



## **China's Second Economic Transition: Building National Markets**

**Marshall W. Meyer**

*University of Pennsylvania*

My thesis in this essay is that China has largely completed the first transition from a command to a market economy and is now inching toward a second transition, which involves building national rather than regional markets. The transition from regional to national markets, I believe, is imperative so that Chinese firms capable of competing nationally and, ultimately, globally can emerge. Indeed, China has some large firms – twenty-four on the 2007 Fortune Global 500 list. However, most are group corporations – in effect, holding companies – rather than integrated firms capable of formulating and executing strategy centrally.

The second transition from regional to national markets and from decentralized group corporations to globally integrated firms may prove more challenging than the first because localism is deeply ingrained in China. Moreover, the success of this second transition will be critical to China's long-term economic vitality. Today China is one country but many economies. Witness the difficulty the central government has had moderating economic growth. In the future, I believe, the capacity of Chinese firms and of China itself to compete globally will depend on moving toward a single market and a single economy at home. Chinese firms will compete globally regardless; however, whether they will go out as global competitors or on the margins of the global economy remains uncertain.

China's second economic transition, unlike its first, is not about ownership and control of the means of production. It is rather about the size of domestic markets, whether markets will remain restrained by provincial and municipal boundaries, restraining in turn the size and global competitiveness of Chinese firms, or extend regionally and, ultimately, nationwide. China's second economic transition is by no means certain. Powerful interests remain arrayed against the opening of local markets. Still, Chinese economic growth, which has until now been driven by exports and fixed asset investment, is at risk unless national markets and the organizational capabilities needed to manage in such markets are nurtured.

## DECENTRALIZATION AND ECONOMIC FRAGMENTATION

China decentralized much of its economy save for pillar enterprises by the early 1980s. Under the policy of administrative decentralization, control, though not ownership, of the great majority of state enterprises was transferred to provincial and local authorities and, in some instances, to enterprise managers. The decentralization of the economy under Deng Xiaoping gave China an enormous advantage because it allowed economic reform and opening to proceed swiftly on the local level. As Dougherty and McGuckin (2008) report, decentralization improved the performance of not just collective firms, but also state-owned and mixed public/private ownership firms in the 1990s. Local governments rather than the central government initiated most reforms. It was not the case that most local governments reformed; rather, most reform was local. These local reform initiatives were experimental. What worked was adopted by the central government though not necessarily implemented as national policy and what didn't work was abandoned. The decentralized and experimental approach to reform was in sharp contrast to the 'big bang' or 'shock therapy' approach taken in the former Soviet Union that promised instant reform but produced mainly asset stripping, the concentration of control of the economy in a handful of oligarchs and a sharp economic downturn.

The downside of administrative decentralization and, later, decentralization of enterprise reform was that China evolved into several regional economies rather than one. The Pearl River delta (eastern Guangdong Province), the Yangtze River delta (Shanghai, southern Jiangsu Province, Zhejiang Province) and the Bohai Bay (extending in an arc from Qingdao to Dalian, including Tianjin and, of course, Beijing) regions became the hot spots of the Chinese economy. Provinces competed for GDP growth and erected barriers to interprovincial trade. For example, Shanghai practiced import substitution in the early 1990s: automotive components manufactured outside of Shanghai were treated as foreign made and taxed as imports. The combination of local GDP targets and local protectionism meant that the provinces replicated each others' economies, miniaturizing firms and sacrificing comparative advantage. During the Mao era, when China felt surrounded by enemies, local self-sufficiency was a matter of national security. Today, national security is less of a motif but economic fragmentation persists and, perhaps, has accelerated.

Several econometric studies confirm that the fragmentation of the Chinese economy increased during the 1990s. Young (2000), for example, has found a convergence in the proportions of provincial GDP accounted for by industry, agriculture and services and a divergence in labour productivity and prices across provinces from the late 1970s to the mid-1990s. Young's results are exactly the opposite of what would be expected if national economic integration and regional specialization had occurred and are most likely due to an exacerbation of internal trade barriers.<sup>[1]</sup> Poncet's (2003, 2005) comparison of domestic with international

trade flows of Chinese provinces from 1987 to 1997 came to a further and somewhat surprising conclusion: as Chinese provinces became more integrated with the rest of the world they became less integrated with each other. '... Chinese provinces' international integration has gone together with domestic market disintegration' (2003, p. 14). The implication is that Chinese firms look to foreign markets because of the difficulty of doing business domestically. Not everyone agrees that economic fragmentation in China is still increasing (Thomas Rawski of the University of Pittsburgh, for example, does not) or that fragmentation is the main obstacle to the growth of Chinese firms. Hutton (2006, p. 11) argues that 'Leninist corporatism' makes globally competitive firms impossible. However, most Western observers agree that the near absence of large, internationally recognized firms is remarkable in an economy as large as China's. Hutton and Desai (2007) are characteristically hyperbolic on this point: 'The reason so few people can name a great Chinese brand or company, despite the country's export success, is that there are none'.

To be sure, economic fragmentation varies by industry within China. There are established Chinese consumer brands like Haier (white goods), Lenovo (computers), Li Ning (sportswear) and Wahaha (beverages). However, famous Chinese brands are often caught between multinationals many times their size – e.g., Samsung's China sales are estimated at \$36bn in 2007, nearly two and a half times Haier's sales worldwide – and local enterprises operating at low cost. Haier's domestic market share in its core refrigerator and washing machine businesses has slipped from a low 30s percentage point in 2003 to 25 percent in 2007. In the current fiscal year of 2007 (April 1, 2006–March 31, 2007), Lenovo controls 36 percent of the Chinese personal computer market, roughly the same percentage as the combined market share of Lenovo's predecessor companies, the Legend Group and the IBM Personal Systems Division, in 2003.

## WEAKNESS OF THE PARENT–SUBSIDIARY SYSTEM

Chinese government policy favours companies that look large. However, looking large and acting like a large, integrated firm are different things. Some of the largest state-owned enterprises (SOEs) in China, even those listing the bulk of their assets and converting non-circulating into circulating shares, continue to face challenges integrating their operations due to endemic localism and weaknesses of the parent–subsidiary system. The COSCO bulk shipping business, which was injected into Hong Kong-listed China COSCO Holdings in September 2007, is illustrative. COSCO is the largest bulk shipper globally, operating 398 bulk vessels with capacity of 30 million deadweight tons, roughly eight per cent of global bulk shipping capacity.<sup>[2]</sup> However, COSCO's five bulk shipping subsidiaries – Tianjin-based COSBULK, COSCO Qingdao, COSCO Xiamen, COSCO Hong Kong and COSCO Singapore – do not operate in concert. Rather, they remain independent businesses that pursue somewhat different strategies and help each other

very little, if at all. COSBULK, for example, is mainly a charterer. COSCO Hong Kong, by contrast, is mainly an owner-operator. According to press accounts, COSCO Hong Kong is currently long on bulkers, especially large Capesize vessels, while COSBULK is short. However, COSCO Hong Kong is said to have been unwilling to let out more than one of its Capesizes much less transfer Capesize bulkers to COSBULK for fear of losing influence within COSCO (Lewis, 2006).

COSCO's bulk shipping businesses account for 75 percent of China COSCO's profit and about 70 percent of the profits of the larger COSCO Group, with the latter running at 11 percent of revenues. However, signals from the financial markets suggest that the bulk shipping business would be more profitable as a single entity rather than five. COSCO Group management is keenly aware of market sentiment (see Yam, 2007), yet remains cautious about taking action. COSCO's bulk businesses, COSBULK and COSCO Qingdao especially, are more closely identified with their communities than the COSCO Group. Local identification has been exacerbated by the peculiar definition of state ownership, 'ownership by the whole people', which leaves property rights ambiguous. The COSCO Group may own its bulk shipping subsidiaries via China COSCO, but so do the workers whose lives would be disrupted by any dramatic reorganization of the business and who have taken to the streets to drive this point home as in the 1998 'Qingdao incident' (Meyer, 2007).

Private firms encounter less resistance to central control than SOEs largely because the founders usually retain a controlling interest and wield considerable personal authority. Still, few private firms are organized by line of business or by function (though listed firms report financial results by line of business). Rather, most are holding companies with only nominal internal coordination. Even where closely coordinated operations are essential, as is the case with foodstuffs, these are accomplished through transactions rather than hierarchy. China Mengniu Dairy Co., Ltd, a Hong Kong listed Cayman Island corporation, is illustrative. Mengniu's main asset is China Dairy Holdings, a Chinese firm. China Dairy Holdings, in turn holds controlling interests in 26 regional dairies and minority interests in 35 regional distributors of its dairy products. According to Mengniu's (2006) annual report:

The Group has implemented a centralized sales system for its UHT milk and milk beverages products whereby all such products are centralized for sale, billing and invoicing to distributors by Mengniu. Pursuant to this system, those Mengniu subsidiaries that manufacture UHT milk and milk beverages products sell their UHT milk and milk beverages products to Mengniu which then deals with the distributors centrally. These sales do not involve physical delivery to Mengniu as these transactions are merely the Group's operational mechanism to centralize administration. Each of the Mengniu subsidiaries will execute physical delivery on Mengniu's instructions (p. 44).

Mengniu is hardly a small company. Its sales are more than \$2bn, making Mengniu the largest or second largest dairy products firm in China. However, Mengniu does not have the power to combine its local dairies with distributors and operate the combined entities as self-contained regional business units.

A comparison with the USA may be apt. Until World War I, many large US industrial firms were organized as holding companies, in other words as parent–subsidiary structures, without central management. The recession of 1920–1921 forced many firms – for example, General Motors – to develop strong management teams responsible for forging corporate strategies and monitoring their execution. Alfred Chandler's (1962) *Strategy and Structure*, which describes the consolidation of General Motors, DuPont, Standard Oil and Sears, should be required reading for senior managers of large Chinese enterprises.

### UNDERDEVELOPED DOMESTIC MERGERS AND ACQUISITIONS (M&A)

A further impediment to large firm size is an underdeveloped domestic M&A market in China. On July 26, 2001, I met with Tsingtao Beer Senior Economist, Vice Chairman and General Manager Peng Zouyi. Peng outlined a strategy for consolidation of the Chinese beer industry backed by the Chinese central government. Financed by secondary offerings, Tsingtao acquired 45 subsidiaries and raised its domestic market share from 5 percent in 1999 to 13 percent in 2001 and became the top selling beer in China. Within three to five years, Peng predicted, Tsingtao would make more acquisitions and consolidate the domestic beer market with 30 to 40 percent market share. Tragically, Peng died five days later. Within a year Anheuser-Busch raised its stake in Tsingtao from 4.5 to 27 percent. Despite the additional Anheuser-Busch investment in Tsingtao, Tsingtao's market share has stalled at 13 to 14 percent. Toward the end of 2006, SABMiller, which holds a 49 percent interest in China Resources Breweries, Ltd., announced that its CR Snow brand captured 14.9 percent of the Chinese market in the first half of 2006, fractionally ahead of Tsingtao. It is possible that new regulations governing, and in some respect restricting, cross-border M&A will have the indirect consequence of stimulating domestic M&A by creating demand for local M&A consultants. The amended cross-border M&A regulations, which took effect on September 6, 2006, require foreign acquirers to engage a China registered M&A consultant, which will conduct due diligence on the foreign shares and issue a consulting report for review and examination by the approval authorities.

While the Chinese beer industry remains fragmented nationally, it is highly concentrated locally. According to John Slocum et al. (2006) in a recent *Organizational Dynamics* article, the top three brands in Shanghai, Beijing and Guangdong province command 56, 77 and 73 percent market shares respectively. The number

one brand in most localities is a local brand, e.g., Yanjing in Beijing, Tsingtao in Shandong province, Zhujiang in Guangdong province. (The exception is Shanghai, where Suntory appears to be the leader.) National fragmentation in conjunction with local concentration is a near certain indication that Chinese markets remain local rather than national. Again, a comparison with the USA may be apt: the combination of national fragmentation and local concentration is reminiscent of the US beer industry in the 1950s and the US supermarket industry in the mid-1980s. This comparison with the USA goes only so far, however. In mid-2006, foreign investors owned nearly a quarter of the Chinese beer industry, including 49 percent of CR Snow (SAB Miller) and 27 percent of Tsingtao (Budweiser). Only two of China's top ten beers (Yanjing and Kingway) had no foreign owners (Seema International, 2006).

### UNINTENDED CONSEQUENCES OF FISCAL DECENTRALIZATION

In my view, economic fragmentation in China has been exacerbated by the combination of fiscal decentralization and a personnel system more sensitive to GDP growth than efficiency. This is not the prevailing view, captured by Weingast's (1995) phrase, 'market-preserving federalism,' which asserts that decentralization and competition among the provinces has contributed to economic growth – and the growth of the private sector especially. Certainly, economic growth at the provincial level appears to be a function of fiscal incentives, especially the proportion of tax revenues retained by the local government. However, causation may be reversed: it remains possible that the wealthier provinces and the more powerful provincial leaders negotiate more favourable tax retention rates. Though the econometric results are equivocal (see, for example, Jin, Qian, and Weingast, 2005), anecdotal evidence suggests that this is the case, especially with regard to Guangdong Province where local tax collectors are currently undergoing retraining by the central tax authorities.<sup>[3]</sup> Certainly, local economic performance yields political advancement for provincial leaders. As Li and Zhou (2005) have shown, promotions of local governors depend on economic performance as measured by provincial GDP growth.

The problem with using personnel controls to motivate and reward local growth is that measures like provincial GDP growth are insensitive and perhaps inimical to efficiency. Thus, for example, investment in infrastructure and real estate funded by bank loans contribute to local GDP and job creation regardless of returns. Similarly, investment in local firms and discrimination against 'foreign' firms – recall Shanghai's policy of import substitution – also contribute to local GDP and job creation even as they erode scale economies. The central government has begun to recognize the folly of inefficient growth and is trying to apply the brakes, but, in my judgment, has still not understood the implications of economic fragmentation for the global competitiveness of Chinese firms.

## FRAGMENTATION AND INTERNATIONALIZATION

Fragmentation of domestic markets is of concern because of its impact on the globalization potential of Chinese firms. Put somewhat differently, can China launch firms strong enough to withstand global competition from relatively small domestic platforms? Our received theories of internationalization suggest that this will be difficult. Generally internationalization is a large-firm phenomenon. Only the largest firms have the margins needed to cover the costs of internationalization. Firms designated as national champions are almost always large firms that have successfully integrated and consolidated their industries domestically. Japan's Ministry of International Trade and Industry, for example, encouraged domestic competition but then forced industry consolidation before permitting Japanese firms to invest abroad. A similar model has also operated in France, which has been applied to firms like *Électricité de France*, *France Telecom*, *Total*, *Elf* and the *European Aeronautic Defense and Space Company*.

Government support, however, is not necessary for industry consolidation and internationalization to occur. Product pioneers like *Microsoft* enjoy scale economies in R&D, manufacturing and distribution; entry barriers created by a panoply of patents, trademarks and brand names; and managerial capabilities that smaller rivals are unable to duplicate. In contrast, the thin margins characteristic of highly competitive industries usually cannot sustain the costs of international operations; moreover, the kinds of market imperfections that allow firms to extend their operations abroad are usually mitigated by intense competition. This said, the combination of cutthroat domestic competition and barriers to interprovincial trade may force many small Chinese companies to internationalize prematurely, consistent with Poncet's results and inconsistent with received internationalization theory. Kyngé (2006), in his recent book *China Shakes the World*, argues just that: '... Chinese manufacturers (the energy and resources companies are in a separate category) are being pushed overseas through weakness rather than strength. . . .' (p. 172).

## LEAPFROGGING FRAGMENTED DOMESTIC MARKETS

A few Chinese firms have been able to leapfrog fragmented domestic markets and grow into global competitors. A case in point is *China International Marine Container* or *CIMC*, a Shenzhen based manufacturer of shipping containers and semi-trailers. *CIMC*, as far as I know (an important qualification), is only one of two sizeable Chinese firms to have achieved global dominance in its industry. (The other is Shanghai-based *Zhenhau Port Machinery Company* or *ZPMC*, which manufactures cranes and large steel structures and dominates the global market for container cranes.) *CIMC* manufactures more than half of the shipping containers in the world and is aiming for dominance of the Chinese semi-trailer business, though it is not year clear whether it can achieve this objective. *CIMC* has very capable management. But it also happened to be in the right industry at the right time.

There are two recent books on container shipping, both published by university presses in the USA. One is Levinson's (2006) *The box: How the shipping container made the world smaller and the world economy bigger*; the other is Cudahy's (2006) *Box boats: How container ships changed the world*. I take away three main points from these books. First, the cost of ocean shipping plunged by more than half from the late 1970s to the mid-1980s due to containerization, accelerating the growth of global trade. Second, China is the chief beneficiary of cheap shipping and expanded trade. In 2004, for example, 50 million twenty-foot equivalent units (TEUs) of containers passed through China's three largest container ports, Hong Kong, Shanghai and Shenzhen. The three major U.S. container ports, Los Angeles, Long Beach and New York, by contrast, processed 19 million TEUs in 2005.<sup>[4]</sup> Third, despite the efficiencies of containerization it took more than a decade, from the mid-1950s until almost 1970, for the International Standards Association and, subsequently, the shipping industry to establish 20- and 40-foot containers as global standards.

CIMC entered the container business in the 1990s with three distinct advantages. One was industry standardization. There were no local tastes in containers, making container manufacturing a global industry from the outset. The second was a large domestic market. China was the global hub of container shipping and hence the largest market for shipping containers. The third advantage was logistics. Mai Boliang, CIMC's president, understood that by integrating container manufacturing along the Chinese coast, from Dalian in the north to Xinhui in the south, he could deliver containers to customers when and where they needed them at costs substantially below competitors manufacturing in a single location. CIMC's dominance of the shipping container industry raises the question of whether or not the same formula – industry standards, a large domestic market and favourable logistics – would strengthen other industries in China. To return to CIMC's semi-trailer business briefly, would national standards for semi-trailers accelerate CIMC's efforts to consolidate a highly fragmented domestic semi-trailer market, which have not progressed as rapidly as CIMC management would have liked, and, ultimately, help them expand internationally? Would not concerted efforts to reduce logistics costs – now 18.5 percent of GDP in China compared with less than 10 percent in the USA – promote growth and consolidation and hence the internationalization of many Chinese firms from positions of strength? Would not industry standards and reduced logistic costs promote the growth of national as distinct from local markets in China? Karl Marx and John D. Rockefeller agreed on one thing: fragmented, hypercompetitive markets fraught with senseless, self-defeating price wars caused by firms unwilling to curtail production are not sustainable. Marx called this 'anarchy in production'. Rockefeller complained about 'ruinous competition'. Neither Marx nor Rockefeller, of course, imagined that a command economy could turn into a hypercompetitive economy almost overnight. Still, both had a point even though the cures they proposed (and Rockefeller actually imposed on the oil industry) differed radically.

## BUILDING NATIONAL MARKETS

What can be done to build national markets and hence domestic firms capable of competing globally? First of all, I think investors must begin to ask the tough questions of firms, in particular how firms will go about building national markets. For example, can you operate as an integrated firm, regardless of your legal organization, rather than as uncoordinated subsidiaries? Do you have a strategy to build a national brand, not just a sales plan? Can you build a domestic platform strong enough to support globalization? Do you have a plan for corporate governance that will focus the firm on national competitive advantage and ultimately global advantage rather than short-term profitability in local markets? Many investors, I believe, still mistake the size of the Chinese economy for the size of Chinese markets. They should not. Rather, they should assume markets small and fragmented unless proved otherwise.

Second, government policies will be pivotal. Anything that can help clear the logistics logjam, e.g., national standards for tractors and semi-trailers and road taxes encouraging large, efficient vehicles, centralized dispatching, will be helpful. Anything that can simplify the administration of earned income taxes will be especially helpful to domestic firms seeking to expand beyond provincial borders. Note that the pending simplification of income tax rates that would impose a uniform 25 percent rate on domestic and foreign-invested firms, as distinct from 33 and 15 percent at present, does not really address tax administration. I recently asked a tax expert whether a domestic firm operating in several provinces would pay income taxes to local tax bureaus or the State Administration of Taxation. His answer, in brief, was that further clarification is required.<sup>[5]</sup>

More than anything else, a Chinese counterpart to the Commerce Clause of the US Constitution, which forbids any state from interfering in any way with commerce between states, would pave the way for development of national markets in China. Such a clause is not imminent. However, an Anti-Monopoly Law promulgated on August 30, 2007 aims squarely at interprovincial trade barriers. The law prohibits discrimination against commodities originating in other regions through pricing, technical requirements or inspection standards, licensing procedures, blockage of entry, or other acts impeding the free circulation of commodities. Provincial and local governments are specifically prohibited from erecting barriers to keep outsiders from competing with local businesses. Unfortunately, the Anti-Monopoly Law is compromised in several key respects. It is intended to take effect on August 1, 2008, nearly a year late. Enforcement provisions are weak: 'superior authorities', in most instances provincial authorities, are charged with punishing violators. And SOEs in strategic sectors of the economy are effectively exempted (Fox, 2007). How the Anti-Monopoly Law is implemented will be telling. If it proves to have teeth, then regional markets could give way quickly to national markets; but if it is ineffectual, it will have been a step backward for China.

Third, I think management schools have a special responsibility in developing national markets and firms capable of competing nationally and globally. I worry that management schools – and not just in China – focus too much on financial engineering and not enough on building firms. Study the great firms of the world. Ask how they were built, how they prospered and, most importantly, why many failed. In the late 1920s, a group of Chinese railway engineers came to the Wharton School to study management. Certainly they knew of Wharton's reputation, but they also came to Wharton because the headquarters of the Pennsylvania Railroad, then 'The Standard Railway of the World,' was nearby, within walking distance. I'm suggesting that today's management students should do the same, that is, learn from the great firms of the world how to build the great firms of China.

How might China learn from the experience of other nations that have gone about building national markets? In the West, most of the market building occurred quite early, for example, in the Commerce Clause in the late eighteenth century US and the German customs unions, the Zollverein, of the mid-nineteenth century. Supranational markets, the European Union most notably, are more recent. China strikes me as very different from the West. China is very large, has a long and rich history, has never been governed by a colonial power although it has been occupied in wartime and has not adopted a Western legal system as, for example, India has. These features suggest that localism will be more persistent in China than elsewhere and that a compromise between local and national interests will ultimately be struck.

I do think that China can learn a great deal about its second economic transition from its first. One is the mirror image of the other. The first transition threw away the rulebook of the command economy. The first transition sought reform without defining what reform was. It was highly experimental – a casino – and created the vast differences now apparent to even the most casual observer of China. The second transition will require a new rulebook consisting of standards, norms and conventions facilitating nationwide commerce. The second transition will seek to consolidate the gains of the first by making comparisons and then identifying best practices. It will be analytical rather than experimental and will close differences as best practices diffuse nationwide.

Two simple graphs capture how China's first and second economic transitions differ yet mirror each other. Both show firm capabilities improving over time, but the improvement processes differ dramatically. Figure 1, which corresponds to China's first or what I call the A→B transition, assumes initial capabilities of zero, experimentation, but no basis for comparison of outcomes. Experiments succeed or fail, but firms do not learn from each other. Over time an upper tail develops, indicating that some firms, a minority, develop powerful capabilities. In Figure 2, which corresponds to China's second, or C→D transition, capabilities are more widely distributed initially, comparisons occur and learning arises from

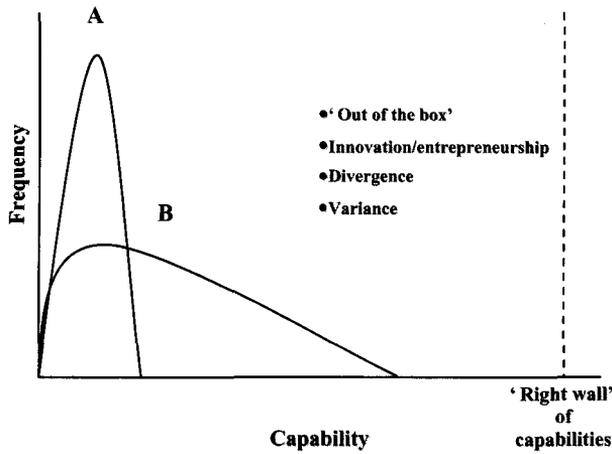


Figure 1. A → B Transition.

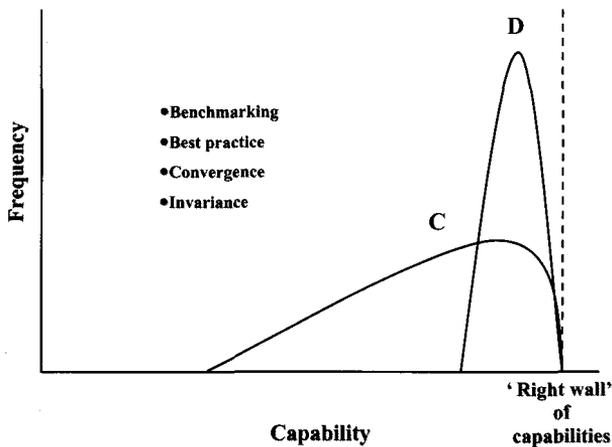


Figure 2. C → D Transition.

comparison. Over time, firms converge on the ‘right wall’ of the distribution, the upper limit of capabilities, as best practices emerge and diffuse. The second transition could not occur without the first. The first transition induces variation and improvement experimentally; the second transition reduces variation as a consequence of comparison and learning. Absent variation and neither comparison nor learning can occur. Nor could the second transition occur without a rulebook guiding comparisons – what is better practice, what is worse? The new rulebook defines performance (typically, capital markets), the bounds of acceptable conduct (laws and regulations) and exemplars (business education). Convergence and industry consolidation will go hand in hand in China as they have elsewhere. Thus, as China’s firms learn from one another and become more alike, their

capabilities and their size will also grow together. This is an optimistic picture and, depending on how events unfold, it could also be a realistic picture of how China's second economic transition will proceed.

## NOTES

Adapted from an address to the China Institute for Policy Studies, Beijing, January 27, 2007. My thanks to members of the Institute and to Doug Guthrie and Yadong Lu for helpful comments on an earlier version of the manuscript.

- [1] But not certainly. See Holz's (2005) critique of Young.
- [2] These figures were supplied by COSCO. The Clarkson PLC Group (<http://www.clarksons.co.uk/>), the largest global shipbroker, reports ownership but not operational control of bulk vessels. According to Clarkson, as of September 2006 there were 6369 bulk vessels with capacity of 386 million deadweight tons globally.
- [3] A senior central government official, moreover, has complained to me that the Guangdong governor, Huang Huahua, conducts his own foreign policy.
- [4] See the website of the American Association of Port Authorities, [www.aapa-ports.org](http://www.aapa-ports.org). The TEU breakdown by port in 2005, the latest data available, is: Hong Kong 22,427,000 TEU; Shanghai 18,084,000 TEU; Shenzhen 16,197,000 TEU; Los Angeles 7,485,000 TEU; Long Beach, 6,710,000 TEU; and New York/New Jersey 4,785,000 TEU.
- [5] In greater detail: 'Under the current rules, in general, the branches of a domestic enterprise should pay income tax locally. However, according to the information available, the new EIT law will provide that the domestic enterprises should, just like what the foreign invested enterprises have been doing now, pay EIT on a consolidated or legal person basis, i.e., the head office will be responsible for paying income tax on behalf of the enterprise to the tax bureau in charge of the head office. This is going to impact the current tax collection and administration regime. I believe that once the new EIT law is in place, certain implementing rules will be adopted to clarify how the domestic enterprises should pay EIT.'

## REFERENCES

- Chandler, A. 1962. *Strategy and structure: Chapters in the history of the industrial enterprise*. Cambridge, Mass.: MIT Press.
- China Mengniu Dairy Company Limited. 2006. *Annual report*.
- Cudahy, B. 2006. *Box boats: How container ships changed the world*. New York: Fordham University Press.
- Dougherty, S. M., & McGuckin, R. H. 2008. The effects of federalism on productivity in Chinese firms. *Management and Organization Review*, 4: 39–61.
- Fox, E. M. 2007. An anti-monopoly law for China – scaling the walls of protectionist government restraints. *Antitrust Law Journal*, 74: (in press).
- Hutton, W. 2006. *The writing on the wall*. New York: The Free Press.
- Hutton, W., & Desai, M. 2007. *Does the future really belong to China?* [Cited 15 Jan 2007.] Available from URL: [http://www.prospect-magazine.co.uk/article\\_details.php?id=8174](http://www.prospect-magazine.co.uk/article_details.php?id=8174).
- Holz, C. 2005. *No razor's edge: Reexamining Alwyn Young's evidence for increasing inter-provincial trade barriers in China*. Working Paper, Division of Social Sciences, Hong Kong University of Science and Technology.
- Jin, H., Qian, Y., & Weingast, B. 2005. Regional decentralization and fiscal incentives: Federalism, Chinese style. *Journal of Public Economics*, 89: 1719–1742.
- Kynge, J. 2006. *China shakes the world: A titan's rise and troubled future – and the challenge for America*. Boston, Mass.: Houghton Mifflin.
- Levinson, M. 2006. *The box: How the shipping container made the world smaller and the world economy bigger*. Princeton, N.J.: Princeton University Press.
- Lewis, I. 2006. Uncertainty over restructuring is bogging down COSCO. *Tradewinds*, 11 August.

- Li, H., & Zhou, L. 2005. Political turnover and economic performance: The incentive role of personnel control in China. *Journal of Public Economics*, 89: 1743–1762.
- Meyer, M. 2007. *The COSCO Group: From asset owner to asset operator*. The Wharton School, University of Pennsylvania, Case MGMT-006.
- Poncet, S. 2003. Measuring Chinese domestic and international integration. *China Economic Review*, 14: 1–21.
- Poncet, S. 2005. A fragmented China: Measure and determinants of Chinese domestic market disintegration. *Review of International Economics*, 13: 409–430.
- Seema International, Ltd. 2006. China Beer Industry Factsheet – November, 2006.
- Slocum, J., Jr, Foster, R., McGuire, M., Conder, W., Frazer, R., Ross, J., Corradini, E., Lei, D., & Scott, S. 2006. Fermentation in the China beer industry. *Organizational Dynamics*, 35: 32–48.
- Weingast, B. 1995. The economic role of political institutions: Market-preserving Federalism and economic growth. *Journal of Law, Economics and Organization*, 11: 1–31.
- Yam, S. 2007. China COSCO must change 'lone wolf' mindset of units. *South China Morning Post*, September 8, 2007.
- Young, A. 2000. The razor's edge: Distortions and incremental reform in the People's Republic of China. *Quarterly Journal of Economics*, 115: 1091–1135.