



Universiteit
Leiden
The Netherlands

State monopoly, Chinese style : a case study of the tobacco industry

Cheng, Y.W.

Citation

Cheng, Y. W. (2015, May 28). *State monopoly, Chinese style : a case study of the tobacco industry*. Retrieved from <https://hdl.handle.net/1887/33062>

Version: Corrected Publisher's Version

License: [Licence agreement concerning inclusion of doctoral thesis in the Institutional Repository of the University of Leiden](#)

Downloaded from: <https://hdl.handle.net/1887/33062>

Note: To cite this publication please use the final published version (if applicable).

Cover Page



Universiteit Leiden



The handle <http://hdl.handle.net/1887/33062> holds various files of this Leiden University dissertation

Author: Cheng, Yi-Wen

Title: State monopoly, Chinese style : a case study of the tobacco industry

Issue Date: 2015-05-28

Summary

State Monopoly, Chinese Style: A Case Study of the Tobacco Industry examines how state and market elements have combined and engaged with one another in China's state-monopoly industry over the past three decades. While the number of private companies in China has grown substantially, state control—in the form of central state-owned enterprises (SOEs)—has not declined much in certain monopolized industries following the initiation of market-oriented reform within the economy. Although a number of other market-economy countries continued to maintain state monopolies—i.e., monopolies created, promoted, and sustained by the political authorities in various industries for the sake of public interest or greater economy of scale—with the rise of neoliberalism in the 1970s, decreasing faith in the ability of public authorities to manage these ventures has largely yielded to market ideologies and solutions, i.e. privatization. In China, however, state-monopolized industries have become more formidable, despite the country's membership in the WTO for more than a decade now. Even more confusing than their noticeable presence is how fierce the competition is within China's state-monopolized industries with regard to price, production differentiation, sales management, advertising, and so on.

Adopting a historical institutionalist approach, this study focuses on the tobacco industry as a single case study to explore why competition would happen in this state-monopoly regime from its outset and how it evolved in China. Given that competition is usually regarded as the essence of “normal” market economics and that state monopolies, seen as a form of monopoly controlled by fiat, have been criticized for eradicating competition, this paradoxical phenomenon—the coexistence of state monopoly and competition—forms a critical ingredient in any discussion on the dynamic state/market relationship in China. With their attention directed elsewhere by theoretical biases, neoliberal researchers have little studied this topic, but the insights drawn from this study illuminate not only the complexity of China's state/market relationship—there have existed many ways of organizing a state monopoly—but also the legitimacy crisis that the Chinese authorities now face.

I argue that the emergence of competition in the tobacco state monopoly resulted from a particular industrial governance pattern, which formed up incrementally and became strengthened via interactions between local governments and the local agents of China's National Tobacco Corporation (CNTC). As the institutional settings where local governments and the CNTC's local agents were

embedded changed, the governance pattern and the resulting competition type continually transformed over three distinctive phases: quasi-free competition under the two-track system (1982-1993), restrained competition under prevalent local protectionism (1994-2004), and quasi-oligopoly competition under the central-led competitive monopoly (2005-2012). The consequences of this competition in each phase then triggered regulatory changes in the tobacco state monopoly at the critical junctures where new premises for the next phase formed to generate the next governance pattern.

Tracing the development of these three phases discloses not only how local governments have already become the de facto agents for serving the CNTC but also how this circumstance has indirectly strengthened the control capacity of the monopoly, thus reinforcing and intensifying state control and the competition alike. From these dynamics, China not only avoided that familiar collusion between emerging oligopolies characteristic under the “central-led competitive monopoly” but also that dualist antithesis of state control versus competition. It was in this context that the “state monopoly, Chinese style” was formed.