

China's Economic Think Tanks: Their Changing Role in the 1990s

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ABSTRACT During the 1980s, economic think tanks played a key role as centres of expertise, with distinctive philosophies and approaches to economic transition. Although they were all government-sponsored, they served as important alternatives to the policies and advice available within the formal government bureaucracy. In the 1990s, think tanks continued to play an important role but lost some of their distinctive personality. Expertise was absorbed into the bureaucracy, but at the same time independent think tanks emerged. Think tanks were knit into a web of policy debate and advice which Premier Zhu Rongji, in particular, uses as a source of ideas and analysis. The total network of advisers has become more important, while think tanks have become less distinctive nodes of that network.

During the 1980s, independent think tanks played a crucial role in economic reform policy-making. Two key features made them important at that time. First, Premier Zhao Ziyang intentionally patronized independent think tanks in order to develop sources of ideas and expertise outside the entrenched policy analysts in the government ministries. At that time the ministries, with a few important exceptions, were quite conservative and had limited expertise. Secondly, in the early stages of reform there were large programmatic differences between the approaches advocated by different think tanks. Think tanks were able to define the policy agenda to a certain extent, and served as policy entrepreneurs, pushing for approaches to transition and packages of reform-related measures. The most influential independent think tanks were liquidated after the Tiananmen incident, and a new configuration of expertise and influence emerged during the 1990s. The following six differences are most apparent.

First, much of the ordinary provision of economic advice has moved back into the government apparatus. Better advice is available because many government organizations now contain talented economists, indeed, sometimes the same individuals who were in independent think tanks in the 1980s. The government has become more professional, and can more effectively absorb ideas and talent. Thus, there is no longer a clear inside/outside differential between government economists and individuals in independent think tanks. Some of the government institutions, especially the State Council Development Research Institute (DRC) function as loose umbrellas incorporating many economists and a range of viewpoints.

At the same time, the number of independent think tanks has increased, and these have become more diverse. This partially reflects diversification of the potential clients for economic advice. In the 1980s, the only game in town was to influence Zhao Ziyang, or one of the influential revolutionary elders (such as Deng Xiaoping, Chen Yun). Today, gaining influence with Zhu Rongji is still the most important way to affect policy.

But in addition, think tanks work for private clients, and some economists make careers as public intellectuals, giving talks and writing books and articles. Partly as a result, there is a broad policy community that encompasses Beijing economists both within and outside government. Connections among those economists are both formal and informal, and there are many ways to access advice.

Thirdly, the ideological divisions among economists are much less important than they were in the 1980s. Most economists share a common worldview, and look for practical approaches to opening markets, and improving property rights and macroeconomic co-ordination. This facilitates the loose structure described in the previous point.

The fourth difference is that top policy makers task different organizations with different research tasks. Policy makers can reach outside the normal bureaucratic chain of command and task government or individual think tanks with specific research commands. Zhu Rongji, in particular, will solicit proposals from several different sources to address a single problem. Advisers are therefore aware that they are in competition with other potential advisers, and that they should respond to the terms of reference of the policy maker requesting input.

The fifth point is that regional economic policy communities are most important in Shanghai and Guangdong. However, their influence in Beijing is quite limited.

Finally, Zhu Rongji personally dominates the ultimate policy-making decision. His self-confidence and impatience lead to a personalized but also broadly consultative process. Zhu will not hesitate to summon the person whose views he wishes to solicit, regardless of their formal affiliation. He is also entirely capable of ignoring professional advice and basing decisions on his own instincts.

The 1980s Background

During the 1980s, economic expertise was somewhat uncomfortably divided among seasoned individuals with extensive experience of the socialist economy, and brash youngsters with lots of new ideas. Senior economists were well represented in the economic research institutes under the Chinese Academy of Social Sciences (CASS), all of which in turn were offshoots of the original CASS Institute of Economics (IOE).¹ The young economists were especially well represented in three think tanks. These were the Rural Development Research Centre (RDRC), the Economic Reform Institute (*tigaisuo*), and a section of the CASS IOE. The three young institutes were each associated with a particular policy package. The mostly young members identified strongly with the programme and objectives of the organization. Often an older economist acted as a supporter and patron: Du Runsheng was the patron of the RDRC, and Dong Furen supported the young economists in CASS IOE.

1. Nina Halpern, "Economic specialists and the making of Chinese economic policy, 1955–1983" (Ann Arbor: University of Michigan PhD dissertation, 1985).

Chen Yizi played the role of seasoned leader and manager of the Economic Reform Institute. Extensive debate over the proper strategy for economic reform took place among these different institutes, particularly during 1984–86.²

Another important type of think tank was represented by the System Reform Commission (a separate organization from the Economic Reform Institute), and the Development Research Centre (DRC). Both these were composite organizations, designed to accommodate individuals and groups that, for one reason or another, didn't fit neatly into other slots. These organizations accommodated a wider range of views. The System Reform Commission spent a lot of time trying to come up with an overall programme of reform that would command consensus support, something it never did achieve.

The three institutes dominated by young people were devastated in the wake of Tiananmen. A number of influential individuals were targeted during the Tiananmen crackdown for their activism in support of reform. Several important individuals (including Chen Yizi) fled China during the initial crackdown. A handful of activist economists were imprisoned, including Bai Nansheng of the RDRC, who spent nine months in jail. The RDRC and Economic Reform Institute were dissolved. CASS IOE was decimated by months of criticism, self-criticism and rectification. Many of the brightest economists left – either to pursue further education abroad or to go into business for themselves. But surprisingly, those who remained gradually began to move back into positions of influence. Of course, there is a selection process at work here: those who had really burned their bridges with the top leadership were of course those most likely to leave. The intense creative vortexes were dissolved, but lots of talented people remained to provide input when a new round of economic reforms became feasible after 1992. Both of the “establishment” think tanks, the DRC and SRC, survived with only moderate damage, and both absorbed some of the economists laid off in the dissolution of the other institutes.

The DRC

The DRC survived the transition to the 1990s in particularly good shape. It is really a kind of a coalition of numerous different research bodies and affiliated organizations. In fact, it was founded in 1981, but took its current form through a merger of three formerly separate research organizations in 1985, and it retains a loose organizational structure. The merger in 1985 brought together the former Economic Research Centre (under Xue Muqiao), the Price Research Centre and the Technical Economic Research Centre (under Wu Jiawei). These three precursor organizations had been created on an *ad hoc* basis to assemble

2. Joseph Fewsmith, *Dilemmas of Reform: Political Conflict and Economic Debate* (Armonk, NY: M.E. Sharpe, 1994); Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978–1993* (New York: Cambridge University Press, 1995), pp. 187–199.

researchers who were unable to work well with CASS, especially the IOE, due to personal or political conflicts dating back to the Cultural Revolution and before. After Tiananmen, a group of agricultural economists from the former RDRC moved to DRC and established the Rural Economics Division (*nongcun jingji bu*) as another division there.

Despite its somewhat dispersed organizational structure, the DRC is a highly competent, professional organization. It often serves informally as an independent check on the policy preferences of government departments. The DRC Research Department on Foreign Economic Relations, for example, has some excellent foreign trade economists. They often agree with researchers from the Ministry of Foreign Trade (MOFTEC), but not always. This is very useful to policy makers, because MOFTEC recommendations are sometimes influenced by the significant economic interests that have built up within it, and policy makers aren't always sure who to believe. For instance, MOFTEC is supportive of so-called "processing trade," under which duty-free imports come in for processing or assembly and tax-free export, while the fiscal and planning agencies are generally hostile to it, arguing that it costs tax revenues and supports industries with low technological levels. Zhu Rongji inclines toward the view of the planning agencies. On this issue, DRC economists have supported MOFTEC's views. DRC researchers pointed out that processing trade had become the key form of electronics industry development in China and argued strenuously for its preservation. In this sense, DRC serves to help break down the excessive departmentalism that has traditionally characterized discussions within the Chinese government bureaucracy. Its researchers are brought into meetings on trade policy reform so that all the expertise isn't bottled up in the ministry, and so that independent views can be heard.

The Rural Economy Research Department served an extremely important function in maintaining the continuity of expertise of the group of young economists that had developed in the 1980s. The head of that division, Chen Xiwen, has since emerged as perhaps the single most influential agricultural economist in China. DRC is also the home of some of the most competent model-builders among the China economics community. The Research Department on Development Strategy and Regional Economics was created in the 1980s by engineers who applied their training in systems analysis to economic modelling (Wang Huijiong and Li Boxi). This division has used computable general equilibrium models, for example, to forecast the impact of World Trade Organization (WTO) membership and alternative pension reforms. Partly because of its model-building expertise, DRC has more input than most other organizations to the five-year and longer plans adopted by the government. As an organization directly under the State Council, its primary job is to respond to requests from the State Council. Given its structure and its direct dependence on the State Council (and its "personality"), DRC cannot be expected to be an independent source of policy initiatives. Nor does it have a reputation for vigorously defending unpopular viewpoints. Rather, it is expected to provide advice, on demand, from its bosses, and

it makes an effort to satisfy its bosses. However, researchers are given ample leeway to develop their own research, build expertise and develop into new areas. They also maintain an excellent and informative website: www.drc.gov.cn.

Independent Think Tanks

At the opposite pole from the DRC are the independent think tanks that have developed during the 1990s. Of these, the most important is the China Centre for Economic Research (CCER) established by Justin Lin in 1994. Justin Lin plays an unusual role in China, because of both his Taiwan origin and his outstanding intellect. He also brings a consistent commitment to liberalization and free markets that reflects, among other things, his PhD training at the University of Chicago. "Lin's centre" (as it is universally called) was more or less forced to become a part of Beijing University, rather than retaining formal independence. But in fact, to the surprise of many, the leadership of Beijing University has adopted an attitude of enlightened support, recognizing that the continuing prestige of the university requires that it have an authoritative and influential role in economic research (like other Chinese universities, Beijing University has traditionally been weak on practical economic studies).

Lin's centre is more academically oriented than other think tanks. Lin has reunited some of the interesting and thoughtful young economists that emerged in China during the 1980s. Two of note are Zhou Qiren and Song Guoqing. Zhou has co-ordinated a research programme on urban labour markets, particularly examining the relationship between reform and downsizing of state enterprises and immigration of rural workers. Song Guoqing is a specialist on the specific characteristics of China's macroeconomy, and continues to do innovative work on institutional change as it affects macroeconomic dynamics. These studies are closer to basic research than to policy advocacy, although specific policy suggestions emerge from them, and these researchers do get an occasional hearing from government officials. One explicit objective of CCER is to facilitate the repatriation of Chinese researchers educated abroad. Partly in support of that objective, Lin's centre has received significant financial support from the World Bank and the Ford Foundation, which has enabled it to maintain its independence and scholarly orientation.

There are a number of other independent think tanks in Beijing, usually built around a single, strong-minded individual. These are interesting, and each has a role to play. Yet they are perhaps best thought of in the context of the emergence of "public intellectuals" in China today. This phenomenon – strikingly pioneered by a group of neo-conservatives and neo-nationalists – also has an economic counterpart. Some leading economists, particularly those who are unusually articulate and good at reaching a large audience, have discovered that they can support themselves and wield influence by addressing the public, rather than just policy makers. At the same time, such a role inevitably creates jealousy and personal and policy conflicts, so these individuals may become

uncomfortable in their original organizational homes. Independent think tanks provide good platforms for these public intellectuals, and a way to handle the economic pressures and opportunities of this kind of role.

Three of these independent organizations are worthy of note. Hu Angang operates a research institute under the formal aegis of the Chinese Academy of Sciences. Labelled the *Guoqing yanjiusuo*, which translates roughly as “Research Institute on National Conditions,” Hu uses this platform to push policies that favour a stronger government and more centralization, but also continued marketization and greater investment in human resources. The senior economist Mao Yushi, formerly of the CASS Economics Institute, operates the oddly named “Unirule Institute,” and is a consistent advocate of liberalization. Finally, Fan Gang, a particularly articulate (in both Chinese and English) younger economist, has operated out of the Economic Reform Foundation since leaving CASS IOE.

A striking fact is that two of these three independent economists were singled out for criticism in early 2000, apparently by Jiang Zemin personally. Mao Yushi and Fan Gang were among those who got caught in a blast of pique initially occasioned by Li Shen zhi’s cutting criticism of Jiang on the occasion of the 50th anniversary of the People’s Republic. The choice of victims is peculiar: Mao Yushi likes to make occasionally flamboyant comments about economics, but he has not used his public status in ways that seem especially critical of the regime; and Fan Gang is a moderate liberal, more likely to be a defender of current Chinese policy than a critic. In both cases, the official criticism was less threatening to the individuals than it would have been in the past: they did not have to worry about their jobs or think about doing self-criticism. However, they were temporarily cut off from access to the official media, which had provided a significant share of their personal income. Although one cannot be sure, it seems possible that these two were singled out for a warning because they were independent, and not because they were saying anything particularly different from what less independent economists were saying.

Influencing the Policy Process

Zhu Rongji has dominated economic policy-making in China since mid-1993. This has caused the policy-making process to become less formalized and less institutionalized. Zhu himself is an economist, insofar as training and experience in the socialist economy can make one an economist. Zhu’s experience has been well tailored to understand China’s economy: he has served in economics research in CASS, on the State Economic and Planning Commissions, and as mayor of Shanghai, all crucial vantage points from an economic point of view. These experiences make him confident of his own understanding and perceptions, reinforcing what must certainly be a natural self-confidence, bordering on arrogance.

Zhu maintains ultimate decision-making in his own hands. He rarely,

if ever, delegates the entire policy evaluation process to a subordinate individual or organization. Moreover, Zhu frequently solicits competing proposals from a range of different individuals, inside and outside government. He then makes the final decision himself, based on his reading of the proposals. This was the case in 2001 with the decisions on shoring up the financing of China's pension funds by selling off some of the state-owned shares of corporations listed on the stock market. There is evidence of Zhu soliciting competing proposals for pension funding, for the mechanism of selling state shares and for the decision to suspend the programme. And in each case, after soliciting advice, Zhu made the final decision himself.³

This personalization of the decision process is reflected organizationally as well. In the governmental reform of 1998, Zhu lowered the rank of the System Reform Commission, and shrank its personnel, converting it to a System Reform Office. Liu Zhongli stepped down as Minister of Finance at that time and was appointed head of the System Reform Office. Subsequently, at the summer 2000 Beidaihe meetings, Liu was also appointed as co-chair, along with Zhu Rongji, of a new Social Security Commission. Social security is clearly near the top of today's agenda in China, and some excellent younger economists are staffing this effort. Undoubtedly, the work will proceed in some sense under the aegis of the System Reform Office. More fundamentally, though, the Social Security Commission is an *ad hoc* grouping of people from inside and outside government, brought together to tackle a key policy item. Experience seems to indicate that the key actors are not think tanks, but rather are individuals knit together in constantly shifting networks. Indeed, Liu Zhongli has been tasked to lead more than one "task force" (*zhongda ketizu*) under Zhu Rongji, a means of organizing policy research that seems to be entirely informal.

The personalization of the policy process is made possible because Zhu personally knows most of the important economists in China. In part this is the legacy of the past. In the late 1970s, Zhu was a deputy section head of the Institute of Industrial Economics at CASS. As a result, he was in day-to-day contact with senior economists at CASS. These senior economists later dispersed to a number of different research institutions and retained influence because over the years they built up relationships with senior Party and government leaders of varying ideological hues. Zhu Rongji prefers to make his own contacts, and is capable of being quite brusque with these senior individuals. Zhu solicits advice widely, but is also quite prepared to ignore economic advice if he doesn't like it. The most important example has been grain marketing policy. The fundamental problem was that state grain traders were supposed to run successful businesses, but also implement state policies that were designed to smooth out price fluctuations and maintain grain stocks. As a result, state grain managers faced huge temptations to misuse state funds, and it was extremely difficult to monitor their behaviour. The

3. Barry Naughton, "Selling down the state share: contested policy, new rules," *China Leadership Monitor*, March 2002.

proper solution, virtually all involved economists believed, was to complete the liberalization of the grain market by eliminating controls; freeing state grain traders to be businessmen; and setting up a single, smaller organization to manage state grain reserves. However, Zhu seized control of the decision, and decided instead to re-monopolize much of the grain trade and try to force state grain traders to fulfil their responsibilities to the government. Zhu's policy was criticized, but Zhu ignored the criticism and rebuked the critics. In this case, the policy process produced the wrong outcome, the costs of which are still being felt.

China's WTO Membership

WTO membership is another case in which Zhu Rongji dominated the policy process. Zhu has strongly pushed WTO membership since he first had the power to make a difference, and his fingerprints have been on every key breakthrough offer. MOFTEC of course has day-to-day responsibility for managing WTO policy and negotiations, and MOFTEC also does not seem to have wavered in its support for eventual WTO membership, on terms favourable to China. Other economists have had essentially no input into WTO policy-making.

However, in part this may be because Chinese economists – at least until very recently – have overwhelmingly favoured WTO membership in the abstract. Numerous organizations have been tasked to provide assessments of the impact of WTO, either overall or with respect to specific sectors. The computable general equilibrium model of the DRC has been called into service to estimate the impact of WTO membership, and DRC modellers did a superb job of incorporating China's institutional particularities into the modelling process. The CASS IOE did a large-scale sector-by-sector study, oriented towards identifying the most serious future challenges. Rural economists have incorporated WTO membership into their econometric studies of China's farm sector, and also analysed specific product markets. All the studies by establishment economists have ended with generally optimistic conclusions about China's ability to absorb the disruptions of WTO membership.

Today, there is a vocal anti-globalization group in Beijing that denounces WTO membership, but they have few professional economists in their camp. During the negotiation process hardly anybody was vigorously arguing against it, or seeking to modify it in fundamental ways. Professional economists studying WTO impact regularly complained about their access to information. They did not get inside information on China's offers. They didn't even get the final bilateral agreement with the US from Chinese government sources, at least not until after it was released publicly in the US. Indeed, many modelling exercises were implemented with details of the failed agreement from Zhu Rongji's Washington visit, taken off the White House website. Specific ministries and interest groups fought against specific provisions of the WTO agreement, but these were all interest-based manoeuvres, rather than broader opposition to accession itself.

Fiscal Reform

Fiscal reform is unusual because of the key role of one individual, Lou Jiwei, who has long had Zhu Rongji's ear. Lou Jiwei began his career in the System Reform Commission in the 1980s. But when Zhu Rongji became mayor of Shanghai, Lou opted to go with him, arguing that one could have more of an impact at that time (1987) in the provinces. He returned to the System Reform Commission Macroeconomic Division in Beijing, and then to the Ministry of Finance, to serve as Zhu Rongji's policy adviser for fiscal reform. Later, he was sent to Guizhou as vice-governor, clearly a career-grooming move. Today he is vice-minister of finance, and there are persistent rumours that Zhu wanted Lou to be minister, but has been blocked because Lou is not from the fiscal system and is too much an intellectual, and too little a politician, to fill such a role. Lou Jiwei is thus a classic example of expertise moving into the government from independent think tanks. He exemplifies the process of government agencies picking up expertise from various sources. Usually the input comes from smart people within the ministries, given additional training (including training abroad); or from intake of individuals at a lower level.

While Lou Jiwei is typical in representing uptake of talent by government agencies, he is atypical with respect to the prominent role and high rank he immediately assumed. Lou was brought in from outside the Ministry of Finance system to make reforms and change the relationship between it and other ministries. I know of no other case where an individual from outside a ministerial system has been given such authority within a ministry, and such a mandate for change. The 1993 fiscal reforms were one of the most important policy actions of the 1990s. It was done in-house in the Ministry of Finance, by a working group co-ordinated by Lou Jiwei. Others who played an important role, all Ministry of Finance people, include Jiang Yonghua, the head of the local budget department, and Xu Shanda, head of the State Administration of Taxation. Most of these individuals then accompanied Zhu Rongji on a well-known national tour, as he explained, cajoled, threatened and seduced local government officials to accept the reforms. The key challenge of tax reform was to broaden the tax base, and increase the central government's tax take, while still leaving local governments as well off as before (and without strangling the economy). Tax reform successfully achieved these objectives.

Since 1993, a succession of smaller fiscal reforms have ensued, generally developed by the same policy shop within the Ministry of Finance. Efforts to change extra-budgetary fees into budgetary taxes, with greater transparency and legal control, have been ongoing and important. Most recently, as China's economy has shifted from a shortage economy with "investment hunger," to a demand driven, buyer's market with a tendency toward weak private and corporate investment, new demands on the tax system have arisen. The 1993 tax reform adopted a type of value-added tax (VAT) that taxed investment as well as consumption.

This is unusual among VAT economies, where businesses are usually able to deduct investment expenses as well as input expenses from their tax base. However, it was appropriate to the Chinese economy of the 1980s and early 1990s, where firms with access to easy credit were pouring money into investment. Recent discussions on changing the VAT to a consumption base have been led by the Ministry of Finance, and in particular by Xu Shanda, head of the Tax Administration. This is an interesting and difficult position for the Ministry of Finance, because it would result in a large reduction in tax revenues, and thus clashes with the ministry's institutional interests. The choice will be an interesting test of the policy-making capabilities that have been built up within the ministry.

Rural Economic Policy

The creative young economists grouped together in the Rural Development Research Centre in the 1980s, and dispersed after Tiananmen, found new homes in the 1990s. One group, led by Chen Xiwen, found a home at the DRC; another group, led by Du Ying, made a home at the Ministry of Agriculture, in the form of the Research Centre on the Rural Economy (RCRE). These two emerged as the two key rural economists, and gradually brought back many of the other bright young rural economists of the 1980s. Even Bai Nansheng, who spent nine months in prison after Tiananmen, resumed a significant role. Thus agriculture also provides an example of expertise moving into the formal government ministry charged with that sector. Granted, the Ministry of Agriculture has always been a little different from other ministries, because it has always seen its role as advocate for the interests of a very large and not very powerful group: China's farmers. Thus, there have always been good economists and knowledgeable policy analysts within the ministry. But the absorption of independent economists has significantly expanded its expertise and its vision.

Moreover, the policy process seems to be considerably more institutionalized in the case of rural policy. Not coincidentally, Zhu Rongji does not directly manage agricultural policy in the way that he manages, say, fiscal, trade or enterprise reform policy. Instead, Wen Jiabao is in charge of rural policy, except for grain market policy (claimed by Zhu as his own). The formal structure of advice and consultation corresponds to the actual flow of information. The Economics and Finance Office of the State Council (*caijingban*) is supposed to be the authoritative "funnel" for advice from various sources. The head of agriculture in this office is Duan Yingbi, a long-standing Ministry of Agriculture official in the 1980s, close to Zhao Ziyang, whose career was adversely affected by Tiananmen. Duan reports directly to Wen Jiabo, the State Councillor in charge of agriculture, and he consults closely with Chen Xiwen and Du Ying. Thus, while expertise has been concentrated in two different centres, one in the Agriculture Ministry and one in the DRC, they are linked by past ties and by an effective channel to the policy makers.

At the end of the 1990s, a semi-independent and more research-oriented institute seemed to be increasingly influential in rural policy. Huang Jikun's Centre for Chinese Agricultural Policy (C-CAP), originally part of the Chinese Academy of Agricultural Sciences, moved over to the sponsorship of the Geography Institute of the Chinese Academy of Sciences. C-CAP appears to have absorbed some of the influence exercised by RCRE up to the mid-1990s. RCRE has lost some good people lately and is somewhat less influential than it has been. The fluidity of subordination relations and the gradual changes in influence testify to the flexibility in the system.

Rural economic policy lies outside Zhu Rongji's direct personal influence, but displays some similar patterns with areas under his direct purview. Expertise has moved into the government agencies; networks of individuals are important; those individuals form a policy community with much commonality of views; and top policy makers dip into the community to task specific individuals with research projects or policy advice. It may be simply coincidence that the actual consultation process comfortably fits the formal structure of information flows. Alternately, it may be that Wen Jiabao's more organizational style, his lower personal power and status, or his ability to listen and follow good advice give this policy arena some special characteristics.

Conclusion

Economic think tanks in the 1990s became more diverse, more porous and more networked into a broader policy community. Influential, networked individuals are distributed among a number of different organizations. The level of expertise increased dramatically, both within the government ministries and in independent institutes. Increased expertise and converging worldviews permitted greater exchange of ideas and personnel between government ministries and independent institutes. Zhu Rongji contributed to this growth by tapping a wide variety of sources for expertise, and intentionally bringing competing views to the table. But Zhu's personal dominance of the decision-making process also hindered the institutionalization of independent analytic capability. Perhaps the future evolution of the Beijing policy community will bring us back towards the 1980s, with independent institutes developing more distinctive identities and policy prescriptions, and competing to influence a broader and better informed public.