PROMOTING COMPETITION AND MAINTAINING MONOPOLY: DUAL FUNCTIONS OF CHINESE INDUSTRIAL POLICIES DURING ECONOMIC TRANSITION

JIANG XIAOJUAN*

From the early 1950s to the late 1970s, China possessed a planned and highly centralized economy. With this economic structure, the market played virtually no role, and competition itself was out of the question, let alone a government policy encouraging such competition.

During the late 1970s, China began restructuring its economic system, aligning it with policies inherent in a market economy. During this process, the Chinese government formulated a number of policies to encourage competition and prevent monopolies.[1] However, the policies ultimately had a negligible effect. By comparison, Chinese industrial policies played a more striking role in promoting competition and quelling monopolies. One therefore can say that one major purpose of the government in formulating every industrial policy since the onset of reform was, paradoxically, either to promote or contain competition.

The first section of this Article briefly examines how China has promoted its industrial policies since adopting its policy of reform and opening up of trade to the world outside its borders. The second section considers how these policies have promoted or restricted competition. Finally, the third section presents the author's conclusions and opinions.

I. PROMOTION OF INDUSTRIAL POLICIES FOLLOWING ECONOMIC AND TRADE REFORM

Since the late 1970s, China has promulgated an unusually large number of industrial policies—far more than Japan did right after World War II. From 1978 to 1997, the central Chinese government published more than eighty comprehensive industrial policies pertaining to virtually every

---

* Professor, Institute of Finance and Trade, Chinese Academy of Social Sciences, Beijing, People's Republic of China.

1. The major Chinese antimonopoly laws include the Provisional Rules on the Development and Protection of Socialist Competition (1980), Circular on Breaking Regional Market Barriers In Order to Further Liberalize Commodity Circulation (1990), Anti-Unfair Competition Law (1993), and Provisional Regulations on Banning Excessive Profiteering (1995).

government department and industry.[2] These industrial policies promulgated in the name of the State Council fall into the following categories: industrial policies designed to reform the industrial landscape, industrial policies with different international measures, and industrial policies that support or restrict industries and enterprises.

A. Industrial Policies Designed to Reform the Industrial Landscape

Chinese industrial policies aimed at certain specific problems fall into three distinct subcategories: industrial polices for restructuring the industrial landscape, industrial policies for upgrading the industrial structure, and industrial policies for restructuring industrial organization.

1. Industrial Policies for Restructuring China's Industrial Landscape

Many years of central planning gave rise to a lopsided economic structure in the 1970s, during which time heavy industry grew faster than the manufacturing industry. As a result there was an overproduction of many capital goods as well as an acute shortage of most consumer goods. To remedy these economic ailments, the Chinese government enacted a number of industrial policies from the late 1970s to the mid-1980s to boost the consumer goods industry. These policies effectively eliminated the shortage of consumer goods. However, shortages in the supply of energy, raw materials, and other basic industrial products that subsequently emerged as problems in the mid-1980s prompted the Chinese government to shift the emphasis of its industrial policies to the development of basic industrial products.

2. Industrial Policies for Upgrading China's Industrial Structure

In the mid-1980s, the Chinese government focused much of its attention on upgrading the country's industrial structure. The government believed industries employing advanced technology and producing a high measure of added value accounted for such a small portion of the Chinese manufacturing industry that they had become a major bottleneck. The policies did so by reducing the long-term development of Chinese industry as a whole at a time when the automotive, microelectronics, and high-grade durable consumer goods industries had become the industrial

2. This figure does not include the numerous industrial policies set by the ministries and commissions under the State Council.

backbone of many new industrial countries and regions. Since the mid-1980s, the Chinese government has formulated a package of industrial policies to encourage the development of new technology-intensive industries.

3. Industrial Policies for Restructuring Industrial Organization

In the early days of reform, the Chinese government adopted a policy of encouraging the development of small and medium-sized enterprises in order to boost consumer goods production as quickly as possible. However, in only a few years, the rapid growth of these enterprises in non-state sectors was impacting market shares, the supply of raw materials, and profits of large state-owned enterprises heavily. It was for this reason that the Chinese government reoriented its industrial organization policies in the late 1980s to curtail the development of small and medium-sized enterprises, particularly those in non-state sectors.

B. Industrial Policies with Different International Measures

Classified according to the modes of government intervention, one can separate Chinese industrial policies into two categories: (1) those that directly intervene in industry development, and (2) those that indirectly intervene in industry development.

1. Direct Intervention Industrial Policies

Industrial policies that directly intervene in industry development allow the government to take direct measures through: (1) compulsory production-element allocation quotas; (2) administrative requirements for the examination and approval of industrial projects; (3) administrative "circulars" and "decisions;" and (4) different ways to both control foreign exchange and allocate import and export quotas for different industries.

2. Indirect Intervention Industrial Policies

Industrial policies that indirectly intervene in industry development enable the government to intervene through certain economic means including: (1) the institution of varied interest or tax rates for different industries; (2) the establishment of different pricing methods for different industries; (3) economic awards or penalties; and (4) the government release of information designed to affect enterprise behavior.

C. Industrial Policies That Support or Restrict Industries and Enterprises

One can divide industrial policies into two categories by their functions to support or restrict industry development.

1. Supportive Policies

Supportive industrial policies authorize the government to provide preferential treatment to boost the development of certain industries and enterprises. During the late 1970s and early 1980s, the Chinese government accorded the consumer goods manufacturing industry preferential treatment in the areas of financial input and taxation.

2. Restrictive Policies

Restrictive industrial policies authorize the government to implement discriminating or restraining policies to curtail the development of certain industries and enterprises. For example, since the mid-1980s, the Chinese government has forced primarily private small and medium-sized textile mills to close down by providing low priced cotton to large textile mills in urban areas.

Because China's direct and indirect intervention policies also are either supportive or restrictive in nature, one can divide China's industrial policies into four types: supportive policies with direct intervention, restrictive policies with direct intervention, supportive policies with indirect intervention, and restrictive policies with indirect intervention. Table 1 illustrates these four types of industrial policies and the measures they contain.

Table 1: Categorization of Industrial Policies and Relevant Measures in China from the Late 1970s to the Late 1990s

	Supportive policies with direct intervention	**Restrictive policies with direct intervention**	**Supportive policies with indirect intervention**	**Restrictive policies with indirect intervention**
Fiscal measures	Government fiscal investment and subsidy	Banning government fiscal input	Tax reductions and exemptions; speeding up depreciation	High tax rates; additional taxes
Monetary measures	Priority in and allowance for loan grants; permission to seek financing on the capital market	Banning loans, or issuing loans with strings attached	Preferential interest rates and conditions for loan repayment	High interest rates and unfavorable loan repayment conditions
Material supply	Supplying materials at government-subsidized prices; priority in the supply of materials in short demand	Providing no supply of materials at government-subsidized prices, or grants of materials in short supply	Allowing above-norm products to be sold according to market prices	Banning products to be sold according to market prices
Foreign trade and foreign exchange policies	Granting import and export quotas; supplying foreign exchange at government-subsidized prices; priority to use intergovernmental loans; providing a government guarantee for borrowing money from foreign countries	No import and export quotas, no foreign exchange supplied at subsidized prices, no use of intergovernmental loans, and no government guarantee for borrowing money from foreign countries	Reduction of import and export duties; granting tax breaks for exports	High import and export customs duties
Examination, approvals, and administrative ordinances	Granting permission to undertake certain projects providing incentives	Banning the undertaking of new projects and punitive measures		
Decision-making power	Allowing enterprises to make their own decisions in pricing; sales and foreign trade			
Information release			Government guidance by way of releasing relevant information	Government releasing information designed to discourage development

II. INDUSTRIAL POLICIES: DO THEY PROMOTE OR RESTRICT COMPETITION?

From the perspective of market competition, China's industrial policies have undergone three stages of development: (1) from the late 1970s to the mid-1980s, the industrial policies promoted competition; (2) from the mid-1980s to the mid-1990s, the industrial policies limited competition; and (3) since the mid-1990s, industrial policies have promoted and limited competition in concert.

A. Industrial Policies from the Perspective of Market Competition

1. Central Planning and the Monopolistic Nature of China's Manufacturing Industry

a. Different Forms of Industrial Organization for Different Industries

During the period of central planning, the different branches of the Chinese manufacturing industry each possessed a different industrial organizational structure.[3] Some branches only consisted of a tiny number of large enterprises. For example, the automotive industry consisted primarily of No. 1 and No. 2 automobile plants, which accounted for over 90% of the national automotive output. This monopolistic trend, evidenced by the small number of enterprises and their high market shares, continued in the iron and steel, nonferrous metallurgical, and heavy-duty machinery industries as well.

Under central planning, there also were industries such as the consumer goods manufacturing industry that consisted of large numbers of enterprises. For example, during the mid-1970s, China possessed approximately 180 or so medium-sized and large state-owned cotton mills, and more than 200 electrical household appliance enterprises. Judging from the sheer number of enterprises alone, these industries obviously were not monopolistic in nature.

3. *See* INDUSTRIAL ORGANIZATION AND EFFECTIVE COMPETITION: AN INITIAL STUDY OF CHINESE INDUSTRIAL ORGANIZATION (Wang Huijiong & Chen Xiaohong eds., 1991) (discussing the basic outlay of Chinese industrial organization).

b. Lack of Competition: a Common Feature for Chinese Industries

In a country under central planning, the number of enterprises does not necessarily indicate whether an industry is competitive or monopolistic, for under central planning, state-owned enterprises regard each other as "brothers" rather than competitors. It is impossible for enterprises to become competitors under this system because enterprises unify the specifications, output, prices, sales and development of products, and worker wages under state plans. Thus, the salient feature of central planning is that no matter how many enterprises there are, the market will remain monopolistic rather than competitive.

2. Industrial Policies and the Antimonopoly Effort

During the economic restructuring in China in the late 1970s, the Chinese government became keenly aware of the drawbacks of central planning and thus began to encourage enterprises to compete with each other to increase output, improve efficiency, develop new products, and increase employee salaries. To effectuate this new emphasis of Chinese industrial policies on competition, the government employed three new policy measures: (1) the encouragement of new enterprises; (2) the encouragement of competition among existing enterprises; and (3) the relaxation of price controls.

a. Encouragement of New Enterprises

During the period of central planning, the government maintained the power to determine whether companies could establish new factories. This made the entrance of new enterprises an administrative matter rather than a corporate decision. In the early stages of reform, the government enacted a series of policies to encourage new investment in industries and trades that the government hoped to develop as quickly as possible. For example, the government gave priority in development to new investors in the consumer goods production industry, thereby triggering robust growth and intensifying competition in and among non-state enterprises. Following this success, the government formulated similar stimulus policies for the raw materials, energy, and transportation equipment industries.

b. Encouragement of Competition Among Existing Enterprises

Another important aspect of Chinese industrial policies during the early stages of reform involved government encouragement for state-owned enterprises to increase output and improve efficiency. The government accorded preferential policies to state-owned enterprises that fulfilled their specific production quotas. These enterprises then could sell their above-norm products at market prices rather than at state prices and use the profits to increase worker wages and other welfare expenses. In industries where high tariffs made the entry of large numbers of non-state enterprises impossible, the race between state-owned enterprises for this "above-norm market" became a major factor in turning monopolies into competitive markets. For example, for firms producing high-quality steel plates, high tariffs limited competition to several large state-owned plants, with small firms proving to be a non-factor.

c. Relaxation of Price Controls

Under central planning, the government set prices for all manufactured goods, which made effective competition impossible, regardless of how much emphasis the government placed on encouraging competition between new and existing enterprises. Long after reform began, the prices of most products remained under government control. During this time, however, the government allowed the market pricing mechanism to function in industries supported by government industrial policies. From the late 1970s to the early 1980s, the government allowed old and new enterprises in these industries to either set the prices for their above-norm products or let them float on the basis of state prices. For example, in the textile industry, the government allowed the prices for above-norm products to float 15% above and below state prices.[4]

The role of these supportive policies was rather pronounced: with the entry of non-state investors, and the increase of above-norm products of state-owned enterprises, the industries under these policies quickly increased their output, reduced their prices, sped up development of new products and technology, and transformed into typical competitive industries.

---

4. *See* Jiang Xiaojuan, *Low-Efficiency Competition in a Transition Process: A Case Study of the Textile Industry*, *in* CHINA'S INDUSTRIES IN TRANSITION: ORGANIZATIONAL CHANGE, EFFICIENCY GAINS, AND GROWTH DYNAMICS 129-63 (Jiang Xiaojuan ed., 2001).

3. *Case Study: How the Refrigerator Industry Went from Being Monopolistic to Competitive*

During the early stages of reform, the refrigerator manufacturing industry was a typical monopolistic industry in which several large state-owned enterprises occupied a large share of China's total refrigerator output. As Table 2 indicates, in 1982, China produced 101,000 refrigerators, and the top four manufacturers (the Beijing General Refrigerator Plant, the Guangzhou Refrigerator Factory, the Shanghai Refrigerator Plant, and the Suzhou Refrigerator Plant) had a combined output of 74,400 and a production concentration rate of 74.5%.[5]

Table 2: Market Structure of the Refrigerator Industry in China in the 1980s[6]

	Total Output (in millions)	The Top Four Producers' Combined Average Output	Degree of Production Concentration (%)
1982	0.101	18,600	74.5
1985	1.448	143,000	39.4
1988	7.576	550,000	29.0

In the early 1980s, the government formulated a program for the development of household electrical appliance industries, including the manufacturing of refrigerators. First, from the late 1970s to the early 1980s, the government formulated the "six priorities" policy to encourage and support development of consumer goods industries, particularly those specializing in the production of new types of consumer goods.[7] This policy gave priority to energy, the supply of raw materials, the arrangement of capital construction projects, technical transformation projects, the use of foreign exchange needed for importing equipment and technology, imports needed to boost exports, and the arrangement of transportation.[8] It also provided excellent conditions for the growth of the household electrical appliance industry.[9]

5. *See* Jiang Xiaojuan, *Industrial Development and Industrial Policy in Economic Transition: A Case Study of the Household Electrical Appliance Industry*, *in* CHINA'S INDUSTRIES IN TRANSITION: ORGANIZATIONAL CHANGE, EFFICIENCY GAINS, AND GROWTH DYNAMICS, *supra* note 4, at 178.

6. *Id*. at 180.

7. *Id*. at 173.

8. *Id.*

9. *Id.*

Second, the government encouraged industries with excess supplies to either regroup or switch to other industries. In particular, the government urged enterprises in both heavy industry and the defense industry to switch to the consumer goods industry through a readjustment of capital stock. As a result, many enterprises producing investment-type machines, electrical products, and military supplies switched to the production of consumer-type machines and electrical products by taking advantage of versatile equipment and technology in their industries.[10]

Under the government's industrial policies, many new enterprises entered the refrigerator industry while many old enterprises crossed over to the production of refrigerators. In 1985, China produced 1.4481 million refrigerators.[11] The number of refrigerator-producing enterprises exceeded one hundred, and as Table 2 indicates, the top four producers (the Guangzhou Wanbao Electrical Appliance Industrial Company, the Beijing Refrigerator Plant, the Shanghai Refrigerator Plant, and the Suzhou Refrigerator Plant) had a combined output of 571,000 units and a production concentration rate of 39.4%.[12] As a result, the nature of the Chinese refrigerator industry changed from being monopolistic to being competitive.

In 1988, the output of refrigerators and washing machines in China reached its highest point of the decade. As Table 2 indicates, the total refrigerator output was 7.5763 million units and the four top manufacturers had a combined output of 2.197 million units, with a production concentration rate of 29.0%.[13]

B. Industrial Policies Designed to Restrain Competition

1. Background

From the mid-1980s to the mid-1990s, the government shifted the focus of its industrial policy from encouraging competition to restricting it. This shift came in response to the large numbers of small and medium-sized non-state enterprises that emerged, grew in strength, and became even more competitive than state-owned enterprises. The market shares of state-owned enterprises shrank due to the increased competition from non-state enterprises, and the profit-making capacity of state-owned enterprises

10. *Id.* at 173.
11. *Id.* at 178.
12. *Id.*
13. *Id.* at 179.

eventually decreased to the point that in some industries all state-owned enterprises were losing money. Under this pressure created by increased competition, the government, which maintained close ties with state-owned enterprises, adjusted its industrial policies to limit the development of non-state enterprises in certain industries. This alleviated the effects of competition on state-owned enterprises.

2. *Industrial Policies and the Restriction of Competition*

a. *Industrial Policies Designed to Restrain the Establishment of New Small and Medium-Sized Enterprises*

With the progress of reform, many small and medium-sized enterprises emerged and achieved robust growth, thereby exceeding the capacity of certain industries. The Chinese government labeled this problem as "indiscriminate construction." Beginning in the mid-1980s, the government, under the pretext of containing "indiscriminate construction," passed a number of industrial policies to restrict the development of small and medium-sized enterprises. In designing and implementing these policies, the government sought to prevent new investors from investing in industries operating above capacity.

b. *Industrial Policies Designed to Restrict Competition Between Rural and State-Owned Enterprises*

In the 1980s, some state-owned enterprises began to have severe management problems. In response, the Chinese government attempted to adopt new industrial organizational policies to readjust the relationship between state-owned enterprises and their non-state counterparts. These policies stipulated, among other things, that rural areas were not allowed to operate enterprises in fields where state-owned enterprises maintained an adequate production capacity. The government often instituted such policies for reasons other than simply according preferential treatment to the state-owned enterprises. One such reason for banning the establishment of new small and medium-sized rural enterprises in certain industries was to fully exploit the economies of scale of large state-owned enterprises.

c. Industrial Policies That Allow Only Designated Enterprises to Produce Certain Products

In those industries that the government felt expanded industrial production capacities at speeds exceeding reasonable limits, the government quickly formulated policies to curtail new enterprises from entering. In the early 1980s, a major government policy designed for this purpose designated manufacturing enterprises for certain authorized production. For example, the Ministry of Light Industry designated only five factories (in Beijing, Guangzhou, Suzhou, Tianjin, and Shanghai) to be the authorized producers of refrigerators for all of China.[14]

d. Preferential Industrial Policies for Large State-Owned Enterprises

Beginning in the mid-1980s, some large state-owned enterprises experienced difficulty due to their failure to adapt to fledgling market competition. The government formulated preferential policies that allowed the state-owned enterprises to form enterprise groups while providing them with preferential investment and tax treatment. Under these policies, the government accorded large state-owned enterprises preferential treatment in the development of new products and technology while simultaneously banning non-state investors from entering industries dominated by these large state-owned enterprises. For example, the policy for the automotive industry, announced in 1993, prevented new enterprises from producing sedan cars, an area of production in which there were only three major manufacturers.

Meriting attention is the fact that although the government promulgated many industrial policies to restrict competition during this period, the impact of the policies was considerably less than those policies enacted to encourage competition during the previous period. This is because the supportive industrial policies drew a warm response from enterprises, for they accorded with the interests of the enterprises, whereas restrictive industrial policies only courted opposition because they conflicted with the enterprises' interests. However, the long-standing presence of these restrictive industrial policies delayed the shift of many Chinese manufacturing industries from being monopolistic to being competitive, thereby affecting their competitiveness as a whole.

---

14. *Id.* at 174.

3. Case Study: How the Policy for the Refrigerator Industry Changed from Encouraging Competition to Curtailing It

In the early 1980s, the support of the government industrial policy and the prospects for large profits whetted the desire of many new investors to enter the refrigerator industry, which originally consisted of only four companies. In only a few years' time, more than one hundred companies were making refrigerators. In the meantime, some venerable state-owned refrigerator manufacturing companies were suffering from management difficulties and decreased economic efficiency. To cope with this situation, the government shifted its industrial policy from encouraging competition to curtailing it.

At the end of 1984, the Ministry of Light Industry submitted an emergency report on this situation to the State Planning Commission and the State Economic Commission.[15] In January 1985, these two commissions issued the Circular on Adopting Emergency Measures and Strictly Curbing the Arbitrary Import of Refrigerator Production Lines, and they entrusted the Ministry of Light Industry to convene a national conference on refrigerators. The purpose of this conference was to study methods for the readjustment and consolidation of China's refrigerator factories.[16]

In June 1985, the State Council approved the proposals of the State Planning Commission, the State Economic Commission, and the Ministry of Light Industry on Tightening Up the Management of the Refrigerator Industry and Controlling the Arbitrary Introduction of Foreign Technology and Equipment.[17] This document raised a series of measures for limiting the growth of the refrigerator industry, including: reducing the number of refrigerator manufacturing factories from 116 to 41;

(1) reducing the import production capacity from 13.5 million to 8.22 million refrigerators;

(2) preventing the establishment of new factories for approximately two years;

(3) issuing production permits;

15. *Id.* at 174.
16. *Id.*
17. *Id.*

(4) strictly abiding by the system of examining and approving imported products through the coordination of the Ministry of Light Industry;

(5) subjecting products that require more than US$5 million of investment to State Planning Commission approval as well as those needing less than US$5 million of investment to approval from the Ministry of Light Industry, in conjunction with the leading departments of the enterprise or locality concerned;[18]

(6) requiring all refrigerator factories to pay taxes according to the tax law, and not allowing any departments or localities to grant tax reductions or exemptions; and

(7) calling upon the Ministry of Light Industry to tighten its control over these industries.[19]

This restrictive policy ultimately worked for only one or two years. With domestic demand snowballing and the refrigerator industry remaining lucrative, local governments and enterprises scrambled to build new refrigerator manufacturing firms by bypassing the restrictions of the central government's industrial policy under various pretexts. Throughout 1987 and 1988, refrigerator production in China reached an all-time high with the addition of an additional 180 refrigerator factories.[20] As a result, China's refrigerator production capacity increased to fifteen million units.[21]

C. Industrial Policies That Promote and Restrict Competition

1. Changes in China's Economic Background

Since the mid-1990s, the Chinese economy has undergone major changes.

---

18. It was only with the approval of these authorities that the Ministry of Foreign Economic Relations and Trade could issue import permits. The customs office banned unauthorized technology and equipment imports, and the bank did not grant loans in either *Renminbi* or foreign currency.
19. Jiang, *supra* note 5, at 174-75.
20. *Id.* at 175.
21. *Id.*

a. The Resolution of Product Shortages

During the mid-1990s, most of the industries that experienced product shortages during the period of central planning manufactured more products than the market demanded. This overproduction left no reason to retain the supportive industrial policies that the government had designed to increase supply during the early years of reform.

b. The Increased Role of the Market Mechanism

After nearly two decades of reform, China has made remarkable progress in its economic restructuring, and the role of the market in regulating the relationship between supply and demand has increased dramatically. Under these circumstances, Chinese citizens expect the market to resolve temporary commodity shortages through its regulatory role rather than through the institution of new industrial policies.

c. State-Owned Enterprises Experiencing Difficulty

During the mid-1990s, state-owned enterprises in China found themselves with an unprecedented dilemma: approximately two-fifths of the large enterprises were losing money. Virtually all of the state-owned enterprises in the textile and coal mining industries were operating in the red. Believing that competition from non-state enterprises caused their difficulties, state-owned enterprises placed tremendous pressure on the government and demanded that the government improve their situation by strictly monitoring the development of non-state sectors.

d. China's Accession to the World Trade Organization

With China's accession to the World Trade Organization (WTO) now a reality, the break up of the monopolies held by large state-owned enterprises in some service industries (including the telecommunications and banking industries) is inevitable. Under these circumstances, many in China would like to break up monopolies to raise the efficiency and competitiveness of these industries by forming new industrial policies.

2. *Industrial Policies Towards Monopolistic Industries: Encouraging Competition*

a. *Why the Government Encourages Competition in Monopolistic Industries*

During the years of early reform, several state-owned enterprises monopolized certain Chinese industries,[22] and in some cases, only a single enterprise existed. During the mid-1990s, pressure from three groups prompted the central government to deal with the issue of competition in these monopolistic industries. First, domestic consumers resented the poor quality and unreasonable fees of these industries and demanded improvements in the industries' efficiency and services. Second, new investors wanting to enter these industries began to pressure the central government to address these industries' long-standing monopolies and high profit levels. Third, with China's recent accession to the WTO, China will have to give in to the long-standing external pressure to open its service markets. This pressure originally convinced both the central government and the monopolistic industries that they would be unable to compete with transnational companies from foreign countries once China entered into the WTO if they did not break up the monopolies and improve efficiency through competition. As a result, in the past five years, Chinese industries that several large state-owned enterprises formerly dominated have reoriented themselves to prepare for foreign competition.

3. *Industrial Policies That Discourage Competition: Rescuing State-Owned Enterprises*

As the Chinese government believed that competition from many non-state enterprises represented a major factor in the difficulties of state-owned enterprises, one of the major steps it took to eliminate the difficulties of state-owned enterprises during the middle and late 1990s was to curtail the production capacity of certain industries. The government focused on closing down five types of small non-state enterprises: coal mines, steel rolling plants, cement factories, refineries, and glass-producing firms. The shutdowns in 1999 accounted for 10%-15% of the production capacity in each of the respective industries. The government believed that the closure of these small enterprises would

22. These industries included the postal and telecommunications, railway transportation, civil aviation, banking, and insurance industries.

solve the problem of overproduction and alleviate the pressure of competition on the state-owned enterprises. Regardless of how the government deemed the nature of its industrial policies designed to rescue state-owned enterprises, it designed these policies to curtail competition.

4. *Reasonable Expectations*

From the late 1970s to the late 1980s, the Chinese people maintained unrealistic expectations about the government's industrial policies to the extent that they hoped that these policies would cure every ailment present in Chinese industry. When there was a supply shortage of a certain product, people hoped that a supportive industrial policy would speed up production growth. Conversely, when the supply of a certain product exceeded demand, they pinned their hopes on a restrictive industrial policy to reduce production. When intensified competition was inflicting heavy financial losses on an increasing number of enterprises, Chinese citizens hoped that the industrial policies would reduce competition and improve enterprise management. When the lack of competition caused the efficiency of a certain industry to decrease, they hoped the government policies would promote competition. As a result of these expectations, the number of industrial policies announced during this period consistently increased. The state policies promulgated in 1989 to support, restrict, or ban industry development covered virtually all Chinese manufacturing industries. As a result, these policies defeated their own purpose of dealing with a finite number of industries in unusual situations.

Since the mid-1990s, and even though these policies still play a specific role, people have realized that in a market economy the market mechanism can solve most of the problems that only industrial policies previously could solve. Thus, the government has decreased the creation of new industrial policies. The Chinese industrial policies widely carried out to support industries in short supply and restrict industries in overproduction have seen their domains dwindling steadily over the last few years. In contrast, antimonopolistic industrial policies are becoming inextricably intertwined with government policies.

III. CONCLUSIONS AND OPINIONS

A. *Industrial Policies Are in a Major Position to Encourage Competition*

The analysis in this Article suggests that because the transformation of the Chinese legal system as a whole is trailing behind economic restructuring in the transition from central planning to a market economy, the antimonopoly laws commensurate with the market economy have failed to tackle monopoly-related problems that the planned economy left behind. The role of encouraging competition marked a considerable number of industrial policies made during this period. It therefore is clear that industrial policies represent a major component of China's policies on market competition.

B. Competition-Associated Industrial Policies Are Experiencing a Decline

Since the late-1990s, the overwhelming majority of Chinese manufacturing industries have become highly competitive, which caused government industrial policies to lose or reduce the role they previously played in promoting competition. Chinese industrial policies continue to promote competition in certain remaining monopolistic industries, but this role will continue to decline with the weakening or elimination of monopolies in these industries.

C. China Calls for Standardized Policies to Promote Competition

Although the role of Chinese industrial policies associated with competition is declining, this does not imply that the task of eliminating monopolies is complete. On the contrary, while the monopolies left by central planning are decreasing in number, the risk of monopoly inherent in the market economy is increasing. Meriting attention is the possibility that China's accession to the WTO will encourage large transnational companies to form monopolies in the Chinese market and subsequently realize monopolistic profits. Because China cannot use industrial policies excessively after its accession to the WTO, it urgently needs to accelerate legislation and law enforcement to restrain monopoly and promote fair competition. This will enable its steps to normalize competitive behavior to continue to parallel the established practices of the market economy.