information and insights by taking the knowledge based on my research. Those people, who are interested in the context of China, may start their research by studying the introduction and dissertation background of this research and get useful information and insights regarding the cause and reasons for initiating reforms in the late 90s. For those people who are interested in the resource dependence and institutional change, they might start their researches by examining the literature review of this research because of the incisive analysis regarding how people can rely on resources to effect institutional change.

In addition to inspiring researchers, I truly wish that my research could deliver valuable implications to the political elites to improve the efficiency of the institutional environment in China, and consequently benefit ordinary people in China. These political elites, to a significant extent, overlap with, but remain independent from, those economic elites. They differ from those economic elites in that they include persons holding very important positions in the only legal authority of China. Therefore, in China, they (economic and political elites) together seize not only great wealth and the ability to make decisions that affect the behaviours of non-elites through political power, but they also exert a great deal of control over most essential resources such as education, prestige and social status, skills of leadership, information, knowledge of political processes, and the ability to communicate. Additionally, they are drawn disproportionately from the society's upper classes, which are made up for those persons who own or control a disproportionate share of the societal institutions' industry, commerce, finance, education, the military, communications, civil affairs, and the law. Because the basis of a great

concentration of power and resource is the income and wealth possessed by these elites, any existing or potential institutional change will be biased towards these elites without any doubt. That is, the social wealth will become concentrated in relatively few individuals and cause social disequilibrium.

8.3 PUBLICATION

In chapter seven, I have employed the housing industry as the exemplification to justify my research proposition. In fact, next to the housing industry, I myself favour the topic of finance reforms because it is similar to the housing reforms in China. Hopefully, I will try to have papers on this topic published in the near future. In this research, I have explored some insightful findings and promising results that specific people should know. First, those people who are interested in China's institutional changes and resource dependence. Secondly, those people who are interested in the rise of China's HNWIs. Thirdly, those people who are currently engaging in or plan to be involved in the housing industry of China. Nonetheless, the way to make these people aware of the research results should be efficient because of the diversity of the readership. This will be through the press media, which is the most economical way to spread knowledge efficiently to those readers who need it. Nonetheless, people who have different interests, will favour different magazines and journals. For those researchers who are interested in the relations between institutional change and resource dependence in China, I will try to have my paper published in the Australian Journal of Chinese Affairs, the China Journal, the China Quarterly, the China Review, the Cato Journal, and China Economic Review. For other researchers who are interested in the housing industry, I will endeavour to have my paper published in the Journal of Real Estate Literature and Land Use Policy. As for ordinary readers who are interested in general Chinese affairs, I will try to publish in the Caijing Magazine. The content of the papers will vary according the type of journal or magazine. Ultimately, I particularly wish this research might increase insight into those people who have the authority to improve the status quo and improve the lives of ordinary people and their prospects.

LIST OF TABLE AND FIGURE

CHAPTER 1

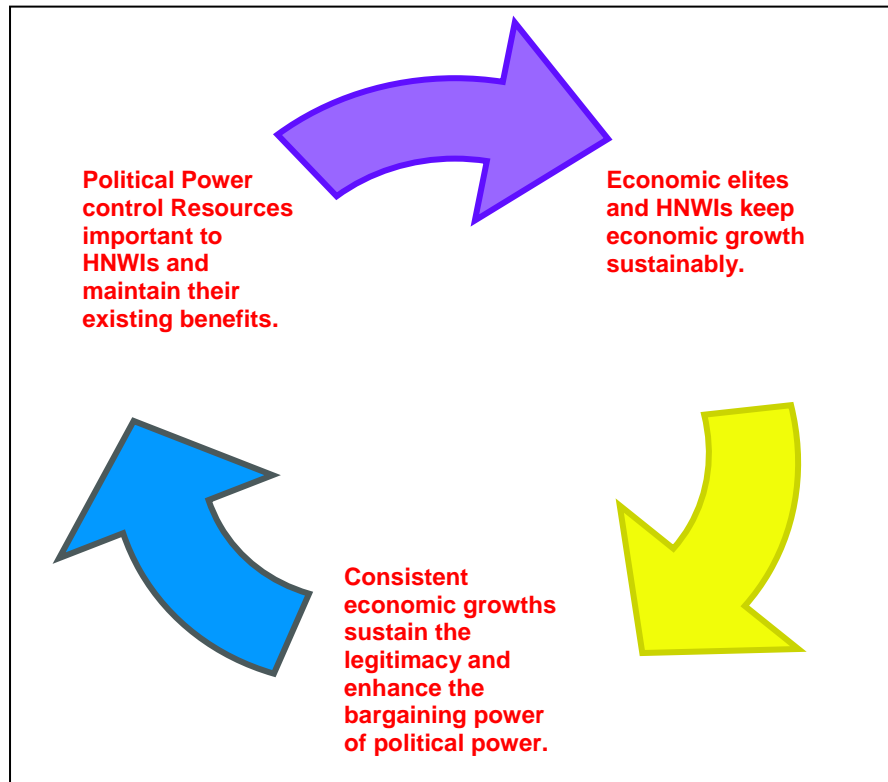


Fig 1 Primitive Concept: Vicious Cycle of One-sided Game in China

CHAPTER 2

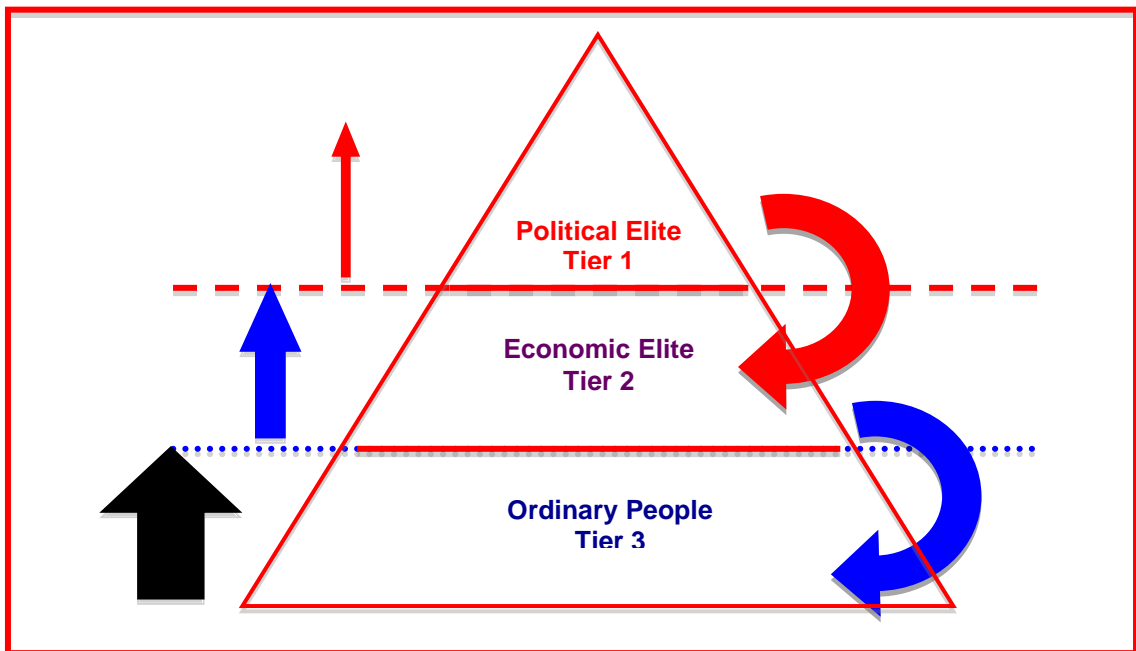


Fig 2 Atypical Institutional Changes in China

Period	Reform Objective
Before 1979	A planned economy under the law of exchange value
1979 – 1984.10	A planned economy supplemented by market regulations
1984.10 – 1987.10	A planned commodity economy
1987.10 – 1989.06	An economy where the state regulates the market and the market regulates the enterprises
1989.06 – 1991	An economy with organic integration of the planned economy and market regulations
1991 – present	A socialist market economy with Chinese characteristics

Table 1 Changing Reform Objective in China (1979 – present)

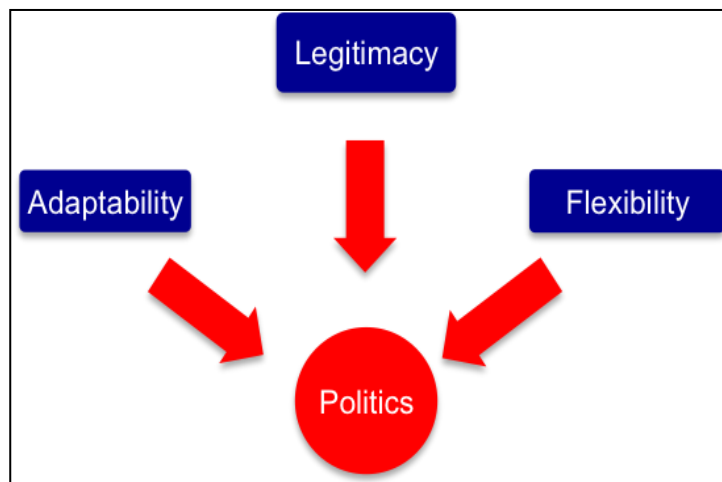
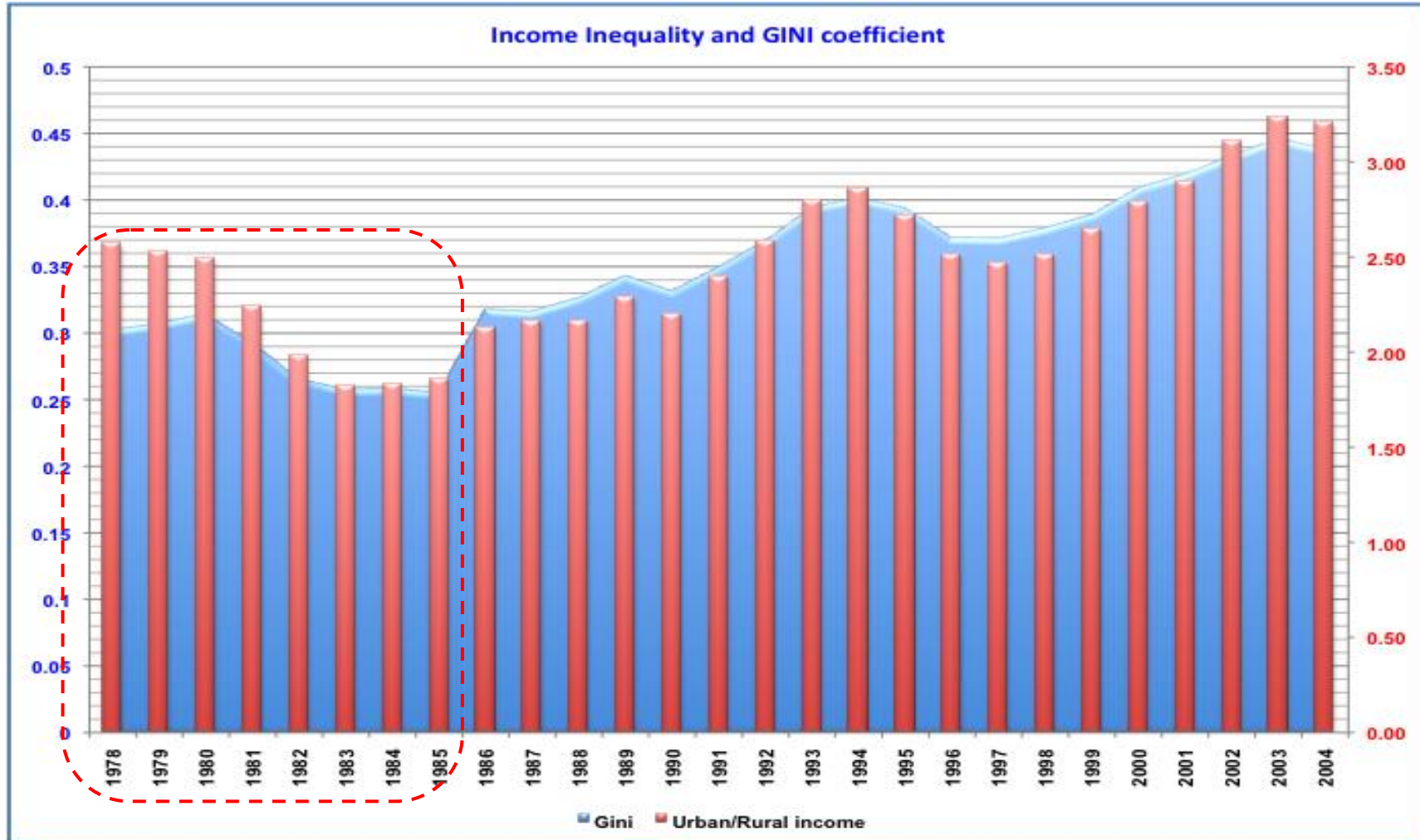


Fig 3 Entrepreneurs and Politics in China



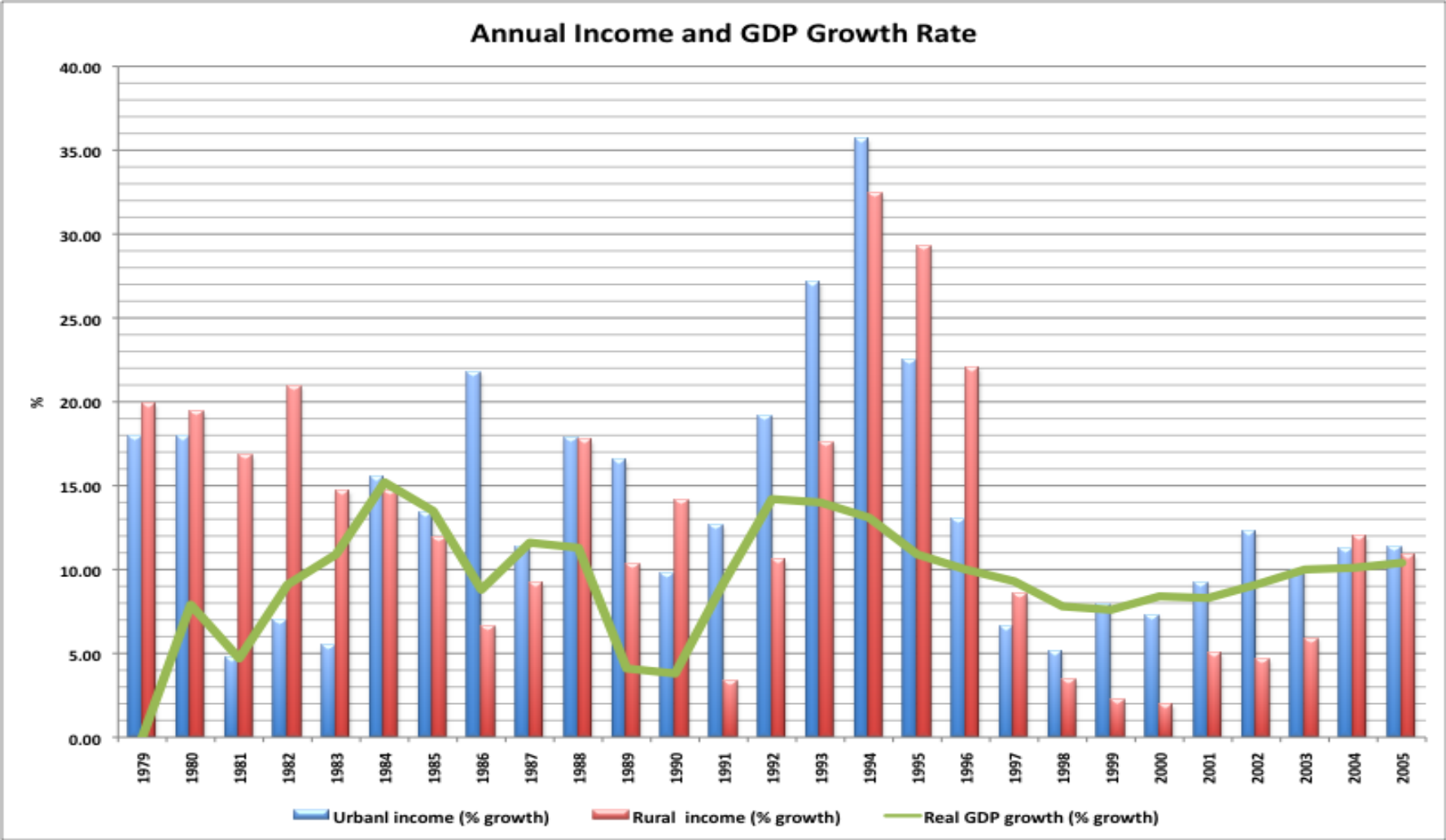
Data derived from 2010 Euromonitor International, IMF, WTO, CIA Factbook
 Fig 4 China vs. FSU (Russian Federation) GDP per capita

Fig 5 Income Inequality and GINI coefficient



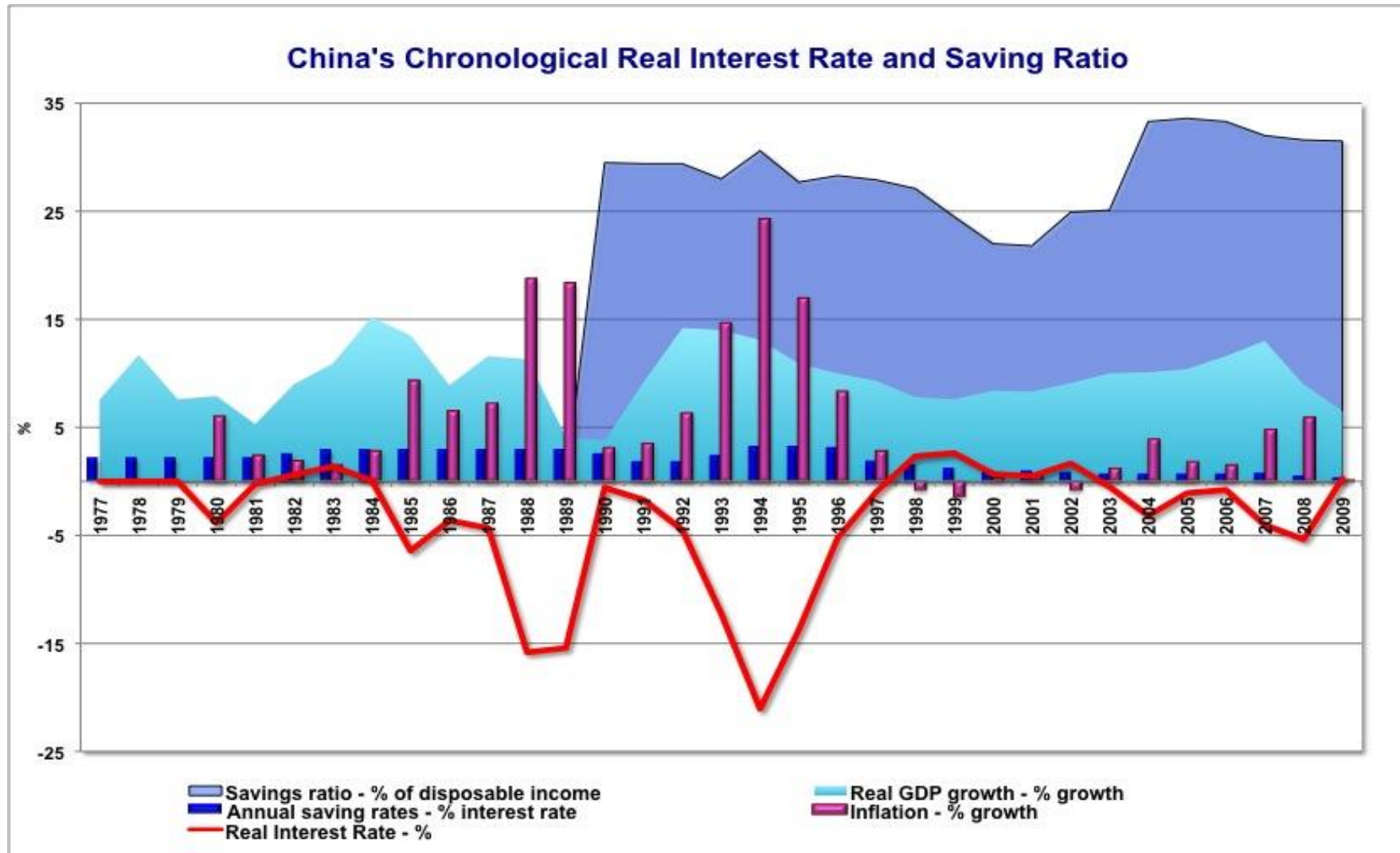
Data derived from Global Market Information Database (GMID): Euromonitor International from International Monetary Fund (IMF), International Financial Statistics and World Economic Outlook/UN/national statistics

Fig 6 Annual Rural and Urban Income and GDP growth rate



Data derived from Global Market Information Database (GMID): Euromonitor International from International Monetary Fund (IMF), International Financial Statistics and World Economic Outlook/UN/national statistics

Fig 7 Saving Ration, GDP Growth Rate, Interest Rate, and Inflation of China (1977 – 2009)



Data derived from Global Market Information Database (GMID): Euromonitor International from International Monetary Fund (IMF), International Financial Statistics and World Economic Outlook/UN/national statistics

CHAPTER 3



Fig 8 The Individual-Institution-Incentive-Institutional Change Cycle

	Bureaucrat (1)	Bureaupreneur (2)	HNWI (3)
Bureaucrat (1)	Configuration 1 Power Imbalance: 0 Mutual Dependence: 2	Configuration 2 Power Imbalance: 1 Mutual Dependence: 3	Configuration 3 Power Imbalance: 2 Mutual Dependence: 4

Table 2 Configurations of Power Imbalance and Mutual Dependence in China

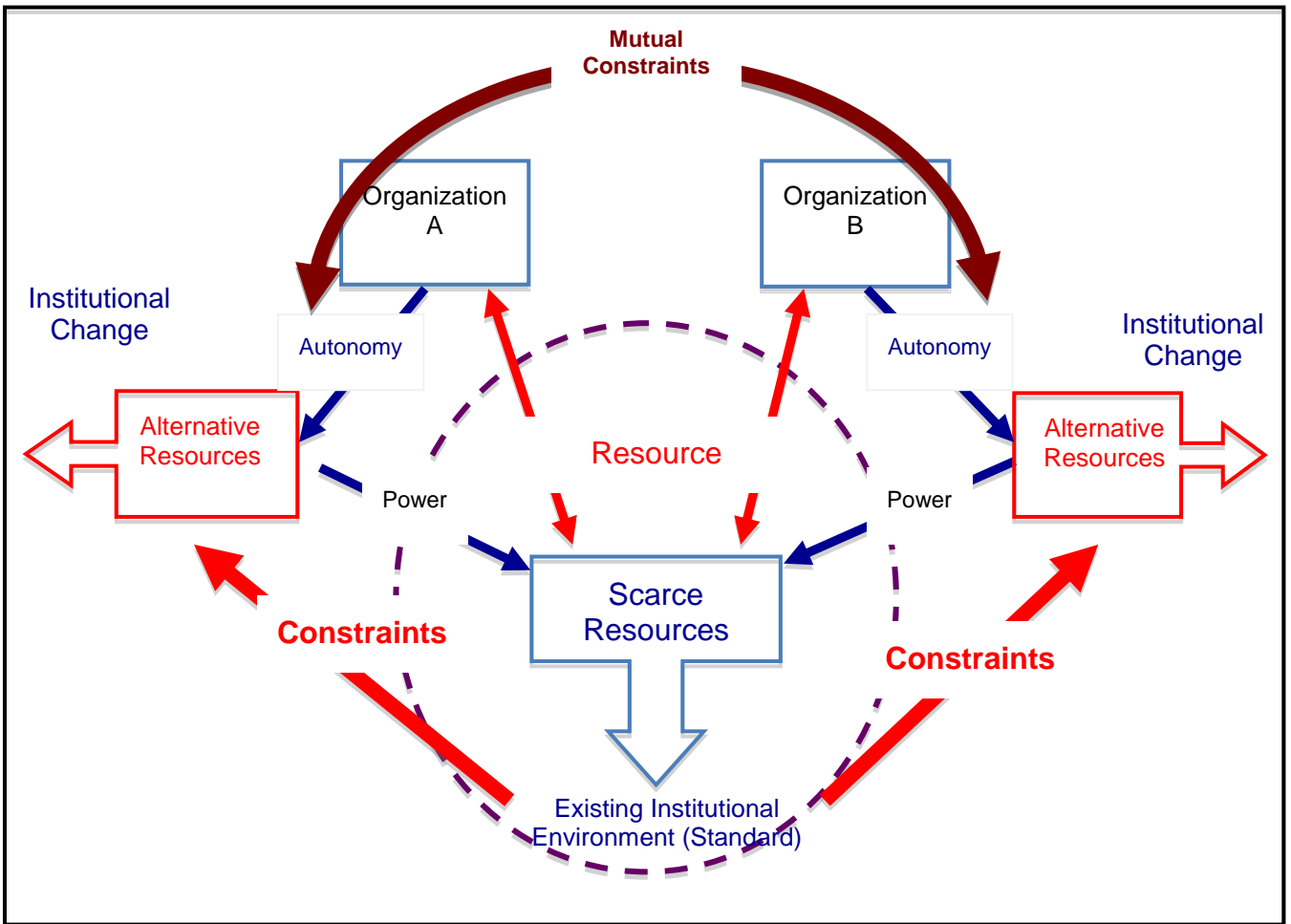


Fig 9 A Primitive Concept: Relationship between institutional Change and Resource Dependence

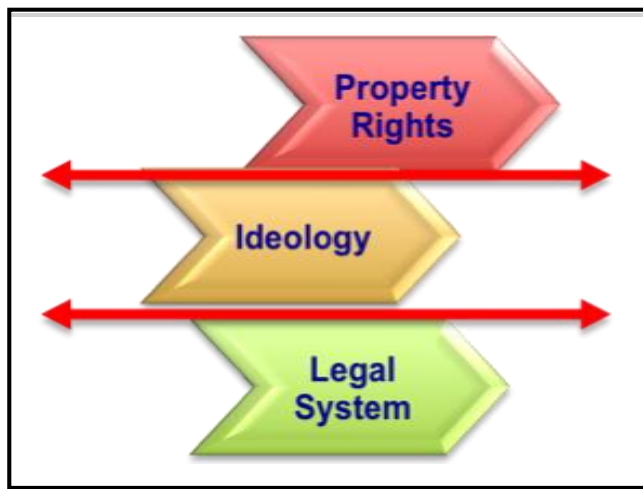
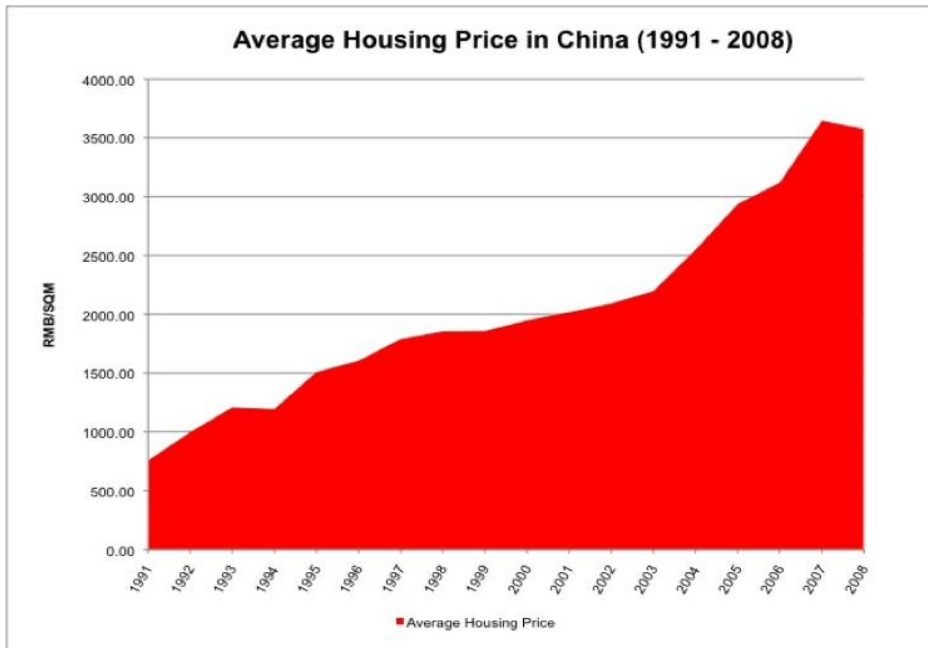


Fig 10 The relation between Lag and Advanced Parameters



Data derived from 2009 Statistic Book of National Bureau of Statistics of China
 Fig 11 Average Housing Price in China (1991 – 2008)



Fig 12 Three Layers of Meaning between Organizations and Institutional Environment

	Institutional Change Theory			Resource Dependence Theory
	Rational Choice Institutionalism	Organizational Institutionalism	Historical Institutionalism	
Parameters	Bounded Rationality, Ideology, Path Dependence,	Normative and Cognitive Ideas, Legitimacy, Isomorphism,	Policy, Stability, Path Dependence	Legitimacy, Power, Scarcity, Mutual Dependency, Property Rights

Institutional Change Theory				
	Rational Choice Institutionalism	Organizational Institutionalism	Historical Institutionalism	Resource Dependence Theory
	Property Rights, Transaction Cost, Formal Constraint	Scarcity, Power, Path Dependence		

Concept derived from (Williamson 1985 ;North 1990 ;Powell and Dimaggio 1991 ;Rutherford 1994 ;Scott 1995 ;Scherer and Lee 2002 ;Campbell 2004 ;Casciaro and Piskorski 2005 ;Marx [1906] 1990 ;Pfeffer and Salancik [1978] 2003)

Table 3 Parameters of Institutional Change Theory and Resource Dependence Theory

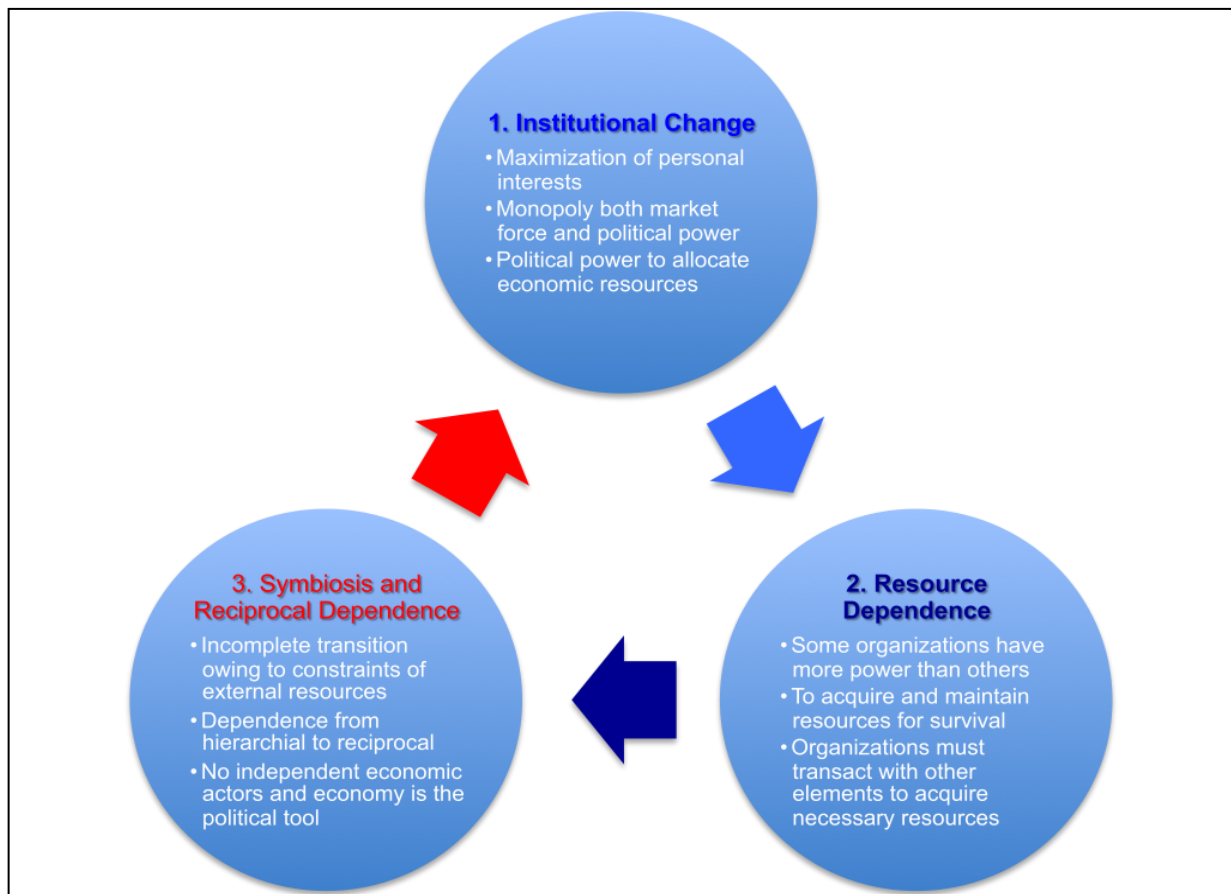


Fig 14 Circulation of Institutional Change and Resource Dependence in transitional China

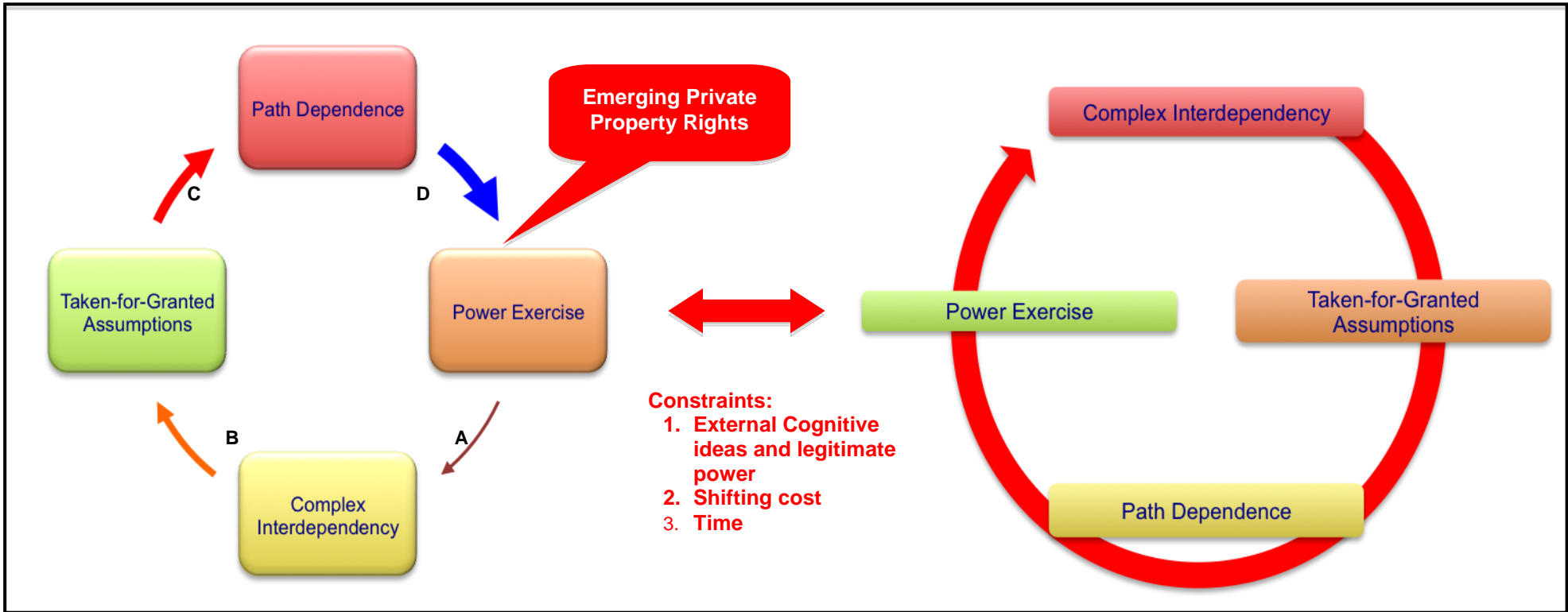


Fig 13 Relationship between Different Path Dependence Processes

CHAPTER 4

Political Constrains under CCP's Governance

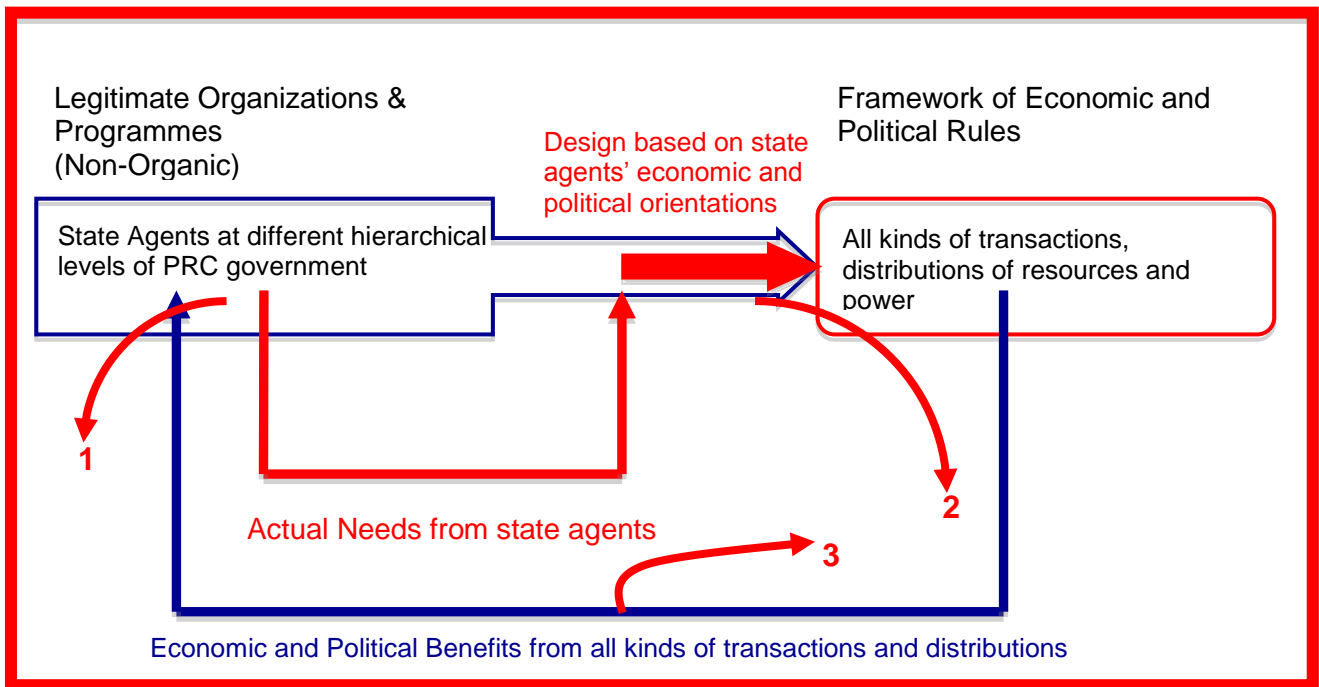


Fig 15 Logic of the Process of Resource Distribution in PRC

	Evolutionary	Revolutionary
Implementation	<ul style="list-style-type: none"> • Continuous change that proceeds in small, incremental steps along a single path in a certain direction (North 1998:15-26). • Today's institutional arrangements differ from but still closely resemble yesterday's because they have inherited many of their predecessors' characteristics (Nelson 1982:116,206-233). 	Simultaneous changes across most dimensions of an institution over a given period of time (Campbell 2004:32-33).
	Induced	Imposed
Accomplishment	Voluntary changes are implemented by a group of individuals in response to profitable opportunities arising from institutional disequilibria (Lin 1989).	Changes that are introduced by government fiat (Lin 1989).

Table 4: Implementation and Realization of Institutional Change

Period	Reform Objective
1949 – 1979	A planned economy under the law of exchange value
1979 – 1984.10	A planned economy supplemented by market regulations
1984.10 – 1987.10	A planned commodity economy
1987.10 – 1989.06	An economy where the state regulates the market and the market regulates the enterprises
1989.06 – 1991	An economy with organic integration of the planned economy and market regulations
1991 – Present	A socialist market economy with Chinese characteristics

Table 5 the Evolution of Reforms Objectives

	Concepts and Theories in the Foreground of the Debate	Underlying Assumptions in the Background of the Debate
	Programs	Paradigms
Cognitive (Outcome oriented)	Ideas as elite prescriptions that enable politicians, corporate leaders, and other decision makers to chart a clear and specific course of action.	Ideas as elite assumptions that constrain the cognitive range of useful programs available to politicians, corporate leaders, and decision makers.
	Frames	Public Sentiments
Normative (Non-outcome oriented)	Ideas as symbols and concepts that enable decision makers to legitimize programs to their constituents.	Ideas as public assumptions that constrain the normative range of legitimate programs available to decision makers.

Table 6 Types of Ideas and Their Effects on Policy-Making (Campbell 2004:94)

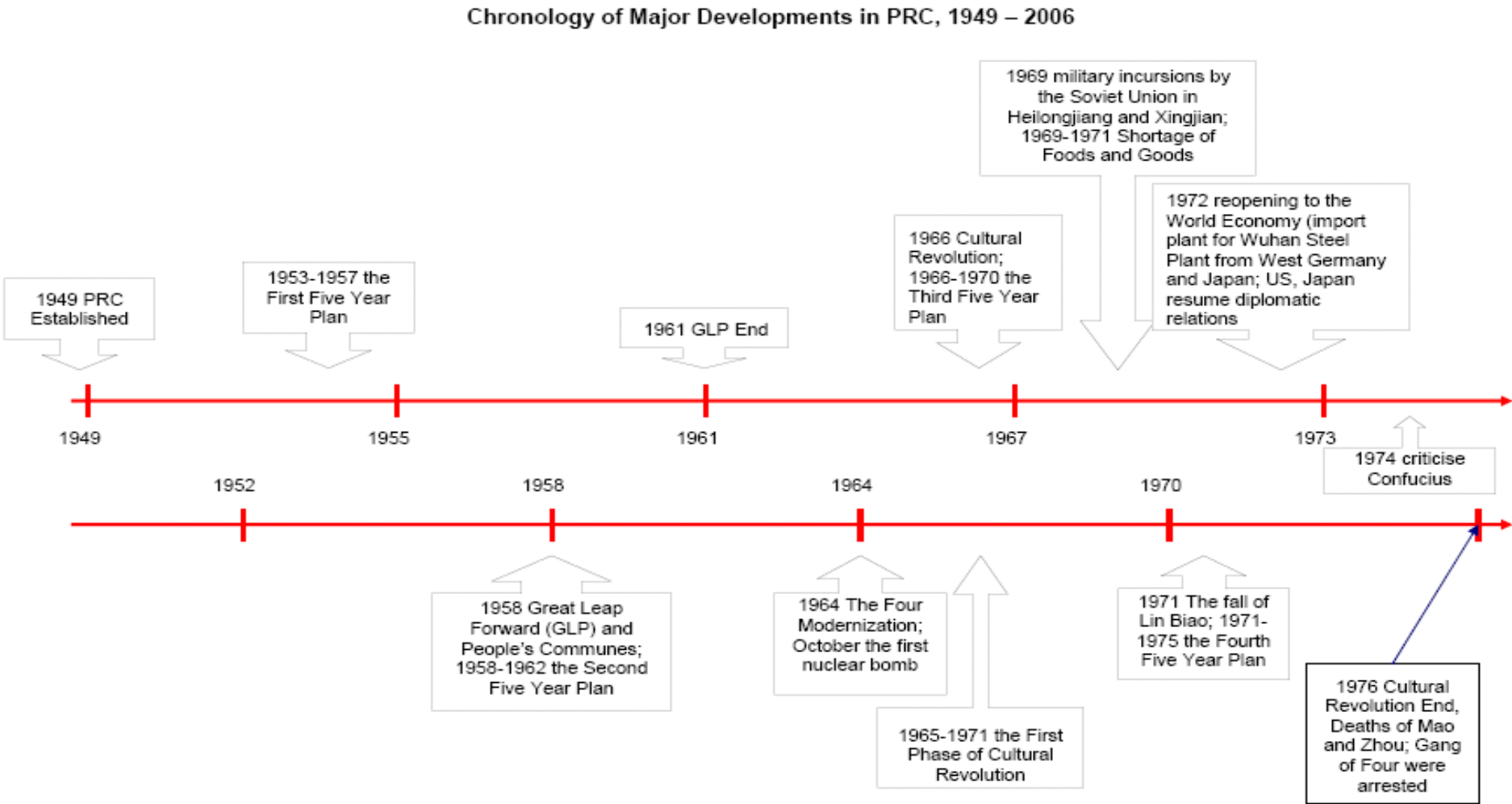
	GOVERNMENT	POPULACE
Static Correlates	Right	Duty
	Privilege	No Right
Dynamic Correlates	Power	Liability
	Immunity	No Power

Table 7 Legal Correlates (Hohfeld 1913,1917)

	GOVERNMENT	ELITES	POPULACE
Static Correlates	Right	Privilege	Duty
	Privilege	Right	No Right
Dynamic Correlates	Power	Immunity	Liability
	Immunity	Power	No Power

Table 8 Legal Correlates in Transitional China

Fig 16: Chronology of Major Episodes in PRC, 1949 – 2006



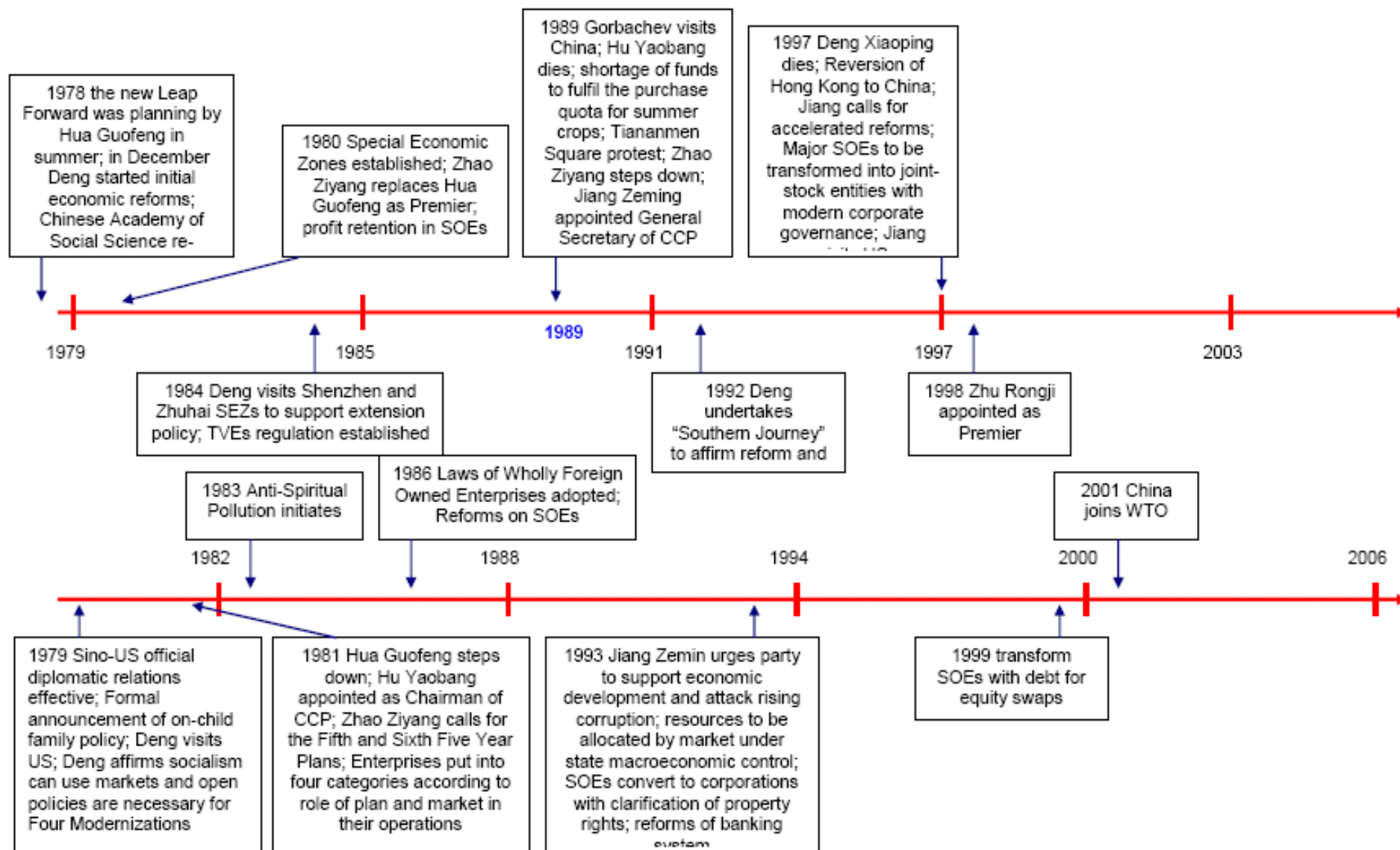
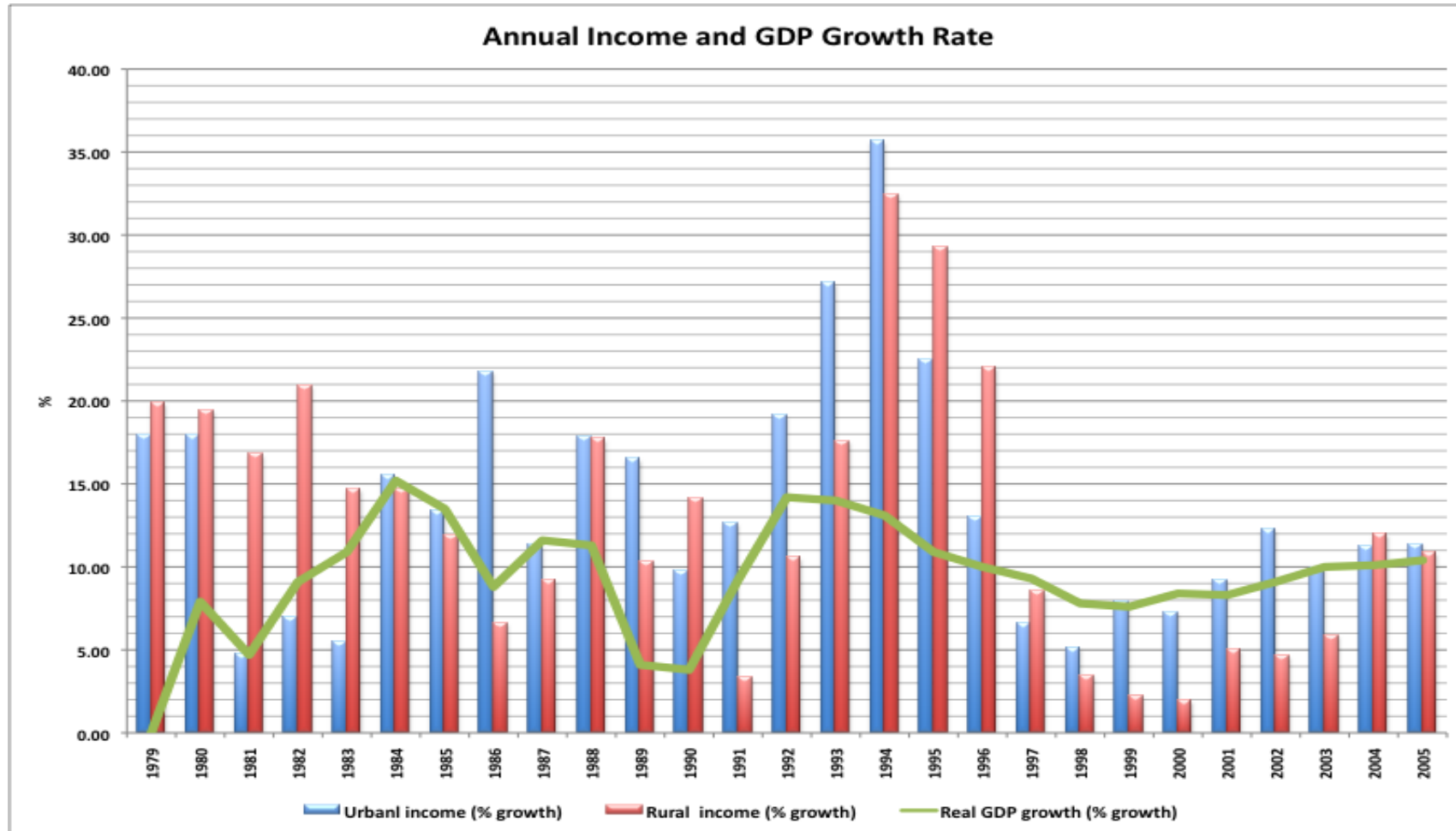


Fig 17 ANNUAL RURAL AND URBAN INCOME AND GDP GROWTH RATE



Data derived from Global Market Information Database (GMID): Euromonitor International from International Monetary Fund (IMF), International Financial Statistics and World Economic Outlook/UN/national statistics

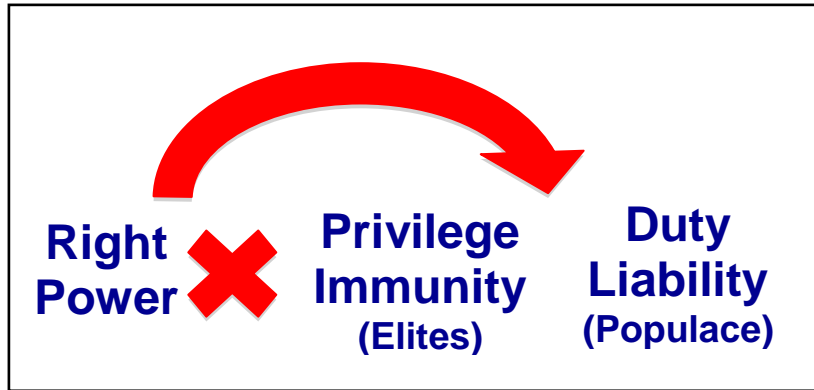
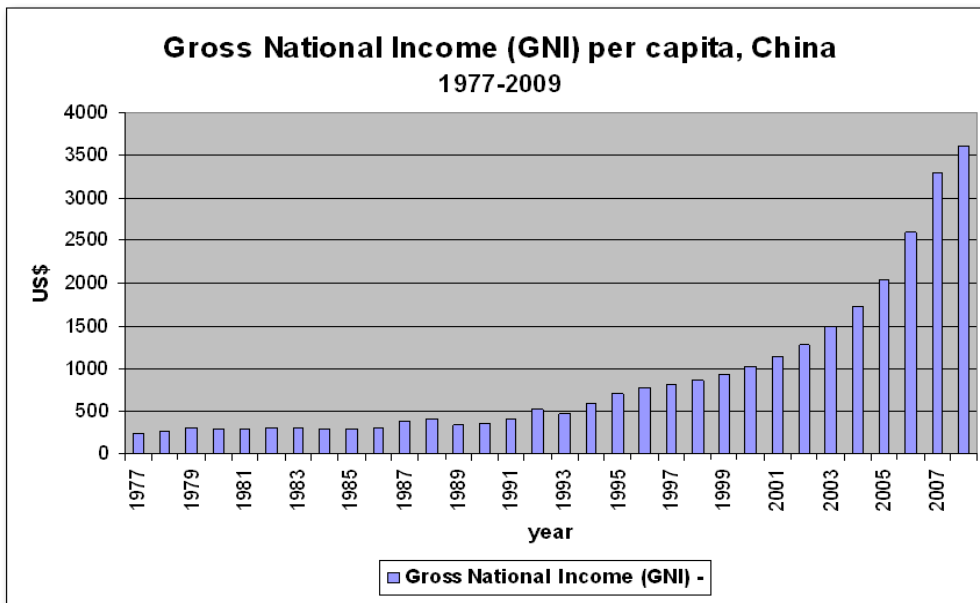


Figure 19 Transfer of Duty and Liability of Elites



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Figure 20 China GNI per capita, 1977 – 2009

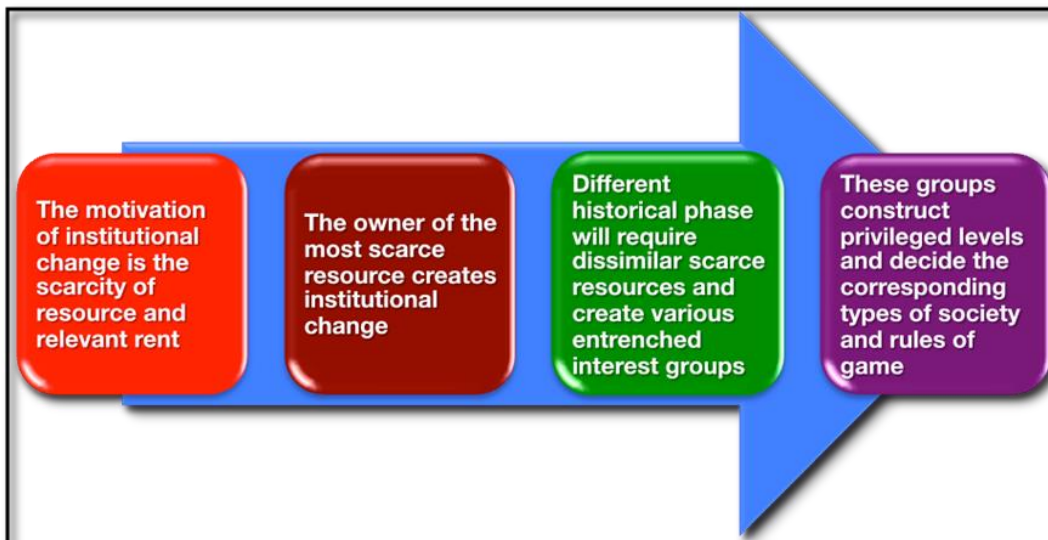


Figure 21: The Process of Institutional Changes and Distribution of Scarce Resources

Theory	Reality	Hypotheses	Research Question (Gap)
<p>Many institutionalists (Veblen 1898b ;Commons 1931 ;Alchian 1950 ;Buchanan and Stubblebine 1962 ;Demsetz 1964 ;Schultz 1968 ;Cheung 1969 ;Coase 1984 ;Williamson 1985 ;Tullock 1988 ;Lin 1989 ;Stiglitz and Heertje 1989 ;North 1990) make institutional change endogenous to model of economic behaviour.</p>	<p>Institutional changes in transitional China actually embody more than economic feature, e.g. culture (Davis <i>et al.</i> 1995), power and benefit structure (Chan 1996 ;Tang and Parish 2000), institutional change, resource dependence, and entrepreneurs (Walder 2003,2004 ;Yang 2004), and others.</p>	<p>What are the main features of China's institutional changes except for economics?</p>	<p>The aggregation of China's institutional changes consists of the interactions between culture, economy, and politics.</p>
<p>Many studies (Commons 1931 ;Davis and North 1970 ;Coase 1984 ;Williamson 1985 ;Lin 1989 ;North 1990 ;Chen <i>et al.</i> 1992 ;Hodgson 1993b ;Child and Yuan 1996 ;Blyth 2002 ;Nee 2003 ;Zhou 2004) focusing on the impacts of regulative institutions and the pursuit of self-interests regard institutional changes as economy-oriented or triggered by economic factors.</p>	<p>Many critical economic problems and recessed economy do not really cause institutional changes in China. For example, Great Leap Forward and Cultural Revolution followed by serious recessed economy and famine made hundreds of thousand people died.</p>	<p>Which factor essentially causes institutional change in China?</p>	<p>Some institutional entrepreneurs perceive changes that may threaten to hamper their access to resources or power and consequently affect the distribution of resources or power. Therefore, these elites will precipitate institutional changes.</p>
<p>Many institutionalists (David 1985 ;North 1990 ;Arthur 1994 ;Stark 1994 ;North 1998 ;Pierson 2000 ;Mahoney 2001) maintain that path dependent effects manifest in the process of institutional changes and regard the institutional framework of the economy in an evolutionary fashion.</p>	<p>The path dependent effects are selectively manifest in the institutional changes in China. In China, most institutional changes occur when political elites try to resolve problems that generate uncertainty over the distribution of resources and power. Therefore, changes are relatively revolutionary.</p>	<p>What exactly does path dependence have effect on China's institutional changes?</p>	<p>Path dependence is especially manifest in the distribution of resources and power in China. In terms of political institutions, China is arguably evolutionary than revolutionary. However, China is relatively revolutionary and less path-dependent in terms of economic institutions.</p>
<p>The emergence of HNWIs can be attributed to the pursuits of maximization of individual utility and wealth (North 1981,1990:45).</p>	<p>The pursuit of maximization of individual utility and wealth is rather a cause or generalization than a reason. This argument can hardly explain some former managers of SOEs were practically forced to take over then broken SOEs</p>	<p>What is the real reason to make certain people to pursue individual utility and consequently become HNWIs in China?</p>	<p>CCP devise unique private property rights through regulative mechanism in China. Lacking in appropriate normative and cultural-cognitive mechanisms, the newly given property rights become distorted in the society.</p>

Theory	Reality	Hypotheses	Research Question (Gap)
<p>Sinologists (Oi 1999 ;Chow 2005,2006 ;Naughton 2007 ;Goodman 2008) commented that China gradually started to loosen policy controls after the late 1970s, therefore, speculation, as the consequence of loosen policy control, became prevalent and people signed up to the changes and joined the affluent social strata becoming HNWI in transitional China.</p>	<p>and consequently become HNWI in China.</p> <p>In the process of China's institutional changes, policy has not been loosened all the time. Sometimes, policies have been tightened up because of inflation, other economic issues, and political struggle. Nevertheless, HNWI presence has never stopped along with China's institutional changes after 1980s. Therefore, this argument hardly can adequately explain how people become HNWI in contemporary China.</p>	<p>How do some people exactly become HNWI in China after economic reforms and who they are?</p>	<p>To loosen policy control is a means rather than a reason to make people pursuing individual utility. Because of disarrayed institutional pillars of China's institutional environment, people spontaneously pursue the maximization of individual utility especially when they have chances to get close to the centre of re-allocation and re-distribution of resources or power. This arguably is the reason that how and why some people become HNWI in China.</p>
<p>Many scholars (Romer 1990 ;Nee 1991 ;Dewatripont and Roland 1992 ;Zhang 2003 ;Yang 2004) regard China's transition as partial, gradual, and spontaneous changes that associate with evolutionary reforms. The uniqueness of the partial reforms in the transitional China, to some extent, is in response to Hayek's Evolutionary perspective (1998:293-294) that institutional change cannot be consciously and rationally man-made order.</p>	<p>In China, no matter how urgent an induced institutional change is demanded, CCP will not allow it to persist if it will politically jeopardize the one-party polity. Relatively, China's government and CCP will not recklessly impose any institutional change countrywide without conducting tests at selected points after the late 70s. In this regard, in order to retain the balance of politics and economy, a compromised pattern of institutional changes therefore emerged.</p>	<p>Why does compromised institutional change exist in China? How does it help HNWI in China and vice versa?</p>	<p>After reforms, small degree of entrepreneurship is granted to ordinary people in China. Relatively, party cadres and political elites were permitted a greater degree of entrepreneurial freedom. Meanwhile, prominent political leaders advocate that when nation, city, community, and individual gain more economic capital, the social problems will be accordingly solved and people will experience higher standard of living. This argument deliberately glosses over many problems, e.g. inequitable redistribution of resources, profit-oriented behaviour. Thus, to-get-rich become the only purpose in the society and people will trade their obedience for more resources or power derived from inequitable redistribution. This vicious circle consequently causes the compromised institutional changes in China.</p>

Table 9 Gaps between Theory and Reality in China's Institutional Changes

CHAPTER 5

Propositions (Hypotheses)	Research Question (Literature Gap)
What are the main features of China's institutional changes except for economics?	The aggregation of China's institutional changes consists of the interactions between culture, economy, and politics.
Which factor essentially causes institutional change in China?	Some institutional entrepreneurs perceive changes that may threaten to hamper their access to resources or power and consequently affect the distribution of resources or power. Therefore, some elites will precipitate institutional changes.
What exactly does path dependence have effect on China's institutional changes?	Path dependence is especially manifest in the distribution of resources and power in China. In terms of political institutions, China is arguably evolutionary than revolutionary. However, China is relatively revolutionary and less path-dependent in terms of economic institutions.
What is the real reason to make certain people to pursue individual utility and consequently become HNWI's in China? How do some people exactly become HNWI's in China after economic reforms and who they are?	CCP devise unique private property rights through regulative mechanism in China. Lacking in appropriate normative and cultural-cognitive mechanisms, the newly given property rights become distorted in the society. To loosen policy control is a means rather than a reason to make people pursuing individual utility. Because of disarrayed institutional pillars of China's institutional environment, people spontaneously pursue the maximization of individual utility especially when they have chances to get close to the centre of re-allocation and re-distribution of resources or power. This arguably is the reason that how and why some people become HNWI's in China.
Why does compromised institutional change exist in China? How does it help HNWI's in China, and vice versa?	After reforms, small degree of entrepreneurship is granted to ordinary people in China. Relatively, party cadres and political elites were permitted a greater degree of entrepreneurial freedom. Meanwhile, prominent political leaders advocate that when nation, city, community, and individual gain more economic capital, the social problems will be accordingly solved and people will experience higher standard of living. This argument deliberately glosses over many problems, e.g. inequitable redistribution of resources, profit-oriented behaviour. Thus, to-get-rich become the only purpose in the society and people will trade their obedience for more resources or power derived from inequitable redistribution. This vicious circle consequently causes the compromised institutional changes in China.

Table 10 Research Questions and hypotheses

Basic (Pure) Research	Applied Research
<p>Purpose</p> <ul style="list-style-type: none"> • Developing and testing theory or hypothesis • Expand knowledge of research subject • Findings of significance and value to society in general 	<p>Purpose</p> <ul style="list-style-type: none"> • Information gathered can be used in policy formulation, administration and the enhancement of understanding of a phenomenon • Improving understanding of problems • To solve problems with improved or new knowledge
<p>Context</p> <ul style="list-style-type: none"> • Undertaken by people in academic institutes • Researcher may choose the topic and objectives of research 	<p>Context</p> <ul style="list-style-type: none"> • Undertaken by people in a variety of settings, e.g. think-tank, consulting firms, academic organizations • With targeted topic and objectives of research

Concepts derived from (Saunders *et al.* 2003 ;Kumar 2005)

Table 11 Research Orientations of Pure Research and Applied Research

1	It is an important way of testing a proposed conclusion by looking for and analyzing discrepant data and negative cases. Some scholars (Shweder 1980 ;Miles and Huberman 1994a:263) contend that researchers have a strong and often unconscious tendency to notice supporting instances and ignore those do not fit their pre-established conclusions. Researchers should make sure that they do not overlook data that can point out flaws in their conclusions. Nevertheless, those discrepant data itself can be flawed. As a consequence, researchers should scrutinize both supporting and discrepant evidence to decide whether the conclusion in question is more plausible than the potential substitutes.
2	I have briefly discussed triangulation in previous sections. As Maxwell (1998:93) argues, it can reduce the risk of systematic distortions inherent in the use of only one method because no single method is completely free from all possible validity threats. Fielding and Fielding (1986:23-24,30) have detailed discussions regarding triangulation and emphasize the fallibility of any particular method and the need to devise triangulation strategies to manage specific validity threats. For example, documents, interviews, and questionnaires may all be vulnerable to self-report bias or ideological distortion. In this regard, practical researcher, who adopts triangulation strategy for validity test, would require an additional method that is not subject to this particular threat.
3	Triangulation strategy needs additional method, which can check the validity of conclusion. Thereby, quasi-statistics, which refer to the use of simple numerical results that can be readily derived from the data (Becker, 1970 #2395@:31), would be a good method to be employed in terms of the validity test. In fact, many of the conclusions of qualitative researches have an implicit quantitative component. For example, there are many quantitative claims regarding economy, housing, income, and others used in my research in order to support the conclusion and assess the evidence collected in my research.

Table 11 Strategies of Validity Test

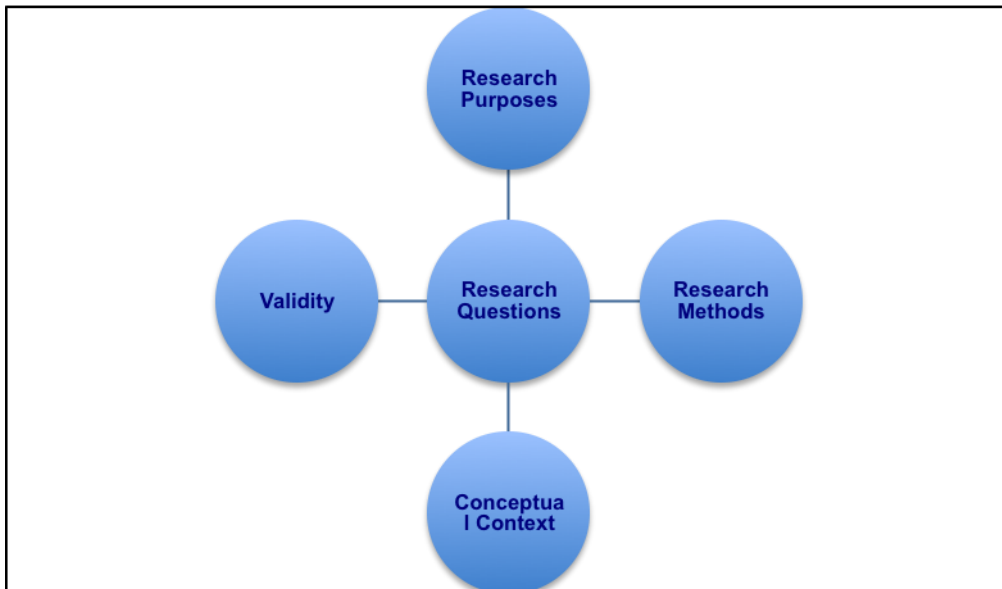


Figure 22 An Interactive Model of Research Design (Maxwell 1998:72)

Step	Content
Research Purposes	I intend to unpack how the transition between these roles is played out during the institutional changes and to explore the relations between the leading social actors and their institutional environment.
Conceptual Context	My concept concerning institutional changes in China was inconsistent and obscure. Because of the imbalanced development, unequal income distribution, political constraint, and severe corruption, I previously assumed the institutional changes in China would wind up chaos because of lacking comprehensive understanding of this country. After staying in China for years, reading abundant literatures and empirical data, and having more in-depth interviews to elites, I therefore understand that institutional changes in China are neither difficult nor simple as I previously assumed. All those changes may surround the centre of maximization of personal utility within a rigid political constraint. That is to say, politics is the guiding principle in this country whether it is planned economy or market economy. In this regard, there is no single theory can fairly explain those changes without other empirical and theoretical supplements. In this regard, the main conceptual framework of this research, which is the institutional change theory, is reinforced by the resource dependence theory. Therefore, I will try to justify my proposition under this conceptual context.
Research Questions	<ol style="list-style-type: none"> 1. How and why institutional changes in China happened? 2. How and why HNWI emerged in China? 3. Is there any relationship between institutional changes and HNWI? If there is, what is the relationship and what will be the direction of this relationship?
Research Methods	In this research, I will adopt the qualitative-quantitative-qualitative approach because this composite approach is able to test the validity and reliability of qualitative research even without standardized and structured methods and procedures that are the bases of testing validity and reliability in quantitative research. In this regard, I will start with qualitative methods to ascertain the spread of diversity, using quantitative methods to measure the spread, and then going back to qualitative methods to interpret the observed patterns. Regarding those employed data in this research, I will adopt elite-interviews as first-hand data because of their comprehensive understanding and deep involvement of the institutional changes. I also collect other empirical data, which is issued by public or semi-public organization, as second-hand data to reinforce the first-hand data.
Validity	In qualitative research, I have to try to rule out most validity threats after starting my study, and use evidence collected to make alternative hypotheses implausible. In this regard, I may become subjectively biased in order to make alternative proposition(s) implausible, and stick to my proposition(s) even though it may be incorrect. That is to say, I may have a strong and often unconscious tendency to notice supporting instances, e.g. documents, interviews, and questionnaires, which may all be vulnerable to self-report bias or ideological distortion, and ignore those do not fit my pre-established conclusions. However, I will be able to reduce the risk of systematic distortions inherent in the use of only one method because no single method is completely free from all possible validity threats. Therefore, triangulation strategy needs additional method, which can check the validity of conclusion. As previously mentioned, quasi-statistics, which refer to the use of simple numerical results that can be readily derived from the data, would be a good method to be employed in terms of the validity test.

Table 12 Research Approach and Five-Step Process of Qualitative Research

1	Philosophical epistemology
2	The way to collect information (structured or unstructured)
3	The way to record information (descriptive, narrative, categorical, or numerical)
4	The way to analyze information (descriptive, categorical, or numerical)
5	The way to express findings (descriptive or numerical)

Table 13 Classification of Data Collection Method

Type	Example
Government or Semi-government Publications	Census, Economic Statistics, Labour Force Survey, Health Report, Demographical Information
Earlier Research	Journal Article, Academic Paper
Personal Record	Written History, Diary
Mass Media	Newspaper, Magazine, Internet

Table 14 Main Types of Secondary Data (Sapsford and Jupp 1998:57-105; Labuschagne 2003 ;Kumar 2005:139)

Method	Description	Applicability and Appropriateness
Observation	This is a major technique to tackle the collection of primary data. It is a purposeful, systematic, and selective method of watching and listening to an interaction or phenomenon while it happens. When researchers are ore interested in the behaviours than in the perceptions of individuals, or respondents are subject to provide objective information, observation is the best approach to collect primary data.	The purpose of my research intends to unpack the relationship between role transition of leading social actors and institutional changes in China. The time span of this research is across thirty years. Besides, this research not only tries to comprehend the behaviours of leading social actors, but also aims to understand their perceptions and interactions with China's institutional changes as well. On the other hand, it is not possible to observe those leading social actors either participant or non-participant because of their exceptional socioeconomic status. Therefore, observation may not be appropriate to my research.
Interviewing	This is one of the most common methods used to collect information from people. In a word, interview indicates that interviewers read questions to respondents and record their answers (Monette <i>et al.</i> 1986:156), or a verbal interchange, often face-to-face in which an interviewer tries to elicit information, beliefs, or opinions from another person (Burns 1997:329). By and large, any person-to-person interaction, either face-to-face or otherwise, between two or more individuals with a specific purpose in mind is called an interview (Kumar 2005:144). In interview, researchers have the freedom to choose the design and content of questions to be asked of respondents, select the wording of questions, decide	Likewise, I need to assure if interviewing method can achieve my research purpose. Through in-depth interviewing with the leading social actors, I may clearly understand their role-transition, perceptions, and behaviours before and after reforms. Apart from that, because these leading social actors have hectic lives and are inaccessible, therefore, interview may save their time and least intrude their privacy. As a result, interview may be the appropriate method to collect primary information for this research. However, as discussed previously, I need to prevent personal bias that may mislead the interviewees and distort the results of interviews.

Method	Description	Applicability and Appropriateness
	the way to ask respondents, and choose the order in which respondents are to be asked. The process of asking questions can be either flexible (unstructured), where researchers have the freedom to think about and devise questions, or inflexible (structured), where researchers have to follow the questions designed beforehand including the wording, sequence, etc.	
Questionnaire	Questionnaire is a written list of questions, the answers to which are recorded by respondents themselves (Kumar 2005:145) and must be an integral part of the research design stage, yet not just a list of questions or forms to be filled in (Oppenheim 1992:10). However, people should not judge a questionnaire unless they know what it was meant to do, e.g. purpose. Researchers should specify a situation or criterion for their questionnaires in order to let their respondents to bear in mind when they making their answers (Oppenheim ibid:255). Likewise, in questionnaire, respondents are requested to give their answers to those questions as they are asked in interview. However, the difference is that respondents have to reply to the questions and record their answers by themselves in questionnaire; therefore, researchers are unable to explain the meaning of questions to respondents. Hence, the layout of questionnaire should be pleasing to the eye, the sequence of questions should be easy to follow, and the questions should be clear and not vague as well. In addition, a good questionnaire should be developed in an interactive style and make respondents feel as if researcher is talking to them.	Presumably, if the layout, sequence, and focus of questionnaire are properly organized, researchers may get adequate and essential primary data from their respondents. It seems that questionnaire could be another suitable method for me to use in this particular research. Because the respondents of this research have hectic lives and are inaccessible, therefore, any question to them may either intrude their privacy or explore something they are unwilling to reveal. In this regard, questionnaire may not be the choice to this particular research.

Table 15 Major Methods and Application/Appropriateness of Primary Data Collection

Observation	Interviewing
Present	Past and present
Actions	Attitudes
Context	Motivations
Seeing	Hearing and probing

Table 16 Difference between Observation and Interviewing (Berger 2000:113)

Motivation of sharing required information	It is essential for interviewees to be willing to share information with interviewers (researchers), who should try to motivate interviewees by explaining the objectives and relevance of their researches in clear terms. In this research, I have established long-term relations with those respondents (elites) either directly or indirectly. Therefore, before starting interviews, I have already explained my research questions and purposes to them straightforwardly. Initially, I have contacted many interviewees than actually interviewed, however, some of them are unwilling to have formal interviews even in an unstructured way because they are sceptical about the confidentiality of interviews. Nevertheless, most of them are willing to share required information with me in the end.
Comprehensible understanding of questions	Even those respondents are willing to share information with interviewers, researchers have to make sure interviewees clearly understand those research questions and consequently share the essential data rather than inadequate or inappropriate information with interviewers.
Appropriate interview location	Kammen and Stouthamer-Loeber suggest (1997:379) to conduct interviews in an interview room, which is with standardized setting in order to prevent other interferences, e.g. incoming calls, disturbances from other office staffs, unexpected noise, inadequate lighting, etc. Although those respondents (elites) of my research are willing to participate in interviews, however, they feel uncomfortable if they are interviewed in any place except their homes or offices. In this regard, interview room will not be any practical option to my research. Nevertheless, I do need to deal with the potential risks of preceding interferences in my research.

Table 17 The Prerequisites of Data Collection

Step	Description	Application
1. Identify the main themes (Categorizing)	<p>This step is the most important one during data processing. Once researchers categorize responses into inappropriate themes, or wrongly identify them, it will deviate the data processing from the correct path and then get erroneous results. To avoid the unexpected results, researchers have to, cautiously, go through their descriptive responses given by respondents in order to comprehend the meaning of their communication accurately. From these responses, researchers should perceive that respondents often use different wordings to express their own opinions about the same event, issue, or situation. It is researcher's responsibility to select appropriate wording (theme) to represent the meaning of those descriptive responses given by respondents and categorize them into suitable themes.</p>	<p>As previously maintained, this step is the most imperative one. In comparison with other interviewees, I will thoroughly go through the interview with the particular one (interview #3), whose transition can mostly represent the changes of leading social actors in China along with institutional changes. Before late 1970s, this particular interviewee was a party cadre and the manager of a typical SOE in Hangzhou, Zhejiang province. After economic reforms initiated in 1979, he not only has legitimately changed the SOE becoming a private-own enterprise but also himself become a HNWI as well. I therefore assume his experience is an epitome of the changes of other contemporaneous HNWIs. In this regard, his responses may be the most comprehensive one that I can categorize it into different main themes</p>
2. Assign codes to the main themes (Coding)	<p>After identifying the main themes, researchers may assign a code to each theme by using numbers or keywords, otherwise just identify the main themes. However, if researchers do not want to count the number of times a theme has occurred in an interview, it is unnecessary for them to assign a code to a theme.</p>	<p>As previously described, if I do not want to count the number of times a theme has occurred in an interview, it is unnecessary for me to assign a code to a theme. In this research, I may not assign a code to a theme because the number of times of a theme sometimes is meaningless at all. For example, every respondent mentioned "reforms and openness" during my interviews to them in this research. However, these terms sometimes are adjunct and meaningless in their description. It depends upon the question I asked and in what circumstances they mentioned it. In this regard, if I count the number of times of a theme, it may distract my attention to these pointless numbers and misguide the research to wrong path</p>
3. Classify responses under the main themes (Sorting)	<p>After having identified the themes, researchers should go through the transcripts of all their interviews or notes and classify the responses or contents of the notes under the different themes. Some computer-aided programs may be much helpful for experienced researchers in terms of thematic analysis. However, it is dependent upon the experience of</p>	<p>After having identified the main themes in my research, I should go through the transcripts of all interviews and classify the responses under the different themes. Because I recorded my transcripts in Chinese language and then translate them to English, therefore, I will identify the main themes and classify their responses from original transcripts to prevent any incorrect</p>

	researcher because inexperienced researcher may ignore some insightful themes by adopting these programs.	theme-identification and response-classification. In this research, I may not use computer-aid program because I am still inexperienced in using these programs without ignoring some insightful themes. Nevertheless, in the future research, I may be able to adopt these programs to help me in terms of classifying
4. Integrate themes and responses into text of report (Retrieving)	After having identified responses falling within different themes, researchers should integrate them into the text of their reports. How researchers integrate them into reports is mainly dependent upon their own choices. Some researchers use verbatim responses to keep the sense of the responses. Others count the frequency of a theme having occurred, and then provide some samples of the response.	After having identified responses falling within different themes, I will integrate them into the text of my dissertation. In this research, I will use verbatim responses to keep the sense of the responses

Table 18 Description and Application of Data Processing Process

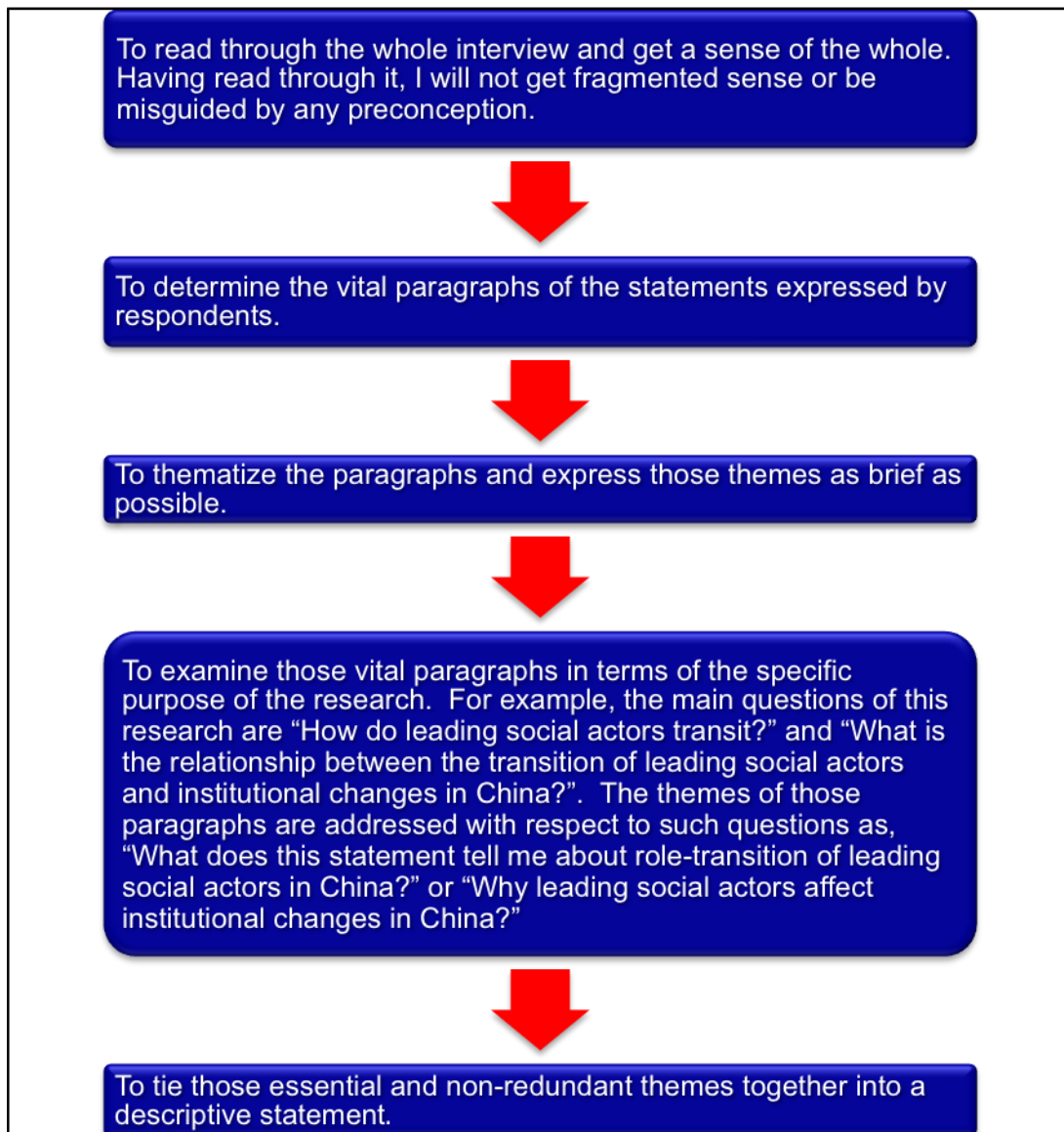


Figure 23 Process of Data Analyzing (Giorgi 1975)

1	Generalisation may mislead by de-historicizing.
2	Generalisations may say nothing about whether a fact is necessary or contingent.
3	Generalisations may be ambiguous because of the distributive unreliability (Harré 1979:108-109), which may overlook the former possibility. For example, eighty per cent of my interviewees partake in real estate investments, the rest twenty per cent focus on their own industries. This can be interpreted either as an effect of the presence of two types of interviewees, one of which always does partake in real estate business and the other focus on their own industries, or else as a generalisation about a homogeneous population in which each member has the same propensity to partake in real estate business and own industry.
4	Generalisation may make spurious inference of individual characteristics from group-level characteristics or vice versa. This can refer to the ecological fallacy, the fallacies of composition and division.
5	Generalisation may stop in finding an abstraction or a pattern and generate meaningless data.

Table 19 Limits on Generalisations

Thematizing	The ultimate purpose of this interview study is beyond the pure scientific value of the knowledge sought but also tries to enhance people's understandings of the institutional environment in China.
Designing	Before conducting this interview study, I need to get informed consent from my interviewees. After these interviews, I will secure the confidentiality of interview data and respondents, and be aware of any negative consequence of respondents after reporting this study.
Interview Situation	During the interviewing, I need to clarify the confidentiality clause to my interviewees and inform them the possible consequences after reporting.
Transcription	At this stage, I have to be aware of the confidentiality of respondents' identities and transcribe what respondents' oral statements faithfully.
Analysis	I ought not to deliberately misinterpret interview data in order to satisfy my personal perspective.
Verification	My interviewees will have their say in the interpretation of the analysis.
Reporting	When reporting my final study, I need to, again, be aware of the confidentiality of the identities of my interviewees and other stakeholders as well in order to avert any unforeseen and unnecessary annoyance.

Table 19 Ethical Issues at Different Stages of My Research Design (Kvale 1996:111)

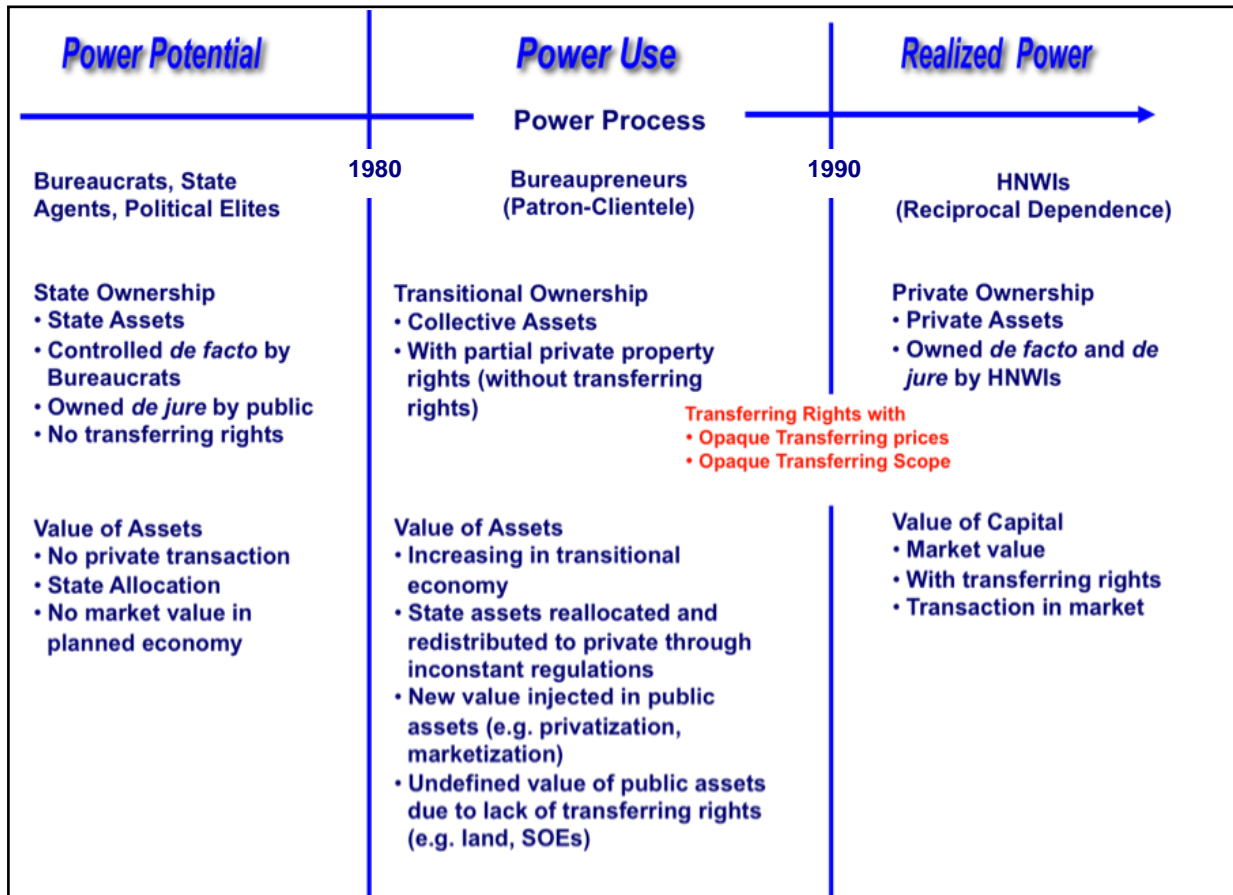
Information Collection	Participants are not obliged to provide information. Do not waste their time if researchers are not clear about the relevance and usefulness of their researches.
Consent	It is unethical to collect information without knowledge of participants, their expressed willingness, and informed consent.
Incentives	It is unethical to give monetary gift to participants to exchange their information.
Sensitive Information	It is necessary and compulsory to tell participants beforehand regarding the sensitive questions asked, therefore, participants have enough time to decide if they want to share the information with participants with researchers. It is unethical to ask participants any sensitive question without prior notice.
Confidentiality	It is unethical that researchers share information with others for any purpose other than research and identify any individual respondent without his/her consent.

Table 21 Ethical Issues related to Participants

Bias Avoid	Bias is different from subjectivity, which is related to educational background, training and competence in research, and philosophical perspective. It is unethical to attempt to hide what researcher has found in his/her study, or to highlight something inappropriately to its true existence.
Inappropriate Research Methodology	It is unethical to use inappropriate method to prove or disprove something that researcher wants to, e.g. biased sampling.
Incorrect Report	It is unethical to slant the research findings to serve researcher's own interests.
Inappropriate Use of Information	It is unethical to use information obtained from respondents and against them later on without prior notice.

Table 22 Ethical Issues related to Researcher

CHAPTER 6



Property Rights (Barzel 1989, 2000), Power Process (Lawler 1992), Resource Dependence (Pfeffer and Salancik 2003)

Figure 23 Conceptual Framework of Research

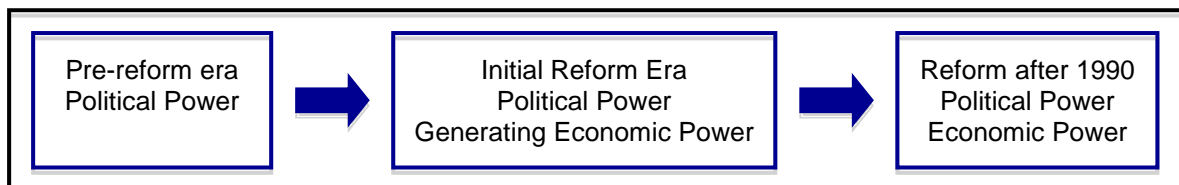


Fig 23 Evolution of Power in China

Time	Characteristics	Land & Housing Market	Consequence
Before 1949 (KMT ¹ Regime)	<ul style="list-style-type: none"> • Market Economy • Hyperinflation 	<ul style="list-style-type: none"> • Land and Housing transactions and markets were allowed and completely implemented. 	<ul style="list-style-type: none"> • KMT retreated from Mainland China
1949 – 1978 (PRC ² Regime)	<ul style="list-style-type: none"> • Command Economy • Compelled Resources Reallocation through confiscating – with egalitarian consequences • First time without free market system since thousands years back in China 	<ul style="list-style-type: none"> • “Land and Housing transactions and markets are not allowed” was stipulated in Chinese Constitution. • Rural land and urban land were collectively owned and State owned respectively. Land-use rights are not transferable. • Administrative allocation was the only implementation of urban land. 	<ul style="list-style-type: none"> • PRC was established on 1949.10.1 • 1958-1961 – Great Leap Forward, 20 – 43 million people died in famine (Peng 1987) (official number is 14 million) • 1966-1976 – Cultural Revolution, 30 million people died in this incident
1979 –1985 GINI 1978: 0.3022 1985: 0.2552 GINI growth 15.55%	<ul style="list-style-type: none"> • 1978: Inauguration of Rural reforms and TVEs³ • 1983: Anti-Spiritual Pollution movement • 1983: TVEs mushrooming • 1984: Inauguration of Economic Structure Reform • 1985: Dual-track pricing emerged • Resources Reallocation through reforms – with inequitable consequences • Free markets revitalized partially 	<ul style="list-style-type: none"> • 1978.9 – People are allowed to sell old housings and build new housings. • 1979.7 – Laws of Land-use rights system (land leasehold) was adopted. Land-use rights fees emerged in SEZs⁴ • Land-use rights and ownership were separable since 1949 • 1984-1987: introduction of land-use fee and arable land occupation tax 	<ul style="list-style-type: none"> • To soothe the construction material supply and unleash the savings from people to increase the capital liquidity of market • 1978.12.22 - The Third Plenum of the 11th National Congress of the Communist Party of China is held in Beijing, with Deng Xiaoping reversing Mao-era policies to pursue a program for Chinese economic reform. • 1985-1988 Inflation • 1985 – New entrepreneurs emerged due to dual-track pricing
1986 – 1998 GINI 1986: 0.3178	<ul style="list-style-type: none"> • 1986: Abolishing of Anti-Spiritual pollution movement • 1987: Reconcile to diversified interest and 	<ul style="list-style-type: none"> • 1988-1995: a. Establishment of the legal foundation for the paid conveyance of LURs⁷ in State- 	<ul style="list-style-type: none"> • 1989.06.04 – Tiananmen Square Massacre, hundreds ~ thousands people died • 1990 – First billionaire emerged from real

Time	Characteristics	Land & Housing Market	Consequence
1992: 0.3689 GINI growth 16.08%	conflicts of society <ul style="list-style-type: none"> • 1987: SOE⁶ responsibility contracting system emerged • 1992: Socialist Market Economy proclaimed • More free markets emerged • Huge Income Disparity emerged in 1986 (GINI index increased 23.5% YoY) • 1995: 40% SOEs in perennial deficit • Early 1996: 43.7% SOEs in perennial deficit • Late 1996: Overall deficits of SOEs were over profits • 1997: Dual-track pricing annulled • 1998: 50% of state bureaucrats were lay-off 	owned urban land <ul style="list-style-type: none"> b. Introduction of the urban land-use tax • 1987 - First land plot sold to land-users in Shenzhen SEZ • 1988 – Housing and land Reform movement emerged • 1995 – Mortgage industry emerged in state banks • 1990-now: Nation-wide development of the paid conveyance and transfer of LURs in State-owned urban land 	estate industry <ul style="list-style-type: none"> • 1991 – Amount of IPO¹⁰ increased dramatically • 1993 Inflation • Early 1999 – Tariffs on most goods would fall by nearly 3/5 • 1997 – Huge Corporate Frauds and Scandals emerged • 1998 – MBO¹⁵ and SOEs privatization were booming
1999 – now GINI 1993: 0.3938 2000: 0.4088 2005: 0.4383 GINI growth 11.30%¹¹	<ul style="list-style-type: none"> • 1999: Security Laws proclaimed • 2001: “Entrepreneurs are welcome to join CCP” proclaimed by Jiang Zemin; Becoming member of WTO • Accessing Socialist Market Economy • Most free markets except few categories remain under State control 	<ul style="list-style-type: none"> • 2006 – Developers started hoarding raw land, except few large developers • 2007 – State put restrictions on land speculation 	<ul style="list-style-type: none"> • 2000-2001 – More fraud and scandals of Public companies emerged • 2001 – Emergence of Ultra-HNWIs • 2007 – Developers put raw land on fire-sale

1. KMT: Kuomintang (Chinese Nationalist Party), current ruling party of Taiwan; 2. PRC: People of Republic of China; 3. TVE: Town Village Enterprise; 4. SEZs: Special Economic Zones; 5. BOC: People’s Bank of China; 6. SOE: State-Owned Enterprise; 7. LURs: Land-use rights; 8. OTC: Over-the-counter; 9. CSRC: China Security Regulatory Commission; 10. IPO: initial Public Offering; 11. GINI incremental percentage: 1978-2005 45.04%; 12. QFII: Qualified Foreign Institutional Investor; 13. ETF: Exchanged Traded Fund; 14. QDII: Qualified Domestic Institutional Investor; 15. MBO: Management Buy-Out

Table 23 Periodization of China’s Chronology (1949 – up-to-date)

Item	Term	Essence
1	Allocation	Economic and political
2	Asset	Economic
3	Capitalism	Economic and political
4	Capitalism with Chinese Characteristics	Economic and political
5	Central government	Economic and political
6	China's model	Economic and political
7	Collective Ownership	Economic and political
8	Chinese Communist Party (Ccp)	Political
9	Control	Economic and political
10	Deng Xiaoping	Economic and political
12	Development	Economic and political
14	Distribution	Economic and political
15	Head or Leader (<i>yibashou</i> or <i>lingdao</i>)	Economic and political
17	Institution	Economic and political
18	Labour	Economic
22	Local government	Economic and political
23	Market Economy	Economic and political
27	Nouveau riche	Economic
28	Owner	Economic
29	Planned Economy	Economic and political
31	Private Enterprises	Economic and political
32	Private Ownership	Economic and political
33	Privatization	Economic and political
34	Property rights	Economic and political
35	Reforms and Openness	Economic and political
37	Restructure	Economic and political
38	Sloganeering	Political
39	Socialism	Economic and political
40	SOE	Economic and political
41	State Ownership	Economic and political
43	Wealth	Economic

Table 24 Identifications of Main Terms

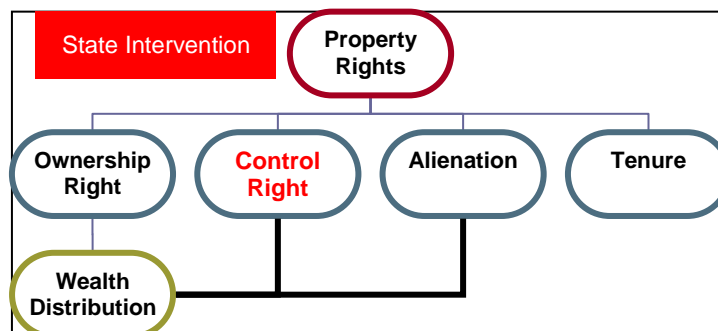


Fig 24 Constituents and Relation of Property Rights in China



Fig 25 Transition of Ownership Right in China

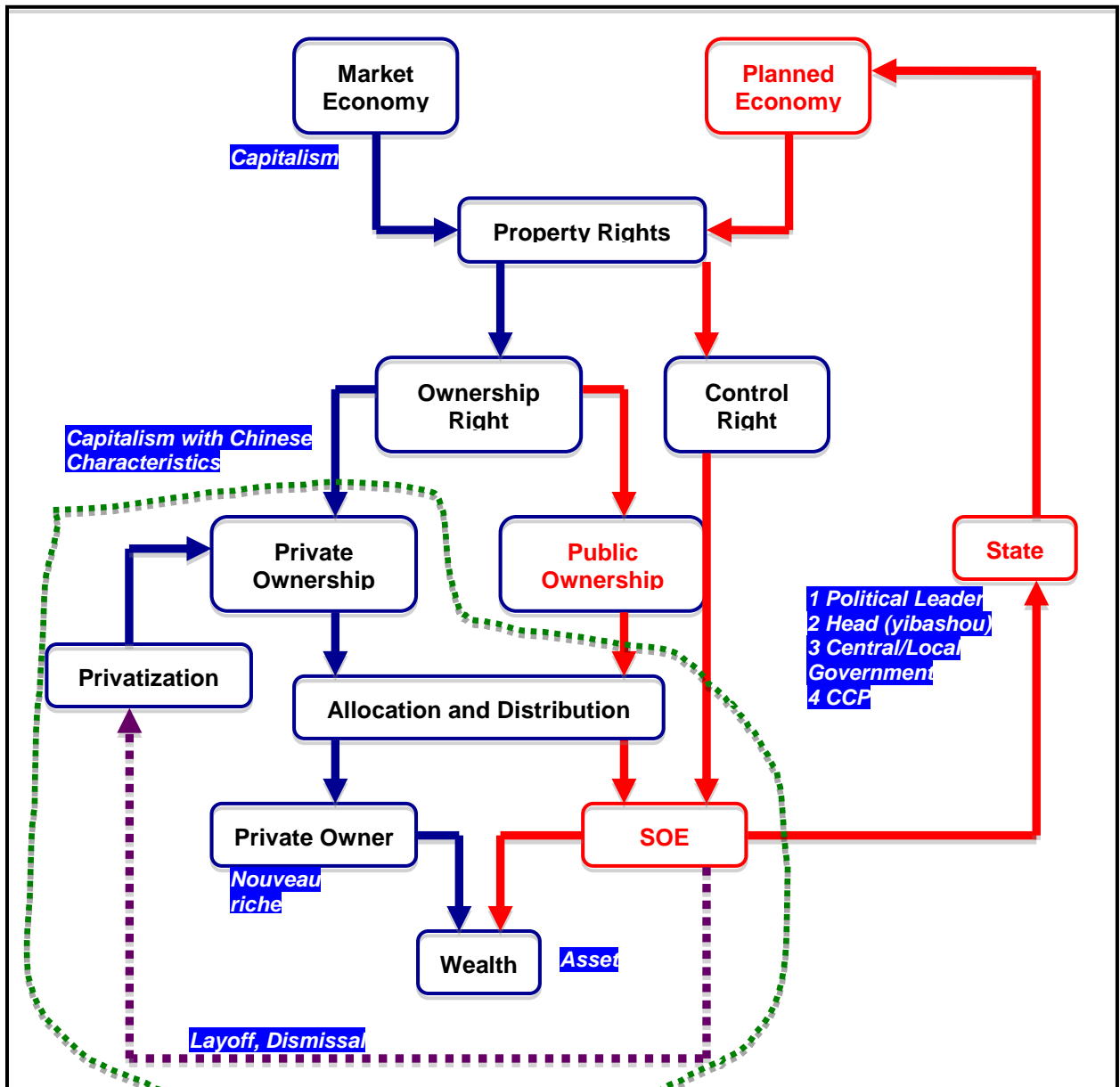
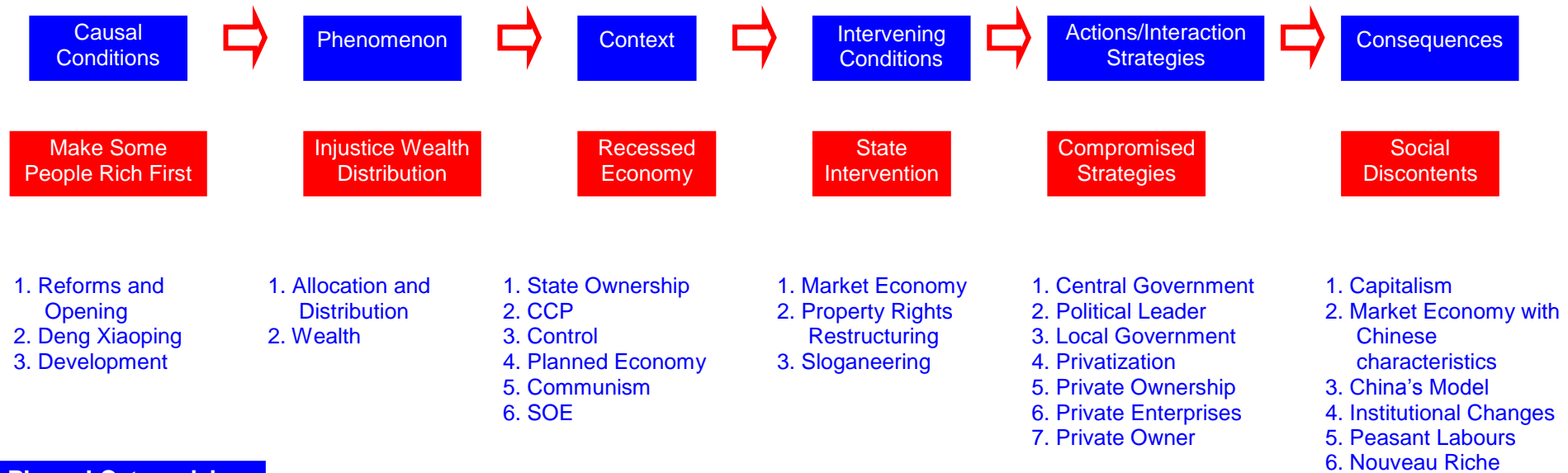


Fig 26 Comprehensive Relations between Main Terms of table 6.9



Phase I Categorizing

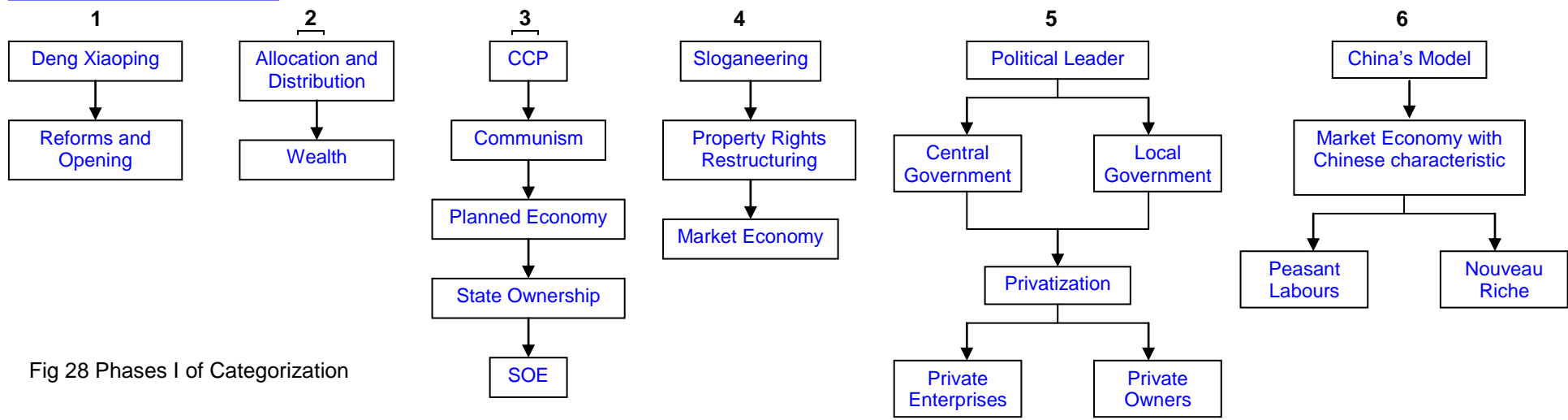


Fig 28 Phases I of Categorization

	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6
Frequency	Reforms and opening remain continuing; however, the frequency is not as often as it was initially.	The frequency of allocation and distribution is not as often as it was before.	CCP still effectively control China under the name of communism after reforms. However, the frequency, intensity, and the extent of communist political activity are trivial. CCP has effectively ruled China since 1949 until now. Planned economy and state ownership are no longer adorable except in political palace. SOEs are very different from what they were and most of them have transformed into public companies after 1990.	CCP still employ political sloganeering very often whenever they promote any policy or launch any political campaign. The restructuring of property rights is rare nowadays. Although market economy is highly employed in China, however, the situation of state intervention remains largely prevailed. The extent and intensity of market economy are generally improved. Nevertheless, the ideology of communism remains prevailed largely in reformed China.	The Politburo Standing Committee of the Communist Party of China remains the highest authority in China since its establishment. As always, those political leaders are not absolutely autocratic and need supports from inferior party cadres. Those corporate restructuring works were long gone; however, there are less restructuring works, which are with stronger intensity and to the higher extent, being carries out.	China's model is not as it is since the very beginning. It varies from time to time and from one place to another. Market economy has gradually been accepted since 1992. The extent and intensity of transition to market economy was dramatically increased after 1995 and therefore created many HNWIs. The transition from planned economy to market economy was technically initiated in 1995.
Intensity	The intensity of reforms and opening is not as strong as it was.	The intensity of allocation and distribution is stronger than it was.				
Extent	The extent of reforms and opening has been increased dramatically.	The extent of allocation and distribution is higher than it was.				
Duration	Reforms and opening remain ongoing since 1979 although the path and tempo vary from time to time.	Allocation and distribution have been carried out since the early 1980s although path and tempo vary from time to time.				

Table 25 Relations between phase I Categorization (Fig 6.5) and Dimensions (Frequency, Intensity, Extent, and Duration) in Fig 6.4

Key Terms	Category set	Parameters
Biased treatment	Allocation and distribution	Bounded rationality
Unplanned institutional changes	Market economy with Chinese characteristics	Path dependence
Flexible institutional changes	Central government	Ideology
Backward advantages	China's model	Property rights
Huge domestic market	Chinese Communist Party (Ccp)	Transaction cost
Strong economic power	Communism	Formal constraints
Cheap labour force	Deng Xiaoping	Normative and cognitive ideas
Inefficient protection	Political leader	Legitimacy
Vague legal environment	Peasant labour	Isomorphism
Political intervention	Local government	Scarcity
Precedence of politics	Market economy	Power
High cost for favourable institution	Nouveau riche	Policy
Essentiality of reforms	Private owner	Stability
Inconsistent reforms	Private enterprise	Mutual dependence
Political power	Planned economy	
Mentality of bureaucrat	Privatization	
Diverse reform model	Property rights restructuring	
Insolvent SOE	Reform and opening	
Redundant labour	Sloganeering	
State intervention	SOE	
Bad debt	State ownership	
Direction of reforms	Wealth	
Pseudo collective-owned enterprises		
Sloganeering		
Swift reforms		
One-party regime		
Inefficient SOE		
Planned economy		
Inefficient management		
Practical management		
Profit		
Unrestrained financial policy		
Repudiation of state responsibility		
Various reforms		
Previous bureaucrat		
Insider information		
Adequate and essential connections with existing state agency		
Deng's reforms		
Get some people rich first		
Speculation		
Market economy		
Sophisticated CCP structure		
Trivial individual		
Immovable political regime		
Deng's trip to South in 1992		
Collective-owned enterprises/TVEs		
Private-owned enterprises		
Higher educated bureaucrats		
Unchanged bureaucratic behaviour		
Opportunists		
HNWIs will not be restrained by regulation		
Chronic ideologies		
Social instability		
Unfairness and injustice		
Bureaucrats' own wills		
Cost of making profit		

Key Terms	Category set	Parameters
Social discontents Rule-of-law Rule-by-policy Upper class Aloof Peasant labour Property right restructure Less educated Ethical employer Consolidation Monopoly Merged by SOEs Ownership right Wealth distribution Collusion Extort bribe State agents Weak protection of private property Trial-and-error Immigration Wealth distribution Weak protection of private property Easier start-up Inherent advantage Connections with state agency Business expanding Influenced policy		

Table 26 Affiliations among key terms, parameters, and category set

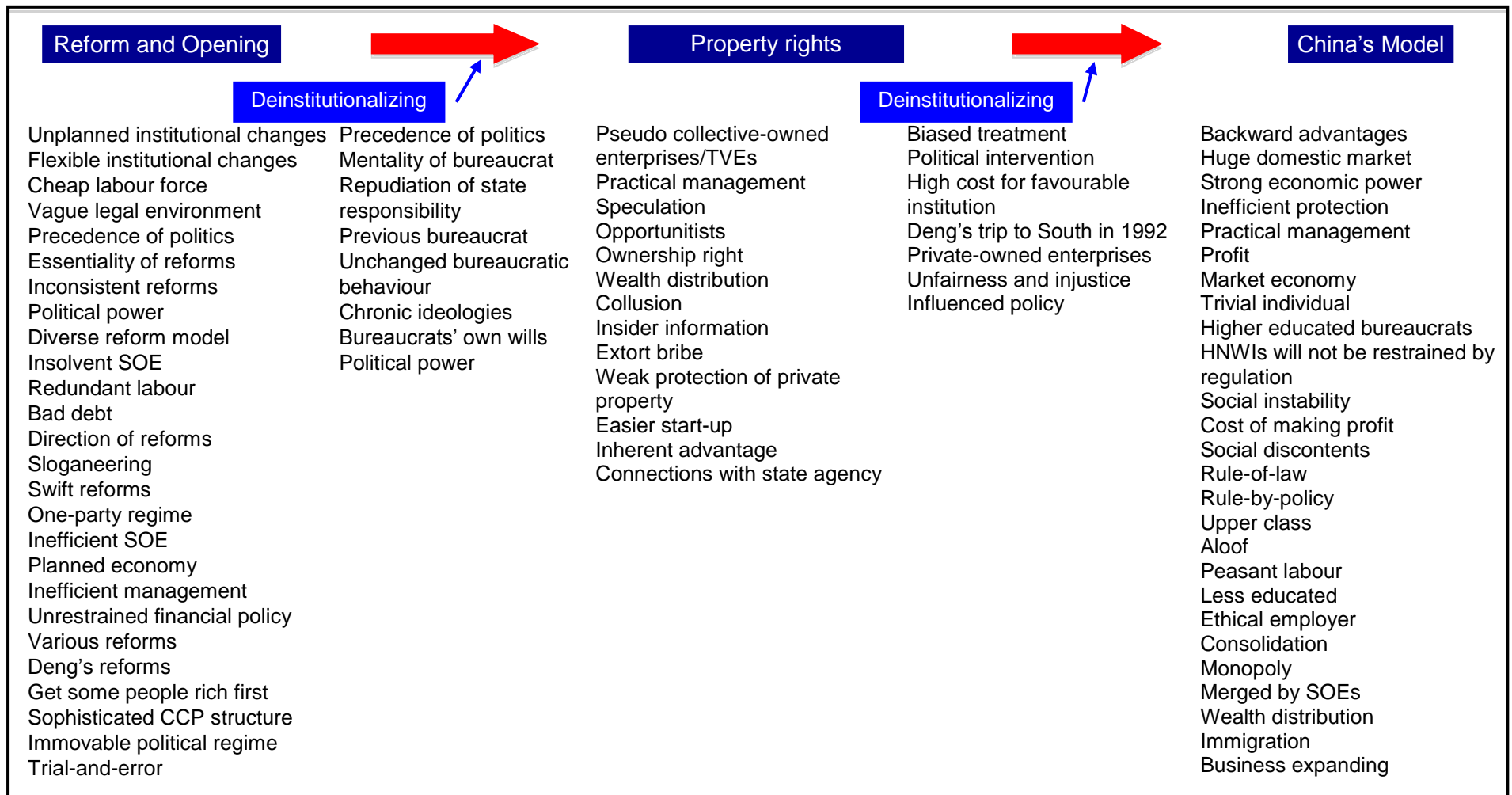


Fig 29 phase II categorization

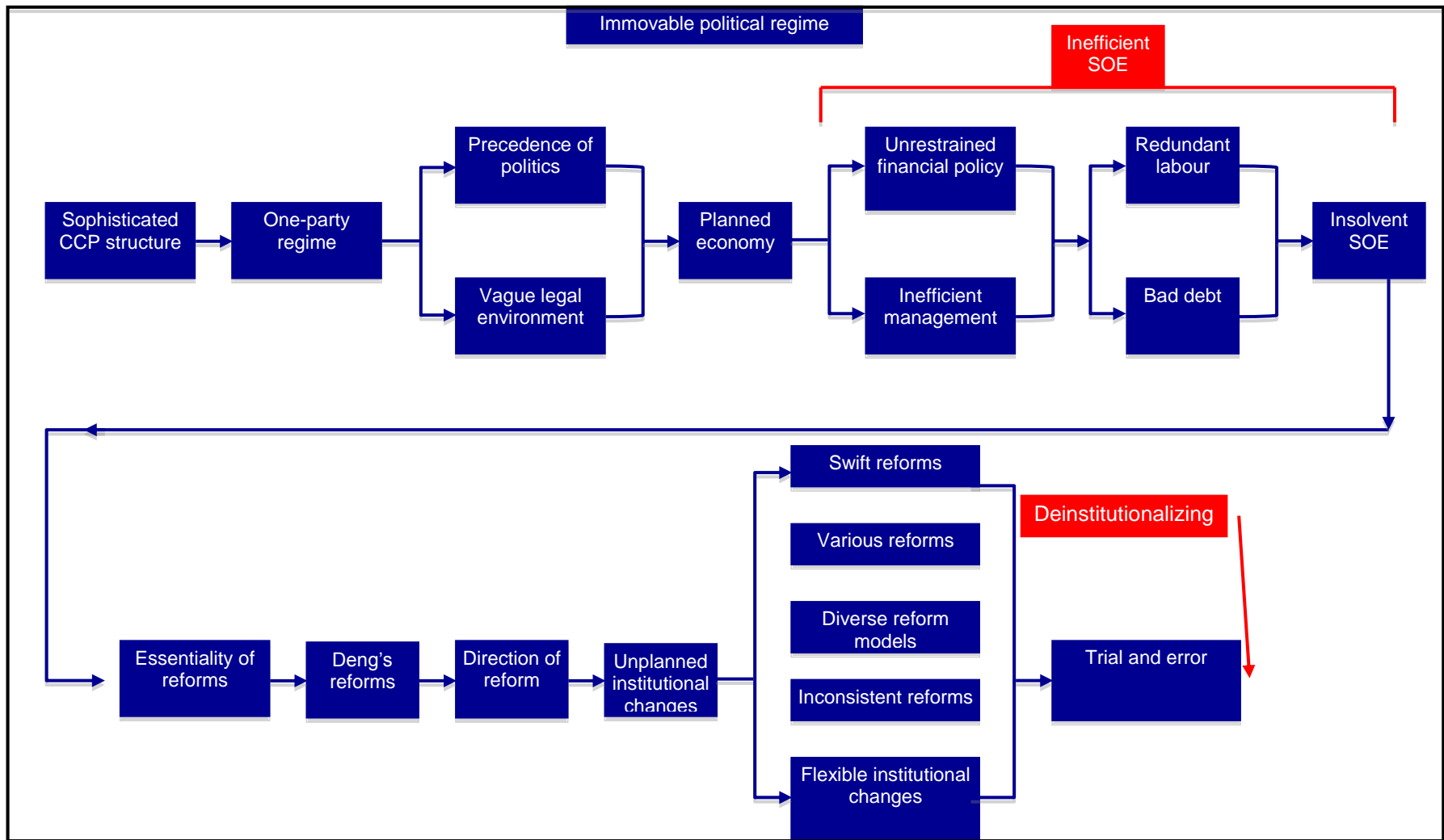
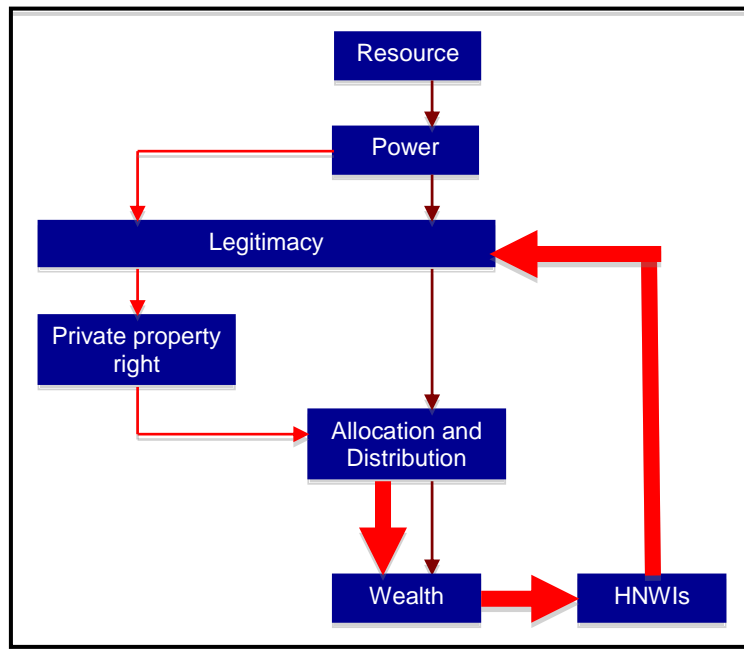


Fig 30 Details of Reform and Opening



31 Wealth Distribution before and after (red line) reforms

Fig

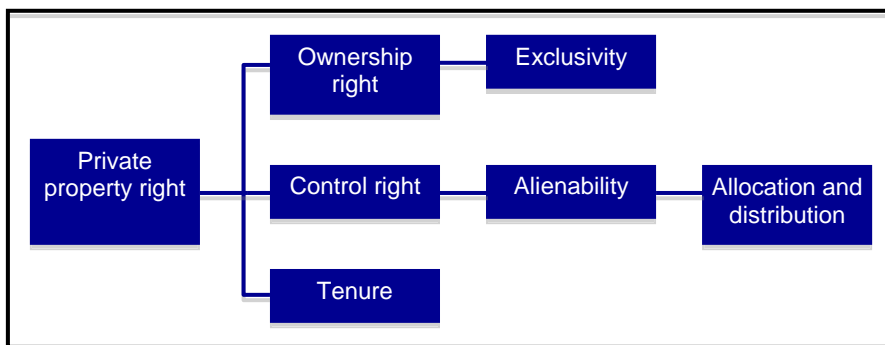


Fig 32 Private property right and derivative sub-categories

Assigned Categories	Formal Constraint
Case Reference	Interviewee #3
A bit of Data	As for the redundant workers, new enterprises had to lay off them within an approved range, e.g. 5% per annum in my company.
Text Location	Appendix 3/20
Date	20/Dec/2010

Table 34 Template of Categorizing Data

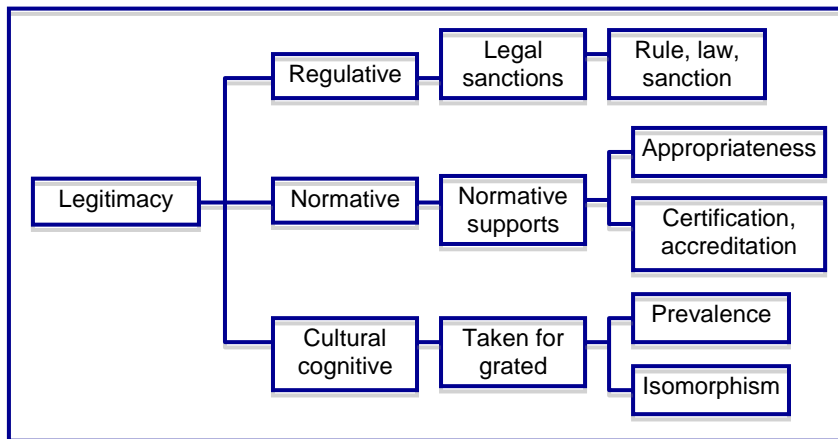


Fig 33 Levels of sub-classification of the subcategory “formal constraints”

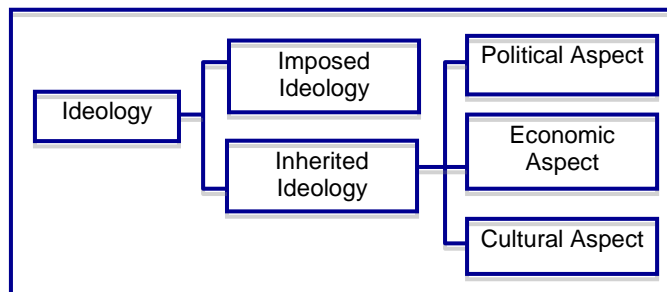


Fig 34 Levels of sub-classification of the subcategory “Ideology”

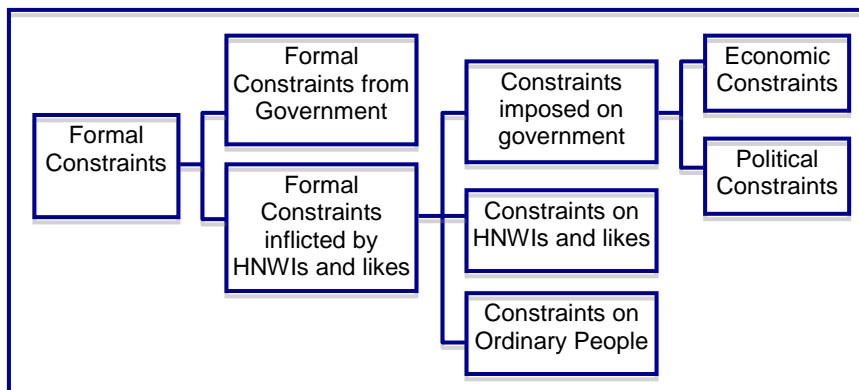


Fig 35 Levels of sub-classification of the subcategory “Legitimacy”

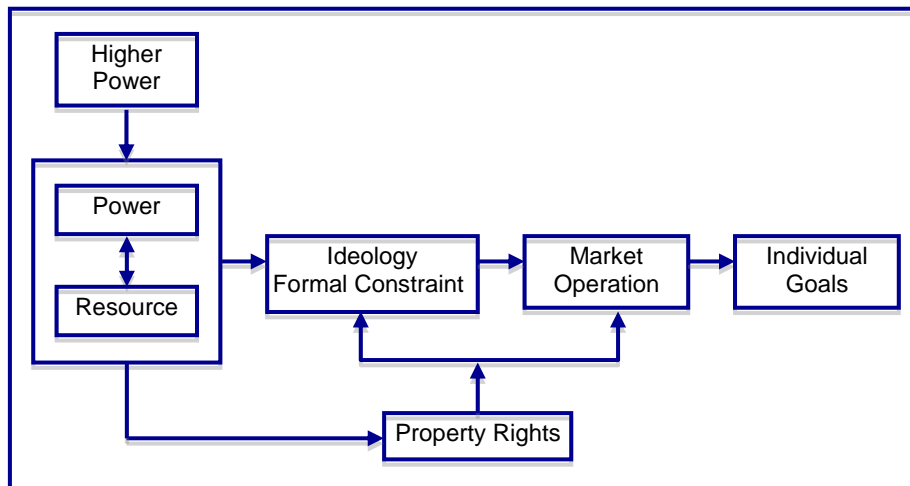


Fig 36 Relations between Categories of China's Reform

Formal Constraint	Formal Constraints inflicted by HNWI's or Likes	Constraints imposed on Government	Political Constraints
			Economic Constraints
		Constraints imposed on HNWI's and likes	Political Constraints
	Formal Constraints from Government	Constraints imposed on ordinary people	Economic Constraints
		Constraints imposed on Government	Political Constraints
		Constraints imposed on HNWI's and likes	Economic Constraints
Ideology	Inherited Ideology	Constraints imposed on ordinary people	Political Constraints
			Economic Constraints
			Political Constraints
	Imposed Ideology	Constraints imposed on Government	Economic Constraints
		Constraints imposed on HNWI's and likes	Political Constraints
		Constraints imposed on ordinary people	Economic Constraints
Legitimacy	Regulative	Political Aspect	Rule, Law, Sanction
		Economic Aspect	Appropriateness
		Cultural Aspect	Certification, Accreditation
	Normative	Political Aspect	Prevalence
		Economic Aspect	Isomorphism
		Cultural Aspect	

Table 35 List of subcategories of Interview Databits

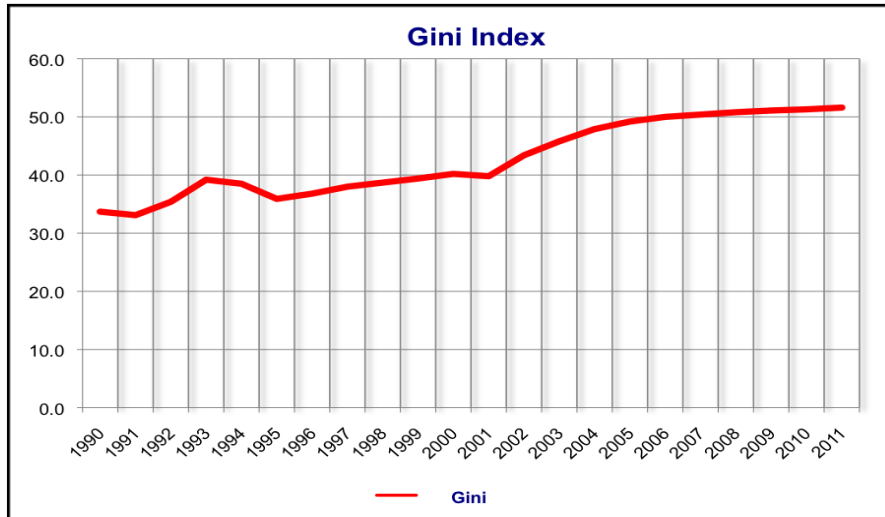
CHAPTER 7

	Theory	Reality	Deficiency	Proposition
1	Many institutionalists (Veblen 1898b ;Commons 1931 ;Alchian 1950 ;Buchanan and Stubblebine 1962 ;Demsetz 1964 ;Schultz 1968 ;Cheung 1969 ;Coase 1984 ;Williamson 1985 ;Tullock 1988 ;Lin 1989 ;Stiglitz and Heertje 1989 ;North 1990) make institutional change endogenous to the model of economic behaviour.	Institutional changes in transitional China actually embody more than economic feature, e.g. culture (Davis <i>et al.</i> 1995), power and benefit structure (Chan 1996 ;Tang and Parish 2000), institutional change, resource dependence, and entrepreneurs (Walder 2003,2004 ;Yang 2004), and others.	What are the main features of China's institutional changes except for economics?	The aggregation of China's institutional changes consist of the interactions between culture, economy, and politics.
2	Many studies (Commons 1931 ;Davis and North 1970 ;Coase 1984 ;Williamson 1985 ;Lin 1989 ;North 1990 ;Chen <i>et al.</i> 1992 ;Hodgson 1993b ;Child and Yuan 1996 ;Blyth 2002 ;Nee 2003 ;Zhou 2004) focusing on the impacts of regulative institutions and the pursuit of self-interests regard institutional changes as economy-oriented or triggered by economic factors.	Many critical economic problems and recessed economy do not really cause institutional changes in China. For example, Great Leap Forward and Cultural Revolution followed by serious recessed economy and famine made hundreds of thousand people died.	Which factor essentially causes institutional change in China?	Some institutional entrepreneurs perceive changes that may threaten to hamper their access to resources or power and consequently affect the distribution of resources or power. Therefore, these elites will precipitate institutional changes.
3	Many institutionalists (David 1985 ;North 1990 ;Arthur 1994 ;Stark 1994 ;North 1998 ;Pierson 2000 ;Mahoney 2001) maintain that path dependent effects manifest in the process of institutional changes and regard the institutional framework of the economy in an	The path dependent effects are selectively manifest in China. In China, most institutional changes occur when political elites try to resolve problems that generate uncertainty over the distribution of resources and power. Therefore, changes are relatively revolutionary.	What exact effect does path dependence have effect on China's institutional changes?	Path dependence is especially manifest in the distribution of resources and power in China. In terms of political institutions, China is arguably evolutionary rather than revolutionary. However, China is relatively revolutionary and less path-dependent in terms of economic institutions.

	Theory	Reality	Deficiency	Proposition
	evolutionary fashion.			
4	The emergence of HNWI's can be attributed to the pursuit of maximization of individual utility and wealth (North 1981,1990:45).	The pursuit of maximization of individual utility and wealth is a cause or generalization rather than a reason. This argument can hardly explain how some former managers of SOEs were practically forced to take over the then broken SOEs and consequently become HNWI's in China.	What is the real reason to making certain people to pursue individual utility and consequently becoming HNWI's in China?	CCP devised unique private property rights through regulative mechanisms in China. Lacking in appropriate normative and cultural-cognitive mechanisms, the newly given property rights become distorted in the society.
5	Sinologists (Oi 1999 ;Chow 2005,2006 ;Naughton 2007 ;Goodman 2008) commented that China gradually started to loosen policy controls after the late 1970s. Therefore, speculation, as the consequence of loosened policy control, became prevalent and people signed up to the changes and joined the affluent social strata becoming HNWI's in transitional China.	In the process of China's institutional changes, policy has not been loosened all the time. Sometimes, policies have been tightened up because of inflation, other economic issues, and political struggle. Nevertheless, HNWI's presence has never stopped along with China's institutional changes after 1980s. Therefore, this argument hardly can adequately explain how people become HNWI's in contemporary China.	How exactly do some people exactly become HNWI's in China after economic reforms and who they are?	To loosen policy control is a means rather than a reason to make people pursuing individual utility. Because of disarrayed institutional pillars of China's institutional environment, people spontaneously pursue the maximization of individual utility especially when they have chances to get close to the centre of re-allocation and re-distribution of resources or power. This arguably is the reason that how and why some people become HNWI's in China.
6	Many scholars (Romer 1990 ;Nee 1991 ;Dewatripont and Roland 1992 ;Zhang 2003 ;Yang 2004) regard China's transition as partial, gradual, and spontaneous are changes that are associated with evolutionary reforms. The uniqueness of the partial reforms in the transitional China, to some	In China, no matter how urgently an induced institutional change is demanded, the CCP will not allow it to persist if it will politically jeopardizes the one-party polity. Relatively, China's government and CCP will not recklessly impose any institutional change countrywide	Why does compromised institutional change exist in China? How does it help HNWI's in China and vice versa?	After reforms, a small degree of entrepreneurship is granted to ordinary people in China. Relatively, party cadres and political elites were permitted a greater degree of entrepreneurial freedom. Meanwhile, prominent political leaders advocate that when nation, city, community, and individual gain

	Theory	Reality	Deficiency	Proposition
	<p>extent, is in response to Hayek's Evolutionary perspective (1998:293-294) that institutional change cannot be consciously and rationally man-made to order.</p>	<p>without conducting tests at selected points after the late 70s. In this regard, in order to retain the balance of politics and economy, a compromised pattern of institutional changes therefore emerged.</p>		<p>more economic capital, social problems will be accordingly solved and people will experience higher standards of living. This argument deliberately glosses over many problems, e.g. inequitable redistribution of resources, profit-oriented behaviour. Thus, to-get-rich becomes the only purpose in the society and people will trade their obedience for more resources or power derived from inequitable redistribution. This vicious circle consequently causes the compromised institutional changes in China.</p>

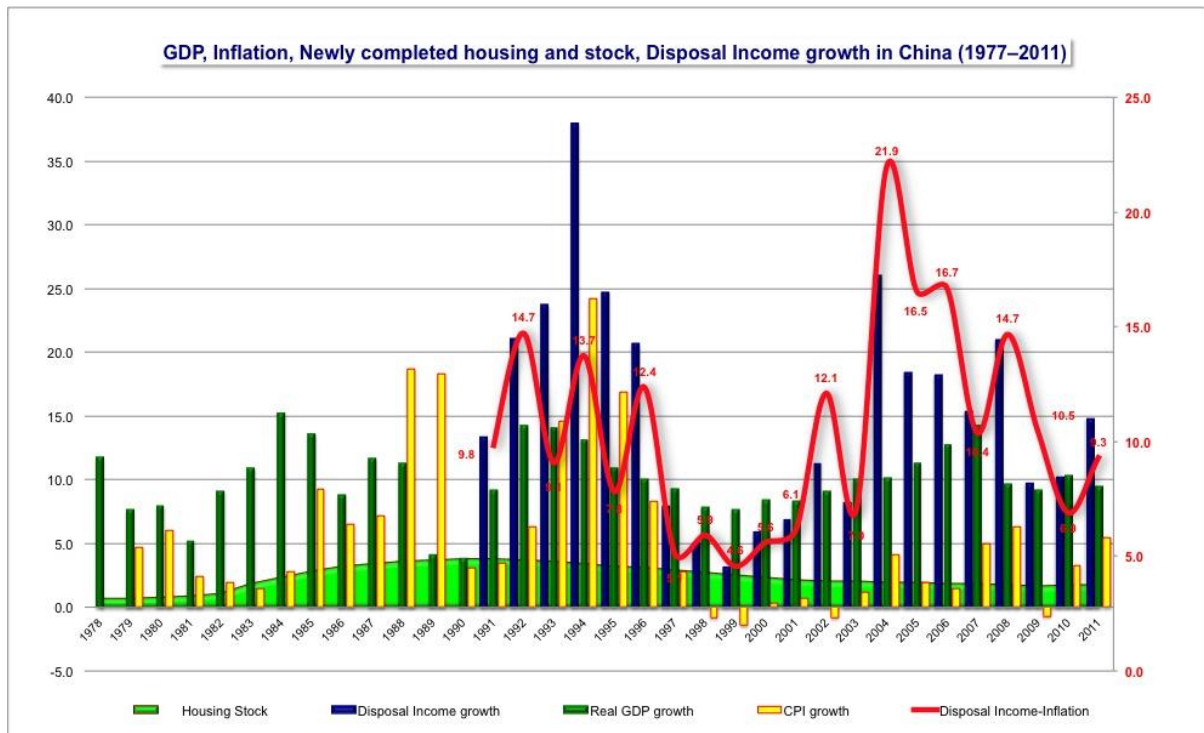
Table 36 Gap of Institutional Change Theory



Source: Euromonitor International from national statistics
 Fig 37 China's GINI Index (1990 – 2011)

Type	Reading	Content
1	Experiential	To clarify the understanding the interviewees themselves had.
2	Veridical	To investigate the validity of the interviewees' information. Interviewees are regarded as witnesses and informants.
3	Symptomatic	To focus on the interviewees themselves and their reasons for making certain statement.
4	Consequential	To address the consequences of interviewees' beliefs.

Table 27 Interpretation Approach



Source: Euromonitor International from International Monetary Fund (IMF)/2011
 Fig 38 GDP, Inflation, Newly completed housing and stock, Disposal Income growth in China (1977–2011)

Year	Major Events in Housing Market
1949-1978	To establish the socialist public ownership of land in then Chinese Constitution that not any organization or individual is allowed to embezzle, trade, lease or any other form to transfer land. The main features are uncompensated and indefinite LUR. The ownership right and use right are not separated that result in substantial waste of scarce resource. All land is administratively allocated in this era.
1978. 9	The new policy of “sell old housings, build new ones” was adopted in the Third Plenum of the 11 th National Congress of CCP
1979	China government starts using land as the registered capital in the Sino-foreign JV company and charges the land use fee from these JV companies.
1980.1	The “Red Flag” journal propogandize the “raising rent, selling state flats to public”
1982	4 testing point for raising rents and selling state flats to public
1985.12	“Raising rents, selling flats” was adopted in 1604 cities and 300 counties and villages. SOEs raised 29% salary in order to compensate the rents
1986	The Land Administration Law is passed and establishes the China Land Administration Bureau. The use right and ownership right of land is separated and changes the uncompensated and indefinite LUR to compensated and time-limited.
1987	<ol style="list-style-type: none"> 1.The State Council proposes the LUR can be transferred with compensation. In September, Shenzhen government transfers the 50-years LUR with compensation and gets the transfer of state-owned LUR with compensation started. 2.In December, the first LUR was publicly auctioned in Shenzhen. From this moment onward, governments are allowed to publicly auction state-owned land on the premise of keeping ownership right of land. This is the first time to utilize market measure to allocate land resource. 3.The trial of urban land valuation procedure is promulgated in this year.
1988	<ol style="list-style-type: none"> 1.The State Council starts collecting the land use fee in every town and village, tries the provision of paid-transfer LUR, and periodically transfers LUR. 2.In April, the Seventh National People’s Congress amends the Chinese Constitution that removes the non-transferable regulation and stipulate the regulation of paid-transfer of LUR. 3.In December, the Congress amends the regulation that LUR can be transferred, rent, pawn. 4.In this year, the real estate exchanges are established nationwide. The departments of real estate credit are founded in many specialized banks. 5.Hyper inflation, stop the “raising rents” movement
1980-1990	<ol style="list-style-type: none"> 1.8.6% of occupiers bought public flats 2.In May 1990, many foreign companies are allowed to invest in housing market and the State Council promulgate the “Interim Regulations of the PRC concerning the Assignment and Transfer of the Right to the Use of the State-owned Land in the urban areas” and “Interim Measures for the Administration of the Foreign-Invested Development and Management of Tracts of Land”.
1991	Shanghai initiated the public accumulation fund of housing
1992	<ol style="list-style-type: none"> 1. In February, Deng Xiaoping finishes his renowned Southern Trip and makes the most famous speech in terms of continuing market economy and economic reforms in China. 2. On 8th of May, the first mortgage contract was signed in Shanghai, China
1994-1997	<ol style="list-style-type: none"> 1.50% existing occupiers bough public flats 2.In 1995, Hainan housing bubble blows up. 3.In July 1995, the State Land Administration Bureau promulgates the Provisions on the Agreement-based Assignment of the Right to Use State-Owned Land that intensifies the state monopoly of LUR, insists the unified land planning, acquisition, management, and discussion, and implement one-chop approval, expand the area of land for transfer, and gradually transit the administrative allocated land to paid use.
1997	30% of housing market were commercial housings, more than 60% were public housings

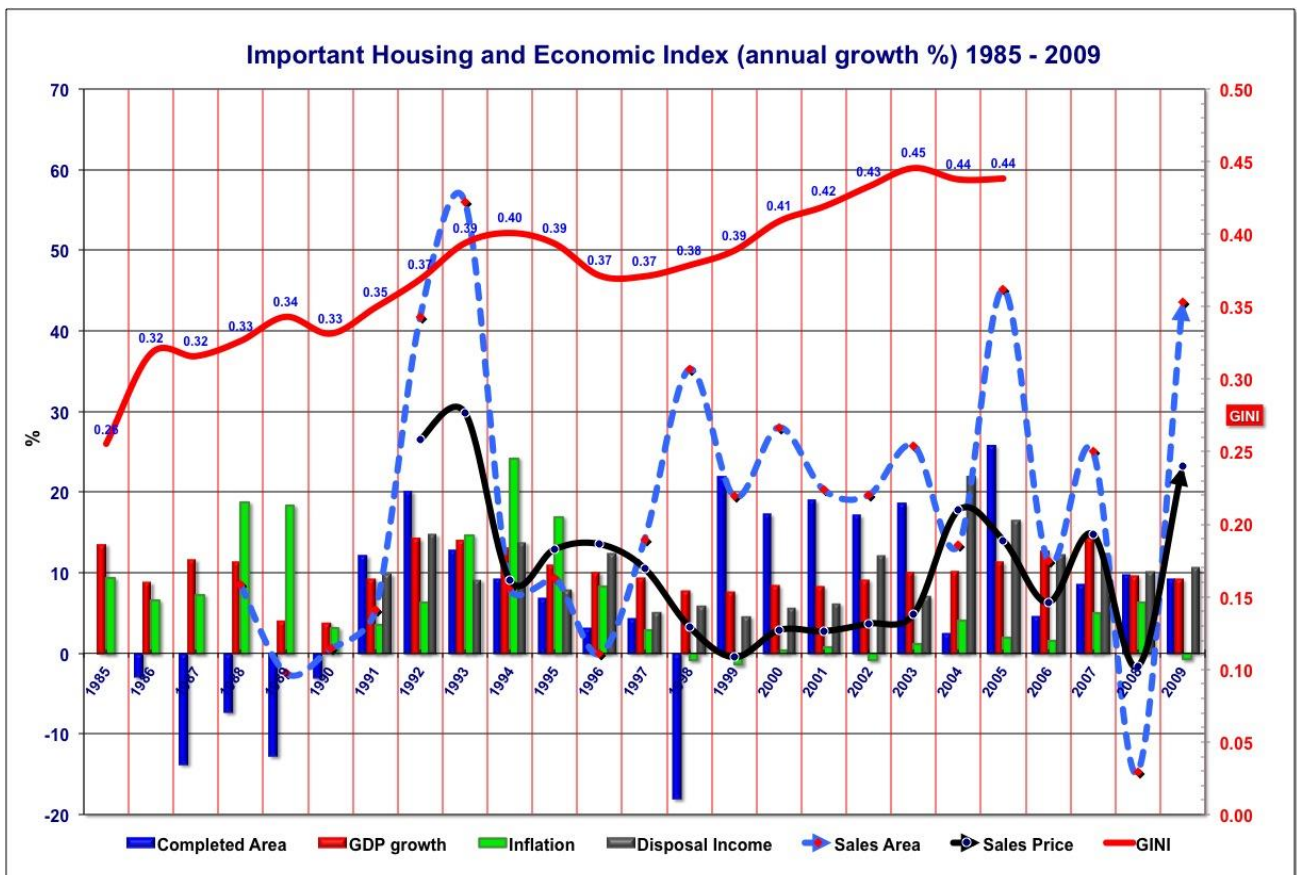
Year	Major Events in Housing Market
1998.7	Stop welfare-oriented public housing distribution system; the public housing market was up to the peak because government will stop the distribution soon; Public distribution stops in July partially
2000.2	Public housing allocation was formally cancelled nationwide
2002	Initiate public auction in land-use rights
2003	State proclaimed the housing industry is the state piling industry
2004	All land-use rights have to in the public auction system after 2004.8.31
2004.Q2	Land-use rights fees surging
2005.3	BOC cancelled the preferential mortgage package.
2005.3.26	The State Council issued the number eighth document to control housing prices (the Old Eight articles).
2005.5.9	The State Council issued the number twenty sixth document to increase the efforts to control soaring housing prices (the New Eight articles).
2006.4	BOC raise the interest rate
2006.5.16	The State Council issued a new measure, which consists of six articles, to control the soaring housing prices from the aspect of the structure of demand-and-supply, tax, bank loans, and land policy.
2006.5.29	The State Council issued new measure, which consists of fifteen articles, to control soaring housing prices in terms of unit area, down-payment of first time buyer.
2007.1	The Ministry of Land Resources started to check all land value-added tax.
2007.3	BOC started raising interest rate (six times in this year) and deposit-reserve ratio of commercial banks (ten times in this year).
2007.8	The number twenty-fourth document was issued to promote the low-rent housing system.
2007.9	BOC issue the new measure to regulate the down-payment of second housing should not be lower than 40% and interest rate should not be lower than 1.1 time of prime rate.
2007.11	State proclaim the new policy to guarantee the sufficient supply of economic commercial housings; increase interest rate 7 times in 2007; raise the down-payment percentage of 2 nd house
2008	Worldwide credit crunch, housing market plummet
2008.9	To lower interest rate
2008.10	The Ministry of Finance issued a new measure to lower interest rate and deposit-reserve ratio.
2009.1	The four biggest commercial banks in China offered the discount rate for housing buyers.
2010.1	The number eleventh document was issued that stipulated the down-payment of second housing should not be lower than 40% and increase the supply of low-cost public housing.
2010.2	Housing price surging and higher than the highest in 2008 owing to huge internal investment to maintain GDP growth since 2009
2010.4.17	The State Council regulated that the down-payment of the second housing should not be lower than 50% and of the first housing, which has area more than 90sqm/unit, should not be lower than 30%.
2010.4.18	The State Council stop giving bank loans for the third housing buyers in those flourish areas.
2011.1.26	The State Council issued the strictest regulation (the New Eight articles) to regulate the housing market.
2011.9	Housing price start plunging manifestly because of the tight pricing control and insufficient cash liquidity of developers

Source: News of the Communist Party of China (<http://cpc.people.com/GB/64156/64157/4512167.html>), The 2010 National Statistics Bureau of PRC (NSBC), The Party (Sachs *et al.* 2000)

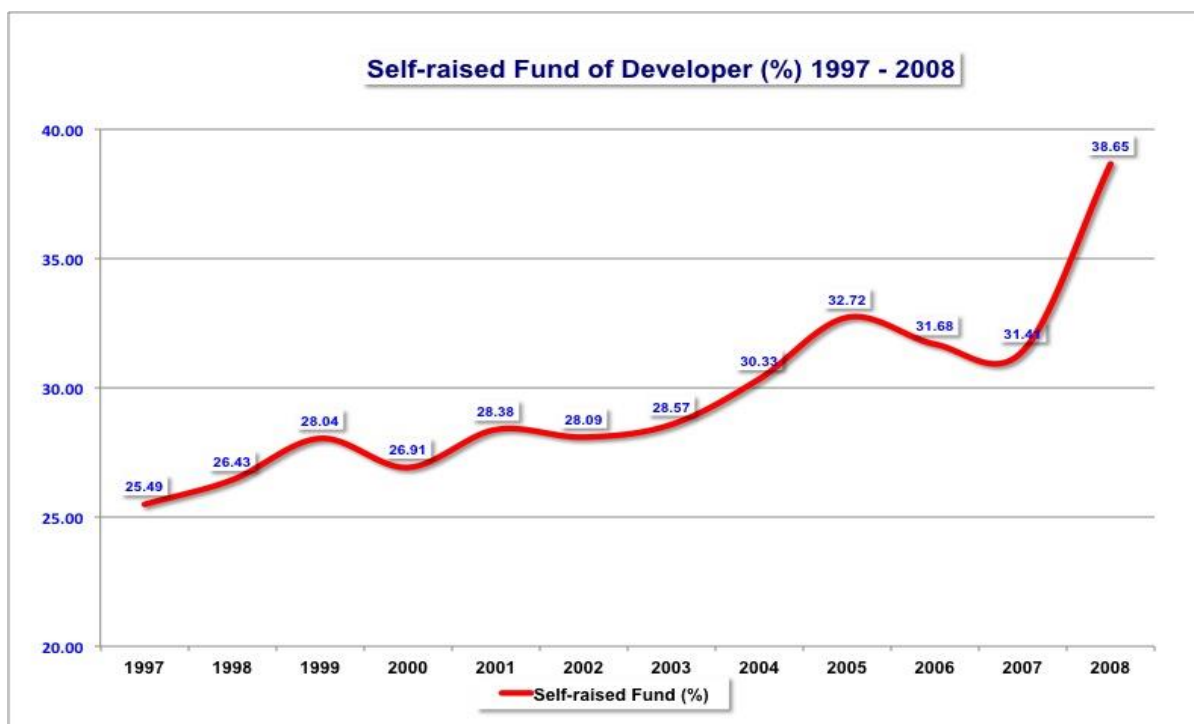
Table 28: Major Changes in China's Housing Market

	Stylized Facts	Underlying Reasons
1	No consistent planning, method, and purpose of reform	Time-limited
2	No blueprint for reform	Time-limited
3	Easy-to-Complicated reform pattern	No reform purpose and guideline, no authoritative government and leader
4	Dual-Track reform system	No authoritative government and leader
5	Local government dominating reform	No authoritative government and leader
6	Stop-and-go institutional change process	No reform purpose and guideline, no authoritative government and leader

Table 29 the Stylized Facts and Underlying Reasons in China's Reforms



Source: 1996, 2000, 2010 National Statistics Bureau of PRC (NSBC)
 Fig 39 Important Economic Index in 1985-2009



Source: 2009 National Statistics Bureau of PRC (NSBC)
 Fig 40 Self-Raised Fund Ratios of China's Private Housing Developers (1997 – 2008)

Year	Institutional Change		Consequences
	Attributes of Change	Major Events	
1978 - 1989	Economic institution changes with least political institution changes	<ul style="list-style-type: none"> • Rural reform and TVE (1978); • 20% of SOE are perennially in deficit in 1980's; • SEZ (1980, 1981, 1982, 1988); • Government Bond (1981); • Corporate Bond (1982); • Anti-Spiritual-Pollution (1983); • TVEs booming (1983); • BOC become central bank (1983); • Ideology for becoming rich (1983); • Financial Bond (1984); • Economic Structure Reform (1984); • Dual-track price (1985); • Hyper-inflation (1985, 1988); • Shanghai OTC (1986); • Abolish anti-spiritual pollution (1986); • Recognize diversified interests and conflicts in society (1987); • SOE responsibility contracting (1987); • Housing and land reforms (1988); • Tiananmen Square Protest (1989); 	<ul style="list-style-type: none"> • New entrepreneurs emerged in 1985 owing to dual-track price; • The real estate market produced all kinds of millionaires and also China's first billionaire in late 80s,
1990 - 1999	Economic and partial politic institution changes,	<ul style="list-style-type: none"> • Inaugurating of Stock Exchange (1990); • CSRC established (1992); • Proclaiming Socialist Market Economy (1992); • All Purposed Banks becoming Commercial Banks (1993); • Hyper-inflation (1993); • 30% of SOE are perennially in deficit 	<ul style="list-style-type: none"> • IPO amount increase largely since 1991; • MBO and Privatization of SOE is booming since 1998; • Huge Frauds of

Year	Institutional Change		Consequences
	Attributes of Change	Major Events	
		<ul style="list-style-type: none"> before 1995; • 40% of SOE are perennially in deficit (1995); • 43.7% of SOE are perennially in deficit (1996); • Overall SOE deficit over profit (1996); • Decreeing Banking Laws (1995); • Emergence of mortgage industry in state banks (1995); • Proclaiming SOE stockholding system (1997); • Dual-track price annulled (1997); • Proclaiming SOE stockholding to be completed by 2001 (1998); • Government decrease staff up to 50% (1998); • Decreeing Security Laws (1999); 	Public companies in 1997
2000 – up to date	Polarized economic institutional changes	<ul style="list-style-type: none"> • Entrepreneurs join CCP (2001); • Open Fund (2001); • Join WTO (2001); • QFII (2002); • Small & Medium Enterprise Board (2005); • Bond and Index Fund (2002); • Principle guaranteed Fund (2003); ETF (2004); • QDII Fund (2006); • Some developers start hoarding raw land for speculations, except few large developers (2006); • Government put strict restriction on land and real estate speculation (2007); • Worldwide credit crunch (2008); • Government implement a CNY 4,000 billions special budget to revive economy and raise domestic demand (2009); • Housing price surging to the historical peak (2009); • Medias, intelligentsia, and public voices condemn the surging housing price (2009); • Government decide to regulate housing market dramatically (2010); 	<ul style="list-style-type: none"> • Emergence of Ultra-HNWIs in 2001, • More Huge Frauds of Public companies in 2000, 2001; • More volatilities in stock market since 2001; • Developers start put raw land on fire sale (2007); • SOEs start to hoarding raw land and push the land-use fee to historical high (2009); • Public voices and central government start to condemn the surging housing price (2009); • The 3rd Plenary Session of the 11th National People's Congress decree to regulate the surging housing prices and finance market (2010);

BOC: Bank of China; CSRC: China Securities Regulatory Commission; ETF: Exchange Traded Fund; IPO: Initial Public Offering; MBO: Manager-Buy-Out, OTC: Over-the-counter; QDII: Qualified Domestic Institutional Investor; QFII: Qualified Foreign Institutional Investor; SEZ: Special Economic Zone; TVE: Town and Village Enterprise

Table 30: Major Institutional Changes and Consequences in China

Time	Characteristics	Land & Housing Market	Consequence
Before 1949 (KMT¹ Regime)	<ul style="list-style-type: none"> • Market Economy • Hyperinflation 	<ul style="list-style-type: none"> • Land and Housing transactions and markets were allowed and completely implemented. 	<ul style="list-style-type: none"> • KMT retreated from Mainland China
1949 – 1978 (PRC² Regime)	<ul style="list-style-type: none"> • Command Economy • Compelled Resources Reallocation through confiscating – with egalitarian consequences • First time without free market system since thousands years back in China 	<ul style="list-style-type: none"> • “Land and Housing transactions and markets are not allowed” was stipulated in Chinese Constitution. • Rural land and urban land were collectively owned and State owned respectively. Land-use rights are not transferable. • Administrative allocation was the only implementation of urban land. 	<ul style="list-style-type: none"> • PRC was established on 1949.10.1 • 1958-1961 – Great Leap Forward, 20 – 43 million people died in famine (Peng 1987) (official number is 14 million) • 1966-1976 – Cultural Revolution, 30 million people died in this incident
1979 –1985 GINI 1978: 0.3022 1985: 0.2552 GINI growth 15.55%	<ul style="list-style-type: none"> • 1978: Inauguration of Rural reforms and TVEs³ • 1983: Anti-Spiritual Pollution movement • 1983: TVEs mushrooming • 1984: Inauguration of Economic Structure Reform • 1985: Dual-track pricing emerged • Resources Reallocation through reforms – with inequitable consequences • Free markets revitalized partially 	<ul style="list-style-type: none"> • 1978.9 – People are allowed to sell old housings and build new housings. • 1979.7 – Laws of Land-use rights system (land leasehold) was adopted. Land-use rights fees emerged in SEZs⁴ • 1982 – Land-use rights and ownership were separated since 1949 • 1984-1987: introduction of land-use fee and arable land occupation tax 	<ul style="list-style-type: none"> • To soothe the construction material supply and unleash the savings from people to increase the capital liquidity of market • 1978.12.22 - The Third Plenum of the 11th National Congress of the Communist Party of China is held in Beijing, with Deng Xiaoping reversing Mao-era policies to pursue a program for Chinese economic reform. • 1985-1988 Inflation • 1985 – New entrepreneurs emerged due to dual-track pricing
1986 – 1998 GINI 1986: 0.3178	<ul style="list-style-type: none"> • 1986: Abolishing of Anti-Spiritual pollution movement • 1987: Reconcile to diversified interest and 	<ul style="list-style-type: none"> • 1986 - The Provisional Regulation on the Granting and Transferring of the Land Rights over State-Owned Land in Cities 	<ul style="list-style-type: none"> • 1989.06.04 – Tiananmen Square Massacre, hundreds ~ thousands people died • 1990 – First billionaire emerged from real

Time	Characteristics	Land & Housing Market	Consequence
1992: 0.3689 GINI growth 16.08%	conflicts of society <ul style="list-style-type: none"> • 1987: SOE⁶ responsibility contracting system emerged • 1992: Socialist Market Economy proclaimed • More free markets emerged • Huge Income Disparity emerged in 1986 (GINI index increased 23.5% YoY) • 1995: 40% SOEs in perennial deficit • Early 1996: 43.7% SOEs in perennial deficit • Late 1996: Overall deficits of SOEs were over profits • 1997: Dual-track pricing annulled • 1998: 50% of state bureaucrats were lay-off 	and Towns <ul style="list-style-type: none"> • 1987 - First land plot sold to land-users in Shenzhen SEZ • 1988-1995: <ol style="list-style-type: none"> a. Establishment of the legal foundation for the paid conveyance of LURs⁷ in State-owned urban land b. Introduction of the urban land-use tax • 1988 – Housing and land Reform movement emerged • 1995 – Mortgage industry emerged in state banks • 1990-now: Nation-wide development of the paid conveyance and transfer of LURs in State-owned urban land 	estate industry <ul style="list-style-type: none"> • 1991 – Amount of IPO¹⁰ increased dramatically • 1993 Inflation • Early 1999 – Tariffs on most goods would fall by nearly 3/5 • 1997 – Huge Corporate Frauds and Scandals emerged • 1998 – MBO¹⁵ and SOEs privatization were booming
1999 – now GINI 1993: 0.3938 2000: 0.4088 2005: 0.4383 GINI growth 11.30%¹¹	<ul style="list-style-type: none"> • 1999: Security Laws proclaimed • 2001: “Entrepreneurs are welcome to join CCP” proclaimed by Jiang Zemin; Becoming member of WTO • Accessing Socialist Market Economy • Most free markets except few categories remain under State control 	<ul style="list-style-type: none"> • 2006 – Developers started hoarding raw land, except few large developers • 2007 – State put restrictions on land speculation 	<ul style="list-style-type: none"> • 2000-2001 – More fraud and scandals of Public companies emerged • 2001 – Emergence of Ultra-HNWIs • 2007 – Developers put raw land on fire-sale

1. KMT: Kuomintang (Chinese Nationalist Party), current ruling party of Taiwan; 2. PRC: People of Republic of China; 3. TVE: Town Village Enterprise; 4. SEZs: Special Economic Zones; 5. BOC: People’s Bank of China; 6. SOE: State-Owned Enterprise; 7. LURs: Land-use rights; 8. OTC: Over-the-counter; 9. CSRC: China Security Regulatory Commission; 10. IPO: initial Public Offering; 11. GINI incremental percentage: 1978-2005 45.04%; 12. QFII: Qualified Foreign Institutional Investor; 13. ETF: Exchanged Traded Fund; 14. QDII: Qualified Domestic Institutional Investor; 15. MBO: Management Buy-Out.

Table 31: Periodization of China’s Chronicle of Major Reforms (1949 – up-to-date)

Period	Before 1949	1949 - 1978	1979 – 1985	1986 – 1998	1999 - Now
Regime	KMT	CCP			
Features	Market Economy <ul style="list-style-type: none"> • Insufficient economic and political institutions • Hyperinflation • Chaotic social situations • Contestations between factional political power and warlords 	<ul style="list-style-type: none"> • Political and ideological centralization with substantial economic decentralization • Working and efficiency is fundamentally a bureaucratic and political matter • Congruence between bureaucratic, political, and economic spheres is the central factor influencing economic behaviours and performance 	<ul style="list-style-type: none"> • Broad political and ideological thrust of successive reforms • Inconsistent changes in planning and resources allocation arrangements • Frequent changes in priorities of resources allocation 		
			<ul style="list-style-type: none"> • Processing realistic rethinking the past and future within ruling elites • More fundamental reforms measures • Reforms with political intentions but without constraints 	<ul style="list-style-type: none"> • Reforms with broader and deeper applications • Reforms with more autonomy than accountability • Reforms with more ambiguity than certainty 	<ul style="list-style-type: none"> • Reforms with more comprehensions, dimensions and regulations • Reforms with more economic orientation than political orientation • More extensive interactions with entrepreneurs

Table 32: Economic-Socio-Political Periodization

Phase	Time	Cause	Major Institutional Changes
Phase I (1978 – 1992)	1978 - 1985	All-Round Responsibility	Self-Employed, TVEs,
	1985	Dual-Track Pricing	Dual-Track Speculation
	1987	Development of Special Economic Zone (SEZ)	First generation of HNWI were emerged from Land & Real Estate Speculation
	1988	SOEs Shareholding	
	1992	Land Transformation & Private Entrepreneur	
Phase II (1993 – 1998)	1993	SOEs Privatization	Second generation of HNWI were emerged from Privatization, MBO, and IPO movement
	1995	IPO	
	1998	Manager-Buy-Out (MBO)	
Phase III (1999 – 2007)	2001	Private Entrepreneurs join CCP; Encourage abroad Chinese entrepreneurs returning	Ultra-HNWI were emerged from IPO
	2002	Initiation of QFII	
	2006	Initiation of QDII	

Data derived from China Securities Regulatory Commission, (Dickson 2003 ;Walter and Howie 2006 ;Hwang 2007)

Table 33: Cause and Economic Institutional Changes in China

Chapter 8

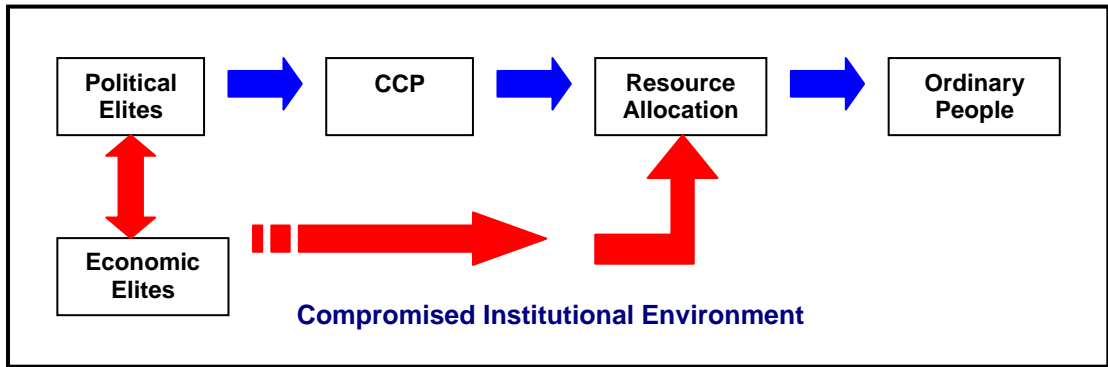


Fig 41 the Compromised Institutional Changes in China

NOTE

1

In Minsky's proposition (1986:293), a market cannot thrive without the visible hand of government, with norms, regulations, and institutions can be set up to enforce conformity whether it is in the command or market economy. In other words, there is hardly any trade that can be confidently secured and implemented without government specific action. In China, government on one hand is the guardian of institutions and makes markets prosperous but on the other hand, creates institutional holes (Yang 2004) and sabotages the rules of game repeatedly. Consequently, the government policies have been changing very shortly and repeatedly since reforms initiated. For example, the conflicting policies have been proclaiming in consecutive years in the housing and finance industries (see 2004 China Real Estate Finance Report). In my view, economic purpose arguably is not the only explanation to initiate any new institutional arrangement in China by means of those inconstant policies. In other words, grounding the evaluation of institutional change simply on such mechanical reason that economic benefit is the only purpose of reforms (North 1990) may mislead the analysis.

2

The ideological foundation of Communism has long been viewed as a paradigm of statism and there should be no class distinction existing in the socialist utopia, which will only occur after a class struggle (Ding 1994). Given that China was one of the most proletarian states before the late 70s, Communism (Maoism), which is alleged as Marxism or Leninism in China, is the only ideological belief of CCP. However, the proletarian ideology not necessarily corresponds to the interests of the ruling class (Marx et al. 1991:41, 46, 64, 73). In the perspective of Marxism, a society with oppression of one class by another is regarded as anomalous. Durkheim (1986) asserts that the dichotomy of society is between the normal and the pathological, or alternatively, a perfect garden that is free of weeds (Reitzer 1996:22). Therefore, a society with class distinctions is pathological rather than normal (Hamilton 1995:155). However, this argument is absurd because normal society should coincidentally include both normal and pathological ones (Gane 1991). From my

viewpoint, a normal state must consist of heterogeneous classes rather than merely homogenous ones. Even previous proletarian countries, namely FSU, CEE, China, that were allegedly class-free, consisted of more than single working class.

3

The bourgeoisie, as Marx and Engels ([1848] 2008:8) indicated, represents the class of modern capitalists, who are owners of the means of social production and employers of working class, and with no means of production of their own are reduced to selling their labour-power in order to survive. In transitional China, the new bourgeoisie class may split into three different ranks - political elites, economic elites, and ordinary people. Most social actors, whether they are political elites, economic elites, or ordinary people, cannot explicitly overrule main institutions made by upper tier(s). For example, provincial agents have to follow the rules made by the Central Committee of CCP. Like many countries, these main institutions are imposed by the top tier(s). However, the fact is that state agents at different hierarchical level may interpret and implement reforms in a discretionary manner that results in various consequences.

4

In this research, I try to assist researchers to recognize the antecedents (indicators) of de-institutionalization and re-institutionalization in China in terms of institutional changes. As Shirk (1993:21) argues Chinese political institutions have shaped economic reforms by creating incentives for political actors and the rules by which they make decisions; consequently, economic reforms may be best comprehended by focusing on the political institutions in which economic reform policies were made. In fact, Chinese experience of transition raises many questions about the relationship between economic and political reforms in communist states, and suggests that Chinese-style economic reforms are policy-equilibrium in the context of Chinese political institutions; therefore, this research argues that reforms in China follow a compromised path. Of course, this research cannot tell the whole story of China's reforms and so, it merely focuses on the role transitions of leading social actors, institutional changes, housing market, and their relationships within China. Consequently, it might be able to (1) explicate a broad range of institutional changes

in China and to (2) understand when institutional pressures are least likely to exert an enduring influence on existing institutional environment.

5

Economic reforms in China were precipitated in early 80s without corresponding political, social, and cultural measures; therefore, the attained achievements were mainly in the economic domain. In terms of a materialistic perspective, the social image of private entrepreneurs has been changing dramatically in an upwardly mobility manner from pariah. Further, with systematic propaganda aided by CCP, private entrepreneurs are now ideologically recognized to be an important pillar of China's economic and social development. In 2001, President Jiang Zemin officially declared that private entrepreneurs were accordingly acknowledged as an important pillar in China's economic and social development. It seems an epochal change that has occurred in a Communist (Leninist) state, which used to proclaim proletarian robustly. In addition to the substantial assistances from state agents and party cadres, private entrepreneurs or HNWI's in transitional China utilize their powers of technological change and investment to exert downward pressure on non-national interests and open up opportunities for profitable deployment of their capital after the manner of traditional capitalism. The so-called national interest is actually represented by corporations and their owners and high-ranking managers (Herman and Chomsky 1994:331) instead of ordinary people or state. I cannot help but question why the previously proletarian state would follow in the footsteps of capitalist states whilst other institutional changes have not moved in line with economic reforms in China. Beesley (1997:26) contends that economic reform is not only the result of an efficiency-driven economic revolution but also reflects the prevailing political environment in any country. However, because the prevailing political environment in China is communist-oriented, it seems that the economic reforms in China contradict Beesley's argument insofar as they hardly reflect the prevailing communist political environment. As previously mentioned, economic reforms in China are not closely related to politics, especially those that influence and dictate the allocation and distribution of scarce resources (Shih 2004a). Therefore, reforms in China can be categorised as "plus ça change." (White 1991:9)

because every reform policy has to be implemented through entrenched and unwavering communist bureaucratic institutions (Shirk 1993:333).

6

In 2008, a Chinese activist, who investigated whether shoddy construction contributed to deaths in the Sichuan quake, has been sentenced to five years' jail on 10 Feb, 2009 (BBC 2010). Because this activist has disclosed too many corruptions that irritated ruling elites, therefore, he was put into prison. Many similar contrasts essentially represent the paradoxes in China that continue to exist under the one-party political constraints since the late 70s.

7

The first China's offshore IPO was initiated in Hong Kong stock market in 1993 that is the Qingdao Beer, which remains a SOE. There are many examples of people generating substantial wealth through IPOs who then become HNWI's afterwards, e.g. Zhang Yin of Nine Dragons Paper (Holdings) Limited, Jack Ma of Alibaba Group, Robin Lin and Eric Xu of Baidu Inc, Charles Zhang of SOHU.

8

In retrospect, the tactics of early Chinese HNWI's of pursuing individual wealth were abrasive and maladroit. For example, I compare the business scheme of Mou Qizhong of Nande Group (Liu 2001 ;Yang 2004) that was one of early HNWI's in China with current monetary speculations, people can hardly believe those pretty clumsy and implausible schemes had once existed in China. Equally, we should not associate those crude reform policies at early stage with current intricate tactics

9

In order to assess the China's transition accurately, the discussion of TVE in this study excludes the small individual-owned-enterprises (*geh-ti-hu*) and large private rural enterprises (*siying qiye*), unlike some official statistics that subsume both under the TVE label. There are abundant literatures regarding China's TVEs. For example, Oi (1985) debates the politics and TVE in rural area; Nee (1989,1991,1992) focuses on the role of TVE in the market transition; Walder (2002) concentrates his

attentions on the market opportunity of TVE and income determination in rural areas; Chow (2007) provides an overview over the transition of TVE.

10

At the outset of reforms, economic power was de-regulated gradually and decision-making power was transferred to local state agents because of the inherited political decentralization. Nonetheless, major political factions have been exhausted during the Cultural Revolution, so that no single political faction emerged as powerful as Mao Zedong was that was able to dominate CCP and China effectively. Various minor factions tried to access the assumed power vacuum in order to seize political power. Even Deng Xiaoping himself, who was the prominent leader in China, actually needed Chen Yun and Wang Zhen to support his impressive economic reform programs initiated in late 1970s. From the resource dependence perspective, Deng Xiaoping and other supporters introduced economic reforms to China not only to restore depressed economy but also to marginalise political opponents.

11

These recriminations have been seeing frequently while Hu Jintao was in power in 2003. Many of the previously top richest Chinese ranked by Forbes, were arrested after 2003 i.e. Hwang Guang-yu (2008 ranked 1st), Zhang Rong-kun (2005 ranked 16th), Zhou Zen-yi (2002 ranked 11th), Zhu Guo-ping (2008 ranked 366th), Xie Guo-sheng (2007 ranked 348th), and to name but a few. Many people in China argued that certain previous schemes used to accumulate wealth could be condemned as illicit activities after the shift of political power. Nonetheless, this assumption is paradoxical and the outcome to be contradictory. Many of these accusations have astonishingly been inconceivably withdrawn or extremely mitigated.

12

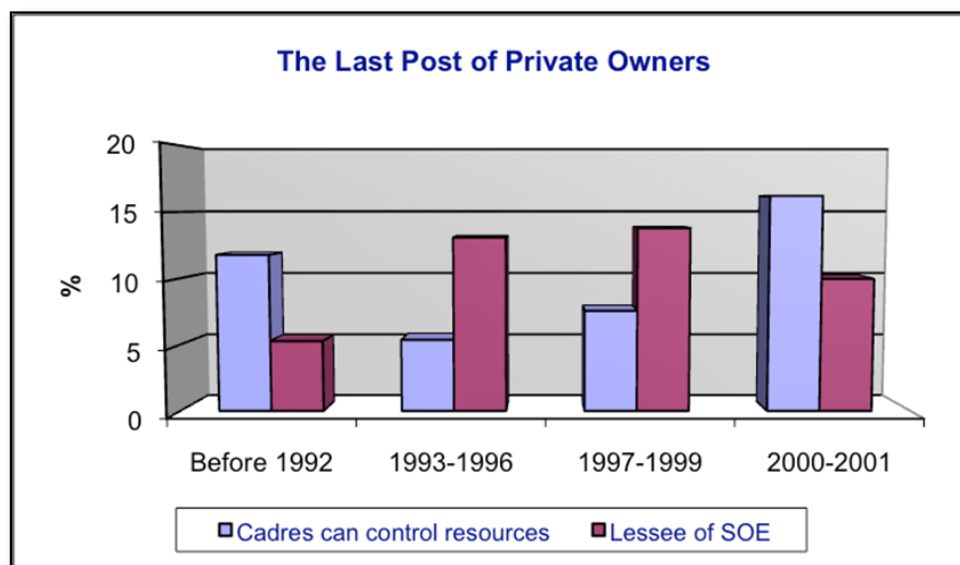
There is a survey that was done by many prominent and respectable scholars on the development of private enterprise commenced by the China Academy of Social Science (Sunstein 1992-1993). It records most relevant data from 1989 until now, and contains more information than official statistics. In the 2002 survey, CASS

conducted a comprehensive investigation of the last postings these private owners before starting their businesses (see Table 12.1, Fig 11.1, 12.2).

Last Post	Before 1992	1993-1996	1997-1999	2000-2001
General cadres	-	9.1	5.4	0.3
Unit-level cadres	-	1.5	0.8	3.1
Section-level cadres	8.4	3.5	4.2	11.8
County-level cadres	2.7	0.4	2.0	1.0
Bureau-level cadres	0.7	0	0.6	0.3
Executive of authorities above county-level	1.1	-	-	-
Rural commune leader	0.8	0.5	-	0.3
Main leader of village	10.9	0.9	2.8	2.6
Lessee of SOE	5.3	13.1	13.8	10.0
Executive of SOE	23.6	-	-	-
Manager of small-medium SOE	14.1	-	-	-
Manager of large SOE	18.2	-	-	-
Sales member of SOE	6.7	4.1	3.7	0.5
Military cadres	0.8	0.1	0.3	0.3
Others	-	42.7	60.3	66.8
Unemployed	-	23	6.2	3.3
Total	100.0	100.0	100.0	100.0
Number of People	736	917	355	391

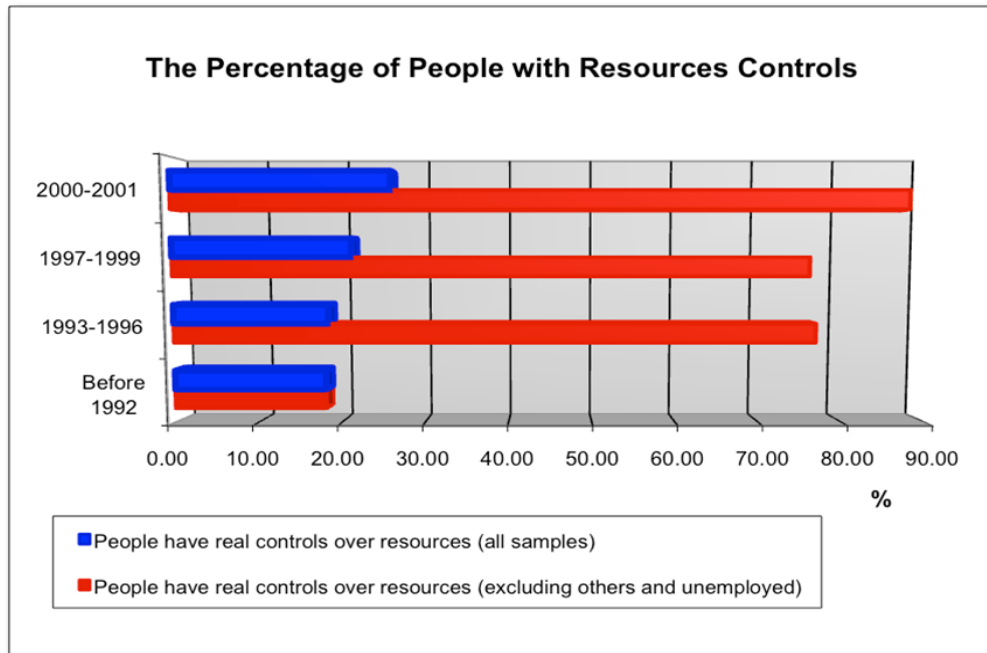
Data derived from (Zhu *et al.* 2003)

Table 12.1: The last post of private owner before initiating own businesses



Data derived from Table 12.1

Fig 11.1: The percentages of last posts were cadres and SOE lessee



Data derived from Table 12.1

Fig 11.2: The percentage of people with resources controls

In the table 12.1, lessees of SOE were the previous higher-ranked managers or directors of factories who were much condemned during the privatization process owing to their deliberate infringement on state assets (Kikeri *et al.* 1994 ;Nellis 1994 ;Li *et al.* 1998 ;Ding 2000c ;Birdsall and Nellis 2003 ;Mak *et al.* 2007). Excluding the rows of unemployed and others in the table 12.1, those private owners, who had real control over resources in their last postings, account for 18%, 77%, 76%, and 88% (or 18%, 28%, 23%, and 27% with all samples) in before 1992, 1993-1996, 1997-1999, and 2000-2001 respectively. The reason these people accounted for a lesser proportion in the first period because CASS did not put others and unemployed in the survey. In addition, CASS lost lots of valuable information because many interviewees selected others as their last postings. I presume their interviewees were reluctant to disclose their previous information for reasons of suspicion and uncertainty.

13

Since China was one of the proletarian countries before its economic reforms and still claims herself to be a communist and party-state country in the Constitution, the reforms in China are unlike the privatization in UK or Meiji Japan (Beesley

1997 ;Norman 2000). In fact, they (China's reforms) are different since private ownership rights, pursuit of private interests, and fullest expression of self-interest is able to flourish along with a communist configuration (Zhang 2008:3). The greatest difference in privatization between UK, Japan, and China is the rule-of-law instead of the rule-by-law. In China, on one hand, there are laws but they lack decent enforcing mechanism; on the other, some vital laws are ambiguous or full of vagueness and uncertainty, especially property rights. This vagueness and uncertainty, in fact, generates speculative ideas for speculators and provides them with opportunities. Therefore, unlike Hayek's (1944) argument about the end of Communism, the explicit economic growth manifests in China while private choices remain within the political constraints.

However, the institutional changes in China, that constitutes a departure from state socialism, rely not only on those compelling reforms but also on inconsistent and independent reforms. Instead of that, the state should simultaneously take apart the institutions of central planning and put in its place the essential rules of a market economy, i.e. competition, rule-of-law. In fact, the institutional changes actually perpetuate a close relationship between the state and the private economic agents in contemporary China because of its asynchronous and deficient reforms. As Nee and Opper (2006b) argue, state agents in China are, on one hand, rarely willing to introduce a new economic systems that completely deprive them of direct control rights at the level of the firm. On the other hand, agents at firm level (bureaupreneurs, entrepreneurs, and HNWI) often prefer the persistence of direct state-firm connections to gain access to public resources in a highly insecure and fast changing business environment. That is to say, there still is a very different atmosphere of interaction between state agents and individuals in former socialist countries than in countries with a long tradition of free markets (Murrell 1996).

14

In fact, it is not easy for bureaucrats to get out of those structurally embedded behaviours. Unless there are structural changes in the power relationship, it is unlikely these behaviours can hardly be altered completely. As Fligstein (1991:313)

argues, unless there is a new set of agents to gain power, the organization's goals will persist. This is the characteristic of structurally based conflicts in society (Lawler 1992) that even there are newly formulated relations of property rights after reforms, these new relations can be neglected, distortedly implemented, or even falsified. Therefore, the persistence of these structurally embedded characteristics is, in effect, the core feature of China's politicized capitalism (Nee and Opper 2006a). In transitional China, the law is not what it says it is – it is what the bureaucrat says it is (Commons 1931:697). Thus, it is more essential to know who the man is in control than it is to know what law is.

15

In pre-reform China, for example, urban land belonged to the government and agrarian land belonged to the people living in the rural areas as stipulated in the Constitution of PRC. Therefore, no one then was able to speculate on this land, whether they lived in urban or rural area. Since the reforms, related property rights, namely land use rights, given to the established state wealth, turned them into valuable assets that could be transformed into monetary value consequently. It is notable that there is no physical difference in this land before and after the initiation of reforms; the sole distinction is the newly given use rights attached to these lands. The crux mentioned earlier is the transitional process of property rights, which creates new property rights for existing wealthy people yet lacks in integrity, transparency, and fairness. It is alleged that such manipulation and intrigue results in the social disparity, embezzlement of state property, and emergence of HNWIs. After the initiation of reforms, new or revised property rights, namely privatization of SOEs, MBO (management-buy-out), auction of land use rights, were attached to existing state wealth and have been transformed this wealth into valuable assets and monetary value accordingly.

16

In fact, reforms in China were not a matter of time but were incurred by the critical social context in which people in China desperately longed for peaceful lives before the late 1970s. Therefore, in the third Plenary Session of the 11th Central Committee,

ninety percent of the Central Committee members of CCP, who had witnessed the demise of the Manchu Dynasty, warlord chaos, the long march, the Japanese invasion, and long term social struggles, passed through the reform policy in order to ease society economically (Deng 1983). Thus, I should not make any evaluation or assertion prior to the comprehension of the historical backdrop; otherwise, people may dogmatically assert that the provisional and biased reforms sowed the seeds of future predicaments in China. For example, Wu Jinglian (2002:395,418), a highly respectable Chinese economist, mentioned that selecting the market economy does not mean solving all problems since a good market economy should be based on the foundation of rule-of-law and then become a rule-of-law market economy. In retrospect, we should understand that to discuss the rule-of-law at the outset of the reforms is inconsequential and may jeopardize the progress of economic transition because of the then Kafkesque process in China. That is to say, reforms in China actually give in to the external reality rather than mouthing about the ideal. As previously asserted, China's reforms, in truth, were compromised with the society situation rather than any persistence from the very outset.

17

That is to say, reforms appeared to be divergent at the very beginnings in China from those previous Communist countries. Therefore, China is on the horns of a dilemma because she is not only different from those big-bang reforms adopted by previous Communist comrades, but also has to introduce market economy into the existing command economy system in order to restore the economy. Under these circumstances, China's transition can neither resemble those in UK, Japan nor FSU and CEE because of the preceding restrictions. Therefore, reforms in China can hardly be large scale but rather gradual in order to adapt to the dynamic institutional environment.

18

For example, private property rights, on one hand, have been granted to ordinary people by CCP but without corresponding institutional supports. Thus, managers of SOEs may take personal ownership of public assets. On the other hand, ordinary

people are not allowed to improve their own vulnerable situation by changing existing inadequate institutional supports. For example, even though ownership of agrarian land or urban housing were granted to people in China, economic elites may collude with state agents or cadres to confiscate rural lands or pull down urban housing and relocate the existing owners without sufficient compensation under the guise of reform policy, e.g. development of new industrial zone. Therefore, embezzlement of public assets, which belong to everybody, and the infringement of people's rights prevail in transitional China. Arguably, this research argues that only powerful people can perpetuate their wealth once their assets are endowed with property rights and are legitimately protected by public coercion in a constant but fragmented institutional environment. This argument may be pertinent from one country to another. For example, after The Return of Owners of Land created in UK and Ireland in 1872, the top 10 private landowners of UK and Ireland remained in the dominant positions from then onward (see Table 14.1).

	UK and Ireland (Acres)*	Top 10 Landowners (Acres)	%
1872	71,871,992	4,301,935	5.98
2001	72,557,919	1,297,500	1.79

*Ireland (1872) and Republic of Ireland (2001); Data derived from (Cahill 2001:7,359,379)

Table 14.1 Top 10 Landowners of UK and Ireland

19

Because China's reforms derive from the legacy of the previous planned economy, these legacy will draw the parameters for institutional change in China and make it become unique, being different from the model of free market economy that most schools of institutional change theory focus upon. In this regard, formal institutions in China comprise numerous of ideological constraints and market opportunities, which may motivate actors to think up innovative institutional arrangements that are not officially sanctioned. Therefore, institutional change in transitional China is not exempt from transformation. With recurrence and diffusion, these new institutional arrangements - the adaptive informal institutions, may take on an institutional reality of their own. Eventually, adaptive informal institutions may encourage political

elites to change the original formal institutions (Tsai 2006a).

20

In previous sections, I have described the parameters of institutional change theory and resource dependence theory, and their inter-relationships. I also employ the framework drawn from resource dependence theory to analyze China's institutional changes. In this section, I tend to exemplify my arguments drawn from these two theories in terms of China's reforms. Previously, I have argued that property rights in China play a significant role in affecting institutional change and the consequences. Apart from that, it also sets out how private property rights in China are deliberately exploited by powerful people in the first place. In this regard, the situation in China is not likely to resemble de Soto's (Economist 2006) argument that only given property rights can enrich poor people. Without corresponding institutional arrangements, this research argues that granted property rights would be manipulated by powerful people and become a legitimate mechanism to legally convert public or disadvantaged people's assets into those belonging to the powerful elites.

Regarding man-made property artefacts, I have to discuss the degree of rationality by those involved. Rational actors will act for sufficient reasons, such as the belief and desire to explain their actions appropriately (Elster 2009:2). Because desires are the first cause of action, therefore, those rational actors would never have any problem to choose their desires (Elster *ibid*:34) that they prefer to own as much as possible while private property rights granted to social actors in China after reforms. This preference is represented as a utility function with a numerical value such as amount of housing or money. That is why people may say rational people try to maximize their utilities. However, if there is no asymmetric information transaction costs and time constraint, rational actors could maximize personal utilities with no problem. Because social actor's rationality is limited by his ability to receive, store, retrieve, and process information to make knowledge or feelings understood by others (Williamson 1975), therefore, it is not only unattainable for social actor to be rational to maximize utility but also need to cooperate with other people in the same

institutional environment.

Institutional change in China, as Karl Polanyi (1957:148-156) argued, has a ‘double movement’ because it is difficult and expensive for rational actors to maximize personal utility and individual rationality does not inevitably imply group rationality (Demsetz 1967 ;Alchian and Demsetz 1972 ;Furubotn and Pejovich 1972 ;Williamson 1975,1985). The makers of new institutional arrangements, on one hand, try to introduce new institutions to build up new social orders; on the other hand, the new rules constrain the freedom to make new institutional arrangements for the ordinary people. The double movement phenomena can be frequently seen in China’s transition (see Note 7). From Note 7, I have perceived that even though private property rights have been granted to ordinary people, however, they are not allowed to improve their own vulnerable situations by changing existing inadequate institutional supports without corresponding institutional supports. In this sense, powerful people in China can perpetuate their wealth once their assets are endowed with property rights and are legitimately protected by public coercion in a constant but fragmented institutional environment.

Arguably, economic growth in China is supported by institutional change and existing institutional arrangements are gradually replaced due to shifts in the demand-and-supply of institutional services (Lin 1989). Therefore, new institutional arrangements will be accordingly brought in to take advantage of lucrative opportunities associated with economic growth however, the change or transition from one existing institutional arrangement to another could be very costly (Williamson 1985). That is to say, unless the net profits to individuals from the shift to the new arrangements outweighs the corresponding costs, spontaneous institutional change is unlikely to arise. This argument justifies that evolutionary institutional change is rarely appropriate. Because institutional arrangements are a means to realize the profits of collective actions, therefore, a new institutional arrangement would be easily accepted when it is initiated for public goods. In other words, institutional changes often need collective actions. However, free-riders issues, as North (1981,1990) argued, are inherent in institutional change and will inevitably appear.

As previously mentioned, institutions reflect the distribution of power and resources (Campbell 2004:1). That is to say, human beings indeed hold the controls of distribution and re-distribution instead of the state or organizations; therefore, institutions are associated with people, who have the rights to distribute resources and power at their disposal. In China, state bureaucrats and party cadres resemble people those who have rights to control resource distributions. However, markets and bureaucracy should not be mixed together in a market economy, as despite the appearance of a market, the disadvantages of both market and bureaucracy remain (Kornai 1990:14). Arguably, the current situation in China is that the market economic system has hardly been implemented with comprehensive associated political constraints. Thus, this research hypothesises that China can hardly attain a comprehensive market economy within the current political constraints. The partial reforms in this previously socialist economy continue to redefine the institutional parameters, which largely derive from the legacy of the previous command economy. Although vested interest groups endeavour to perpetuate the existing favourable institutional parameters, they may be toppled by those innovative institutions as they cannot cope with the pace of emerging economic reforms and may consequently reduce the market efficiencies or generate speculative opportunities or institutional holes (Yang 2004).

Arguably, there are strong associations between institutional change and economic reforms in China, and vice versa (Chen *et al.* 1992 ;Bian and Logan 1996 ;Bromley and Yao 2006 ;Chow 2006); however, the institutional legacies derived from the practice of socialism strengthen the influence of party-state characterised by inertia during the transitional phase. Some intuitionists (North 1990:93-95;Powell 1991:192) define path-dependence as a process by which contingent events or decisions result in the establishment of institutions, prevailing over long periods of time, constraining actors' options. This phenomenon can be perceived as path-dependence (North 1990:94) and continues to explicitly strengthen the privileges of existing economic and political elites in China. As it is expensive to create and change institutions, once created, institutions tend to generate positive feedback and

support from constituents and institutional elites, who derive increasing financial returns and other benefits from these arrangements (Campbell 2004:13). Therefore, strong and privileged interest groups and commercialized local governments will endeavour to hamper equal distribution of benefits derived from economic growth throughout society, thereby rendering futile the CCP's strategy of trading economic growth for people's consent to its absolute rule (Yao 2010). Under these circumstances, many positive institutional innovations in China, which have the potential to benefit the majority of the population but can also restrict privileged groups accessing their economic benefits, are deliberately obstructed. For example, since the first land-use fee was collected in Shenzhen SEZ in 1987, the publicly-auctioned system of raw land was only enforced nationwide in 2004, nearly two decades after the first collection of land-use fee, and there have been a myriad of embezzlements and frauds ever since. The reasons for deferring the nationwide land auction mainly stem from two sources. First, local governments use it to increase the insufficient budgets allocated to them since decentralization. Obscure land transfers can be the most useful financial resource to assist with their deteriorated finances. Second, obscure land transfers can be a main source of private income for local agents therefore evolving into corruption and embezzlement (Foldvary 1998 ;Lau *et al.* 2000 ;Ding 2003). Similar discrepancies have arisen in many unusual privatization processes such as Dual-Track Pricing, Manager-Buy-Out (MBO), which are de facto embezzlement of public assets disguised as improving economic efficiency (Lang *et al.* 1995). However, only a decade after it first appeared, this incongruous process has since been abolished.

In contrast to the invisible hand of Adam Smith ([1776] 1982:264), Minsky (1986:293) argues that a market cannot thrive without the visible hand of government, which can set up norms, regulations, and institutions, enforcing people to conform, whether it be a command or market economy. Without government's stipulation (visible hand), Minsky argues that hardly any trade can be implemented confidently and securely. Minsky's argument corresponds to Polanyi's (1957:148-156) double-movement. On one hand, China's government has introduced innovative institutions and ensured a prosperous market; on the other hand, the same

government creates institutional holes and repeatedly sabotages regulations, in part due to incomplete reforms. In China, government policies have undergone many series of changes in a short period since their implementation. For example, there have been many conflicting policies implemented one after the other in the housing and finance industries (see 2004 China Real Estate Finance Report). Because of these irreconcilable policies introduced into transitional China, it is possible that the reasons behind the new institutional arrangements are not solely economic. As North (1990) points out, it is perhaps wrong to maintain that economic benefit was the only reason behind the institutional reforms. The institutional environment should underpin all institutions within it; therefore, a sound institution set within an inappropriate institutional environment either loses the support from its surrounding environment or deteriorates. For example, although private property rights, (allegedly the reason behind the prosperity of most capitalist countries) were granted to the majority of Chinese people, the incomplete institutional environment has weakened and undermined the well-intentioned institution of private property rights. Therefore, private property rights have become a legitimate mechanism for powerful people to embezzle public assets and infringe the wealth of others. However, due to the unstable institutional environment, elites' assets may vary according to the changes of institutional parameters. In these circumstances, elites must secure essential resources in order to become competitive within their surroundings. Failure to do so could result in the inability to maintain their wealth and privileges.

North (1990) gives one of the most prevalent definitions of institutional rules, both formal rules (constitution, laws and government decrees) and informal constraints (norms, conventions and codes of conduct) which provide the structure for human interaction. From my experiences derived from several in-depth interviews with Chinese HNWI and long-term residence in China, I have found this specific definition has been perceived in a different way. Most of the Chinese I know simply recognize formal rules such as constitution and laws as constituting an institution. They neither notice nor are aware of the informal constraints, which constitute an institution. Therefore, institutional change in China is only recognised as amendments to written documents, laws and policies, and not changes to ideological

beliefs, norms and conventions. That is to say, even though the Chinese government intends to make institutional changes to cope with the changing institutional environment, they cannot succeed in making comprehensive institutional changes as they do not recognise or perceive the informal constraints. This is despite the effect these well-established informal constraints have on the written rules of institutional change, however inconspicuous or invisible they are. For example, as private property rights were not allowed in pre-reformed China, many collective and public assets as well as a very small number of private agrarian properties were considered as in being in absentee-ownership, and therefore belonging to everyone. . Under these circumstances, the properties could be at the disposal of state agents and cadres with no legitimate reason. As such, the granted formal private property rights remain fragile in reformed China because state agents and elites may consider keeping public assets and/or other's property as their own over time. Therefore, even economic elites try to access wealth as soon as possible due to future uncertainties; however, they may also endeavour to assimilate all possible resources to protect their existing privileges and wealth, whilst also keeping themselves competitive in within their surroundings.

These institutionalized practices established before the reforms which seemed unsustainable or could not continue after reforms, as Christine Oliver (1992) contends, can be referred to as deinstitutionalization. As prevailing political logic leads many Chinese bureaucracies to challenge previously legitimised or traditional activities post-reform, in turn, creating new rules, this research hypothesises that China's transitions are composed of a series of deinstitutionalization and re-institutionalization. In short, deinstitutionalization refers to the de-legitimation of established organizational practices due to the organizational challenges of reproducing previously legitimated or traditional organizational actions. In this regard, organizational behaviours and changes cannot be explained by social consensus regarding the meaning and value of an activity or by conforming to institutional pressures (Oliver *ibid*). As a result, institutional pressures to conform and the shared interpretations of institutional rules and expectations do not have the predicted consequences on organizations. Under these circumstances, the social

patterns and practices may not “reproduce” (Jepperson and Meyer 1991:145) themselves, and consequently, , vested interest groups do not look to the future and try to collect as many essential resources as possible because of uncertainty.

21

For example, HNWI in China first emerged in the early 90s. Nonetheless, in the past decades, people have been bombard with widely differing approaches that explore the emergence of HNWI such as opportunity, collusion, capital, or diligence. However, none of these approaches can independently explain either economic growth or emergences of HNWI in China. In fact, economic disparity and emergence of HNWI persist in China because they are complex products of the intersection of economic environment with associated social, political, and cultural institutions.

22

In China, many state authorities, especially at the lower end of the hierarchies, adopt whatever practices they consider their institutional environment regards appropriate or legitimate whether it will enhance economic efficacy or not. Nearly all my interviewees (except #8) had similar complaint that state policies are volatile, and these policies are often carried out at the discretion of lower authorities. These policies applied to business can be implemented strictly or flexibly owing to the then social sphere and political atmosphere. It all depends on who you are (foreign or local, SOE or private), where you are from (foreigner or home, offshore or inland), and who your local partner is (SOE, TVE, collective, or private). If any bureaucrat tries to translate these policies fairly and in a way that will possibly jeopardize the benefits of vested interest groups, he or she will soon be replaced, transferred, or downgraded from his/her existing post. The best way to survive for bureaucrats is to follow the then prevailing pattern in society.

A further manifest example in China is that of the Public Housing Project, which can provide the evidence of deviation from stated goals in organizations. In 1950s, a Public Housing Project first originated in Beijing as a flagship project to prove that

then China was an advanced state. This project consisted of shops, schools, and medical stations as well. Since the 1998 reforms, and as a consequence of income disparity, Public Housing Projects developed into accommodation for those destitute and medium-low income people. Such projects mushroomed between 1999 and 2005 but their nature is different from their original aims. There are an increasing number of mansions juxtaposed with very few real Public Housing in the same site and many owners of Public Housing increasingly display conspicuous consumption behaviours.

For example, there are many owners of those Public Housings driving expensive imported cars. According to Shenzhen Night Times (8th March, 2010), in the third phase of Taoyuan village, which is designed to be an Public Housing community, 16% of residents own their private cars valued more than CNY200,000 (equivalent to £19,500 according at the then exchange rate). Since 2006 because of tax concessions and other benefits, especially in land acquisitions, there were even some mansions built under the guise of Public Housing in order that developers and local bureaucrats can increase their economic returns. For Public Housing, government will adopt so-called administrative transfer to provide free land (2007). As local state agents hold the right to allocate Public Housing, they can get real economic returns from the allocations. This phenomenon corresponds to the previously mentioned one of political elites sabotaging the rules of game that determines how those valued forms of capital are allocated across occupations and positions. In 2008, government started to stamp out the speculation with an iron fist; however, many maladies continue to exist in local authorities. For example, owing to the suppression of housing speculation, central government policies now encourage the developments of Public Housing but discourage and restrict the constructions of luxury housing. Some developers, under the banner of Public Housing, continue to construct mansions everywhere. Many developers applied for Public Housing licenses in the first place; consequently, they undertake minor renovations to these units to produce a luxury mansion for sale after getting the occupancy license. It is not surprising that Mao Yushi (2009), one of the esteemed public sector economists, advocates government should stop building affordable housing because local authorities and speculators unscrupulously manipulate the well intended central

government provisions. Mao contends that if there is any demand for affordable housing, there should not even be any private toilet and bathroom allowed inside the unit of affordable housing. Instead, they should build public toilets and bathrooms in order to rule out the speculation and rent seeking.

23

For example, in the beginning of China's reforms, CCP tried to introduce market influences into a centrally planned economy (Saich 2001:212). However, as the statement of Lieberthal and Oksenberg (1988:3), the outcomes of these reforms are the "negotiations, bargaining, and the seeking of consensus among affected bureaucracies". Therefore, in transitional China, there is no direct relationship between problem and solution, and the policy outcome may not reflect the problem that previously caused the decisional process (Lieberthal and Oksenberg 1988:4;Saich 2001:212).

24

Among these different types of ideas, this research starts by discussing concepts in the foreground and from programs because they have the most direct effects on institutional changes. As Campbell (2004:98) comments, programs are found in both the public and private sectors and include such things as policy prescriptions and corporate strategies. For example, property rights should be respected and abided by. However, the development of property rights in transitional China is different from those evident in other countries, e.g. Canada, United Kingdom, USA, Japan, South Korea, Singapore, Taiwan, etc. In these countries, property rights are, as Rajan and Zingales (2004:131) state, a form of monopoly that gives the owner of an asset the exclusive right to use the asset and exclude others from its use. In transitional China, however, the juxtaposition of market economy and command economy confused state agents who then had the leeway to exploit from the incomplete reforms. The newly introduced private properties, which were at their (social elites) disposal during the early reforms, were definitely not the private properties they possessed before economic reforms. Because the dividing line between what is public and what is private in transitional China is often still impossible to detect, a company could

privately run one day and find itself claimed as a state asset the next, and vice versa (Mcgregor 2010:197,203). Therefore, the introduction of private property rights that constitute a program and policy prescription serving to bolster the economy, became the mechanism to help social elites to legitimately transfer public assets and/or confiscate private properties to their owns. In this regard, programs become the tool of decision makers or social elites to gain power and resources for themselves (Blyth 2002:258). Nevertheless, there is no discussion regarding why some programs are more attractive and effective than others. Thus, this research tends to discuss frames in following paragraph to clarify this issue.

25

Politically, China is not different from FSU and CEE because they all derived legacies from Leninism (Fligstein 1990). Therefore, the above description mainly differentiates economic transitions between these countries. Demographically, China, which was unlike FSU, remained an agricultural society while they began to reform in late 70s (see Table 22.1).

	Agriculture	Industry	Construction	Transport	Commerce	Other
China (1978)	71%	15%	2%	2%	3%	7%
Russia (1985)	14%	32%	10%	10%	8%	26%

Data derived from IMF (1992); China Statistical Yearbook 1992

Table 22.1 Distribution of Employment by Sector

Moreover, while economic reforms were first initiated in China in the late 1970s, the market economy was not a distant memory to most people since the command economy was only comprehensively implemented after 1956 (Wu 2002). Unlike China, the planned economic system had been entirely put into practice in FSU since 1912; therefore, the market economy, which had been regarded as evil and rivalry, has disappeared nearly a century while FSU first initiated economic reforms in early 90s. On the contrary, when Deng Xiaoping began his reforms in the late 70s, the planned economy had only been in place in China for thirty years. Therefore, peasants, former entrepreneurs, as well as many others still remembered market economy practices and accordingly revived their previous market ties after the

reforms. On the contrary, in FSU, the Leninist communism was already fully brought into force for sixty-five years when Gorbachev initiated reforms in 1978 (Merton 1967 ;Hall 1986). That is to say, there were very few one-time entrepreneurs in early FSU still alive after 1978 unlike China does. Therefore, Communism had been completely integrated in FSU unlike China. As such, the path-dependent inertia of Communism has had less impact on China than on FSU.

26

The instruments of labour (or means of production) and the "subject of labour" refer to natural resources and raw materials, including land. The "instruments of labour" are tools, in the broadest sense. They include factory buildings, infrastructure, and other human-made objects that facilitate labour's production of goods and services. According to Karl Marx's Theory of History, technical change can beget social change; in other words, changes in the means (and intensity) of production causes changes in the relations of production, i.e., in people's ideology and culture, their interactions with one another, and their social relationship to the wider world.

27

From Mao Zedong to Hu Jingtao, none of these supreme party leaders has promulgated laws or regulations clearly indicating their intended outcome. For example, the Hundred Flowers Campaign (*Bai Hua Qi Fang*) in 1956 was to promote pluralism of expression and criticism of the government. This campaign was indeed a deliberate tactic to smoke out rightists and anti-government elements (Mo et al. 2007:179-189). The notorious Proletarian Cultural Great Revolution, starting in 1966 and ending officially with Mao's death in 1976, resulted in nationwide chaos and economic disarray and stagnation. This movement actually resulted from the Great Leap Forward (GLF) implemented in 1956. Generated by Mao's grandiose intention to overtake the UK and USA (*Chao Ying Gan Mei*) in fifteen years, the GLF resulted in a pervasive famine, and was considered a serious humanitarian and economic disaster in China. The estimated number of famine victims was said to be between 20 and 43 million (Peng 1987). In order to get rid of any accusation and discontent regarding the initiation of GLF, and to retain control over CCP, Mao consequently launched the Cultural Revolution in 1966 with the aim

of purging the then President Liu Shaoqi and other political rivals. In this context, any other high-sounding ideological reasons from Mao to explain the initiation of these movements can only be counted as sugar-coating in which to wrap up the ugly nature of his political intentions (Ho 2006:64-95). Even the most praised economic reform programme led by Deng Xiaoping in 1978 was in part designed to overthrow then President Hua Guofeng (Shirk 1993:35-37).

Furthermore in 2006, the doctrine of “Harmonious Society” officially endorsed by President Hu Jintao effectively enshrined him in the same pantheon as Mao Zedong, Deng Xiaoping, Jiang Zemin, and other predecessors in such political chicanery as it shifted the party's focus from promoting all-out economic growth to solving worsening social tensions. In fact, one month before this doctrine was declared, the Communist Party Chief of Shanghai was dismissed from post and arrested for allegedly helping plunder the city's pension fund of hundreds of millions of dollars. Chen Liangyu, a protégé of Hu's predecessor, Jiang Zemin, was the first member of the 23-member Politburo to lose his job since 1995. Before Chen Liangyu, the latest arrested member of the Politburo of the Communist Party of China was Chen Xitong, who was previous Mayor of Beijing and removed from office by then President Jiang Zemin and on charges of corruption in 1995. Analysts have speculated that Chen was targeted because he and other protégées of Jiang advocated unregulated economic growth (Fan 2006).

28

In China, political elites do not brazenly take economic interests directly by using their political influence owing to the effective regulative rules. Instead, they normally trade their political influence with economic elites for economic benefits. For example, state agents will help specific developers to acquire land cheaply or raise the floor area ratio in order in an exchange for individual benefits. In this sense, the power market (capitalized power) is similar to any commodity market in that it needs buyer and seller, and the premise of a successful transaction is interests. Although the power market is not identical to any commodity market, political elites will pursue the maximization of capitalized power in a situation that lacks effective constraining mechanisms as in transitional China. Since the process of capital

accumulations for economic elites is realized mostly through the exchange of power with local political elites, both economic and political elites are together vying with the people for scarce resources. In this sense, the scarcity of resources results in a zero-sum situation between those elites and ordinary people in the society.

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This research also tries to analyze the specific scenario in China from two major perspectives. First, it is the multi-faceted characteristic of businesspeople in China's long history. Businesspersons in China have played influential roles in politics for nearly two thousands odd years. For instance, Lu Buwei (291-235 BC), then chancellor, in Qin dynasty, Shanxi businesspersons in Chin dynasty, and T. V. Soong in Chiang Kai-Shek regime (1911 -1949 AD) together resemble the worst and best examples of collusion and enrichment in China, respectively. Nevertheless, there has never been any single economic elite in contemporary China that can match these historical magnates, and wielding independent influence on then state policy and monopoly of social resources. Nevertheless, the contemporary economic elites, such as they are, collude with different political factions and entrenched interest groups in order to maximize their profits. Some commonalities can be discerned between these ancient economic elites (*hongding shangren*) and contemporary businesspersons to the extent that they all have tight-knit and deliberate political-business relationships that can dramatically influence state policy and are able to exploit important social resources to accumulate their wealth continuously. In fact, these ancient economic elites' behaviours and thoughts remain attractive to modern Chinese people. For example, one of the best-selling autobiographies of entrepreneurs in China remains "Hu Xueyan" (1823 – 1885 AD), who was the most influential magnate in late Manchu dynasty. Owing to embedded patterns, any successful business, no matter how the business people accumulate their wealth, will often have entailed collusion with politics.

Second, the complexity of the political-business relationships has partly originated in the long-term centralization for thousands of years. Arguably, China is the only country with political centralization that has endured for more than two thousand

years and the nature of the governing structure has never been radically changed since the Emperor Qin. Because of political centralization, the CCP controls and monopolises nearly every strategic resource and is considered as supporting industries at the present; therefore, the important economic power and resources are explicitly under the controls of state agents. In this regard, the logic of *Political Centralization* → *Resource Control* → *Elite Business* becomes an unassailable structure. In fact, this peculiar logic is well known as corruption for a long time in China. Some leading economists (Qian and Wu 2000) in China introduced the concept of rent-seeking to define this system; in this way, corruption spreads through the administrative interventions in micro-economic activities that enable individuals to get easy rents through political power. In other words, there yet are many opportunities for them to gain profits from indirect production. That is to say, the institutional arrangement through capitalized power or monetized power extensively created a rent-seeking environment and sowed the seeds of future corruption.

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Some (Kuznets 1988 ;Unger and Chan 1995) scholars contend that the economy in China resembles the East-Asian Model, which was initiated after WWII in Asia, e.g. Japan, South Korea, and Taiwan. The salience of East-Asian model is that states set rules for economic development and are involved in major economic events. That is to say, these states, on one hand, are the players; on the other, they are referees. In this particular model, modernization is based on two main systems: the government and the market. The former is dominant and the latter is subordinate to the former one. Nonetheless, there is a significant distinction, namely the origin of market, between China and East Asian countries. In China as well as East-Asian countries, the market framework is based on the foundation of strong government capability. However, the market system in China is not indigenous or naturally occurring but rather it is artificially devised by political elites even though China's model of economic reforms, to some extent, resembles those East-Asian countries. In East-Asian countries, their markets are mostly indigenous and spontaneous.

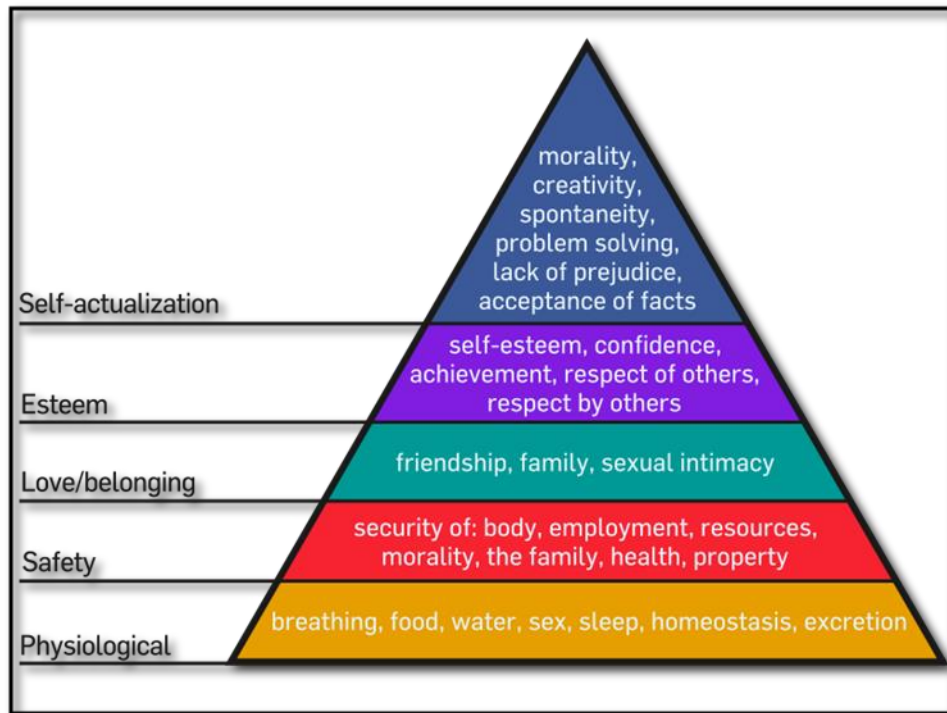
31

As described previously, the institutional environment in China is solely sustained by

regulatory pillar, therefore, political elites have the power to design and implement regulations at will in this specific institutional environment that is without normative and cultural-cognitive constraints. They therefore can trade their power for individual economic benefits with economic elites. Because the incomplete ownership rights were artificially designed by these political elites, they therefore impose their will on the ownership rights during the privatization. Lacking in independent normative and cultural-cognitive constraints, private owners have no power to bargain with those political elites. As soon as political elites alter their minds, the private ownership rights will consequently become different. For example, many previously top ranked richest Chinese by Forbes (Epstein 2009) have been arrested after 2003 due to perplexing charges, i.e. Hwang Guang-yu (2008 ranked 2nd), Zhang Rong-kun (2005 ranked 16th), Zhou Zen-yi (2002 ranked 11th), Zhu Guo-ping (2008 ranked 366th), Xie Guo-sheng (2007 ranked 348th), to name but a few.

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There is data in relation to rice consumption that looks irrelevant to my study but is indeed enlightening that brought forth by one of my interviewees (#6). She advised me that once any minor parameter of the institutional environment changes, it would accordingly motivate different human needs, either forward or backward. For example, she told me that seeking safety for one's life was the most imperative issue during the Cultural Revolution (1966 – 1976) and no one then cared about whether economic conditions were decent or terrible. Her argument absolutely conforms to the Maslow's Hierarchy of Needs (1943) (see Fig 30.1). People remained in the level of safety, only seeking security of body during the Cultural Revolution era in China. At this point the social structure of needs had in fact moved backwards to the primitive period in that Dark Age. My interviewee informed me that people were unable to fend for themselves during that period; consequently, there was only one political faction, Mao and his followers that survived after the Cultural Revolution. Her argument exactly corresponds to the contentions of different researchers (Gold 1985 ;Walder 1995a ;Peng 2003 ;Walder 2003 ;Pei 2006).



Concept derived from (Maslow 1943)
 Fig 30.1 Maslow's Hierarchy of Needs

Consequently, she told me that people in China consume less rice now than they did previously, but what is the association? She motivated me to find out the possible answers to this question that might be any help of my research. At that moment, I only perceived that people in China might move ahead from safety to esteem level in terms of Maslow's hierarchy. After finishing my interviews, I then acquired details of Income Elasticity in the 1980s and 1990s from official data issued by the China State Statistics Bureau. From the data, Income Elasticity of rice in urban areas has had negative values since the 1980s, indicating that rice is now seen as an inferior commodity in these areas (Table 29.1). That is, popular demands have been moved upwardly three strata from safety to esteem only in a decade of time (see Fig 30.1).

Food	Urban Area		Rural Area	
	1981-1991	1992-2000	1981-1991	1992-2000
Rice	-0.27	-0.35	0.15	-0.16
Vegetable Oil	0.42	0.33	0.97	0.59
Pork	0.17	-0.18	0.44	0.55
Beef/mutton	1.39	<i>(0.03)*</i>	0.43	1.23
Poultry	1.43	0.4	0.97	1.59
Eggs	0.53	0.58	1.07	1.36

Food	Urban Area		Rural Area	
	1981-1991	1992-2000	1981-1991	1992-2000
Marine products	<i>(0.06)*</i>	0.51	0.79	1.14

Data derived from CSSB (2001) and (Hsiaoping, 2005 #2198)

*Numbers in parentheses indicate poor statistical fit

Table 29.1: Income Elasticity in staple foods

In the 1980s, the Income Elasticity of rice in rural areas was 0.15 (meaning that when income increases by 10%, rice consumption rises by 1.5%), demonstrating that rice was still a valued commodity. However, in the 1990s, Income Elasticity of rice in rural areas developed negative values, and rice consumption, as in urban areas, showed a downward tendency despite increased income. By and large, changes in rice consumption are influenced by consumers' incomes, price, and other available staple foods. That is to say, food diversification is only one factor in this decrease of rice consumption and increase in consumption of livestock products is considered another influence factor. This research considers that these trends reflect the recent emergence of health-conscious attitudes, better economic conditions impacting on lifestyles, and greater variety of food choices in urban China. For any sake, all of the foregoing assumptions can only happen after enhancing individual economic conditions.

Rice has been the major staple food for Chinese people for thousands of years ago. If this traditional behavior can be altered in a decade owing to economic improvement, the associations between human needs and economic benefits in transitional China will be more delicate than were perceived previously.

From her enlightenment, I therefore have grasped that why my interviewee asked me to notice every parameter that might possibly affect the economic returns. From my past research, I found that there are many parameters that actually impinge on economic returns. This research identifies that the trajectory of China's transition, as Walder (2004) mentions, is essentially different from those that emerged in CEE and FSU in terms of instruments and settings although they all tried to improve economic efficiencies and derived legacy of Leninism. This understanding helps me to exclude many insignificant parameters. Apart from those reforms in previous Communist

countries, the reforms in China are not only different from the traditional Western path taken by those industrialized countries but also different from those reforms initiated after WWII in Asia, for example, Japan, South Korea, and Taiwan. Of course, the comparisons between China's model and the Asian models, the former model is similar to the latter ones but can hardly be alike. As I mentioned earlier, China's model also differs from those developed in Communist countries after the cold war (Walder 2004 ;Ding 2010). I therefore cannot help but wonder what exactly the pattern of China's institutional change is.

As mentioned earlier, although FSU, former CEE socialist countries, and China are all derived legacies from Marxism; however, China's model is different from the former two patterns. Unlike conventional neoclassical economics, which takes the institutions of the modern Western economies for granted (Sweezy 1970), the study of institutions and its evolutions is one of the crucial point of Marxist economics. In fact, in the real-world economies, there are different institutions existing alongside various markets. In addition, the government is also far from the "minimal state," which is limited to the functions of providing law and order, and simply protecting property rights. Different institutions are *de facto* competing in the institutional markets. As noted by Schultz (1968:1114) that:

It is obvious that particular institutions really matter, that they are subject to change and are, in fact, changing, and that people are trying to clarify social choices with regard to alternative institutional change to improve the economic efficiency and the welfare performance of the economy.

Therefore, I have arrived at the second research argument that China's institutional changes are more likely to resemble compromised institutional changes instead of other patterns, e.g. imposed or induced institutional changes (Lin 1989). Certainly, he has exquisitely explained the definitions of these two patterns that induced institutional changes referring to the voluntary changes by a group of individuals in response to profitable opportunities arising from institutional disequilibria; on the

other, imposed institutional changes refer to changes that are introduced by government fiat (Lin *ibid*). Nonetheless, from my point of view, there is no institutional change, whether induced or imposed, in China that can exist alone. No matter how well and how essential an induced institutional change might be, CCP will not allow it to persist if it politically jeopardizes the one-party polity. Essentially, China's government and the CCP would not recklessly impose any institutional change countrywide without conducting tests at selected points after the late 70s. As mentioned earlier, to retain the balance of politics and economy, many discouraged and forbidden local implementations of state policies were deliberately ignored. That is to say, a compromised pattern of changes arose accordingly. For example, dual-track pricing system, collective enterprises (TVEs), and SOE privatization went awry and, in turn, were translated into profiteering (*Guan Dao*), embezzlement, and collusion respectively. I shall now turn to the explanation of the institutional change process in contemporary China in order to justify and test my second hypothesis.

There are diverse institutional arrangements, varying from the simple to the sophisticated, that have been characterised transitional China since the late 1970s. These new institutional arrangements can be regarded as the relevant medium that shape different trajectories of local development and the outcomes that have been formed. For example, the local implementation and enforcement of state policies are extremely different in Guangdong, Jiangsu, and Henan in terms of scale, trend, and path (Walder 1995c ;Wu 1997 ;Wu and Hu 2002). That is to say, China granted preferential policies to different regions and changed the policies over time under the scheme of partial reform. Consequently, these different policies presumably induced cadres to employ varied institutional innovations that reflect policy prejudices, regional endowments, and relative bargaining power. However, this may not be the accurate sequence but rather the other way around.

In this regard, the institutional changes in China appear to be more sophisticated than envisaged. However, if we look at it separately, the individual analysis is very simple. Economically, it is straightforward that the institutional changes in China are likely to be similar to any market economy in terms of pursuit of private interests.

There are continuous quests from capitalists and entrepreneurs for government protection from competition and to retain their existing privileges to access public resources with least cost (Rajan and Zingales 2004:311). Politically, the nature of any institutional changes continues to encircle the one-party polity. That is to say, no matter how and where the trend of economic institutional changes goes, it is always confined within the political framework, which, by all means, necessitated supporting CCP and its legitimacy.

Under the circumstances of unpredictability, people, who are in pursuit of private interests, will unavoidably endeavor to grab short-term interests instead of investing in any long-term ventures. Therefore, this volatility will enhance the manipulation and exploitation through institutional changes. As Saich (2001:213) asserts the fragmented bureaucratic structure makes the CCP ineligible to play the vital role of integrating the bureaucracy to improve both the formulation and implementation of policy. On top of that, each organization attempts to bend policy to its own advantage and extensive bargaining leaves the legal framework poorly developed (Lampton 1992:58). The definition of organization here is as Burns and Stalker (1961) argue, whether they are public organizations (SOE), private organizations, small or large organizations, and bureaucratic or organic organizations (government), they all attempt to develop ways to tackle their low controls in constrained situations (new entrants in open markets) and protect their controlled advantages in opportunity relations (transitional socialist societies). Thus far, this research may draw a conclusion that policy-making process of reforms in transitional China is compromised and consists of responsibility shirking, power scrambling, bargaining, and negotiations.

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Any reform arguably implies that existing interest groups may lose their privileges because they can be replaced by emerging counterparts. In this sense, reform may inevitably encounter a number of difficulties inflicted by different existing interest groups from time to time. However, between 1978 and 1985, China had successfully overcome these difficulties when rural reforms were initiated. The most prominent

achievement within this period was the establishment of the Household Contract Responsibility System that expedited the disintegration of People's Communes and unleashed billions of workers, who started to have independent decision-making power of production and management. This particular achievement achieved the unity of responsibility, right, and interest for the rural population. Subsequently, the foci of reforms had been shifted from rural areas to cities after 1985. Arguably, China's authority had been increasingly confronting fierce backlashes from these new interest groups, who had grabbed their power and wealth after 1978, following the initiation of urban economic reforms. These new interest groups, unlike those in the pre-reform era, are able to exploit more resources, e.g. economic and political ones (see Fig 23), to adjust subsequent reforms, which may deprive them of their existing privileges. The confrontations between these existing interest groups and pro-reform authorities can therefore result in income disparity, social inequality, and concentration of wealth (see Fig 7). The foregoing argument, which essentially demonstrates the reform context in China, will be justified through the interviews to HNWI's in China.

In China, the transformation from planned economy to market economy not only symbolizes the institutional changes but also reforms people's interests. This perspective exactly indicates the emphasis of China's institutional changes because any economic system whether market economy or planned economy is composed of a particular series of allocation and ownership of resource. In this regard, the fundamental institutional factors of any economic system are (1) the institutional arrangement of possession of resource (property rights system), (2) the institutional arrangement of allocation of resource (economic system) and (3) informal institutional arrangement of economic system (morality, convention, ideology). Moreover, the economic system is a kind of institutional arrangement that not only arranges the competition and cooperation among different economic organizations (individual, family, village, company, or entire society) but also resolves conflicts of allocation and possession of resource.

The scarcity of resource is the foremost premise of resource allocation. The pattern of allocation decides the mode of ownership of scarce resource. As described in section 1.1, institutional change in China is a series of re-allocation and re-distribution of scarce resource, therefore, the ownership right of scarce resource becomes fundamentally critical. Demsetz (1988:21) argues that ownership right consists of two vital components, alienability and exclusivity, the former refers to the right to re-assign ownership to someone else and the latter refers to the right to determine who may use the scarce resource. In this sense, who else has the ownership right of the scarce resource also has the right to offer for sale at any price and no one other than the “owner” can use the scarce resource. In China, those de facto owners (bureaucrats and cadres) of public or state properties (scarce resources) have the right to sell them at any price as well as to determine who may use them because they control the interpretations and implementations of allocations and possessions of scarce resources. Therefore, these people are the most likely modern HNWI in China. The previous statement can be justified through my research conceptual framework (see Fig 23) and corresponds to the evolution of reform (see Fig 23).

Up to now, I have elucidated China’s economic reforms, which essentially embodied institutional changes and played a critical role regarding the emergence of modern HNWI. Because the economic system is the dominant mechanism for production and distribution of wealth, people who command the economic system can possess the scarce resources and therefore have more opportunities to become HNWI. As Alchian and Demsetz (1973) propose, property rights actually define people’s positions and the relationship between economy and society while people employ scarce resource in a society. Furthermore, they (Alchian and Demsetz 1972) deem property rights as a bundle of rights instead of any single right. In China, certain parts of this bundle of rights, e.g. alienability and exclusivity, were deliberately grasped by CCP during the economic reforms because they retained the mentality and restraint of planned economy that essentially control the allocation and distribution of resources. Finally yet importantly, there were no private property rights before the economic reforms in terms of resources, e.g. house, land, car, etc.

Private property rights were bestowed on people by CCP after the economic reforms; however, the retroactive legality was exclusively interpreted and implemented by senior state agents and CCP cadres. In this sense, they can directly transfer public or state property to favourable recipients, who have better relationships with or can benefit those incumbents, and benefit themselves or likes indirectly.

Because the state is the only legal organization to exert coercion and potential force to acquire appropriate economic rent (North 1991:204) and people rationally pursue the maximization of personal utility, institutions can, therefore, provide a framework for competition and cooperation in order to retain the economic order for society (North 1981:226). In this sense, governments and state agents have the exclusive rights to make and regulate institutions during the economic transformation that can restrain people's behaviour in terms of the pursuit of personal utility. Thus, these institutions can be made exclusively beneficial to those incumbents and recipients who have rights to design or affect institutions. Under the circumstances, these incumbents are under no obligation to devise incentive mechanism to enhance social efficiencies because they can deliberately devise any favourable institution to grab more power and resources. As CCP wants to attain their specific goals, which are often irrelevant to market competition or social welfare, it and affiliated authorities consistently devise the path or make the decisions for individuals, companies or markets that should be defined as intervention rather than regulation, which is only a guideline or rule for people to follow or framework for market competition that people operate social activities under these rules.

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In China, many counter-competitive or monopoly-like policies restrain the competitiveness of privately owned enterprises. In the 1990s, for example, the government considered that there was redundant manufacturing and cutthroat competition in the industries of DVD player, white goods and colour TV, and so, the administration introduced a series of price-control mechanisms to control market prices so that any price-reduction had to be reported to and justified by the authorities. As well, government repeatedly introduced various mechanisms in

recent years to restrain housing prices, to little effect. These contradictions are mainly derived from the triple roles of the state as (1) the administrator of society, (2) the administrator of the market, and (3) the owner of enterprise. Under these circumstances, it is difficult for any government to avoid conflicts between these roles. In fact, governments not only have more power after combining these three roles but also intervene in the market operation deliberately.

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This is due in part to those people who benefit from these regulations trying to strengthen them in order to retain their existing interests that is known as the *Capture Theory (Economic Theory of Regulation)* (Stigler 1971). Stigler deemed that some regulators and regulated subjects eventually become supporters of regulations and will try to make excuses to create more regulations that are usually implemented under the disguise of the maintenance of social order, market stability, or public interests, to protect their existing interests by exploiting their power. In this sense, these interest groups may fabricate various reasons to justify their means that market is incomplete and need more regulation. As long as there is no public supervision to oversee China's state agents, this monopoly power hardly can be challenged or threatened even though these agents' purposes of utility maximization are not compatible with those of the majority.

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After late 1978, fractional reforms were initiated in rural areas on a small scale that obtained excellent results. From 1990 onward, sweeping reforms were implemented in urban areas that largely privatized public assets through arbitrary private property rights, resulting in unprecedented and unexpected ill effects, e.g. collapsed health care and social security systems, surging housing price, injustice wealth allocation rather than income disparity, and the emergence of HNWI's with Chinese characteristics. All these consequences are sequentially connected to each other in a way that symbolises my research proposition – namely, the introduction of distorted and vague private property rights brought forth those HNWI's in China after sweeping economic reforms. In other words, China's reforms embody the transition

from control right to ownership right with Chinese characteristics that is low individual costs for those emerging HNWI's but high price for the entire society.

The preceding argument, however, is not inferred between categories, which are based on separate events, but rather on the corresponding links in the data. That is to say, links per se should be regarded as a kind of "connecting mechanism" (Sayer 1992:18) between events that people in China have experienced, e.g. why private property rights were largely introduced; when sweeping reforms started in urban area; what public assets were privatized after sweeping reforms; how HNWI's emerge after sweeping reforms. In the era of command economy, there was no due market value attached to those public assets in China that subsequently became valuable after reforms, e.g. factories, land, dwellings, industrial output. After late 1978, fractional market values were added to these public assets while reforms were initiated in rural areas. In order to unleash the potential economic power to strengthen and continue the legitimacy of CCP's regime, political leaders increasingly privatized a large number of public assets through arbitrary private property rights. As a result, sweeping reforms essentially increased economic growth in China after 1990; however, those people who held power were able to manipulate the privatization through the exploitation of distorted private property rights, without adequate supervision and appropriate legality and become HNWI's in China.

Nonetheless, these existing elites have to constantly vie for scarce resources or defend the legitimacy of their own alternative resources in order to manipulate the privatizing process to protect their existing privileges from emerging rivals who have long coveted any chance to grab these privileges (see Fig 9). In fact, the preceding process has resulted in many devastating effects, e.g. empty property rights (lack of alienability, exclusivity, and tenure), inadequate bank autonomy in management, too many non-performing loans, lack of competition mechanism and unfair layout. In my view, if we consider these problems in all aspects, empty property rights arguably are the main cause of the remaining problems. In general, property is consisted of real property and virtual one. The former is money, land, buildings or other tangible property; the latter mostly exist in the political domain, e.g.

sovereignty of the people. In fact, people, who are under the rule of government, hold all the rights that were conferred by government. However, these rights in China were otherwise obtained by CCP. In terms of private property rights, China's government hardly protects the major components (alienability, exclusivity and tenure) to the utmost. Consequently, the empty property rights result in quasi-absentee-owners that de jure but not essentially, because their private properties still can be taken away by potentates without justification after reforms.

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There are two pro and con examples in transitional China that precisely represent the above arguments with regard to the roles of entrepreneurs. First, Deng Xiaoping, a political entrepreneur, essentially had more extensive ties to different political factions than Hua Guofeng, who was then President of PRC and held all top political positions did. However, people may wonder if Deng's sense of mission, voluntary whims, or creative genius stimulated him to initiate reforms or there was more to be said. In my view, it was Deng's supreme position within CCP enabled him to commence economic reforms rather than other considerations. Deng essentially had charisma or talent in terms of leadership; however, personal qualities are insufficient to make reforms stick in then factionalism atmosphere. Based on the Conference Communiqué of the Third Plenary Session of the 11th Central Committee, Deng acquired support from most senior party cadres and then started to initiate reforms. Because he was a senior CCP member since the Great March in 1934 and had held various positions in the central CCP previously, Deng could have far-reaching connections beyond his immediate social, organizational and institutional location. As such, Deng's institutional location provided him with wide range of innovations that could be imagined cognitively, and he therefore had a wide range of innovations that would be normatively appropriate or legitimate (Campbell 2004:75) in China. In general, Deng's position helped him slot his demands for institutional change into the prevailing normative context of China.

APPENDIX 1

First interview

Interviewee: Mr. G

Age: 35-40

Gender: Male

Non-cadre

Electronic Industry

Post-reform Generation

Natural Meaning Unit	Central Theme
<p>1. In principal, large enterprises have their own ways to adapt to institutional changes. For small-medium enterprise (SME), they could only try to follow the existing institutions, but cannot absolutely assure that they obey all regulations because of bounded capability.</p>	<p>1. In China, unlike large enterprises, SMEs can only follow existing institutions.</p>
<p>2. At this moment, China, in all aspects, are prosperous that resembles Taiwan between the late 70s and the end of 80s.</p>	<p>2. China is prosperous and resembles Taiwan between the 70s and 80s.</p>
<p>3. In fact, I do not feel many institutional changes since the establishment of my company (2004). If I really have to say, the China's government will propose a general directional institutional change without any detail. Maybe the reforms and openness can be regarded as a large change, but I did not experience it myself because I was too young. Maybe there is any institutional change, however, I do not feel it because my company is not big and therefore cannot be affected.</p>	<p>3. Institutional changes in China is lacking of prior planning.</p>
<p>4. Nevertheless, I do feel some encouraging institutional changes recently, e.g. protection of national industries, support domestic enterprises, etc. These changes are more constructive than previous one that emphasis on virtual industries, e.g. Internet, trade company.</p>	<p>4. G agrees with some institutional changes, which partially benefit his company.</p>
<p>5. Because of the expansions of domestic demand, we, as a SME, hardly feel anything about the financial crisis. However, banks remain very strict to SMEs and request collateral for any loan. It is unlike the loans to SOEs, they can easily get billion yens. To state banks, whether a million or billion loan, they are same jobs in terms of the audit, regulation, or procedure. In China, it is very difficult to get any bank loan for SME, unlike the ones in Taiwan or Western countries.</p>	<p>5. It is very difficult for SMEs to get bank loan in comparison with SOEs or large enterprises because of discrimination.</p>
<p>6. China's SMEs resemble the government in many aspects. They all, for example, adopt the way of "crossing the river by feeling the stones";</p>	<p>6. G positively regards the lack of prior preparation as the flexibility in terms of institutional changes in</p>

Natural Meaning Unit	Central Theme
<p>therefore, they never have any specific blueprint, plan for the task, or have their preparations in one-step. In this regard, any repeat or waste becomes inevitable, but it is worthwhile because they would not invest a lot in the first place.</p>	<p>China.</p>
<p>7. What I just mentioned that is the China's model. Maybe we are not so strong in the first place, but we have the backwardness advantages, which can save us lots of time and money, eventually, we can exceed the Western countries or companies. This is our underlying advantage comparing with other countries.</p>	<p>7. G regard that China fully utilizes her backward advantage and will exceed other countries.</p>

APPENDIX 2

Second interview
Interviewee: Mr. H
Age: over 40
Gender: Male
Non-cadre
Conventional Industry
Post-reform Generation

Natural Meaning Unit	Central Theme
<p>1. No matter what, I do believe China is the biggest market in the world. The domestic demand will be the largest one in the world. Therefore, we do not need to grab the seat in those countries with economic bubbles, e.g. Japan, USA. The development of China in recent years are largely improved, especially the domestic demands derived from the improvement of living standards of China's populace. We can find that the Western companies and countries eager to jump on the prosperous bandwagon to China. China has demonstrated her strong economic power to the world in the last decade.</p>	<p>1. H thinks that people just need to focus on China instead of other countries because of the huge domestic market. He also believes has presented her strong economic power for a decade.</p>
<p>2. Many companies, however, set up their manufacturing capacities in China for foreign demands by utilizing the cheap labour forces and neglect domestic market. In this regard, they cannot reap the reward of economic growth, especially after the increasing shortage of cheap labour force. They did not see and expect the swift changes beforehand.</p>	<p>2. H deems that the mode of utilizing cheap labour force for exporting is no longer practical. He yet again emphasizes the huge domestic market.</p>
<p>3. In China, if you want to be successful in your own professional field, you have to become the number one because it is extremely competitive in China's market. If you are not the number one, you will either be marginalized or have to reduce your profit to survive owing to the crowding-out effect.</p>	<p>3. H believes that being the strongest is the only way to be successful in China's market.</p>
<p>4. In the food industry, China's government set up a series of strict regulation to eliminate the irregular ones and protect the qualified companies. However, these regulations are without effect to those copycat products. Their products are the same as ours, except the telephone number. Local governments will only do all their best to crack down those counterfeit products for those famous companies, e.g. Master Kong, Wahaha, Coca Cola, Mont Blanc, Channel, but not for ordinary companies. We have to crack them down by ourselves. In fact, this rule can be applicable to many government issues.</p>	<p>4. H thinks that local government cannot effectively prevent SMEs from illegal activities.</p>

Natural Meaning Unit	Central Theme
<p>5. In another word, in China, people are equal before the law but not behind the law. Everything becomes too intricate behind the law. Nevertheless, the credibility and position of law and the quality of officials have been improved dramatically in terms of business environment, but not in other places.</p>	<p>5. H believes that the position and quality of the laws and enforcers have been improved only in business environment.</p>
<p>6. After all, China considers her international image since she became rich. In the past, they did not care too much about the image as long as they had money.</p>	<p>6. China government pays more attention to her international image after economic growth.</p>
<p>7. However, China government will ignore the economy and implement all possible means at all costs once political interests could be jeopardized. In my opinion, we do not expect any institutional change would be helpful to us permanently. People eventually have to pay a high price for any transitorily favourable institution because there is no consistent or coherent policy of institutional change in China.</p>	<p>7. China government will retain control of regime at the cost of economy. Any favourable institution comes with high cost and is never permanent.</p>

APPENDIX 3

Third interview

Interviewee: Mr. Q

Age: 55-60

Gender: Male

Previous Bureaupreneur and senior cadre

Conventional Industry

Pre-reform Generation

Natural Meaning Unit	Central Theme
<p>1. I have experienced the transition from planned economy to market economy and regard the reform and openness as the second regime of China, and the country would otherwise fall behind without them. If people look back, they can comprehend that reform is necessary and both Deng's path and insistence are right. Seclusion will only lead the country to death, just like the Qing dynasty.</p>	<p>1. Reform and openness is imperative for China's survival.</p>
<p>2. There once were serious debates in higher lever, however, theory and practice are extremely different in terms of reform and openness. When the municipal party secretary initiated the reforms, he must already get approval from someone among the central leadership. This is a matter of principle because CCP attach great importance to principle.</p>	<p>2. Reforms were not consistent and have to be endorsed by higher rank political leader.</p>
<p>3. As every movement in China, they initially put forward a slogan of "not seeking ownership, but seeking whereabouts" that local authorities did not want to own the SOEs but keep them staying there. Therefore, the corporate tax still can be levied by local authorities and make local prosperity.</p>	<p>3. Sloganeering is vital in China and consists of important meanings.</p>
<p>4. In my opinion, the main purpose of reform and openness is to change people's perspectives, especially those of CCP cadres. Once the perspective altered, the improvement and growth of economy will be the matter of time. For example, there are many people like me becoming rich overnight after reform.</p>	<p>4. Reforms were mainly used to change the mentalities of party cadres. Once the mentality has been changed, everything becomes improved.</p>
<p>5. Of course there are many political leaders are jealous, but this is the result of reform. As always, CCP initiate every movement with a typical model, so does reform. In our province, unlike a universal model in other areas, CCP put forward the "one policy for one plant", which is a scientific</p>	<p>5. Political leaders did envy the success of HNWIs. There is no single model for reform in China. It varies from one place to another.</p>

Natural Meaning Unit	Central Theme
<p>approach and actually activate then doom economy.</p>	
<p>6. The status quo of then SOEs was generally in deficit. If you deduct that negative equity, those SOEs had nothing at all and no one else could get any penny back. Thus, banks had to hang their bad debts on their accounts until these SOEs, or the restructuring enterprises, make profits.</p>	<p>6. Before reforms, most SOEs were insolvent and heavily relied on the assistances of state banks; all debts can only be paid off through reforms.</p>
<p>7. As for the redundant labours, new enterprises had to lay off them within an approved range, e.g. 5% per annum in my company. Those local authorities also worried if we lay off all labours and sold the properties, e.g. land, buildings, machinery.</p>	<p>7. Restructuring enterprise has to deal with the issue of redundant labours because CCP repudiate their commitments to those labours.</p>
<p>8. Not all transitions, however, were successful. Some political leaders had serious interest conflicts with plant managers; therefore, they were frequently replaced and resulted in poor efficiency. In general, unlike those heavy industries in Northeast provinces, all SOEs including collective-owned enterprises and TVEs were gone in one year once the direction of reforms was made in our province.</p>	<p>8. Some restructuring SOEs wound up in failure because of state intervention. Except heavy industrial SOEs that cannot be transferred owing to large debt, most SOEs or likes were restructured once reform direction had been decided.</p>
<p>9. Nowadays, from the central government to local village, they all are economy-oriented instead of the class struggle oriented. In my opinion, China is definitely with market economy or a quasi-capitalist country. However, the path of reforms is not as smooth as it is now. Between 1989 and 1992, I was worried about the direction and path of reform. However, I do believe that the development has to go on and cannot stop.</p>	<p>9. China almost is a capitalist country now unlike 1989-1992. Nevertheless, openness has to be carried on in China.</p>
<p>10. In China, the slogan of movement is very important and has to be loud and clear to let populace understand. Deng then proposed the "Capitalism with Chinese characteristics" and "development is the absolute principle" that were apparent and indicated the direction without a doubt.</p>	<p>10. Sloganeering is vital to promote any political movement in China.</p>
<p>11. For those Western capitalist countries, they have spent three hundred years to reach existing economic positions. We only spent three decades to juxtapose with them. This is the advantage of backwardness advantage and we should take advantage of it.</p>	<p>11. The tempo of China's transition is swift and adorable that exceeds what Western countries did hundreds years ago because of backward advantage.</p>
	<p>12. China should not accept all Western institutions because</p>

Natural Meaning Unit**Central Theme**

12. In China, some people advocate the multi-party competitive democratic system that will bring this country to a dead end. For example, the unemployment benefits and pension systems in the Western countries make their countries uncompetitive and none of those political parties can change the status quo.
 13. I would say most China's people agree the existing political system and regard the multi-party system will destroy what we have now. This existing model actually plays the role that guides China on the right track. We have our own flexibility, e.g. one policy for one plant, which is very successful; therefore, it is unnecessarily for us to take the wholesale westernization in our reform.
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some of them are awful or inapplicable to us.

13. China should adhere to the existing road, which has led us to the existing success, and neglect those inapplicable Western models.

APPENDIX 4

Fourth interview

Interviewee: Mr. N

Age: 55-60

Gender: Male

Incumbent bureaucrat and senior cadre

Conventional Industry

Pre-reform Generation

Natural Meaning Unit	Central Theme
<p>1. The holding company of this SOE, which was established in 1986 and was only a factory of SOE, is Shanghai Building Materials Group (SBMG), which is another SOE. This SOE was established followed the planned economy system even though reform already initiated seven years ago.</p>	<p>1. Some SOEs were established after reforms but they still followed the planned economic system.</p>
<p>2. Undoubtedly, the efficiency of this SOE was terrible before I was assumed to the post. SBMG wanted to sell this company to foreign investors or JV with them in early 1990s. Nonetheless, then intensity of FDI was not very strong and SBMG could not find any interested investor or buyer and that is the reason why this is the only SOE in the industry nowadays. The rest SOEs in this industry were insolvent and the reason to result in their insolvencies mainly because of poor management and outdated technology.</p>	<p>2. SOE remains inefficient if there is no change, whether structure or management, and will end up with sale or insolvency.</p>
<p>3. I have been assumed to this post for nearly ten years and there was very little profit in the company then. The scale, revenue, and profit are completely different from what we had in ten years ago. Before 2005, this company remained shaky because the business direction was not clear owing to the higher rank management.</p>	<p>3. SOEs with efficient management will also become lucrative.</p>
<p>4. In 2005, the higher authority once wanted to sell the company to foreign investor. I sent an analysis pro and con to higher management regarding this transaction. They finally took my advice and I therefore initiated the management restructuring since then. By the end of 2010, we will have the most profit after tax in this industry and I receive higher income than many foreign peers, who work at the same trade, do.</p>	<p>4. Most SOEs in China were destined to be sold to private individuals or FDI because of inefficient and incapable management. With decent management, SOEs can benefit both employees and the state.</p>
<p>5. SOEs are generally regarded as inefficient; however, this inefficiency is mainly derived from poor management but not because of the corporate structure, e.g. shareholding, state-owned, private-owned, or foreign-owned. An efficient and practical management, from my</p>	<p>5. The reason that results in inefficient SOE is the poor management but not the corporate structure. A SOE with efficient and practical management, which varies according to time and place,</p>

Natural Meaning Unit	Central Theme
<p>perspective, should vary in accordance with the time and the place.</p>	<p>can also makes lots of profit.</p>
<p>6. To my way of thinking, the worst problems in SOE are, in my opinion, the labour and financial issues. Most labours are not highly educated and reluctant to learn new skills and were assigned to this SOE while they were at early twenties because of the full employment policy. Now, governments repudiate all responsibilities for these labours and let them run their own courses. Hence, I have to deal with this issue and take care of those labours appropriately, otherwise, there will result in huge social problems.</p>	<p>6. The most prolonged problems of SOEs are redundant labors and unrestrained financial policies. During restructuring, governments pass the buck to the SOE itself and repudiate all their commitments.</p>
<p>7. As for the financial problem, they mainly resulted from depreciation and the bad debts, which were caused by other SOEs. After financial restructuring, the asset quality of this company is very high.</p>	<p>7. Bad debts of SOEs resulted from unpaid bill of other SOEs.</p>
<p>8. People wondered why we did not take over this company. It is not easy to transfer SOE to private-owned enterprise in Shanghai because the municipal government, on one hand, is very cautious and tries to avoid doing anything that may arouse suspicion, and Shanghainese labours, on the other hand, have higher rights awareness than others.</p>	<p>8. There is no universal rule of corporate restructuring in China that varies from one place to another.</p>
<p>9. Because the higher management can redeploy me at any moment, therefore, I maintain the state of mind to leave. Although the performance of any company is not its corporate structure but rather the corporate culture and management, SOE manager still need to double the effort to improve the performance because CCP obstinately stick to regulation and procedure. Most of the time, regulation and procedure are the obstacles to implementation because SOE is not free of unnecessary interference during implementation.</p>	<p>9. State interventions have seriously affected the performances of SOEs and the implementations of their managers.</p>

APPENDIX 5

Fifth interview

Interviewee: Ms W

Age: over 60

Gender: Female

Previous senior cadre

Housing Industry

Pre-reform Generation

Natural Meaning Unit	Central Theme
<p>1. In 1985, I was assigned to the State Bureau of Surveying Mapping, which was merged to the Land and Resources Bureau in 1998, as a surveying engineer. With few former colleagues and superior, we initiated our company in the late 1997 when we learnt the allocation of welfare-oriented public housing would cease in next year.</p>	<p>1. During transition, many previous civil servants started up their own companies because of asymmetric information.</p>
<p>2. At the very outset, my company was focusing on the buy-and-sell of existing public housing and had primitive accumulation of capital within the first three years. We then involved in the auction of land-use right from 2002 and made our capital hundred-fold in short period because only very few companies involved in that industry.</p>	<p>2. Because of lots of insider information, previous civil servants can find unique niches in the market to make profits.</p>
<p>3. I never deny that I have close connections with people working in related state agencies and regard these connections as friendship rather than collusion although that involves money. It is not possible for anyone to risk their lives to help friends but not at a price.</p>	<p>3. Connecting with incumbent state agencies is essential for business operations and is difficult to be built without prior acquaintance and monetary transactions.</p>
<p>4. So far, we seldom involve in substantial housing development projects but mainly focus on the buy-and-sell of land-use rights because of long period and uncertainty. We sometimes have package deals that entail construction permits and the land-use rights.</p>	<p>4. With adequate connections and insider information, people remain access wealth without substantial financial investment.</p>
<p>5. I have to say that nobody can access wealth if there was no reform and openness in the late 1970s. As Deng Xiaoping said, reforms can make some people getting rich first; consequently, these rich people can push forward the economic growth. In light of Deng's argument, we are those people who get rich first.</p>	<p>5. W accredits her wealth to Deng's reforms and regards herself as one of those people who get rich first.</p>
<p>6. In 2004, because of the soaring housing price, correspondingly, it pull the land-use right surging and make our profit no longer attractive. We therefore formed a syndicate to lobby various state agencies for controlling housing</p>	<p>6. In China, many HNWI are low profile and can overcome adversities by utilizing their diverse connections.</p>

price; hence, there were serious conflicts between those housing developers and us. Because we always had our business operations behind the scenes, populace therefore put their foci on those housing developers instead of us. Subsequently, we utilized the public media and academia to deepen the anger of populace regarding the soaring housing price. In order to quell public outrage, the State Council eventually initiated housing price control nationwide. Consequently, the control was again on our hands.

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| <p>7. In general, people in our industry are different from those in the housing industry. Except for adequate capital, sufficient connections with various agencies and bureaucrats are imperative in our business.</p> | <p>7. In some industries, it is difficult to become successful without adequate connections.</p> |
| <p>8. Unlike those entrepreneurs in the manufacturing industry, we are, to some extent, like raw material suppliers or coal miners. We pay government to get the land-use rights and housing developers therefore pay us for the land-use rights and build their houses. Like coal miners, we are not the only two speculators in the market. However, we are with very light burden of labour cost.</p> | <p>8. Some China's HNWI's, who are essentially one-man band, make lots of profit through speculations in public resources.</p> |
| <p>9. Nevertheless, people have rights to make money with planned schemes and correct implementations as long as the market is with free competition. This is the core spirit of free market and no one should and could blame us. We may influence the trend of housing market but only government can decide where it should go. We are normal people who know better about how to utilize the opportunity.</p> | <p>9. No one should blame HNWI's' opportunistic practices because China is a market economic country.</p> |
| <p>10. I do not think there will be any change in the political system in my life. People do not comprehend how complicated the structure of CCP is and how difficult to operate this giant political machine. Too many parts compose this machine and we are only few small bolts. Perhaps we are vital to the machine, but we still are bolts and can be replaced by those peers in the market if we are not wary enough.</p> | <p>10. Bureaucratic HNWI in China regards s/he-self as trivial in the huge political machine and does not believe that there will be any change on the existing model because the complexity of CCP.</p> |
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APPENDIX 6

Six interview
 Interviewee: Ms Z
 Age: 55-60
 Gender: Female
 Non-cadre
 Housing Industry
 Pre-reform Generation

Natural Meaning Unit	Central Theme
<p>1. In my opinion, the real “reform and openness” were initiated in the early 1990s, before then were mainly trials-and-errors or agricultural reforms. Why do I say that? When Deng Xiaoping carried out his Southern Trip in 1992, people just dared to remove those pseudo collective-owned camouflages. Those collective-owned and TVEs all became private-owned enterprises overnight.</p>	<p>1. Technically speaking, reforms were initiated since 1992 after Deng’s visit to Shenzhen. Nearly all collective-owned enterprises and TVEs became private-owned.</p>
<p>2. Within these transitions, there are full of imperfects and loopholes and we actually share the benefits from them. Who made these imperfects and loopholes? It is not the government because it is not any living being but those people who control the government, e.g. bureaucrats, party cadres, and other interest groups like us.</p>	<p>2. HNWI made her profit through institutional holes, which created by state agencies, cadres, and interest groups.</p>
<p>3. People think that bureaucrats were highly educated in recent years; however, they simply follow their predecessors but with more sophisticated schemes and ruthless means to restrain the populace. For example, the nationwide land auction should be put in effect in 2005 according to the Ministry of Construction; however, the process is capricious and inconsistent because of too many interest conflicts inside.</p>	<p>3. Better education and sophisticated administration do not improve the performances of state agencies in China.</p>
<p>4. I was not well educated and became the self-employed since 1993. I would say that I do not have any fluke mind but just simply follow the opportunities (institutional change) to run my business. You may say these opportunities derived from those faults (imperfects and loopholes). People who can make real money in this country are those who know how to make use of these faults. They are not bad people but just foresee the opportunities. Some people just do not know how to make use of them even the opportunities were in front of them.</p>	<p>4. HNWI is not well educated but just know how to utilize the opportunities by making use of institutional holes in comparison with ordinary people.</p>
<p>5. For those regulations, they are not set up to restrain those people who know how to make use of faults; on the contrary, those regulations</p>	<p>5. HNWIs will never be restrained by any institutions because they already knew how to cope with</p>

Natural Meaning Unit	Central Theme
<p>are set up to restrain ordinary populace. We will never be restrained by these regulations because we already know the loopholes before regulations are promulgated.</p>	<p>that.</p>
<p>6. In my opinion, China has more critical regulations than other advanced countries in terms of curbing speculation, however, government hardly comprehensively implement these regulations because of chronic ideologies, which are not proletarian or communist ideologies but ideologies accumulated of thousand years, e.g. to drift and muddle along, emperor mentality, etc. For example, there were several self-immolation incidents nationwide owing to the violent and forbidden demolition. The causality is that housing developers always have to give tributes to local officials; however, bureaucrats have to make sure all preliminary works are well prepared and bureaucrats have to demolish all existing ground materials. The controversial point is the compensation. For those bureaucrats, they regard the previous public housings were sold to those ordinary people with great favours. On the other hand, populace already paid for these housing and regard them as their lifetime properties. Nevertheless, no one is allowed to take away other people's properties without appropriate compensation because of the law. However, government, on one hand, are the law enforcers, on the other hand, they are surveyors to decide the amount of compensation. As a result, the tragedy happened.</p>	<p>6. Any strict regulation cannot offset the ineffective implementations of state agencies that follow many chronic ideologies. These chronic ideologies result in many serious social problems and instabilities. In addition, lacking of fairness and justice, bureaucrats can act on their own wills without punishment.</p>
<p>7. In my opinion, the cost is too high for people making money derived from such cruel environment. That is why I want to make less money in a better place with more reasonable institutions.</p>	<p>7. HNWI can no longer afford the cost of making money in China and plan to leave.</p>
<p>8. If governments do not change their concepts, ideologies, and behaviours, populace will eventually become rebels and incur unexpected comprehensive rebellion.</p>	<p>8. China will encounter large discontents if there is no change on existing system.</p>
<p>9. From my perspective, the laws become less effective and money becomes more effective since 2000. The laws enforcers just blur the line between right and wrong and many rich people do not regard breaking-law as a shame. On the contrary, they do deem breaking-law as a social status, the more crimes they committed without punishment, and the higher social status they are.</p>	<p>9. Many people do not have the concept of rule-of-law, especially those upper class people and law enforcers.</p>

Natural Meaning Unit**Central Theme**

10. In my opinion, the best period after reforms is between 1995 and 2005. We made money without too many restraints and people would actively help each other without asking returns in advance. After then, people are isolated from each other and the society without cohesion. They only take care of themselves without considering other people, families, and friends. In these days, guanxi (relations) just like some groceries that can be easily bought through money.

10. The golden era of China was between 1995 and 2005. Nowadays, people are isolated from each other.

APPENDIX 7

Seventh interview
 Interviewee: Mr. R
 Age: over 60
 Gender: Male
 Non-cadre
 Mining Industry
 Pre-reform Generation

Natural Meaning Unit	Central Theme
<p>1. I really cannot remember how long I have been involving in the coal mining industry. All my relatives, neighbours, and families of friends and classmates have been engaged in the coal mining industry since I was a kid. Most of them including myself had little schooling and were mineworkers before the restructuring of the exploitation right in our province.</p>	<p>1. R was a previous mineworker and grown-up in the environment highly related to coal mining industry. He and other likes are not well educated.</p>
<p>2. To the best of my knowledge, China has the most coal production, which accounts for nearly 30 per cent of world production. However, China is also the biggest coal-consuming country in the world and accounts for 35 per cent of world coal consumption. Therefore, China is a net import country of coal. The reason results in the net import of coal because it is the most important energy, which accounts for 70 per cent of energy supply in China.</p>	<p>2. Owing to the energy policy, China is a net coal import country although she has the biggest coal production in the world.</p>
<p>3. I know exactly every number regarding coal mining industry like the back of my hand. I regard myself as one of the most ethical miners in this county although people regard us as coal boss (<i>mei-lao-pan</i>). As for the legality, I do not think any miners in this country can completely meet those strict requirements whether they are SOE or private and legal or illegal miners.</p>	<p>3. Although R is not well educated, he has a good command of knowledge relating to coal mining industry. He regards himself as an ethical employer and the regulations of coal mining are too strict in China.</p>
<p>4. Nonetheless, I have to close several small coalmines, each of them has less than 400,000 tons production per annum, and lost RMB150 million per year for each coalmine because of the provincial consolidation of small coal mines.</p>	<p>4. R complains about the consolidation of small coalmines that results in huge profit loss.</p>
<p>5. I would like to say that the ownership right in this country is useless because government can take away your ownership anytime by means of any high-sounding excuse.</p>	<p>5. R regards the implementation of ownership rights as useless that can be changed.</p>
<p>6. What can I say? After all, they just take away something that they gave to us beforehand. They presume that we have made enough profit through them and it is the truth.</p>	<p>6. R regards that his properties were given by governments, therefore, they can take back after certain time.</p>
<p>7. In fact, we have many extra costs that nobody</p>	<p>7. Because coalminers are high</p>

Natural Meaning Unit	Central Theme
<p>knows, e.g. tribute to local and central administrators, law enforcers, fire safety department, media, and even academia. You probably would not believe that a local patrol chief owns a Rolls Royce and other dozen cars worth millions. This is only a tip of the iceberg. We actually are the prey to everybody.</p>	<p>profile, they have to pay for many extra costs and nobody knows about it.</p>
<p>8. I think that we cannot blame them because we do have earned a lot of money through the coal mining. I just want to complain of the implementation of property right in terms of CCP that they gave you something and consequently take away it from you because of some ridiculous and unacceptable accounts.</p>	<p>8. R does not complain too much about paying for the extra cost because he has earned enough profit. He yet again complains CCP and the weak protection of his property.</p>
<p>9. CCP just do everything without preliminary preparation and study, and always adopt the trial-and-error model. As a ruling party, this is not right and cannot be accepted at all.</p>	<p>9. R complained that CCP, as a ruling party, never prepared before initiating any policy change.</p>
<p>10. In next year, we are forced to sell all our coalmines to a big private company and other SOEs. This is backward transition actually against Deng's reform and openness policy and I presume he will never agree with that if he was alive. Anyway, in next year, my family and I will move to other country after selling my business.</p>	<p>10. R is forced to sell his coalmines to other SOEs and conglomerates.</p>

APPENDIX 8

Eighth interview
 Interviewee: Mr. Z
 Age: 55-60
 Gender: Male
 Previous bureaupreneur and senior cadre
 Mining Industry
 Pre-reform Generation

Natural Meaning Unit	Central Theme
<p>1. I was first assigned to the Ministry of Geology and Mineral Resources in 1987, which was merged to the Ministry of Land and Resource in 1998, and transited to the Department of Minerals Exploitation Administration, which is a subordinate unit of the Ministry of Land and Resource, in 1999. In the end of 2000, I was redeployed to a government-affiliated institute that helped provincial government to survey all coalmines in terms of safety and productions.</p>	<p>1. Z was a bureaucrat before initiating his own business in a related industry.</p>
<p>2. In 2001, I acquired this small institute and the exploitation license from province through corporate restructuring movement. Meanwhile, I rented some pervious state-owned coalmines through the restructuring of provincial coal mining market. That is an epochal transition in terms of property rights that government actually attributed the public properties to the populace.</p>	<p>2. Z acquired his existing company and affiliated valuable permit and information through SOE restructuring.</p>
<p>3. Because I have engaged in related works for a long time, I therefore know exactly which coalmines are with best quality and can be exploited less costly. Unlike many other illegal coal miners (<i>mei-lao-pan</i>), who have to worry about their status quo and need to give tributes to many agencies and law enforcers, we can focus on the coal mining per se and hire more sophisticated technologies.</p>	<p>3. Because of insider information, Z initiated his company with lots of advantages that is on the right track without any delay in comparison with other companies in the same industry.</p>
<p>4. In 2004, we successfully merged several small-medium coalmines, each has annual production approximately half million tons, through the provincial restructuring of coal mining industry. Frankly speaking, we used to experience certain illegal mining in my company, e.g. multitude of coal-pit with the same permit, beyond-boundary exploitation; however, all these issues have been resolved after the provincial consolidation of mining industry.</p>	<p>4. With lots of valuable information that nobody has, Z overcame problems that other people of the same profession encountered and accessed wealth effortlessly.</p>
<p>5. Apart from that, we expect to start exploiting in Xingjian province after the completion of nationwide railway network in 2015. In comparison with Xingjian, our coal reserve is</p>	<p>5. Owing to that financial foundation laid before, Z expands his business operations efficiently.</p>

actually trivial. Therefore, I also expect the price of thermal coal will drop after 2015; however, I will not worry too much because the large-scale exploitation in Xingjian can reduce the mining cost dramatically.

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| <p>6. In this year, owing to the consolidation of coalmines, there were 10 per cent slump in the annual coal production and therefore resulted in the surging price of thermal coal for 170 per cent. I assume the provincial and nationwide consolidation of coal mining industry is the only way forward regarding the improvement of mining production, safety, and technology.</p> | <p>6. With inherent advantages, assistances of state policy, and technical power, Z then acquires other small competitors to extend his business nationwide.</p> |
| <p>7. As for those illegal small coalmines, they should be shut down at once in order to maintain industry standards and avoiding more tragedies. There are more than 80 per cent fatalities of coalmines worldwide are happened in China but we only account for 30 per cent of world coal productions.</p> | <p>7. Z states the reason to consolidate the industry.</p> |
| <p>8. From my perspective, to keep only few large enterprises, whether private or public, in this industry is the only means to ameliorate the efficiency, increase the productions, and resolve the chronic problems.</p> | <p>8. Z advocates the monopoly on his industry plausibly.</p> |
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APPENDIX 8-1

Essential Descriptions and key terms of all interviewees

	Essential Descriptions	Key Terms
1	In China, unlike large enterprises, SMEs can only follow existing institutions. China is prosperous and resembles Taiwan between the 70s and 80s. Institutional changes in China is lacking of prior planning. G agrees with some institutional changes, which partially benefit his company. It is very difficult for SMEs to get bank loan in comparison with SOEs or large enterprises because of discrimination. G positively regards the lack of prior preparation as the flexibility in terms of institutional changes in China. G regard that China fully utilizes her backward advantage and will exceed other countries.	<ol style="list-style-type: none"> 1. Biased treatment 2. Unplanned institutional changes 3. Flexible institutional changes 4. Backward advantages
2	H thinks that people just need to focus on China instead of other countries because of the huge domestic market. He also believes has presented her strong economic power for a decade. H deems that the mode of utilizing cheap labour force for exporting is no longer practical. He yet again emphasizes the huge domestic market. H believes that being the strongest is the only way to be successful in China's market. H thinks that local government cannot effectively prevent SMEs from illegal activities. H believes that the position and quality of the laws and enforcers have been improved only in business environment. China government pays more attention to her international image after economic growth. China government will retain control of regime at the cost of economy. Any favourable institution comes with high cost and is never permanent.	<ol style="list-style-type: none"> 1. Huge domestic market 2. Strong economic power 3. Cheap labour force 4. Inefficient protection 5. Vague legal environment 6. Political intervention 7. Precedence of politics 8. High cost for favourable institution
3	Reform and openness is imperative for China's survival. Reforms were not consistent and have to be endorsed by higher rank political leader. Sloganeering is vital in China and consists of important meanings. Reforms were mainly used to change the mentalities of party cadres. Once the mentality has been changed, everything becomes improved. Political leaders did envy the success of HNWIs. There is no single model for reform in China. It varies from one place to another. Before reforms, most SOEs were insolvent and heavily relied on the assistances of state banks; all debts can only be paid off through reforms. Restructuring enterprise has to deal with the issue of redundant labours because CCP repudiate their commitments to those labours. Some restructuring SOEs wound up in failure because	<ol style="list-style-type: none"> 1. Essentiality of reforms 2. Inconsistent reforms 3. Political power 4. Mentality of bureaucrat 5. Diverse reform model 6. Insolvent SOE 7. Redundant labour 8. State intervention 9. Bad debt 10. Direction of reforms 11. Pseudo collective-owned enterprises 12. Sloganeering 13. Swift reforms 14. Backward advantages 15. One-party regime

	Essential Descriptions	Key Terms
	<p>of state intervention. Except heavy industrial SOEs that cannot be transferred owing to large debt, most SOEs or likes were restructured once reform direction had been decided. China almost is a capitalist country now unlike 1989-1992. Nevertheless, openness has to be carried on in China. Sloganeering is vital to promote any political movement in China. The tempo of China's transition is swift and adorable that exceeds what Western countries did hundreds years ago because of backward advantage. China should not accept all Western institutions because some of them are awful or inapplicable to us. China should adhere to the existing road, which has led us to the existing success, and neglect those inapplicable Western models.</p>	
4	<p>Some SOEs were established after reforms but they still followed the planned economic system. SOE remains inefficient if there is no change, whether structure or management, and will end up with sale or insolvency. SOEs with efficient management will also become lucrative. Most SOEs in China were destined to be sold to private individuals or FDI because of inefficient and incapable management. With decent management, SOEs can benefit both employees and the state. The reason that results in inefficient SOE is the poor management but not the corporate structure. A SOE with efficient and practical management, which varies according to time and place, can also makes lots of profit. The most prolonged problems of SOEs are redundant labors and unrestrained financial policies. During restructuring, governments pass the buck to the SOE itself and repudiate all their commitments. Bad debts of SOEs resulted from unpaid bill of other SOEs. There is no universal rule of corporate restructuring in China that varies from one place to another. State interventions have seriously affected the performances of SOEs and the implementations of their managers.</p>	<ol style="list-style-type: none"> 1. Inefficient SOE 2. Planned economy 3. Insolvent SOE 4. Inefficient management 5. Practical management 6. Profit 7. Unrestrained financial policy 8. Repudiation of state responsibility 9. Various reforms 10. Bad debt
5	<p>During transition, many previous civil servants started up their own companies because of asymmetric information. Because of lots of insider information, previous civil servants can find unique niches in the market to make profits. Connecting with incumbent state agencies is essential for business operations and is difficult to be built without prior acquaintance and monetary transactions. With adequate connections and insider information, people remain access wealth without substantial financial investment. W accredits her wealth to Deng's reforms and regards herself as one of</p>	<ol style="list-style-type: none"> 1. Previous bureaucrat 2. Insider information 3. Adequate and essential connections with existing state agency 4. Deng's reforms 5. Get some people rich first 6. Speculation 7. Market economy 8. Sophisticated CCP structure 9. Trivial individual 10. Immovable political regime

	Essential Descriptions	Key Terms
	<p>those people who get rich first. In China, many HNWI are low profile and can overcome adversities by utilizing their diverse connections. In some industries, it is difficult to become successful without adequate connections. Some China's HNWI, who are essentially one-man band, make lots of profit through speculations in public resources. No one should blame HNWI's opportunistic practices because China is a market economic country. Bureaupreneur HNWI in China regards s/he-self as trivial in the huge political machine and does not believe that there will be any change on the existing model because the complexity of CCP.</p>	
6	<p>Technically speaking, reforms were initiated since 1992 after Deng's visit to Shenzhen. Nearly all collective-owned enterprises and TVEs became private-owned. HNWI made her profit through institutional holes, which created by state agencies, cadres, and interest groups. Better education and sophisticated administration do not improve the performances of state agencies in China. HNWI is not well educated but just know how to utilize the opportunities by making use of institutional holes in comparison with ordinary people. HNWI will never be restrained by any institutions because they already knew how to cope with that. Any strict regulation cannot offset the ineffective implementations of state agencies that follow many chronic ideologies. These chronic ideologies result in many serious social problems and instabilities. In addition, lacking of fairness and justice, bureaucrats can act on their own wills without punishment. HNWI can no longer afford the cost of making money in China and plan to leave. China will encounter large discontents if there is no change on existing system. Many people do not have the concept of rule-of-law, especially those upper class people and law enforcers. The golden era of China was between 1995 and 2005. Nowadays, people are isolated from each other.</p>	<ol style="list-style-type: none"> 1. Deng's trip to South in 1992 2. Collective-owned enterprises/TVEs 3. Private-owned enterprises 4. Higher educated bureaucrats 5. Unchanged bureaucratic behaviour 6. Opportunists 7. HNWI will not be restrained by regulation 8. Chronic ideologies 9. Social instability 10. Unfairness and injustice 11. Bureaucratic own wills 12. Cost of making profit 13. Social discontents 14. Rule-of-law 15. Upper class 16. Aloof
7	<p>R was a previous mineworker and grown-up in the environment highly related to coal mining industry. He and other likes are not well educated. Owing to the energy policy, China is a net coal import country although she has the biggest coal production in the world. Although R is not well educated, he has a good command of knowledge relating to coal mining industry. He regards himself as an ethical employer and the regulations of coal mining are too strict in China. R complains about the</p>	<ol style="list-style-type: none"> 1. Peasant labour 2. Property right restructure 3. Less educated 4. Ethical employer 5. Consolidation 6. Monopoly 7. Merged by SOEs 8. Ownership right 9. Wealth distribution 10. Collusion 11. Extort bribe

	Essential Descriptions	Key Terms
	consolidation of small coalmines that results in huge profit loss. R regards the implementation of ownership rights as useless that can be changed. R regards that his properties were given by government, therefore, they can take back after certain time. Because coalminers are high profile, they have to pay for many extra costs and nobody knows about it. R does not complain too much about paying for the extra cost because he has earned enough profit. He yet again complains CCP and the weak protection of his property. R complained that CCP, as a ruling party, never prepared before initiating any policy change. R is forced to sell his coalmines to other SOEs and conglomerates.	<ul style="list-style-type: none"> 12.State agents 13.Weak protection of private property 14.Unplanned reforms 15.Trial-and-error 16.Immigration
8	Z was a bureaucrat before initiating his own business in a related industry. Z acquired his existing company and affiliated valuable permit and information through SOE restructuring. Because of insider information, Z initiated his company with lots of advantages that is on the right track without any delay in comparison with other companies in the same industry. With lots of valuable information that nobody has, Z overcame problems that other people of the same profession encountered and accessed wealth effortlessly. Owing to that financial foundation laid before, Z expands his business operations efficiently. With inherent advantages, assistances of state policy, and technical power, Z then acquires other small competitors to extend his business nationwide. Z states the reason to consolidate the industry. Z advocates the monopoly on his industry plausibly.	<ul style="list-style-type: none"> 1. Previous bureaucrat 2. Insider information 3. Easier start-up 4. Inherent advantage 5. Connections with state agency 6. Business expanding 7. Influenced policy 8. Consolidation 9. Monopoly

Table 6.10 Essential Description of Interviews

APPENDIX 9

Appendix 9-1

Assigned Categories	Formal Constraint
Case Reference	Interviewee #1
A bit of Data	Unlike those conglomerates or SOEs, we, as SME, are in general in compliance with regulations devised by governments.
Text Location	Appendix 1/6
Date	20/Dec/2009
A bit of Data	Before 2008, government still gave many favours to FDI in terms of tax abatement.
Text Location	Appendix 1/22
Date	20/Dec/2010
A bit of Data	It's very difficult for SMEs to get bank loans in China.
Text Location	Appendix 1/23
Date	20/Dec/2009
A bit of Data	In China, banks are biased toward SMEs and favoured SOEs or conglomerates.
Text Location	Appendix 1/23
Date	20/Dec/2009
A bit of Data	Most banks in China are state-owned; therefore, they have lots of red tape and less flexibility.
Text Location	Appendix 1/57
Date	20/Dec/2009
A bit of Data	Government only give bank loans to certain people, e.g. overseas returnees.
Text Location	Appendix 1/65
Date	20/Dec/2009
Case Reference	Interviewee #2
A bit of Data	State agency promulgated extremely strict specifications regarding foods and drugs to regulate these industries and eliminate those less competitive companies.
Text Location	Appendix 2/22
Date	21/Dec/2009
A bit of Data	Unless the superior authorities or those agencies of other provinces or cities involve directly. State agencies will not actively crackdown those counterfeit products once those manufacturers pay adequate bribes to those corresponding agencies.
Text Location	Appendix 2/31
Date	21/Dec/2009
A bit of Data	Local agencies will not clear those backlog of reported counterfeit cases unless they are forced to clear.
Text Location	Appendix 2/34
Date	21/Dec/2009
A bit of Data	We have to draw on the pressure from higher authority to oppress local state agencies in order to reach our goals. Doing business in China, it is more important build up better connections than to understand the laws.
Text Location	Appendix 2/36
Date	21/Dec/2009
A bit of Data	China remains a rule-by-men society. We too exploit this disadvantage to benefit ourselves.

Assigned Categories	Formal Constraint
Text Location	Appendix 2/38
Date	21/Dec/2009
A bit of Data	Everybody is equal before the law is an everlasting law. However, behind the law, people's positions vary with their power.
Text Location	Appendix 2/40
Date	21/Dec/2009
A bit of Data	Corporate regulations are only valid while employees are working within. Once they leave the company, we have to use the law to impose sanction against them.
Text Location	Appendix 2/42
Date	21/Dec/2009
A bit of Data	We still regard the laws positively if we apply them to the right place, e.g. signing contracts, corporate competition.
Text Location	Appendix 2/43
Date	21/Dec/2009
A bit of Data	If we did not pass the inspection, we would be fined a lot of money by state agencies. We knew that would be a big trouble to us. We would approach them and paid bribes when they were off-duty. Say, we were fined fifty thousands Yuan. We paid them one thousand Yuan bribe and they would reduce the amount of ticket to twenty thousands Yuan. This kind of situation has not been improved a lot since 1999.
Text Location	Appendix 2/55
Date	21/Dec/2009
A bit of Data	This kind of extortion is even worst in the inner-land areas because of less transparency.
Text Location	Appendix 2/56
Date	21/Dec/2009
A bit of Data	It cannot be denied that both the law enforcement and the quality of bureaucrats have been improved in recent years.
Text Location	Appendix 2/65
Date	21/Dec/2009
A bit of Data	Then China government tried to save her face and embargo all roasted eels shipments to Japan.
Text Location	Appendix 2/71
Date	21/Dec/2009
A bit of Data	China government lifted an embargo on the roasted eels industry for one year. Every maker in this industry was forced to restructure the capabilities in all aspects. China government said that we would rather not make this foreign exchange because we already have too much of it. They did not need to rely on the roasted eels industry to make foreign exchange.
Text Location	Appendix 2/72
Date	21/Dec/2009
A bit of Data	China government did not give us any buffer time to accommodate to the newly promulgated food safety law. We spent six months to change the entire manufacturing process in order to fit into the new law.
Text Location	Appendix 2/74
Date	21/Dec/2009
A bit of Data	We have to replace nearly all additives that had been used for years overnight. This change raised our cost dramatically. The

Assigned Categories	Formal Constraint
	worst thing was that we could not raise our selling price to the market. The third impact is the labour law.
Text Location	Appendix 2/75
Date	21/Dec/2009
A bit of Data	As a regular company, we were not largely impacted by the new labour law; however, it costed a lot of time and money for us to sign the new contracts with all employees in all factories.
Text Location	Appendix 2/77
Date	21/Dec/2009
A bit of Data	In Dongguan, there were around three hundreds factories were closed nearly overnight because of the new labour law.
Text Location	Appendix 2/83
Date	21/Dec/2009
Case Reference	Interviewee #3
A bit of Data	Then ownership right was state ownership, party secretary sloganeered the “without ownership, with residence” for SOEs. They did not persist in holding the ownership of SOEs but rather keeping them locally to prosper local economy and pay tax to local government.
Text Location	Appendix 3/8
Date	22/Dec/2009
A bit of Data	When Premier Zhu was incumbent, he advocated and implemented the tax reform in terms of “without ownership, with residence”. Why should I own the SOEs, right? I always keep the burden. Holding the ownership of SOEs would cause great burden to then governments. Any big SOE would have nearly twenty thousands employees. When SOE was not able to pay salaries to employees, they would seek help from political leaders and asked them “how to do?” The city mayor would call for a meeting with state banks and asked them to lend money to SOEs. If state banks did not want to do so, political leaders would say “you are the state banks, if you do not help them to solve the issues, what to do? Then if populace uprising, you still need to deal with this issue, right?”
Text Location	Appendix 3/9
Date	22/Dec/2009
A bit of Data	Then was under planned economy. Most leaders of SOEs were inert because everything was collective-owned, therefore, they knew their positions were temporary and could be sacked anytime.
Text Location	Appendix 3/10
Date	22/Dec/2009
A bit of Data	If we did not want to participate reforms, we would be fired on the spot and had to stay in that SOE without leaving for at least three years.
Text Location	Appendix 3/12
Date	22/Dec/2009
A bit of Data	If the SOE’s leader didn’t want to participate the reform, local government had the authority to assign a new person to replace the existing SOE leader immediately.
Text Location	Appendix 3/16
Date	22/Dec/2009
A bit of Data	In any case, CCP always make a case model for everything. Government would assign several work teams from different

Assigned Categories	Formal Constraint
	department to expedite SOEs' restructuring, e.g. tax, banking, business management, labour union, social security, etc.
Text Location	Appendix 3/23
Date	22/Dec/2009
A bit of Data	Government had a schedule for the restructuring. Say, when we had to call for a meeting of the whole plant, how to organize a working platform, what is the next step and after, etc. Government also has scheduled meeting with leader. For example, they set a date to have a meeting with me for discussing the reform policy of my plant.
Text Location	Appendix 3/25
Date	22/Dec/2009
A bit of Data	In Northern Suzhou, they only had one reform model unlike what we had in Zhejiang.
Text Location	Appendix 3/27
Date	22/Dec/2009
A bit of Data	After reform, I went to Northern Suzhou and Northeast provinces and still saw the signboard with "State-owned victory hotel." At that time, we Zhejiang people resembled as nowadays Taiwanese. I was laughing when I saw the signboard because there was no any state-owned collective in Suzhou. Not at all!
Text Location	Appendix 3/33
Date	22/Dec/2009
A bit of Data	There were eighty per cent SOEs were losing money or in deficit. If you take out the negative equity, those SOEs actually held nothing but debt! Thus, government forced state-owned banks to handle the debts of SOEs as bad debts.
Text Location	Appendix 3/35
Date	22/Dec/2009
A bit of Data	Government asked those restructuring SOEs that layoff could not exceed five per cent every year.
Text Location	Appendix 3/48-49
Date	22/Dec/2009
A bit of Data	In the planned economy, the management of SOE had no right to sack any labour. They had to report from one level of authority to another.
Text Location	Appendix 3/57
Date	22/Dec/2009
A bit of Data	Replace the manager! The local political leaders assumed the manager was with bad intentions because of disobedience. How could we handle the situation, right? Replace him!
Text Location	Appendix 3/64
Date	22/Dec/2009
A bit of Data	Within one year, all collective-owned, state-owned, and TVEs were restructured and transferred to shareholding companies.
Text Location	Appendix 3/27
Date	22/Dec/2009
A bit of Data	They all supported reforms! Japanese shareholders never say any word about reforms because they know this is our national policy. They understood it.
Text Location	Appendix 3/92
Date	22/Dec/2009
A bit of Data	There were certain adverse effects. Say their investments. What

Assigned Categories	Formal Constraint
	if reforms failed? They would lose all their investments.
Text Location	Appendix 3/93
Date	22/Dec/2009
A bit of Data	Reforms have been implemented for several decades since it's beginning. Those political sloganeering, from local authority to central government, clearly encompass the centre of economic growth. Unlike Mao's era, he positioned the class struggle as the centre. That is why most people thought Deng Xiaoping was brilliant. He clearly established the general direction of this nation. That is economic development! Just neglect whatever ism!!
Text Location	Appendix 3/102
Date	22/Dec/2009
A bit of Data	Except Deng Xiaoping, who else dares to say that?
Text Location	Appendix 3/104
Date	22/Dec/2009
A bit of Data	Most Chinese people agree with existing one-party political system. The multi-party competition system will not benefit China because we have too many people and unbalanced development. If you say the multi-party competition system... 120: immediately... 121: The country will be messed up overnight! One point four billions people! That will be in chaos...
Text Location	Appendix 3/119-121
Date	22/Dec/2009
Case Reference	Interviewee #4
A bit of Data	Yes, then was open and under reformed but SOEs remained following the planned economic system in 1989. There mainly are two processes since I become the GM of this plant in 2000. Between 2000 and 2005, I had limited power because of the middle tier of bureaucracy between this plant and the holding company. In 2005, the middle tier company was eliminated and this plant became under the direct control of holding company since then. Thus, we have more power in management. I think the corporate structure of SOE has very little to do with its performance whether Chinese-foreign JV or shareholding system. It is not saying that SOE is less efficient than private enterprise; there is no direct relation with the corporate structure in terms of the performance.
Text Location	Appendix 4/3
Date	23/Dec/2009
A bit of Data	When I first came to this plant, the worst problem was what to do with these redundant employees. Be honest to you, about half of those employees were useless in terms of work. As a manager, I could not use them. What was worse was that they were not just useless but jeopardize the normal operation in the company, and brought many negative effects. However, the company, or I should say the country has to be responsible for what they become. The country repudiate her responsibility to these people she committed before. We cannot just complain them.
Text Location	Appendix 4/4
Date	23/Dec/2009
A bit of Data	There were two processes of repudiation for government. The first one was initiated in 1988. It was dual tracking. What is that? Those employees hired before 1988 were lifetime employed and

Assigned Categories	Formal Constraint
	cannot be fired or laid off. Those employees hired after 1988 were under the contract system. In general, those employees hired after 1988 were not different from those hired before 1988. Maybe there were slightly different in terms of welfare.
Text Location	Appendix 4/6
Date	23/Dec/2009
A bit of Data	Policy indeed exists; however, it does not mean that you will be entitled to the benefit. SOEs have to apply for the approval from government. To get the approval, SOEs must fulfil a lot of provisions. It is so difficult!
Text Location	Appendix 4/9
Date	23/Dec/2009
A bit of Data	Wow! Why this plant was not privatized? This question has been asked hundred times already! The situation is that people deal with corporate restructuring cautiously in Shanghai. It is very difficult. There are two reasons. The first one is, from the government perspective, Shanghai political leaders are more prudent than other places. Alternatively, I should say those political leaders in other places are bolder than those in Shanghai. Corporate restructuring... Especially those SOEs transferred to private-owned enterprises were rare in Shanghai. If any, they were TVEs or county-owned enterprises. Shanghainess political leaders are very cautious and do not want to take risk of being gossiped. Sometimes they even do not do the right thing in order to avoid arousing suspicion!
Text Location	Appendix 4/14
Date	23/Dec/2009
A bit of Data	To put it bluntly, the higher ranked political leaders may transfer me to other position in next meeting. Who know? They just need to summon a meeting and with the approvals from few major leaders. That's it!
Text Location	Appendix 4/17
Date	23/Dec/2009
A bit of Data	Yes! I need to discuss with the party secretary assigned to this plant for most important decisions, e.g. human resource or other major issues. In this plant, we make a collective decision. Alternatively, it is under the collective leadership.
Text Location	Appendix 4/25
Date	23/Dec/2009
A bit of Data	Our authority is limited. For example, we are not allowed to finance and invest independently. All these activities need to be approved by holding company. If we are allowed to invest now, I will find a bigger place, e.g. one to two hundred acres, to expand the factory. Next, I will establish another subsidiary. But we just don't have the authority to do it. Theoretically speaking, we can discuss the authority issue with higher ranked leaders. However, it is literally difficult. The higher leaders are cautious about new investment. Besides, the decision is made collectively. It is bad that once there is any single vote against the proposal, there is no so-called majority rule for the subsequent discussion. That is to say, the decision of the proposal either will adjourn indefinitely or disapproved because of the minority views.
Text Location	Appendix 4/28
Date	23/Dec/2009
A bit of Data	In SOE, people need to double the effort than in private-owned

Assigned Categories	Formal Constraint
	enterprise in order to reach the same goal.
Text Location	Appendix 4/29
Date	23/Dec/2009
A bit of Data	I do not feel right about their way to deal with problem in terms of higher ranked leaders. They focus too much on the procedure and institution. Definitely, they both are indispensable but only under the circumstance of no intervention. Once procedure or institution is intervened, they will move oppositely! Institution or procedure cannot make sure the decision is right. Very often in China that the decision was wrong but the procedure and institution were faultless!
Text Location	Appendix 4/30
Date	23/Dec/2009
Case Reference	Interviewee #5
A bit of Data	I majored in chemistry engineering during college and was assigned to the State Bureau of Survey Mapping as an engineer in 1985 even though I had no idea what leveller or transit was.
Text Location	Appendix 5/3
Date	23/Dec/2009
A bit of Data	It is very difficult to get the ticket to attend the land-use right auction. Through the assistances of my former superior and colleagues, we got the ticket effortlessly in comparison with other competitors. Most of them were unable to get the ticket to attend the auction because my colleagues deliberately make things difficult to my competitors in order to reduce the number of bidders. Yes, they were more financially qualified than we were then. Unfortunately, the rules of the game are not all up to financial capability. Alternatively, financial capability sometimes became the Achilles' heel to them. When the panel did the eligibility assessment, they might be questioned or put low marking because they were too rich and were suspected about their motivations, which were land speculation. Certainly, this is not a universal rule that can be applied nationwide. However, it is our territory and people have to play in accordance with our rules of game.
Text Location	Appendix 5/8
Date	23/Dec/2009
A bit of Data	So far, we seldom involve in substantial housing development projects but mainly focus on the buy-and-sell of land-use rights because of long period and uncertainty of investment. Because we often were denounced as land speculators by competitors (we actually are, hahaha!), therefore, we sometimes are forced to pretend to develop substantial housing projects. Nevertheless, we never did spend our time and money on construction; instead, we have package deals that entail construction permits and the land-use rights. Definitely, our connections will freeze the approval of construction permits when we want to trade the on-hand package deals.
Text Location	Appendix 5/12
Date	23/Dec/2009
A bit of Data	National policies will definitely affect our business operations; however, these affections are not lethal at all! Those policies can only delay the schedule progresses but never can change them. You have to know all policies in China are rhetorical and ambiguous but without very less substantial effects. Most

Assigned Categories	Formal Constraint
	policies will leave loopholes for us to exploit except some with serious political intentions. We are not the only speculator in this country. There are bigger speculators in Beijing, Shanghai, Guangzhou, and other major cities. They already formed a syndicate to lobby and influence central government. We are nothing but unwittingly harboured by their efforts. National policy will be discounted always by local governments. Central government knows that, we know that, banks know that, and local authorities know that! Who do not know that? People! Ordinary people always assume they play seriously.
Text Location	Appendix 5/17
Date	23/Dec/2009
A bit of Data	So far, we only encountered one risk that could severely jeopardize our business in 2004 because of the soaring housing price. There was a national syndicate formed within this industry in one month of time. Each of us paid money proportionately to the convener as hush money to key persons among media, academia, state agencies, and law enforcers as well. Definitely, those housing developers also made similar efforts as we did. At last, we overpowered them because populace could no longer stand the soaring housing price at all.
Text Location	Appendix 5/23
Date	23/Dec/2009
A bit of Data	I do not think there will be any change in the political system in my life. People do not comprehend how complicated the structure of CCP is and how difficult to operate this giant political machine. Too many parts compose this machine and we are only few small bolts. Perhaps we are vital to the machine, but we still are bolts and can be replaced by those peers in the market if we are not wary enough.
Text Location	Appendix 5/27
Date	23/Dec/2009
Case Reference	Interviewee #6
A bit of Data	Alas! If you compare Western countries with China, just these two kinds of countries, the problem is the government rather than the people. The real reason to restrain the perfection of institution that is the government but not the populace. The incompleteness is owing to some people in the government that are deficient.
Text Location	Appendix 6/2
Date	26/Dec/2009
A bit of Data	I have been self-employed since 1993. From then onward, I always follow the trend in terms of running business. I always change the business operation along with the trend. Is there any institutional loophole? Yes, there is a lot of it!
Text Location	Appendix 6/7
Date	26/Dec/2009
A bit of Data	People, who really manipulate the institutions, are not on the top level or the lowest level. They are on the middle level. They are those people holding real power of implementation.
Text Location	Appendix 6/13
Date	26/Dec/2009
A bit of Data	In fact, not everybody makes use of the institutional loopholes. Reform and opening is a huge project. Who has capability, whoever can make money, right?

Assigned Categories	Formal Constraint
Text Location	Appendix 6/17
Date	26/Dec/2009
A bit of Data	You must remember. No matter what institution is, it will never impact those people who manipulate institution. All these institutions never cause impact on the middleman.
Text Location	Appendix 6/19
Date	26/Dec/2009
A bit of Data	China has more regulations than other advanced countries have in terms of curbing speculation. However, is anybody obeying? Is institution functioning properly? Government themselves hardly comprehensively implement these regulations because of chronic ideologies, which are not proletarian or communist ideologies but ideologies accumulated of thousand years, e.g. to drift and muddle along, emperor mentality, etc. We have lots of institutions.
Text Location	Appendix 6/25
Date	26/Dec/2009
A bit of Data	Government themselves create the institutional loopholes but not the populace.
Text Location	Appendix 6/34
Date	26/Dec/2009
A bit of Data	Government only change institutions if they have to.
Text Location	Appendix 6/35
Date	26/Dec/2009
A bit of Data	The housing market has been recessed in last two years. Government therefore issue certain new rules to reduce related taxes in order to prosper the market. They reduce taxes, people will start to buy and sell houses and the market become booming again. Is this called policy or institution? I personally don't think so!
Text Location	Appendix 6/66
Date	26/Dec/2009
A bit of Data	There were self-immolation incidents in this city as well. It is because of the violent and forbidden demolition. Housing developers always have to pay bribes to local officials but bureaucrats have to make sure all preliminary works are well prepared and bureaucrats have to demolish all existing ground materials. The controversial point is the compensation. For those bureaucrats, they regard the previous public housings were sold to those ordinary people with great favours. On the other hand, populace already paid for these housing and regard them as their lifetime properties.
Text Location	Appendix 6/85
Date	26/Dec/2009
A bit of Data	Nobody is allowed to take away other people's properties without appropriate compensation because of the law. However, government, on one hand, are the law enforcers, on the other hand, they are surveyors to decide the amount of compensation. As a result, the tragedy happened.
Text Location	Appendix 6/86
Date	26/Dec/2009
A bit of Data	As for the law, my personal experience is a very good example. At the outset, I was very timid but dare to break the law. Everybody actually breaks the law while they are doing business.

Assigned Categories	Formal Constraint
	There is no exception in this country. Nonetheless, if you are in the gray area, you can always break the law.
Text Location	Appendix 6/125
Date	26/Dec/2009
A bit of Data	I sued someone else, also sued by others and went to the court sometimes. Those law enforcers just blur the line between right and wrong. The legal constraints are based on personal relationship with those law enforcers, e.g. prosecutors, judges, policemen, etc.
Text Location	Appendix 6/135
Date	26/Dec/2009
A bit of Data	From my perspective, Mr. Hwang of Gome Electrical Appliances is a scapegoat. When he initiated his business, there were many people help him. Without those assistances, he can never reach the existing position. He definitely is not the only speculator in the stock market.
Text Location	Appendix 6/139
Date	26/Dec/2009
A bit of Data	In my opinion, it entails both economic and political interests and conflicts. Hwang has to step forward to take all blames. In China, you can never be ingratitude. Hwang will be fine few years later. Just like Lai Changxing of Yuanhua group. He has to stay in Canada and never come back to protect some people's heads.
Text Location	Appendix 6/139
Date	26/Dec/2009
A bit of Data	Many rich people do not regard breaking-law as a shame. On the contrary, they do deem breaking-law as a social status, the more crimes they committed without punishment, and the higher social status they are.
Text Location	Appendix 6/145
Date	26/Dec/2009
A bit of Data	In my opinion, people don't build up relations with those agents nowadays. Who else has money, whoever has relation, right? The old-fashioned guanxi is no longer available.
Text Location	Appendix 6/145
Date	26/Dec/2009
Case Reference	Interviewee #7
A bit of Data	There are many safety inspections in our coal pits and others as well. Some of these inspections are mere formalities and useless. We have been told prior to their spot checks. These inspectors would never go deeper and we actually did their jobs for them. In comparison with large mining companies or SOEs, we are, most of the time, as good as they are because I was a coal miner. However, government always can find fault with us and give us low marking. It's unfair!
Text Location	Appendix 7/3
Date	15/July/2010
A bit of Data	Those large and state-owned mining companies also have small mines that produce less than four hundred thousand tons of coal; nevertheless, inspectors put together several small coalmines become a large one that can meet the basic requirement. That's why they do not need to close the small coalmines but we have to. Government just don't want let small coalminer existing.

Assigned Categories	Formal Constraint
	They think we are troublemakers.
Text Location	Appendix 7/15
Date	15/July/2010
A bit of Data	So far as I know, those large and state-owned mining companies have had severe catastrophes than we do. However, they are able to pay hush money to the press, law enforcers, local authorities, and victims' families. Under the circumstances, people hardly know what happen there. As for us, once we encounter any similar disaster, our powerful rivals will endeavour to disclose everything to the public. In this respect, I regard myself as a victim!
Text Location	Appendix 7/17
Date	15/July/2010
A bit of Data	Government just take away something that they gave to us beforehand. They presume that we have made enough profit and it is the truth.
Text Location	Appendix 7/20
Date	15/July/2010
A bit of Data	I just want to complain the implementation of property rights in terms of CCP that they gave you something and consequently take away it from you because of some ridiculous and unacceptable accounts.
Text Location	Appendix 7/23
Date	15/July/2010
A bit of Data	CCP just do everything without preliminary preparation and study, and always adopt the trial-and-error model. As a ruling party, this is not right and cannot be accepted at all. This is backward transition actually against Deng's reform and openness policy and I presume he will never agree with that if he was alive.
Text Location	Appendix 7/27
Date	15/July/2010
Case Reference	Interviewee #8
A bit of Data	The consolidation of state agency in the late 1990s was, on one hand, a disaster regardless of responsibilities, and still kept, on the other hand, redundant employees. In fact, the efficiency of each department became worse after consolidation. It was mainly political spoils. What can we do? I was only a small potato and could not be much of help. But this misfortune becomes an actual blessing on my future indeed.
Text Location	Appendix 7/3
Date	17/July/2010
A bit of Data	When I worked for the state agency, I had surveyed nearly eighty per cent of coalmines in this provinces and collected adequate information that nobody would able to access, including my superior and colleagues. When I was assigned to the subsidiary, I supposed that I was disparaged and therefore brought all these valuable information with me. Do you know what happen? Nobody in my previous working unit knows there is such valuable information. Nobody knows! This information helps me to select the best coalmines when we start our own business in this industry. That's why I can pick the best coalmines during the consolidation.
Text Location	Appendix 7/7
Date	17/July/2010

Assigned Categories	Formal Constraint
A bit of Data	Before coalmine restructuring, we had no idea what it would be. One of my previous superior just asked us to apply for the SOE restructuring for then working unit. I was scared because we didn't have enough money and plan at all. My superior gave us money as his share in the new company then we started the new company up. It's so simple! My superior has a senior relative in central agency. I assumed this is the reason he always knows everything precisely in advance. Anyway, the exploiting license was transferred to the new company because it's a package deal. I didn't know that all these restructuring were for the exploiting license after several years later. You have asked me why my superior picks me as his representative instead of others? I assume because we both were from the same village. A very small village!
Text Location	Appendix 7/8
Date	17/July/2010
A bit of Data	We first rented the coalmines from SOEs. Frankly speaking, I never knew there is such a good deal in the world. Hahaha! If I knew it, I probably will do it myself. Anyway, we only need to pay some money to those SOEs and get the right to use all their mining facilities. You probably have no idea how expensive those facilities are. Anyway, this bargain occurs only once in a thousand years. In comparison with the profit, the rent paid to those SOEs was nothing at all. I can even afford thousand-fold of that rent and still be very profitable. All I have now are accredited to reforms and CCP. Without them, I am still nobody.
Text Location	Appendix 7/11
Date	17/July/2010
A bit of Data	Some of my friends, who own other large mining companies, and myself actually plan all consolidation and give it to the state agency. We together convince government that only consolidation will rescue the mining industry and eradicate those small coalminers. They are rats and make bloody money!
Text Location	Appendix 7/15
Date	17/July/2010
A bit of Data	Every single private coalminer has his own influential power. We have different connections with local and central state agencies. We all endeavour to persuade them to issues favourable policies to protect ourselves. The favourable policies mean my favourable not other people's. That is to say, any favourable policy will always against someone's existing benefits. It is inevitable. This is a race of connection, power, money, etc. With favourable policies, coalminers can make incredible profit from it. Certainly, we have to share with many stakes. This is a universal hidden rule, right? Don't try to pocket profit without sharing with others, especially when you made your commitment to them. Otherwise, you will lose everything, including your life.
Text Location	Appendix 7/17
Date	17/July/2010
A bit of Data	The plan, which had been made by us, entails current coalmine consolidation as well as the expanding part. We already target the bigger coalmine in Mongolia and Xingjian. I have surveyed the coalmines there. Comparing with them, the coalmines we have now are nothing at all. We actually started exploitation there already with local people and agents. We just simply apply

Assigned Categories	Formal Constraint
	the same rule of the games to different place. After all, it's China and we all are Chinese, right? Chinese knows what another Chinese needs.
Text Location	Appendix 7/20
Date	17/July/2010
A bit of Data	The new policy applied to Mongolia and Xingjian will not allow small coalminers like what happened here before. All coalminers there are SOEs and conglomerates only. You may say we dominate this industry. But I think we make this industry more regulated without vicious competition. In the end, it helps the mining industry. I deeply believe so.
Text Location	Appendix 7/23
Date	17/July/2010
A bit of Data	As long as CCP is the ruling party, nothing will be changed. Or I should say there is no big change will be made. This country needs economic growth but also stability. Without stability, there is no development at all. We don't want to pursue any growth or development at the expense of stability. The Western multiparty model or voting system definitely doesn't fit to China. You see the Western societies are chaotic.
Text Location	Appendix 7/29
Date	17/July/2010

Appendix 9-2

Databits assigned to the category 'Formal Constraints'
<ol style="list-style-type: none"> 1. Unlike those conglomerates or SOEs, we, as SME, are in general in compliance with regulations devised by governments. 2. Before 2008, government still gave many favours to FDI in terms of tax abatement. 3. It's very difficult for SMEs to get bank loans in China. 4. In China, banks are biased toward SMEs and favoured SOEs or conglomerates. 5. Most banks in China are state-owned; therefore, they have lots of red tape and less flexibility. 6. Government only give bank loans to certain people, e.g. overseas returnees. 7. State agency promulgated extremely strict specifications regarding foods and drugs to regulate these industries and eliminate those less competitive companies. 8. Unless the superior authorities or those agencies of other provinces or cities involve directly. State agencies will not actively crackdown those counterfeit products once those manufacturers pay adequate bribes to those corresponding agencies. 9. Local agencies will not clear those backlog of reported counterfeit cases unless they are forced to clear. 10. We have to draw on the pressure from higher authority to oppress local state agencies in order to reach our goals. Doing business in China, it is more important build up better connections than to understand the laws. 11. China remains a rule-by-men society. We too exploit this disadvantage to benefit ourselves. 12. Everybody is equal before the law is an everlasting law. However, behind the law, people's positions vary with their power. 13. Corporate regulations are only valid while employees are working within. Once they leave the company, we have to use the law to impose sanction against them. 14. If we did not pass the inspection, we would be fined a lot of money by state agencies. We knew that would be a big trouble to us. We would approach them and paid bribes when they were off-duty. Say, we were fined fifty thousands Yuan. We paid them one thousand Yuan bribe and they would reduce the

Databits assigned to the category 'Formal Constraints'

- amount of ticket to twenty thousands Yuan. This kind of situation has not been improved a lot since 1999.
15. This kind of extortion is even worst in the inner-land areas because of less transparency.
 16. Then China government tried to save her face and embargo all roasted eels shipments to Japan.
 17. China government lifted an embargo on the roasted eels industry for one year. Every maker in this industry was forced to restructure the capabilities in all aspects. China government said that we would rather not make this foreign exchange because we already have too much of it. They did not need to rely on the roasted eels industry to make foreign exchange.
 18. China government did not give us any buffer time to accommodate to the newly promulgated food safety law. We spent six months to change the entire manufacturing process in order to fit into the new law.
 19. We have to replace nearly all additives that had been used for years overnight. This change raised our cost dramatically. The worst thing was that we could not raise our selling price to the market. The third impact is the labour law.
 20. In Dongguan, there were around three hundreds factories were closed nearly overnight because of the new labour law.
 21. When Prime Minister Zhu was incumbent, he advocated and implemented the tax reform in terms of "without ownership, with residence". Why should I own the SOEs, right? I always keep the burden. Holding the ownership of SOEs would cause great burden to then governments. Any big SOE would have nearly twenty thousands employees. When SOE was not able to pay salaries to employees, they would seek help from political leaders and asked them "how to do?" The city mayor would call for a meeting with state banks and asked them to lend money to SOEs. If state banks did not want to do so, political leaders would say "you are the state banks, if you do not help them to solve the issues, what to do? Then if populace up rise, you still need to deal with this issue, right?"
 22. If we did not want to participate reforms, we would be fired on the spot and had to stay in that SOE without leaving for at least three years.
 23. There were eighty per cent SOEs were losing money or in deficit. If you take out the negative equity, those SOEs actually held nothing but debt! Thus, government forced state-owned banks to handle the debts of SOEs as bad debts.
 24. Government asked those restructuring SOEs that layoff could not exceed five per cent every year.
 25. In the planned economy, the management of SOE had no right to sack any labour. They had to report from one level of authority to another.
 26. Within one year, all collective-owned, state-owned, and TVEs were restructured and transferred to shareholding companies.
 27. There were certain adverse effects. Say their investments. What if reforms failed? They would lose all their investments.
 28. Yes, then was open and under reformed but SOEs remained following the planned economic system in 1989. There mainly are two processes since I become the GM of this plant in 2000. Between 2000 and 2005, I had limited power because of the middle tier of bureaucracy between this plant and the holding company. In 2005, the middle tier company was eliminated and this plant became under the direct control of holding company since then. Thus, we have more power in management. I think the corporate structure of SOE has very little to do with its performance whether Chinese-foreign JV or shareholding system. It is not saying that SOE is less efficient than private enterprise; there is no direct relation with the corporate structure in terms of the performance.
 29. When I first came to this plant, the worst problem was what to do with these redundant employees. Be honest to you, about half of those employees were useless in terms of work. As a manager, I could not use them. What was worse was that they were not just useless but jeopardize the normal operation in the company, and brought many negative effects. However, the company, or I should say the country has to be responsible for what they become. The country repudiate her responsibility to these people she committed before. We cannot just complain them.
 30. There were two processes of repudiation for government. The first one was initiated in 1988. It was dual tracking. What is that? Those employees hired before 1988 were lifetime employed and cannot be fired or laid off. Those employees hired after 1988 were under the contract system. In general, those employees hired after 1988 were not different from those hired before 1988. Maybe there were slightly

Databits assigned to the category 'Formal Constraints'

- different in terms of welfare.
31. Wow! Why this plant was not privatized? This question has been asked hundred times already! The situation is that people deal with corporate restructuring cautiously in Shanghai. It is very difficult. There are two reasons. The first one is, from the government perspective, Shanghai political leaders are more prudent than other places. Alternatively, I should say those political leaders in other places are bolder than those in Shanghai. Corporate restructuring... Especially those SOEs transferred to private-owned enterprises were rare in Shanghai. If any, they were TVEs or county-owned enterprises. Shanghainese political leaders are very cautious and do not want to take risk of being gossip. Sometimes they even do not do the right thing in order to avoid arousing suspicion!
 32. To put it bluntly, the higher ranked political leaders may transfer me to other position in next meeting. Who know? They just need to summon a meeting and with the approvals from few major leaders. That's it!
 33. Yes! I need to discuss with the party secretary assigned to this plant for most important decisions, e.g. human resource or other major issues. In this plant, we make a collective decision. Alternatively, it is under the collective leadership.
 34. My authority is limited. For example, we are not allowed to finance and invest independently. All these activities need to be approved by holding company. If we are allowed to invest now, I will find a bigger place, e.g. one to two hundred acres, to expand the factory. Next, I will establish another subsidiary. But we just don't have the authority to do it. Theoretically speaking, we can discuss the authority issue with higher ranked leaders. However, it is literally difficult. The higher leaders are cautious about new investment. Besides, the decision is made collectively. It is bad that once there is any single vote against the proposal, there is no so-called majority rule for the subsequent discussion. That is to say, the decision of the proposal either will adjourn indefinitely or disapproved because of the minority views.
 35. I do not feel right about their way to deal with problem in terms of higher ranked leaders. They focus too much on the procedure and institution. Definitely, they both are indispensable but only under the circumstance of no intervention. Once procedure or institution is intervened, they will move oppositely! Institution or procedure cannot make sure the decision is right. Very often in China that the decision was wrong but the procedure and institution were faultless!
 36. I majored in chemistry engineering during college and was assigned to the State Bureau of Survey Mapping as an engineer in 1985 even though I had no idea what leveller or transit was.
 37. It is very difficult to get the ticket to attend the land-use right auction. Through the assistances of my former superior and colleagues, we got the ticket effortless in comparison with other competitors. Most of them were unable to get the ticket to attend the auction because my colleagues deliberately make things difficult to my competitors in order to reduce the number of bidders. Yes, they were more financially qualified than we were then. Unfortunately, the rules of the game are not all up to financial capability. Alternatively, financial capability sometimes became the Achilles' hill to them. When the panel did the eligibility assessment, they might be questioned or put low marking because they were too rich and were suspected about their motivations, which were land speculation. Certainly, this is not a universal rule that can be applied nationwide. However, it is our territory and people have to play in accordance with our rules of game.
 38. So far, we seldom involve in substantial housing development projects but mainly focus on the buy-and-sell of land-use rights because of long period and uncertainty of investment. Because we often were denounced as land speculators by competitors (we actually are, hahaha!), therefore, we sometimes are forced to pretend to develop substantial housing projects. Nevertheless, we never did spend our time and money on construction; instead, we have package deals that entail construction permits and the land-use rights. Definitely, our connections will freeze the approval of construction permits when we want to trade the on-hand package deals.
 39. National policies will definitely affect our business operations; however, these affections are not lethal at all! Those policies can only delay the scheduled progresses but never can change them. You have to know all policies in China are rhetorical and ambiguous but without very less substantial effects. Most policies will leave loopholes for us to exploit except some with serious political intentions. We are not the only speculator in this country. There are bigger speculators in Beijing, Shanghai, Guangzhou, and other major cities. They already formed a syndicate to lobby and influence central government. We are nothing but unwittingly harboured by their efforts. National policy will be discounted always by local governments. Central government knows that, we know that, banks know that, and local authorities know that! Who do not know that? People! Ordinary people always assume they play seriously.
 40. So far, we only encountered one risk that could severely jeopardize our business in 2004 because of the

Databits assigned to the category 'Formal Constraints'

soaring housing price. There was a national syndicate formed within this industry in one month of time. Each of us paid money proportionately to the convener as hush money to key persons among media, academia, state agencies, and law enforcers as well. Definitely, those housing developers also made similar efforts as we did. At last, we overpowered them because populace could no longer stand the soaring housing price at all.

41. Alas! If you compare Western countries with China, just these two kinds of countries, the problem is the government rather than the people. The real reason to restrain the perfection of institution that is the government but not the populace. The incompleteness is owing to some people in the government that are deficient.
42. You must remember. No matter what institution is, it will never impact those people who manipulate institution. No institution ever causes impact on the powerful middleman.
43. The housing market has been recessed in last two years. Government therefore issue certain new rules to reduce related taxes in order to prosper the market. They reduce taxes, people will start to buy and sell houses and the market become booming again. Is this called policy or institution? I personally don't think so!
44. There were self-immolation incidents in this city as well. It is because of the violent and forbidden demolition. Housing developers always have to pay bribes to local officials but bureaucrats have to make sure all preliminary works are well prepared and bureaucrats have to demolish all existing ground materials. The controversial point is the compensation. For those bureaucrats, they regard the previous public housings were sold to those ordinary people with great favours. On the other hand, populace already paid for these housing and regard them as their lifetime properties.
45. However, government, on one hand, are the law enforcers, on the other hand, they are surveyors to decide the amount of compensation. As a result, the tragedy happened.
46. I sued someone else, also sued by others and went to the court sometimes. Those law enforcers just blur the line between right and wrong. The legal constraints are based on personal relationship with those law enforcers, e.g. prosecutors, judges, policemen, etc.
47. In my opinion, people don't build up relations with those agents nowadays. Who else has money, whoever has relation, right? The old-fashioned guanxi is no longer available.
48. There are many safety inspections in our coal pits and others as well. Some of these inspections are mere formalities and useless. We have been told prior to their spot checks. These inspectors would never go deeper and we actually did their jobs for them. In comparison with large mining companies or SOEs, we are, most of the time, as good as they are because I was a coal miner. However, government always can find fault with us and give us low marking. It's unfair!
49. Those large and state-owned mining companies also have small mines that produce less than four hundred thousand tons of coal; nevertheless, inspectors put together several small coalmines become a large one that can meet the basic requirement. That's why they do not need to close the small coalmines but we have to. Government just don't want let small coalminer existing. They think we are troublemakers.
50. So far as I know, those large and state-owned mining companies have had severe catastrophes than we do. However, they are able to pay hush money to the press, law enforcers, local authorities, and victims' families. Under the circumstances, people hardly know what happen there. As for us, once we encounter any similar disaster, our powerful rivals will endeavour to disclose everything to the public. In this respect, I regard myself as a victim!
51. Government just take away something that they gave to us beforehand. They presume that we have made enough profit and it is the truth.
52. I just want to complain the implementation of property rights in terms of CCP that they gave you something and consequently take away it from you because of some ridiculous and unacceptable accounts.
53. The consolidation of state agency in the late 1990s was, on one hand, a disaster regardless of responsibilities, and, on the other hand, kept redundant employees. In fact, the efficiency of each department became worse after consolidation. It was mainly political spoils. What can we do? I was only a small potato and could not be much of help. But this misfortune becomes an actual blessing on my future indeed.
54. When I worked for the state agency, I had surveyed nearly eighty per cent of coalmines in this provinces

Databits assigned to the category 'Formal Constraints'

and collected adequate information that nobody would be able to access, including my superior and colleagues. When I was assigned to the subsidiary, I supposed that I was disparaged and therefore brought all this valuable information with me. Do you know what happened? Nobody in my previous working unit knows there is such valuable information. Nobody knows! This information helps me to select the best coalmines when we start our own business in this industry. That's why I can pick the best coalmines during the consolidation.

55. Before coalmine restructuring, we had no idea what it would be. One of my previous superiors just asked us to apply for the SOE restructuring for then working unit. I was scared because we didn't have enough money and plan at all. My superior gave us money as his share in the new company then we started the new company up. It's so simple! My superior has a senior relative in central agency. I assumed this is the reason he always knows everything precisely in advance. Anyway, the exploiting license was transferred to the new company because it's a package deal. I didn't know that all these restructurings were for the exploiting license after several years later. You have asked me why my superior picks me as his representative instead of others? I assume because we both were from the same village. A very small village!
56. We first rented the coalmines from SOEs. Frankly speaking, I never knew there is such a good deal in the world. Hahaha! If I knew it, I probably will do it myself. Anyway, we only need to pay some money to those SOEs and get the right to use all their mining facilities. You probably have no idea how expensive those facilities are. Anyway, this bargain occurs only once in a thousand years. In comparison with the profit, the rent paid to those SOEs was nothing at all. I can even afford thousand-fold of that rent and still be very profitable. All I have now are accredited to reforms and CCP. Without them, I am still nobody.
57. Some of my friends, who own other large mining companies, and myself actually plan all consolidation and give it to the state agency. We together convince government that only consolidation will rescue the mining industry and eradicate those small coalminers. They are rats and make bloody money!
58. Every single private coalminer has his own influential power. We have different connections with local and central state agencies. We all endeavour to persuade them to issues favourable policies to protect ourselves. The favourable policies mean my favourable not other people's. That is to say, any favourable policy will always against someone's existing benefits. It is inevitable. This is a race of connection, power, money, etc. With favourable policies, coalminers can make incredible profit from it. Certainly, we have to share with many stakes. This is a universal hidden rule, right? Don't try to pocket profit without sharing with others, especially when you made your commitment to them. Otherwise, you will lose everything, including your life.
59. The plan, which had been made by us, entails current coalmine consolidation as well as the expanding part. We already target the bigger coalmine in Mongolia and Xingjian. I have surveyed the coalmines there. Comparing with them, the coalmines we have now are nothing at all. We actually started exploitation there already with local people and agents. We just simply apply the same rule of the games to different place. After all, it's China and we all are Chinese, right? Chinese knows what another Chinese needs.
60. The new policy applied to Mongolia and Xingjian will not allow small coalminers like what happened here before. All coalminers there are SOEs and conglomerates only. You may say we dominate this industry. But I think we make this industry more regulated without vicious competition. In the end, it helps the mining industry. I deeply believe so.
61. As long as CCP is the ruling party, nothing will be changed. Or I should say there is no big change will be made. This country needs economic growth but also stability. Without stability, there is no development at all. We don't want to pursue any growth or development at the expense of stability. The Western multiparty model or voting system definitely doesn't fit to China. You see the Western societies are chaotic.

Appendix 9-3

Assigned Categories	Ideology
Case Reference	Interviewee #1
A bit of Data	It may be related to the ideological modal, we don't like to borrow money from bank.
Text Location	Appendix 1/36
Date	20/Dec/2009

Assigned Categories	Ideology
A bit of Data	This is a conventional idea. We don't borrow money from others. If the business fails, we only lose our own money.
Text Location	Appendix 1/37
Date	20/Dec/2010
A bit of Data	It's very difficult for SMEs to get bank loans in China.
Text Location	Appendix 1/23
Date	20/Dec/2009
A bit of Data	If you say the manufacturing industry, Chinese companies may be behind Taiwanese competitors. If you say R&D, I think Chinese companies are better than Taiwanese companies.
Text Location	Appendix 1/49
Date	20/Dec/2009
A bit of Data	It's the cultural behaviours. People in China don't like to borrow money from others.
Text Location	Appendix 1/56
Date	20/Dec/2009
A bit of Data	Even when encountered difficulty, we did not want to borrow money from banks.
Text Location	Appendix 1/60
Date	20/Dec/2009
A bit of Data	Those overseas returnees have more interaction with foreign countries; therefore, their ideological ideas are inclined to foreign business operation.
Text Location	Appendix 1/62
Date	20/Dec/2009
Case Reference	Interviewee #2
A bit of Data	You must know there is a complex between China and Japan. Once China government negotiate with Japanese government, they will set up a trade barrier.
Text Location	Appendix 2/7
Date	21/Dec/2009
A bit of Data	Chinese domestic market will be the biggest one in the world in the near future. Why we grab the market with bubble economy in Japan?
Text Location	Appendix 2/8
Date	21/Dec/2009
A bit of Data	There are one point three billion people in China. How can you not recruit adequate labours? It's impossible!
Text Location	Appendix 2/9
Date	21/Dec/2009
A bit of Data	No matter which industry you are, only the strongest one can survive. You have to be the number one in the industry!
Text Location	Appendix 2/18
Date	21/Dec/2009
A bit of Data	The counterfeit problems are prevailed everywhere in China!
Text Location	Appendix 2/30
Date	21/Dec/2009
A bit of Data	China remains a rule-by-men society.
Text Location	Appendix 2/38
Date	21/Dec/2009
A bit of Data	Everybody is not equal before the law.
Text Location	Appendix 2/39

Assigned Categories	Ideology
Date	21/Dec/2009
A bit of Data	The situation of extorting bribery doesn't change too much.
Text Location	Appendix 2/52
Date	21/Dec/2009
A bit of Data	Do not expect China government will issue any institution or policy to benefit your business. If you expect that, sooner or later, the expectation will end up with nothing!
Text Location	Appendix 2/92
Date	21/Dec/2009
A bit of Data	I just criticize government a lot. You must be very careful in handling the interview. Don't set me up!
Text Location	Appendix 2/96-97
Date	21/Dec/2009
Case Reference	Interviewee #3
A bit of Data	Reform is imperative. Deng's path is right! Seclusion will end up with death. Just like the Qing dynasty in China history, they were on the track to seclusion.
Text Location	Appendix 3/4
Date	22/Dec/2009
A bit of Data	Those old people, who experienced war before 1949, think they just wasted time and lives to fight for proletarian if CCP move forward to reform and opening.
Text Location	Appendix 3/6
Date	22/Dec/2009
A bit of Data	Then ownership right was state ownership, party secretary sloganeered the "without ownership, with residence" for SOEs. They did not persist in holding the ownership of SOEs but rather keeping them locally to prosper local economy and pay tax to local government.
Text Location	Appendix 3/8
Date	22/Dec/2009
A bit of Data	Deng had the experience of studying abroad. Surely he had this experience. That's why send our children studying abroad to accept some new concept. I don't think we can learn any academic knowledge abroad. What can they learn any academic knowledge abroad? Our children already have very good level of mathematics when they graduated from high school in China.
Text Location	Appendix 3/11
Date	22/Dec/2009
A bit of Data	Unlike Mao's era, he positioned the class struggle as the centre. That is why most people thought Deng Xiaoping was brilliant. He clearly established the general direction of this nation. That is economic development! Just neglect whatever ism!
Text Location	Appendix 3/102
Date	22/Dec/2009
A bit of Data	Deng is very influential in terms of reforms. There is no other political leader knows or dares to say anything like Deng said.
Text Location	Appendix 3/104
Date	22/Dec/2009
A bit of Data	Only through reforms can help or restructure then China. Development is the priority principle. Any slogan must be understandable like Deng said. No matter what political party, they must have a loud and clear slogan. Populace must know that. If

Assigned Categories	Ideology
	you put forward a vague slogan, who else knows the content? Deng put forward the slogan; he also mentioned that China is on a different track as those Western countries do. That's why Deng put forward that we will persist in the Capitalist Socialism economy with Chinese characteristics!
Text Location	Appendix 3/105
Date	22/Dec/2009
A bit of Data	I should say that Chinese traditions are smart and brilliant. When we go abroad, we can see foreign people are not as brilliant as Chinese are, right?
Text Location	Appendix 3/106
Date	22/Dec/2009
A bit of Data	In addition, Chinese are undeniably thrift and industrious.
Text Location	Appendix 3/107
Date	22/Dec/2009
A bit of Data	The ways foreign people educate their children are different as we do. It's absolutely different from ours.
Text Location	Appendix 3/112
Date	22/Dec/2009
A bit of Data	Because foreign welfare system is too good, they don't need to work after being working for four to five years. After that, you don't need to worry about your meals. You can have something to eat even sitting at home!
Text Location	Appendix 3/113
Date	22/Dec/2009
A bit of Data	There are very few industrious young men in those Western countries. They have too much freedom! If I don't want to work, government has to give me unemployment pension as well as meals. Government will never let me die in starvation. Why should I work eight hours a day? Why should I go to work? I just want to get a suntan!
Text Location	Appendix 3/114
Date	22/Dec/2009
A bit of Data	In three hundred years later, those foreign countries can never compete with us, definitely! They cannot have those institutions as Chinese have. We definitely can exceed them!
Text Location	Appendix 3/115
Date	22/Dec/2009
A bit of Data	Because those Western people already have the bad habit, it's very difficult for them to get rid of it!
Text Location	Appendix 3/116
Date	22/Dec/2009
A bit of Data	There is not any political party can and dare to correct the welfare system.
Text Location	Appendix 3/117
Date	22/Dec/2009
A bit of Data	There are both advantage and disadvantage of multi-party competition system. In China, however, most people agree to accept current political mode. There too many people and the development are unbalanced in China. If we adopt multi-party system in China, it will end up with chaos.
Text Location	Appendix 3/119
Date	22/Dec/2009

Assigned Categories	Ideology
A bit of Data	We do not follow the wrong path of other advanced countries. China is on her own path.
Text Location	Appendix 3/128
Date	22/Dec/2009
A bit of Data	If we buy a Japanese punching machine, it will cost us two million and seven hundred thousand dollars. It is not worth of that at all. We made our own punching machine, which is exactly the same as Japanese one, by copying their blue print. The performance is even better than Japanese one, let alone the cost!
Text Location	Appendix 3/129
Date	22/Dec/2009
A bit of Data	Those advanced countries take hundreds of years to their current positions. For us, we may only need to spend a decade to reach that position.
Text Location	Appendix 3/130
Date	22/Dec/2009
Case Reference	Interviewee #4
A bit of Data	Yes, then was open and under reformed but SOEs remained following the planned economic system in 1989. The superior political leaders were not quite sure about the position of SOEs after economic reforms. People mainly regard SOEs as inefficient.
Text Location	Appendix 4/3
Date	23/Dec/2009
A bit of Data	When I first came to this plant, the worst problem was what to do with these redundant employees. Be honest to you, about half of those employees were useless in terms of work. As a manager, I could not use them. What was worse was that they were not just useless but jeopardize the normal operation in the company, and brought many negative effects. However, the company, or I should say the country has to be responsible for what they become. The country repudiate her responsibility to these people she committed before. We cannot just complain them.
Text Location	Appendix 4/4
Date	23/Dec/2009
A bit of Data	Those superior political leaders like to see labours being on the hop. If they saw labours were at ease, these political leaders would regard those labours shirked.
Text Location	Appendix 4/9
Date	23/Dec/2009
A bit of Data	There were several blind spots in SOEs' management. They always tried to save their faces by covering should-proposed costs. Therefore, the net profit shown on the accounting book looked great.
Text Location	Appendix 4/11
Date	23/Dec/2009
A bit of Data	SOEs were in arrears with accounts payable due as possible as they could.
Text Location	Appendix 4/12
Date	23/Dec/2009
A bit of Data	They focus too much on the procedure and institution. Definitely, they both are indispensable but only under the circumstance of no intervention. Once procedure or institution is intervened, they will move oppositely! Institution or procedure cannot make sure the decision is right.

Assigned Categories	Ideology
Text Location	Appendix 4/30
Date	23/Dec/2009
Case Reference	Interviewee #5
A bit of Data	I majored in chemistry engineering during college and was assigned to the State Bureau of Survey Mapping as an engineer in 1985 even though I had no idea what leveller or transit was.
Text Location	Appendix 5/3
Date	23/Dec/2009
A bit of Data	Unfortunately, the rules of the game are not all up to financial capability. Alternatively, financial capability sometimes became the Achilles' hill to them. When the panel did the eligibility assessment, they might be questioned or put low marking because they were too rich and were suspected about their motivations, which were land speculation.
Text Location	Appendix 5/8
Date	23/Dec/2009
A bit of Data	Most of our money is made from the buy-and-sell of land-use rights, therefore, ordinary people or housing developers regard we as speculators. To buy and sell something is not speculation at all. Chinese people just do not want to see other people become rich quickly than them. They were just jealous. That American old man... What's his name? Buffet! Yes. He also buys and sells company stocks but no one regards his as speculator, right?
Text Location	Appendix 5/11
Date	23/Dec/2009
A bit of Data	You have to know all policies in China are rhetorical and ambiguous but without very less substantial effects. Most policies will leave loopholes for us to exploit except some with serious political intentions. National policy will be discounted always by local governments. Central government knows that, we know that, banks know that, and local authorities know that! Who do not know that? People! Ordinary people always assume they play seriously.
Text Location	Appendix 5/17
Date	23/Dec/2009
A bit of Data	Most policies in China are propaganda campaigns promoted by government. They mainly serve for one purpose – efficiently ruling this country. Policy only occurs when there are unresolved new contradictions among different social classes and may jeopardize CCP. Policy is the best way to put CCP's wills into effect with least cost, e.g. money, killing people, struggles of different social classes or political lines.
Text Location	Appendix 5/19
Date	23/Dec/2009
A bit of Data	Any economic policy is used to bailout those economically important elites trapped in existing institutions or to eradicate economic elites who are politically incorrect. Definitely, these policies always save or destroy some people at the expense of most ordinary people.
Text Location	Appendix 5/22
Date	23/Dec/2009
A bit of Data	I do not think there will be any change in the political system in my life. People do not comprehend how complicated the structure of CCP is and how difficult to operate this giant political machine.

Assigned Categories	Ideology
Text Location	Appendix 5/27
Date	23/Dec/2009
Case Reference	Interviewee #6
A bit of Data	Alas! If you compare Western countries with China, just these two kinds of countries, the problem is the government rather than the people. The real reason to restrain the perfection of institution that is the government but not the populace. The incompleteness is owing to some people in the government that are deficient.
Text Location	Appendix 6/2
Date	26/Dec/2009
A bit of Data	Ordinary people cannot and should not fight their corner even on just grounds. Ordinary people can never beat them (government and bureaucrats) under the socialist system. This is Mao's legacy!
Text Location	Appendix 6/3
Date	26/Dec/2009
A bit of Data	People, who really manipulate the institutions, are not on the top level or the lowest level. They are on the middle level. They are those people holding real power of implementation.
Text Location	Appendix 6/13
Date	26/Dec/2009
A bit of Data	In fact, those housing developers are not so bad. They do not really make money through negative means. On the other hand, I should say that means are not as tricky as people thought are.
Text Location	Appendix 6/16
Date	26/Dec/2009
A bit of Data	China has more regulations than other advanced countries have in terms of curbing speculation. However, is anybody obeying? Is institution functioning properly? Government themselves hardly comprehensively implement these regulations because of chronic ideologies, which are not proletarian or communist ideologies but ideologies accumulated of thousand years, e.g. to drift and muddle along, emperor mentality, etc. We have lots of institutions.
Text Location	Appendix 6/25
Date	26/Dec/2009
A bit of Data	Chinese people are always inclined to make personal profit.
Text Location	Appendix 6/35
Date	26/Dec/2009
A bit of Data	Institutions in those developed countries are better than those in China. Why? Because they are not such old countries as China is. They do not need to stick to old things and therefore can deal with the task swiftly.
Text Location	Appendix 6/36
Date	26/Dec/2009
A bit of Data	Now, those institutions in China are becoming better. Passably, they are not perfect. If they are perfect, people like us can no longer exist. Even we exist; we need to have brainstorm more than ever. Hahaha!
Text Location	Appendix 6/37
Date	26/Dec/2009
A bit of Data	The country has to protect those people who get rich first. Why? These people are the essence of the country. They are something that we can declare to the world.
Text Location	Appendix 6/49

Assigned Categories	Ideology
Date	26/Dec/2009
A bit of Data	I do not believe that central government does not know about tax evasion. They definitely do know this. Right? Even the Central Government Information Bureau cannot regulate the local TV programme.
Text Location	Appendix 6/72
Date	26/Dec/2009
A bit of Data	I think those people who are intelligent and capable will try to make institutions better.
Text Location	Appendix 6/73
Date	26/Dec/2009
A bit of Data	For those bureaucrats, they regard the previous public housings were sold to those ordinary people with great favours. On the other hand, populace already paid for these housing and regard them as their lifetime properties.
Text Location	Appendix 6/85
Date	26/Dec/2009
A bit of Data	The laws become less efficient than ever.
Text Location	Appendix 6/113
Date	26/Dec/2009
A bit of Data	Money becomes more useful and efficient than ever.
Text Location	Appendix 6/115
Date	26/Dec/2009
A bit of Data	Everybody actually breaks the law while they are doing business. There is no exception in this country. Nonetheless, if you are in the gray area, you can always break the law.
Text Location	Appendix 6/125
Date	26/Dec/2009
A bit of Data	Many rich people do not regard breaking-law as a shame. On the contrary, they do deem breaking-law as a social status, the more crimes they committed without punishment, and the higher social status they are.
Text Location	Appendix 6/145
Date	26/Dec/2009
A bit of Data	In my opinion, people don't build up relations with those agents nowadays. Who else has money, whoever has relation, right? The old-fashioned guanxi is no longer available.
Text Location	Appendix 6/145
Date	26/Dec/2009
A bit of Data	People, who are able to make quick money, become more arrogant and disregard the laws. They regard themselves as the lawmakers.
Text Location	Appendix 6/169
Date	26/Dec/2009
A bit of Data	If you regard the quality of people's thoughts as the quality of the country, then China becomes worst than before.
Text Location	Appendix 6/179
Date	26/Dec/2009
A bit of Data	Government makes the quality of people, who only need to say long live Mao. People actually become what government taught them.
Text Location	Appendix 6/197
Date	26/Dec/2009

Assigned Categories	Ideology
A bit of Data	Nobody cares about morality and ethics. Government only focuses on reform and opening. Who else mention about the quality of thoughts?
Text Location	Appendix 6/198
Date	26/Dec/2009
Case Reference	Interviewee #7
A bit of Data	Most of inspections in China are useless. Government and bureaucrats just fake that they also have inspections in order to demonstrate to the world. The contents and scopes of these inspections, undeniably, are parallel to those in advanced countries. However, the implementation of these inspections is nothing but feint.
Text Location	Appendix 7/4
Date	15/July/2010
A bit of Data	In China, there is political purpose behind every new movement or policy. I should say that this kind of behaviour actually has existed since our ancestor. It's a chronically cultural disadvantage. Incumbent rulers only try to keep their throne at the expense of populace. They never really care about people's lives, whether you are Chinese or Taiwanese.
Text Location	Appendix 7/12
Date	15/July/2010
A bit of Data	As long as you have connections with incumbent ruler and are of help to keep their thrones, you can do whatever you want. However, once you may jeopardize their thrones, directly or indirectly, you will be eradicated soon without any justified means.
Text Location	Appendix 7/18
Date	15/July/2010
A bit of Data	Government just take away something that they gave to us beforehand. They presume that we have made enough profit and it is the truth.
Text Location	Appendix 7/20
Date	15/July/2010
A bit of Data	I just want to complain the implementation of property rights in terms of CCP that they gave you something and consequently take away it from you because of some ridiculous and unacceptable accounts.
Text Location	Appendix 7/23
Date	15/July/2010
A bit of Data	Powerful people can always bend the rules. Or I should say, any law to these people is flexible.
Text Location	Appendix 7/23
Date	15/July/2010
A bit of Data	The reform and opening is nothing but a sugar coating. CCP use it to legitimately transfer public properties to certain incumbent political elites and their families.
Text Location	Appendix 7/25
Date	15/July/2010
A bit of Data	CCP just do everything without preliminary preparation and study, and always adopt the trial-and-error model. As a ruling party, this is not right and cannot be accepted at all. This is backward transition actually against Deng's reform and openness policy and I presume he will never agree with that if he was alive.
Text Location	Appendix 7/27

Assigned Categories	Ideology
Date	15/July/2010
Case Reference	Interviewee #8
A bit of Data	The consolidation of state agency in the late 1990s was, on one hand, a disaster regardless of responsibilities, and still kept, on the other hand, redundant employees. In fact, the efficiency of each department became worse after consolidation. It was mainly political spoils. What can we do?
Text Location	Appendix 8/3
Date	17/July/2010
A bit of Data	Once CCP want to implement a new policy nationwide, they actually already have the policy realized in many testing spots with least resistance. The result depends on the determination of highest political leaders. The lower bureaucracy may implement the policy passively but they cannot object it at all even the policy is without legitimate foundation.
Text Location	Appendix 8/6
Date	17/July/2010
A bit of Data	I assumed this is the reason he always knows everything precisely in advance.
Text Location	Appendix 8/8
Date	17/July/2010
A bit of Data	All I have now are accredited to reforms and CCP. Without them, I am still nobody.
Text Location	Appendix 8/11
Date	17/July/2010
A bit of Data	Without CCP, people in China remain poor or even worse. Since CCP granted reform and opening, we all can share the benefits of economic development.
Text Location	Appendix 8/12
Date	17/July/2010
A bit of Data	We all endeavour to persuade them to issues favourable policies to protect ourselves. The favourable policies mean my favourable not other people's. That is to say, any favourable policy will always against someone's existing benefits. With favourable policies, coalminers can make incredible profit from it. Certainly, we have to share with many stakes. This is a universal hidden rule, right? Don't try to pocket profit without sharing with others, especially when you made your commitment to them. Otherwise, you will lose everything, including your life.
Text Location	Appendix 8/17
Date	17/July/2010
A bit of Data	Chinese knows what another Chinese needs.
Text Location	Appendix 8/20
Date	17/July/2010
A bit of Data	Once you know their needs, it is more convenient for further communication and cooperation. This will enhance the efficiency of implementation. I think this is the main reason to improve Chinese economic growth because of time and cost saving.
Text Location	Appendix 8/22
Date	17/July/2010
A bit of Data	You may say we dominate this industry. But I think we make this industry more regulated without vicious competition. In the end, it helps the mining industry. I deeply believe so.
Text Location	Appendix 8/23

Assigned Categories	Ideology
Date	17/July/2010
A bit of Data	As long as CCP is the ruling party, nothing will be changed. Or I should say there is no big change will be made. This country needs economic growth but also stability. Without stability, there is no development at all. We don't want to pursue any growth or development at the expense of stability. The Western multiparty model or voting system definitely doesn't fit to China. You see the Western societies are chaotic.
Text Location	Appendix 8/29
Date	17/July/2010

Appendix 9-4

Databits assigned to the category 'Ideology'
<ol style="list-style-type: none"> 1. It may be related to the ideological modal, we don't like to borrow money from bank. 2. This is a conventional idea. We don't borrow money from others. If the business fails, we only lose our own money. 3. If you say the manufacturing industry, Chinese companies may be behind Taiwanese competitors. If you say R&D, I think Chinese companies are better than Taiwanese companies. 4. It's the cultural behaviours. People in China don't like to borrow money from others. 5. Even when encountered difficulty, we did not want to borrow money from banks. 6. Those overseas returnees have more interaction with foreign countries; therefore, their ideological ideas are inclined to foreign business operation. 7. You must know there is a complex between China and Japan. Once China government negotiate with Japanese government, they will set up a trade barrier. 8. Chinese domestic market will be the biggest one in the world in the near future. Why we grab the market with bubble economy in Japan? 9. There are one point three billion people in China. How can you not recruit adequate labours? It's impossible! 10. No matter which industry you are, only the strongest one can survive. You have to be the number one in the industry! 11. The counterfeit problems are prevailed everywhere in China! 12. China remains a rule-by-men society. 13. Not everybody is equal before the law. 14. The situation of extorting bribery doesn't change too much. 15. Do not expect China government will issue any institution or policy to benefit your business. If you expect that, eventually, the expectation will end up with nothing! 16. I just criticize government a lot. You must be very careful in handling the interview. Don't set me up! 17. Reform is imperative. Deng's path is right! Seclusion will end up with death. Just like the Qing dynasty in China history, they were on the track to seclusion. 18. Those old people, who experienced war before 1949, think they just wasted time and lives to fight for proletarian if CCP move forward to reform and opening. 19. Deng had the experience of studying abroad. Surely he had this experience. That's why send our children studying abroad to accept some new concept. I don't think we can learn any academic knowledge abroad. What can they learn any academic knowledge abroad? Our children already have very good level of mathematics when they graduated from high school in China. 20. Unlike Mao's era, he positioned the class struggle as the centre. That is why most people thought Deng Xiaoping was brilliant. He clearly established the general direction of this nation. That is economic

Databits assigned to the category 'Ideology'

development! Just neglect whatever ism!

21. Deng is very influential in terms of reforms. There is no other political leader knows or dares to say anything like Deng said.
22. Only through reforms can help or restructure then China. Development is the priority principle. Any slogan must be understandable like Deng said. No matter what political party, they must have a loud and clear slogan. Populace must know that. If you put forward a vague slogan, who else knows the content? Deng put forward the slogan; he also mentioned that China is on a different track as those Western countries do. That's why Deng put forward that we will persist in the Capitalist Socialism economy with Chinese characteristics!
23. I should say that Chinese traditions are smart and brilliant. When we go abroad, we can see foreign people are not as brilliant as Chinese are, right?
24. In addition, Chinese are undeniably thrift and industrious.
25. The ways foreign people educate their children are different as we do. It's absolutely different from ours.
26. Because foreign welfare system is too good, they don't need to work after being working for four to five years. After that, you don't need to worry about your meals. You can have something to eat even sitting at home!
27. There are very few industrious young men in those Western countries. They have too much freedom! If I don't want to work, government has to give me unemployment pension as well as meals. Government will never let me die in starvation. Why should I work eight hours a day? Why should I go to work? I just want to get a suntan!
28. In three hundred years later, those foreign countries can never compete with us, definitely! They cannot have those institutions as Chinese have. We definitely can exceed them!
29. Because those Western people already have the bad habit, it's very difficult for them to get rid of it!
30. There is not any political party can and dare to correct the welfare system.
31. There are both advantage and disadvantage of multi-party competition system. In China, however, most people agree to accept current political mode. There too many people and the development are unbalanced in China. If we adopt multi-party system in China, it will end up with chaos.
32. We do not follow the wrong path of other advanced countries. China is on her own path.
33. If we buy a Japanese punching machine, it will cost us two million and seven hundred thousand dollars. It is not worth of that at all. We made our own punching machine, which is exactly the same as Japanese one, by copying their blue print. The performance is even better than Japanese one, let alone the cost!
34. Those advanced countries take hundreds of years to their current positions. For us, we may only need to spend a decade to reach that position.
35. Yes, then was open and under reformed but SOEs remained following the planned economic system in 1989. The superior political leaders were not quite sure about the position of SOEs after economic reforms. People mainly regard SOEs as inefficient.
36. However, the company, or I should say the country has to be responsible for what they become. The country repudiate her responsibility to these people she committed before. We cannot just complain them.
37. Those superior political leaders like to see labours being on the hop. If they saw labours were at ease, these political leaders would regard those labours shirked.
38. There were several blind spots in SOEs' management. They always tried to save their faces by covering payable costs. Therefore, the net profit shown on the accounting book looked great.
39. Most of our money is made from the buy-and-sell of lad-use rights, therefore, ordinary people or housing developers regard we as speculators. To buy and sell something is not speculation at all. Chinese people just do not want to see other people become rich quickly than them. They were just jealous. That American old man... What's his name? Buffet! Yes. He also buys and sells company stocks but no one regards his as speculator, right?
40. You have to know all policies in China are rhetorical and ambiguous but without very less substantial effects. Most policies will leave loopholes for us to exploit except some with serious political intentions. National policy will be discounted always by local governments. Central government knows that, we know

Databits assigned to the category 'Ideology'

that, banks know that, and local authorities know that! Who do not know that? People! Ordinary people always assume they play seriously.

41. Most policies in China are propaganda campaigns promoted by government. They mainly serve for one purpose – efficiently ruling this country. Policy only occurs when there are unresolved new contradictions among different social classes and may jeopardize CCP. Policy is the best way to put CCP's will into effect with least cost, e.g. money, killing people, struggles of different social classes or political lines.
42. Any economic policy is used to bailout those economically important elites trapped in existing institutions or to eradicate economic elites who are politically incorrect. Definitely, these policies always save or destroy some people at the expense of most ordinary people.
43. I do not think there will be any change in the political system in my life. People do not comprehend how complicated the structure of CCP is and how difficult to operate this giant political machine.
44. Alas! If you compare Western countries with China, just these two kinds of countries, the problem is the government rather than the people. The real reason to restrain the perfection of institution that is the government but not the populace. The incompleteness is owing to some people in the government that are deficient.
45. Ordinary people cannot and should not fight their corner even on just grounds. Ordinary people can never beat them (government and bureaucrats) under the socialist system. This is Mao's legacy!
46. People, who really manipulate the institutions, are not on the top level or the lowest level. They are on the middle level. They are those people holding real power of implementation.
47. China has more regulations than other advanced countries have in terms of curbing speculation. However, is anybody obeying? Is institution functioning properly? Government themselves hardly comprehensively implement these regulations because of chronic ideologies, which are not proletarian or communist ideologies but ideologies accumulated of thousand years, e.g. to drift and muddle along, emperor mentality, etc.
48. Chinese people are always inclined to make personal profit.
49. Institutions in those developed countries are better than those in China. Why? Because they are not such old countries as China is. They do not need to stick to old things and therefore can deal with the task swiftly.
50. The country has to protect those people who get rich first. Why? These people are the essence of the country. They are something that we can declare to the world.
51. I do not believe that central government does not know about tax evasion. They definitely do know this. Right? Even the Central Government Information Bureau cannot regulate the local TV programme.
52. I think those people who are intelligent and capable will try to make institutions better.
53. For those bureaucrats, they regard the previous public housings were sold to those ordinary people with great favours. On the other hand, populace already paid for these housing and regard them as their lifetime properties.
54. The laws become less efficient than ever.
55. Money becomes more useful and efficient than ever.
56. Everybody actually breaks the law while they are doing business. There is no exception in this country. Nonetheless, if you are in the gray area, you can always break the law.
57. Many rich people do not regard breaking-law as a shame. On the contrary, they do deem breaking-law as a social status, the more crimes they committed without punishment, and the higher social status they are.
58. In my opinion, people don't build up relations with those agents nowadays. Who else has money, whoever has relation, right? The old-fashioned guanxi is no longer available.
59. People, who are able to make quick money, become more arrogant and disregard the laws. They regard themselves as the lawmakers.
60. If you regard the quality of people's thoughts as the quality of the country, then China becomes worst than before.
61. People actually become what government taught.
62. Nobody cares about morality and ethics. Government only focuses on reform and opening. Who else

Databits assigned to the category 'Ideology'

mention about the quality of thoughts?

63. Most of inspections in China are useless. Government and bureaucrats just fake that they also have inspections in order to demonstrate to the world. The contents and scopes of these inspections, undeniably, are parallel to those in advanced countries. However, the implementation of these inspections is nothing but feint.
64. In China, there is political purpose behind every new movement or policy. I should say that this kind of behaviour actually has existed since our ancestor. It's a chronically cultural disadvantage. Incumbent rulers only try to keep their throne at the expense of populace. They never really care about people's lives, whether you are Chinese or Taiwanese.
65. As long as you have connections with incumbent ruler and are of help to keep their thrones, you can do whatever you want. However, once you may jeopardize their thrones, directly or indirectly, you will be eradicated soon without any justified means.
66. Government just take away something that they gave to us beforehand. They presume that we have made enough profit and it is the truth.
67. I just want to complain the implementation of property rights in terms of CCP that they gave you something and consequently take away it from you because of some ridiculous and unacceptable accounts.
68. Powerful people can always bend the rules. Or I should say, any law to these people is flexible.
69. The reform and opening is nothing but a sugar coating. CCP use it to legitimately transfer public properties to certain incumbent political elites and their families.
70. CCP just do everything without preliminary preparation and study, and always adopt the trial-and-error model. As a ruling party, this is not right and cannot be accepted at all. This is backward transition actually against Deng's reform and openness policy and I presume he will never agree with that if he was alive.
71. The consolidation of state agency in the late 1990s was, on one hand, a disaster regardless of responsibilities, and still kept, on the other hand, redundant employees. In fact, the efficiency of each department became worse after consolidation. It was mainly political spoils. What can we do?
72. Once CCP want to implement a new policy nationwide, they actually already have the policy realized in many testing spots with least resistance. The result depends on the determination of highest political leaders. The lower bureaucracy may implement the policy passively but they cannot object it at all even the policy is without legitimate foundation.
73. All I have now are accredited to reforms and CCP. Without them, I am still nobody.
74. Without CCP, people in China remain poor or even worst. Since CCP granted reform and opening, we all can share the benefits of economic development.
75. We all endeavour to persuade them to issues favourable policies to protect ourselves. The favourable policies mean my favourable not other people's. That is to say, any favourable policy will always against someone's existing benefits. With favourable policies, coalminers can make incredible profit from it. Certainly, we have to share with many stakes. This is a universal hidden rule, right? Don't try to pocket profit without sharing with others, especially when you made your commitment to them. Otherwise, you will lose everything, including your life.
76. Chinese knows what another Chinese needs.
77. Once you know their needs, it is more convenient for further communication and cooperation. This will enhance the efficiency of implementation. I think this is the main reason to improve Chinese economic growth because of time and cost saving.
78. As long as CCP is the ruling party, nothing will be changed. Or I should say there is no big change will be made. This country needs economic growth but also stability. Without stability, there is no development at all. We don't want to pursue any growth or development at the expense of stability. The Western multiparty model or voting system definitely doesn't fit to China. You see the Western societies are chaotic.

Appendix 9-5

Assigned Categories	Legitimacy
Case Reference	Interviewee #1
A bit of Data	Unlike those conglomerates or SOEs, we, as SME, are in general in compliance with regulations devised by governments.
Text Location	Appendix 1/6
Date	20/Dec/2009
A bit of Data	Government tries to protect national industries and support domestic industries.
Text Location	Appendix 1/8
Date	20/Dec/2009
A bit of Data	Government starts subsidizing manufacturing industries since few years ago.
Text Location	Appendix 1/20
Date	20/Dec/2009
A bit of Data	Before 2008, government still gave many favours to FDI in terms of tax abatement. These policies had been cancelled already.
Text Location	Appendix 1/22
Date	20/Dec/2010
A bit of Data	In China, banks are biased toward SMEs and favoured SOEs or conglomerates.
Text Location	Appendix 1/23
Date	20/Dec/2009
A bit of Data	Government only give bank loans to certain people, e.g. overseas returnees.
Text Location	Appendix 1/65
Date	20/Dec/2009
Case Reference	Interviewee #2
A bit of Data	State agency promulgated extremely strict specifications regarding foods and drugs to regulate these industries and eliminate those less competitive companies.
Text Location	Appendix 2/22
Date	21/Dec/2009
A bit of Data	Unless the superior authorities or those agencies of other provinces or cities involve directly. State agencies will not actively crackdown those counterfeit products once those manufacturers pay adequate bribes to those corresponding agencies.
Text Location	Appendix 2/31
Date	21/Dec/2009
A bit of Data	Local agencies will not clear those backlog of reported counterfeit cases unless they are forced to clear.
Text Location	Appendix 2/34
Date	21/Dec/2009
A bit of Data	We have to draw on the pressure from higher authority to oppress local state agencies in order to reach our goals. Doing business in China, it is more important build up better connections than to understand the laws.
Text Location	Appendix 2/36
Date	21/Dec/2009
A bit of Data	China remains a rule-by-men society. We too exploit this disadvantage to benefit ourselves.
Text Location	Appendix 2/38
Date	21/Dec/2009

Assigned Categories	Legitimacy
A bit of Data	Everybody is not equal before the law.
Text Location	Appendix 2/39
Date	21/Dec/2009
A bit of Data	Everybody is equal before the law is an everlasting law. However, behind the law, people's positions vary with their power.
Text Location	Appendix 2/40
Date	21/Dec/2009
A bit of Data	Corporate regulations are only valid while employees are working within. Once they leave the company, we have to use the law to impose sanction against them.
Text Location	Appendix 2/42
Date	21/Dec/2009
A bit of Data	We still regard the laws positively if we apply them to the right place, e.g. signing contracts, corporate competition.
Text Location	Appendix 2/43
Date	21/Dec/2009
A bit of Data	The situation of extorting bribery doesn't change too much.
Text Location	Appendix 2/52
Date	21/Dec/2009
A bit of Data	This kind of extortion is even worst in the inner-land areas because of less transparency.
Text Location	Appendix 2/56
Date	21/Dec/2009
A bit of Data	It cannot be denied that both the law enforcement and the quality of bureaucrats have been improved in recent years.
Text Location	Appendix 2/65
Date	21/Dec/2009
A bit of Data	Then China government tried to save her face and embargo all roasted eels shipments to Japan.
Text Location	Appendix 2/71
Date	21/Dec/2009
A bit of Data	China government lifted an embargo on the roasted eels industry for one year. Every maker in this industry was forced to restructure the capabilities in all aspects. China government said that we would rather not make this foreign exchange because we already have too much of it.
Text Location	Appendix 2/72
Date	21/Dec/2009
A bit of Data	China government did not give us any buffer time to accommodate to the newly promulgated food safety law.
Text Location	Appendix 2/74
Date	21/Dec/2009
A bit of Data	As a regular company, we were not largely impacted by the new labour law; however, it costed a lot of time and money for us to sign the new contracts with all employees in all factories.
Text Location	Appendix 2/77
Date	21/Dec/2009
A bit of Data	In Dongguan, there were around three hundreds factories were closed nearly overnight because of the new labour law.
Text Location	Appendix 2/83
Date	21/Dec/2009
A bit of Data	Do not expect China government will issue any institution or policy to

Assigned Categories	Legitimacy
	benefit your business. If you expect that, sooner or later, the expectation will end up with nothing!
Text Location	Appendix 2/92
Date	21/Dec/2009
Case Reference	Interviewee #3
A bit of Data	Reform is imperative. Deng's path is right! Seclusion will end up with death.
Text Location	Appendix 3/4
Date	22/Dec/2009
A bit of Data	Then ownership right was state ownership, party secretary sloganeered the "without ownership, with residence" for SOEs. They did not persist in holding the ownership of SOEs but rather keeping them locally to prosper local economy and pay tax to local government.
Text Location	Appendix 3/8
Date	22/Dec/2009
A bit of Data	Within one year, all collective-owned, state-owned, and TVEs were restructured and transferred to shareholding companies.
Text Location	Appendix 3/27
Date	22/Dec/2009
A bit of Data	Then ownership right was state ownership, party secretary sloganeered the "without ownership, with residence" for SOEs. They did not persist in holding the ownership of SOEs but rather keeping them locally to prosper local economy and pay tax to local government.
Text Location	Appendix 3/8
Date	22/Dec/2009
A bit of Data	If we did not want to participate reforms, we would be fired on the spot and had to stay in that SOE without leaving for at least three years.
Text Location	Appendix 3/12
Date	22/Dec/2009
A bit of Data	If the SOE's leader didn't want to participate the reform, local government had the authority to assign a new person to replace the existing SOE leader immediately.
Text Location	Appendix 3/16
Date	22/Dec/2009
A bit of Data	In any case, CCP always make a case model for everything. Government would assign several work teams from different department to expedite SOEs' restructuring, e.g. tax, banking, business management, labour union, social security, etc.
Text Location	Appendix 3/23
Date	22/Dec/2009
A bit of Data	Government had a schedule for the restructuring. Say, when we had to call for a meeting of the whole plant, how to organize a working platform, what is the next step and after, etc. Government also has scheduled meeting with leader. For example, they set a date to have a meeting with me for discussing the reform policy of my plant.
Text Location	Appendix 3/25
Date	22/Dec/2009
A bit of Data	In Northern Suzhou, they only had one reform model unlike what we had in Zhejiang.
Text Location	Appendix 3/27
Date	22/Dec/2009
A bit of Data	After reform, I went to Northern Suzhou and Northeast provinces and still saw the signboard with "State-owned victory hotel." At that time,

Assigned Categories	Legitimacy
	we Zhejiang people resembled as nowadays Taiwanese. I was laughing when I saw the signboard because there was no any state-owned collective in Suzhou. Not all! Legitimacy varies from one place to another and from time to time.
Text Location	Appendix 3/33
Date	22/Dec/2009
A bit of Data	Government asked those restructuring SOEs that layoff could not exceed five per cent every year.
Text Location	Appendix 3/48-49
Date	22/Dec/2009
A bit of Data	In the planned economy, the management of SOE had no right to sack any labour. They had to report from one level of authority to another.
Text Location	Appendix 3/57
Date	22/Dec/2009
A bit of Data	Reforms have been implemented for several decades since it's beginning. Those political sloganeering, from local authority to central government, clearly encompass the centre of economic growth. Unlike Mao's era, he positioned the class struggle as the centre. That is why most people thought Deng Xiaoping was brilliant. He clearly established the general direction of this nation. That is economic development! Just neglect whatever ism!!
Text Location	Appendix 3/102
Date	22/Dec/2009
A bit of Data	Deng is very influential in terms of reforms. There is no other political leader knows or dares to say anything like Deng said.
Text Location	Appendix 3/104
Date	22/Dec/2009
A bit of Data	Only through reforms can help or restructure then China. Development is the priority principle. Deng put forward the slogan; he also mentioned that China is on a different track as those Western countries do. That's why Deng put forward that we will persist in the Capitalist Socialism economy with Chinese characteristics!
Text Location	Appendix 3/105
Date	22/Dec/2009
A bit of Data	There is not any political party can and dare to correct the welfare system.
Text Location	Appendix 3/117
Date	22/Dec/2009
A bit of Data	There are both advantage and disadvantage of multi-party competition system. In China, however, most people agree to accept current political mode. There too many people and the development are unbalanced in China. If we adopt multi-party system in China, it will end up with chaos.
Text Location	Appendix 3/119
Date	22/Dec/2009
A bit of Data	Most Chinese people agree with existing one-party political system. The multi-party competition system will not benefit China because we have too many people and unbalanced development. If you say the multi-party competition system... 120: immediately... 121: The country will be messed up overnight! One point four billions people! That will be in chaos...
Text Location	Appendix 3/119-121
Date	22/Dec/2009

Assigned Categories	Legitimacy
A bit of Data	We do not follow the wrong path of other advanced countries. China is on her own path.
Text Location	Appendix 3/128
Date	22/Dec/2009
Case Reference	Interviewee #4
A bit of Data	Yes, then was open and under reformed but SOEs remained following the planned economic system in 1989. I think the corporate structure of SOE has very little to do with its performance whether Chinese-foreign JV or shareholding system. It is not saying that SOE is less efficient than private enterprise; there is no direct relation with the corporate structure in terms of the performance.
Text Location	Appendix 4/3
Date	23/Dec/2009
A bit of Data	When I first came to this plant, the worst problem was what to do with these redundant employees. Be honest to you, about half of those employees were useless in terms of work. As a manager, I could not use them. What was worse was that they were not just useless but jeopardize the normal operation in the company, and brought many negative effects. However, the company, or I should say the country has to be responsible for what they become. The country repudiate her responsibility to these people she committed before. We cannot just complain them.
Text Location	Appendix 4/4
Date	23/Dec/2009
A bit of Data	There were two processes of repudiation for government. The first one was initiated in 1988. It was dual tracking. What is that? Those employees hired before 1988 were lifetime employed and cannot be fired or laid off. Those employees hired after 1988 were under the contract system. In general, those employees hired after 1988 were not different from those hired before 1988. Maybe there were slightly different in terms of welfare.
Text Location	Appendix 4/6
Date	23/Dec/2009
A bit of Data	Policy indeed exists; however, it does not mean that you will be entitled to the benefit. SOEs have to apply for the approval from government. To get the approval, SOEs must fulfil a lot of provisions. It is so difficult!
Text Location	Appendix 4/9
Date	23/Dec/2009
A bit of Data	The situation is that people deal with corporate restructuring cautiously in Shanghai. It is very difficult. There are two reasons. The first one is, from the government perspective, Shanghai political leaders are more prudent than other places. Alternatively, I should say those political leaders in other places are bolder than those in Shanghai. Corporate restructuring... Especially those SOEs transferred to private-owned enterprises were rare in Shanghai. If any, they were TVEs or county-owned enterprises. Shanghainese political leaders are very cautious and do not want to take risk of being gossiped. Sometimes they even do not do the right thing in order to avoid arousing suspicion!
Text Location	Appendix 4/14
Date	23/Dec/2009
A bit of Data	To put it bluntly, the higher ranked political leaders may transfer me to other position in next meeting. Who knows? They just need to summon a meeting and with the approvals from few major leaders. That's it!

Assigned Categories	Legitimacy
Text Location	Appendix 4/17
Date	23/Dec/2009
A bit of Data	Yes! I need to discuss with the party secretary assigned to this plant for most important decisions, e.g. human resource or other major issues. In this plant, we make a collective decision. Alternatively, it is under the collective leadership.
Text Location	Appendix 4/25
Date	23/Dec/2009
A bit of Data	we are not allowed to finance and invest independently. All these activities need to be approved by holding company. If we are allowed to invest now, I will find a bigger place, e.g. one to two hundred acres, to expand the factory. Next, I will establish another subsidiary. But we just don't have the authority to do it. Theoretically speaking, we can discuss the authority issue with higher ranked leaders. However, it is literally difficult. The higher leaders are cautious about new investment. Besides, the decision is made collectively. It is bad that once there is any single vote against the proposal, there is no so-called majority rule for the subsequent discussion. That is to say, the decision of the proposal either will adjourn indefinitely or disapproved because of the minority views.
Text Location	Appendix 4/28
Date	23/Dec/2009
Case Reference	Interviewee #5
A bit of Data	Unfortunately, the rules of the game are not all up to financial capability. Alternatively, financial capability sometimes became the Achilles' hill to them. When the panel did the eligibility assessment, they might be questioned or put low marking because they were too rich and were suspected about their motivations, which were land speculation.
Text Location	Appendix 5/8
Date	23/Dec/2009
A bit of Data	National policies will definitely affect our business operations; however, these affections are not lethal at all! Those policies can only delay the schedule progresses but never can change them. You have to know all policies in China are rhetorical and ambiguous but without very less substantial effects. Most policies will leave loopholes for us to exploit except some with serious political intentions. We are not the only speculator in this country. There are bigger speculators in Beijing, Shanghai, Guangzhou, and other major cities. They already formed a syndicate to lobby and influence central government. We are nothing but unwittingly harboured by their efforts. National policy will be discounted always by local governments. Central government knows that, we know that, banks know that, and local authorities know that! Who do not know that? People! Ordinary people always assume they play seriously.
Text Location	Appendix 5/17
Date	23/Dec/2009
A bit of Data	Most policies in China are propaganda campaigns promoted by government. They mainly serve for one purpose – efficiently ruling this country. Policy only occurs when there are unresolved new contradictions among different social classes and may jeopardize CCP. Policy is the best way to put CCP's wills into effect with least cost, e.g. money, killing people, struggles of different social classes or political lines.
Text Location	Appendix 5/19

Assigned Categories	Legitimacy
Date	23/Dec/2009
A bit of Data	Any economic policy is used to bailout those economically important elites trapped in existing institutions or to eradicate economic elites who are politically incorrect. Definitely, these policies always save or destroy some people at the expense of most ordinary people.
Text Location	Appendix 5/22
Date	23/Dec/2009
A bit of Data	So far, we only encountered one risk that could severely jeopardize our business in 2004 because of the soaring housing price. There was a national syndicate formed within this industry in one month of time. Each of us paid money proportionately to the convener as hush money to key persons among media, academia, state agencies, and law enforcers as well. Definitely, those housing developers also made similar efforts as we did. At last, we overpowered them because populace could no longer stand the soaring housing price at all.
Text Location	Appendix 5/23
Date	23/Dec/2009
A bit of Data	I do not think there will be any change in the political system in my life. People do not comprehend how complicated the structure of CCP is and how difficult to operate this giant political machine. Too many parts compose this machine and we are only few small bolts. Perhaps we are vital to the machine, but we still are bolts and can be replaced by those peers in the market if we are not wary enough.
Text Location	Appendix 5/27
Date	23/Dec/2009
Case Reference	Interviewee #6
A bit of Data	Alas! If you compare Western countries with China, just these two kinds of countries, the problem is the government rather than the people. The real reason to restrain the perfection of institution that is the government but not the populace. The incompleteness is owing to some people in the government that are deficient.
Text Location	Appendix 6/2
Date	26/Dec/2009
A bit of Data	Ordinary people cannot and should not fight their corner even on just grounds. Ordinary people can never beat them (government and bureaucrats) under the socialist system. This is Mao's legacy!
Text Location	Appendix 6/3
Date	26/Dec/2009
A bit of Data	People, who really manipulate the institutions, are not on the top level or the lowest level. They are on the middle level. They are those people holding real power of implementation.
Text Location	Appendix 6/13
Date	26/Dec/2009
A bit of Data	You must remember. No matter what institution is, it will never impact those people who manipulate institution. All these institutions never cause impact on the middleman.
Text Location	Appendix 6/19
Date	26/Dec/2009
A bit of Data	China has more regulations than other advanced countries have in terms of curbing speculation. However, is anybody obeying? Is institution functioning properly? Government themselves hardly comprehensively implement these regulations because of chronic ideologies, which are not proletarian or communist ideologies but ideologies accumulated of thousand years, e.g. to drift and muddle

Assigned Categories	Legitimacy
	along, emperor mentality, etc. We have lots of institutions.
Text Location	Appendix 6/25
Date	26/Dec/2009
A bit of Data	Government themselves create the institutional loopholes but not the populace.
Text Location	Appendix 6/34
Date	26/Dec/2009
A bit of Data	Government only change institutions if they have to.
Text Location	Appendix 6/35
Date	26/Dec/2009
A bit of Data	Institutions in those developed countries are better than those in China. Why? Because they are not such old countries as China is. They do not need to stick to old things and therefore can deal with the task swiftly.
Text Location	Appendix 6/36
Date	26/Dec/2009
A bit of Data	The country has to protect those people who get rich first. Why? These people are the essence of the country. They are something that we can declare to the world.
Text Location	Appendix 6/49
Date	26/Dec/2009
A bit of Data	The housing market has been recessed in last two years. Government therefore issue certain new rules to reduce related taxes in order to prosper the market. They reduce taxes, people will start to buy and sell houses and the market become booming again. Is this called policy or institution? I personally don't think so!
Text Location	Appendix 6/66
Date	26/Dec/2009
A bit of Data	I do not believe that central government does not know about tax evasion. They definitely do know this. Right? Even the Central Government Information Bureau cannot regulate the local TV programme.
Text Location	Appendix 6/72
Date	26/Dec/2009
A bit of Data	I think those people who are intelligent and capable will try to make institutions better.
Text Location	Appendix 6/73
Date	26/Dec/2009
A bit of Data	For those bureaucrats, they regard the previous public housings were sold to those ordinary people with great favours. On the other hand, populace already paid for these housing and regard them as their lifetime properties.
Text Location	Appendix 6/85
Date	26/Dec/2009
A bit of Data	Nobody is allowed to take away other people's properties without appropriate compensation because of the law. However, government, on one hand, are the law enforcers, on the other hand, they are surveyors to decide the amount of compensation. As a result, the tragedy happened.
Text Location	Appendix 6/86
Date	26/Dec/2009
A bit of Data	The laws become less efficient than ever.
Text Location	Appendix 6/113

Assigned Categories	Legitimacy
Date	26/Dec/2009
A bit of Data	Money becomes more useful and efficient than ever.
Text Location	Appendix 6/115
Date	26/Dec/2009
A bit of Data	Everybody actually breaks the law while they are doing business. There is no exception in this country. Nonetheless, if you are in the gray area, you can always break the law.
Text Location	Appendix 6/125
Date	26/Dec/2009
A bit of Data	Those law enforcers just blur the line between right and wrong. The legal constraints are based on personal relationship with those law enforcers, e.g. prosecutors, judges, policemen, etc.
Text Location	Appendix 6/135
Date	26/Dec/2009
A bit of Data	From my perspective, Mr. Hwang of Gome Electrical Appliances is a scapegoat. When he initiated his business, there were many people help him. Without those assistances, he can never reach the existing position. He definitely is not the only speculator in the stock market.
Text Location	Appendix 6/139
Date	26/Dec/2009
A bit of Data	Many rich people do not regard breaking-law as a shame. On the contrary, they do deem breaking-law as a social status, the more crimes they committed without punishment, and the higher social status they are.
Text Location	Appendix 6/145
Date	26/Dec/2009
A bit of Data	In my opinion, people don't build up relations with those agents nowadays. Who else has money, whoever has relation, right? The old-fashioned guanxi is no longer available.
Text Location	Appendix 6/145
Date	26/Dec/2009
A bit of Data	People, who are able to make quick money, become more arrogant and disregard the laws. They regard themselves as the lawmakers.
Text Location	Appendix 6/169
Date	26/Dec/2009
A bit of Data	If you regard the quality of people's thoughts as the quality of the country, then China becomes worst than before.
Text Location	Appendix 6/179
Date	26/Dec/2009
A bit of Data	Government makes the quality of people, who only need to say long live Mao. People actually become what government taught them.
Text Location	Appendix 6/197
Date	26/Dec/2009
A bit of Data	Nobody cares about morality and ethics. Government only focuses on reform and opening. Who else mention about the quality of thoughts?
Text Location	Appendix 6/198
Date	26/Dec/2009
Case Reference	Interviewee #7
A bit of Data	Government and bureaucrats just fake that they also have inspections in order to demonstrate to the world. The contents and scopes of these inspections, undeniably, are parallel to those in advanced countries. However, the implementation of these inspections is nothing but feint.

Assigned Categories	Legitimacy
Text Location	Appendix 7/4
Date	15/July/2010
A bit of Data	Incumbent rulers only try to keep their throne at the expense of populace. They never really care about people's lives, whether you are Chinese or Taiwanese.
Text Location	Appendix 7/12
Date	15/July/2010
A bit of Data	Those large and state-owned mining companies also have small mines that produce less than four hundred thousand tons of coal; nevertheless, inspectors put together several small coalmines become a large one that can meet the basic requirement. That's why they do not need to close the small coalmines but we have to. Government just don't want let small coalminer existing. They think we are troublemakers.
Text Location	Appendix 7/15
Date	15/July/2010
A bit of Data	So fat as I know, those large and state-owned mining companies have had severe catastrophes than we do. However, they are able to pay hush money to the press, law enforcers, local authorities, and victims' families. Under the circumstances, people hardly know what happen there. As for us, once we encounter any similar disaster, our powerful rivals will endeavour to disclose everything to the public. In this respect, I regard myself as a victim!
Text Location	Appendix 7/17
Date	15/July/2010
A bit of Data	As long as you have connections with incumbent ruler and are of help to keep their thrones, you can do whatever you want. However, once you may jeopardize their thrones, directly or indirectly, you will be eradicated soon without any justified means.
Text Location	Appendix 7/18
Date	15/July/2010
A bit of Data	Government just take away something that they gave to us beforehand. They presume that we have made enough profit and it is the truth.
Text Location	Appendix 7/20
Date	15/July/2010
A bit of Data	I just want to complain the implementation of property rights in terms of CCP that they gave you something and consequently take away it from you because of some ridiculous and unacceptable accounts.
Text Location	Appendix 7/23
Date	15/July/2010
A bit of Data	Powerful people can always bend the rules. Or I should say, any law to these people is flexible.
Text Location	Appendix 7/23
Date	15/July/2010
A bit of Data	The reform and opening is nothing but a sugar coating. CCP use it to legitimately transfer public properties to certain incumbent political elites and their families.
Text Location	Appendix 7/25
Date	15/July/2010
Case Reference	Interviewee #8
A bit of Data	The consolidation of state agency in the late 1990s was, on one hand, a disaster regardless of responsibilities, and still kept, on the other hand, redundant employees. In fact, the efficiency of each department

Assigned Categories	Legitimacy
	became worse after consolidation. It was mainly political spoils. What can we do?
Text Location	Appendix 8/3
Date	17/July/2010
A bit of Data	Once CCP want to implement a new policy nationwide, they actually already have the policy realized in many testing spots with least resistance. The result depends on the determination of highest political leaders. The lower bureaucracy may implement the policy passively but they cannot object it at all even the policy is without legitimate foundation.
Text Location	Appendix 8/6
Date	17/July/2010
A bit of Data	Before coalmine restructuring, we had no idea what it would be. One of my previous superior just asked us to apply for the SOE restructuring for then working unit. I was scared because we didn't have enough money and plan at all. My superior gave us money as his share in the new company then we started the new company up. It's so simple! My superior has a senior relative in central agency. I assumed this is the reason he always knows everything precisely in advance. Anyway, the exploiting license was transferred to the new company because it's a package deal. I didn't know that all these restructuring were for the exploiting license after several years later. You have asked me why my superior picks me as his representative instead of others? I assume because we both were from the same village. A very small village!
Text Location	Appendix 8/8
Date	17/July/2010
A bit of Data	All I have now are accredited to reforms and CCP. Without them, I am still nobody.
Text Location	Appendix 8/11
Date	17/July/2010
A bit of Data	Without CCP, people in China remain poor or even worst. Since CCP granted reform and opening, we all can share the benefits of economic development.
Text Location	Appendix 8/12
Date	17/July/2010
A bit of Data	Some of my friends, who own other large mining companies, and myself actually plan all consolidation and give it to the state agency. We together convince government that only consolidation will rescue the mining industry and eradicate those small coalminers. They are rats and make bloody money!
Text Location	Appendix 8/15
Date	17/July/2010
A bit of Data	We all endeavour to persuade them to issues favourable policies to protect ourselves. The favourable policies mean my favourable not other people's. That is to say, any favourable policy will always against someone's existing benefits. With favourable policies, coalminers can make incredible profit from it. Certainly, we have to share with many stakes. This is a universal hidden rule, right? Don't try to pocket profit without sharing with others, especially when you made your commitment to them. Otherwise, you will lose everything, including your life.
Text Location	Appendix 8/17
Date	17/July/2010

Assigned Categories	Legitimacy
A bit of Data	The plan, which had been made by us, entails current coalmine consolidation as well as the expanding part. We already target the bigger coalmine in Mongolia and Xingjian. I have surveyed the coalmines there. Comparing with them, the coalmines we have now are nothing at all. We actually started exploitation there already with local people and agents. We just simply apply the same rule of the games to different place. After all, it's China and we all are Chinese, right? Chinese knows what another Chinese needs.
Text Location	Appendix 8/20
Date	17/July/2010
A bit of Data	The new policy applied to Mongolia and Xingjian will not allow small coalminers like what happened here before. All coalminers there are SOEs and conglomerates only. You may say we dominate this industry. But I think we make this industry more regulated without vicious competition. In the end, it helps the mining industry. I deeply believe so.
Text Location	Appendix 8/23
Date	17/July/2010
A bit of Data	As long as CCP is the ruling party, nothing will be changed. Or I should say there is no big change will be made. This country needs economic growth but also stability. Without stability, there is no development at all. We don't want to pursue any growth or development at the expense of stability. The Western multiparty model or voting system definitely doesn't fit to China. You see the Western societies are chaotic.
Text Location	Appendix 8/29
Date	17/July/2010

Appendix 9-6

Databits assigned to the category 'Legitimacy'
<ol style="list-style-type: none"> 1. Unlike those conglomerates or SOEs, we, as SME, are in general in compliance with regulations devised by governments. 2. Government tries to protect national industries and support domestic industries. 3. Government starts subsidizing manufacturing industries since few years ago. 4. Before 2008, government still gave many favours to FDI in terms of tax abatement. These policies had been cancelled already. 5. In China, banks are biased toward SMEs and favoured SOEs or conglomerates. 6. Government only give bank loans to certain people, e.g. overseas returnees. 7. State agency promulgated extremely strict specifications regarding foods and drugs to regulate these industries and eliminate those less competitive companies. 8. Unless the superior authorities or those agencies of other provinces or cities involve directly. State agencies will not actively crackdown those counterfeit products once those manufacturers pay adequate bribes to those corresponding agencies. 9. We have to draw on the pressure from higher authority to oppress local state agencies in order to reach our goals. Doing business in China, it is more important build up better connections than to understand the laws. 10. Everybody is equal before the law is an everlasting law. However, behind the law, people's positions vary with their power. 11. We still regard the laws positively if we apply them to the right place, e.g. signing contracts, corporate competition.

Databits assigned to the category 'Legitimacy'

12. This kind of extortion is even worst in the inner-land areas because of less transparency.
13. Then China government tried to save her face and embargo all roasted eels shipments to Japan.
14. China government lifted an embargo on the roasted eels industry for one year. Every maker in this industry was forced to restructure the capabilities in all aspects. China government said that we would rather not make this foreign exchange because we already have too much of it.
15. China government did not give us any buffer time to accommodate to the newly promulgated food safety law.
16. Reform is imperative. Deng's path is right!
17. Then ownership right was state ownership, party secretary sloganeered the "without ownership, with residence" for SOEs. They did not persist in holding the ownership of SOEs but rather keeping them locally to prosper local economy and pay tax to local government.
18. Within one year, all collective-owned, state-owned, and TVEs were restructured and transferred to shareholding companies.
19. If we did not want to participate reforms, we would be fired on the spot and had to stay in that SOE without leaving for at least three years.
20. Government had a schedule for the restructuring.
21. In Northern Suzhou, they only had one reform model unlike what we had in Zhejiang.
22. Government asked those restructuring SOEs that layoff could not exceed five per cent every year.
23. In the planned economy, the management of SOE had no right to sack any labour. They had to report from one level of authority to another.
24. That is why most people thought Deng Xiaoping was brilliant. He clearly established the general direction of this nation. That is economic development! Just neglect whatever ism!!
25. Deng is very influential in terms of reforms. There is no other political leader knows or dares to say anything like Deng said.
26. Only through reforms can help or restructure then China. Development is the priority principle. Deng put forward the slogan; he also mentioned that China is on a different track as those Western countries do. That's why Deng put forward that we will persist in the Capitalist Socialism economy with Chinese characteristics!
27. There is not any political party can and dare to correct the welfare system.
28. In China, however, most people agree to accept current political mode. There too many people and the development are unbalanced in China. If we adopt multi-party system in China, it will end up with chaos.
29. Most Chinese people agree with existing one-party political system.
30. We do not follow the wrong path of other advanced countries. China is on her own path.
31. Yes, then was open and under reformed but SOEs remained following the planned economic system in 1989.
32. There were two processes of repudiation for government. The first one was initiated in 1988. It was dual tracking.
33. Policy indeed exists; however, it does not mean that you will be entitled to the benefit. SOEs have to apply for the approval from government. To get the approval, SOEs must fulfil a lot of provisions. It is so difficult!
34. The situation is that people deal with corporate restructuring cautiously in Shanghai. It is very difficult. There are two reasons. The first one is, from the government perspective, Shanghai political leaders are more prudent than other places. Alternatively, I should say those political leaders in other places are bolder than those in Shanghai. Corporate restructuring... Especially those SOEs transferred to private-owned enterprises were rare in Shanghai. If any, they were TVEs or county-owned enterprises. Shanghai political leaders are very cautious and do not want to take risk of being gossiped. Sometimes they even do not do the right thing in order to avoid arousing suspicion!
35. Yes! I need to discuss with the party secretary assigned to this plant for most important decisions, e.g. human resource or other major issues. In this plant, we make a collective decision. Alternatively, it is

Databits assigned to the category 'Legitimacy'

under the collective leadership.

36. We are not allowed to finance and invest independently. All these activities need to be approved by holding company. Theoretically speaking, we can discuss the authority issue with higher ranked leaders. However, it is literally difficult. The higher leaders are cautious about new investment. Besides, the decision is made collectively. It is bad that once there is any single vote against the proposal, there is no so-called majority rule for the subsequent discussion. That is to say, the decision of the proposal either will adjourn indefinitely or disapproved because of the minority views.
37. Unfortunately, the rules of the game are not all up to financial capability. Alternatively, financial capability sometimes became the Achilles' hill to them. When the panel did the eligibility assessment, they might be questioned or put low marking because they were too rich and were suspected about their motivations, which were land speculation.
38. National policy will be discounted always by local governments. Central government knows that, we know that, banks know that, and local authorities know that! Who do not know that? People! Ordinary people always assume they play seriously.
39. Most policies in China are propaganda campaigns promoted by government. They mainly serve for one purpose – efficiently ruling this country. Policy only occurs when there are unresolved new contradictions among different social classes and may jeopardize CCP. Policy is the best way to put CCP's wills into effect with least cost, e.g. money, killing people, struggles of different social classes or political lines.
40. I do not think there will be any change in the political system in my life. People do not comprehend how complicated the structure of CCP is and how difficult to operate this giant political machine. Too many parts compose this machine and we are only few small bolts. Perhaps we are vital to the machine, but we still are bolts and can be replaced by those peers in the market if we are not wary enough.
41. Ordinary people cannot and should not fight their corner even on just grounds. Ordinary people can never beat them (government and bureaucrats) under the socialist system. This is Mao's legacy!
42. China has more regulations than other advanced countries have in terms of curbing speculation. However, is anybody obeying? Is institution functioning properly? Government themselves hardly comprehensively implement these regulations because of chronic ideologies, which are not proletarian or communist ideologies but ideologies accumulated of thousand years, e.g. to drift and muddle along, emperor mentality, etc.
43. The country has to protect those people who get rich first. Why? These people are the essence of the country. They are something that we can declare to the world.
44. Government therefore issue certain new rules to reduce related taxes in order to prosper the market. They reduce taxes, people will start to buy and sell houses and the market become booming again.
45. For those bureaucrats, they regard the previous public housings were sold to those ordinary people with great favours.
46. Nobody is allowed to take away other people's properties without appropriate compensation because of the law. However, government, on one hand, are the law enforcers, on the other hand, they are surveyors to decide the amount of compensation.
47. Everybody actually breaks the law while they are doing business. There is no exception in this country. Nonetheless, if you are in the gray area, you can always break the law.
48. Those law enforcers just blur the line between right and wrong. The legal constraints are based on personal relationship with those law enforcers, e.g. prosecutors, judges, policemen, etc.
49. Many rich people do not regard breaking-law as a shame. On the contrary, they do deem breaking-law as a social status, the more crimes they committed without punishment, and the higher social status they are.
50. Government and bureaucrats just fake that they also have inspections in order to demonstrate to the world. The contents and scopes of these inspections, undeniably, are parallel to those in advanced countries. However, the implementation of these inspections is nothing but feint.
51. Those large and state-owned mining companies also have small mines that produce less than four hundred thousand tons of coal; nevertheless, inspectors put together several small coalmines become a large one that can meet the basic requirement. That's why they do not need to close the small coalmines but we have to.
52. As long as you have connections with incumbent ruler and are of help to keep their thrones, you can do whatever you want. However, once you may jeopardize their thrones, directly or indirectly, you will be

Databits assigned to the category 'Legitimacy'

eradicated soon without any justified means.

53. Government just take away something that they gave to us beforehand.

54. Powerful people can always bend the rules. Or I should say, any law to these people is flexible.

55. Once CCP want to implement a new policy nationwide, they actually already have the policy realized in many testing spots with least resistance. The result depends on the determination of highest political leaders. The lower bureaucracy may implement the policy passively but they cannot object it at all even the policy is without legitimate foundation.

56. All I have now are accredited to reforms and CCP. Without them, I am still nobody.

57. Without CCP, people in China remain poor or even worst. Since CCP granted reform and opening, we all can share the benefits of economic development.

58. We all endeavour to persuade them to issues favourable policies to protect ourselves. The favourable policies mean my favourable not other people's. That is to say, any favourable policy will always against someone's existing benefits. With favourable policies, coalminers can make incredible profit from it. Certainly, we have to share with many stakes. This is a universal hidden rule, right? Don't try to pocket profit without sharing with others, especially when you made your commitment to them. Otherwise, you will lose everything, including your life.

59. The new policy applied to Mongolia and Xingjian will not allow small coalminers like what happened here before. All coalminers there are SOEs and conglomerates only. You may say we dominate this industry. But I think we make this industry more regulated without vicious competition. In the end, it helps the mining industry. I deeply believe so.

60. As long as CCP is the ruling party, nothing will be changed. Or I should say there is no big change will be made. This country needs economic growth but also stability. Without stability, there is no development at all. We don't want to pursue any growth or development at the expense of stability. The Western multiparty model or voting system definitely doesn't fit to China. You see the Western societies are chaotic.

APPENDIX 10

Appendix 10-1 Subcategorized databits for the category “Formal Constraints”

Formal Constraints											
Formal Constraints inflicted by HNWIs or Likes						Formal Constraints from Government					
Constraints imposed on Government		Constraints imposed on HNWIs and likes		Constraints imposed on ordinary people		Constraints imposed on Government		Constraints imposed on HNWIs and likes		Constraints imposed on ordinary people	
Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints
14 If we did not pass the inspection, we would be fined a lot of money by state agencies. We knew that would be a big trouble to us. We would approach them and paid bribes when they were off-duty.	5 Most banks in China are state-owned; therefore, they have lots of red tape and less flexibility.	9 Local agencies will not clear those backlog of reported counterfeit cases unless they are forced to clear.	32 the higher ranked political leaders may transfer me to other position in next meeting		8 State agencies will not actively crackdown those counterfeit products once those manufacturers pay adequate bribes to those corresponding agencies.	21 When SOE was not able to pay salaries to employees, they would seek help from political leaders and asked them “how to do?” The city mayor would call for a meeting with state banks and asked them to lend money to SOEs.	8 Unless the superior authorities or those agencies of other provinces or cities involve directly.	17 China government said that we would rather not make this foreign exchange because we already have too much of it. They did not need to rely on the roasted eels industry to make foreign exchange.	33 I need to discuss with the party secretary assigned to this plant for most important decisions, e.g. human resource or other major issues.	1 We, as SME, are in general in compliance with regulations devised by governments.	
11 China remains a rule-by-men society. We too exploit this disadvantage to benefit ourselves.						30 There were two processes of repudiation for government. The first one was initiated in 1988. It was dual tracking. What is that? Those employees		18 China government did not give us any buffer time to accommodate to the newly promulgated food safety law	22 If we did not want to participate reforms, we would be fired on the spot and had to stay in that SOE without leaving for at least three years.	2 Before 2008, government still gave many favours to FDI in terms of tax abatement	

Formal Constraints											
Formal Constraints inflicted by HNWI or Likes						Formal Constraints from Government					
Constraints imposed on Government		Constraints imposed on HNWI and likes		Constraints imposed on ordinary people		Constraints imposed on Government		Constraints imposed on HNWI and likes		Constraints imposed on ordinary people	
Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints
						hired before 1988 were lifetime employed and cannot be fired or laid off.					
40 There was a national syndicate formed within this industry in one month of time. Each of us paid money proportionately to the convener as hush money to key persons among media, academia, state agencies, and law enforcers as well.	12 behind the law, people's positions vary with their power.	13 we have to use the law to impose sanction against them				23 government forced state-owned banks to handle the debts of SOEs as bad debts.		19 We have to replace nearly all additives that had been used for years overnight. This change raised our cost dramatically.		16 Then China government tried to save her face and embargo all roasted eels shipments to Japan	
	10 We have to draw on the pressure from higher authority to oppress local state agencies in order to reach our goals.	37 Most of them were unable to get the ticket to attend the auction because my colleagues deliberately make things difficult to my competitors in order to				23 Government asked those restructuring SOEs that layoff could not exceed five per cent every year		7 State agency promulgated extremely strict specifications regarding foods and drugs to regulate these industries and eliminate those less		3 It's very difficult for SMEs to get bank loans in China	

Formal Constraints											
Formal Constraints inflicted by HNWI's or Likes						Formal Constraints from Government					
Constraints imposed on Government		Constraints imposed on HNWI's and likes		Constraints imposed on ordinary people		Constraints imposed on Government		Constraints imposed on HNWI's and likes		Constraints imposed on ordinary people	
Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints
		reduce the number of bidders.						competitive companies			
37 Through the assistances of my former superior and colleagues, we got the ticket effortless in comparison with other competitors.		38 Definitely, our connections will freeze the approval of construction permits when we want to trade the on-hand package deals.				34 the decision of the proposal either will adjourn indefinitely or disapproved because of the minority views.		20 In Dongguan, there were around three hundreds factories were closed nearly overnight because of the new labour law		4 banks are biased toward SMEs and favoured SOEs or conglomerates	
42 No matter what institution is, it will never impact those people who manipulate institution.		48 In comparison with large mining companies or SOEs, we are, most of the time, as good as they are because I was a coal miner. However, government always can find fault with us and give us low marking. It's unfair!				25 In the planned economy, the management of SOE had no right to sack any labour.		37 It is very difficult to get the ticket to attend the land-use right auction.		6 Government only give bank loans to certain people, e.g. overseas returnees	
44 Housing developers always have to pay bribes to local officials but bureaucrats have to make sure all preliminary works are well prepared and bureaucrats have to demolish all existing ground materials.		49 That's why they do not need to close the small coalmines but we have to. Government just don't want let small coalminer existing.				31 Shanghainese political leaders are very cautious and do not want to take risk of being gossip. Sometimes they even do not do the right thing in order to avoid arousing suspicion!					
46 Those law enforcers just blur the line between right and wrong. The legal constraints are based on personal relationship with those law enforcers, e.g. prosecutors, judges, policemen, etc.		54 This information helps me to select the best coalmines when we start our own business in this industry.				35 I do not feel right about their way to deal with problem in terms of higher raked leaders. They		27 What if reforms failed? They would lose all their investments.		36 I majored in chemistry engineering during college and was assigned to the State Bureau of	

Formal Constraints											
Formal Constraints inflicted by HNWI or Likes						Formal Constraints from Government					
Constraints imposed on Government		Constraints imposed on HNWI and likes		Constraints imposed on ordinary people		Constraints imposed on Government		Constraints imposed on HNWI and likes		Constraints imposed on ordinary people	
Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints
						focus too much on the procedure and institution.				Survey Mapping as an engineer in 1985 even though I had no idea what leveller or transit was.	
47 Who else has money, whoever has relation, right?		57 We together convince government that only consolidation will rescue the mining industry and eradicate those small coalminers.				26 Within one year, all collective-owned, state-owned, and TVEs were restructured and transferred to shareholding companies			51 Government just take away something that they gave to us beforehand.	44 For those bureaucrats, they regard the previous public housings were sold to those ordinary people with great favours.	
48 There are many safety inspections in our coal pits and others as well. Some of these inspections are mere formalities and useless. We have been told prior to their spot checks.		58 That is to say, any favourable policy will always against someone's existing benefits.				28 Between 2000 and 2005, I had limited power because of the middle tier of bureaucracy between this plant and the holding company.			52 CCP that they gave you something and consequently take away it from you because of some ridiculous and unacceptable accounts.	45 However, government, on one hand, are the law enforcers, on the other hand, they are surveyors to decide the amount of compensation.	
49 Those large and state-owned mining companies also have small mines that produce less than four hundred thousand tons of coal; nevertheless, inspectors		60 The new policy applied to Mongolia and Xingjian will not allow small coalminers like what happened here before.				39 National policies will definitely affect our business					

Formal Constraints											
Formal Constraints inflicted by HNWI or Likes						Formal Constraints from Government					
Constraints imposed on Government		Constraints imposed on HNWI and likes		Constraints imposed on ordinary people		Constraints imposed on Government		Constraints imposed on HNWI and likes		Constraints imposed on ordinary people	
Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints	Economic Constraints	Political Constraints
money to those SOEs and get the right to use all their mining facilities.											
57 Some of my friends, who own other large mining companies, and myself actually plan all consolidation and give it to the state agency.											
58 Every single private coalminer has his own influential power. We have different connections with local and central state agencies. We all endeavour to persuade them to issues favourable policies to protect ourselves.											
59 The plan, which had been made by us, entails current coalmine consolidation as well as the expanding part.											
60 I think we make this industry more regulated without vicious competition.											

Appendix 10-2 Subcategorized databits for the category “Ideology”

Ideology					
Inherited Ideology			Imposed Ideology		
Political Aspect	Economic Aspect	Cultural Aspect	Political Aspect	Economic Aspect	Cultural Aspect
7 You must know there is a complex between China and Japan.		1 It may be related to the ideological modal, we don't like to borrow money from bank.	12 China remains a rule-by-men society.	3 If you say the manufacturing industry, Chinese companies may be behind Taiwanese competitors. If you say R&D, I think Chinese companies are better than Taiwanese companies	6 Those overseas returnees have more interaction with foreign countries; therefore, their ideological ideas are inclined to foreign business operation
17 Just like the Qing dynasty in China history, they were on the track to seclusion.		2 This is a conventional idea. We don't borrow money from others. If the business fails, we only lose our own money	13 Not everybody is equal before the law.	5 Even when encountered difficulty, we did not want to borrow money from banks	14 The situation of extorting bribery doesn't change too much.

Ideology					
Inherited Ideology			Imposed Ideology		
Political Aspect	Economic Aspect	Cultural Aspect	Political Aspect	Economic Aspect	Cultural Aspect
37 Those superior political leaders like to see labours being on the hop. If they saw labours were at ease, these political leaders would regard those labours shirked.		4 It's the cultural behaviours. People in China don't like to borrow money from others.	17 Reform is imperative. Deng's path is right! Seclusion will end up with death.	9 There are one point three billion people in China. How can you not recruit adequate labours? It's impossible!	18 Those old people, who experienced war before 1949, think they just wasted time and lives to fight for proletariat if CCP move forward to reform and opening.
52 I think those people who are intelligent and capable will try to make institutions better.		19 I don't think we can learn any academic knowledge abroad. What can they learn any academic knowledge abroad? Our children already have very good level of mathematics when they graduated from high school in China.	7 Once China government negotiate with Japanese government, they will set up a trade barrier	8 Chinese domestic market will be the biggest one in the world in the near future. Why we grab the market with bubble economy in Japan?	19 Deng had the experience of studying abroad. Surely he had this experience. That's why send our children studying abroad to accept some new concept.
64 In China, there is political purpose behind every new movement or policy. I should say that this kind of behaviour actually has existed since our ancestor.		23 I should say that Chinese traditions are smart and brilliant. When we go abroad, we can see foreign people are not as brilliant as Chinese are, right?	16 I just criticize government a lot. You must be very careful in handling the interview. Don't set me up!	10 No matter which industry you are, only the strongest one can survive. You have to be the number one in the industry	
		23 In addition, Chinese are undeniably thrift and industrious.	20 Unlike Mao's era, he positioned the class struggle as the centre.	11 The counterfeit problems are prevailed everywhere in China!	
		39 Chinese people just do not want to see other people become rich quickly than them. They were just jealous.	21 Deng is very influential in terms of reforms. There is no other political leader knows or dares to say anything like Deng said.	15 Do not expect China government will issue any institution or policy to benefit your business. If you expect that, eventually, the expectation will end up with nothing!	
		48 Chinese people are always inclined to make personal profit.	22 Only through reforms can help or restructure then China. Development is the priority principle. Any slogan must be understandable like Deng said. No matter what political party, they must have a loud and clear slogan. Populace must	20 That is why most people thought Deng Xiaoping was brilliant. He clearly established the general direction of this nation. That is economic development! Just neglect whatever ism!	26 Because foreign welfare system is too good, they don't need to work after being working for four to five years. After that, you don't need to worry about your meals. You can have something to eat even sitting at home!

Ideology					
Inherited Ideology			Imposed Ideology		
Political Aspect	Economic Aspect	Cultural Aspect	Political Aspect	Economic Aspect	Cultural Aspect
			know that. If you put forward a vague slogan, who else knows the content? Deng put forward the slogan; he also mentioned that China is on a different track as those Western countries do. That's why Deng put forward that we will persist in the Capitalist Socialism economy with Chinese characteristics!		
		49 They do not need to stick to old things and therefore can deal with the task swiftly.	25 The ways foreign people educate their children are different as we do. It's absolutely different from ours.	31 There are too many people and the development are unbalanced in China.	29 Because those Western people already have the bad habit, it's very difficult for them to get rid of it!
		76 Chinese knows what another Chinese needs.	27 There are very few industrious young men in those Western countries. They have too much freedom! If I don't want to work, government has to give me unemployment pension as well as meals. Government will never let me die in starvation. Why should I work eight hours a day? Why should I go to work? I just want to get a suntan!	35 Yes, then was open and under reformed but SOEs remained following the planned economic system in 1989. The superior political leaders were not quite sure about the position of SOEs after economic reforms.	33 If we buy a Japanese punching machine, it will cost us two million and seven hundred thousand dollars. It is not worth of that at all. We made our own punching machine, which is exactly the same as Japanese one, by copying their blue print. The performance is even better than Japanese one, let alone the cost!
	77 Once you know their needs, it is more convenient for further communication and cooperation. This will enhance the efficiency of implementation. I think this is the main reason to improve Chinese economic growth because of time and cost saving.		28 In three hundred years later, those foreign countries can never compete with us, definitely! They cannot have those institutions as Chinese have. We definitely can exceed them!	35 People mainly regard SOEs as inefficient.	40 Ordinary people always assume they play seriously.
			30 There is not any political party can and dare to correct the welfare system.	36 However, the company, or I should say the country has to be responsible for what they become. The country repudiate her responsibility to	49 Institutions in those developed countries are better than those in China.

Ideology					
Inherited Ideology			Imposed Ideology		
Political Aspect	Economic Aspect	Cultural Aspect	Political Aspect	Economic Aspect	Cultural Aspect
				these people she committed before. We cannot just complain them.	
			31 There are both advantage and disadvantage of multi-party competition system. In China, however, most people agree to accept current political mode. If we adopt multi-party system in China, it will end up with chaos.	38 There were several blind spots in SOEs' management. They always tried to save their faces by covering payable costs. Therefore, the net profit shown on the accounting book looked great	57 Many rich people do not regard breaking-law as a shame. On the contrary, they do deem breaking-law as a social status, the more crimes they committed without punishment, and the higher social status they are.
			32 We do not follow the wrong path of other advanced countries. China is on her own path.	40 You have to know all policies in China are rhetorical and ambiguous but without very less substantial effects.	58 The old-fashioned guanxi is no longer available.
			34 Those advanced countries take hundreds of years to their current positions. For us, we may only need to spend a decade to reach that position.	42 Any economic policy is used to bailout those economically important elites trapped in existing institutions or to eradicate economic elites who are politically incorrect.	59 People, who are able to make quick money, become more arrogant and disregard the laws. They regard themselves as the lawmakers.
			40 National policies will be discounted always by local governments.	43 I do not think there will be any change in the political system in my life. People do not comprehend how complicated the structure of CCP is and how difficult to operate this giant political machine.	60 If you regard the quality of people's thoughts as the quality of the country, then China becomes worst than before.
			41 Most policies in China are propaganda campaigns promoted by government. They mainly serve for one purpose – efficiently ruling this country.	44 Alas! If you compare Western countries with China, just these two kinds of countries, the problem is the government rather than the people. The real reason to restrain the perfection of institution that is the government but not the populace. The incompleteness is	61 People actually become what government taught.

Ideology					
Inherited Ideology			Imposed Ideology		
Political Aspect	Economic Aspect	Cultural Aspect	Political Aspect	Economic Aspect	Cultural Aspect
				owing to some people in the government that are deficient	
			46 People, who really manipulate the institutions, are not on the top level or the lowest level. They are on the middle level. They are those people holding real power of implementation.	45 Ordinary people cannot and should not fight their corner even on just grounds.	62 Nobody cares about morality and ethics. Who else mention about the quality of thoughts?
			50 The country has to protect those people who get rich first. Why? These people are the essence of the country. They are something that we can declare to the world.	47 Government themselves hardly comprehensively implement these regulations because of chronic ideologies, which are not proletarian or communist ideologies but ideologies accumulated of thousand years, e.g. to drift and muddle along, emperor mentality, etc.	63 The contents and scopes of these inspections, undeniably, are parallel to those in advanced countries. However, the implementation of these inspections is nothing but feint.
			54 The laws become less efficient than ever.	51 I do not believe that central government does not know about tax evasion. They definitely do know this.	64 It's a chronically cultural disadvantage.
			58 In my opinion, people don't build up relations with those agents nowadays. Who else has money, whoever has relation, right?	53 For those bureaucrats, they regard the previous public housings were sold to those ordinary people with great favours.	78 You see the Western societies are chaotic.
			62 Government only focuses on reform and opening.	55 Money becomes more useful and efficient than ever.	
			64 Incumbent rulers only try to keep their throne at the expense of populace. They never really care about people's lives, whether you are Chinese or Taiwanese.	56 Everybody actually breaks the law while they are doing business.	
			65 As long as you have connections with incumbent ruler and are of help to keep their thrones, you can do	63 Most of inspections in China are useless. Government and bureaucrats just fake that they also have	

Ideology					
Inherited Ideology			Imposed Ideology		
Political Aspect	Economic Aspect	Cultural Aspect	Political Aspect	Economic Aspect	Cultural Aspect
			whatever you want. However, once you may jeopardize their thrones, directly or indirectly, you will be eradicated soon without any justified means.	inspections in order to demonstrate to the world.	
			66 Government just take away something that they gave to us beforehand. They presume that we have made enough profit and it is the truth.		
			67 I just want to complain the implementation of property rights in terms of CCP that they gave you something and consequently take away it from you because of some ridiculous and unacceptable accounts.		
			68 Powerful people can always bend the rules. Or I should say, any law to these people is flexible.	69 CCP use it to legitimately transfer public properties to certain incumbent political elites and their families.	
			69 The reform and opening is nothing but a sugar coating.	70 This is backward transition actually against Deng's reform and openness policy and I presume he will never agree with that if he was alive.	
			70 CCP just do everything without preliminary preparation and study, and always adopt the trial-and-error model.	71 The consolidation of state agency in the late 1990s was, on one hand, a disaster regardless of responsibilities, and still kept, on the other hand, redundant employees.	
			71 In fact, the efficiency of each department became worse after consolidation. It was mainly political spoils. What can we do?		
			72 Once CCP want to implement a new policy nationwide, they actually already have the policy realized in many testing spots with least resistance. The result depends on the determination of highest political leaders. The lower bureaucracy may implement the policy passively but they cannot object it at all even the policy is without legitimate foundation.		
			74 Since CCP granted reform and opening, we all can share the benefits of economic development.	73 All I have now are accredited to reforms and CCP. Without them, I am still nobody.	
				74 Without CCP, people in China remain poor or even	

Ideology					
Inherited Ideology			Imposed Ideology		
Political Aspect	Economic Aspect	Cultural Aspect	Political Aspect	Economic Aspect	Cultural Aspect
				worst.	
			75 We all endeavour to persuade them to issues favourable policies to protect ourselves. The favourable policies mean my favourable not other people's. That is to say, any favourable policy will always against someone's existing benefits.		
				75 With favourable policies, coalminers can make incredible profit from it. Certainly, we have to share with many stakes. This is a universal hidden rule, right? Don't try to pocket profit without sharing with others, especially when you made your commitment to them. Otherwise, you will lose everything, including your life.	
				77 Once you know their needs, it is more convenient for further communication and cooperation. This will enhance the efficiency of implementation. I think this is the main reason to improve Chinese economic growth because of time and cost saving.	
			78 As long as CCP is the ruling party, nothing will be changed. Or I should say there is no big change will be made.		
			78 This country needs economic growth but also stability. Without stability, there is no development at all. We don't want to pursue any growth or development at the expense of stability.		
			78 The Western multiparty model or voting system definitely doesn't fit to China.		

Appendix 10-3 Subcategorized databits for the category "Legitimacy"

Legitimacy				
Regulative	Normative		Cultural-Cognitive	
Rule, Law, Sanction	Appropriateness	Certification, Accreditation	Prevalence	Isomorphism
1 Unlike those conglomerates or SOEs, we, as SME, are in general in compliance with regulations devised by governments.	13 Then China government tried to save her face and embargo all roasted eels shipments to Japan.	33 it does not mean that you will be entitled to the benefit. SOEs have to apply for the approval from government. To get the approval, SOEs must fulfil a lot of provisions. It is so difficult!	3 Government starts subsidizing manufacturing industries since few years ago.	1 Unlike those conglomerates or SOEs, we, as SME, are in general in compliance with regulations devised by governments.
2 Government tries to protect national industries and support domestic industries.			5 In China, banks are biased	42 Government themselves

Legitimacy					
Regulative		Normative		Cultural-Cognitive	
Rule, Law, Sanction		Appropriateness	Certification, Accreditation	Prevalence	Isomorphism
				toward SMEs and favoured SOEs or conglomerates.	hardly comprehensively implement these regulations because of chronic ideologies, which are not proletarian or communist ideologies but ideologies accumulated of thousand years, e.g. to drift and muddle along, emperor mentality, etc.
3 Government starts subsidizing manufacturing industries since few years ago.		14 China government said that we would rather not make this foreign exchange because we already have too much of it.		6 Government only give bank loans to certain people, e.g. overseas returnees.	
4 Before 2008, government still gave many favours to FDI in terms of tax abatement. These policies had been cancelled already.				8 Unless the superior authorities or those agencies of other provinces or cities involve directly. State agencies will not actively crackdown those counterfeit products once those manufacturers pay adequate bribes to those corresponding agencies.	
7 State agencies promulgated extremely strict specifications regarding foods and drugs to regulate these industries and eliminate those less competitive companies.				9 Doing business in China, it is more important build up better connections than to understand the laws.	
9 We have to draw on the pressure from higher authority to oppress local state agencies in order to reach our goals.		15 China government did not give us any buffer time to accommodate to the newly promulgated food safety law.		10 Everybody is equal before the law is an everlasting law. However, behind the law, people's positions vary with their power.	
11 We still regard the laws positively if we apply them to the right place, e.g. signing contracts, corporate competition.		16 Reform is imperative. Deng's path is right!		12 This kind of extortion is even worst in the inner-land areas because of less transparency.	
14 China government lifted an embargo on the roasted eels industry for one year. Every maker in this industry was forced to restructure the capabilities in all aspects.		21 In Northern Suzhou, they only had one reform model unlike what we had in Zhejiang.		17 They did not persist in holding the ownership of SOEs but rather keeping them locally to prosper local economy and pay tax to local government.	
17 Then ownership right was state ownership, party secretary sloganeered the "without ownership, with residence" for SOEs.				18 Within one year, all collective-owned, state-owned, and TVEs were restructured and transferred to shareholding companies.	
19 If we did not want to participate reforms, we would be fired on the spot and had to stay in that SOE without leaving for at least three years.				23 In the planned economy, the management of SOE had	

Legitimacy					
Regulative		Normative		Cultural-Cognitive	
Rule, Law, Sanction		Appropriateness	Certification, Accreditation	Prevalence	Isomorphism
				no right to sack any labour. They had to report from one level of authority to another.	
20 Government had a schedule for the restructuring.		25 Deng is very influential in terms of reforms. There is no other political leader knows or dares to say anything like Deng said.		23 That is why most people thought Deng Xiaoping was brilliant. He clearly established the general direction of this nation. That is economic development! Just neglect whatever ism!!	
22 Government asked those restructuring SOEs that layoff could not exceed five per cent every year.				26 Deng put forward the slogan; he also mentioned that China is on a different track as those Western countries do. That's why Deng put forward that we will persist in the Capitalist Socialism economy with Chinese characteristics!	
23 In the planned economy, the management of SOE had no right to sack any labour. They had to report from one level of authority to another.		26 Only through reforms can help or restructure then China. Development is the priority principle.		29 Most Chinese people agree with existing one-party political system.	
27 There is not any political party can and dare to correct the welfare system.				31 Yes, then was open and under reformed but SOEs remained following the planned economic system in 1989.	
28 In China, however, most people agree to accept current political mode. There too many people and the development are unbalanced in China. If we adopt multi-party system in China, it will end up with chaos.				36 Besides, the decision is made collectively. It is bad that once there is any single vote against the proposal, there is no so-called majority rule for the subsequent discussion. That is to say, the decision of the proposal either will adjourn indefinitely or disapproved because of the minority views.	
33 Policy indeed exists		29 Most Chinese people agree with existing one-party political system.		38 National policy will be discounted always by local governments. Central government knows that, we know that, banks know that, and local authorities know that! Who do not know that? People! Ordinary people always assume they play seriously.	
36 We are not allowed to finance and invest independently. All these activities need to be approved by holding company.		30 We do not follow the wrong path of other advanced countries. China is on her own path.		45 For those bureaucrats, they regard the previous public housings were sold to those ordinary people with great favours.	

Legitimacy						
Regulative		Normative		Cultural-Cognitive		
Rule, Law, Sanction		Appropriateness	Certification, Accreditation	Prevalence	Isomorphism	
32 There were two processes of repudiation for government. The first one was initiated in 1988. It was dual tracking.				46 Nobody is allowed to take away other people's properties without appropriate compensation because of the law. However, government, on one hand, are the law enforcers, on the other hand, they are surveyors to decide the amount of compensation.		
37 Unfortunately, the rules of the game are not all up to financial capability.		34 The situation is that people deal with corporate restructuring cautiously in Shanghai. It is very difficult. There are two reasons. The first one is, from the government perspective, Shanghai political leaders are more prudent than other places. Alternatively, I should say those political leaders in other places are bolder than those in Shanghai. Corporate restructuring... Especially those SOEs transferred to private-owned enterprises were rare in Shanghai. If any, they were TVEs or county-owned enterprises. Shanghai political leaders are very cautious and do not want to take risk of being gossiped. Sometimes they even do not do the right thing in order to avoid arousing suspicion!			47 Everybody actually breaks the law while they are doing business. There is no exception in this country. Nonetheless, if you are in the gray area, you can always break the law.	
35 Yes! I need to discuss with the party secretary assigned to this plant for most important decisions, e.g. human resource or other major issues. In this plant, we make a collective decision. Alternatively, it is under the collective leadership.				48 Those law enforcers just blur the line between right and wrong. The legal constraints are based on personal relationship with those law enforcers, e.g. prosecutors, judges, policemen, etc.		
42 China has more regulations than other advanced countries have in terms of curbing speculation.		36 Theoretically speaking, we can discuss the authority issue with higher ranked leaders.		49 Many rich people do not regard breaking-law as a shame. On the contrary, they do deem breaking-law as a social status, the more crimes they committed without punishment, and the higher		

Legitimacy					
Regulative		Normative		Cultural-Cognitive	
Rule, Law, Sanction		Appropriateness	Certification, Accreditation	Prevalence	Isomorphism
		However, it is literally difficult. The higher leaders are cautious about new investment.		social status they are.	
		37 Alternatively, financial capability sometimes became the Achilles' hill to them. When the panel did the eligibility assessment, they might be questioned or put low marking because they were too rich and were suspected about their motivations, which were land speculation.		50 Government and bureaucrats just fake that they also have inspections in order to demonstrate to the world. The contents and scopes of these inspections, undeniably, are parallel to those in advanced countries. However, the implementation of these inspections is nothing but feint.	
39 Most policies in China are propaganda campaigns promoted by government. They mainly serve for one purpose – efficiently ruling this country.		39 Policy only occurs when there are unresolved new contradictions among different social classes and may jeopardize CCP. Policy is the best way to put CCP's wills into effect with least cost, e.g. money, killing people, struggles of different social classes or political lines.		51 Those large and state-owned mining companies also have small mines that produce less than four hundred thousand tons of coal; nevertheless, inspectors put together several small coalmines become a large one that can meet the basic requirement. That's why they do not need to close the small coalmines but we have to.	
40 I do not think there will be any change in the political system in my life. People do not comprehend how complicated the structure of CCP is and how difficult to operate this giant political machine. Too many parts compose this machine and we are only few small bolts. Perhaps we are vital to the machine, but we still are bolts and can be replaced by those peers in the market if we are not wary enough.				52 As long as you have connections with incumbent ruler and are of help to keep their thrones, you can do whatever you want.	
41 Ordinary people cannot and should not fight their corner even on just grounds. Ordinary people can never beat them (government and bureaucrats) under the socialist system. This is Mao's legacy!				54 Powerful people can always bend the rules. Or I should say, any law to these people is flexible.	
52 However, once you may jeopardize their thrones, directly or indirectly, you will be eradicated soon without any justified means.		43 The country has to protect those people who get rich first. Why? These people are the essence of the country. They are something that we can declare to the world.		56 All I have now are accredited to reforms and CCP. Without them, I am still nobody.	
53 Government just take away something that they gave to us beforehand.		44 Government therefore issue certain new rules to reduce related taxes in order to prosper the market. They reduce taxes, people will start to buy and sell houses and the		57 Without CCP, people in China remain poor or even worst. Since CCP granted reform and opening, we all can share the benefits of economic development.	

Legitimacy					
Regulative		Normative		Cultural-Cognitive	
Rule, Law, Sanction		Appropriateness	Certification, Accreditation	Prevalence	Isomorphism
		market become booming again.			
55 Once CCP want to implement a new policy nationwide, they actually already have the policy realized in many testing spots with least resistance. The result depends on the determination of highest political leaders. The lower bureaucracy may implement the policy passively but they cannot object it at all even the policy is without legitimate foundation.				58 We all endeavour to persuade them to issues favourable policies to protect ourselves. The favourable policies mean my favourable not other people's. That is to say, any favourable policy will always against someone's existing benefits. With favourable policies, coalminers can make incredible profit from it. Certainly, we have to share with many stakes. This is a universal hidden rule, right? Don't try to pocket profit without sharing with others, especially when you made your commitment to them. Otherwise, you will lose everything, including your life.	
58 We all endeavour to persuade them to issues favourable policies to protect ourselves. The favourable policies mean my favourable not other people's. That is to say, any favourable policy will always against someone's existing benefits. With favourable policies, coalminers can make incredible profit from it. Certainly, we have to share with many stakes. This is a universal hidden rule, right? Don't try to pocket profit without sharing with others, especially when you made your commitment to them. Otherwise, you will lose everything, including your life.					
		59 The new policy applied to Mongolia and Xingjian will not allow small coalminers like what happened here before. All coalminers there are SOEs and conglomerates only. You may say we dominate this industry. But I think we make this industry more regulated without vicious competition. In the end, it helps the mining industry. I deeply believe so.			
60 As long as CCP is the ruling party, nothing will be changed. Or I should say there is no big change will be made. This country needs economic growth but also stability. Without stability, there is no development at all. We don't want to pursue any growth or development at the expense of stability. The Western multiparty model or voting system definitely doesn't fit to China. You see the Western societies are chaotic.					

APPENDIX 11 – AGRICULTURAL REFORMS

Before the establishment of PRC, only small parts of the agricultural surplus were used to afford the industrialization in China. Therefore, when Mao and his comrades built PRC, they transferred more agricultural residual to industrialize China. In another word, they not only have to control the agricultural residual to the extreme extent, but also take over the positions of landowners in order to collect more land taxes (see table 11.1).

Qing Dynasty (1750 – 1911)	2% - 4% ²		
The Northern Warlord Government (1912 – 1936)	2% - 5% ³		
Puppet Government under Japanese control (1937 – 1945)	6% - 8% ⁴ 50% in Southern region of Yangzi River	KMT Government (1937 – 1945)	20% ⁵
PRC (1949 – 2005 ⁶)	11% ⁷		

1. The percentage is the proportion to the total land output; 2. (Wang 1973); 3. (Huang 1985); 4. (Habermas 1990:172); 5. (Selden 1971:181-183); 6. In 2005, the 10th National People's Congress passed the resolution to repeal the agricultural tax; 7. (Habermas 1990:170-171)

Table 11.1 Agricultural Tax Rate in China

From the table 7.3, it seems CCP is never satisfied with this relatively impressive performance. In addition, to impose the high agricultural levy on peasants, CCP actually coveted more from this enticing financial source in order to expedite China's industrialization progress. According to Lippit's study (1974), agricultural tax and land rent accounted for 30% of peasants' total outputs before the establishment of PRC. Therefore, after taking off the agricultural tax levied on peasants by CCP, there were approximately 20% agricultural residual remained at peasants' disposals after land reforms. These remaining agricultural residuals become extremely enticing to the potentates. Before land reforms initiated in 1950, landlord and other higher hierarchies effectively controlled the farmland in rural areas (see table 11.2). Therefore, landlord and other likes actually took most agricultural outputs

away from those peasants. From 1950 to 1953, CCP implemented the land reforms that they had promised to equitably distributing farmland to peasants during civil war (Chen *et al.* 2008:20-24). By implementing land reforms, the self-owned ratio of farmland was raised more than three-fold, which was from 14% to 47%, in four years (1950 – 1953) (see table 11.3). This impressive performance of land reforms indeed intensified the supports to CCP from peasants, who represent then vast majority of people in China (see table 2). In this contradictory circumstance, CCP, on one hand, are desperately eager for the supports to their legitimacy from the majority of people in China, one the other hand, they urgently need, by all means, financial resources to intensify the process of industrialization.

Since it is unfeasible to eat the cake and have it at the same time, CCP had to make their final decisions to choose their political priority. Therefore, CCP decided, at first, to tackle industrialization and correspondingly collect high agricultural tax from peasants in mid-50s. The consequences of the high agricultural tax, however, incurred various collective protests everywhere in rural areas (Bo 1991:239,258,281). As a result, there comes to a clear conclusion that CCP, as a traditional tax collector, cannot tie together the already distributed agricultural residual, which were distributed to all peasants, again owing to the exorbitant high transaction cost. In this regard, CCP had an innovative scheme, which was other than any conventional state mechanism, to effectively accumulate sufficient capital to achieve their political aims. In other words, CCP began to penetrate the private ownership rights (Demsetz 1988:17) in late 50s.

Social Stratum	Household (10,000)	Household Proportion (%)	Population (10,000 persons)	Population Proportion (%)	Arable Land (10,000 acreage)	Arable Land Proportion (%)	Average Household Arable Land (acreage)	Average Arable Land per capita (acreage)
Poor Peasant	6,062	57.44	23,123	52.37	21,503	14.28	3.55	0.89
Middle peasant	3,081	29.20	15,260	33.13	46,577	30.94	15.12	3.05
Rich Peasant	325	3.08	2,144	4.66	20,566	13.66	63.23	9.59

Social Stratum	Household (10,000)	Household Proportion (%)	Population (10,000 persons)	Population Proportion (%)	Arable Land (10,000 acreage)	Arable Land Proportion (%)	Average Household Arable Land (acreage)	Average Arable Land per capita (acreage)
Landlord	400	3.79	2,188	4.75	57,588	38.26	144.11	26.32
Others	686	6.49	2,344	5.09	4,300	2.86	6.27	1.83
Total	10,554	100.00	46,059	100.00	150,534	100.00	14.26	3.27

Data derived from (Nbsc 1980)

Table 11.2 The Possession of Agrarian Land in PRC before land reforms

Social Stratum	Household Proportion (%)	Population Proportion (%)	Arable Land Proportion (%)
Poor Peasant	54.50	52.20	47.10
Middle peasant	39.30	39.90	44.30
Rich Peasant	3.10	5.30	6.40
Landlord	2.40	2.60	2.20
Others	0.70	-	-
Total	100.00	100.00	100.00

Data derived from (Nbsc 1980)

Table 11.3 The Possession of Arable Land in PRC after land reforms

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