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Abstract

Incomplete financial reform, which was led by a technocrat, was largely carried out a massive restructuring of the financial sector. Zhu's policies, we cannot begin analyzing them if we conceive reform as a neat, coherent policy shift. In this article, competing hypotheses of policy change are tested on Zhu's financial "reform," which is conceptualized as a bundle of discrete policies, each having different and at times contradictory impact on the economy. With this conceptualization, banking centralization, the Herculean efforts to digest nonperforming loans, and stagnation in interest rate and private banking reform can best be understood as a coherent political survival strategy.



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1.

1. In November of 1997, Zhu promised western provinces that subsidized loans to western China would not be affected by the centralization (see Zhu, 1998).

2.

2. According to the People's Bank of China categorization, nonstate lending includes working capital loans to joint-ventures set up by Hong Kong, Taiwan, and Macau firms (*sanzi*), individual enterprises (*geti siying*), joint-ventures and "other," and medium-term and long-term loans to "other." See Division of Statistics of People's Bank of China, 2000.

- 3.
3. This nonperforming loan (NPL) figure represents the mean of estimated NPL by various groups. See Berger, Nast, and Raubach, 2002.
- 4.
4. “At face value” means at the original amount of the loan plus accrued interest. Normally, one would never purchase a NPL at face value because of the high-risk profile of a nonperforming loan.

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