Change through Bricolage:
The Development of China’s Futures Market

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Abstract

Change through Bricolage: the Development of China’s Futures Market
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This research has chosen the futures market as a starting point for understanding China’s socioeconomic change. China lives a culture and experiences a developmental stage that is quite different from the West. This creates barriers for Western understanding. Nevertheless, better understanding has great practical implications for business and government as China’s economy and global impact are growing rapidly.

Through analysis of the futures market, this research has discovered that institutional bricolage is the major characteristic of China’s socioeconomic change. The dynamic relationship between the state and market players has empowered the market players. They can create and change institutions through institutional bricolage, where they make do with existing institutions or leftovers of previous institutional changes to create new ones. The outcome is a mixture of new and old, Western and Chinese, which is roughly adapted to, but often at a remove from, the original plan.

Mainstream social science analyses can be informative in measuring ‘how far across the river’ (Qian and Wu, 2003) if taking ‘where they are heading’ as given, whereas those analyses are less successful in answering ‘how they cross’ because ‘where they are heading’ is actually debatable (Chen, 1995). The answers to ‘how and why’ question lie in a comprehensive understanding about China’s institutional framework which cannot be standardised, quantified, or measured. This research, therefore, took an alternative approach to learning how the players made the change. It started with elite interviewing. To allow reflection, there were two rounds of interview and seven months in between. It continued with six months participant observation in an exchange. The researcher took an overt role in the organisation and was involved with strategic actions. The concept of bricolage emerged during the second round of interview and was further explored and verified in the participant observation. Institutional bricolage is a process could occur in any culture, whilst it seems more prominent in fast growing China than in developed countries. Institutional bricoleur is an identity not to be fixed to a group or an individual, but attached to the change agent who carries out bricolage activities.
No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.
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Here is the scenario. Leo Melamed, the chairman emeritus of Chicago Mercantile Exchange (CME) Group, was sitting in his office one afternoon. In front of him were the young and ambitious Chinese entrepreneurs, their interpreter and Mr Melamed’s secretary and programme manager, who are both Chinese speakers working for CME. During the conversation, Mr Melamed looked less than engaged as the Chinese entrepreneurs enthusiastically described their strategic vision. The entrepreneurs could not stop talking about the new exchange they were going to launch in China while Mr Melamed kept asking what they were expecting from him, as he was not getting a clear answer. The discrepancy in understanding was obvious: Chinese entrepreneurs valued their vision or strategic concept and their relationship with the state players. Mr Melamed, however, wanted to know whether they had done the due diligence and read the local regulations. Mr Melamed was not much concerned whether the vision was beautiful or the regulator was the entrepreneurs’ old classmate but rather his concern was with the industry’s current squeezed living status between competing authorities. The conversation turned out to be uninspiring because the code, taken for granted by the Chinese, was not interpreted to Mr Melamed. In contemporary China, competency comes from two resources: a visionary strategy and a good relationship with key players. They had considered CME as a key player in the industry and they came here to build a ‘relationship’. On the contrary, the convention in Western countries is that the regulation has been so instrumental that basically it tells people what they can and cannot do. The existing regulatory rules are a key institutional foundation for any strategy and relationship with the regulator is not considered to be a decisive element. After experiencing this kind of scenario, the researcher in this thesis therefore, is making an attempt to decode Chinese culture and recode it for English readers. Understanding the Chinese rationale has practical implications for interactions with China and the Chinese. It has the largest population in the world, it is the second in terms of the size of the economy and it seems that it
has geared up to become bigger. This research aims to offer answers to the questions of how and why, with complementary insights to orthodox accounts. It shall reveal how industry players influence the formation and change of the market, how they are enabled and constrained by the institutional framework, how they learn and create new ideas, and how they utilise institution as resources.

This research studied the development of China’s futures market by participation and observation, with a thorough understanding of Chinese culture. It aims to answer the question why China’s socioeconomic change is so different from that of Western countries and how it has been formulated this way (with the futures market as a starting point). The incremental measure of China’s economic reform has determined that the change is a long-term structural one. It works within the existing cultural framework while adding new elements continuously and gradually. It needs a theoretical framework that recognises the structure–agent dynamic and a methodology committed to exploration and discovery. Institutional bricolage characterises the common properties of a changing process, especially when the dynamic also comes from below. In the more mature market, the change is more structured and engineered and hence bricolage may appear to be less prominent. Institutional bricolage is a more prominent characteristic of the catch-up economy as the structure is being built rather quickly; hence the institutional foundation is less stable and the process is less standardised. Throughout the development of China’s futures market, the existing structure both constrains and enables institutional bricoleurs. They work to change the structure when it limits their pursuit of business opportunities, on the one hand. On the other hand, they are enabled by Chinese cultural tradition, which allows space for political negotiation and mediation, and encourages learning from the West. During fieldwork, the exploratory nature of the study led the researcher to use methods providing first-hand experience. The fieldwork was conducted in three phases: the first and second rounds consisted of elite interviewing and six months participant observation. During the research process, there was double bricolage going on: institutional bricolage and research bricolage. The researcher deals with the
discoveries and emergent opportunities as a bricoleur, amateurish and improvisational, while actively learning from the experience.

Chapter 1: Understanding China’s Economic Reform -- Literature Review on the Structure

1.1 Introduction

‘A curiosity of modern economic discussion is the role of change.’ (1967, p.1).
John Kenneth Galbraith

There has been growing interest in China’s socioeconomic phenomenon, with the unambiguous agreement that change is the key character (Nee, 1996). Understanding social change has been a challenging task for academic research, especially when the change happens in a foreign culture (North, 2005). Following the unsuccessful transformation of Russia and Eastern Europe, China’s economic success was not anticipated by Western observers (Swaine, 1990; Shirk, 1993). However, China’s economic reform has lifted more than 200 million people out of poverty. More and more authors then set out to understand why it has been relatively successful and sustainable (Cheung, 1982; Naughton, 1994; Chen, 1995; Lin and Liu, 2000; Qian and Wu, 2003; Qian and Weingast, 2008). They are trying to establish the causal relationships between certain factors and the outcome, the decentralisation, for example. As Wu puts it, China’s economic reform started from Mao, the first generation leader, and experienced a cycle of decentralisation, recentralisation and further decentralisation (Wu, 2009). It sounds as though only those in power, the central and regional leadership, have played significant roles in directing the reform and it is just a power game at the top. There is no doubt that political leadership is one of the most important drivers, thus the documentation of leadership is invaluable.
However, those who understand Chinese culture and have lived through China’s economic lives would have to be blind not to see the contribution from the grassroots level. The vibrant dynamic from below is indispensable and cannot be left out of any explanation (Gan, 2007). Although China’s polity is a one-party regime, it does not mean that the people have few rights or thoughts, nor that the Party and government have done all the thinking for them. Assessing literature regarding China’s economic reform will show that one important role is missing from and not conceptualised in the existing accounts: the dynamic from below. The practitioner who do not hold positions in government still have access to power through their social networks that connect them to the officials. The ideas they feed into the government have greatly shaped the outcome of the change. Thus, they constitute an important part of the dynamic. Interestingly, if one examines the dominant culture and ideology in China, Confucianism and Marxism, one will find they both draw the attention to the grassroots, proletariat or populace, the lower stratum of society.

Existing research has taken various approaches to explain China’s economic reform by looking at the top level. There are comprehensive and systematic review and discussion provided by Wu Jinglian and Barry Naughton (Wu, 2005; Naughton, 2007; Lin, 2009), the fiscal decentralisation under the framework of institutional economics by Qian Yingyi, Lin Yifu, Gabriella Montinola and Barry Weingast (Montinola et al., 1995; Lin and Liu, 2000; Jin et al., 2005), the variety of capitalism approach by Jeanne Wilson (Wilson, 2007), the economic sociological review by Victor Nee (Nee, 2005), the role of ideology by Chen Feng (Chen, 1995), and the cultural tradition account by Daniel Bell and Jiang Qing (Bell, 2008; Jiang, 2012). The various, different approaches have provided extensive insights into understanding China’s institutional framework. For the whole thesis, the first step is to critically review the existing literature associated with China’s socioeconomic change. There is a large, growing body of literature about China and its change. It will be difficult to include all of this literature in one discussion; hence the review will only target the most relevant and influential, and some important thoughts might be omitted. The three
review chapters will first review literature that provides a framework to understand China’s social change, and then explore concepts possibly simulating the process of change, and thirdly evaluate the existing accounts concerning China’s futures market.

As the first part of the literature review, this chapter will be divided into two sections. The first section will review those who consider economic reform starts only from Deng Xiaoping,\(^1\) and those who consider it starts from Mao Zedong. Those who consider the economic reform starts from Mao look at the socioeconomic change of New China\(^2\) as a continuous process because they have discovered the consistent political logic between Mao and Deng. In the second section, it will explore the formation of Chinese characteristics historically, furthering the understanding of the underlying logic of China’s socioeconomic change. One needs to share the vision provided by the culture and ideology, Confucianism and Marxism, in order to understand the players. Otherwise, the way of observing the phenomenon could be fragmented and the understanding will be limited. The future vision enables the observer to see immediate events differently.

1.2 The presumed difference between Mao and Deng

Dichotomies and analogies prevail in academic work as they save cognitive energy when perceiving something from a new angle (Douglas, 1987). There are many dichotomies and analogies used to conceptualise China’s phenomenon. The change as a transition from central planning towards a market economy, for example, is one of the most popular ones (Qian and Wu, 2003), or, that the change is from socialism to capitalism (Wilson, 2007), or, from Mao’s to Deng’s (post-Mao) era (Harding, 1987; Chen, 1995; Liou, 1998). Deng is considered to be the architect of China’s economic reform and opening up (Zhu, 2008). China’s economic policy has been very different

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\(^1\) Deng is considered to be the second generation of New China’s leaders. He was in power in 1977-1997. Mao was New China’s first leader and in power in 1949-1976.

\(^2\) Within China people commonly refer to the People’s Republic of China as the New China.
since Deng took over. Thus it seemed convincing that Mao was biased to central planning while Deng was biased to the market. Even many scholars believed China’s reform only started from the third plenary session of the 11th Party Congress, when Deng announced the launch of economic reform and opening up. It does generate confusions if Deng’s market oriented policies were not understood in the proper context. That is, the institutional foundation of the CPC and New China and their future vision. Chen, for example, argued that the policies since Deng’s economic reform have fundamentally contradicted the Communist Party of China’s (CPC) ideology, hence there was a ‘fundamental–instrumental discrepancy’ that might cause ideological and political crises (Chen, 1995, pp.17, 197, 201).

Academic work sometimes also starts by rejecting existing dichotomies. For example, in his *Method in Social Science*, Sayer rejected the misconceptions based on a series of ‘dualisms or dichotomies’ (Sayer, 1992, p.23). This review will follow this track, rejecting the dichotomies between Mao and Deng, planning and the market, and socialism and capitalism. Those dichotomies implicitly judge China’s phenomenon by Western standards without full comprehension of Chinese culture and tradition (Gan, 2007). Moreover, as the incursion of Western values has been so deep in China that ‘Chinese people are no longer able to use patterns of thought inherent in their own culture - Chinese culture - to think about China’s current political development’ (Jiang, 2012, p.27). This is by no means advocating Chinese nationalism. It is the cultural difference that has presented the very obstacle to understanding the phenomenon. Central planning and socialism are also committed to development and within them there are possibilities of reform and change. For the pursuit of a prosperous China is the shared goal of Chinese political leaders, those of the CPC and other democratic parties (Liang and Alitto, 2013). Mao and Deng are both committed to a prosperous China and New China’s economic reform has begun since Mao (Wu, 2005). Several generations of leaders have followed a similar political logic and vision, continuously exploring until they find an effective way to liberate productivity and achieve development (Shirk, 1993). In order to find the appropriate framework
that will aid the understanding of China’s economic reform, the following subsections will assess those dichotomies and concepts in details.

1.2.1. From planning to market economy - contradicting short-term and long-term goals

There is hard evidence that China’s marketisation and industrialisation have achieved substantial progress (Qian and Wu, 2003; 2008). Economists developed indicators to evaluate China’s marketisation in terms of ‘the percentage of private ownership, the government and market relationship, the share of the non-state sector, the development of the goods market, the development of the factor market, and market organisations and institutions’ (Qian and Wu, 2008, p.13-15). The data compiled by Qian and Wu shows that the percentage of private ownership and other indicators of marketisation have been increasing steadily since the 1990s. It is evident that China has become more privatised than it was before Deng’s economic reform. As Qian and Wu conclude, China is ‘a normal emerging market economy’ (Qian and Wu, 2008, p.13). Since 1977, the market has become more liberalised and the economy is becoming less controlled. More importantly, people are more encouraged to pursue profit and innovate for this purpose (Nee, 1992). In his book Capitalism, Socialism and Democracy, Schumpeter argued, and Stiglitz agreed in the introduction of republished edition, the heart of capitalism was about innovation, as innovation brought monopoly powers and generated barriers to entry (Schumpeter, 1942). Therefore, China is approaching capitalism in both economic and the sociological senses. Deng Xiaoping’s famous quote, ‘cross river by groping for stones’, piques the world’s curiosity about how far China has crossed the river after three decades and these authors have provided answers (Qian and Wu, 2003, p.2). Learning about China’s current status is straightforward if the axis has central planning at one end and the market at the other. However, even the most straightforward way has its limits. If taking the long-term goal into consideration or looking at a longer time span, it is
arguable that a market economy may not be the end point of the change, but simply the means. If it is such a straightforward path, why has the political system not transformed more quickly? Why has the dominant ideology remained intact or even been reiterated and emphasised by the central leadership? Is it because of losing face or some other embarrassment that the Party has not embraced liberalism as its ideology? It indicates that the path of China’s socioeconomic change is not straightforward but a complicated process.

People remember well, as academics mention quite often, that market economy was a forbidden phrase in China before the 1980s (Gittings, 2005). Market is the exchange mechanism for capitalism, thus it is not approved by communism. Communism is determined to lead the proletariat to destroy the capitalist mode of production and appropriation (Marx and Engels, 1969). According to Marx and Engels, there is no need of currency, market or price, as it is the whole proletariat that will be allocating resources, rather than the market and the price indicators it generates. However, Marx also made it clear that communism would have to be based on highly developed modern industry, where the output was abundant and a matured proletarian class had high moral standards (Marx and Engels, 1969). Otherwise, the competition among proletarians for scarce goods would dismantle the class from within. Having set the threshold so high, Marx and Engels did not give specific instruction upon how to achieve communism in a poor country where modern industry was not in place. The new China is established upon the aftermath of exploitative colonisation and civil war. It was impoverished for more than a century. Hence the leaders of the CPC did feel they were crossing the river by groping for stones. They were exploring without a map, while they had a mirage ahead of them that had been given by Marx and Engels’ intellectual prophet and Lenin and Stalin’s practice. Marx and Engels stated that ‘the Communists are on the one hand, practically, the most advanced and resolute section of the working class parties of every country, that section which pushes forward all others; on the other hand, theoretically, they have over the great mass of the proletariat the advantage of clearly understanding the line of march, the conditions,
and the ultimate general results of the proletarian movement’ (Marx and Engels, 1969, p.20).

The voluminous *Das Capital* was all about capitalism and its operation. Although Marx and Engels were critical of capitalism, they established more than destroyed it as a solid concept. The CPC had to lead the country to cross the gap between absolute poverty and prosperity without much guidance out there. The new China had to be built on a vision rather than a plan, hence when the ideology was turned into economic policies it was a trial and error process (Schurmann, 1966). As Schurmann put it, ‘a plan is a carefully worked-out blueprint of action based on a matching of goals with capabilities’, while ‘a vision is a total insight into the essential interrelationships of a situation’ (Schurmann, 1966, p.74). Regarding the economic reform since 1977, the ultimate goal of the CPC may not have changed but the line of march has been altered. Communism, similar to Confucius’ datong, is the ultimate ideal status of human society (Zhang, 1994). Marx and Confucius are both hostile to the existing institutional system and proposed an institution-free society based on the premise that goods are abundant and all people are self-disciplined and ethical (Bell, 2010). It may solve the myth that most academic work has presented: the CPC is retaining its communist ideology while seemingly adopting capitalist measures. Communism is an ideal yet the CPC has not given up this ideal. Instead of claiming the CPC is no longer a communist party committed to public ownership (Qian and Wu, 2003) or that its commitment to economic development would derail its communist ideology (Chen, 1995), it can be argued that the recent privatisation, marketisation and commitment to economic development do not necessarily conflict with the CPC’s ultimate ideal. It is just the choice of ‘line of march’ according to the conditions. The CPC’s theoretically clear understanding about ‘the line of march, the

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3 Datong is the ideal society advocated by Confucius whereby the whole society is like one family. People take care of every other societal member, produce is abundant hence no need of private ownership and everyone is committed to a general moral code hence no coercive rulers are needed. This is in contrast to xiaokang, which Confucius saw as a stage when datong could not be realised. In xiaokang society, the family is the basic unit. People should take care of their children and seniors. Private property, law and enforcement are needed (Yang, 2012).
conditions, and the ultimate general results of the proletarian movement’ does not stem from communist or socialist theories imported from outside the country, but the exploration and experiments of its leaders and followers. As Bell pointed out: ‘The CPC need not abandon the commitment to communism as the long-term goal so long as it recognizes that poor countries must go through capitalism on the way’ (Bell, 2008, p.4).

1.2.2 From Mao to Deng - the contradictory economic policies

Much academic work assumed that Deng disagreed with Mao and there was an antagonism between them. It was even believed by many Chinese (Harding, 1987; McCormick, 1990; Chen, 1995; Liou, 1998). The Great Leap Forward (1958) and Cultural Revolution (1966–1976) are notorious political movements initiated by Mao. It is very hard to make sense out of Mao’s actions. He fought for the establishment of New China for half of his life, yet he called on mass movements that had disastrous economic consequences and interrupted its social order. The common interpretation is that Marxism was a revolutionary ideology and that Mao knew little about economics (Harding, 1987; Liou, 1998). Nevertheless, some other studies revealed that Mao’s actions might have their rationale and shared consistent underlying logic with Deng’s strategy, although they generated different policies and interpretations (Shirk, 1993; Wu, 2005; Gan, 2007). As Gan explained, the Great Leap Forward and the Cultural Revolution were Mao’s efforts to achieve administrative decentralisation.

Decentralisation means the central government’s delegation of power to lower-level government (Wu, 2005). Many scholars have focused on the fiscal decentralisation and tax-revenue sharing of Deng’s economic reforms, whereas Wu and Gan also count Mao’s administrative decentralisation as attempts to reform the planning economy, although not as successful as Deng’s (Shirk, 1993; Gan, 2007; Wu, 2009). They argue that Deng’s success was a result of the lessons he learned from Mao’s
attempts and the institutional foundation Mao left to him. Wu Jinglian, as one of the most prestigious economists in China, wrote about New China’s sixty years’ history of reform, which he summarised in three phases:

‘During the first phase, from 1958 to ’78, the government implemented a decentralized command economic system. The focal point of reform was the central government’s delegation of power and yielding of profit-making to lower levels of government. The second phase stretched from 1979 to ’93. This was a phase of increased reform that saw a greater focus on promoting the economy in areas beyond state-owned entities. Private enterprises grew in strength, which moved forward the entire national economy. The third phase began in 1994 and continues today. It is a push-forward phase, with the goal of establishing a market economy and carrying out comprehensive reforms. In China’s reform process, elements of each phase are intertwined. Reforms implemented in the early phase often contained elements that were seen in measures during later phases, and vice versa’ (Wu, 2009, p.2).

Gan revealed that during the Great Leap Forward, Mao transferred the majority of centrally controlled industrial enterprises from central ministries to various levels of regional government (Gan, 2007). Mao required every level of regional government, including provincial, municipal, county, town and village, to develop their own industrialisation. It was what he called ‘small but complete’ regional development strategy. In 1961, Liu Shaoqi, the deputy president of China at that time, reinstated the central controlling of the industrial enterprises, triggering a dispute between Mao and Liu. In 1964, Mao again released the industrial enterprises to regional management. He was strongly against the idea that everything be controlled by central government in Beijing, especially by a few technocrat elites. He was trying to prevent ‘the master of the country’, the worker-peasant league, being marginalised and left out of decision-making and power. Thus, in 1968, when the Cultural Revolution was at its height, the central planning system was literally shattered by him (Gan, 2007). The Cultural Revolution, or Mao’s political campaigns, made the people believe that
without central planning system, especially the control by the bureaucrats, China could still achieve modernisation and industrialisation. This enthusiasm was represented by the *dazibao*⁴ written by the young Yang Xiaokai, titled ‘Whither China?’ Yang, at that time, supported Mao’s depriving government officials of their power, bashed the bureaucrats and praised people’s autonomous production organisation. Contrary to Maoism, another major group among CPC leaders tended to adhere to the Soviet path, building a highly centralised planning economy that achieved big economic success⁵ between 1952 and 1957, the first five-year plan. While Mao was trying to depart from Soviet style by decentralising central government power and injecting vitality into the lower levels (Wu, 2009). The Soviet style was a command economy where the planning system was designed, calculated and controlled by a few technocrat communist elites, while Mao was a civilian leader who believed in the power and intelligence of people (Gan, 2007).

Naughton, who condemned Mao’s economic policies, noted that the Great Leap Forward was seen as ‘the period when China under Mao first developed a vision of socialism that was distinct from the Soviet model’ (Naughton, 2007, p.86). Many historians studying Chinese history have documented that period and have recognised it was Mao’s effort to find his own way of developing China instead of following the Soviet path. But they have failed to rationalise how Mao’s path is different from the Soviet path and linked to Deng’s reform (Fairbank and MacFarquhar, 1987; Fairbank and Goldman, 2006). The Great Leap Forward was followed by the so-called ‘A Hundred Flowers’, a short period movement, when Chinese people were encouraged to join in open political discussion. Mao soon turned his back on those expressed their opinions during A Hundred Flowers and initiated an ‘Anti-Rightist Campaign’, during which most of those intellectuals were convicted and then given hard labour

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⁴ *Dazibao*, meaning big-character poster, was the means of communication for the masses to express their political ideas during Mao’s campaign. Yang Xiaokai is a professor at Monash University. He wrote this dazibao when he was 19. It was identified by the Gang of Four as poisonous and he was put in prison for ten years. In the 1980s, Yang was rehabilitated and became a research student at CASS, starting his academic career. The content of ‘Whither China?’ was retrieved from: [http://ishare.iask.sina.com.cn/download/explain.php?fileid=7368307](http://ishare.iask.sina.com.cn/download/explain.php?fileid=7368307)

⁵ Industrial production expanded by 17% on average in each of these five years.
The political campaign was Mao’s usual means to reach the mass population from whom he never wanted to be disconnected (Ogden et al., 1992). Mao believed he had a more thorough understanding about what the worker–peasant league was than the technocrats within the CPC and intellectuals (Mao, 1975). In 1958, in his proposal for economic development, he pointed out that before 1957 New China’s economic development was centralised to a few central leaders. The lower-level cadres and grassroots mass were excluded. Hence he called on all peoples to join in the development of industrialisation (Mao, 1977). It might have partially explained the rationale behind Mao’s targeting intellectuals and Liu Shaoqi. After all, Mao was rejecting the centralisation of power to a few party elites and technocrats at central government level. The economic consequence of his policies was disastrous, whereas his intention was understandable.

As elaborated in the previous section, the difficulty of communism is that there is no road map in terms of how to develop a poor country until it is institutionally prepared for communism. In fact, the fathers of Marxism had never proposed highly centralised state power and a centrally planned economy. It was an invention of Soviet leaders. Many scholars have justified a Soviet-style command economy as a choice during and after the war (Ericson, 1991; Sun, 1994). Since the 1920s, Comintern had been helping the young CPC, sending representatives to China to advise its establishment and other movements (Saich, 2008). New China’s leaders were influenced by the Soviets in the very early years. Without Mao’s campaign against technocratic elites, China’s economic system would have followed the path of Soviet and Eastern Europe (Shirk, 1993). When Deng took over, China’s planning system was a lot less centralised or controlled than that of Soviet Russia (Gan, 2007). The political logic of Deng’s economic reform continues on the theme of decentralisation, and it was based on the decentralised economic system built by Mao and learned from Mao’s lessons. Although administrative decentralisation proved economically disastrous, it laid the foundation for Deng’s further experimentation and success (Montinola et al., 1995). Deng’s fiscal decentralisation was detailed by Lin Yifu and Liu Zhiqiang as follows:
'In a broad sense, fiscal decentralization is much the same in China as elsewhere in the world in that the central government relinquishes its fiscal controls to subnational governments. According to the proponents of fiscal decentralisation, such a shift of fiscal power and responsibility to lower levels of government can increase economic efficiency because governments at lower levels have informational advantages over the central level concerning resource allocation. In other words, subnational governments are in a better position to provide the kind of public goods and services that closely meet local needs. Furthermore, when local government officials are responsible for the provision of public services, they are under closer scrutiny by their constituencies and, as a result, have a greater incentive to exercise their fiscal responsibilities in the best interest of the general public. In addition, local governments in China control the majority of the country’s enterprises. Fiscal decentralisation may harden the budget constraints of local enterprises and, consequently, improve the local enterprises’ efficiency and lead to higher and more sustainable economic growth. Fiscal decentralisation also may bring about dynamic gains to the economy. Recent endogenous growth literature has illustrated that institutional arrangements affect economic growth. It is conceivable, therefore, that a change from a centralized to a decentralized fiscal system can increase the long-term rate of economic growth.’ (Lin and Liu, 2000, p.2-3)

The consistency of the political logic between Mao and Deng, therefore, is manifest. Decentralisation was the shared characteristic of Mao and Deng’s economic reform, as Shirk pointed out (Shirk, 1993). Mao’s administrative decentralisation did not solve the incentive problem. The vitality he tried to inject did not regulate the economy into a positive cycle. Instead, the back and forth centralisation and decentralisation trapped China’s economy in a circle: leap, chaos, reverse, stasis. It is elaborated well by Naughton with a diagram, where the decentralisation attempt and conservative retreat were represented by growth of investment between 1950 and 1980. It was evident that ‘each leap was followed by a phase of retrenchment.
consolidation, and slower investment growth’ (Naughton, 2007, p.64). Subsequently, Deng figured out that the vitality can only be released if appropriate competition between regions, enterprises and individuals was allowed (Deng, 1987). In other words, egalitarianism was not the way to lead a poor country towards communism.

Those who attempted to dissect New China’s history and treated Mao and Deng’s policies differently failed to see the consistency and adherence between them. The vision has not changed and it does not need to be changed. Development is the common goal. Consequently, the debate between capitalism and socialism is in vain. It is futile to debate whether China is heading towards either capitalism or socialism; the only criteria that should be applied are whether the economy is growing and living standards are improving. It is as pragmatic as Deng’s famous quote: *It doesn’t matter if it is a black or white cat, it is a good cat so long as it catches mice* (Deng, 1994).

Mao, as a charismatic leader who established the New China, had tried the possible ways of reform within the framework. As a result, he left a rather decentralised system for Deng to build upon, comparing to those in Russia and Eastern Europe. The CPC, at that stage, realised that it should liberalise the market and profit-seeking as they would motivate the people. As for the long-term goal, Deng also gave the answer in 1982: ‘Adhere to the Four Cardinal Principles’ was his bottom line (Ogden *et al.*, 1992). That is to say, the vision will remain the same and development, capitalist or socialist, is the line of march.

1.2.3 The consistency - decentralisation and meritocracy

In the literature explaining China’s successful economic reform, two relevant concepts have emerged that both promote an alternative way to understand China’s

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6 Adhere to the Four Cardinal Principles means adherence to socialism, dictatorship of the proletariat, the Party’s leadership, and Marxism-Leninism-Mao Zedong Thought.
political economy by invoking Chinese cultural tradition: decentralisation and meritocracy.

Fiscal decentralisation, also called Chinese-style federalism, was proposed majorly by Qian Yingyi and Barry R. Weingast (Qian and Weingast, 1996; Qian and Weingast, 2008). Political meritocracy was majorly raised by Daniel Bell and Jiang Qing (Bell, 2008; 2010; Bell et al., 2012; Jiang, 2012). Chinese-style federalism describes the political power structure of China’s government. In China, the controlling organs are the Party’s Politburo and the State Council, with the ministries and regional governments controlled by them (Huang, 2002). The ministers and provincial governors are at the same bureaucratic rank. Ministers ‘have no appointment power over provincial bureaucrats and, although they do exercise what is known in Chinese bureaucratic parlance as “professional functions” over the bureaux of provinces, the Chinese system is very careful in ensuring that ministries do not exercise any “administrative functions” over provinces’ (Huang, 2002, p.67). The regional governor is responsible for everything within the regional boundary comprehensively while the minister has the power of intervention in terms of his specific function. The conflict of interests explains the origin of so-called regionalism in China. It is the similarity of rank and cross-functioning which provides the balance of power between ministries and the provinces.

The political meritocracy were intrigued by the Chinese philosophy, Confucianism. Confucius presented three major values after two and half thousand years of inheritance and development. The first is the individual inner psychological balance and tranquillity, the second is the harmonious society and human relations, and the third is education and intellectuals’ political responsibility (Liang, 1989). Bell and Jiang are prone to emphasise the political value of Confucianism, the so-called stream of left Confucianism or political Confucianism. Bell argued that Chinese new leftists and Confucian intellectuals are engaged in dialogues about ‘a left interpretation of Confucianism that stresses such values as the responsibility of intellectuals to criticize
bad policies and the obligation of the state to provide for the material wellbeing of the people’ (Bell, 2010, p.93). It is consistent with some other Confucians, such as Feng Youlan and Liang Shumin, who also valued the social mobility of Chinese culture, which allows the absolute poor to rise to the elite level as long as they prove excellence in the national exam (Liang and Alitto, 2013). Confucius proposed that a bright emperor should be meritocratic (renren weixian) rather than nepotic (renren weiqin) (Gu, 1898). The implication is that the institutional arrangement is designed so that genuine talents can penetrate the class barrier, thereby making it possible to form a meritocratic governing body. Interestingly, it also echoes the meaning in the 

*Manifesto of the Communist Party*, which states the Communists as ‘the most advanced and resolute section’ and ‘have over the great mass of the proletariat the advantage of clearly understanding the line of march, the conditions, and the ultimate general results of the proletarian movement’ (Marx and Engels, 1969, p.20). Again, Marx did not explain how the Communists could rise to the most advanced position from the working class mass, while pointing out the merits of such a result.

The outlook for Deng’s economic reform was not optimistic at the beginning as many believed political reform should come before economic reform, otherwise vested interest groups would become major obstacles (Sachs *et al.*, 2003). However, it seems China has created its own system to generate a proper incentive for economic reform before any explicit political change. In fact, as Montinola, Qian and Weingast have argued, political change had taken place, but quietly (Montinola *et al.*, 1995). They argued that democratisation and the separation of the CPC from the state may not be the only way to achieve a fair and just China, if the notion of political reform could be broadened from its narrow definition in terms of Western values. China’s political decentralisation provided considerable protection for the country’s reforms, including limits on the power of central government. It quietly transformed the ideology from a dogmatic emphasis to a pragmatic approach (Montinola *et al.*, 1995). Shirk also argued that China’s central leaders learned to ‘play to the province by observing Mao, who had pioneered this strategy’ and Mao had originally conceived it to ‘overcome
the resistance of stodgy central bureaucrats to his vision’ (Shirk, 1993, p.151). Deng preserved the essence of the strategy while promoting a different set of policies. Chinese-style federalism engaged regional government officials in participating and even pioneering economic reform. Partisan democracy guarantees equal rights for political participation, while in China the decentralisation of power does expand the base of political participation. Although there is no other party which can be compared to the CPC in China, political meritocracy generates competition from both within and outside.

Bell et al. define political meritocracy as the idea that ‘a political system is designed with the aim of selecting political leaders with “superior competence and virtue” to make morally informed political judgements’ (Bell and Li, 2012; 2012, p.1). The national examination system as a tradition to evaluate and select talents has survived for more than one thousand and three hundred years in China. It was abandoned between 1905 and New China, as a symbol of the imperial fetter (Liu, 2005). The leaders of New China soon re-established a national higher-education entrance examination system and civil servant examination system. They inherited the ethic that evaluating the talents according to their performance in a well-designed examination is effective and fair. It is associated with the Confucian moral code that intellectuals have high rank in society and should take their political responsibilities (Feng, 1981). This system has its drawbacks. Many reformists in China since the late 20th century have blamed it for limiting the capacity for independent and critical thinking, as everyone was reminded by their parents from an early age that study is the only way to achieve personal success (Li, 1984). Moreover, study is not enough, as the technique of dealing with exams and figuring out the mentality of the examiners are as crucial as the knowledge obtained. That is, the knowledge and the skills of proving that knowledge to the examiners are equally important. Through these systems and the ethos they associated with, the CPC has evolved to become a meritocratic organisation. The percentage of party members that holds a higher
education degree is more than 38 per cent. The mechanism for assuring the excellence of its members includes recruiting new members from university campuses and rigorous entrant and promotion procedures. Bell translated an example given by Li Yuanchao, Minister of the Organisation Department of the CPC Central Committee.

‘To illustrate the rigorous (meritocratic) nature of selection at higher levels of government, Minister Li described the procedure used to select the Secretary General of the Organisation Department of the CPC Central Committee. First, there was a nomination process, including retired cadres. Those who received many nominations could move to the next stage. Next, there was an examination, including such questions as how to be a good Secretary General. Over ten people took the exam, and the list was narrowed to five people. To ensure that the process was fair, the examination papers were put in the corridor for all to judge the results. Then, there was an oral examination with an interview panel composed of ministers, vice-ministers and university professors. To ensure transparency and fairness, ordinary cadres who work for the General Secretary were in the room, which allowed them to supervise the whole process. Three candidates with the highest score were selected for the next stage. Then, the department of personnel led an inspection team to look into the performance and virtue of the candidates, with more emphasis placed on virtue. Two people were recommended for the next stage. The final decision was made by a committee of twelve ministers who each had a vote, and the candidate had to have at least eight votes to succeed. If the required number of votes was not secured the first time, the ministers discussed further until two-thirds could agree on a candidate.’ (Bell et al., 2012, p.12-13)

If Mao had the support of a meritocratic CPC in his time, his administrative decentralisation might not have brought disastrous economic consequences. He decentralised power to the mass while only a few could make well-informed decisions. It takes time for an organisation to become deeply rooted, broadly based and

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7 Source: http://www.gov.cn/jrzg/2012-06/30/content_2174072.htm
politically meritocratic. Communism and Confucian datong may both believe in an institution-free future, however, there is one institution which humans cannot be unfettered from, that is knowledge. The ultimate form of equality is equal access to knowledge and the mechanisms which allow knowledge possessors to rise to the decision-making level.

Having rejected the false dichotomies created by existing accounts concerning China’s economic reform, this thesis would then argue that decentralisation, consistent political logic, and political meritocracy can provide better understanding. Drawing upon these two concepts, the second section of this chapter will look further at the formation of Chinese thinking through which one can understand the political economy of market formation. Marx’s prediction in terms of the antagonism between the proletariat and the bourgeoisie is not accurate, as it turns out the relationship between them is quite negotiable (Agger, 1991). It may be because Marxism has taught the oppressing class and capitalists to understand and redeem themselves. The changes Marx could not foresee are large and they include but are not limited to women’s suffrage, national welfare system, national healthcare service, national minimum wage, free education, and the flourishing of banking and private equity, which increase access to capital without limit. Thus, the proletariat are no longer absolutely poor if the bourgeoisie have paid them decently. The national state has boosted the lowest living standard by providing social protection and benefits. Nowadays, China has started to offer the national minimum assistance and unemployment benefit to every citizen. Deprivation of land was considered to be the capitalists’ brutal scheme in order to formulate a proletarian labour class. Mao established institutions to fix rural population to their area and prohibited them from coming to work in the cities. Whilst in contemporary China, young generations prefer to work in the cities instead of on their own land. Academics then argue the policy that fixes peasants to their land has become an obstacle that prevents them becoming rich and therefore advocate reform of farmland property (Yao, 2000).
Marx was absolutely right about one categorisation: the oppressing and the oppressed (Marx and Engels, 1969). Meritocracy formulates the interrelationship between the oppressing and oppressed in another form. As Dong et al. summarised, China’s governing class is an elite league of officials, industrialists, intellectuals and media (guan, chan, xue, mei) (Dong et al., 2011). In other words, the oppressing and oppressed are intertwined. Worker-peasant groups and governing elite groups overlap. Mao Zedong would have had a better outcome if the worker–peasant groups he trusted were as well-educated, well-informed as today’s. Therefore, today’s research has to broaden the scope of investigation. It is not only the politicians, government officials or party members who are making the change, but also the industry elites, intellectuals and media.

1.2 The dynamic from below

‘The theoretical conclusions of the Communists are in no way based on ideas or principles that have been invented, or discovered, by this or that would-be universal reformer.’ (1969, p.20)

Marx, Karl and Engels, Friedrich

Marx and Engels probably would have agreed with Deng Xiaoping that reform was a process of ‘crossing the river by groping for stones’. The above shares the same meaning but the academic wording is different. Each step, every experiment, cannot be carried out without the participation of the people. If the reform is a vision without a plan, the input from the grassroots, the practitioners, become extremely valuable. In this section, the review will focus on the literature that helps capture the grassroots heroes of China’s social change. It will trace the history of Chinese culture and philosophy. It is Chinese culture and philosophy that enabled the grassroots to shape society and its change. In addition, it will compare Western and Chinese critical thinking, in order to see how the economic reform allows bricolage to make up the
unplanned part of the process. It will argue that the political banner ‘socialism with Chinese characteristics’ has its cultural roots, practical meaning and profound implications.

1.2.1 Cultural and historical framework – the condition of China’s modernisation

‘The history of Chinese philosophy concerns the history of “China’s” or “Chinese” philosophy, not the history of “philosophy in China”. If we were to write a book on “The History of Chinese Mathematics”, such a work would really be a history of “mathematics in China”, or of “the development of mathematics in China”, because “mathematics is mathematics” and there is no such thing as “Chinese” mathematics. But philosophy, like literature, is different. There really is a “Chinese” philosophy and a “Chinese” literature, or in general a “Chinese” culture.’ (1981, p.1)

--Feng Youlan

Su and Wang argued that Confucianism created ‘a psychology that craved harmony and stability and stressed rational order and human relations’ (Su and Wang, 1992, p.37). Liang Shuming (1893–1988), one of the founders of the China Democratic League, one of the representative parties of the Chinese People's Political Consultative Conference (CPPCC)\(^8\) used the slogan ‘knowing old China, building new China’ when he was seeking the salvation of China in the Chinese Republic era (Liang, 1987). A historical review is indispensable for knowing new, contemporary China. Feng Youlan\(^9\)(1895–1990) pointed out that Chinese culture and philosophy is as well established as Western culture and philosophy. Before the Enlightenment, scholars in Europe studied and wrote about China voluminously (Russell, 1946). They admired Chinese civilisation and prosperity. The Enlightenment changed the Western world in all major aspects: it brought free thought, science, capitalism and democracy.

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\(^8\) CPPCC: the National Committee of the Chinese People’s Political Consultative Conference.
\(^9\) Feng Youlan was Liang Shuming’s student in Peking University.
By contrast, in the 18th and 19th centuries China stagnated or even regressed while Europe and America flourished. Confucius (551–479 B.C.) and Mencius (372–289 B.C.) lived between 500 and 200 B.C., and Socrates (470–399 B.C.), Plato (427–347 B.C.) and Aristotle (384–322 B.C.) lived between 400 and 300 B.C. Feng contended that China produced its philosophy at the height of Athenian culture, whereas the lack of development in natural science failed China in the modern era as a result of Confucianism’s submissive attitude towards nature (Fung, 1922). He summarised important philosophical trends of thought in Chinese history. There were several representative schools of thoughts starting in warring states (between the Zhou and Qin dynasties): Confucianism, Taoism and Mohism. Taoism and Mohism are at the two extremes of ‘nature’ and ‘human’ while Confucianism lies in the middle. Taoists see nature as perfect, and advocate ‘returning to nature’: ‘Tao gives everything its own nature, in which it finds its own satisfaction’ (Fung, 1922, p.241). Mohists are material and utilitarian. They see that people have free wills but they are imperfect and short-sighted, hence need to be regulated by authorities. Mohists believe in education, comparing it to dyeing silk: ‘what it enters changes; it changes its colour accordingly’ (Fung, 1922, p.247). Confucius was a disciple of Lao Tse, the founder of Taoism. Confucianism is eclectic in its use of Taoism and Mohism, with tendencies to Taoism. It seems Mohism is closer to modern Western ideas, whereas it does not flourish in Chinese history.

Late in the 10th century A.D., Dong Zhongshu and some other philosophers developed Confucianism to a new level, absorbing more ideas from Taoism and Buddhism (Tsung-san, 1981; Liu and Liu, 1997; Cheng, 2012). In contrast to Mohism, Confucianism teaches people to be obedient to authorities, rules and social structures, seeking inner perpetual tranquillity instead of change to the environment. It sponsored imperial China as the longest-running autocracy in human history. Li Dazhao (1889–1927), one of the founders of the CPC, was a Marxist activist, editor and Professor of Economics at Peking University. He used to attack the Confucian influence rooted in Chinese culture: the national character of Chinese people had become distorted
because of the cruel system and they had inherited a ‘sit mentality’, considering the zeitgeist, movement, literature, institution and career as ‘examinations’, catering to what the ‘examiners’ expected at the time, instead of expressing true opinions (Li, 1984). Similarly, Weber described the bureaucratic structure of Chinese policies in about two thousand years: ‘social rank in China has been determined more by qualification for office than by wealth and this qualification has been determined by education, and especially by examinations’ (Weber, 1958, p.427). Another CPC founder Chen Duxiu (1879–1942) also pointed out the moral code of Confucianism - loyalty (to the emperor), filial piety (to the father), chastity (to the husband) - does not render a fair society or independent-thinking characters (Chen, 1915).

As Liu and Liu summarised, Chinese history can be viewed as a three-thousand-year dialectic between the forces of unification provided by common language and culture and the destabilising forces of internal and regional strife, and foreign ideas and invasion (Liu and Liu, 1997, p.170). Despite the tension between central and regional level authorities, and that among regions, China remained a relatively unified imperial power from Qin (221 B.C. –206 B.C.) onwards and lasted until the Qing dynasty (1616–1911). In the modern history period, 1840-1949, foreign military invasions, commercial activities and Christian missionaries contributed significantly to the collapse of the Qing Empire, the emergence of the Chinese Republic and the founding of the People’s Republic of China. China has a philosophy that originated at a similar time to that of Western philosophy, yet it did not materialise to produce industrialisation or modernisation as we understand them. (Fung and Bodde, 1983). As Liu and Liu pointed out: ‘in its modern practice, Confucianism is an adjective, with little power outside of its intellectual and spiritual value’ (Liu and Liu, 1997, p.171). Scholars and activists who lived between the 19th and 21st centuries and were concerned about China’s condition at that time strove to find out the reason. Consequently, some of them blamed Confucianism and cultural traditions affiliated to it for the country’s lack of economic progress rather than praising this tradition.
The Western way as a remedy for Chinese problems was one such idea. To many of the Chinese literati, change was a necessity and economic development needed to be restored in order to achieve a fairer, modern society, although how to realise this change was in dispute (Shan, 2010). The attempt to rejuvenate China started from a contained, small scale within a group of the intellectual elite and expanded to a spectacular revolution of the whole society. It did not rest until the establishment of People’s Republic of China, generally called ‘New China’. At around the time of the First Opium War (1839–1842), some scholarly officials first saw that learning from Western countries, including Japan, was important while maintaining loyalty to the Qing regime. One of the ‘four famous officials of late Qing’, 10 Zhang Zhidong (1837–1909), advocated retaining Chinese values, Confucianism, while acquiring Western knowledge. Despite the arrogance of the Qing government, Wei Yuan (1794–1857), another scholarly official, contended that the Chinese should learn technology from the barbarians, which he referred to Westerners, in order to contain them (Wei and Chen, 1998). He completed the *Illustrated Gazetteer of the Countries Overseas* (Hai Guo Tu Zhi, first published in 1842), which systematically introduced the world to Chinese. The active learning and trade with foreign countries was called the ‘Foreign Business Movement’ 11 (Yangwu Yundong), which was the initiative of the Qing government and the officials. Unfortunately, it did not lead China to modernisation because of the limitations of the imperial regime and its corrupt officials. The influence of foreign ideas and the continuous stagnation of Qing escalated the need for change. At the end of the 19th century, the success of Europe, America and Japan inspired a group of the gentry elite to urge a top-down, controlled political reform. Emperor Guangxu (1871–1908) supported them. However, a strong conservative interest group denied the change. The reformers failed when Emperor Guangxu was confined by Dowager Empress Cixi (1835–1908), and six radicals were executed.

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10 The ‘Four Famous Officials of the Late Qing’ were Zeng Guofan, Li Hongzhang, Zuo Zongtang and Zhang Zhidong.
11 Source: [http://theory.people.com.cn/GB/49157/49163/7456779.html](http://theory.people.com.cn/GB/49157/49163/7456779.html) In *China, A New History*, Fairbank and Goldman interpreted this movement as Westernisation and Self-Strengthening. The word Westernisation did not represent the motive of the movement leaders, as they rejected the value while accepting the machinery and technology. The authors concluded that this movement was halfway Westernisation and destined to failure, as technology was not value-free.
with; only Kang Youwei and Liang Qichao escaping to France and Japan (Fairbank and Goldman, 2006). This is called the Hundred Days Reform (1898) in Chinese history as the new decrees published by Emperor Guangxu lasted for only one hundred and three days. Nevertheless, the failure of reform attempts paved the way for revolutionary ideas in the coming decades.

Kang Youwei (1858–1927) made an unprecedented contribution as an expert at ‘finding in China’s classical tradition the precedents that would justify its adaption to the present’ (Fairbank and Goldman, 2006, p.227) or, as Alitto termed it, proposing a cultural blender (Alitto, 1979). He sinicised Darwin’s evolutionary theory by comparing the concepts and theories of ‘change’ in the Confucian monographs *Zhouyi* and *Chunqiu* and contended that change was the natural law and rejection of evolution would result in decay (Guo, 1994). The failure of the Hundred Days Reform proved that it was necessary to build the connection between Western modernisation and Chinese tradition in order to win a broader base of support, otherwise reform would be the utopia of a small group of gentry elite. Sun Zhongshan (1866–1925) led the first revolution in 1911 and founded the Chinese Republic and Nationalist Party (also called Guoming Dang). The Chinese Republic expelled the Qing Empire although Jiang Jieshi (1887–1975), Sun’s successor, did not complete the mission of democratising China. The Nationalist Party government was in the turmoil of Japanese invasion, extreme poverty, aristocratic capitalist monopoly and provincial warlords. It was a historical encounter when Marxism was brought to China. In 1899, *Review of the Times* (Wanguo Gongbao, published weekly during 1875–1883 and monthly during 1889–1907) first introduced Marxism to Chinese scholars and officials, and soon Li Dazhao and Chen Duxiu, two professors at Peking University, founded *Youth* in 1915 (later renamed *New Youth*), educating and advocating Marxism (Guo, 1994). Li and Chen led the May Fourth Movement (1919) and founded the CPC in 1921 in Shanghai.

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12 The May Fourth Movement (Wusi Yundong) was an anti-imperialist, cultural and political movement that started with a student demonstration in Beijing on 4 May 1919, to protest about the Chinese government's weak
Liang Shuming talked about his experience of seeking the right path for China before the People’s Republic of China. He went to Yan’an to meet Mao Zedong many times in 1938, discussing how to save China from the corrupt Nationalist Party government and develop the economy after establishing a new China. They often fell into dispute and continuously debated overnight. Liang said: ‘Mao was a person of genius… full of shifts and devices, a great talent, a man with a clever mind and great strategies… so he had contempt for everything. He lacked respect for the old culture and the old learning. Actually, he himself was unable to break out of this old culture’ (Liang and Alitto, 2013, p.54). Liang was confident that Chinese culture would revive because it helps deal with ‘the second problem’. Liang summarised that the first problem faced by people was ‘human versus nature’, and the West took the position of conquest and utilisation of nature since the Enlightenment. The second problem was ‘human versus human’, whereby science and industry would continue to advance, yet the prominent problem was to make people get along together and live in peace. In this case, the Confucian moral code would be valued, which is ‘a situation whereby I show consideration for you, and you show consideration for me… The old term for this is “filial piety and fraternal duty”: the father is benevolent and the child is filial. I only use four words: xiao (filial piety), ti (fraternal duty), ci (kindness), and he (peace-harmony)’ (Liang, 1921, p.17).

Later in the dialogue, Alitto asked how Western society could learn from China at present. Liang answered (Liang and Alitto, 2013, p.19):

‘…A human being, immediately upon being born, is related to other humans. At the least, he is related to his parents, and siblings. As he grows up, he has friends, teachers and so on. These relationships are called “renlun” (human ethical relationships) in Chinese. Human beings always live in the interpersonal relationships.

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response to the Treaty of Versailles. The demonstration led to an upsurge in Chinese nationalism that soon spread nationwide to workers and various social groups. Source:
13 Liang mentioned it when he was interviewed in 1987, when he was 94 years old. Source:
http://history.people.com.cn/GB/205396/18158365.html
One cannot be detached from other people, so how to foster the relationships becomes a major question. And those relationships, as the Chinese old term goes, are called “renlun”. The distinguishing feature of Chinese culture lies in this. Chinese culture puts importance on human relationships. It expands the familial relationships into broader society beyond the family. For example, a teacher is called “teacher-father,” a schoolmate is called a “school brother.” In ways like this, a person always has the close, family-like, intimate feelings. Applying such relationships to society, it seems to bring distant people closer together, to bring outsiders inside. This is the distinguishing feature of China and Chinese culture. To put this feature into a few words, it is the opposite of the individual-centred, egocentric way. What is that, then? The essence of the matter is mutually to value and respect the other party.

The last point to discuss in the cultural framework is the relationship between individuals and society. The social class theory of Marxism has had a significant impact in contemporary China. One of the disputes between Mao Zedong and Liang Shuming was that Mao thought old China was a rigidly stratified society, while Liang thought China was a fluid society in which people had channels to change their social status (Liang and Alitto, 2013). Their opinions may become more useful if synthesised: there is an authoritarian social structure, but there is also mobility; it is rigid and fluid. Confucius believed a bright emperor who listened to his people was an ideal social system. To put into today’s context, a leading party who allows the dynamic from below to change the institutions may not be less efficient than partisan democracy in terms of generating growth. The paradox is how the institutional design generates fluidity within the one-party regime. In Chinese tradition, people are encouraged to change their social status, from grassroots to elites, from powerless to influential. In contemporary China, these channels are multiplied and broadened. The failure of the Cultural Revolution proved that Liang was more correct in this debate: the ‘class struggle’ was not no longer the major conflict when a stable establishment was in place (Wang, 2002). There are still conflicts, but these can be solved through negotiation rather than struggle or movement. Westerners usually understand that
relationships mean more in Chinese society and individualism is not the core value. While they have difficulty seeing that it is one of the principles of Chinese tradition and philosophy, it works in association with other values. The myth about guanxi exemplifies the power of relationship, resulting in academics writing that officials can utilise guanxi to compromise laws (Wilson, 2009). There may be corrupt officials, however, it would be dangerous to take guanxi as instrumental and omnicompetent. If taking guanxi as a prominent feature of Chinese culture, it is advisable to recourse to insiders to interpret Chinese laws. The core value of guanxi is largely similar to the old saying in English: it is not what you know but who you know. In the process of institutional change, guanxi is there to help build consensus, share and transfer knowledge, have one’s voice heard and smooth negotiations, but not to bend the law.

Alitto considered Liang’s critique of Confucian and capitalist rationalisation, namely modernisation, as parallel to the postmodern critique in Western societies (Alitto, 1979). Thus as Marx and Schumpeter predicted, the very success of capitalist enterprise would destroy the capitalist institutional framework from within and create the conditions for the emergence of socialism, while the drive for modernisation would remain intact (Schumpeter, 1942). It can be concluded that Chinese philosophy does not lead China to modernisation; instead, it provides a critique of it. However, the CPC has decided on this line of march that it will have to achieve modernisation before it achieves communism. Therefore, although the modernisation is an imported concept for Chinese and Chinese culture may be resistant to some of its principles, they are determined to build it. As a result, Chinese modernisation will have its own features and the process of building it will have Chinese characteristics. In order to understand Chinese modernisation, we need to explore how the modernisation originated and is perceived in the West.

1.2.2 Postmodern thinking from the West
Postmodernism did not stem from sociological studies. It was originated as a style in arts and architecture in 1950s as a reaction to modernism (Jameson, 1991) and became a theme in sociological review in 1960s first recognised as anti-modern that paralleled conservative political attacks during the age of Kohl-Thatcher-Reagan (Huyssen, 1984). Veblen first used the term ‘postmodern era’ in 1920s to express his concern about the *mechanistic conception* in the post-industrial society where the mechanistic way of thinking, which was originated used to deal with machines and other modern features, would invade the institutional arrangement and thereof affect the human relations (Veblen, 2005, p.5). Veblen’s concern echoes Liang’s opinion on the different problems faced by human society at different development stages. It was ‘human versus nature’, and then ‘human versus human’. Generally speaking, this research is to understand how China is building its modern social system, capitalism or socialism with Chinese characteristics; hence discussions in this thesis majorly draw on Jameson’s elaboration about postmodernism, the cultural logic of capitalism. Jameson argued that ‘postmodernism is what you have when the modernization process is complete and nature is gone for good. It is a more fully human world than the older one, but one in which “culture” has become a veritable “second nature.”’ (Jameson, 1991, p.ix) In the following paragraphs the complicated understanding about postmodernism and its practical meanings for this research will be discussed.

Postmodernism is a complex theory that has been broadly discussed in various areas and it substantially overlaps with critical thoughts and poststructuralism (Agger, 1991). The difficulty of visualising the relationships of postmodernism with other theories is that different authors have provided various categorisations. For example, Lévi-Strauss, one of the key authors discussed in this thesis substantially was categorised by Denzin as a poststructuralist (Denzin, 1986) and Olssen as a structuralist (Olssen, 2003). Lyotard and Baudrillard were named as leading French postmodern theorists in Denzin’s review (Denzin, 1986), while as poststructuralism writer in Olssen’s discussion (Olssen, 2003). As a critique to modernism, the complexity of modernisation determined the complexity of postmodernism; hence
some authors chose to define the condition of postmodernism in order to aid the understanding of postmodernism (Huyssen, 1984; Harvey, 1990; Lyotard, 1994). To avoid this complexity which retards the understanding, postmodernism is summarised concisely for this research that it is an effective critique of modern society where the positivist paradigm prevails. It is effective because it draws on the structural analysis which the importance of system, institution and structure is well recognised and analysed. The prefix ‘post’ adds the element of ‘agency’ to the analysis and makes the picture complete and the interaction dialectic (Simons, 2002). The progress to the ‘post’ highlights the increasing recognition of the role of people as the maker of any social system, e.g. institution, culture and language. The dynamic and interactive relationship between the structure and agency is the essence of postmodernism. It is sensible to briefly mention *bricolage* at this juncture as it is a concept of the ‘post’ where the interaction between structure and agent is emphasised. Bricoleurs are the change agents who create and change the structure through events (Lévi-Strauss, 1966). Bricolage will be fully discussed in later chapters as a key concept of this thesis. To distinguish postmodernism from poststructuralism, postmodernism studies the culture and society while poststructuralism studies language and discourse. They both utilise the tool of deconstruction to sort out the structure and agency relations and their interactions within complex evolving systems (Agger, 1991).

The practical meaning of postmodernism for the research is that the question, how and why has China’s futures market changed, sets the framework for a literature review to look for a theory which explains the law of institution, rather than the law by institution. That is to take the structure, agency and structural change as the subject of research and deconstruct the assumptions about established institutions and institutionalised way of thinking. It is to assume the institution is fluid and changing, and not to assume the institution is established and simply derives laws and regulations according to its principles. Postmodernism, which is critical of and alert to the invasion of *mechanistic conception*, provides an important tool for interrogating the institutional arrangement. Postmodernism is the umbrella term for many critical
perspectives, including “multinational capitalism”, “spectacle or image society”, “media capitalism” and “the world system” and as illustrated by many authors, it provides critique for modernisation and capitalism (Denzin, 1986; Jameson, 1991; Agger, 2006). As Agger puts it, ‘above all, they are effective as critiques of positivism, interrogating taken-for-granted assumptions about the ways in which people write and read science’ (Agger, 1991, p.106). Regarding capitalism: ‘postmodernism is a different moment in the socioeconomic organisation of society. Capitalism has moved to a third stage, consumerism, having surpassed prior stages where market and monopoly capitalism dominated. This third stage has produced a media society, a society of the spectacle, a bureaucratic society controlled by consumption and the computerization of knowledge’ (Denzin, 1986, p.2). Postmodern thinking is useful for this research because it challenges first the assumption about individuals, second the assumption about the law of institutional change, and third the illusion of value-free scholarship. These three points will be elaborated accordingly.

Postmodernism takes the individual as a capable man. It is essential for a good understanding of China’s phenomenon as Chinese culture has always put people and their relationship in the centre. Individuals can think, learn and then influence and change. People use language, which is an institutionalised tool, to create new terms, conceptualise phenomena and formulate discourse (Gee, 2008). After that they can disseminate their ideas, educate and influence other people. The individual is a powerful agent, whereas their success is also dependent on context and situation. Postmodernism suggests a dialectic relation between the individual and the structure. That is, powerful agents can plot the appropriate situation for their success. There is a famous quotation in China: ‘conjunction makes hero and hero makes conjunction’. 14 Good examples in Western society would be that the Industrial Revolution made Adam Smith (Veblen, 2005) and the Great Depression made John Maynard Keynes (Galbraith, 1967). Their theories were the product of their time and changed the

14 It is a quote from Cao Cao (155-220), an Imperial Chancellor of ancient China, in Three Kingdom of Han Dynasty.
course of man permanently through policy. Yet the attributes of the individual are not recognised by the mainstream paradigm. People make history, people write history, yet positivists still assume people have no influence on society and other people (Knight, 1921; Smelser and Swedberg, 2005). People are affectual, habitual, traditional, speculative and fallible (Weber, 1949), yet positivists still have to assume people are rational. People often improvise, create and make do, based on the knowledge and information they have at that moment, which varies from individual to individual (Lévi-Strauss, 1966), yet positivists still assume there is a mechanical mechanism in people’s perfect decision-making (Knight, 1921). Maybe the rational and mechanical assumptions about the individual work in certain societies in certain situations, whereas it is hard to apply them to contemporary Chinese. China’s futures market is built upon a different rationale and limited knowledge. The situation was that Chinese came from a mentality in which market and speculation were criticised. They took the knowledge contributed by the positivist authors who assumed from the beginning that there was a market. Unfortunately, there was no market in China in the 1980s. Individual and institutional learning constituted the most part of constructing the market and people cannot learn rationally. Economic rationality is based on the assumption of perfect competition, information and knowledge, whereas the construction of China’s futures market is based on the contrary.

On the point of law of institutional change, postmodern thinking distinguishes itself from other thoughts essentially by emphasising the dynamic relationship between the institution and individual, structure and agent (Hodgson, 2000). On the one hand, institutions shape ‘individuals into common patterns without their knowledge, and occasionally interpose definite obstacles in the path of men who wish to act in original ways’ (Mitchell, 1910, p.214). Institutions constrain and enable individuals’ behaviour. On the other hand, individuals create and change institutions (Hodgson, 2000). The power of influence goes not only down from the institution to the individual, but also up from the individual to the institution. Institutions arise from individuals’ common knowledge and practice. The origination, organisation and
change of institutions have a lot to do with individual and collective actions (Commons, 1931). Therefore, studying the law of institution is to study why institution changes in such way and the answer lies in its cultural framework.

On the point of repelling value judgements, postmodernism is especially useful as it traces the hidden and value-laden assumptions of existing theories. It is necessary when trying to understand the phenomena in foreign culture. Democracy is not necessarily better than authoritarianism, a pluralist regime is not necessarily better than a one-party regime, the market is not necessarily better than planning and capitalism is not necessarily better than socialism. It all depends on the historical moment, the process of structuration (Giddens, 1993). The value-laden nature of social science has determined that social researchers cannot adopt the principles and canons that natural scientists have adopted. Men have more direct influence on their own course than on nature. Assuming absolute objectivity in social research generates great distortion. The concept of objectivity needs to be reconstructed (Weber, 1949). One cannot deny him/herself as a member and player of the society, no matter whether they are a researcher, economist or politician. Policy and political impact is the motive of social research. In late 19th century, Marx observed the intrinsic conflicts of capitalism and he is still very right about this point; economic and financial crises have haunted capitalism. However, he did not foresee that Keynes’ suggestions on fiscal and monetary policy would create a bigger role for the state. With government intervention, the revolution Marx expected did not occur, or it has occurred, but from within and quietly. Postmodernism requires researchers to examine the take-for-granted assumptions and reflect on their appropriateness based on their worldview. It provides a novel angle for seeing power and influence. Only through deconstructing the way we construct history, development, the nation state, savage tribes, language, salesmanship, marketing, do we learn how we construct our society (Lévi-Strauss, 1974; Jameson, 1991; Wallerstein, 1991). As Searle argued, ‘it is essential to distinguish between those features of the world that are totally independent of human feelings and attitudes, observer-independent features, and those
features of the world that exist only relative to human attitudes’ (Searle, 2005, p.3). Value-free is an illusion when reporting the observer-dependent feature of the object; therefore a framework that enables the seeing of value influence is more objective.

Deconstructing from the postmodern perspective, the fundamental difference between communism, socialism and capitalism is their assumptions about structure and agency relations, or the ‘human versus human’ relations. Capitalism is more individualistic, mechanistic and positivistic, while socialism and communism are more relational, dialectic and realistic. Socialism and communism were born as contemporaries of capitalism, as the criticism of and alternative to it. They all have their origins in the French Revolution. Many philosophers and sociologists referred to the French Revolution as the pivotal point when feudalism was overthrown and capitalism was about to take shape (Marx, 1871; Mandel and De Bres, 1975; Wallerstein, 1991). If the literature can be lined up from Das Capital (Marx, 1887) via The Theory of the Leisure Class (Veblen, 1899), The Protestant Ethic and the Spirit of Capitalism (Weber and Parsons, 1930), The Great Transformation (Polyani, 1944) and Capitalism, Socialism and Democracy (Schumpeter, 1942), Late Capitalism (Mandel and De Bres, 1975) and The New Industrial State (Galbraith, 1967) to Divergent Capitalism (Whitley, 1999) and Varieties of Capitalism (Hall and Soskice, 2001), it shows the path capitalism took to become established over the past two hundred years.

Capitalism cannot escape the primitive capital accumulated process whereby landlord and aristocracy became capitalists and peasants were deprived of their land and became labourers. No matter how hated that stage of capitalism was, few territories on the earth could avoid it before achieving modernisation. In China, during the Foreign Business Movement of the Qing Dynasty and Chinese Republic, aristocrats and national capitalists grew fast in China at the cost of extreme poverty for the country. In 1949, the new establishment broke the old social order, abolished private ownership and the worker-peasant league took leadership. Despite the Great Leap Forward (1958–1960) and the Cultural Revolution (1966–1976), continuous
development has been achieved. Deng Xiaoping’s economic reform has a strategy which allows some of us to become rich first (Deng, 1994), the implication being primitive capital accumulation, but in a gradual, controlled, and civilised manner, compared with what happened in Europe hundreds of years ago. The economic growth has achieved double-digit GDP growth almost every year since then (Chen, 2008). Deng’s logic is simple: if Mao’s continuous effort of decentralising could not generate proper incentive within the system, the competition from outside the system may stimulate it. The ‘getting rich first’ group is in a private sector, which was referred to as outside the public ownership system in 1980s. As the public sector remained, the people could still choose which sector to go. For those who were not comfortable to join the open competition yet, they could still remain in the system (Gan, 2007). Deng’s design actually allowed capitalism and socialism to compete as social systems and people would vote with their choices. The growth of private sector and the shrinkage of public sector was a critique which defined how China should build its modernisation.

1.2.3 ‘Socialism with Chinese Characteristics’

Fairbank and Goldman elaborated the approaches they used to understand China’s history (Fairbank and Goldman, 2006, p.22):

‘Now that the United States is top nation in succession to eighteenth-century France and nineteenth-century Britain, historical perspective is more necessary than ever. In China the United States’ democratic market economy faces the last communist dictatorship, yet behind Chinese communism lies the world’s longest tradition of successful autocracy. It is now trying to achieve economic modernisation without the

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representative political democracy that Americans view as their special gift to the world’s salvation.’

Taking a historical view to understand contemporary China is what Fairbank and Goldman have suggested. China is building modernity while Chinese culture has offered an effective critique to many principles of modernity. In the above illustration of Western and Chinese philosophy on modernisation and its critique, it has been argued that Chinese culture emphasises human relationships and the human factor is key to the problems of contemporary society. Chinese society has a stratified and bureaucratic structure but it is not that rigid (Weber and Parsons, 1930). China’s social structure is fluid. Chinese have always been able to change their social status through education and its derived national examination system and have their voice heard in a culturally embedded way (Liang, 1989). Intellectuals have been highly respected, apart from a period during the Mao Zedong era. In addition, conflicts and the power balance between the centre and the regions and among the regions have a long tradition. It is one-party autocracy, yet the Party has 86 million members and it adopts a Chinese-style meritocracy system (Bell and Li, 2012). Within this context, the dynamic of institutional change comes from many dimensions and it operates within its cultural framework. The Confucian has always advocated that the emperor should listen to the people and it is intellectuals’ mission to advise the emperor. That is to say, Chinese tradition recognises one authoritarian power and there is a way for the upper and lower strata to work together. The way of working is different from the West as it does not rely solely on formal institutions but on formal and informal institutions. In other words, individual’s agency is a flexible portfolio made of any available resources the individual possesses. In this sense, Chinese cultural framework is rigid and fluid, and the process of change is a combination of formal and informal practices. The way of interaction between the structure and agency is shaped by what is acceptable in its culture and tradition.
It was the formidable wisdom of Deng Xiaoping that positioned China’s social system as *Socialism with Chinese Characteristics* (Deng, 1987). The Party developed a complete theoretical system about *Socialism with Chinese Characteristics*, although the official definition is more a slogan than a practical, detailed explanation (Chen, 2011, p.21):

“‘Socialism with Chinese Characteristics’ is the path under the leadership of the CPC, based on the fundamental condition of China, taking economic development as the central task, adhering to the Four Cardinal Principles, persisting in reform and opening up, liberation and development of social productivity, consolidation and improvement of the socialist institution and market economy, building a prosperous, democratic, culturally advanced and harmonious socialist modern country.”

The phrase ‘*Chinese characteristics*’ is as ambiguous, comprehensive and tolerant as Chinese culture. It condenses all the historical, philosophical, cultural and institutional ingredients. Furthermore, it enables flexibility, creativity, mobility and reinterpretation. From the national leader to the practitioner, it is used to back the innovation, creation and customisation which looked inconsistent with the dominant ideology. Deng Xiaoping came from the *Class Struggle* and *Cultural Revolution* eras; he never underestimated the difficulties and obstacles ahead. Leaving ambiguity and taking an incremental approach is to leave the space for compromise and accommodation and leave time for legitimation. Deng famously said, ‘it doesn't matter if it’s a black or white cat, it is a good cat so long as it catches mice’ (Deng, 1994, p.78). It may be read this way: *it doesn’t matter if it’s socialism or capitalism, it is a good social system so long as it achieves prosperity.*

In China, back in the late 1970s and early 1980s, the most popular phrase was probably ‘realise four modernisations’, proposed by the leader Deng Xiaoping.

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16 “Adherence to the Four Cardinal Principles” means adherence to socialism, the dictatorship of the proletariat, the Party’s leadership, and Marxist-Leninist-Maoist thought.

17 *Four Modernisations* was Premier Zhou Enlai’s initiative, first appearing in the government’s working report in 1954, when he first allocated it as modernisation of industry, agriculture, transport and logistics, and national defence. In 1960, he modified it to modernisation of industry, agriculture, technology and national
What is modernisation was not widely discussed in China. Instead many people suspected modernisation or economic reform was leading the country towards capitalism. Deng then reinterpreted the term *modernisation*, using one of the terms raised by Confucius: *xiaokang* (Deng, 1994). *Xiaokang* describes an orderly society in which family is the basic unit of society and a predominant value; family members care for each other, private ownership exists and people behave according to rules. Confucius raised *xiaokang* as a contrast to *datong* as another form of society. *Datong* is the ideal society advocated by Confucius whereby the whole society is like one family. People take care of every other societal member, produce is more than enough hence no need of private ownership and everyone is committed to a general moral code hence no coercive rulers are needed. (Tang, 2012). Deng personally did not refer to Confucius for the meaning of *xiaokang*. Instead, in 1979, he explained it with modern terms when meeting with the prime minister of Japan: *xiaokang* is Chinese-style modernisation, differing from the Japanese one, aimed at approximate US$1,000 per capita income. As the architect of economic reform and opening up policy, Deng must have faced many enquiries and challenges about the path and prospect of his policy, and *Socialism with Chinese Characteristics* and *xiaokang* were his answers. The great leader may have improvised a bit nevertheless his insights have been developed into theoretical systems by his followers. That is the way of building Chinese capitalism.

1.4 Conclusion

China’s current social system, socialism with Chinese characteristic, is a ‘line of march’ which incorporated capitalist development and headed toward communism. Chinese institutional framework is both rigid and fluid and hence the process of institutional change is culturally embedded. Literature review has gone a long way
from ancient China to modern China and to contemporary China. This thesis seeks to understand how the dynamic from below has shaped China’s socioeconomic change. The framework has to offer a critical and historical perspective in order to decode the process of change in an exotic foreign culture. In achieving that, a historical review of long-standing Chinese philosophy helps to locate the theories and their matching philosophical foundations. A brief review of modern Chinese history helps to understand the formation of contemporary China and its new features. An introduction to the Western critique of modernisation helps to understand what China is building and how it is been reflected in Chinese culture. China has always been an important part of Western thought, likewise Western thought for China. People live their traditions and culture, and, when they feel discontent, they look for solutions. Therefore the historical review of China naturally reflects what was happening in Western world. The French Revolution, Industrial Revolution, Paris Commune, constitutional monarchy, Russian Revolution and Meiji Restoration all had their impact on modern China. They influenced Chinese thinking and the institutional environment. The review sets out the strong need for the theories that explain the institutional change from both perspectives: the structure and the agent. The institution rises from people’s collective knowledge and actions, the institution moulds individuals, while equally important individuals create and change the institution. The power of influence flows in both directions. China, with its own cultural logic, is building modernisation in the postmodern era. Influenced by the dialectics of Marx, the dialectic relationship between structure and the agent is the clue to understanding. China has named the system uniquely ‘socialism with Chinese characteristics’. The mainstream paradigm is able to identify the outstanding features and evaluate the status of development. But, the mainstream paradigm cannot explain the specificities of China’s story, as it does not assume individuals have the power to shape the institution and change. In reality, individuals do.Researchers need to gain more first-hand experience about how Chinese actors formulate Chinese characteristics. The literature review is halfway complete. Chapter 2 will continue to
explore literature related to the process of institutional change whose concepts offer insights into the process.

Chapter 2 Understanding the Change - Literature Review on the Structure-Agency Dynamics

2.1 Introduction

The previous chapter assessed the frameworks used by different authors to understand China’s economic change and furnished insights into our understanding of China’s dramatic change in the last three decades. The review also promoted a more critical thinking that locates contemporary China within its historical and spatial backdrop, revealing the consistent logic and continuous effort underpinning its current structure. The vigour in this process was injected by the central leaders promoting decentralisation and power-sharing as well as the values of the grassroots against what is often represented as a rigid and tightly controlled system. Nevertheless, fluidity and flexibility is another side of Chinese cultural tradition, which is easily missed out if authors have categorised China’s institutional foundation prior to economic reform as Soviet-style. Authors such as Barry Naughton, Qian Yingyi, Lin Yifu, Zhou Li’an and Zhang Jun are well aware the dynamic of growth is from below and have observed the town-village enterprises (TVE) and regional governments (Naughton, 1994; Lin and Liu, 2000; Qian and Weingast, 2008; Zhang, 2008). However, they did not observe the entrepreneurs and practitioners further down. How do entrepreneurs and practitioners influence, shape events and succeed or fail? Their experience can only be comprehended by closer observation and participation. The location of the observation has to be where the institutional bricoleurs play. They do not hold positions in government, whereas the social networks connect them to the people in
power and enables their access to that power. The task of this chapter is to build up more details for the analytical framework, seeking insights into how changes occur. The actors in China’s futures market use their agency to formulate the market. It can be seen that Chinese philosophy and global capitalism are the inputs, and the futures market with Chinese characteristics is the output. What has happened in between? Is there any theory that can help to understand and conceptualise it? Hence the focus of this part of the literature review is on process, the interaction between the structure and agent.

This chapter will first introduce the concept of bricolage, which is a prominent concept of this thesis. It was first presented by Lévi-Strauss to the academic world. It has had a substantial impact in sociology as a succinct and visualising description of a way of obtaining knowledge and knowing the world parallels to the scientific way. The second section will review how sociologists have drawn upon it to derive new concepts that explain processual phenomena (Moore, 1987). The third section will introduce the recent studies in performance and anthropology, improvisation and consensus building, which will help dissect what is happening in the process.

2.2 Lévi-Strauss on the concept of bricolage

The process of China’s social change has not been well presented to the Western world. It was often mythologized, mystified or even demonised. The common impressions generated include doing everything through guanxi (Wilson, 2009) or the investors’ social relations resemble some characteristics of the gang (Siu, 2010). In mainstream financial media, the National People’s Congress was called a ‘ceremonial political conclave’ and the Chinese People’s Political Consultative Conference was called a ‘toothless political advisory body’ (Anderlini, 2013). Do they reflect the reality? They do, but only partially, and they do not grasp the essence. They all bear the obvious mark of seeing the phenomena from an outsider’s viewpoint. The essence
is the dialectic and dynamic relation between the individual and institution. Chinese social order is different from Western democratic societies. Hence the way of influencing takes different shapes. It enables, rather than prevents, people’s political participation in many ways accepted by Chinese culture (Jiang, 2012). Knowing how the people take part needs close observation and participation that puts the observer into the players’ shoes in everyday situations. Individuals and institutions are never two separate identities. They originate from each other and they make each other. Individuals are shaped by the structure, while they take actions to shape it. It is the process of shaped and shaping, moulded and moulding. Observing individuals’ behaviour and listening to their opinions without losing the bigger picture of the structure is the key to understanding the phenomenon as an insider. Otherwise, researchers often get lost in the sarcasm, metaphors and exaggerations of their informants. The Chinese like talking about guanxi, gangs and the mysterious image of their leaders and regulators. Abstract and rhetoric are important forms of Chinese language (Lu, 2004). More importantly, these are their political resources and knowledge which they can show off to outsiders. However, they may not articulate that they also like a fairer market and how they are going to achieve it. The common impression of China is that power is centralised and change is generally a top-down process. It may be easier for researchers to stay with this impression as it is relatively difficult to collect evidence to the contrary. Should it be assumed that the grassroots has no contribution to or influence on change because it is not even democracy? Should it be assumed that they have no access to power as it is a one-party authoritarian regime? These are the assumptions made when the information cannot be easily obtained through formal communications. One needs to live through it in order to comprehend what is essential and important. Chinese culture does not attend to details as much as Western culture does, hence it is more mythical than scientific (Fung, 1922; Liang, 1989). The Chinese can live comfortably with a grand vision without a blueprint but with a confidence in their charismatic leaders which makes no sense to Westerners (Schurmann, 1966). To make sense of the Chinese people’s talk and actions, a basic understanding of their philosophy and culture is fundamental.
Seeing the appropriateness of their actions is to see what defines their way to access power, exert influence and make change. Meanwhile, the sense also lies in the context, that is, their response to the changing environment, reactions to the actions of other players and improvisation in that specific situation. Players sometimes improvise and make do with whatever they have at hand. This is where the concept of *bricolage* emerges.

The concept of bricolage was first introduced by Lévi-Strauss in 1962 and published in English in 1966 (Lévi-Strauss, 1966). It is a shared property that can be found in various cultures. The concept has been deployed and developed by many social studies, intellectual bricolage (Douglas, 1987), research bricolage (Denzin, 1994), entrepreneurial bricolage (Baker *et al.*, 2003; Archer *et al.*, 2009), financial bricolage (Engelen *et al.*, 2010), and institutional bricolage (Cleaver, 2001). Being a linguist and anthropologist, Lévi-Strauss was dedicated to structural analysis, aiming to discover the common properties in different forms of systems. As he pointed out in *The Savage Mind*, observers could be enchanted by the characteristics of a foreign culture that look strange to them. Language is an institution carrying the characteristics of a complex system. It is alien to people who do not speak it but it makes full sense to those who do. People who are familiar with one language will know its general logic, boundaries and leeway, and know how to make a novel combination or creation out of it. People who share the constituents of the institution can make sense of the newly emerged novelties, which can be difficult for foreigners to comprehend. That is not to say that it becomes impossible to do cross-cultural studies, for the attitude of the field workers matters. Whether they are taking a holistic, structural and/or non-judgemental stance will determine how far they can explore in a foreign culture. As Lévi-Strauss suggested, seeking the common properties between civilisations, e.g. the foreign and the local, instead of the exotic, skin-deep differences, is the way to understand the savage mind (Lévi-Strauss, 1966; Lévi-Strauss, 1974).
In the book, Lévi-Strauss addressed the difference between the scientific and savage mind. He argues that they are simply ‘two parallel modes of acquiring knowledge’ (Lévi-Strauss, 1966, p.13). The savage mind, or so-called mythical thought is ‘roughly adapted to the perception and the imagination of the nature, while the scientific mind was at a remove from it’ (Lévi-Strauss, 1966, p.15). In this sense, the scientific mind is close to mainstream economics’ thinking; it is rational and standardised. It is less adapted to the dialectics and dynamics of cultural influence. The savage mind is more real and more practical, trying to get along with more subtle elements, including perception and imagination, and retaining common properties. Bricoleurs express themselves ‘by means of heterogeneous repertoire’ (Lévi-Strauss, 1966, p.17). This repertoire is a set of means, instruments or tools, that ‘even if extensive, is nevertheless limited’ (Lévi-Strauss, 1966, p.17). The heterogeneous, extensive but limited repertoire is similar to the instrumental sets used by the key players in China’s futures market. They usually hold a ‘heterogeneous, extensive but limited’ resource pool. The capacity of the resource pool varies due to their background, position, experience and intellectual capacity. Bricoleurs are handymen who possess knowledge of related fields, and are able to utilise what they have at hand to create something new. One of the characteristics of China’s policies and regulations is that they are more akin to basic principles and general guidelines, compare with those of Western countries, which are more detailed and specific. In addition, as the institutional foundation is still under development and in transition, some areas are ill-defined or even left blank (Dang, 2004). This characteristic leaves space for agile actors to play with, and furthers the possibility of regulatory arbitrage. Nevertheless, their actions are constrained. They cannot operate beyond the institutional framework, laws, regulations, rules and key values of the culture.

The ways by which scientists and bricoleurs work to change the world is another aspect that distinguishes them: ‘The scientist creating events (changing the world) by means of structures and the “bricoleur” creating structures by means of events’ (Lévi-Strauss, 1966, p.22). In terms of the process of explication and determinism, Lévi-
Strauss contended that the “’bricoleur’ builds up structures by fitting together events, or rather the remains of events, while science, “in operation” simply by virtue of coming into being, creates its means and results in the form of events, thanks to the structures which it is constantly elaborating and which are its hypotheses and theories’ (Lévi-Strauss, 1966, p.22). Compared with engineering, bricolage is more open-ended. It starts with an existing structure, while utilising the ongoing events to add new elements to it, and usually ends up with new structures. They differ in the levels of what is to be explicated and determined. The existing structure may not be very enlightening in terms of explaining upcoming and ongoing events. It needs to be altered or reinterpreted in order to cope with new challenges, and bricoleurs are good at reinterpreting or explaining structural change based on what is happening and what they have at hand. Players keep innovating to break through the restrictions of current structures and build up new ones, as a result changing the way the games are played. Moreover, the heterogeneous and limited instrumental sets at bricoleurs’ hands are contingent results of previous constructions or destructions (Lévi-Strauss, 1966). The current structure of China’s futures market is a typical example of a contingent result of previous constructions and destructions, the events and the remains of the events. In the past two decades it has experienced exuberance and upheavals, the learning outcome of previous successes and lessons being blended into the special design of new structure.

2.3 Institutional bricolage

After Lévi-Strauss introduced bricolage to the intellectual community, it was quickly accepted and incorporated into the analysis in many areas of social studies. Garud and Karnøe, for example, applied it to entrepreneurial actors who had shaped the emerging technological path of wind turbines in Denmark and the United States (Garud and Karnøe, 2003). Recently, Archer et al. has been integrating bricolage with the concept of effectuation and improvisation in entrepreneurial studies (Archer et al.,
In cultural studies, Hebdige and Clarke used it to explain the meaning of style and the constitution of subcultures (Hebdige, 1979; Clarke, 1993). Engelen et al. considered financial innovation at the micro level as bricolage (Engelen et al., 2010). Denzin and Kincheloe used it to describe the dynamic relationship between the researcher and the subject in the research process (Denzin, 1994; Kincheloe, 2001).

As elaborated above, bricolage resembles the common properties of change in the real world and is thus embraced by theorists and methodologists in various social disciplines. In this section, the linkage between institution and bricolage will be discussed, which is called institutional bricolage. Mary Douglas pointed out that the relation of sociological and institutional analysis was complementary, and a framework built on the linkage of both aspects would help to analyse the dynamic of change (Douglas, 1987).

Institutional bricolage is still a relatively new concept in institutional analysis, while the merits of using it to explain nonlinear transformational processes have been recognised by many academics. In the 1980s, Mary Douglas first brought Lévi-Strauss’ bricolage to institutional analysis. She explained that ‘the bricoleur uses everything there is to make transformations within a stock repertoire of furnishings’, and argued that bricolage could ‘characterise recurring analogies and styles of thoughts in any civilization’ (Douglas, 1987, p.66). She further argued that institutions are constructed through a process of bricolage, as although symbolic anthropology and rational choice theory are kept well apart from each other, the simple acts of classifying and remembering are institutionalised. It is beneficial for both disciplines to recognise the personal involvement in the process of institution-forming (Douglas, 1987). Her idea is not to deny that individuals are capable of making rational choice, instead, she is being more realistic by invoking some common features of human cognitive activities. Classifying and categorising are basic steps and bricolage is the style of individual thinking (Lakoff and Johnson, 1999). Institutions learn through individuals’ learning and remembering. Therefore, if individuals’ act is an institutionalised bricolage, so is the institutional behaviour.
Campbell continued to develop Douglas’s idea, although in a more eclectic way. Campbell argued that institutional change is ‘change (which) results from the deliberate modification and recombination of old institutional elements in new and socially acceptable ways’ (Campbell, John L., 1998, p.383). He first attempted to blend different thoughts of institutionalism and applied institutional analysis when thinking about East European countries’ transformation within the post-communist context (Campbell and Pedersen, 1996). The new analytic framework he developed focused on two elements: governance and discourse structure, which refers to rules and a cognitive system. The emphasis on the evolutionary nature of the cognitive system has offered more insights in explaining the legacy effects in East European post-communist transformation. Later, in Institutional Change and Globalization, he tried to systemise three institutionalist approaches based on the categorisation of Hall and Taylor (1996) and suggested bricolage as a compensation for the weakness shared by the three approaches (Campbell, 2004). The disagreement between different institutional approaches is more about ontology, which Campbell’s book rarely touched. Bricolage incorporates improvisation and irrational learning of actors, therefore has no predictive power about the next event. Bricoleurs aim to change the structure by means of events. While rational behaviour and game theory are based on the paradigm that assumes the structure is fixed, individual preference is given, and the aim of study is to predict the next event, rather than the change of the structure.

In 2001 and 2002, Cleaver started using the term institutional bricolage in publications and applied it to analysis of natural resource management (Cleaver, 2001; 2002). He summarised some aspects of institutional bricolage: the multiple identities of the bricoleurs, the frequency of cross-cultural borrowing and of multi-purpose institutions, and the prevalence of arrangements and norms that foster cooperation, respect and non-direct reciprocity over life courses. He perceived the individual as possessor of agency critically shaping and reshaping institutions. Instead of seeing individuals as rational, and essentially economic, resource appropriators, he
reconceptualised them as conscious and unconscious social agents, deeply embedded in their cultural milieu but nonetheless capable of analysing and acting upon the circumstances that confront them (Cleaver, 2001, p.4). Coincidently, studies of Africa and China share some similar inclinations in choosing approaches. Lévi-Strauss contended witchcraft in African primitive societies is not a ‘primitive cognitive paradigm’ compared with modern science, but a holistic approach of acquiring knowledge about nature (Lévi-Strauss, 1966). Similarly, Chinese medicine is experimental and developed over thousands of years. Both societies have civilisations much older than modernisation. It is not surprising to see their cultures defy the principles of modernisation. Later, some other institutional analyses adopted the concept of institutional bricolage (Broome and Seabrooke, 2007; Sehring, 2009). They developed their analyses based on Cleaver’s conceptualisation.

This research will borrow the concept of institutional bricolage. Through the observations on China, it will extract some key characteristics of China’s institutional change. Recent studies in performance and anthropology, improvisation and consensus building have developed powerful tools to dissect the process of bricolage, which will be reviewed in next section. Based on the structural analysis, the understanding of the constituents of the institution, it aims to discover the common properties of institutional change that would recur in more than one culture. Lévi-Strauss’ was a linguist and anthropologist. In the second phase of academic life, he turned to anthropology and introduced the concept of bricolage, which was then developed by sociologists in various areas. Anthropological methods enable researchers to gain a real sense of processual change, especially when the features of the change cannot be easily decoded by outsiders. The analogy between China’s institutional change and bricolage gradually emerged during the literature review and fieldwork of this research. It was particularly difficult to locate a concept that was critical of the rational and normative accounts, while explaining the rationale of the actors. There was consistent logic. The actors were not irrational or illogical. What they did made sense in that culture and context, however, is not the same sense
presented by the mainstream and orthodox accounts. The efficiency, the correlation and the causation showed snapshots of the market, while the curiosity about under explained why was not filled until the concept of bricolage emerged. Institutional innovation was considered once but the discrepancies were obvious. Innovation in its original meaning, as stated by Schumpeter, was the closest one. As a power of creative destruction and the essence of capitalism, it simulates how entrepreneurs go out of their way to change the institution in order to enable their projects (Schumpeter, 1942). Despite the insightful perspective of innovation developed by Schumpeter, the following innovation studies have turned to normative, seeking patterns of engineering (Lundvall and Tomlinson, 2001). As for China’s institutional change, no general pattern has yet to be captured. The actors carry a heterogeneous, extensive but limited instrument set, and the resources they have in that set are contingent when they confront emerging issues. Innovation is a more sponsored, engineered project, while bricolage is kind of make-do, spontaneous and improvisator. Key players in China’s futures market are especially resourceful. Regulations and rules kept being tightened up because of rampant speculation in the early years. Once it had pushed the volume of transactions down to its lowest point in 2001, the government then started to loosen the rules gradually and prudentially. The process has never been neat, as described by some scholars; it's usually one big step forward, then a small step back (Guthrie, 2006; Wu, 2009). This trial and error style of development and tight control has created a pressure shared by the whole industry. Regulators and practitioners need to perform better as they are often required to justify their actions (MacKenzie and Millo, 2003). During the crackdown, senior management of exchanges and brokerage companies were often called in by the regulator for interview, investigation, enquiry or even questioning. Excellent senior managers in this industry can be considered to be more experienced in formulating discourse instantly under any circumstances.

2.4 Performing without a script - culturally embedded consensus building
Institutional bricoleurs perform without a script. It makes improvisation the prominent feature of the process and illustrates the difficulty of standardisation. Improvisation is a key concept and act in performance studies. In Conquergood’s review, he pointed out that ‘the conversation between anthropology and performance studies has moved beyond the recognition that social life is performative. A growing number of ethnographers are taking performance as both the subject and method of their research’ (Conquergood, 2007, p.1). Industry elites need to tread carefully when they disseminate their ideas, as they perform in real life. Performers have to master the technique, structure and build their repertory before they can improvise on stage (Berliner, 2009). So as the industry elites in China’s futures market, they master the knowledge, expertise and global developmental trends before they can get on their ‘stage’. The stage and backdrop of their performance is as Moore described (1987, p.39):

‘Social life presents an almost endless variety of finely distinguishable situations and quite an array of grossly different ones. It contains arenas of continuous competition. It proceeds in a context of an ever-shifting set of persons, changing moments in time, altering situations and partially improvised interactions. Established rules, customs, and symbolic frameworks exist, but they operate in the presence of areas of indeterminacy, or ambiguity, of uncertainty and manipulability. Order never fully takes over, nor could it. The cultural, contractual, and technical imperatives always leave gaps, require adjustments and interpretations to be applicable to particular situations, and are themselves full of ambiguities, inconsistencies, and often contradictions.’

It is in such a situation that industry elites perform their ideas. The infinite art of improvisation is the regularity of their performance, no matter whether they are to be questioned, interviewed or consulted. As China’s economic reform is a vision without a blueprint, players will have to perform without a script. Nevertheless, they are highly skilled performers, not only in the sense that they know how to make their ideas plausible and convincing, they also possess extended knowledge that their
counterparts may be need. Lévi-Strauss provided the contrast between engineers and bricoleurs in terms of their reactions and responses to emergent issues. Engineers are usually equipped with a set of instruments dedicated to current projects, while bricoleurs just utilise whatever they have at hand (Lévi-Strauss, 1966). When it comes to the moment that they need make do with whatever they have, what would be seen in their bags? It was the culture, tradition, ideology, law and policy, and last but not the least, western advance. They all will be “seasoned” according to the circumstance.

Improvisation is an important figure of bricolage. Leaving space for improvisation allows a more sensitive and flexible manner to cope with social problems emerged in the change process. Bricoleurs can adjust according to the reaction and adapt to the nuances of local perception. The ‘shock therapy’ adopted by East European socialist countries was a more engineered project, change was scheduled in baby steps and the countries were equipped with theoretical instruments and fine blueprints (Wu, 2005). However, the inadaptability of the system struggled with the projects and left the countries with decades of economic stagnation (Balcerowicz, 1995). Instead, the incremental measure adopted by China has provided better results. The concept of socialism with Chinese characteristics has provided room for negotiation and accommodation where performing and improvising present. As the traditional Chinese ethos reveals, as long as the relationships are harmonious, through negotiating, collective wisdom will better off than individual wisdom. Bricoleurs make their ideas and discourse fit within the cultural framework and their interaction with the subject is culturally embedded. After more than three decades of continuous growth, Wen Jiabao, the former premier, started promoting the concept of harmonious society and warned the Party that ‘the reform has reached the deep-water area, and it is time to test the Party’s governance capability’ (Wen, 2012, p.2). A harmonious relationship between the emperor and the mass is one of the core values of Confucius. The idiom says the relationship between the ruler and the subject is like a boat and water: water can float the boat, or capsize the boat. As analysed by Chinese academics, political reform has lagged behind economic reform. Wen and his
successors are facing the challenge of changing the hard core of the system. Invoking Chinese tradition is an effort to make his initiative fit with the fundamental values of Chinese society. Likewise, the executives of the futures exchange often refer to their innovation as a prevalent accepted phenomenon, in an effort to remove doubt.

The roles of ideas and discourse are well-perceived in social change studies (Wodak, 1989; Campbell, John L., 1998; Fairclough et al., 2011). The power of language in ideological control is manifested in many case studies in the book edited by Ruth Wodak. Wodak conducted multidimensional and detailed analysis on National Socialist propaganda discourse during Nazi-occupied Holland. She aimed to ‘uncover and demystify certain social processes in this and other societies, to make mechanisms of manipulation, discrimination, demagogy, and propaganda explicit and transparent’, then take side with the oppressed and found out the solutions for the identified problem (Wodak, 1989, p.xiv). However, Jones pointed out that the means of ‘discourse analysis’ did not fulfil the ends of being critical about the political agenda:

‘The point here, then, is not to look for a new ‘model’ or ‘framework’ of description of ‘grammatical structure’ or ‘lexical networks’ or some such which could be ‘applied’ as a critical tool. On the contrary, when we actually try to account for the way people try, and often succeed to some degree, in critically getting to grips with communication then this whole way of thinking about language in terms of ‘codes’, ‘models’, ‘frameworks’ of rules, rule systems, or choices within inventories or networks is not part of the solution but part of the problem.20 The way out of the mess that the language myth in all its forms has got us into is to try to see communication not as a process in which individuals are merely the mouthpiece or embodiment of forms and meanings set up in advance (in ‘the genre’ or ‘register’ or ‘language system’) but to place it ‘on a par with all other forms of voluntary human action’ (Harris, 1981, p. 167), to see it as a form of conscious conduct on the part of particular individuals, of real personalities, conduct which consists in their actual creation of communicative means and interpretations in the course of their engaging
with others in particular circumstances, however difficult those circumstances may be.' (Jones, 2007, p.366)

Lévi-Strauss is profoundly influential in linguistic studies. As a poststructuralist he deconstructs the text and subtext, reads from the presumptions, background and the context of the authors and their writings, furthers the understanding of the meaning and its agenda (Lévi-Strauss, 1974). Deconstructive analysis is a powerful tool with which to analyse the law of institutional change. It keeps the observer seeing the effectiveness of individual actions on institutions. In other words, observing the individual as the ‘possessor of agency’ without losing sight of the whole structure (Cleaver, 2002, p.7). In the postmodern era, agency is becoming more and more complicated and powerful. The internet and traditional media have made means of influencing ubiquitous and penetrated people’s daily life. Learning is a lot easier and faster; however, people cannot learn rationally (Hodgson, 2000). People receive ideas from publications and commentaries, which shape their mindsets and influence their judgement. Meanwhile, online social media provides a platform for individuals to disseminate their opinions and ideas without scrutiny. In order to learn sensibly, deconstruction is necessary. It helps the reader and audience understand why the speaker and author have said so, instead of just reflecting on what they have heard or seen.

Consensus building is a micro step that bricoleurs often have to take. As Innes and Booher put it, consensus building is ‘a long-term effort to develop a shared understanding and agree on a strategy to deal with uncertain and evolving future’ (Innes and Booher, 1999, p.3). Unsatisfied by the traditional studies regarding consensus building or negotiation, Innes and Booher conducted substantial anthropological fieldwork in order to discover what was really happening during consensus building. They discovered that Lévi-Strauss’ *bricolage* is a fine metaphor and ‘powerful analogy for making sense of innovative consensus building’ (Innes and Booher, 1999, p.7). Getting the audience and participants agree with the bricoleurs, or
reaching a compromised point where both parties will be accommodated is the essential purpose of bricoleurs’ performance. It makes their connection with the people in power meaningful. Meanwhile, their knowledge and ideas are an important input for policy decisions. Through the transformative process, they share the knowledge that shapes their attitude and vision. In Chinese culture, consensus building is not confined to formal occasions. It works equally well in social and entertaining scenarios where the environment is more relaxed and people may switch off their defences. People learn about each other better when dining and singing together in the Chinese tradition (Bell, 2008). In achieving better long-term relationships and outcomes, bricoleurs are willing to take the cultural approach to build consensus.

2.5 Conclusion

The development of Levi Strauss’s ideas about bricolage can provide a theoretical framework for understanding the dynamic of socioeconomic change in China, and institutional bricolage sums up many key activities in the process. To learn how actors in China’s futures market act upon the circumstances that confront them, demands close observation of the process. The development of China’s futures market has never been neat and tidy. It is a lively, changing system in which history is being written every day. In this era, individuals are more enabled to shape the structure and influence others. The instruments they can utilise to influence and shape come from their institutional repertoire, and the way they influence and shape is shaped by the existing structure. Lévi-Strauss’ bricolage legitimises the way Chinese actors learn and cope, as a different mode of acquiring knowledge. The concept of intellectual bricolage was quickly embraced by qualitative methodologists and in many disciplines in social studies. Bricolage as a research process synthesises multiple perspectives and disciplines, producing a new form of methodological synergy. It deals with the complex living system and the historical process that has shaped it. The
task of literature review is not yet complete. China’s futures market is not a brand new topic; existing accounts try to understand the change. Before continuing with the review of these existing accounts, one more chapter will introduce the basics of the market. Therefore, Chapter 3 will introduce China’s futures market, the status quo and historical development, to give readers a general picture of the market which is not influenced by the agenda of the thesis. Chapter 4 will continue reviewing existing accounts.

Chapter 3: Introducing the Futures Market

3.1 Introduction

Previous chapters have reviewed the literature and located the theoretical framework, Socialism with Chinese Characteristics as the background and institutional bricolage as an alternative way of conceptualising the process. This thesis aims to provide an alternative account which answers the questions of how and why. The nature of the questions demands close observations in the field in order to understand the way the key players act and think. The literature review will continue in this chapter with existing accounts that focus on China’s futures market, and to understand them better, there will first be a brief introduction to the market. The structure and history of China’s futures market is rather different from those of Western countries. This chapter will introduce the market from two dimensions: the current structure and the historical development timeline. The first part is a cross-cutting analysis of the current market structure, and the second is the historical development in the past two decades. The cross-cutting analysis will first list some statistical facts, e.g. trading volume, varieties, and the number of participants and the financial data of major exchanges. Secondly, it will describe the market structure, including the political system, regulatory framework, major exchanges and trading mechanisms. In the historical development part, this chapter will summarize the developmental stages; introduce
key events of the past two decades, e.g. major improvements and scandals. Some crucial political changes related to the market will be introduced, including the first, second and third round of crackdowns, the designation of a regulatory body, and the first, second and third iterations of the regulatory measures. This chapter gathers publically available stories and archival data. It will portray the landscape of the market and provide a background for readers to understand the key players’ activities. The distance between the researcher and the subject will be deliberately retained in this chapter, in order to provide objective and neutral data.

3.2 The landscape of the futures market

This part will provide a snapshot of the market. It will first introduce its basics, the scale of trading, the trading varieties, the number of participants and the financial data of major exchanges. It will then introduce the current market structure, the political system, regulatory framework, major exchanges and trading mechanisms. The boundary of the market needs some attention. It is a unique issue for China as most other countries do not debate it. Usually China’s futures market is considered to have four futures exchanges: Shanghai Futures Exchange (SHFE); Dalian Commodity Exchange (DCE); Zhengzhou Commodity Exchange (ZCE); and China Financial Futures Exchange (CFFEX) (CSRC and CFA, 2004; CSRC, 2008). However, in this thesis, they will be called China Securities Regulatory Commission (CSRC)-regulated or ministerial-regulated futures exchanges, as there are also some regional-government-approved futures exchanges that play important roles in the whole market and especially contributed to the changes. This is one of the difficulties undermining orthodox methods of inquiry, as no official documents have given much weight to those regional exchanges. Nevertheless, regional exchanges are less controlled,

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18 The regional exchanges are different from the ministerial-regulated exchanges as they are approved and regulated by the regional government. The location of members and investors is not limited to the region. Ostensibly, they are not trading futures and avoid being called futures exchanges; they are contract markets trading commodities. In this thesis, the terms ‘regional futures exchange’ or ‘regional exchange’ refer to those exchanges trading commodity contracts but are not authorised by the ministerial regulators at central level.
more active and innovative. As a result, they contribute more. Central government’s approved structure of the market is a pyramid with the ministerial regulator at the top, the ministerial-regulated exchanges in the middle, the brokerage companies at the third level and the investors at the bottom. Affiliated parts of the infrastructure include the China Futures Association (CFA) and China Futures Margin Monitoring Centre (CFMMC).

China’s futures market has achieved dramatic growth since it was launched in early 1990s in terms of scale of trading. According to statistics compiled by the Futures Industry Association, a London-based international association, the three CSRC-regulated commodity exchanges in China are ranked at number 11, 14 and 15, respectively, among 75 derivatives exchanges globally. Among the top 20 agricultural futures and options contracts, nine are traded in China. Cotton No. 1 and white sugar, both traded on ZCE, and natural rubber, traded on SHFE, are ranked at number 1, 2 and 3 in the world. Soy oil, soy meal and corn, traded on DCE, are ranked at number 5, 7 and 8. Among the top 20 metals futures and options contracts, China’s steel rebar, zinc and copper, all traded on SHFE, are ranked at number 2, 4 and 13. China has the fundamentals to become the first-tier player on commodity derivatives market. It is one of the largest importers and exporters of agricultural products and a large importer of fuel and mining products in the world, according to data compiled by the World Trade Organisation (WTO). China only joined the WTO in 2001. As a latecomer to the global market it has been impressive. The rankings give a general impression of the scale of the market compare to the rest of the world. Some more detailed data will be introduced in the following paragraphs.

3.2.1 The numbers - how big is it?

20 Data span Jan–Jun 2011. Ibid.
The first measurement problem is no officially consolidated data about the regional exchanges. Those regional financial offices under provincial or municipal government maintain the data, but do not share it with the public. The CFA collects and publishes the data for the four CSRC-regulated exchanges regularly. Trading turnover for the four CSRC-regulated exchanges is listed and annotated below.

Trading turnover is expressed in yuan (RMB). Detailed data can be found in Appendix 1.

Trading turnover has grown dramatically since 2003, especially in 2010 when the stock index futures finally started trading. Trading turnover was RMB137.51 trillion in 2011 (equal to US$21.69 trillion, at the exchange rate of 6.34:1=¥:$ at end 2011). China’s GDP in 2011 was RMB47.16 trillion.

There are currently 27 trading varieties on the four CSRC-regulated exchanges:

- Dalian (9): Maize, soy bean 1, soy bean 2, soy bean meal, soy bean oil, polyethylene, palm oil, PVC, coke
- Shanghai (9): Copper, aluminium, natural rubber, fuel oil, lead, zinc, gold, silver, steel rebar, steel wire rod

Source: China Futures Association.

Note: In April 2010, the Stock Index Futures launched and its trading volume was added to the total.

The data compiled by CFA is available on its website: http://www.cfachina.org/news.php?classid=108
• Zhengzhou (8): Wheat, hard wheat, rapeseed oil, cotton, sugar, PTA, early rice, methanol
• China Financial Futures Exchange (1): Stock Index Futures.

Cotton is the largest commodity in terms of trading turnover, traded on ZCE at RMB18.12 trillion in 2011. The second is natural rubber at RMB16.52 trillion (SHFE) and copper at RMB14.97 trillion (SHFE). The trading turnover of stock index futures was RMB43.77 trillion in 2011. These four accounted for 67.91 per cent of total trading turnover of the whole market. There is no official data for China’s regional futures market. Before the crackdown launched by the State Council, in November 2011 (SC, 2011), they were developing in different regions and were supervised by the provincial government. According to media reports in China, there were about three hundred of them.²⁴ However, there is not much information on the scale and varieties they trade. The CSRC-led Inter-Ministry Joint Conference²⁵ investigated in some regions. The conference published a detailed implementation instruction to provincial government and the public at the end of July 2012, which required the provincial government to investigate and compile reports and solutions to the conference (SC, 2012a). The only available report that consolidates commodity trading information nationwide is the China Commodity Trading Market Report (《中国大宗商品交易市场研究报告》), compiled by the China Commodity Research Centre in Zhejiang province, which is the research centre of the listed company, Netsun. The report is compiled annually and the mainstream financial media in China have used the graph from it.²⁶ It shows the newly launched and total commodity trading venues in all regions from 1991 to 2011. The statistics may not be complete, as the provincial and municipal government have limited the availability of data, and the report only concerns commodities. Nevertheless, we can still see a clear trend that

²⁴ Many financial media have followed this series of reports, most of which estimated there are at least 300 exchanges in China. One of the sources: http://futures.hexun.com/2011/qldjys/
²⁵ In January 2012, the State Council officially approved the Inter-Ministry Joint Conference Mechanism for Rectifying Various Trading Venues (国务院关于同意建立清理整顿各类交易场所部际联席会议制度的批复). The conference is led by the CSRC.
²⁶ The financial media Hexun published the graphs in this report: http://futures.hexun.com/2011/qldjys/
the growth of newly launched commodity trading venues has picked up apace since 2003 and risen dramatically since 2007.

![The commodity trading markets (1991-2011)](image)


Detailed data can be found in Appendix 2.

### 3.2.2 The participants - who trades on the market?

In July 2012, CFMMC announced a total of 1.07 million (860,000 clients) accounts on the four futures exchanges. Again, the data does not include the regional exchanges. Some of the regional exchanges have published their data but most do not. For example, the Tianjin Precious Metals Exchanges (TJPME) announced it had 130,000 clients by the end of January 2012. It is hard to extrapolate based on the data of a few exchanges; however, if some regional exchanges are comparable to TJPME, there may be an additional 1 million clients trading on regional exchanges. According to data collected by the CFA from the CSRC-regulated exchanges,

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27 Source: CFMMC website; http://www.cfmmc.com/zzcx/ztjx/2012-07-05/9531.html
individual investors accounts for the majority of participants in China’s futures market. From 2007 to 2009, more than 95 per cent of participants were individual investors\(^{29}\) (CFA, 2010). Traditionally, the participation rate of institutional investors in the US futures market is about 60 per cent, 80 per cent in Japan and 90 per cent in the UK. In recent years, the major exchanges in the US have been promoting mini commodity contracts aiming to attract individual/retail investors (Yu Chuan, 2004; Doyle \textit{et al.}, 2007; Xing and Xing, 2007). Some researchers have tried comparing the Taiwan futures market with China’s as they share cultural similarities. In the first three years of Taiwan’s futures market, the ratio of institutional investors was as low as China’s, at about 4.9 per cent between 1998 and 2000. It increased constantly from 2001 and is now stable at about 62 per cent. The ratio of China’s institutional investors remains low after two decades of development (Yu Chuan, 2004). This has an impact on market volatility as a market dominated by individual investors tends to be more volatile. Individual investors tend to be more emotional, speculative and lack analytic skills (Chan \textit{et al.}, 2004).

In the early stages of China’s futures market, state-owned enterprises participated and over-speculated, and caused huge loss of state-owned assets, so in 1993 the State Council ordered the scrutiny of state and treasure capital used to participate in the futures market (SC, 1993b). The participating large, state-owned corporations were China National Cereals, Oils & Foodstuffs Corporation (Group) Co. Ltd. (COFCO), China National Chemicals Import and Export Corporation (Sinochem), China National Metals and Minerals Import and Export Corporation (Minmetals) and China State Farms Agribusiness (Group) Corporation (State Farms) (SHFE, 2010). These state-owned enterprises had been playing continuously on China’s futures market since its inception and their behaviour reflected the development of market ethics (Qu, 2004; Guo, 2010). They also played on overseas futures markets, with some of them having subsidiaries dedicated to proprietary and brokerage business. According to the

\(^{29}\) For example, at the end of 2007 of 195,973 accounts at SHFE, 4,280 were corporate investors (2.18%), of 381,805 accounts at ZCE, 13,809 were corporate investors (3.62%) and of 375,006 accounts at DCE, 13759 were corporate investors (3.67%).
CSRC website, there are a total 161 brokerage companies running 1,177 operations. The largest futures brokerage company is China International Futures Co. Ltd. (CIFCO), with a history dating back to the 1970s when it represented the state in the overseas futures markets (Chang, 2007). According to the CFMMC, by the end of August 2011, domestic futures companies held clients deposits approximate RMB200 billion and registered capital RMB22.96 billion, of which CIFCO holds RMB1 billion.  

3.2.3 The exchanges and trading mechanisms

There are two major market structures for derivatives trading, one is horizontal and the other is vertical. The function and mechanism of the futures exchange are the major elements of the market structure. Exchanges cannot exist without other market facilities, including but not limited to trading, clearing, secure payment system, warehousing, delivery and information-sharing platforms (BIS and IOSCO, 2004). China’s futures market is the typical ‘vertical silo’ structure usually described by Western practitioners (Norman, 2011). A vertical market structure integrates all related services and facilities into one organisation, with CME as a good example. The UK and European markets are good examples of horizontal market structure, where the exchanges and large trading firms share facilities. For example, the clearing house is a specified organisation that deals with ‘post-trade’ services; the exchange deals with ex-trade services until the deal is made, then submits the trade to the clearing house; the data repository records the derivative deals made in the over-the-counter (OTC) market (Xu, 2007); the information technology companies provide trading platforms and connectivity, e.g. Reuters and Bloomberg. In the US, services are largely integrated into one group; the exchanges merged to share facilities (Norman, 2011). CME is a typical case, having integrated all trade-related services into one group. CME Clearport is a clearing house for all the exchanges under the

CME group, but not for exchanges that do not belong to the group. This integrated structure is called ‘vertical’. In China, each exchange has its own integrated platform, which is not shared with any other exchanges (Hu and Sun, 2009). There is no exchange group, as the industry is controlled and no merger or acquisition has ever been initiated or approved. There is no information pool, margin pool, or any other facility shared among exchanges. This is called a ‘vertical silo’ and in China this structure has served ‘exchange-traded’ customers well so far. Nevertheless, it is not cost-effective and relies on state power to protect the rigid structure (Hu and Sun, 2009). For one exchange to invest in all the facilities, from trading platform to warehousing, there would probably be overlapping investment and wasted resources. In April 2012, the four CSRC-regulated exchanges announced a transaction fee reduction in the range of 12.5–50.0%. One reason for this might be that transaction turnover has dropped since 2011 (see the graph in 3.1.1). Meanwhile, it implies the profit margin of the exchanges has been rather high and there is pressure to become more cost-efficient (Li and Tian, 2010). According to SHFE’s annual report, in 2010 it made a net profit (after tax) of RMB5.17 billion, a profit-to-revenue ratio of 62.98% (SHFE, 2010).

The part of the market not served by the vertical silo is the OTC market, which is the original market form of all trading, where trades are negotiated and settled between the buyer and seller. There may be intermediaries involved, but the contractual obligation remains with the buyer and seller. Exchanges were a later phase as trading developed. Before the creation of exchanges and clearing houses in order to reduce costs and improve transparency, there was only OTC trading (Kroszner, 2006). According to derivatives statistics from the Bank of International Settlement (BIS), OTC trading is usually six to eight times the size of the exchange-traded market. In

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31 This was announced on the CSRC and exchanges’ websites and took effect from 1 June 2012. Retrieved from: http://www.csrc.gov.cn/pub/newsite/bgt/xwdd/201204/t20120427_209348.htm

32 The descriptions of OTC and ‘exchange-traded’ are based on the definition and comparison chart provided by the International Swaps and Derivatives Association (ISDA). Retrieved from: http://www.isda.org/educat/faqs.html#4

33 Source: http://www.bis.org/statistics/derstats.htm
China, the development path is reversed. The exchanges were established before there was prevalent OTC trading. The basic trading form had not been popular, while the more cost-effective form was adopted straight. OTC traders need more flexible terms than the rigid ones provided by the vertical silo. Trades now served by the OTC market in Western countries are usually large deals. They need customized terms and the intermediaries to locate counterparties (Morgan, 2008). It is the basis of the emergence of regional exchanges and they are designed and organised in various forms to cope with the various demands. Some claimed to be dedicated to OTC trading. The horizontal structure has been formulated quietly in regions. There is not much collaboration between exchanges, as the regional governments have not committed to the vision of a shared platform because of the pending status of the regional exchanges (Chu, 2010). The new structure has been limited to small-scale experiments.

3.2.4 The regulatory bodies

Officially, there is only one securities regulator, the CSRC. Nevertheless, the role of the regional financial offices (some are called financial affairs office or similar) should not be underestimated. The financial office under the provincial or municipal government was initiated by Premier Zhu in the 1990s with the aim of preventing the abuse of local financial resources, although in recent years the role of the regional financial office has evolved. It is now a facilitator of regional financial development and reform and very often maintains a close relationship with the National Development and Reform Commission (NDRC), which is the great supporter of reform at the central government level (Liu and Wei, 2012). Ministerial and regional regulators have different goals and motivations. The regional financial office tends to approve more trading facilities as long as there is market demand and it does not break the law whereas the ministerial regulator may have more concerns about the stability and control. The CSRC has never been open to the public about its approval
process for new exchanges or any type of trading facility. Therefore, the interplay between the central and regional is unavoidable.

The CSRC is one of the institutions under the State Council. Its power level is equal to that of the ministries. In fact, the CSRC is the government organ that has centralised the most administrative power and become one of the major targets of administrative approval reform.\textsuperscript{34} The State Council of the People's Chinese Republic, namely the central government, is the highest executive organ of state power, as well as the highest organ of state administration. The premier of the State Council is nominated by the president, reviewed by the NPC, and appointed and removed by the president. The ministries, institutions and commissions that are relevant to the futures market include the CSRC, People’s Bank of China, Ministry of Commerce, Ministry of Finance and NDRC.

Central government plays an important role in the change process. The state is represented by the State Council and its constituted ministries, institutions and regional governments, and has the dominant power in policy-making and rule-making. The futures regulations are drafted by the CSRC and approved and announced by the premier. Crackdowns are usually initiated by the State Council. The crackdowns in 1994 and 1998 cut the numbers of exchanges from about fifty to fourteen, and finally three. In other words, there may have been fierce competition among those fifty exchanges, given the size of the market at that time. This political action generated much better conditions for the surviving exchanges. It was a selective process: not a market process, but the choice of the securities committee\textsuperscript{35} in central government and based on criteria they reported on to the State Council, which approved the change.

\textsuperscript{34} China’s administrative examination and approval system reform started in 2006. It is making progress but slowly. Source: http://www.gov.cn/jrzg/2012-10/10/content_2240666.htm

\textsuperscript{35} The CSRC was founded in 1992 as an institution led by the Securities Committee of the State Council. In 1998, the Securities Committee and the CSRC merged to become the national regulator of securities. Source: http://news.xinhuanet.com/zhengfu/2003-03/07/content_764372.htm
3.2.5 The boundary of the market

The action taken by the State Council to ‘clean up and consolidate’ the exchanges in November 2011 publicly revealed that there are more than just four regulated futures exchanges in China’s futures market and how that complicates matters (SC, 2011). The market is, in fact, composed of two types of futures exchanges in terms of the regulatory bodies: the ministerial regulators and the regional financial office. However, the regulatory measure only empowers the CSRC to approve futures exchanges. The exchanges approved by regional government or other ministries are finding their own way to ‘redefine’ their exchanges in order to avoid them being called futures exchanges, which would be illegal.

The State Council rectified and consolidated the market in 1998, and reduced the number of commodity exchanges to three, Shanghai, Zhengzhou and Dalian. Since then, orthodox research has majorly focused on the CSRC-regulated exchanges (Renhai and Baizhu, 2007; Cookson, 2010). However, the boundary of the market gradually blurred. By November 2011, Medias reported that more than three hundred commodity exchanges had emerged, in many provinces. These three hundred shared common features. They do not call themselves ‘futures exchanges’, neither are the contracts traded ‘futures contracts’. There are various ways of naming their contracts, which can basically be categorized as two types: forward and spot-deferred. However, the trading mechanisms are very similar to futures. Investors can go long and short; they trade on margin, 20% or less; they trade on standardised contracts, the price of which is based on certain underlying commodities; trades are settled every day and cleared before next trading day; they can trade unlimited times in any direction within one trading day. Meanwhile, the exchanges provide the trading platform, settlement, clearing and delivery facilities, design the standardised contracts, set up the margin level, margin call criteria and risk policies, and implement them. They design the

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36 Shanghai Gold Exchange is a so claimed spot market approved by the PBOC and launched in 2002. However, the spot-deferred contract it provides is similar to that of many regional exchanges.
membership system and collect collateral or guarantee funds. The only difference between these three hundred and the four futures exchanges is that the former are not authorised and regulated by the ministerial regulator. They are usually approved by regional government and regulated by their financial offices.\(^37\)

The significance of the regional exchanges cannot be dismissed. The significant events, e.g. the crackdowns taken by the State Council and the revision of regulations, have a lot to do with the regional exchanges.\(^38\) In November 2012, the CSRC-led Inter-Ministry Joint Conference announced it had approved the first batch of rectification proposals from eight provinces and municipalities, including Zhejiang, Hubei, Chongqing, Shenzhen, Xinjiang, Gansu, Guizhou, and Qinghai.\(^39\) In these regions, some exchanges will be kept and the rest of them will be closed or rectified. It seems that the regional exchanges’ battle for survival is not a fiasco.

3.2.6 The profile of the regional exchanges

As the existence and significance has been mentioned, it is important to recognise the estimated scale of regional exchanges at this juncture. Since there is very little formal data on this sub-sector, this section will be based on limited materials to introduce the profile of the regional exchanges and the background of the board of directors of the exchange, who are represented by the executives. There are no official statistics regarding the number of regional exchanges or their trading volumes. The regional financial offices usually keep the data for the region but will not disclose it to the public. Some media estimate that there were about 300 regional exchanges by the end of 2011.\(^40\) According to the only available report about the commodity industry (PPI, 2012), the majority of them emerged after 2007 and reached a peak in 2009 and 2011.

\(^{37}\) The information about the regional exchanges was summarised from the fieldwork experiences, including the interviews and observation.

\(^{38}\) During the discussion phase of futures regulation revision, some interviewees pointed it out to the researcher that the revision aimed to make it clearer that some regional exchanges were illegal.

\(^{39}\) See http://www.csrc.gov.cn/pub/newsite/bgt/xwdd/201211/t20121107_216594.htm

\(^{40}\) See report from the Financial Times, ‘China cracks down on rogue exchanges’. Source: http://www.ft.com/intl/cms/s/0/6bf7afbb-1690-11e1-bc1d-00144fcebde0.html#axzz2AllKLYVX
They are usually called ‘electronic trading markets’ and can generally be categorised according to two types in terms of the assets traded: ‘commodity forward market’ and ‘equity market’, according to the Implementing Opinions of General Office of the State Council on Rectifying Various Trading Venues (SC, 2012a). The commodities they trade cover many industrial materials and agricultural produce, including agricultural by-products, basic metals, precious metals, chemical products, energy, minerals and textile products. The equity-related products that they trade include OTC stocks, artworks and cultural products, mining properties, real estate and vehicles. For example, in 2009, when the price of garlic became volatile, there were at least four electronic trading markets that provided forward or spot-deferred contracts based on the garlic spot price (You, 2012). In addition, about five artwork exchanges emerged in different regions (Yang, 2012).

So many contract markets emerged in such a short period of time that there is no doubt that some of them were not well designed and were therefore vulnerable to malpractice. The regions with more open and developed economies, such as Zhejiang, Guangdong and Shandong provinces and Beijing, Tianjin, Chongqing and Shanghai municipalities, tended to be more active in trading and thus had more exchanges (PPI, 2012). Among those regions, Tianjin had approximately 50 trading venues registered by the end of 2011, according to the website of the local financial office. The trading volume was estimated at several trillion yuan with the largest one being RMB1.6 trillion. The total trading volume of four CSRC-regulated futures exchanges was RMB137.5 trillion in 2011. In 2011, despite the financial futures exchange achieving 9.89% growth in trading volume, it decreased dramatically at the other three commodity exchanges by 50.44%, 18.04% and 28.31%, respectively, according to statistical data compiled by the CFA. The regional exchange in Tianjin achieved

41 The Tianjin Financial Affairs Office announced that they were going to collect information about trading markets in the region in October 2011. See: http://www.tijr.gov.cn/jryw/gzdt/20111024035819234nU5.html
42 According to the website of Tianjin Precious Metals Exchange: http://www.tjpme.com/index.php?id=125
rapid growth in 2011. The one that traded RMB1.6 trillion in 2011 enjoyed an increase from RMB143 billion in 2010.\footnote{Source: As footnote 11.}

According to the commodities industry report, more than 80 per cent of the regional exchanges are privately owned, while the state has a greater or lesser stake in the remainder (PPI, 2012). Using the Dragon Exchange as an example, the directors sitting on the board come from three different types of background: government institutions, state-owned enterprises and private enterprises. Directors with a government institution background usually have multiple identities: on one hand, they are civil servants maintaining senior positions in the government institution. On the other hand, they are board members involved in strategic decisions, board meetings and other related activities. Usually, the government institution owns the largest but less than 50 per cent stake in the exchange.

Directors from regional government institutions are agents exerting the power of regional government and representing its interests. In other words, they make sure the operation of the exchange will remain on track from the regional government’s perspective. Directors from a state-owned enterprise (SOE) background are senior managers or executives. Their role is to represent the best interests of the SOE they serve. As the enterprise is owned and controlled by government, it represents certain political interests. It is also a political resource for the organisation. SOEs usually have an intimate relationship with the government sector. The merit of having some state-owned elements in the ownership is that it helps legitimise the organisation. It may not appear to be that important in other industries, but it is certainly the case for the regional exchanges. Although China has a more liberalised economy, the ‘state-owned’ aspect is still seen as a symbol of stability and trustworthiness. Directors from private enterprises are usually entrepreneurs themselves or this role is played by the senior managers they have hired. They usually represent rational investments that pursue economic profits as a return. The background of the board and the ownership
structure supports the interests the executives represent, as well as some of the resources they have in addition to their personal resources.

The exchanges and brokerage companies without any political ties to government are more vulnerable to crackdowns, which have rectified and consolidated the market several times.\textsuperscript{45} According to commentators and analysts, converting privately owned enterprises to state-owned ones may have been one of the strategies for surviving the crackdown launched in November 2011.\textsuperscript{46} In a controlled and regulated industry, the players need to have some political resources in order to leverage their market positions, while in some other industries that have been liberalised to a larger extent, entrepreneurs, instead of institutional bricoleurs, would arise as a result of freer and fairer competition.

3.3 The historical development

This part will introduce the development of the market from a historical perspective. The introduction is based on second-hand and published materials. It briefly goes through the two decades, introducing the developmental stages and relevant key issues, including the three editions of regulatory measures and three rounds of crackdowns. Some other key events will also be introduced that have been prevalently accepted as important events that contributed to the development and shaped the market.

3.3.1 The development stages

\textsuperscript{45} According to the analysis provided by the journalist Liu Wei, of Yangcheng Evening News, the gold exchange in Hunan province was closed down in February 2012 because of the lack of support from local government. In contrast, the gold exchange in Tianjin received official approval from the local government amid the State Council’s crackdown because of its ‘significant economic contribution’ to the region. See: http://money.ycwb.com/2012-06/25/content_3848147.htm

\textsuperscript{46} The Tianjin Cultural Artwork Exchange sought investment from regional government institutions. The commentary says this strategy may have helped the exchange survive the rectification action of the State Council. See: http://www.ce.cn/culture/gd/201202/13/t20120213_23065814.shtml
The initiation of the market and the three development stages will be introduced. China’s reality is that the market is designed and formulated by the authority and other key players, along with the process of development. There may have been an advertised vision when it was designed; however, it never ends in the desired shape as the process involves innovation and improvisation. China’s market-oriented economic reform started in 1978, following a decision made in the third plenary session of the Eleventh Party Congress. Since the start of it, the origination of the market has gone through a process of emergence – research – pilot – prevail – correction – normative (Chang, 2007). A short version of the story would be: along with the progress of economic opening up and reform, endogenous and exogenous demands emerged followed by theoretical debates and fieldwork studies; government-led pilots ran in some appointed regions at the initial stage; other regions soon caught up if the pilots seemed to be economically beneficial; without adequate legal and regulatory foundations, rampant speculation resulted in investors’ losses; some actions were then taken by the State Council; finally, rules were established and accepted and the market entered a normative developing stage. It might not be the end of the story. Some behaviour repressed by the power may emerge again in another form, thus the cycle repeats, with new elements added. In this process, rules are built through the interplay between the arbitrager and regulator and they both learn.

The development stages

A brief timeline of the futures market:
- 1994: 50 commodity exchanges, more than 2,300 members and 50 futures varieties.
In the late 1980s, with the deepening of economic reform, China’s government gradually relinquished control of the agricultural produce market. Pricing mechanisms became more market-oriented, hence fluctuating more. The increased volatility was not conducive for maintaining a stable and predictable income for farmers (Jia and Guo, 2007). In March 1988, the government work report suggested exploring futures trading and accelerating reform of the commercial system. Since then the development of China's futures market has undergone three phases: initial development, straightening out and regulating (Gao, 2009).

The initial development stage ran from 1988 to 1993. In 1988, the State Council decided to pilot futures markets and first chose wheat, grains, pork and hemp for trading. In October 1990, Zhengzhou Grain Wholesale Market started introducing futures trading mechanisms, as the first commodities futures market. In October 1992, Shenzhen Nonferrous Metals Futures Exchange offered premium aluminium standard contracts, formally launching futures exchange trading. After that, many provincial and municipal authorities founded futures exchanges and introduced new varieties.

However, the mode of ‘development first, regulation later’ caused plenty of problems. There are two modes in terms of the legislative process for financial markets, which
usually applied in advanced markets: ‘development first, regulation later’ in the United States, or ‘specification first, development later’ in Hong Kong (Ouyang, 2005). China’s authorities tended to establish the futures market following the Hong Kong mode. However, the guiding principle failed to lead development of the market. The regulations seriously lagged behind while the amount of exchanges and volume of transactions mounted.

As the liberalisation of the national economy progressed, a huge demand for pricing mechanisms and risk management emerged, which provided a regulatory dilemma for the authorities; sticking to rigid regulation would result in slow growth, while growth without appropriate regulation could lead to market turmoil. Up to 1995, the pilot programme had experienced an exuberance driven by huge demand, industry interests, but alongside weak market supervision. The number of futures exchanges surged to more than 50, exchange members to more than 2,300, varieties to more than 50, and brokerage firms to more than 300 (including more than 50 joint ventures). In the initial stage of development, this heady exuberance was accumulating high risk. Exchange members and brokerage firms enjoyed unfair profits as a result of the legal system with the regulatory framework lagging behind.

The chaotic status of the futures market drew attention beyond the industry. The State Council and supervisory authority took action to clean up the market twice between 1994 and 2000, respectively, which was the second phase: straightening out. Between 1993 and 1995, the State Council issued several urgent notices concerning approval of the experimental futures exchanges, restricting state-owned enterprises and institutions participating in futures transactions, and enhancing risk control on Treasury bonds and futures transaction. Only 15 exchanges were authorised as legal experimental exchanges, while others were prohibited from trading. In 1994, trading on foreign exchanges was suspended. In April 1994, trading on steel, coal and sugar was suspended; in October, trading on rice and rapeseed oil was also suspended. Furthermore, in February 1995 the Treasury bond 327 and 319 scandals happened and,
subsequently, trading on Treasury bond futures was suspended in May. In 1998, the State Council ordered a further clean-up and regulation of the futures market. Following this request, in 1999 the CSRC promulgated and implemented a series of interim regulations (SC). Later in 2007, these regulations were replaced with a revised edition.

Trading activity in the clean-up phase shrunk dramatically; turnover dropped from RMB10.05 trillion in 1995 to RMB1.61 trillion in 2000, when it hit the bottom and entered another bullish phase. By July 2010, trading turnover in the first seven months of the year had reached RMB148.05 trillion. The third phrase of futures market achieved robust growth, coupled with growing regulatory wisdom. In the 3rd plenary session of the 16th Party Congress in 2003, the edict to ‘steadily develop the futures market’ was written into the Decision of the Central Committee on Several Issues on Improving the Socialist Market Economy System (CPC, 2003, p.4). In March 2004, the State Council released Several Opinions on Promoting the Reform, Opening up and Stable Development of the Capital Market (SC, 2004), which provided an institutional foundation for improving relevant rules and laws. In March 2007, the State Council promulgated the decree Regulation on the Administration of Futures Trading (SC, 2007), followed by eight relevant CSRC regulations and measures: Measures for Administration of Futures Exchanges, Measures for Administration of Futures Companies, Provisions on Administration of Chief Risk Officers of Future Companies, Measures for Administration of Futures Practitioners, etc. These regulatory rules laid the foundation for sustainable development.

3.3.2 Three editions of regulations

In the history of China’s futures market, there have been a total of three regulations: the Interim Regulation of Futures Trading, published in 1999 (SC, 1999); Regulation of Futures Trading published in 2007 (SC, 2007); and Regulation of Futures Trading
The provisional regulatory measures had seven chapters, totalling 71 clauses: general principles, futures exchanges, futures brokerage companies, basic trading rules, regulation and supervision, penalties and supplementary provisions. It was published after the second successful crackdown in 1998, when the exchanges were closed or consolidated into three commodity exchanges. It centralised power with the CSRC as regulator and defines that only the CSRC can approve an exchange, which must be a not-for-profit organisation. The articles, trading rules, varieties and contracts of each exchange need to be approved by the CSRC. Mergers, splits, or closures of exchanges need the CSRC’s approval. The general manager and vice-general manager of the exchange are appointed by the CSRC. The chairman and vice-chairman of the governing board are nominated by the CSRC and elected by the board. Exchanges are not allowed in trust, investment, stocks and real estate business. There are similar restrictions for brokerage companies. It set the code of conduct for practitioners and restricts some groups from participating in the futures market, e.g. civil servants, staff at the exchanges and regulators. Despite the restrictions, the provisional regulatory measure also defined the responsibilities of the exchanges and brokerage companies to investors, and some basic trading and risk management rules. It established the risk fund rules and the qualifications system for senior management of the exchanges, brokerages and other practitioners. However, the provisional regulations failed to provide a clear definition of futures exchanges and futures contracts. It left the space open for further debate (Chang, 2001).

The first version of formal regulations was published in 2007, with an additional chapter on the Futures Industry Association. It defined the role of margin deposit monitoring organisations and investor protection funds. There were 91 clauses in total. One of the most important changes was Clause 89, which added the description of

(revised) published in 2012 (SC, 2012c). The older version has been abolished and the newer version adopted.
‘futures trading in a disguised form’, usually called the ‘variant of futures’ by practitioners.

‘Clause 89 The standardized contract trading made by institutions or markets in a centralised way without the approval of the futures regulatory authority of the State Council and adopting the following trading mechanisms or featured in one of the following characteristics of the trading mechanisms constitutes futures trading in a disguised form.

1) Providing performance guarantees for all buyers and sellers participating in centralised trading;
2) Implementing the “mark-to-market” settlement system and margin system, with the margin charging a proportion lower than 20% of the target amount of the contract.

Institutions or markets that adopt the trading mechanisms or are featured in one of the characteristics of the trading mechanisms described in the previous clause before the implementation of the regulations shall make rectification within the time limit prescribed by the Commence Administrative Department of the State Council.’ (SC, 2007)

It also provides the definition of a ‘futures contract’: ‘a standardized contract prepared uniformly by the futures exchange for delivering a certain quantity of the target at a specified time and place in the future’. This seemingly interlocks with the definition of a ‘futures exchange’, whereas the futures exchange is not defined in this regulation.

In November 2011, in the wake of the crackdown of the State Council, the CSRC opened a consultation to revise the futures regulation.47 It cancelled the ‘futures in disguised form’ clause and added definitions of ‘futures contract’, ‘futures trading’, and also added ‘as central counterparty, providing a central performance bond’ as one

of the exchanges’ responsibilities. In November 2012, the revised regulation was announced. It took most elements of the advice offered during the consultation, despite the ‘central counterparty’ part. The new version separated the definitions for commodity futures and financial futures, cancelled the restriction of foreign institutional investors and added the concept of ‘futures investment consultant’, a similar term to ‘Commodity Trading Advisor (CTA)’.48

3.3.3 Three rounds of crackdowns

The development of China’s futures market has been fraught with negativity. The State Council undertook three crackdowns against market abuse. These crackdowns rarely addressed any specific individuals (SC, 1993a; 1998). It was always the rogue exchanges and brokerage companies that were the major focus. In 1993, the first crackdown reduced the number of futures exchanges from about 50 to 14. Of those 14 exchanges, the second crackdown in 1998 closed and consolidated them into three (Dang, 2004). The CSRC-regulated group added only one new member; in 2006, the CFFEX was founded and in 2010 it started trading stock index futures. The crackdown launched in November 2011 targeted an unprecedented number, which was estimated by the media as 300.49

In 1993, the securities committee set up the criteria for evaluating the existing exchanges, including the scale, delivery ratio, number of investors and registered capital. It was relatively objective and interfered less. The remaining 14 exchanges gained substantial growth between 1994 and 1998. Data compiled by the CFA shows that apart from the three surviving exchanges, the exchanges in Suzhou, Hainan and Beijing are relatively big and achieved trading turnover well above RMB1 trillion (for detailed data see Appendix 3). However, the growth is not consistent; the

48 A qualified commodity trading advisor (CTA) provides advice to the Commodity Pool (CPO). Both are commodity trading schemes defined by the CTFC.
49 A report by the FT estimated that there are about 300 exchanges, as do domestic financial media. See http://www.ft.com/intl/cms/s/0/6bf7af8b-1690-11e1-bc1d-001444ecabdc0.html#axzz2BXA2xcfq
irregularities are related to rampant speculative contracts. For example, the ‘Suzhou bed bean’, ‘Hainan coffee bean’, ‘Hainan mungbean’ and ‘Beijing crude oil’ are all notorious scandals.\textsuperscript{50} As a result, the notice from the State Council was rather tough. It ordered that all exchanges in one city would be consolidated into one; only Shanghai, Dalian and Zhengzhou would keep one futures exchange. The remaining 11 exchanges needed to be converted to either trading rooms of the remaining exchanges, futures brokerage companies, or securities companies if they were to meet the securities company’s requirement (SC, 1998). The futures exchanges were to be regulated by the ministerial regulator, the CSRC, similar to the standard of stock exchanges. It contained the rampant speculative trend of the futures market; however, it also killed the vigour of growth. The futures industry fell into a low and only started to pick up growth again in 2003.

In November 2011, the State Council launched the third round of crackdown, specifically targeting the futures or quasi-futures exchanges in the regions (SC, 2011). Closely following the decision by the State Council, the PBOC, as the gold market regulator, published a notice to crack down on gold trading venues in all regions and foster the Shanghai Gold Exchange as a spot-trading venue for precious metals. In February 2012, the State Council approved the working mechanism of the CSRC-led Inter-Ministry Joint Conference (SC, 2012b). The chairman of the CSRC then led his team to conduct investigations in many active trading regions, including Chongqing, Zhejiang, Guangdong and Tianjin. In November 2012, the CSRC announced the first batch of approved provinces and municipals. This was the first positive news about the futures market since the crackdown launched one year previously. According to the implementation instructions from the CSRC-led Inter-Ministry Joint Conference in July, each province or municipal should submit a proposal detailing the solution to

\textsuperscript{50} These scandals were compiled by authors tasked by the CSRC and published in Futures Daily in a series.
‘clean up and consolidate’ the exchanges in its region (SC, 2012a). ‘Some will be closed, some will be rectified or consolidated, and some will be kept.’

3.4 Conclusion

This chapter aims to introduce the market generally and neutrally, avoiding contamination from any research agenda or stance. Once readers are apprised of the current status of the market, they can proceed to the next chapter, which covers existing accounts of China’s futures market. This chapter provides a snapshot of market conditions, a cross-cutting description of its structure and current developmental status. In addition, it provides a timeline of historical development in the past three decades. The three rectification campaigns initiated by the State Council and the revisions of the regulations were the most important events and milestones, comprising the state players’ response to the activities of market players in a nutshell. Meanwhile, they formulated the institutional framework for every player. Many accounts offer an understanding of the institutional changes to China’s futures market. In next chapter, they will be reviewed and assessed.

Chapter 4 Understanding the Futures Market from Existing Accounts

4.1 Introduction

Having proposed the theoretical framework, this chapter will continue to review and assess some existing accounts regarding this phenomenon. The previous chapter portrayed the background and described the development stages of the market. The path of change is as phenomenal as the growth achieved. Such a phenomenon should

51 Quote from the CSRC news website. The eight regions are Zhejiang, Hubei, Chongqing, Shenzhen, Guizhou, Gansu, Qinghai and Xizang. See http://www.csrc.gov.cn/pub/newsite/bgt/xwdd/201211/t20121107_216594.htm
certainly be an interesting topic for research and commentary. From reviewing existing accounts, a gap has emerged. Few serious academic works have looked into the process of the development of China’s futures market, although the existing problems of the market are hot topics in newspaper and on the internet, provoking debates. The market is associated with capitalism and bourgeois individualism, of which socialist ideology is critical. It also experienced rampant speculation and manipulation, of which human societies, in general, are critical. Interestingly, it has not become popular for domestic scholars to explain the market and its change in Chinese terms. Part of the scholarly work has followed Western, mainstream accounts. Researchers usually study the futures market from two perspectives. The first evaluates the performance or efficiency of the market, while the second analyses existing problems and suggests solutions. As for how and why the market reached this stage that has been largely ignored. Normative and prescriptive accounts are informative about the status quo of the market, whereas they fail to provide insightful answers to the how and why questions. Institutional change in China follows its own rules and logic; therefore, normative accounts aiming to evaluate performance or efficiency based on ‘free market’ assumptions may have applied their models unrealistically. The free market is based on a set of institutional foundations. As Jin, Qian and Weingast pointed out, ‘democracy, separation of powers, and the rule of law are among the important institutions that allow citizens to hold the government accountable for its economic actions and to secure markets from the arbitrary state intrusion’ (Jin et al., 2005, p.2). Yet China’s transition is taking place while ‘lacking democracy, the rule of law, and other traditional constitutional constraints on the national government’ (Jin et al., 2005, p.4). Prescriptive or instrumental accounts see the change as mainly occurring in a top-down manner. They tend to see matters from the regulators’ perspective and provide them with policy advice. Other studies attempt to explain the market through empirical work related to people (individuals and groups), rather than numbers and causality. The ‘people account’ is close to the approach taken by this research, although the scale and depth of observation has not been adequate and has not fully grasped the essence. In this chapter, the review will
continue but will focus on the literature that is closely related to China’s futures market. The first section will review the numbers account that follows positivistic tenets, the second section will review the prescriptive account that diagnoses problems and provides solutions, and the third section will review the people account that uses anthropological methods. These accounts offer a variety of useful perspectives for understanding China’s futures market. They assist with the preliminary understanding of this research and provide the background for the emergence of a novel, alternative account in later chapters of this thesis.

4.2 Number account

The account based on statistical analyses will be called the numbers account in this section. Studies belonging to this account tend to evaluate the market using normative methods and taking a positivistic stance. The market is growing so fast that there is much research interest in its performance and efficiency, as well as with its correlation with other world markets.

Chinese scholars are well aware of the theoretical trends of the Western academic world. They often introduce, appraise, criticise or adopt Western ideas. Ouyang (2005) attempted to develop an analytic framework based on new institutional economics (NIE). He criticised Pareto efficiency and its followers and promoted North and Eggertsson’s (1996) broader definition regarding efficiency. He therefore proposed an analytic framework to evaluate market efficiency and operational efficiency of the futures market (Ouyang, 2005). Zhao and Xiao also suggested evaluating China’s futures market from the NIE angle (Zhao and Xiao, 2005). They appraised the work of North, Coase and Hodgson. They identified the institutional deficiencies of the market and proposed a stronger role of the state in order to prepare an institutional foundation for a more efficient market.
Using normative methods to evaluate the market does not help to explain its institutional change, although it does still provide knowledge about the market’s current status and operation. Shyy and Butcher’s work might be the earliest paper written in English applying equations and causation to the market (Shyy and Butcher, 1994). Their tests suggested that ‘short-term non-arbitrage conditions and long-term international price equilibrium prevail in the Shanghai Metal Exchange’ and ‘there exists unidirectional causality leading from the international spot market to the domestic spot market’ (Shyy and Butcher, 1994, p.888). However, they admitted that there were obstacles to the operation of a completely free market mechanism, such as foreign exchange and import/export control. Wang and Ke also tested the efficiency of wheat and soy bean futures and discovered that the futures market for soy beans is more efficient than that of wheat, as wheat is more heavily controlled by the state (Wang and Ke, 2003). The futures market was tested against the spot market. If a long-term relationship of equilibrium between the futures market and the spot price could be established, then it was efficient. In their discussion, they suggested that inefficiency was caused by over-speculation, government intervention and geographic proximities between the production area and the futures market (Wang and Ke, 2003). In 2004, Chan, Fung and Leung studied the volatility behaviour of four futures contracts: copper, mungbeans, soy beans and wheat (Chan et al., 2004). Their test suggested that China’s futures market showed global patterns of volatility relationships and they conjectured that this was ‘attributable to the results of ongoing government attempts to achieve transparency and better disclosure’ (Chan et al., 2004, p.491). The variables that they identified are as follows:

- Returns, which have an asymmetric effect on volatility;
- Volume, which is positively related to volatility;
- Open interest, which is negatively related to volatility;
- The extent of large-volume traders’ participation, which is also positively related to volatility.
In 2010, Fung, Liu and Tse (2010) compared the efficiency of the NYSE and SHFE in terms of aluminium and copper futures. They contended that ‘the US and Shanghai futures prices are closely related and both markets are comparably efficient on a daily basis and the US market does not appear to be more efficient than the Chinese market in incorporating information into prices’ (Fung et al., 2010, p.2). These studies did not really uncover what is happening in the market. They generated results and conclusions from data analyses. Nevertheless, their analyses give snapshots of the market, and if one lines up the results in chronological order, it shows a pattern that indicates that the market is becoming more transparent and efficient.

Practitioner-scholars who are committed to the normative account are more eclectic. They usually supplement the failings of the numbers account with other perspectives. Among all the authors, Dang Jian’s work has its own appeal. It is a relatively complete appraisal of the entire Chinese futures industry from three perspectives: historical, comparative and analytical (Dang, 2004). His work is being reviewed in this section because, in the major part of his book, he applied most of the popular economic analytical models to the market. As a senior practitioner and a researcher who studied at CASS, his viewpoint is more eclectic and he proposed more socioeconomic studies for the future. He reviewed the history of the global futures industry and the specifics applicable to China. He used the equilibrium, the risk and scale correlation, VAR and Granger models to evaluate efficiency, as well as developing his own efficiency curve model. He concluded that China’s futures market was weakly efficient and taking time to gather liquidity, which would aid the efficiency and transparency of the market when it reached a similar level to that of the Western market. He then provided a thorough analysis of all major stakeholders of the market, including regulators, investors, intermediaries and brokerage companies. Dang’s work is a relatively complete picture of the market, while being majorly, but not only, committed to a normative account.
As a scholar and one of the founders of China’s futures market, Li Jingmou\textsuperscript{52} also contributed majorly to this account. He is identified with the study of agricultural futures. His work focused on the function mechanism, efficiency and price movement of agricultural futures (Li and Tong, 1997). He also took historical and political perspectives into account, in order to reflect on the government’s role in market intervention, which can be considered to be the next category, prescriptive account (Li and Yang, 2008). Zhu Yuchen\textsuperscript{53} is another prestigious scholar in China’s futures industry. He began studying futures and the wholesale market as solutions for China’s grain reform in the early 1980s. He published books about China’s grain futures effectiveness and industry development. He emphasised the need for the proper functioning of the futures market in order to solve the systemic problems of China’s agricultural industry (Gao and Zhu, 2005). Meanwhile, he evaluated the progress of grain market reform and the deficiency of the system and then advocated continuous development of the futures market as a solution to the problems. He proposed easing market controls and reducing the role of the government (Ding and Zhu, 1999; Zhu and Ding, 2001; Ding and Zhu, 2003).

Hodgson recently analysed the rise and fall of quotations regarding Keynes and Knight’s (1921) criticism of modelling applications in recent mainstream journals (Hodgson, 2011). He argued that, since the 1950s, mainstream journals have referred with decreasing frequency to the limitations of the modelling application, while amplifying the usage of multiples and other certainty concepts, which led to the trend for quantifying even immeasurable indicators in economic analysis. The limitation of modelling for analysing China’s phenomena is that it only solves the curiosity of how far across the river, but not tells the story regarding how they cross and where they are heading.

\textsuperscript{52} Li Jingmou is the founder and former president of Zhengzhou Commodity Exchange, researcher at CASS, professor at Renmin University of China, former official of Henan Province and consultant for the State Administration of Grain.

\textsuperscript{53} Zhu Yuchen is the general manager and party secretary of CFFEX, former president of DCE, professor at the Chinese Agricultural University and former official of the Ministry of Commerce.
4.3 Prescriptive account

China’s futures market has experienced a difficult time that was fraught with over-speculation and manipulation. Hence, another major account was developed to diagnose problems and provide prescriptions. In fact, the path of development seems to be similar to other derivatives markets in their early stages a hundred years ago (Hu and Sun, 2009). As China’s market is more recent, the events are still fresh in the minds of people. In recent decades, China has begun to catch up with modernisation, which has been in existence in Western countries since the Industrial Revolution. Thus, the pace of growth is fast and the process is relatively condensed. For example, the period of rampant speculation in the US futures market and the government’s fight against it lasted for more than a hundred years during the 19th and 20th centuries (Markham, 1987). With Western experience of success and Chinese anxious of learning, some research has focused on giving advice on how the market should be. It is seen as what China, and especially the regulators, needed.

Some outstanding academics in China have long been interested in studying and participating in the futures market. Some of them have multiple identities as founders, advocates, regulators or practitioners, for example, Chang Qing,54 Li Jingmou, Zhu Yuchen, Guo Xiaoli and Dang Jian (Li and Tong, 1997; Li and Zhang, 1999; Chang, 2001; Dang, 2004; Gao and Zhu, 2005; Guo, 2010). Li (1997), Zhu (2005) and Dang’s (2004) work was reviewed in the previous section. As practitioner-scholars, they are positivistic and prescriptive. Their work shows that they are willing to advocate the policy advices that they consider useful for improving the market. Chang Qing (2001) and Guo Xiaoli (2010) do not accept the numbers account. In fact, Chang Qing provides an effective critique of it. In his book, he suggested a proper understanding of the Chinese characteristics of the market and pointed out the

54 Chang Qing is the former team leader of the futures research team under the State Council, a professor at the futures research centre of China’s Agricultural University and the founder and director of a long-standing futures company, which was converted from a metal exchange during the first crackdown.
theoretical and methodological fallacies in existing research. As one of the co-leaders of the futures research team under the State Council in the 1980s, his understanding about China’s futures market is unique. He pointed out that the ideology of government officials was the major impediment of continuous development (Chang, 1992). In his newer work, he is deeply concerned about the status of brokerage companies in this industry and promoted the idea that the foundation of a fairer market is a profitable brokerage industry (Chang, 2005; An and Chang, 2011). Guo Xiaoli has a special interest in international comparative studies. This may be linked to his early career experience as futures broker and trader in Japan for four years. Guo’s research compared China’s futures market with that of the Japanese, European and American. His research focused on practical issues. He studied the reasons for the decline of the Japanese market and concluded that it was due to the loss of comparative advantages, over-regulation and a mismatch between technological development and institutional structure (Guo and Liu, 2010). He evaluated the survival of new trading varieties in the global market and explored the criteria for approving new trading varieties (Guo and Ma, 2011). He analysed the events in China’s futures history and shared precious insights about how an exchange could tackle speculative capital (Guo, 2010). Through comparison with other major futures markets and combining theories and practices, Guo explored the general rules of futures practices and provided valid policy advice (Guo and Zhu, 2003; Guo, 2010).

Publications presenting China’s financial market do not always consider the futures market as being a major aspect, although some have provided valid information. Chen, Dietrich and Fang have given a thorough sociological analysis of China’s financial market reform, expressing major concerns about the banking system and the stock market (Chen et al., 2000). Regarding futures, Treasury bond 327 was discussed because of its significance in the bond market. Another aspect is the section regarding transparency, where the role of traders and brokers as financial intermediaries is discussed (Chen et al., 2000). Neftci and Menager-Xu’s book about China’s financial market dedicated a section to China’s futures market. As the purpose of this book was
to provide a manual for professionals and researchers, it remained descriptive in terms of practice and the problems thereof. However, the suggestions they gave for future development seem to be over-simplified: convert the ownership of futures exchanges and open the market. Following their analysis, they considered that futures exchanges were ‘bureau-operated institutions’ and should be transformed to membership or market-oriented institutions (Neftci and Menager-Xu, 2007). It is interesting to note that the transformations they suggested had already occurred in 1999, eight years previously.

Some authors are dedicated to the study of the structure of the market. They have slightly wider views, as their opinions are up to date with the global trend of market development. Hu Yuyue (Hu and Sun, 2009), Xu Yi (2007) and Wei Yingguo (2006) have raised the question about the possibility of central clearing for the futures market, in light of the recommendations from the international organisations IOSCO and BIS, aiming to improve risk management and market efficiency (BIS and IOSCO, 2004). These authors approach the topic from the regulator’s perspective, which focuses on how the market should be, while not explaining why the change has not followed the prescription after decades of advocacy. Prescriptive research and international organisational recommendations constitute part of the force for change, which cannot be ignored as it may change the perceptions of the regulators in the long run (Hu and Sun, 2009).

Co-edited by Zhu Min, Cai Jinqing and Martha Avery, *China's emerging financial markets: challenges and global impact* is a vital book about China’s financial market (2011). It contains the contributions of thirty-six authors, including many official scholars. Chapters in this book mainly adopt the historical and sociological perspectives. They look back and abroad to understand the challenges and their impact. Similar to other books that discuss China’s financial market, it gives little weight to the futures market, with only one chapter written by Zhu Yuchen addressing financial futures (Zhu et al., 2011).
The reasons for under-weighting can only be speculated upon. The authors might believe China’s futures market has little impact or faces few challenges, or it might because of the status of the derivatives market. After all, it does not provide capital or financing, but is an instrument for allocating resources and managing risks. The function of managing risk has often been associated with over-speculation. When it comes to monographs about the financial market, banking and the stock market will always be given priority. As a result, China’s futures market remains under-researched.

4.4 People account

This account concerns the people related to the market and will be called the ‘people account’ in this section. Research in this category usually focuses on the lower level, the grassroots, and utilises anthropological methods, e.g. archives, interviewing, observation and participant observation. It provides description and interpretation of events, history or stories. Of all the significant events, Treasury bond 327 is the one most frequently discussed. It appears in the work of Yao (1998), Siu (2010), Chang (2007), Chen, Dietrich and Fang (2000), Neftci and Menager-Xu (2007) and the regulators’ reviews (CSRC and CFA, 2004). Summarising from these authors, the storyline seems to be clear: the three-year Treasury bonds issued by the Ministry of Finance in 1992 were to mature in June 1995. Its futures contract, No. 327, was traded on the Shanghai Securities Exchange (SSE). Shanghai International Securities Co. Ltd. (SISCO), China’s largest brokerage company at that time, was holding the short position. The China Economic Development Trust and Investment Co. (CETDI) was holding the long position. The Liaoning Guofa Co. Group Ltd. (LGF) was in alliance with SISCO holding the short position but changed to long during the battle to avoid huge loss. The price kept rising and SISCO’s loss built up quickly. Before 1995, China’s inflation had been double-digit for seven continuous years. However, in 1995,
the indicators showed that inflation was stabilised. The Treasury bond was sold at an interest rate 9.5% in 1992. In 1993, the three-year bank fixed deposit rate was increased to 12.24%. In 1994, the Ministry of Finance published a circular confirming that the Treasury bond could enjoy the same interest rate as bank fixed deposit. The market was gambling on the Ministry of Finance subsidising no. 327 with extra payments. On 23 February 1995, a rumour spread saying that the Ministry of Finance would pay the subsidy and increase the value of No. 327 to RMB148.5. The price jumped upwards and LGF broke its alliance with SISCO to join the long position. The price was driven up to RMB151.3, resulting in a RMB1.6 billion loss for SISCO. In the last eight minutes before closing, SISCO poured more than 10 million short orders to the market, worth RMB211.2 billion value of no. 327 (Note that, only RMB24 billion worth of no. 327 was issued) . This drove the price down to RMB147.5, resulting in a profit of RMB4.3 billion for SISCO. That evening, the SSE announced that the last eight minutes of trading were not valid and the trading closed at RMB151.3. In the end, Guan Jinsheng, the general manager of SISCO and controller of trading on 23 February was jailed for 17 years for accusations irrelevant to no. 327 issue.

This was a spectacular event in China’s futures history. It had a huge impact on the institutional arrangement, as well as on the central government’s confidence in further encouraging financial innovation in futures. Most of the research into the human perspective would stop here: Treasury bond 327 event had proved that China was not ready for the financial futures market. However, the rationale of the irrationality was not investigated. Were they not aware of the consequence of their actions? Or, was it because of something they believed? Obviously, they were outstanding individuals as they were the senior managers of the largest financial institutions in China. In order to understand what has led to the irrational decisions, more information is required.\textsuperscript{55} Guan, the general manager of SISCO, was among the first generation of overseas-

\textsuperscript{55} The supplementary information was acquired through interviews during this research. One of the interviewees in fieldwork phase II was the trader for SISCO at that time and traded during the 327 event.
educated financial talents who returned to work in China. His experience of working in Wall Street, a relatively mature market, led him to believe in the invisible hand (Li, 2004). He, and many other overseas-returned practitioners at the time, did not believe that the Ministry of Finance would pay extra on Treasury bonds issued three years previously. The purpose of the subsidy was to protect the investors from inflation, which had just been stabilised. SISCO’s rival, CEDTI, was partially owned by the Ministry of Finance. It seemed there was a serious conflict of interests. On that notorious day, when the price was surging, Guan asked to meet with Wei Wenyuan, the founder and general manager of the SSE. Guan intended to ask Wei to arrange a negotiation regarding the settlement price between SISCO, the largest short-position holder, and CEDTI, the largest long-position holder. Wei, who was also market-oriented, refused to make the arrangement. Guan was disappointed and decided to play according to the market rules. The reason Guan was not jailed for what he did on that day is that he did not play beyond the rules. He did exceed open positions, as did his rivals. He did not have sufficient funds to cover his open position, but at that time the SSE allowed institutions to open positions beyond the deposit margin as long as they pay back the funds the next trading day. SISCO could easily have paid back, as it would have gained RMB4.3 billion if the contract was settled at the price they achieved, 147.5. If the SSE had not written off the trades made during the last eight minutes, SISCO would have been the only winner in the market. Many financial institutions that held long positions would have gone bankrupt. It could be that it was easier for the SSE or whoever was behind the decision to tackle the aftermath if only one institution needed to be restructured instead of many.

The authors who recounted this story did not attempt to discover the rationale for Guan’s behaviour. What he did in that situation at that time was completely reasonable. Siu also conducted ethnographic research and quoted one of her

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56 The action Guan requested was called a ‘negotiated settlement’, which was not uncommon in China’s futures market in the 1990s. It is similar to restructuring debt when the creditor gives up part of the debt in order to allow the debtor to remain solvent and try to pay the debt back. In the case of futures, the winning position holder would give up some profit instead of forcing the loser into insolvency. The contract would be settled at the price agreed between the long and short position through negotiation, not the one reached during trading.
interviewees’ appraisals of Guan: ‘he is the most perfect man’. She, however, interpreted this as being because ‘the futures people look up upon faction leaders as heroic figures’ (Siu, 2010). She did not further explain why futures people would look up to them in this way. This only leaves readers puzzled as to why futures people appear to be fond of criminals.

English business and financial media do not help to solve this puzzle either. For example, in 1999, the futures exchanges were consolidated and were all converted into mutual organisations and state owners were ordered to liquidate their equity in any futures exchanges (SC, 1998). From that point on, the brokerage companies own the futures exchanges as their members. However, in 2010, *The Financial Times* (FT) was still quoting a staff member of an exchange who said the exchanges were “state-owned institutions” (Hook, 2010). Have that staff member been interviewed by FT before 1999, or have they no idea for what kind of organisation they were working?

Williams *et al.* researched the emergence of a futures market using the mungbeans in ZCE in 1990s as a case (Williams *et al.*, 1998). It adopted multiple methods, including archival data, interviewing and observation. It provided counter argument to the accepted account that the emergence of a futures market had to go through a long evolutionary progression. They pointed out that what happened in ZCE in terms of mungbeans proved the importance of leadership intervention that could speed up the emergence of institution (Williams *et al.*, 1998). This research was conducted before the reform of futures exchanges. Hence, the leaders of futures exchanges were basically officials and the operation of futures exchange was under the leadership provincial or ministerial government. In today’s context, the lens of focus would be very similar to this research.

Chang Yuan (2007; 2009) has written about the history of China’s futures market. The time span he covered includes the late Qing Dynasty, the Chinese Republic and the pre-reform era of the People’s Republic of China. It is revealing to see that China
had gold futures in the early 20th century. These were literally foreign exchange futures as, in the 1910s to 1930s, China was using the silver standard while the rest of the world was using the gold standard, and the gold futures traded in Shanghai were priced against silver. Chang is specialised in party history research. His story-telling about futures is based on archival materials. Futures Daily, as the only newspaper in China dedicated to futures, published a series of stories about the ten significant risk events in futures history written by practitioners including Dang Jian (2004). They provided valuable base for an in-depth investigation.

4.5 Conclusion

The numbers account provides a snapshot of China’s futures market. It helps to evaluate the progress of the market. From reading the calculations and indicators, people can learn the performance of the market. However, they do not provide much information about how the improved efficiency has been achieved. The prescriptive account is usually focused on addressing problems and providing solutions. Some of them have adopted historical and comparative perspectives in order to analyse the current problems of the market. They aim to find a method of making the market perform the way they believe it should. The people account focuses on story-telling and those who made the stories. This people account has provided valuable analyses, whereas the existing ethnographic work seems lacking of depth. Further, more critical thinking is needed during fieldwork in order to see the complete picture. Therefore, this part of the review has found anthropological methods to provide better understanding about the development of the market. The next chapter will present a full discussion of the methodology and design of the research. Following this are chapters discussing the findings of the empirical work.

Chapter 5 Methodology

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The scoping research outlined in the previous chapters highlighted an under-explored sub-sector within China’s futures market, the regional exchanges. It is under-explored in two ways. First, in the context of the media reports on this sub-sector within China, although their presence is acknowledged, they are presented in a stereotyped way as clandestine, rogue exchanges, separate from the central state apparatus, where criminal activity is rife and where there is need for more regulation. Second, in terms of the academic literature, regional exchanges are rarely - if ever - recognised or discussed. Regional exchanges, therefore, were something of an unknown. Hence the methodology employed to explore and understand these exchanges better required a certain practicality & flexibility because the object of the research was ‘discovery’.

This process of discovery began with some basic interviews with industry veterans. As the questions were about institutional change instead of trading strategy, only people who were in senior positions with long term experience could help. The elite interviewing revealed a greater role for regional exchanges in shaping the institutions of the sector and led to an opening up of this hidden, under-explored part of the Chinese futures market. However, even elite interviewing could not or would not help obtain sufficient information about this vibrant but socially silenced part of the sector (Tett, 2009). As Tett’s bestselling book has proved the most effective way to crack the ‘insidious social silence’ is to tell the inside story. Therefore, the methodology moved from unstructured interviews towards a more particular form of anthropology: participant observation, to know the object with the researcher’s own experience (Lave and Kvale, 1995).

The methodology of this research therefore evolved during the research process as the subject emerged. The fieldwork evolved over three phases and as the subject became more visible and tractable, so it outlined new lines of research and reflection through
the literature review. This was, therefore, a reflexive, iterative process which elaborated and enriched each other, increasing the understanding of the subject. The process of inquiry was very similar to that described by DeVault and McCoy (2001, p.21): ‘grabbing a ball of string, finding a thread, and then pulling it out’.

In this chapter, the methodology of this research will be outlined and explained. There will be four sections: the research motive, methodology, data collection and analysis, and reflection. The first section will discuss how the researcher was motivated to conduct research on China’s social change and why the researcher began with the futures market. The second section will review the existing research from a methodological perspective and define the methodology of this research. This section will answer questions such as: Is the research meaningful and does it provide a useful contribution? Why choose alternative instead of orthodox accounts? Why observe a regional exchange instead of a national one? Once the methodology has been explained, the process of data collection and analysis will be reviewed. There are specific and technical questions to be discussed in this section: Why interview the elite instead of surveying the mass investors? Why use snowballing instead of random sampling? Why reconstruct the data while transcribing instead of leaving it verbatim? Is there too much subjectivity involved? How have the field notes been constructed and used? Finally, the fourth section will constitute a reflection on the entire process and argue that because of the improvisation and resourcefulness involved in both processes – the research itself and the object it investigated – it is a double bricolage. This chapter will review each step of the process, from the initial impulse to the conclusion, in an attempt to justify every strategic and tactical choice. The purpose of this chapter is to reflect on the academic rigor and quality of this research.

5.2 The research motive
Conventionally, the Western and domestic mainstream media portray China according to one of two stereotypical images; mysterious or glorious. They do not seem to converge. Intellectuals from contrasting ideologies have individual ways of interpreting their own world and that of others. Western liberals interpret the Chinese system as closed, secretive, run by a small elite clique, with change coming from the top down. They call the CCP’s indirect election ‘the conclave’ (Anderlini, 2013) and the partisan direct election in their own countries ‘democracy’, although they have come to realise that the general election can be consuming and game-playing in the current era (Caplan, 2007). Chinese communists would then call Western societies ‘extreme liberalism’ or ‘absolute individualism’, and themselves ‘the vanguard both of the Chinese working class and of the Chinese people and the Chinese nation’ (CPC, 2012, p.1). Within these two polarised views, there is a huge gap, rife with misunderstandings. This arouses research interest in exploring this gap and finding a way to open the black box of China’s institutions and the process of institutional change. Among all the options for a starting point, China’s futures market seemed more interesting than others.

Futures markets are interesting because they are often associated with capitalist markets, speculation, individualism and other characteristics normally associated with the West. Yet they do exist in China, and have indeed grown rapidly. Explanations for this development and of the institutional change, which allowed for it, are not fully accounted for in any academic work on China. The research question that interested me was how something practitioners had a role in influencing and in some cases shaping directly, the institutions of the sector.

Additionally, futures markets are also interesting because they have a reputation for negative over-speculation and risk events. Indeed in the rare occasions where China’s futures markets are discussed in the sociological and institutionalist academic

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57 The regulator and authorities generally refer to corner events, price manipulation or other regulatory violation events as ‘risk events’.
literature, scandals and crises, like that of the notorious Treasury bond 327, are always highlighted. This emphasis on dysfunction, destructive speculation and even criminal activity ignores the processes of change and institutional development within the sector which might actually make it function. All futures markets, whether in the West or in China have a history of scandal - what this preoccupation with scandal in China does is that it ignores the institutional responses to such outbreaks which help remedy some of these excesses. The focus on scandal has therefore prevented people from seeking a proper understanding of the market and the institutions that support it (Gao, 2009).

If the sociological and institutionalist literature misses much, the orthodox finance and economics literature are preoccupied with evaluating ‘price discovery’ and ‘hedging’ as a major function of the futures markets in general. These literatures are not really helpful for understanding the way in which markets are constructed and the social interactions that build institutions (An and Chang, 2011). This instrumentalist preoccupation with the efficiency of markets also ignores the many complex ways in which practitioners see the market, calculate and behave in a market setting. My internship in a futures brokerage company in Shanghai as part of my MBA gave me the impression that it was the phenomenon most misunderstood by outsiders and least explained by insiders. There were obvious gaps and conflicts between the insider and outsider views of what a market is and how it works, which required a researcher to investigate them, decode them and then recode them for the outside world (Van Maanen, 2011).

5.3 Methodology

The term methodology is often used loosely in social science. Different meanings are applied and the term is sometimes used interchangeably with method, approach and strategy (Carter and Little, 2007). Various categorisations of methodology have been
proposed by different authors. Creswell (2007) proposed five approaches, namely narrative research, phenomenology, grounded theory, ethnography and the case study. Denzin and Lincoln (2005) summarised the inquiry strategies as mixed methods, grounded theory, ethnography, phenomenology and the life story. These can also be combined or mixed. However, from the epistemological perspective, the meanings of methodology and method are distinct. As Sayer (1992) suggested, the theory and the practice, or the abstraction and the concrete, are two interdependent domains of social research, the passages in between are the methods, and the reflection about the methods is methodology (Sayer, 1992). The research process is the exercise of conceptualising and generalising, moving from the abstract to the concrete and vice versa. Methods are the general techniques from among which researchers can choose in order to conduct the exercises and methodology is the philosophical and practical justification of them. Kaplan’s (1998) discussion about method and methodology is a practical guide for researchers. As he puts it:

‘Methods include such procedures as forming concepts and hypotheses, making observations and measurements, performing experiments, building models and theories, providing explanations, and making predictions. … The aim of methodology, then, is to describe and analyse these methods, throwing light on their limitations and resources, clarifying their presuppositions and consequences, relating their potentialities to the twilight zone at the frontiers of knowledge. … In sum, the aim of methodology is to help us to understand, in the broadest possible terms, not the products of scientific inquiry but the process itself.’ (Kaplan, 1998, p.23)

Going to the field may not be the only strategy for obtaining data, although Van Maanen argued that ‘fieldwork is one answer - some say the best - to the question of how the understanding of others, close or distant, is achieved’ (2011, p.2). Given the nature of this research subject, fieldwork was the most practical and useful strategy to obtain data because there were practically no good secondary sources about regional exchanges. Through fieldwork, the researcher engages in physical and mental
exercises, travels between the worlds of theory and practice, and learns from both. Fieldwork enables researchers to form new and meaningful concepts. As the study progresses, the researcher finds need to reflect on the emerging themes and the way in which they were obtained.

Existing theories provide the preliminary framework for the researcher to understand the field; while there is always the possibility that understanding from the field may change the preliminary theoretical framework. Addressing the gap in existing literature sounds mundane, in fact finding the gap is a journey that involves the assimilation the knowledge from an extensive literature review and substantial fieldwork, and the reflection which puts them in contrast. This is where new concepts or hypotheses are formed. As Van Maanen (2011, p.4) claimed, the outcome of fieldwork will be ‘a written report of the fieldwork experience in self-consciously selected words’ in which the researchers ‘decode one culture while recoding it for another one’. The written report documents the intellectual contemplation of the fieldwork journey. It goes further than just decoding and recoding between two cultures. Conceptualising involves structural analysis, which should abstract and lift the fieldwork experience to a higher level and result in new concepts or novel accounts that aid our cognition of the phenomenon (Lévi-Strauss, 1974; Douglas, 1987).

5.3.1 Thinking and acting methodologically

Thinking and acting methodologically, deconstructing the paradigmatic influence, helps address the gap in existing knowledge (Gold, Thomas et al., 2002). However thinking and acting methodologically can also introduce moments of discomfort when worldviews clash. It also frames reality in different ways, and requires reflexivity and improvisation when trying to investigate the unknown.
With regard to worldviews, positivistic paradigm has strongest influence in China. It is the mainstream and orthodox, and it has led some academics to believe that serious academic research has to be positivistic as, otherwise, it will be completely subjective. Positivism is viewed as appropriately scholastic and rigorous, and because many practitioners in China have a dual scholar identity - scholar-official, scholar-practitioner, or scholar-consultant for example - positivism dominates. This posed some initial problems.

The first lesson I learned from the fieldwork is that the influence of the positivistic paradigm in some cases could bring about a clash of worldviews between the researcher and the interviewee. I collected positive feedback from most interviewees, who agreed that obtaining and retelling stories could help with understanding and were therefore delighted to share their experiences and stories with me. However, there also were interviewees who completely disagreed with the methodology and refused to continue with the interview after the research purpose and methodology were explained to them. The following is compiled from the fieldwork notes.\footnote{This was during fieldwork phase I, the first round of elite interviews.}

This interviewee is a chief economist. I introduced the research to him, the background, question, purpose and the methods, as usual. Then he asked a question, instead of being asked. He started with “Why don’t you do positivistic research?” I was a bit surprised to hear such a philosophical question from an interviewee, but immediately realised that he must be familiar with philosophy as he was also a professor at a Shanghai-based university, supervising PhD students in Finance. I started to explain my standpoint. Then he asked the second question: “Do you think you are Stiglitz and people will believe whatever you say without evidence?” I felt I was in an awkward situation, but still struggled to explain my understanding of China’s phenomenon and why I chose to study people instead of numbers. The third utterance he made was: “I cannot help you. I know you want to listen to stories, I’ll
recommend you to a person from whom you can hear a lot.” Before I knew it, I found myself outside his office with a contact note in my hand.

This interviewee is a chief consultant. He talked to me for about 30 minutes. He doubted the way I had chosen my elite interviewees, as he felt that snowballing would lead to an ex parte view. He suggested that I should try to expand the connection by knocking on the doors of relevant people. I tried to explain that the insights I intended to obtain could only be given when there was a certain degree of mutual trust and that cold calls would only work for less-sensitive data collection. We failed to build a rapport because of this disagreement. In the end, I could not consider the interview with him to be valid because he did not share any stories.

This experience caused me to reflect more deeply on the role of methodology in field research. The contrasting worldviews of the researcher and the interviewee in this situation highlighted very different assumptions, expectations, ways of thinking and doing. In many ways, methodology distinguishes people from each other. There are those who sit in front of a computer streaming and processing data and those who observe, participate and interact with the process. Consequently, they are not looking at the same reality. Those different methods illuminate and frame different aspects of social reality for their researchers.

Through methodological reflection it is possible for the researcher to see how different methods are appropriate in some situations and not in others. The contribution of regional exchanges to the institutional and regulatory change of the entire market, for example, has been ignored and misunderstood largely because of the methods of investigation employed. To the lay observer, rules, regulations, institutional change have been enacted by the central government through a series of legislative actions. It is easy to seen, therefore why the majority of studies would perceive the market as being constructed solely by central government. Similarly
exchanges without the authorisation of the ministerial regulator were considered to be ‘rogue exchanges’ where numerical data has been kept secretive.\textsuperscript{59}

Thinking and acting methodologically, the challenge for me was to consider how to investigate institutional change in a relatively under-explored area. It would be extremely difficult to do this through numbers or statistical causation when large sections of the market had little or no data, and the mode of normal enquiry did not really help explain the process of market formation. In this sense thinking and acting methodologically shaped the trajectory of the investigation, even in circumstances where outcomes were unexpected.

In this study, the significance of the regional exchanges only emerged because of the particular methodology I used. The importance of the regional exchanges appeared unexpectedly to me during a second phase of interviews with practitioners and regulators. Unstructured, open questions allowed the interviewees to express their real concerns and opinions. During one interview with a regulator, I was asked by the interviewee how I would define the futures market for the sake of clarity, in order to differentiate it from the spot market. At the time the regulator was revising the 2007 futures market regulations. They were particularly concerned with Article 89 concerning \textit{futures trading in a disguised form}.\textsuperscript{60} Regional exchanges had circumvented this Article (outlined in detail in Chapter 6) and thereby gained a share of the overall market deemed too great by the regulator. It was from this discussion that I first learned about how significant the challenges of the regional exchange were

\textsuperscript{59} See the report from \textit{The Financial Times}, ‘China cracks down on rogue exchanges’ at http://www.ft.com/intl/cms/s/0/6bf7afb8-1690-11e1-bc1d-00144feabdc0.html#axzz2AllKL6yX

\textsuperscript{60} Article 89 of the 2007 edition regulation: Any institution or market that carries out centralized trading according to standard contracts that takes the following trading mechanism at the same time or bears the feature of either of the following trading mechanism without approval of the futures regulatory institution of the State Council shall be regarded as performing \textit{futures trading in a disguised form}: (1) It provides all buyers and sellers that participate in the centralized trading with a guarantee to perform the contracts; or (2) It adopts the mark-to-market system and margin system, and collects a sum of margin that accounts for less than 20 per cent of the amount of the subject matter of each contract at the same time. Any institution or market that adopts the trading mechanisms referred to in the preceding paragraph or bears the features of either of the trading mechanisms referred to in the preceding paragraph before the implementation of the present Regulation shall make a rectification within the time limit as provided for by the commerce competent authority of the State Council. Reference: SC, The State Council, 2007, \textit{Decree No. 489, Regulation on Administration of Futures Trading} (期货交易管理条例), China.
to the regulator, and how this concern was actually shaping the regulatory and institutional structures of the industry.

The existence of exchanges without central regulator’s authorisation is evident in every edition of the futures regulatory measures and the major crackdowns undertaken by the State Council. The central regulator’s effort to rule them out, on the other hand, demonstrated that their activities have an essential impact on the structure, thereby driving the regulatory changes. Given my methodological position, this encouraged a reflexive response and I began to look back through the academic literature on regional exchanges. It was only then that I discovered that there was so little academic research on this particular area within China’s futures market – it was virtually a hidden part of the structure.

Very little, if any, formal central government data exists on the regional exchanges – and so desk-based data research has meant the operation of regional exchanges is little known to outsiders. Similarly regional governments and regional exchanges prefer to keep their proprietorial information from the public to avoid drawing attention to the activity and its scale. They prefer to grow quietly, because they do not wish to become a major public concern which might then become a target for action by the central regulator. Such fears are not without substance - following public concern the central government has in the past reactively closed down or consolidated exchanges which did not meet specific selection criteria.

The central government’s desire to protect the monopolist position of the centrally regulated exchanges against the growth of the regional exchanges has limited the visibility of this clandestine sub-sector and shaped public perception of its behaviour. For this reason, the methodological approach of this research project has been unorthodox and developed iteratively. Views gleaned from in-depth unstructured interviews suggested the existence of a more complex picture from the marginalised regional exchanges and the closed exchanges such as Hainan Zhongshang Futures
Exchange, Tianjin United Commodity Exchange and Beijing Commodity Exchange. They too have stories to tell, and part of the answers to how and why lies within them. When the research is trying to understand a process whereby some exchanges are ‘blessed’ and others are not, the understanding about the criteria for selection becomes essential. In order to understand the implicit criteria used to make such distinctions, it is also helpful to look at the part that has been unselected instead of just the winners’ stories.

Research with this sentiment that has adopted this kind of thinking has successfully revealed hidden facts. For example, the fact that China has a high male-to-female ratio of 119.9 at birth could not be directly linked to prenatal, sex-selective abortion until the data regarding the aborted foetuses were revealed in 1990s, showing that more than 85 per cent were female (Qi and Mason, 2005). The official data frames understandings, whereas this framing also obscures much that goes on beneath. Observing the marginalised sub-sector is illuminating those hidden aspects. In this case of futures markets, the central government gains and regains control of the market through selection, where certain exchanges are ‘trimmed’ or marginalised. An exploration of this marginalised sub-sector - and the subsequent state response to their activities - might aid understanding of how the overall institutional structure of the market is shaped.

Investigating an area where there is very little formal academic analysis or government data necessitates the deep involvement of the researcher in the field. In fact, being a member of that society, submerging oneself in the everyday workings of it, is the best way to obtain a proper understanding of it. Participant observation, as Jorgensen argued, is suitable when it is difficult to obtain an insider view through other approaches and the participants hold conflicting views to those of outsiders (Jorgensen, 1989). For that reason, thinking and acting methodologically, my fieldwork plan changed from one of unstructured interviews to one of participant observation.
5.3.2 Defining the methodology of this research

Looking back at the evolution of my research plan, my research methods changed through a process of *bricolage*, where I improvised when opportunities for enhancing the research emerged, in a context where the object itself was not apparent from the beginning. It was bricolage because it shared the characteristics of ‘*creating the structure by means of events*’ (Lévi-Strauss, 1966). The researcher, in this case, had a repertoire of theories, research skills and techniques, as well as the methods for obtaining these, and then utilised them resourcefully to interpret emergent themes and make them intelligible. Hence, when the significance of regional exchanges emerged from elite interviewing, I then went further to obtain a richer understanding of those exchanges through participant observation. Responding reflexively to information and opportunities, I searched for the most effective methods, and hence the defining of methodology went through a series of iterations drawing on different paradigms, before finally anchoring in institutional ethnography.

As previously discussed, using quantitative methods are inappropriate in this case – they cannot answer the research question of how and why institutions develop in this market. Quantitative methods may be able to provide measures of whether the market, or the variety, is efficient, inefficient or weakly efficient; whether it formulates equilibrium or does not; whether it is either correlated to the US market or it is not. But it cannot explain the interaction of social actors which bring about market formation and governance. Indeed quantitative methods may create a frame which obscures key elements of the story when the numerical data is not sufficient.

Contrastingly, academics from a sociological or institutionalist perspective tend to categorise national systems and evaluate their economic performance with reference to well-established institutional complementarities (Whitley, 1999; Hall and Soskice,
2001; Amable, 2003). Often, the description of these institutions are highly stylised and border on caricature (O'Sullivan, 2005). Thus in terms of the direction of institutional formation and change, the power and influence of the central state is emphasised, describing only top-down relations at the expense of all else. But as Confucians have argued, Chinese tradition allows people to access power and to have their voices heard. The important dynamic from the bottom up should not be missed; otherwise the picture is only partially filled. Similarly in China, history is unfolding and institutions are in the making. It has not developed to a stage in which business processes are mostly standardised. China’s institutions therefore are not something that can be caged to display or measured by numbers (Van Maanen, 2011). The structures are in the making and can only be known if the researcher is right in there amongst the actors influencing and making those structures (Smith, 2006).

However, the emphasis on moving and evolving institutional structures means there are many nooks and crannies in the system. There is thus much fluidity from which certain actors can influence outcomes. To understand such unstandardised processes, the researcher needs to pay substantial attention to fieldwork and locate herself right in the midst of the phenomenon. The people who are living in the phenomenon are exploring and experimenting. They utilise what they have at hand to deal with contingencies and emergencies. The researcher has to remain flexible and open-minded in order to accommodate the nature of the phenomenon and her methods have to be oriented towards exploration and discovery. This again could be considered a form of bricolage (Lévi-Strauss, 1966; Lévi-Strauss, 1974).

Denzin and Kincheloe encouraged researchers to think, act and write like a bricoleur (Denzin, 1994; Kincheloe, 2001). The essence of bricolage is to change the structure by means of events. Explorative and discovery-based research is ready to embrace changes to the structure, the preliminary theoretical framework set up at the beginning. In this sense, research bricoleurs may be more conscious of structural changes than institutional bricoleurs are. Institutional bricoleurs in China concentrate on structure
because the existing structure has limitations. They may hold different opinions about how the existing institution has limited their activities but, nonetheless, they work towards changing it to a direction that serves their needs.

The research process was quite faithful to this idea of ‘research bricolage’. During the research process, the lens was adjusted in different phases of the study in order to meet the goals of that phase. The research began with reading documents and understanding the phenomenon from existing accounts. When the general sense of the market was obtained, I went into the field. Interviewing the elite served as a useful entry point. When getting to the core of the change, the shared concerns of some interviewees drew my attention to the regional exchanges. From that point, I embarked on ethnography of one particular exchange. Through this evolving, reflexive, improvised approach I learned the significant impact that actors within the regional exchanges have on institutional change. I will now explain this process in more depth.

The first phase of my research was the review of preliminary documents and the first round of elite interviews. The preliminary document review was aimed at learning the fundamentals of the market, including the status quo, relevant policies, legal and regulatory framework, some important events and how they were reported and analysed by the authors. After summarising the review of the preliminary documents, I embarked on the first round of interviews. In total, eleven interviews were conducted in January 2011. The backgrounds of the interviewees are listed in Appendix 4. The length of the interviews varied from thirty minutes to four hours, with the majority of them being about three hours. In the months following, the interviews were transcribed and analysed.

The first phase helped the researcher to understand the basic structure and the relationships between relevant stakeholders. Much of this involved interviews with senior management of brokerage companies and centrally regulated exchanges. These
actors could notionally be considered an ‘elite’ within the sector. Interviewing elites helps to discover ‘what you don’t know’ and ‘what you don’t know you don’t know’ (Smith, 2006, p.24). Elite interviewees are knowledgeable informants who share their own experiences and views regarding the construction of the market. This was the entry point to understanding the complexity of the institutional process of change. It provided a general picture of how the market had originated and changed and helped to reveal whence the dynamic of change came. It confirmed that the rules and regulations have historical reasons. It aroused the interest to chase up the significant historical events and discover how the key players performed. During the first phase, I discovered that futures exchanges were subordinate to the regulator, the brokerage companies were being squeezed, and regulatory power was growing.

In the second phase, I reviewed the existing accounts and conducted a second round of interviews. The review of existing accounts focused on publications, including academic and financial media, trying to understand change according to their explanations. After summarising the review, I embarked on a second round of interviews. In the second round, fifteen interviews were conducted in August 2011. Crucially in this phase I interviewed two senior officials within the central regulator, the CSRC, as well as more elite practitioners. The backgrounds of the interviewees are listed in Appendix 5. The average length of the interviews was about three hours. In the months following, the data was transcribed and analysed.

During this phase I made a significant discovery through the interviews with the regulators. The regulators revealed a previously unrecognised aspect of the structure to the researcher, namely the regional exchanges.

Regional exchanges are a source of enduring frustration for central regulators, the target of criticism by financial media. Yet these have been largely ignored by academic studies, as they were not included in the formal definitions of the ‘official’ sector. This prompted further investigation, whereupon I learned that the actions of
actors within the regional exchanges were having a significant impact on the formulation of rules and regulations. In many cases, it was not the actors at the CSRC-regulated exchanges, but those at the regional exchanges that had gained more attention. And because the regional exchanges were yet not deemed legitimate by the CSRC, their basic attempts to survive a variety of crackdowns had driven them to work hard on reworking the institutional structures.

Once the importance of the regional exchanges was discovered, the focus of the investigation shifted and my methods changed. A six-month participant observation at one of the largest regional exchanges was added to the research design. This marked a third phase in my research. In November 2011, I went to one of the regional exchanges for a six-month participant observation. During the six months, I played an overt role in the exchange. I held two positions: the researcher and the strategy manager. The six-month experience provided abundant first-hand material and verified the findings from fieldwork phases I and II.

During the participant observation, the State Council launched the rectification campaign - a crackdown which sought to target and close down many regional exchanges. This was the third such crackdown in the history of China’s futures industry. I was able to observe in real time and at close quarters the key actors coping with the situation, and thus the process of institutional change. Being a participant during that period, I collected precious, first-hand experience about everyday life within the organisation and its interactions with the institutional environment, namely the ‘translocal’ social relations, to use DeVault and McCoy’s term (DeVault and McCoy, 2001). Such experience then has an effect on the tone of my story-telling. The subjectivity involved makes it sounds like ‘my story’ rather than ‘their story’.

From this close, interactive observation of events, I developed my use of the concept of bricolage to describe this process. The central regulator took every effort to suppress the regional exchanges because they were competing with ministerial-
regulated exchanges. The regional exchanges responded by working their network relations with regional governments and central government in an *ad hoc* way. Actors in China’s regional futures exchanges were changing the institutional structure in a reactive, spontaneous, improvised way: they were *institutional bricoleurs*.

This third and final phase of fieldwork research is best understood as a form of institutional ethnography, which is a useful tool for studying the institutional changes of a complex system, such as a segment of China’s financial market. The nature of the phenomenon entails the researcher taking an open and holistic world view and choosing explorative and experiential methods. As Lave (1995, p.6) argued, the only instrument that is ‘sufficiently complex to comprehend and learn about human existence is another human’. Thus, what the researcher can use is their *own life and experience* in the field. Institutional ethnographers collect data through interviews, observation and documents. Comparing ethnography for individual or social groups, institutional ethnography does not only concentrate on the individual experience but also examines how individuals interact with the institutional environment (Campbell, Marie L., 1998; Smith, 2006).

### 5.4 Data collection and analysis

The above section outlined how my fieldwork progressed over three phases: the first and second rounds of elite interviewing that were open and unstructured, and the six-month-long participant observation phase. This section will explain my methods for data collection and analysis in depth.

#### 5.4.1 Snowballing: gaining access to the elite

Gaining access to the people who hold senior positions in the futures industry was only achievable through a process of ‘snowballing’. I started with five interviewees
and then extended it to twenty six, drawing on their networks and recommendations. I asked them to recommend me to the next person whom they considered most suitable for my research purpose. I chose the five on the basis of their extensive networks and experience in this industry. Four of them have more than fifteen years of futures-related working experience. The remaining one was a relatively new starter, although her family had roots in this industry and so she was part of an established network.

The practice borrowed techniques from *theoretical sampling* (Glaser and Strauss, 1968) and *snowball sampling* (Biernacki and Waldorf, 1981). An explorative methodology approach allowed me to choose the informants on an ongoing basis as the study progressed. Glaser and Strauss (1968, p.45) used the phrase ‘*theoretical sampling*’ to refer to a procedure ‘whereby the analyst jointly collects, codes, and analyses his data and decides what data to collect next and where to find them, in order to develop his theory as it emerges. This process of data collection is *controlled* by the emerging theory, whether substantive or formal.’ Researchers consciously select additional cases to be studied according to the potential for developing new insights or expanding and refining those already gained. Chain-referral sampling, also called snowball sampling, is a common technique in qualitative research surveys. It is usually used to reach hidden or hard-to-reach sub-groups or social deviants when the data is sensitive. For China’s futures industry, the stories trace the interviewees’ personal involvement in past risk events: hence, the data is sensitive (Siu, 2010). Reaching informants through chain referrals may present challenges to the research. An experienced researcher argued that the elite of a particular industry is a relatively small and closed group (Goldstein, 2002). In this case, random sampling will only prevent access to insightful information and genuine opinions.

To avoid *ex parte* views, I was careful to count the next reference as a valid interviewee. I discussed my research purposes with the referrers and the people they considered I should meet. In order to obtain a relatively complete view and to avoid a biased one, I deliberately diversified the informants’ backgrounds and positions (see
the detailed interviewee backgrounds in Appendices 4 and 5). The interviewees’ backgrounds cover each level of the market, including officials of the ministerial regulator and the regional regulator, senior managers of CSRC-regulated exchanges and regional exchanges (including one that is closed), senior managers of brokerage companies, officers from the industry association and individuals who experienced significant historical events, such as the Treasury bond 327. I heard different versions of the controversial events from different interviewees. In this way, I was confident that the view I obtained was relatively complete and my understanding of the story was unlikely to be misguided.

5.4.2 Interaction and relationship with interviewees

Academics traced the etymology of the word interview and came up with different interpretations. Kvale argued that it is InterView where ‘knowledge is constructed in the inter the views of the interviewer and interviewee’ (1996, p.15). Chirban argued that it is inner view, as ‘comprehending the essence of an individual, his or her emotions, motivations and the needs, is the central task’ (1996, p.30). They both emphasise the virtues of interaction and the relationship between interviewer and interviewee, as well as the researchers’ craftsmanship in comprehending and constructing meanings (Kvale and Brinkmann, 2009). Interviewing is not just about making records and taking notes, nor about merely asking or encouraging people to talk about their opinions or life stories. Interactive-relational interviewing is a technique of in-depth interviewing when the trust built between the interviewer and interviewee could affect the quality of the interview (Chirban, 1996). Maintaining an arm’s length relationship with the interviewee was considered to be a professional attitude when conducting interviews, although it does not help to obtain genuine opinions on controversial subjects and can even be counterproductive (Crémer, 1995). As I used chain referral to gain access to the interviewees, gaining access did not present a major challenge, whereas getting them to reveal insights was a bigger
challenge. The key was to gain their trust and respect during the interaction (Ostrander, 1993). It is an exchange of knowledge, ideas and opinions. In the context of my research, it meant that I also needed to have a certain degree of knowledge about the market, to maintain a decent network, ensure that my understanding of the society was sophisticated and that my research introduction was sufficient to arouse interest. In a nutshell, I needed to make them think I was not a complete outsider in order to build up a relationship conducive to interviewing. My previous experience and the review of preliminary documents gave me some knowledge of the industry. Before meeting the interviewees, I also researched their backgrounds and discussed this with reference to their experience.

The elite are used to their powerful positions. They often consciously or unconsciously direct the interview towards the points in which they are interested. This presents another challenge when interviewing the elite (Dexter, 1970). Despite the fact that the interview was designed to be unstructured and open, it is crucial to bear in mind the specific interests of this research. When interviewees drifted away from the market and started talking about their interests, tacit and context-bound interpersonal skills were needed to intervene and get the subject back on track (Kvale and Brinkmann, 2009). In order to encourage them to speak honestly, the interviewer need to attune herself to that part of the history of the industry (Chirban, 1996). For example, if the interviewee mentioned that he had been a broker in the late 1990s in a certain region, I was able to point to some key events that happened there and encourage them to tell me what they knew as a practitioner at that time and in that place. The interviewee may become carried away and extend into irrelevant areas. In this case, I will need to ask sub-questions, such as details of the events, in order to remain within the boundaries of professionalism. The change was evident in many public resources, while what I needed to hear was their first-hand experience and points of view.
The technique of interactive-relational interviewing has its limitations. When the interviewees had an academic background and held a similar work view, they gave me valuable and meaningful input. They shared their stories and advised me on the research. On the contrary, if an interviewee with an academic background held a world view conflicting with that of the interviewer, then the interviewer needed to be prepared to justify and persuade. This could fundamentally affect the outcome of the interview if the interviewer and the interviewee completely disagreed with each other in terms of philosophy. It is not just about the phenomenon and the interviewee, the researcher also becomes an input in the interview process. It might be helpful if the researcher could prepare different presentations for qualitative and quantitative people, assuming their philosophical positions could be learned beforehand.

5.4.3 Transcription and analysis

Of the twenty six interviews, twenty four were recorded. I translated and transcribed the twenty six interviews based on the recordings and field notes. Recorded data helps the researcher to recall the details of the interview process. It compensates for the limitations of memory and notes taken during the interview. It also serves as factual material that gives control on the limitations and fallibilities of intuition and recollection (Atkinson and Heritage, 1985, p.4). As Atkinson and Heritage put it, ‘it exposes the observer to a wide range of interactional materials and circumstance and also provides some guarantee that analytic conclusions will not arise as artefacts of intuitive idiosyncrasy, selective attention or recollection, or experimental design’ (Atkinson and Heritage, 1985, p.4). Transcription is the means whereby the researcher transforms the recorded data into literal material for analysis and reanalysis, as well as for evaluation of the observations and findings.

Early literature about interviewing did not give much thought to the manner of transcription. A verbatim account was taken for granted, as was including as much
detail as possible, intonation, word segmentation, sighs, pauses and the like. In recent decades, there has been more concern about transcription quality. Most of the handbooks and general guidance have included discussions about this aspect. It seems that the general agreement is that there is no standardised or adequate procedure for transcribing and the usefulness thereof has been considered to be a constructive answer (Poland, 2001; Kvale and Brinkmann, 2009). The level at which the recorded data has been transcribed was determined by the practicality of the analysis. Drisko pointed out that the level of transcription should complement the level of the analysis (Drisko, 1997).

If the study concerns linguistics, psychology or personal feelings, how something is said is more important than what is said, in which case the verbatim rule should apply. Pauses, repetition, intonation, tone, nervous laughter and other emotional aspects should be reflected in the transcription, as they are the content for analysis. If the study is about past events and the process of societal or systemic change, what was said becomes more important. The researcher relies on interviewees’ recount on past events and their points of view to construct the process of change. Whether the interviewees have been honest or genuine will be triangulated by the other interviewees’ account and relevant documents. The working target of transcribing for this research is to report the subject’s accounts in a readable public story (Kvale and Brinkmann, 2009). The difficulties of making the ‘raw material’ readable include language, cultural differences and jargon. Transcribing is a hybrid process of translating, transcribing and interpreting.

At first, the interviews were conducted in Chinese; therefore, they needed to be translated into English. Interviewees used metaphors that had to be decoded and recoded in order to retain the meaning when translated into English. A verbatim transcription will definitely lose information or even generate misunderstandings. For example, a trader said that they should follow the investment plan according to military discipline. If the transcription simply follows the literal meaning, it can easily
be interpreted in terms of the traders seeing the futures market as a battlefield and that the relationships between them were rigid and hierarchical. In fact, this trader actually meant that they had to be absolutely rational and avoid any emotional influence when implementing plans. Furthermore, interviewees sometimes exaggerate. Siu conducted ethnographic work in China’s futures market. The story she told was very interesting and revealing. However, some discrepancies may be caused by misunderstandings between cultures (Siu, 2010). In the section in which doubt was cast on the belief of the ‘price discovery’ function of China’s futures market, she wrote, ‘when traders are asked to describe their own actions, nobody ever describes themselves as being hedgers or speculators, nor do they perceive themselves as conducting “transfer of risks”’. (Siu, 2010, p.380) She quoted an interviewee’s joke, as follows: ‘I am going to “discover” the price at XXX’. In the next section, when describing the position of ‘spot factions’, she wrote, ‘they have large quantities of the spot commodity at hand, and they go for short positions more often than long ones. When prices fall, they can close out their positions and reap cash; when prices rise, they can still opt for physical delivery, and the loss is less conspicuous’(Siu, 2010, p.382). This sounds very much like the behaviour of hedgers saying that the market actually functions for them. It seems that the lines in two successive sections are contradictory to each other. Accepting jokes but obtaining the wrong meaning from them could lead the analytic conclusion to artefacts (Atkinson and Heritage, 1985).

The third challenge is industry terminology in both Chinese and English. The derivatives industry is replete with jargon and it employs terms that mean other things than are usual in daily life. For each term or jargon used in the UK or the US futures market, a matching one has developed in the Chinese market. The capacity to match them determines the accuracy of translation and transcription. The researcher has come a long way in accumulating knowledge in both languages until she has become capable of translating at meetings. During the fieldwork, the researcher experienced being the conference interpreter for a variety of financial organisations and observed the quality of other interpreters’ work. Finding the phrases and expressions in two
languages and matching the meanings in both cultures is a craft of bricolage. The reliability and validity of the transcription cannot be enhanced by involving a third party in transcription. Instead, the researcher verified her understanding with follow-up interviews and conversations via participant observation.

5.4.4 Participant observation

In-depth, elite interviews and participant observation are methods used in anthropological studies (Dexter, 1970; Jorgensen, 1989). Anthropologists hold divergent opinions about these methods. Friedrichs and Lüdtke tend to consider ‘participant observation’ as the most subjective type of observation, as well as having the least exactness (Friedrichs and Lüdtke, 1975). On the other hand, Jorgensen claims that participant observation rejects the divide between subjectivity and objectivity (Jorgensen, 1989). Jean Lave has gone even further in arguing that there is no method in anthropology and that the fieldwork experience is the only instrument the researcher can use to study human beings (Lave and Kvale, 1995). Becker and Geer argue that participant observation gathers ‘the most complete form of the sociological datum’ of social events (Becker and Geer, 1957). Participant observation, as one of the major anthropological field methods, enables the researcher to obtain first-hand information, verify the information gathered through discourse and narratives, and infer the meaning not in the awareness of participants and staff (Moustakas, 1994).

Being part of the phenomenon is one of the best ways of obtaining first-hand data and experiences in social research: ‘institutional ethnography investigations are rarely planned out fully in advance’ (DeVault and McCoy, 2001, p.755). Johnson pointed out that the condition under which an initial entrée is negotiated may have affect how the research can be understood by the field organisations (Johnson, 1975). The six-month participant observation greatly enhanced the rigor and quality of this research.
Firstly, it provided access to the mysterious operation of regional exchanges. Secondly, the access point was very high. The opportunity was offered by a senior executive, who will be referred to as Mr Li of Dragon Exchange from this point on. The crucial information in an organisation is sometimes not easily obtained when one is only participating as an intern. Thirdly, the gatekeeper was one of the interviewees; hence, he had a certain understanding of the research and made appropriate working arrangements. Fourthly, the timing was perfect. I arrived at Mr Li’s exchange in November 2011 and what happened next really added value to the third phase of my fieldwork. On 19 November, the State Council launched the third campaign for the rectification of futures history and the exchange in which I participated was rumoured to be one of the biggest targets.

Those days in the field were breathtaking. The insights I gained from previous interviews and being able to speak English and Chinese, in addition to my research skills, helped me to gain the trust of the senior management team and the government officials who worked closely with the exchange. I kept fieldwork notes on a daily basis and reflected on them from time to time. Although I was not allowed to make recordings, the experience was unique. Being one of the key members of the strategy team, I went through the process of coping with the State Council’s campaign. One may argue that experience of one exchange may not be typical of all the other regional exchanges. As Dragon Exchange is one of the largest regional exchanges and its actions, including trading rules and contract design, have been followed by many other regional exchanges, it can be argued that it is representative. Moreover, bricolage is not the activities which would share general patterns. What I was seeking was the experience of being a bricoleur, or closely assisting and observing them. It also doubly reassured me as this exchange was mentioned by the ministerial regulator, who pointed out that it was one of the most ‘problematic’. 61 During the six-month period, I had the opportunity to observe other regional exchanges during the meetings

61 Quote from an interviewee who is the official of CSRC, during the second round of interviewing.
organised by the regional government’s officials. Most importantly, what we did had an impact on the change, from the regional to the central level.

The nature of participant observation is that the researcher acted as one of the players. This has a bearing on how I report my findings. Because participant observation is not the same as interviewing, Chapters 6 and 7 will be written up in the form of storytelling, or a description of events as seen through my eyes. There will be few, if any, direct quotes from my sources. As the strategy manager, I experienced a series of events, but also discussed and contributed to the participated organisation’s responses to the changing environment. When the crackdown was launched in November 2011, I was there brainstorming with the stakeholders to work out solutions to survive the crisis. The solutions then were gradually formulated into long-term strategies in preparing institutional foundations, pursuing legitimation and growth. As most of the content is based on the field notes and my own experience as an active participant in the field, I will write in the first person.

5.5 Institutional ethnography

Institutional ethnography is an appropriate methodology for investigating the process of institutional bricolage. It is an approach designed for the investigation of organisational and institutional processes (DeVault and McCoy, 2001). In the early 1990s, Douglas (1990) pointed out that there was a convergence between anthropology and institutional thought. Anthropology and its research outcome, ethnography, are usually employed for studying individual behaviour and experiences. The typical subjects are nurses, teachers, social deviants or specific sub-groups. Institutional ethnography goes beyond individuals. Verlot asked: What are anthropologists looking for when looking at policy and bureaucracies? and the answer was ‘to view policy-makers less as distanced people in power than as persons with power acquired, thereby stressing the relational and fluid character of power.
and its daily negotiation’ (Verlot, 2001, p.1). The ‘relational and fluid character of power’ implies the dialectic relationship between the institutional bricoleurs and the policy-makers. In this case, power was exercised by persons with whom the bricoleurs might negotiate. The observation sees policy-makers as persons with power required and institutional bricoleurs as ambitious entrepreneurial actors. They hold relationships with the persons with power. Bricoleurs aim to gain policy-makers’ support for their pursuits and policy-makers need their input for building the institutions. The process of negotiation is not as structured or engineered as it was described in the popular management discourse. Instead, it involves performing, improvisation and culturally-embedded consensus building (Innes and Booher, 1999).

The research process is a process of learning to cope with emerging issues and challenges thrown by the subjects: the elite interviewees. In this case, the opportunities of participant observation and operating as an interpreter were unexpectedly offered to the researcher. The knowledge and experiences gained when undertaking these roles were immensely informative to this research project. These roles also allowed this research to obtain new skills. The researcher was not equipped with skills of interpreting or knowledge of anthropology when the requests were initially made, but they motivated me to engage and learn new skills and approaches. As Smith (2006, p.1) said: ‘Institutional ethnography is committed to exploration and discovery. It takes for granted that the social happens and is happening and that we can know it in much the same way as it is known among those who are right in doing it. With this major difference: institutional ethnography is committed to discovering beyond any one individual’s experience including the researcher’s own and putting into words supplemented in some instances by diagrams or maps what she or he discovers about how people’s activities are coordinated.’

Institutional ethnography shares a common doubt regarding ethnographic work. Is it too subjective? Has the researcher kept an adequate distance from the object? Kvale and Brinkmann (2009, p.36) clarify the myth of objectivity and suggests a rather
practical use of institutional ethnography ‘as freedom from bias, as reflexivity about presuppositions, as intersubjectivity consensus, as adequacy to the object, and as the object’s ability to object’. It echoes what Sayer proposed a theory to be, in that it should work or have some practical adequacy (Sayer, 1992). Believing that there is an absolute objectivity and thus pursuing it only blinds the researcher to seeing the object objectively, Sayer (1992) puts it thus: ‘Science was predominantly seen as the steady accretion of objective knowledge through the unproblematic medium of observation of “experience”. On this “naïve objectivist” view, the facts “spoke for themselves”, and only needed to be “collected” as “data”’. The practical understanding of objectivity kept the researcher alert during the fieldwork. The researcher needed to be critical and reflexive, and to seek verification throughout the process.

5.6 Research bricoleurs

This research was prepared to utilise any methods and theories to enhance the understanding of China’s socioeconomic change. It did not commit to sociology or institutional economics or institutional ethnography until the inquiry leads it there. This kind of experience has been introduced and advocated as bricolage by the methodologists in the field of qualitative inquiry. Kincheloe contended that it is especially suited to dealing with ‘the complexity of the lived world’ (2005, p.2). A researcher has to ‘reject deterministic views of social reality that assume the effects of particular social, political, economic, and educational processes and refuse standardized modes of knowledge production’ (Kincheloe, 2005, p.3). Researchers can work and write as bricoleurs. The image described by Denzin is that of ‘a person who fashions meaning out of experience, using whatever aesthetic and instrumental tools that are available’ (Denzin, 1994, p.15). The concept of bricolage was developed separately in theoretical and methodological domains. So far, no comparison has been made between these two developments, although the descriptions are astonishingly
analogous. Practitioners and researchers both understand the world in a similar manner. In the research domain, theories shape and structure researchers’ means and ends, just as the institutions shape those of practitioners. As Kincheloe argues, ‘observations of the world are shaped either consciously or unconsciously by social theory – such theory provides the framework that highlights or erases what might be observed’ (2005, p.2). If this research had chosen an orthodox theoretical framework and method, it would not have led to the discovery of the regional exchanges as one of the major dynamics of change. Theories are institutions in the academic world, while researchers are change agents who work in it. The working process modifies what we thought we knew and the way in which we knew it. Institutional change is a process that involves learning and is no different from that of research. Research bricoleurs change their structure by production of knowledge. Institutional bricoleurs change the structure by formulation of the market.

Kincheloe points out that research bricoleurs are able to synthesise different methodological and interpretive perspectives. Instead of using superficial, cross multi-disciplines, they work on deep interdisciplinarity (Kincheloe, 2001). They are able to improvise and innovate because of their in-depth knowledge of different methods and substantial work in field observation. A broad literature review helped the research design. Researchers have to study different methods and a variety of theories in order to know and choose their ‘heterogeneous repertoire which, even if extensive, is nevertheless limited’ (Lévi-Strauss, 1966, p.17). It is up to the researcher’s craftsmanship to deal with emerging opportunities and discoveries during the process of the research. When there is the opportunity to enhance the research and increase the understanding thereof, the researcher will need to obtain the relevant knowledge and review relevant literature rather quickly in order to cope with it. Quick learning skills are also one of the essentials of institutional bricoleurs.

There are ‘almost infinitely subtle strategies that social agents deploy’; therefore, there must be a similar amount of subtle strategies that the researcher can deploy in
order to cope with them (Thompson, 2000). ‘Only the reflexivity synonymous with method, but a reflex reflexivity based on a craft, on a sociological ‘feel’ or ‘eye’, allows one to perceive and monitor on the spot, as the interview is actually taking place, the effects of the social structure within which it is occurring’ (Bourdieu, 1999, p.608). The environments faced by both bricoleurs are also comparable. The effect of structures impacts on the interaction between the agent and the structure; hence, this poses a challenge for both in terms of being able to grasp the best opportunities and get the job done. In the case of this research, the executive invited the researcher to participate regarded the researcher and the skills she possessed as a resource and utilised it. The executive grasped the theme of this research during the interview and pointed out for the researcher that real experience would help the research greatly. More importantly, it was contingent that in that period his organisation needed the skills the researcher presented. On the researcher’s side, the executive was a resource for her research. The opportunity of getting access to one of the organisations which attracted the most criticism in the field was precious. It was opportunistic; nevertheless it was how bricoleurs utilised whatever at hand to deal with their projects. The outcomes were at a remove from the original plan thereof, and fortunately they turned out to be positive. Throughout the participant observation, the researcher’s skills and knowledge were useful for the organisation. If those actions were to be successful and the regional exchange survived, it would be a trace a young researcher left in the field.

5.7 Conclusion

The research did not take the form of its original design. The methodology has been continuously redefined and revised throughout the process. The curiosity of knowing more and demystify the phenomenon has driven the researcher to be more and more involved. Social anthropology addresses the most controversial topics in human society, race, gender, inequality, war, migrants, living and death, and develops
methods with the power to explore and deconstruct the most alienated, disguised and manipulated social phenomena. Locating the observation at the institutional level is an approach in making for the better understanding of modernity, capitalism and its power relations (Miller, 1994; 1997; DeVault and McCoy, 2001). This approach has offered a more holistic and nuanced account to understand China’s socioeconomic change. Existing research about China’s futures market presented it in a piecemeal fashion, similar to the allegory of The Blind Men and the Elephant. Each one senses one aspect of the truth but never attains the complete version. However, after living with the ‘elephant’ (the institutional bricolage) for six months in the ‘rainforest’ (the exchange), the researcher is confident to describe what the elephant is really like.

China’s authorities have adopted an incremental measure of reform. Socialism with Chinese characteristics allows for experimentation, trial and error. Chinese tradition and philosophy allows those at grassroots level to become the elite. In the highly regulated futures industry, although it is centrally controlled, experiments are encouraged in certain regions that are designated as Comprehensive Experimental Fields of Reform (CEFR), such as Shanghai, Shenzhen and Tianjin (NDRC, 2012). People working in these regions are making genuine contributions to economic reform. They are more active in exploration and more resistant to the ministerial power that often reinforces tight control. Those are the points where institutional bricolage is more manifested.

However as I observed this process of bricolage within the exchange, I realised there was a certain symmetry of action between what they were doing and my research activities. In a sense, this project is a ‘double bricolage’: to understand the reactivity and improvisation of the actors on the exchange I had to be reactive and

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62The Blind Men and the Elephant, by John Godfrey Saxe (1816 -1887). The story is about six blind men who tried to ‘see’ an elephant. One touched the elephant’s side and claimed the elephant was like a wall, one touched the tusk and said it was like a spear, one touched the ear and said it was like a fan, one touched the trunk and said it was like a snake, one touched the knee and said it was like a tree, and the last one touched the tail and said it was like a rope. They quarrelled loud and long because, while each held an aspect of the truth, all were wrong. See http://www.newvisions.ucsb.edu/background/allegory/index.html
improvisational myself with my methods and approach. I built my repertoire gradually as a bricoleur. The learning from school, the experience from field, people I knew, and things I knew all become my resources. In addition, the conjuncture, the opportunity or crisis emerged at the moment forming the context for her actions. As a result, the researcher learnt how to be flexible with the research design and improvise during the process. Institutional ethnography and research bricolage are the two key terms to summarise the reflection on methodology. In next chapter, the experiences in and discoveries from the field will be discussed.

Chapter 6 Understanding the Change from the Alternative Account -- The Institutional Bricoleurs

6.1 Introduction

The previous chapter argued that this research finds institutional ethnography the most appropriate methodology for understanding China’s socioeconomic change. This chapter will begin by discussing the discoveries from the field, using this method to outline an alternative account of institutional change. The discussion will be developed over two chapters. Chapter 6 will mainly focus on introducing the institutional bricoleurs and how they make changes, while Chapter 7 will focus on the relationship between institutional bricoleurs and State actors.

This chapter is about institutional bricoleurs. The next chapter will be about state actors. This does not imply complete separation between these two sets of actors: this thesis rejects simple dichotomies and promotes a more complex, cultural and political understanding about the dynamics of change. The state players are not rivals or the opposite of the bricoleurs in the regional exchanges. For the regional exchange
bricoleur’s, no one is their enemy, any stakeholder could be a resource; no event is necessarily a crisis so long as they avoid imprisonment. Bricoleurs work on emerging events to turn them into opportunities that might allow them to alter institutions to further their ambitions. In this sense, the state is not an opposing force, but is instead one of many institutional inputs from which the bricoleurs’ build their structures.

There will be three sections in this chapter. The first section will answer the questions of who institutional bricoleurs are and why they are considered to be bricoleurs. In order to flesh out the image of institutional bricoleurs, the background of them will be introduced. In the second section, the focus is on the actions of institutional bricoleurs. The institutional environment that provides contextual information for their actions has been introduced and discussed in previous chapters. The narrative in this section will focus on the four major characteristics of institutional bricolage: improvising, shaped and shaping, culturally embedded consensus building and unintended consequences. A summary and discussion of the contingent consequences of institutional bricolage will be presented in the third section.

6.2 Who are institutional bricoleurs?

This chapter will focus on the activities of the senior management of the regional exchanges. Their major responsibility is to ensure that the organisation weathers difficult situations and survives market competitions. In dealing with daily issues, they become activists working with government officials, regulators, intellectuals and the industry to create and change the structure. The structure is composed of rules, regulations, social norms, public opinions and academic thought, which are in turn mobilised and shaped through practice. This section will define more precisely who is a bricoleur and why.
6.2.1 Who are institutional bricoleurs and why are they considered as such?

First, it is necessary to define what ‘institutional bricolage’ means in this specific context. The theory of bricolage was outlined in chapter 2, so within China’s futures market the term could be used to describe actors who are change agents, whose modes of thinking and ways of working are typical of bricoleurs. They have strong motives to change the existing structure and they change the structure by means of events. There is no blueprint for action. They also maintain broad social networks and are adept at utilising the networks as a stock of institutions in order to cope with unexpected issues and routines. As an aspect of ‘getting the job done’, they mediate promptly and creatively between different interest groups in a culturally embedded way. Institutions, for them, are instruments and resources. They build up their repertoire of institutional resources and utilise them when needed to actively shape the institutions of China’s futures market.

Generally these characteristics fit descriptions of senior management within the regional exchanges. Senior managers in these regional exchanges have to work hard to deal with multiple threats and their activities have material consequences for the fate of the organisation and, therefore, for institutional change in the market. They operate in a context where state power is still dominant, while market players, including in the regional exchanges, have various ways of accessing this power. The regional exchanges’, as previously discussed, suffer because they lack legitimacy in the eyes of the state, public and media, and this questionable status renders their dedication to structural change as they are keen to be legitimised. Some exchanges have achieved exponential growth in recent years.\(^63\) But winning in the market arena and winning in the political arena are quite different things. In the market arena, the criteria for judging success are more rational, logical and straightforward. As many empirical studies have demonstrated, China’s futures market is as close to an efficient

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\(^63\) The trading volumes of regional exchanges are kept secret by them and the regional government. The data the researcher obtained showed 5-10 times growth from 2010 to 2011.
market as futures markets in the US. Nevertheless, in the political arena, the logic of competition is not that straightforward. Competition in the political arena engages the senior management of regional exchanges in the political negotiation process, which engages them dialectically with the general Chinese characteristics of the market, as outlined in Chapter 1. Senior management in the regional exchanges therefore draw on and contribute to the institutional fluidity and flux in an improvised manner that builds structures from events. The senior management of brokerage companies can also be considered to be institutional bricoleurs, as they contribute in a similar way, despite having less impact than that of the regional exchange.

But if we are to define who the bricoleurs are, we also need to consider other stakeholders whose activity could not be considered institutional bricolage. To do this it is important to make a distinction between bricolage and innovation. Innovation operates with formal rules within a legitimised framework, while bricolage starts with something which is not fully legitimised and sometimes operates in a more controversial ‘grey area’. In this sense, institutional bricolage is riskier and may result in altering the culture and institutional framework more fundamentally in an unanticipated way. Failure of institutional bricolage could be detrimental for the reputation and career of the institutional bricoleurs, and so carries more severe consequences for these individuals and potentially society more broadly. It is on this basis that some authors argued that CDOs and their disastrous consequences were not ‘innovations’ in the strictest sense, but rather the outcome of bricolage (Engelen et al., 2010). In this way, the senior management in the more legitimate CSRC-regulated exchanges are less like institutional bricoleurs, because they work within formal rules and codified behaviours established and evaluated by central government.  

\[\text{An employee at Dalian Commodity Exchange told the} \ Financial Times: \text{‘Exchanges in China, as state-owned institutions, are also responsible for fostering a sense of social harmony’}. \text{This kind of political mission borne by a futures exchange is a reflection of the relationship between the CSRC-regulated exchange and the regulator. Source: http://www.ft.com/intl/cms/s/0/4742e6c0-fb42-11df-b576-00144feab49a.html#axzz2A8QtDe1e}\]
These formal rules which structure behaviour reflect the relation between the regulated exchanges and the regulator. The CSRC has the power to approve new futures exchanges and there are no published instructions regarding how to apply to become a state-regulated exchange, thus blocking new entrants (SC, 1999; 2007). The result is a virtual monopoly with only four regulated exchanges - this is a rigid market structure little changed over time: since 1999, only one new state-regulated futures exchange has come into existence, the CFFEX, which was initiated by the CSRC. The benevolence of the CSRC to the regulated exchanges conditions behaviour. The market position of the regulated exchanges is guaranteed by the regulator and regulation; their major responsibility is not to lead the organisation through difficult situations or to beat the competitors, but to be compliant with the requirements of the regulator, their protector. The actions of senior management within these state-regulated exchanges are therefore conditioned, informed and shaped by rules imposed from above. They build events from formally designated structures.

The situation in China is very different to that of the West, when it comes to institutional change. Although there is much bricolage at the level of products in both China and the West, the structural change is a lot more organised in the West because the institutional framework is well-established, which allows healthy competition and channels for structural changes. While in China, an evolving economy, the institutions are being built rather quickly in response to the changing views of the ruling elite and the input from bricoleurs in many fields. Indeed these general institutional differences shape practitioner behaviour and the propensity towards bricolage-like activity. Western practitioners innovate in a rule-bound framework legitimising their attempts to change, whereas the Chinese government, by blocking channels for legitimisation while struggling to balance between control and free market, render behaviour that is clandestine and improvisational.

65 The interviewee from one of the CSRC-regulated exchanges used a metaphor to describe the regulatory relationship: ‘it is the party’s cake, thus she decides how big the slice you can get.’
To give one example of difference I will now discuss how new players join the market and become strong competitors to the long-standing organisations in London. In a free market, the monopolist position can still be formed naturally through reasonable competition. The London Clearing House (LCH) was the one dominant clearing facility for the UK’s exchanges, including stocks, bonds, currencies, commodities and derivatives, before the financial crisis. Crises can be opportunities for others as they bring about structural changes. In 2007, the Intercontinental Exchange (ICE) started to build a clearing facility in London, and within two years ICE Clear Europe became a strong competitor to the LCH.\(^{66}\) Not long after, the London Metal Exchange (LME) started to build a clearing house as well. As Paul Swann, the chief executive of ICE Clear Europe, put it: ‘We see clearing as a service rather than as a utility.’ And such rationalisations were lauded in the financial press as a means of providing better services to customers.

While the UK, Europe and the US are engaged in structural changes in order to tackle the problem that is believed to have been the cause of the crisis, China’s futures market has undergone a structural change as well. Since 2007, more and more regional exchanges emerged. At the end of 2011, it was estimated that there are about three hundred of them. The difference is, in China, those newly emerged are not lauded by the financial media because the channels that legitimise their behaviour and even their existence is not attainable (Tian, 2011; Tian et al., 2011; Ye, 2011; Anon, 2012). Hence while ICE Clear Europe applied for permission from the Financial Services Authority (FSA)\(^ {67}\) before it started up, China’s regional exchanges did not have permission from the central regulator. The fact that there is no well-trodden way or established measure for them to pursue their entrepreneurial drive means they seek informal avenues and ulterior forces for support. Here, they found the regional government. The regional government’s performance is evaluated by GDP and the

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\(^{66}\) This information comes from the \textit{FT} interview with Paul Swann, the CEO of ICE Clear Europe. Source: \url{http://www.ft.com/intl/cms/s/0/d70bb0f8-0091-11e0-aa29-00144fcaeb4a.html#axzz2TmuofgD}

\(^{67}\) the Financial Services Authority (FSA) has now become two regulatory bodies: the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).
other aspects of wellbeing in that region with GDP as one of the major indicators.\(^{68}\) Regional governments’ pursuit of growth coincided with the regional exchanges’ pursuit of business opportunities; therefore, the former became the implicit political sponsor of the latter. Through bricolage an unanticipated alliance was struck.

### 6.2.2 The state as a complex actor I: giving space, maintaining control

Whilst acknowledging difference between regional and centrally regulated exchanges, we should also understand the shades of grey. The Chinese state has always been a complex actor and a mutable, though sometimes contradictory, organisation. On the one hand the state wants to maintain control. However, the state also needs a competitive market as a driver of growth. They therefore allowed free competition between exchanges initially, but then turn to directive, administrative control when the market experiences difficulty and self-regulation ceases to work. Wu emphasises how errors and mistakes occur in the process of reform, and how these often become excuses to re-strengthen administrative control (Qian and Wu, 2003). In 1990s, they set up rules to designate exchanges, the varieties and the senior management.

The state will be discussed in more depth in the next chapter, but it is important to outline the ‘personality’ of the state actor at this juncture. The state is trying to maintain a rigid market structure while struggling to give enough space for the industry to grow. The state is also a fragmented actor. Regional governments are constituents of central government, yet they have a degree of autonomy to make regional rules, implement regional and national rules, and influence the state government. Some businesses will substantially benefit the regional economy, and under such circumstances, regional governments may take some political risks to support them (against central ministers). As explained in previous chapters, the

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\(^{68}\) According to the commentary published on the government website on 8 December 2006, ‘The first task of regional government reform is to improve performance evaluation system. The current one has weighed too much on GDP growth’. Source: http://www.gov.cn/zwhd/2006-12/08/content_464138.htm
regional government and the central ministries hold the same rank, and their jurisdictions overlap. The political risk lies in the conflicts that arise between region and ministry. In the case of futures markets, the CSRC is the central regulator who wants to preserve the monopolist position of the regulated exchanges, whereas the regional financial affairs office may want to promote the regional exchanges to boost regional growth and financial development. The mediation of such tensions or conflicts requires much political skill, nimble strategies and great resourcefulness and explains why institutional bricolage is more prominent in China than in more developed countries.

Institutional bricoleurs are therefore individuals who possess social and political resources and who are willing to profit from their resources. They pursue structural change because the existing structure has limited their success. The existing structure of the UK allowed ICE Clear and LME Clear to emerge, competing with the well-established LCH. China’s structure has not provided a channel for ambitious entrepreneurs to establish their exchanges to compete with the SHFE, the DCE, the ZCE and the CFFEX. The result is institutional bricolage.

China provides fertile soil for institutional bricolage as its social structure has two key aspects. It is hierarchical and fluid, as outlined in chapter 1. One-party leadership does not mean that the voice of those at grassroots level cannot be heard, or that the people have no access to power. However, it does mean that the presence of a dominant force and it acts as a block on the discursive legitimisation of certain activities like the regional exchanges that are seen to be a threat to socialist economic order. At the level of practice, however, such activities are tolerated for periods as a test or experiment to see whether they improve the Chinese economic system.

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69 People’s Bank of China (PBOC) is also a ministerial regulator at central level whilst regulating trading venues is not its major responsibility. PBOC regulates gold trading and Shanghai Gold Exchange.
This discrepancy between the ideology and instrument generates a counterforce for reform from within (Chen, 1995). Although incremental measures allows reformists to ‘buyout’ vested interest groups gradually, the stagnated political reform presents real long term threats to economic reform (Sachs et al., 2003). One of the informants told the researcher that before he joined the regional exchange he realised he was taking a risk in confronting the vested interest groups, but he was then encouraged by a central leader to ‘be the vanguard of reform’, and ‘tear a gap in this rigid system, and break through from the experimental field’. The former premier also addressed the difficulty the Party and government facing when economic reform has achieved substantial progress (Wen, 2012). The counterforce from within is becoming more formidable rather than easing. Therefore, institutional bricoleurs will have to be more resourceful and innovative in coping with the challenge.

Institutional bricoleurs have the resources to work on two dimensions, the technical and the political. In the technical dimension, they work as genuine bricoleurs as per Levi-Strauss’ definition (Lévi-Strauss, 1966). They have a wealth of industrial experience and knowledge, capability of working out solutions to problems in practice and identify the directions for future development. In the political dimension, they utilise their social and political resources, exerting influence and shape the institutions in a culturally embedded manner.

6.2.3 Portrait of an exemplary team

This section will provide some background information on the people who will be the focus of this study. It does not aim to conduct a formal social network analysis for institutional bricoleurs, but it does discuss their background and social relations with other stakeholders. Knowing people is an important credential when building business

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70 The interviewee is an executive at a regional exchange. He maintains an extensive network in Beijing as his father held a senior position in the People’s Liberation Army. He studied and worked in Europe for many years before he returned to China to pursue business opportunities.
and political relationships in China as the process of negotiation and consensus building often lie in the seemingly informal occasions. The senior management of regional exchanges are institutional bricoleurs and their social relations are an important resource for institutional bricolage. Some of them were born into the network, while others gained access to the network due to their experience or success. The executives of the Dragon Exchange, where the researcher participated, have broad social networks. Some are so-called ‘princelings’: a term used to describe the sons and daughters of tenured or former senior government officials who often hold Ivy League degrees and are ‘known as people who can get things done in China’s heavily regulated marketplace’ (Barboza, 2012). However others come from modest backgrounds but work their way up the industry and in doing so accumulate a network through the day in day out mechanics of the job. I experienced both types in the Dragon Exchange and will briefly outline one example of each.

Princelings emerged in a particular context. In the planned economy era, citizens’ accommodation was provided by the state and ‘allocated’ by the organisation to which they were affiliated, usually called the ‘unit’ or ‘organ’. The ‘unit’ is a production or operation unit - a factory, hospital or the like - while the ‘organ’ is the government sector. Thus, people who worked for one organ or one unit usually lived in one community. This is one of the bases from which the princelings emerged. They have been neighbours since childhood and went to the same schools together. Their life courses usually diverged after higher education, following which some of them remained in the political system and became officials, while others went into business. They still form a closed circle and leverage each other’s resources for mutual benefits. This background fits the profile of one executive I worked with in the Dragon Exchange: he maintained a substantial network with officials in regional and central government, as well as with officials in the CPPCC.71

71 The CPPCC is the government organ composed of political parties who are not CCP. ‘The Chinese People's Political Consultative Conference is a united front organisation under the leadership of the Chinese Communist Party and an organ for various other political parties, mass organisations and personages of various social circles to take part in the running of the state.’ Source: http://english.gov.cn/links/cppcc.htm
Another executive in the Dragon Exchange was an industry veteran who had built a broad network with industrial professionals and intellectuals. He came from a modest background, educated himself to Master’s degree level and then worked his way up through the futures industry. He worked in the futures industry from the early 1990s, before any formally recognised domestic exchange existed. He did this by working for a Hong Kong brokerage company as a broker in trade for Chinese customers on the Chicago Mercantile Exchange. Later, he joined one of China’s largest and earliest futures companies, and then subsequently had experience working for a variety of other smaller futures companies. In 2010 he was invited to join a team tasked with designing the trading rules and the system of the Dragon Exchange. His networks extended to other actors working in domestic and global market, including the Chicago Mercantile Exchange, the London Clearing House and other futures market facilities and exchanges in the US and the UK. Such broad industry network connections were to prove invaluable as it became a reputational resource he could draw on to defend the exchange from government crackdown by signalling his experience of the ‘advanced’ Western system.72

6.3 How do they work to change?

Whatever the background of these executives working on the regional exchange, they share a desire for structural change, because this is viewed to be best for their organisation and their own individual success. Their actions as a driving force for institutional change are more or less an unintended consequence of their daily work. Institutional change is their means and instrument. They work for organisations that strive for legitimacy and market success. The real problems they commonly face are whether there are hostile media reports, unfavourable governmental notices or

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72 The researcher was asked by government officials about the practice of financial organisations in London many times during the interviews and participation.
competitors that are catching up with them. In coping with these day-to-day issues, they unconsciously alter the existing structures and create new ones.

This process of often unanticipated structural development within China’s futures market could be considered ‘institutional bricolage’, as it shares significant features with those of bricolage elaborated by Lévi-Strauss (1966). The executives’ action is to ‘make do’ with ‘whatever is at hand’, which is ‘a heterogeneous and finite set of tools and materials’, to start with ‘pre-constrained’ oddments left over from human endeavours and to end up with a result that will inevitably be at a remove from the initial aim’ (Lévi-Strauss, 1966, pp.17, 19). Drawing on this concept, this thesis develops a more comprehensive and multi-layered concept of ‘institutional bricolage’ set within a Chinese context.

To do this I will outline four major characteristics of institutional bricolage: i) improvising, ii) shaped and shaping, iii) culturally embedded consensus building and iv) unintended consequences. China’s socioeconomic change started with a vision rather a blueprint (Schurmann, 1966). The specification of the institutions is developed en route instead of being set beforehand. The flexibility and uncertainty, renders a process that the interaction between ideas, agency and structure shapes the outcome. Hence, the observation is all about how the actors play by the rules, their reflexive, reactional and spontaneous actions that based on their experience, their understanding and evaluation of the situation. The above characteristics are summarised from the observation and participation in the field. They are embedded in the process of the institutional bricoleurs’ everyday activities. And those activities, in turn, are embedded within China’s cultural tradition and ideology which shape actors’ perceptions and behaviour. Institutional bricoleurs therefore pick up things along the way and convert them into their resources, putting together their heterogeneous and finite toolkit within certain normative limits.
There are two dimensions of their bricolage: intellectual bricolage (Douglas, 1987), through which bricoleurs draw on a stock of ideas, putting them together in an improvised way. The second is institutional bricolage, through which they mediate different interest groups, utilise their networks as a stock of institutions and build political consensus in order to enable their actions. However in reality, these two dimensions are inseparable. Ideas and structure are bound to each other. To effect institutional change, an actor not only needs an improvised web of ideas, it needs to be expressed in a language that is in harmony with Chinese values, and also the network connections to negotiate or push through change. Therefore the act of negotiating change is culturally embedded.

6.3.1 Improvising while performing

Improvisation is one of the major characteristics of institutional bricoleurs’ actions. It is an instant reaction to circumstances. The term ‘improvisation’ is commonly used in studies about performing art. It is referred to the artistic product which transformed the original model and created new ideas, and the ‘dynamic conditions and precise processes underlying the improvisers’ transformation and creation’ (Berliner, 2009, p.221). Executives and managers cannot be well prepared for all possible situations, such as when unexpected questions arise during an enquiry. They will have to cope with those situations artistically with whatever resources they have to hand. This process may involve the simple, improvised mobilisation of different ideas in a process of discursive legitimation for the public or a more complex process which mobilises discourses, reputational capital, network connections and other resources to weather the government crackdown. An example of each will now be given.

One example of improvised discursive legitimation took place during an important interview between one executive of the Dragon Exchange and a financial media institution. The subject of the interview was to discuss financial innovation within the
‘Comprehensive Experimental Field of Reform’ (CEFR) – a formally designated and centrally subsidised geographical region where innovative activities are especially encouraged. His trading model had received negative press, where the general perception was that his model and others like them were risky and encouraged malpractice. The executive had conflicting interests. On the one hand he wanted to justify his trading model as a legitimate example of innovation in CEFR. But on the other hand he did not want to disclose details of the model for two reasons. Firstly, because it is a core competency, he did not want to disclose the details for commercial reasons. Secondly, it would involve terms and jargon that are difficult for a lay person to understand.

The executive instead explained his model by way of analogy; he compared the trading mechanism to one of the most popular online shopping platforms. The journalist who conducted the interview seemed immediately convinced. People may not understand the design logic and mechanism behind certain concepts that they see every day, but they can get used to it. After a while, they accept it as if they have understood it perfectly and would not even think of asking questions. As Wallerstein argued legitimacy was a function of time (Wallerstein, 1991). Using an accepted example to draw an analogy with the one in question saves ‘cognitive energy’ (Douglas, 1987). However, it is up to the executive to make it convincing. A convincing improvisation is the outcome of a well-built repertoire, a heterogeneous but finite instrumental set and the actors’ skills to manoeuvre (Berliner, 2009). This executive was a good public presenter and he understood that to justify the ideas, it requires knowledge, expertise and a sophisticated understanding of the social system and its rules. As Cleaver described, institutional bricoleurs ‘act upon the circumstances that confront them’, learn from and influence the other participants, frame or reframe the situation and work out a coherent strategy when improvising (Cleaver, 2001, p.4).
A more complex example of improvisation can be found in the moves made by one senior executive to protect his regional exchange – the Dragon Exchange, during a period of central government crackdowns. When the third crackdown was launched in November 2011, all regional exchanges in China faced the prospect of closure, with no indication of what could be done to secure a stay of execution. Thus, all moves were improvised by necessity. In the region of the Dragon Exchange, around twenty-five exchanges were under threat. The crackdown also threatened the regional government interests in maintaining the regional exchanges to help them meet growth targets and other political performance measures. It was within this context that one executive of the Dragon Exchange, let us call him Mr Wang, was summoned by the regional government to discuss how to respond. Mr Wang came up with the idea of a trading group which major function is to centrally clear and record every transaction generated by its subordinate exchanges. This would, hopefully, show to the regulator that the regional government had technically adept and legitimate tools to control risk. This required multiple improvisations which drew on his experience, repertoire and networks. I will now describe this improvisation in more detail.

The background to this novel solution demonstrates the resourceful and improvised manner in which ideas were harnessed and institutionalised in a context of political threat. This threat also challenged regional government: it needed to come up with a solution quickly to prove to the State Council and its designated regulator that the risk in the region was well monitored and controllable. Mr Wang played a pivotal role in defending his company and indirectly, the interests of other regional exchanges and regional governments.

This pivotal position reflected his own particular experience in the UK and US. The year before the crackdown Mr Wang had visited some of the successful exchange groups and clearing houses in the US and the UK. At the time his agenda was a little obscure. These global players often asked, ‘what can we do for you?’ His answers to the questions were ‘to see whether there are potential opportunities to cooperate with
your exchange/clearinghouse’. It might be a little unusual for people from Western countries to welcome visitors from another organisation without any explicit agenda, but the desire for learning from within China was understandable and the fast growth achieved was admirable; therefore, they would not ignore the chance to meet with the players from that region. The meetings were basically introductory, with some of the misunderstandings and confusing points discussed and clarified. Although the visit did not achieve any substantial outcome, it opened communication channels and hence the process of mutual understanding and learning. It might be Mr. Wang’s instinct that good knowledge about and network with the Western players could be resources in his instrumental set which ‘may always come in handy’ (Lévi-Strauss, 1966, p.15).

After the UK and US visits, the day-to-day issues for Mr Wang were still the increasingly fierce competition from other regions and other exchanges. Some hostile media institutions were also constantly publishing negative commentary regarding his exchange, other regional exchanges or regional exchanges as a whole. This was not surprising, as practitioners who had experienced the early stages of the futures market were familiar with the history of the 1990s. There were about 50 exchanges, the majority of which suffered from rampant speculation, price manipulation and fraud. It was like the US futures market in the late 19th and early 20th centuries, when attempts to ‘corner the market’ affected almost every active contract (Markham, 1987).

In 2011, it was estimated that there were about 300 regional exchanges, trading in all types of commodity derivatives and securities. It was a fact that many of them were not well designed or managed. Flawed trading rules and poor management created a

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73 During fieldwork phase III, the researcher accompanied Mr Wang on his visits to the US and the UK, acting as the interpreter in the meetings. Mr Wang was also one of the interviewees in fieldwork phase II.
74 During fieldwork phase III, the organisation the researcher worked for interacted with some London financial elites and they were obviously impressed by Chinese’ strong desire of learning.
75 Corner the market: a common scheme of price manipulation whereby the manipulator holds significant long positions in one commodity that exceed the actual available deliverable amount in order to keep the price high and enable the manipulator to make a profit.
situation similar to that in the 1990s. For practitioners who stayed long enough to remember the 1990s, it was a case of ‘history repeating itself’. Mr Wang had confidence in his exchange though, as his working experience in the futures industry is longer than the history of the market in China. He started working in the futures industry in early 1990s and held various positions; therefore, he considered himself to be one of the few who knew how to run an exchange. He designed the trading mechanism and rules of his exchange, and made sure that there was no room for price manipulation and other fraud. As he put it himself: ‘I led corner events many times when I was a trader. I know all their tricks’.76 This exchange is not a completely private company; it is partially owned by the regional government institution and central state-owned enterprise. However, the challenges from hostile media and fraud at other regional exchanges made the status of his exchange precarious.

In November 2011, when the tension had built up considerably, the State Council published the decision to ‘clean up and consolidate’ those exchanges that were not approved by the State Council or its regulatory institutions, the CSRC or PBOC (SC, 2011). This is the third crackdown. The target of this campaign was the regional exchanges. A task force, called the Inter-Ministry Joint Conference, was to be set up at central level and would be led by the CSRC. The provincial and municipal governments are responsible for implementing the action in their jurisdictions. Mr Wang was summoned by the regional Financial Affairs Office for an urgent meeting.77 The responsibility of the regional Financial Affairs Office was to foster financial development in the region and the task of this meeting was to discuss the notice from the State Council. The six-page notice defined the kinds of activities that were ‘unauthorised and illegal’. If the exchange were judged to fall into this category it would be rectified or shut down. During the discussion, Mr Wang sensed that the concerns of the officials from the Office were not completely in agreement with the ‘spirit’ of the State Council. The Office wanted to keep some of the exchanges in the

76 Quote from one of the executives of the regional exchange where the researcher participated.
77 The researcher did not participate in the meeting, but had a discussion with Mr Wang and two other key staff afterwards. Mr Wang disclosed the information and the idea he had proposed.
region, particularly those that had contributed significantly to the local economy and had never been exposed to unmanageable risks or fraud. They also wanted to take the opportunity to close some of the problematic exchanges. However, the first and foremost concern was to develop a solution as a report to satisfy the Inter-Ministry Joint Conference. The question was how to keep some of the ‘good’ exchanges? There were two key practical criteria. The first was that they should not fall under the CSRC’s definition of a futures or ‘futures trading in a disguised form’ (SC, 2007). The second was that the local authority needed to convince central government that the risks of continuous trading were controllable. An idea formulated in Mr Wang’s mind, which he suggested to the officials: form an exchange group providing the essential post-trade facilities for the to-be-kept exchanges in this region. He further explained that this group would be controlled by the regional government, specifically the Financial Affairs Office, and it would integrate the functions of a trade repository, a clearing house and risk management. In this way, the market would become a lot more transparent and the regional government could get a grip on what is going on in the market.

This suggestion addressed the concerns of the officials as they did not want to prohibit trading in the region, as it generated revenue, tax and local employment. Meanwhile, they had to prove to central government that the trading risk in their region was under their control. Mr. Wang referred to the practice in the US and the UK to convince the Office that his idea is in the trend of global financial market development. It further removed the Office’s concern as it could be justified as the learning from the advanced Western market. With hindsight, it was a mini-version of the Dodd-Frank Act, forcing all trades to be cleared on a centralised platform, which enables the regulator to monitor where the risk is and the scale thereof.

Although Mr Wang’s intention was to survive the crackdown and gain an even more competitive advantage for his organisation, as he had contributed this idea it should therefore be his privilege to be one of the kept exchanges. He made this one of the key
aspects of his improvisation: he suggested his exchange as the initiator of the proposed exchange group and, therefore, he could transform the organisation through a new growth strategy. This idea could be formulated instantly during the urgent meeting because he had obtained knowledge during his visits to the global players in the US and the UK. What he proposed, in professional terminology, was an open-horizontal market structure, very different from China’s current, prevalent practice, but a dominant and successful practice in the UK. It was a good idea because it could turn the conjuncture into an opportunity for the exchange. The regional government would need his expertise to compile the report and the relationship he had established with the UK players in order to effect this proposal. Compared with solutions proposed by other exchanges, this one was definitely favoured by the regional government due to the ‘advanced’ tag. Mr Wang did not envisage such an opportunity for his exchange. It was an improvised idea for this region within a particular contextual moment. It was an integration of the cracking down environment, his knowledge and experiences, and his capability to figure out the concerns of the regional officials instantly during the meeting. What made him the institutional bricoleur was that he utilised institutional resources available to him, the practice in Western markets and the institutional environment in China, and created an institutional bricolage which was a mixture of new and old, Western and Chinese. Such a strategy was justifiable, workable, and coherent; furthermore it reframed the structure for all parties there. It was formulated in such a way that no standardised analysis could be applied. When elaborating other characteristics of institutional bricolage, improvisation will appear now and then.

6.3.2 Shaped and shaping

Institutional bricoleurs do not start their projects with a blank slate; there is an existing structure for them to start with. It constrains and enables their activity, shaping their way of doing things. Lévi-Strauss described the existing structure as ‘a
collection of oddments left over from human endeavours’, ‘the remains and debris of events’ and ‘fossilized evidence of the history of an individual or a society’ (Lévi-Strauss, 1966, pp.19,21). Institutional bricoleurs’ actions and thoughts are shaped by the history of the market and experiences of their own, but they do not put themselves at a remove from the structure; they work to change it. As Lévi-Strauss put it, bricoleurs ‘create structure by means of events, build up structures by fitting together events, or rather the remains of events’. The interactive and mutually embodied relationship between structure and agency have also been described by Giddens’ theory of Structuration (Giddens, 1984). This section will discuss how institutional bricoleurs, as the change agent, interact with the institutions and institutional change of China’s futures market, namely the structure and the process of structuration.

The following sub-sections will first elaborate the background, the existing structure of their activities. It will explain why many of regional exchanges have chosen to partner with regional government and how the alliance relationship has become an important resource of their institutional bricolage. Then two examples will be discussed in terms of how institutional bricoleurs’ activities have impact on institutional change of China’s futures market. Both of them involve the ingenious creation, learning from the Western ideas, and the integration with the indigenous conditions. The first example was about the emergence of CFMMC, the China Futures Margin Monitoring Centre. It is a story about institutional bricoleurs in a brokerage company. The second story involves a more complicated process about how institutional bricoleurs regional exchanges have affected by and shaped the regulation and regulator’s behaviour. The second story evolved around one of the important article in 2007 edition futures regulation, Article 89 the ‘futures trading in a disguised form’.

Economic reform and the controlling legacy
The most important piece of ‘remains and debris’ is the nature of China’s economic reform since late 1970s and its historical background. As reviewed in Chapter 1, Deng’s economic reform has given the economy new features. Although China’s national economy was less centralised as that of Soviet in the planning era, it still relied on the central planning system to control prices for trades, allocate resources and distribute products. Deng’s reform started to release the sectors which were still centrally controlled gradually. As the central control was lifting, the market had to be built as it would generate price, the signals and indicators for the allocation and distribution of resources. The experiment of launching a futures market was part of the national price reform in the 1980s. The State Council’s first initiative was to develop it as a supplement to the wholesale market. People’s way of thinking is an important element of institutional foundation for any change. Although the reform had taken an incremental measure, which means change happened slowly and in a trial and error manner, players freed themselves from the concept of controlling even more slowly. Not surprisingly, the new futures market could not function very well, because some relevant stakeholders had been consciously or unconsciously trying to control or influence the price. They were used to communicating signals through the planning system, so they expected the market to “listen” to them. The ministries, state-owned enterprises, regional government, capital factions and brokerage companies utilised their means to influence the price movement.

It is because this reason China’s futures market was far from a free and perfect market at the initial stage. In fact, it was a field for the conflict of forces. Guan Jinsheng’s fatal failure on Treasury bond 327 in 1995 did not result from his rational analysis of market condition or irrational behaviour in the last eight minutes of that trading day. It was because the political force that backed him did not have an advantage over the one that backed CEDTI. His alliance was with Shanghai Municipal, whereas CEDTI’s was with the Ministry of Finance. Obviously, the subsidy rate of Treasury bonds was under the jurisdiction of the Ministry of Finance. The courses of manipulation between SISCO, Guan’s brokerage company and CEDTI, his rival were not very
different, but the Shanghai Securities Exchange only cancelled Guan’s orders. Guan won on the market, but the force with which he was allied did not win. Hence it corrected his success on the market and resulted in his imprisonment. This analysis would not sound strange to futures people who were players at that time, because it was the latent rule that the loser took the blame. Guan’s failure and the event of his craft had significant impact on the institutions of China’s futures market. The financial futures was soon stopped trading by the order of the central regulator. It took more than ten years for CFFEX to emerge in 2006 and another four years to prepare for the launch of Stock Futures Index. The Treasury Bond 327 event was often mentioned when explaining the slow progress of China’s financial futures and the over cautious attitude of regulator.

There is another example to explain the legacy of planning economy mindset. As one of the interviewees recounted, the first batch of traders of COFCO78 were often tasked with missions to ‘stabilise the market price’ or even ‘boost the agricultural commodities price’ for the purpose of ‘solving the farmers’ difficulty of selling their produce’.79 COFCO was owned by the State Administration of Grain. At that time, price was more an instrument to fulfil political missions than an indicator formulated autonomously by the market. In the first decade of the futures market, the central government and its ministries had not learnt how to deal effectively with price fluctuation. Nowadays, Chinese have generally accepted that price has more to do with monetary policy than futures market, whereas in 1990s, newly came out from planning system, they believed it was the speculation or the market itself disturbed the socialist economic order. Under this kind of pressure some ministries would use the capital they own to manipulate the price of futures. As many interviewees told the researcher, not all the risk events in the 1990s were caused by rogue capital fractions, many regional and central departments were involved.

78 COFCO is China National Cereals, Oils and Foodstuffs Corporation, one of the largest, state-owned market participants.

79 These are quotes from one of the interviewees, the former trader of COFCO, during the second round of interviewing. This story and the opinions in this paragraph are compiled based on interviewees’ narrative.
When the market was first formulated, the institutional foundation at that time determined its shape. Nevertheless, the continuous existence of the market and learning has had an impact on people’s mindsets. People could not possibly learn rationally before they knew what was there to learn, while, with the market in place and the lessons from ‘risk events’, they gradually learnt what it is and how it should be. The market then started to shape its players and the players started to shape the institutional foundation of the markets. Many exchanges hired experienced consultants from mature markets. Although the market was not open to foreign investors or foreign capital, it did not stop the domestic market from learning from the foreign market. In addition, some officials and practitioners who worked or were educated in Western countries facilitated the transfer of knowledge. Some of the market-prone type of officials had the same experience of being members of delegations that visited the USA’s agricultural department and commodities exchanges. All of these facilitated access to modernity. However, institutional foundation is at all levels of society and cannot be changed overnight. It can incorporate new elements gradually. Hence the result of change turns out to be a mix of new, old and their improvisation. In the following sub-section, two examples will be employed to explain the modern shaping, the ideas from the West integrated with that of ingenious domestic practitioners. The first is about the emergence of CFMMC, and the second is about the very interesting and controversial ‘futures trading in a disguised form’ clause in 2007 edition regulation.

The emergence of CFMMC

China’s CFMMC is a combination of ingenious solution to real problem and learning from the West. CFMMC, the China Futures Margin Monitoring Centre, works as a data repository, similar to the Depository Trust & Clearing Corporation (DTCC) in

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80 Several of my interviewees who worked for government in 1980s had the experience visiting the USA’s agricultural department and commodities exchanges. The practice of formulating government delegation and send them to learn from the West has lasted till today.
the US. CFMMC records transactions and calculates the balance on trading accounts on the four CSRC-regulated exchanges, but does not provide clearing service. The emergence of CFMMC is derived from an innovative idea from a senior manager of one of the brokerage company. It was first called ‘electronic post office’ at the beginning in early 2000. The original idea was to send the records of account balances and the transaction history to the customers’ email accounts and have the records verified by a third party. This method effectively eliminated the possibility of margin appropriation. In the early years, One type of frauds was that brokerage companies and brokers stealing from customers’ accounts. This ‘electronic post office’ kept the customers’ informed about their account balances, as it was made easier and timelier; hence, it became a mechanism for surveillance of brokerage behaviour. It enhanced the regulatory efficiency of brokerage companies.

The idea was contributed by a senior manager of a futures company, then adopted by the Beijing Futures Industry association and promoted by the Beijing Securities Regulation Commission. In 2005/06, the CSRC included it in the new regulatory measure and founded the CFMMC. The ledger bill of the day, which shows the transactions and balance of the account, will pop up when the customer logs into the trading system via the internet after clearing. Some brokerage companies ask customers to tick to confirm that they agreed with the content of the bill before they started trading next day. In a sense, it also improves futures companies’ internal control, compliance and governance. This is the very case showing how the different levels of bricoleurs cooperated to improve market efficiency and shape the institutions in China.

‘Futures trading in a disguised form’

Institutional change is not always evolutionary; sometimes, it can be regressive due to institutional bricoleurs’ improvisation The second interesting example is how the
description of the ‘futures trading in a disguised form’\textsuperscript{82} (SC, 2007), which is also commonly called the ‘variant of futures’ by the industry, has shaped and is shaping the institutional change of China’s futures market.

It has been a challenge for the CSRC to define futures and futures exchanges. It seems that, no matter how detailed the regulatory definition is, there are still some outstanding exchanges that are in fact futures exchanges but claim otherwise; thus, whether they should be subject to CSRC’s regulation is in dispute. In this case, when CSRC compiled the 2007 edition of regulation, the Article 89, the description about the ‘futures trading in a disguised form’ was added. It described futures market from its key aspects in terms of contract design, margin rate, performance bond, trading mechanism and authorisation. It was really challenging for regional exchanges to trade futures or futures-like contracts. However, institutional bricolage evolved around the article and designed their exchanges and contracts in an attempt to circumvent it. The discussion in the following will get into some technical details.

At first some background information about this dispute shall be introduced. The first point: the common sense in the futures industry is that if the exchange is not a futures or securities exchange, then the CSRC has no power to regulate it. The current regulations state that the CSRC is the regulator of stocks, futures and options. It is different from the regulatory framework of the US or the UK. In the US, the futures market is regulated by an independent institution, the CFTC, and it has power over any commodity-related derivatives. Likewise in the UK, the FSA regulates any activities and institutions related to financial services; thus, it covers all types of commodity derivatives. Compared to these two structures, the CSRC’s power seems to be under-defined and incomplete,\textsuperscript{83} as firstly derivatives have no limited form and are definitely beyond the scope of futures and options. Secondly, the standardised forward and spot contracts have the similar function of a futures contract and should

\textsuperscript{82} This was in the 2007 edition futures regulation, No. 89.

\textsuperscript{83} During the interview with an official of the CSRC in September 2011, the official mentioned issues regarding the definitions of spots and futures.
be regulated as securities if following the US and UK’s regulatory structure. However, in China forward and spot market are treated as commodity markets and hence fall within the power of the Ministry of Commerce. The Ministry of Commerce is not a regulator for financial market and does not regulate the forward and spot markets as securities markets but treat them as the same as those spontaneous or organised marketplace. In this case, the registration, termination of spot and forward markets, and other administrative measures should be approved by the Ministry of Commerce.

The third point concerns local government. As a referee, local government has a say in terms of whether the market should be regulated by the CSRC. Central regulation usually has the effect of constraining regional economic activities, instead of facilitating them (Liu and Wei, 2012). An exchange is a cash cow for the region, as it brings in huge amounts of trading funds, and generates GDP and tax income. If it is not located in this region, the local government and economy will not benefit directly. This background information will help in understanding how the ‘variant of futures’ clause in the regulatory measures has shaped the institutional bricoleurs’ actions.

In order to distinguish the spot and futures markets, the 2007 edition of futures regulation defined the futures exchange as the marketplace for trading futures contracts, and the futures contract as a standardised contract with a specific delivery date in the future (SC, 2007). It seemed too specific to be effective. If the other markets were to alter the design of their contracts, making them slightly different from the definition, then they could claim that they are not futures markets, although the technology and mechanisms are generally the same. Thus, there was a detailed clause describing what constituted a ‘futures trading in a disguised form’ (SC, 2007), which is also called the ‘variant of futures’ in the industry. According to the regulation, activities trading the variant of futures should be halted by the CSRC if discovered. The elements of a variant of futures include:

1) Not being authorised by the regulatory institution of the State Council;
2) Trading standardised contracts;
3) Centralised trading, in addition to having one of the following characteristics:
4) Providing a performance guarantee for both buyers and sellers;
5) Trading on a margin of less than 20%;
6) Mark-to-market daily settlement.

Therefore, the regional exchanges emerged after 2007 have been designing against these detailed rules. They could not argue that they are authorised by the State Council or its designated regulator, the CSRC, but they could possibly claim that 1) the contract is not futures contract, 2) the trading was not centralised, 3) the exchange was not providing performance guarantee for the buyers and seller, or 4) the margin was at or above 20%.

Based on the observation in the field, there were three types of ‘innovations’.\(^\text{84}\) The first type is the majority: those regional exchanges set up a margin requirement at 20% but retained the characteristics of central trading and standardised futures contracts; the second group traded spot-deferred contracts instead of standardised futures contracts; and the third group avoided the centralised trading mechanism by using market-makers as an intermediary.

Obviously, all the institutional bricoleurs from regional exchanges could not work on the first point. It is clearly defined that only the CSRC can approve new futures exchanges and none of the regional exchanges are authorised by the CSRC. Institutional bricoleurs’ pursuit of business opportunities were constrained by the existing regulation. They then formulated alliance with the regional government to help justify and legitimate their own design of the market. Circumventing the Article 89 of 2007 regulation may be their ulterior purpose; however, their work has involved some ingenious ideas and good practice learnt from the West. For those who managed to survive the third crackdown, their creation will become a part of the structure and

\(^{84}\) This summary is based on the researcher’s participant observations in the field from November 2011 to April 2012.
this is their way of contributing and shaping. Their innovations will be elaborated in further details in the following.

The term ‘centralised trading’ seems to be obscure. It is connected with the fourth point, ‘performance guarantee for both buyers and sellers’, together defining a key role in the trading process, a central counterparty. The exchange, as a central counterparty, novates each deal instantly, becoming the buyer for all the sellers and the seller to all the buyers. In other words, the exchange is the counterparty to the rest of the market. It concentrates the risks within itself and protects solvent market participants in the event of default. There are other forms of contractual relationship in mature markets: the OTC market, where the contract remains between the buyer and the seller; the market-maker market, where the market-maker is the counterparty to its customers and the cleared, or OTC-cleared market, where a clearing house is the central counterparty for any market participants that submit deals to them. China, as a latecomer to futures trading in the 1990s, adopted the US futures trading mechanism, electronic central matching, which is a central counterparty trading mechanism. It is the only trading mechanism used by CSRC-regulated exchanges. However, looking back over the two hundred years of the history and evolution of central clearing and exchange, there have been many interim forms. In the 1990s, in the US the technology had advanced to the stage that electronic central matching systems seemed to be a necessity for modern exchanges. Central matching means the exchange is the central counterparty. All buyers and sellers place their orders in the automated system. As soon as the orders are matched by the automated system the exchange steps in and novates the contract, becoming the seller to all buyers and the buyer for all sellers. It is the highest form of performance guarantee, as the exchange takes on the legal

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85 Central counterparty: an entity that is the buyer to every seller and seller to every buyer of a specified set of contracts, e.g. those executed on a particular exchange or exchanges. Source: BIS Glossary.
86 Novation: the satisfaction and discharge of existing contractual obligations by means of their replacement by new obligations (whose effect, for example, is to replace gross with net payment obligations). The parties to the new obligations may be the same as those to the existing obligations or, in the context of some clearing house arrangements; there may additionally be substitution of parties. Source: BIS Glossary.
87 The market typology is provided by ISDA (International Swaps and Derivatives Association). Source: http://www.isda.org/educat/faqs.html#4
responsibility for fulfilling the contract in the event of failure. The electronic central matching system is a mature form of modern exchanges. It emerged from the broadly based forms of OTC and the market-maker market in North America and Europe and has only become a trend since the 1990s. It has evolved along with the availability of technological advancement. This design has become dominant in China and one of its effects is that it left the majority of domestic practitioners lacking knowledge about other forms of markets, such as the market-maker, OTC or OTC-cleared. The term only becomes meaningful when there are markets organised in other ways.

Between 2007 and 2011, most of the emerging regional exchanges were designed with an electronic central matching system and a 20% margin. The ‘20%’ has a connection to the Bulk Commodity Electronic Transaction Specification as it states the forward contract should require a deposit no less than 20% and it becomes the demarcation between the spot and futures which does not appear in other countries (GAQSIQ, 2003). Some of them used different types of contracts, instead of standardised futures contracts, such as forward and spot-deferred contracts. A forward contract is an unstandardised contract with an agreed delivery date in the future, while the spot-deferred is still standardised but has no agreed delivery date. It could be delivered on any day in the future and before the contract is committed for delivery, the buyer will have to pay the ‘overnight fee’ to the seller. A small number of exchanges tried to innovate in terms of centralised trading. One of them designed an exchange simulating a market-maker system. With market-making brokerage companies being the counterparties of their customers, the exchange stepped out of its contractual relationships with the investors and, in a sense, decentralised the trading. What inspired them was the mechanism of the London Bullion Market Association (LBMA) and the form the Chicago Board of Trade (CBOT) used in 1883. The clearing house, as a department of the exchange, provided clearing services and risk management, but did not novate the contracts; therefore, the legal obligations

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88 The London Bullion Market Association is a market-maker market has lasted for more than 100 years.
89 The Chicago Board of Trade first organised a clearing house to manage the risk of default in 1883.
remained between the buyer and seller. The exchanges, utilising the market-making and OTC-cleared infused mechanisms, instead of the modern electronic mechanism, decentralised the trading and avoided providing performance guarantees for their investors, thereby circumventing the third and fourth points of ‘variant of futures’ definition. Although this mixed trading mechanism was not taking the market towards a more advanced stage, it diversified the market and added new elements to the existing structure.

The exchanges that adopted a decentralised trading mechanism other than the electronic central matching method turned out to be growing faster, as they had evaded the definition of ‘variant of futures’ and were therefore not subject to the 20% margin mandate. According to the regulatory measure, only CSRC-regulated futures exchanges are allowed to trade at a margin lower than 20%. The margin requirement for other exchanges is set as high as 20%, impairing their competitiveness with CSRC-regulated exchanges.

This story tells how market practice has been shaped by the regulation. The first edition of the regulatory measures contained only the definition of futures (SC, 1999). Therefore, the institutional bricoleurs developed variants of futures. When the rule regarding ‘variant of futures’ was formalised (SC, 2007), they further derived variations from the rule. In the third edition of the regulations, the ‘futures trading in a disguised form’ clause was removed and the definition of futures trading was amended once again. This time, the CSRC put forward the key responsibility of futures exchanges: to organise centralised trading and provide performance bonds (SC, 2012c). The crackdown that started in November 2011 has gradually yielded results.\textsuperscript{90} The CSRC approved the reports from the regional governments in batches. For the first time, some of the regional exchanges were retained. The impact of the

\textsuperscript{90} The approvals were published on the CSRC website:  
http://www.csrc.gov.cn/pub/newsite/bgt/xwdd/201211/t20121107_216594.htm  
http://www.csrc.gov.cn/pub/newsite/bgt/xwdd/201301/t20130109_220290.htm  
http://www.csrc.gov.cn/pub/newsite/bgt/xwdd/201302/t20130225_221621.htm  
http://www.csrc.gov.cn/pub/newsite/bgt/xwdd/201305/t20130510_228136.htm(dates of access?)
institutional bricoleurs on the regulator and regulation rules was clear and evident. Regulator develops new rules to curtail their “innovations” and they innovate further as a reaction to the new rules, forming a feedback loop. What they developed is a mixed structure, using the experience of the advanced markets and their history. Institutional bricoleurs’ actions are shaped by existing structures, the leftovers of history. As the story continues, they are also shaping the structure, as the effect of their actions feeds back to the structure and the structure reacts.

6.3.3 Culturally embedded consensus building

Consensus building is another important job of institutional bricoleurs. In order to influence change, they need to formulate alliances, mediate among the relevant parties and reach agreement. Innes and Booher’s extensive participant observation revealed that the process of consensus building was bricolage in many cases, as ‘participants and facilitators lacked not only a language, but even an awareness of what they actually did, much less a sense of its legitimacy’ (Innes and Booher, 1999, p.14). That ‘many cases’ refer to the situation which no clear ends or calculated tradeoffs or structured argumentation were prepared at the outset, hence logical and rational approaches do not apply. As in the contrast of the Western and Chinese practice made in previous section, in the West the channel of institutional change is more legitimised and standardised. Whilst in China, this process is less formalised or standardised and hence it will go along with the cultural tradition. Institutional bricoleurs need to figure out the way of consensus building that would work in Chinese culture. It is more like a design process, towards an open end or a new strategy, ‘a combination of practical and aesthetic sensibilities’ (Innes and Booher, 1999, p.16). A bricoleur ‘builds up structures by fitting together events, or rather the remains of events’ (Lévi-Strauss, 1966, p.22). To make the events fit, institutional bricoleurs must justify their ideas with cultural roots and articulate them in a culturally acceptable manner in a culturally comfortable scenario. Only when the speaker and interlocutors, or the writer and
readers, have achieved mutual understanding, the idea will become an accepted concept and the event will become part of the structure. This section will discuss the cultural background of China’s institutional bricolage and the details of institutional bricoleurs’ consensus building activities. It will first highlight the regional government as an important ally for the institutional bricoleurs in regional exchanges. The cultural and historical reason in that the alliance to work properly. Secondly, it will give examples about how institutional bricoleurs in regional exchanges utilise any available resources to build consensus within the alliance and with other stakeholder.

Cultural background: the important ally

This sub-section will discuss why institutional bricoleurs in China need allies to support their activities. First of all, the central regulator in China has behaved differently from that of the West. It is the institutional environment the central regulator has formulated that shapes other actors’ perception and behaviour. In the example given in earlier section, the contrasting way of structural change between the West and Chinese practitioner revealed why some activists in China are considered to be institutional bricoleurs. Paul Swann, the CEO of ICE Clear pursued his entrepreneurial ambition through a fully legitimised channel. He applied for permission from FSA and got it within months. His idea of having another clearing house in London was bold and innovative; nevertheless, it was recognised by the financial media, regulator and public as an effort to improve the market. ICE Clear’s rival, the London Clearing House might not like this innovation, whereas the FSA would not side with LCH just because it has been a well-established organisation. In China, the CSRC is delegated the power of approving new exchanges, yet it has not opened a window for public application or published their criteria for evaluation. Market players in China had no opportunity to do what ICE did in the UK when they

91 Also see footnote 58 regarding FT interview with Paul Swann, the CEO of ICE Clear Europe. Source: http://www.ft.com/intl/cms/s/0/d70b60f8-0091-11e0-aa29-00144feab49a.html#axzz2TmuofgeD
saw there was a business opportunity. Thus they sought an alternative in order to achieve their business ambitions: they built regional exchanges.

Obtaining regional government support is one of the most important strategies of institutional bricoleurs. For the sake of regional economic development and employment, the regional government would not reject trading venue to be set up in their jurisdictions, as long as it did not bring about criminal activity, negativity or uncontrollable risk. Most regions in China have a Financial Office or a Financial Affairs Office, responsible for boosting the financial development of the region (Liu and Wei, 2012). Through investment, some of them become stakeholders in trading businesses. Trading businesses bring economic prospects to the region; thus, regional governments can afford to take some political risks when engaging with regulators in central government. From the exchanges’ side, they need the support and protection of the regional government. The regional governments, especially those in the experimental field of reform, are privileged in carrying out trials. They are also under more pressure to achieve economically as they have enjoyed policy subsidies from the State Council. Regional governments are at the same power level as the ministries; therefore it is an essential solution for institutional bricoleurs to bond their interests with the regional government.

Institutional bricoleurs seek to change the constraining rules which limited their entrepreneurial pursuits, while the way in which they achieve this is shaped by Chinese culture and tradition. They form alliances with government department which can generate forces to shape or influence the constraining force. Checks and balances are one of the essences of Chinese culture, which originated from Mohism during the time of the Warring States (Liang, 1987). This tradition shapes the way Chinese institutional bricoleurs mobilise their resources to get their voice heard. It may sound like a paradox: on the one hand, Chinese culture promotes a harmonious society that the bright leader should listen to his people; on the other hand, the channel of becoming a legitimised futures exchange is not accessible, implying the ‘controlling’
legacy. This is where the importance of culturally embedded consensus building and institutional bricolage emerged. The way the Chinese leaders listen is different from how it is commonly understood in the Western culture. Chinese way is adapted to Chinese culture. Chinese way is a culture-adapted bricolage instead of a rationalised engineering. That is to say, the Chinese actors have their voice heard through not only formal communications, but also those informal, cultural occasions. The way they choose the channels, intermediaries and environment of communicating is culturally embedded.

The relatively under developed status of China’s industry association is another reason institutional bricoleurs turned to regional government. In the West, industry associations usually take great responsibility in defending the industry and promoting fair and efficient market – the ISDA being a representative organisation. The Commodity Futures Trading Commission (CFTC) wanted to set position limits for futures accounts in light of the Dodd-Frank Act. The ISDA and other industry associations continued the dialogue and consultation with the CFTC for a year, objecting to the rule governing the position limits. The CFTC finally decided to impose it, following which the ISDA declared a lawsuit against the CFTC.\footnote{This was reported by FT. See: http://www.ft.com/intl/cms/s/0/cc612758-1d07-11e1-a26a-00144feabdc0.html#axzz2Tt5eqxXL} China’s Futures Industry Association has been leading the research and data service in China’s futures industry, whereas has never filed a case against the establishment. China General Chamber of Commerce, published the \textit{Bulk Commodity Electronic Transaction Specification} through the General Administration of Quality Supervision, Inspection and Quarantine (GAQSIQ) in 2003 (GAQSIQ, 2003), which served as a standard for many regional commodities exchanges. It shielded those exchanges trade commodities forward contracts on electronic platform from being called ‘futures markets in disguised form’ for nearly a decade. While in the end of 2011 it was the job of the CSRC-led Inter-Ministry Joint Conference that judge whether it was futures
market or not (SC, 2012a). Industry associations have no roles in the crackdown, but fortunately, the regional governments do.

**Consensus building**

This sub-section will discuss in details the institutional bricoleurs’ culturally embedded way of building consensus. Consensus building is an important step of the process of institutional bricolage. ‘The process itself is simply and foremost one of learning, which transforms participants’ previously held convictions and helps them to develop new shared meanings, purposes, and innovative approaches to otherwise intractable issues.’ (Innes and Booher, 1999, p.1) In this sense, consensus building is crucial for legitimising and institutionalising institutional bricoleurs’ ideas as this process transforms participant’s ‘previously held convictions’. Chinese culture has its special values about which the institutional bricoleurs of regional exchanges have sophisticated understanding, as those values shape institutional bricoleurs’ practice of influence. As described in chapter 1, Confucianism values education and respects intellectuals. It promotes a belief that learning is the way to improve social status, especially for those from lower level background. Meanwhile, Confucianism also promotes a harmonious society and obedience to the authority. Chinese education system nurtures a ‘sit mentality’, the submission to authority without second thoughts, rendering a less critical way of thinking (Li, 1984; Li, 2007). That is to say, Chinese can be less critical or analytical about assertions; especially when the assertions come from who are considered to be authorities, e.g. officials, experts and scholars. Institutional bricoleurs are the actors who understand these core values and play by them. Therefore, they carefully choose means and create cultural occasions to influence political and public opinion. They are also excellent presenters of their ideas, strategies and representatives of their organisations in various situations. They build consensuses among different groups with conflict of interests through bricolage (Innes and Booher, 1999). The process is, therefore, fraught with uncertainties and
contingencies. There are often unintended consequences with which they will have to deal.

The close observation from the field revealed that the executive of regional exchanges are competent actors who are very capable of ‘develop new shared meanings and purposes’. In order to achieve the transformation, the executive of regional exchanges would utilise all kinds of means which are culturally embedded. The culturally embedded elements will be elaborated in details in the following.

At first, the senior management of Dragon Exchange are well aware how to present their ideas in order to achieve the influence. In many instances, it is not the idea itself, but the way of representing it that helps to gain consensus. First of all, dissemination helps to legitimise new ideas. When I participated in the Dragon Exchange, one of the most important daily I was assigned to was to write articles for publishing in some major financial media. Publications in frequent circulated media can help improve the visibility of the exchange in a subtle way, and also be the weapons to attack the competitors. We also worked with think tanks and university scholars in China. It was a process that the consensus was first built between the intellectuals with the exchange, and then the intellectuals would further work on dissemination in political or academic communications. They key issue for institutional bricoleurs of Dragon Exchange was to gain the intellectuals’ acceptance on their ideas. Intellectual work provides an educational base not only for the mass population but also for governmental officials. This is the bottom-up approach to influence or even manipulate public and political opinions. During the fieldwork, I compiled different versions of introduction of Dragon Exchange’s trading model targeting different audience. The introductions targeted various social groups and the style ranged from the most academic the most plain. The one aimed at government officials was revised for several times. It absorbed the feedback from the regional officials and adapted to their mindset. In the end, it was well accepted by the regional officials and became one of the essential materials for presenting the exchange’s trading model.
Giving an easy concept to a complex system enjoys another advantage that is if the concept fell prey to attack, the institutional bricoleur could come up with another one without affecting the core of his bricolage. Concept, in this sense, is a double-edged tool. It prevents the outsiders to dig out the core system behind it on one hand; on the other hand, it simplifies the complexity and makes it seemingly accessible. For example, the OTC market based on electronic platform resembles the online shopping platform such as Taobao, the equivalent of eBay in China, hence the bricoleurs could simplify it by giving it a concept: “eBay for commodities”. It stops most enquiries triggered by curiosity as it is easier for people to accept new concept when it is analogous to a legitimated one. Picking up the legitimated concepts and making the analogy aesthetic are crucial for establishing the new one. It is based on the institutional bricoleurs’ understanding of the culture and skills of coming up with effective metaphors instantly during communication.

The executives also used publicity to inform and disseminate their ideas. During the observation, the exchange filmed their introductory video, the executives accepted the journalists’ interviews, the research team regularly published articles under the name of the exchange and organised staff to monitor and respond to online social platforms. The research team of the exchange needed to publish articles in the mainstream financial publications regularly. As agreed with the exchange, all publications were required to show the name of the affiliated organisation and the author’s name. This was one of the key responsibilities of the research department. The exchange also organised a team to monitor online social platforms. In China, QQ and Weibo, the equivalents of Messenger and Twitter, have become so popular that it seems they have little difficulty getting through the news scrutiny of the establishment. During the crackdown, an online chat group was formed to attack the reputation of the exchange. The exchange, therefore, organised staff to register with the group in order to respond to the criticisms.
Think tanks play an increasingly important role in China, which has a tradition of respecting intellectuals. Since Confucius, intellectuals have accepted the mission to change the world. Confucius himself was more than a scholar. He was also an educator and an advocator. In contemporary China, scholars often have multiple identities, such as those of scholar-official and scholar-practitioner. The most powerful think tank in China is the Development Research Centre (DRC) of the State Council. They are the closest to the policy centre and are a major force in supporting reform and defying vested interest groups. One of the artwork exchanges drew a flood of criticism for boosting the value of artworks, whereas the DRC published a report supporting its innovative trading model after investigation and research.

Another key aspect of consensus building is the setting of communication, especially when it comes to face-to-face. A culturally comfortable environment has an effect on the conversation. Institutional bricoleurs create occasions in which people from different parties can communicate face to face, including formal scenarios such as meetings, negotiations and consultations and informal scenarios such as dining, tea appreciation and entertainment. This is not to reiterate some academic work about the significance of Chinese *guanxi*. They believed that in China good *guanxi* can get most things done and, without it, little can be done (Gold, Thomas. *et al.*, 2002; Wilson, 2009). The purpose of my discussion is to elaborate how institutional bricoleurs exert influence through informal communications. They follow Chinese cultural tradition to arrange the occasions which make consensus building less formal, more spontaneous and more comfortable, therefore possibly better outcome. Chinese culture is more about ‘human versus human’, as discussed in previous chapter, and hence they do value face-to-face communication opportunities.\(^3\) One type of cultural events that institutional bricoleurs often arrange to understand other parties, discover common interests and build consensuses is social meals and entertainment. This type of

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\(^3\) During the participant observation, the researcher initially was relatively insensitive to the cultural traditions, although she had a great resolve to adapt to the local environment. The executives then continued to educate the researcher on this point: dining with important people is an important part of work, as face-to-face communication in an informal setting is a precious opportunity.
cultural events is highly intellectual work, rather than simple enjoyment. A harmonious atmosphere facilitates understanding and communication. It gradually cracks the disguise of discursive consciousness and pins the conversation down to real interests (Giddens, 1984). The institutional bricoleurs must remain sober from beginning to end, even though the surroundings are designed for relaxation and entertainment, because they are at work and have business purpose. It is not a singular characteristic of Chinese culture as, in Western countries, working lunches, coffee breaks, cocktail parties or sometimes smoking lounges can be important occasions for socialising and communication.

During the six-month participant observation, I participated in meetings with senior management, the board of directors, intellectuals from think tanks and government officials. It was courteous to invite participants for a meal when it was time to eat at the meeting. The executives would continue to communicate their ideas during the meal in a more entertaining way and achieve a better mutual understanding. On occasion, I was not invited as the rank of the participants was too high, but I was usually debriefed by the executives if any consensus was reached as the follow-up work was down to my team, e.g. materialisation of the idea into a written proposal.

Formal communications is another indispensable opportunity for institutional bricoleurs to build consensuses. Meetings usually take place in the form of enquiries, brainstorming, proposal discussions, job allocation and reporting. It could be open and democratic or hostile questioning. For example, enquiries can be very stressful when it is an investigation by the authority that is searching for proof of wrongdoing. During the crackdown, the executives were asked to represent their exchange on several occasions. The CSRC-led Inter-Ministry Joint Conference sent teams to collect information and demanded formal reporting. This was a specialised field and regional government usually needed to collaborate with the exchanges to prepare for the enquiries. This often entailed overnight work for the senior management team in order to prepare the reports. The researcher participated in the preparation of each
communication. At that time, it was not known whether the exchange would weather the regulatory storm. It could be seen that the regional government and exchanges responded well in enquires as the Conference did not come to the conclusion that the exchanges had gone beyond the regulatory framework. At the heart of the investigation, it was the question that whether the trading mechanism of these regional exchanges has violated the regulation. That is, whether the regional exchanges are the ‘futures markets in disguised form’. As stated in previous section, Mr. Wang designed his exchanges in the effort to avoid market abuse and circumvent the description of ‘futures markets in disguised form’. It was in no doubt that on the technicality his design has fulfilled the purposes, hence he could present with full confidence. The only difficulty was that the technicality of an exchange design was not common knowledge to the politician, financial media or the mass audience. He had to simplify and conceptualise the model in order to present it to those who did not master the core knowledge.

6.3.4 Unintended consequences

Institutional bricoleurs may not always achieve their objectives. As Levi-Strauss puts it, the result of bricolage is ‘a compromise between the structure of the instrumental set and that of the project’ and once it materialises, the project will inevitably be ‘at a remove from the initial aim’ (Lévi-Strauss, 1966, p.21). Cleaver (2002) and Giddens (1984) also argue that the unintended consequence is an important feature of bricolage and structuration processes. The interaction between the agency and structure is mythical and approximate, and hence bricolage is an open and interactive process often generates unintended consequences. During the process, bricoleurs may improvise, be reflexive, be influenced by the existing institutions, and adapt to the cultural framework. Furthermore, the input from other parties is not under the control of bricoleurs. In the process of negotiation and mediation, the consensus that is finally reached can be a contingent result that is different from the bricoleurs’ initial
objective. Hence, bricolage is spontaneous and cannot be planned. In fact, bricoleurs are so good at utilising ‘whatever is at hand’ to cope with unexpected issues that they may further improvise based on the unanticipated and unintended consequences to create something else.

The first and foremost unintended consequence of China’s institutional bricolage is its contribution to the Chinese characteristics of the social system. Institutional bricoleurs in regional exchanges work for legitimacy and market success. They seek structural change when the existing structure has limited their pursuit of business opportunities, whilst they have to make compromises between their original objectives and the structural constraints. The compromise is reached through consensus building and negotiation with other stakeholder and often relies on institutional bricoleurs’ improvised ideas to breakthrough from the institutional constraints. Even though institutional bricoleurs’ improvisation has been innovative, justifiable and adjusted to the local setting, due to the complex of the social system, as the process move forward, the unintended consequences emerge from time to time. Compared with the solutions imposed from the top down, the advantage of institutional bricoleurs’ compromised solutions is a better fit to the institutional foundation. The essence of Deng Xiaoping’s socialism with Chinese characteristics is flexibility and practicality. He designated the Comprehensive Experimental Fields of Reform, allowing less central control and encouraging innovation. Institutional bricolage, therefore, as the dynamic for change and reform, is more active in those experimental fields. Those intended and unintended consequences made China’s institutions and the way the institutions changed special. They formulated the specificities in Deng’s term: Socialism with Chinese Characteristics.

The first example is associated with building the futures market’s Chinese characteristics. It is based on my fieldwork experience and discussed here to elaborate the process of institutional making, its unintended consequence and how institutional bricoleurs have coped with it. The Dragon Exchange’s trading model was finally
named and promoted as ‘the OTC trading model with Chinese characteristics’. Formulation of this concept was an interesting process. Mr. Wang used other concepts to explain his model before the crackdown in November 2011. Unfortunately, some of his key concepts were listed in the State Council’s crackdown notice (SC, 2011), hence he urgently needed fresh ideas to reconceptualise and represent his model. More importantly, it had to be one with more solid theoretical and practical foundation which will aid the exchange to weather the crisis. While I was doing research on the topic of trading mechanism, the first clue emerged during a meeting with the representatives from CME, the Chicago Mercantile Exchange. When discussed the variety of trading mechanisms worldwide, the representatives mentioned the concept of Central Counterparty and how the international organisations have been promoted it as an effective risk management measure. After the meeting we did some careful study and concluded that this concept distinguishes the exchange from OTC market. In this sense, the Dragon Exchange was not an exchange in real sense as there was no such role of central counterparty. Originally the Dragon Exchange designed its trading mechanism in a decentralised style as an attempted to circumvent the Article 89 ‘futures trading in a disguised form’. In the detailed discussion in 6.3.2 shaped and shaping, the Dragon Exchange was among the various ‘innovations’ that trying to get away from the futures regulation. Coincidently, it resembled a market type which was common in the West. In order to present the trading model systemically amid the crackdown, I searched for theoretical ground for the Dragon Exchange. Surprisingly, there was little academic that studied the typology of trading mechanisms, leave alone customised to China’s situation. After substantial exploration on the database of international organisations, ISDA emerged as an important organisation that produced standards and master agreements for the derivatives industry. On its website, it provides clear definitions of different types of derivatives markets. That is to say, ISDA is the resource of definitions and practical standards for global financial market. ISDA categorised the derivatives market according to the characteristics of the trading venue, contract, counterparty, clearing, and margin and performance bonds. The Dragon Exchange’s trading model fit ideally
within one of the types, with only one or two features been customised to China’s institutional foundation. Based on this understanding, after some internal discussion the executives decided to name the trading model ‘the OTC trading model with Chinese characteristics’. The executives and I then co-authored a series of articles to disseminate this model. During the research and writing, I also discovered the similarity between the Dragon Exchange and the CBOT’s historical model. It further strengthened the theoretical and practical justification for the exchange. The article became the official presentation of the Dragon Exchange’s trading model and received an innovation award from the regional government. The executives of Dragon Exchange originally designed the trading mechanism in such a way that it could circumvent the regulations and avoid fraud. Unintentionally, they introduced a new trading mechanism that had a professional and global sense and was customised to the local institutional environment. It was complementary to the current structure. More importantly, the unintended consequence of the original plan presented another way of perceiving and managing derivatives risks.

Another interesting example of unintended consequence concerns the reactions of the media and public: how did the financial media accept the Dragon Exchange? It had attracted the greatest number of negative comments in a variety of media (Anderlini, 2011; Tian, 2011; Tian and Cheng, 2011). The legitimacy and the identity were the most questioned part of this exchange. However, the insiders held rather different views: some of the commentators were considered to be either ignorant or amateur. The Dragon Exchange was reluctant to respond to the media attack, as it considered itself legally registered and operating within the law. However, once the State Council launched the crackdown, the pressure began to soar. Following the continuous negative reports about the exchange, investors started to worry. They requested the exchange to explain and reassure and some of them closed their accounts. In this

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94 The public media constantly followed the story of the regional exchanges. There have been many reports and commentaries in the popular financial media, including newspapers, magazines and online multimedia. Some of them have been included in the references for this chapter but most of them are not as the exchange may be identified. Therefore, for the purpose of keeping anonymity, some of the sources are not referenced.

95 The source is not referenced for the purpose of anonymity.
circumstance, the executives of Dragon Exchange pleaded with the regional government to issue a notice confirming the legal and registered status of the exchange. The regional government agreed to acknowledge the Dragon Exchange’s de facto status and issued a circular to calm the investors. Surprisingly, the circular immediately triggered a surge of attacks and a series of debates on financial media. The CSRC then required an enquiry with the regional officials and the executives of Dragon Exchange, during which the action of issuing a circular to confirm the status of a regional exchange amid the crackdown was seriously criticised. However, something unexpected quietly happened. In about one week, when the whole exchange was feeling in hot water, the storm subsided and, for the first time in three years, the media started to make positive or neutral comments about the exchange (Cao, 2012; 2013). The most hostile media institution called the contract the exchange provided ‘one of the legal and authorised investment channels’. This was an interesting process of consensus building with the media and the public which just happened unexpectedly. For the past two year, the Dragon Exchanges had kept a low profile and was extremely cautious about publicity because in some of the financial media, the stories about the Dragon Exchange had always been associated with illegal, illegitimate status. In other words, the Dragon Exchange had been avoiding confrontation with the public. Suddenly, amid the crackdown, when the atmosphere was most intense, putting up a circular from the regional government confirms the exchange as a legally registered identity was more a statement than listing a fact. It then unexpectedly turned out that this was the most effective action for public recognition of the exchange, despite all the other efforts. Previously, the regional exchanges had been questioned by the ministerial regulators for a while and the financial media had taken the ministerial side thereof (Tian and Cheng, 2011). When the circular was published, there were no grounds for continuing the attack on the Dragon Exchange’s legal identity, although it might have taken a bit of time for the media to digest the information. There was still a long way to go before the Dragon Exchange could be recognised by the central regulator; however, the subtle change of

96 The source of this quote is not disclosed as the exchange may be identified.
the media’s tone had definitely strengthened the executives’ confidence. It was an unintended consequence and surprisingly positive for institutional bricoleurs of the exchange.

The third aspect of institutional change which often generates unintended consequences is that institution implants, that is the learning from the practice in another culture. The policy and regulations developed in another institutional environment will sometimes not work for local settings. Learning has to be a trial and error process. Without the shaped and shaping, negotiation and compromise, the policy and regulations can generate a spillover effect in the local institutional environment. One of the standard practices of a mature market is ‘next day margin compensation’. It applies to institutional investors or market-makers who open exceeded positions on the day that some unexpected price movement occurs. The exchange will then offer leeway to the institutions, whereby they can reimburse their accounts with cash the next day, or close the exceeded positions. The rule was tested to its limit by the Treasury bond 327 event in 1995, which was also called China’s Barings (Chang, 2007; Gao, 2009). Guan Jinsheng threw 10 million lots of short positions at the market during the last eight minutes of the trading day, which drove the price down to RMB3.8, approximately 2.5% of the underlying value of the securities, while the margin rate was about just 1%. The SSE then made the decision that trades conducted in the last eight minutes were invalid because of the exceeded positions. After that incident, the exchanges added many new rules to tighten the regulations, and some international standard practices that did not fit with China’s institutional foundation had to be abandoned (Dang, 2004).

6.4 Conclusion

This chapter focused on the activities of the institutional bricoleurs in China’s futures market. Their relationship with the structure is dialectic and dynamic, because they
need to break the constraints and create new structures to fulfil their business ambitions. In this stage of development, institutional bricolage explains how the change has occurred. Institutions are not something out there, but one of the resources in the institutional bricoleurs’ repertoire. Institutional bricoleurs are shaped by the institution and are shaping it. The character of the institutional bricoleur and four significant features of institutional bricolage were discussed in this chapter. These features of their activities were analysed in four sections: improvising while performing, shaped and shaping, culturally embedded consensus building and unintended consequences. In each section, the feature and how it was embodied in China’s context were discussed. The next chapter will elaborate on the relationship between institutional bricoleurs and the state. The state is not one unity. It is represented by the State Council and its constituted ministries, institutions and regional government. They tend to reinforce the existing structure and sometimes thwart change. Meanwhile, they need to cope with modern issues in the postmodern era; hence, they have to learn and mediate. The state players are interdependent of institutional bricoleurs and share some of the character.

Chapter 7 Understanding the change from the alternative account -- The State

7.1 Introduction

This chapter will focus on the relationship between the state and institutional bricoleurs. It will access another side of the stories and try to better understand the process of institutional bricolage. Institutional bricoleurs have institutions as their resources, which they can utilise to cope with issues. Among all the resources, the state sector has been a very important one for them. The state has the power to institute regulations and rules, which define what can be done and how it should be
done within this system. A state ownership is a strong statement of state interest and hence helps legitimation. Institutional bricoleurs are change agents who are ambitious and determined. When the existing institutions restrict their business opportunities, they will exert their influence and attempt to change it. They interact with the state actor and influence the making of institutions. As argued in previous chapters, for the state, development and modernity is the route towards the common ideal of Chinese proletariat, the communism. In terms of how to change the state actors need inputs from their counterparty, the institutional bricoleurs, their knowledge and resourcefulness. Therefore, there is much for institutional bricoleurs and the state to work out together. As outlined in Chapter 6, the personality of the state is that it is not one single actor, but a complex organisation constituted by many actors with different interests and perceptions. Hence, state actors could hold different attitudes towards institutional bricolage. Those who appreciate institutional bricolage could be used by bricoleurs as a resource to make ally with, while those who do not approve institutional bricolage bricoleurs would work until the last chance to influence and change them. More importantly, although it is rooted in Chinese culture that the bright leader should always listen to his people, the speaker will have to craft the culturally embedded way of communication. That is to say, the state actors have the necessity and intention to listen to institutional bricoleurs and institutional bricoleurs need to make the influence in a way adapted to the cultural framework.

In the following sub-sections of this chapter, it will first discuss the cultural circuit that connects the state actors and institutional bricoleurs. They are the key inputs of the construction of the market. Secondly, it will further elaborate the state as a complex actor, the constituents and how do they work together. The third sub-section will introduce the interdependent relationship between the state and institutional bricoleurs. Why do they need each other for the processes? The fourth part will elaborate on how the state responds to institutional bricolage and how institutional bricoleurs utilise the state’s power as their institutional resources. The state, as the dominant player, has a symbolic vision: communism, and the line of march: socialism
with Chinese characteristics. The specifications of the blueprint are still subject to negotiation with various interest groups, and rely heavily on the institutional bricoleurs’ knowledge and ideas.

7.2 The state and institutional bricoleurs

The state actors and institutional bricoleurs share a common objective: the development of the market. This is the base that some state actors would work with institutional bricoleurs together to improve the efficiency of the market. The expertise and knowledge the institutional bricoleurs possess are valuable and indispensable for the state actors, on the one hand. On the other hand, the power and influence the state actors possess are valuable and indispensable resource for the institutional bricoleurs. The economic reform is a vision rather than a pre-specified plan and hence it has conditioned the interdependent relation between the state actors and institutional bricoleurs. It is a long-term and explorative process. The state actors and the grassroots have been working together to figure out how to get there. Without established theories or existing experiences as a reference, the state players need to learn from the domestic and global practitioners to build the institution. They look at the global players in New York, Chicago, London and Frankfurt, communicate and learn from them. However, their learning capacity is capped as the regulator. The depth the domestic practitioner can achieve could compensate their limitations. After the first decade of building the futures market, Chinese state actors also have learnt that the practice developed in Chicago or London cannot be implemented in China as is. It needs to be modified to fit into China’s institutional environment. How to make the compromise and how much to compromise is up to their negotiation with the relevant parties, among which the institutional bricoleur is the driver.

7.2.1 The cultural circuit - social construction of the market
‘Cultural circuit of capital’ is discussed by Thrift in many articles (Thrift, 1997; Thrift, 2000; 2002; Leyshon et al., 2005). As Thrift describe, cultural circuit of capital is the ‘cultural machine’ that circulates of management discourse signifying ‘a radical redistribution of social and economic power’ (Thrift, 2002, p.1). The key actors Thrift considered consisting of the circuit are business schools, management consultants and management gurus. This thesis will draw on this concept and add new elements to it to explain the cultural and intellectual influence on the construction of China’s futures market. In the cultural circuit concerns China’s futures market, the key different but utterly related actors are the state actor and institutional bricoleurs. Looking from the institutional bricolage perspective, the original cultural circuit of capital defined by Thrift is the source and resource of these two key actors. The state actors and institutional bricoleurs are actors and drivers of the cultural circuit. The Chinese state actors have been good learners and they need to learn from domestic practitioners, especially in such a fast changing global background. As reviewed in chapter 1 and interviewees from the state sector revealed, meritocracy has formulated a learning culture in the government. The entrance and promotion are partially judged by the individual’s knowledge. China’s futures market is growing against a background in which the global financial market is changing at a faster pace and it is a structural and cultural change. Although information and knowledge flow between domestic and global markets have always been encouraged, somehow designing a highly efficient market that fits with Chinese culture is still a challenging job for the state actors. They also need domestic practitioners and other intellectuals’ input.

The learning circle is driven by the state actors and domestic practitioners. The reform is crossing the river by groping for stones, but one can never step into the same river twice. Institutional bricoleurs, as involved deeply into everyday business, can come up with plausible ideas based on the current circumstances. Many interviewees mentioned their experience of taking part in consultation meetings with the CSRC or the State Council in terms of the formulating or revising regulation or finding
solutions tackling problems. One interviewee, who has a doctoral degree in futures trading, was involved in discussions about regulation and its revision, in addition to editing books for the CSRC and the State Council. Another interviewee who joined the industry very early said that the CSRC needed opinions from the industry. The officials were very humble because they were aware that they were lay persons compare to the practitioners. The interviewee also admitted that the CSRC was learning fast from domestic and Western markets. ‘They probably know more about what is the best practice than us now, as we are limited to our own interest but they see the whole picture and hold a more holistic view’, as the interviewee put it.

In 2012, it took the CSRC, as the leader of the ‘Inter-Ministry Joint Conference’ for the third crackdown, more than eight months to investigate the regional exchanges in various regions before it came up with an implementation instruction for provincial government to clean up the regional markets. In the Implementing Opinions, terms are explained and criteria are set (SC, 2012). During the investigation, the Dragon Exchange, which I participated, had the opportunity to present its trading model. The executive convinced the CSRC-led committee that it was a good supplement to the current market structure, as it incorporated advanced practice and recommendation from global leaders, customised to the local situation. The presentation was a successful consensus building. For the CSRC, the investigation of regional exchanges was learning and evaluating process. In fact, it could be considered that the more than three hundred regional exchanges offered abundant knowledge and provided a social laboratory for the regulator. The regulator might use the knowledge obtained through investigation to against institutional bricoleurs in the future; nevertheless, the open attitude also showed that the regulator was not making assumptions or taking an arbitrary position. The institutional bricoleurs need the power of the state to legitimise their institutional bricolage and the state needs the knowledge of the institutional bricoleurs for designing institutions.

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97 This is quoted from one of the interviewees, the former general manager of a futures company, during the first round of interviewing.
Meanwhile, the state is actively learning from the West. The government spends quite a large amount of its budget every year on hiring consultants from developed markets and sending delegations overseas. The China Social Science Academy sends out visiting or exchange scholars to overseas universities every year. The former chairman of the CSRC was a visiting scholar at Oxford University. The former chairman of the CBRC was an MBA graduate of London City University. If the cultural circuit of capital in the West has made a half-circle of the Chinese cultural circuit, from theory to practice. Domestic institutional bricolage has completed the other half, from practice to theory.

Another driver of the cultural circuit is the institutional bricoleurs in regional exchanges. Their up-front and sometimes controversial situation motivates them to think outside of the box and test its limitations. They design the exchanges based on the cultural logic of the global market and that of China. If there were a product or service that could have a good market but that is not yet available, they would voluntarily raise the issue and educate the masses. The ideas they conceive are always a mixture of the old and new, foreign and Chinese. In this sense, practitioners in domestic market are as ingenious as the overseas practitioners. The understanding about global market achieved by domestic practitioners is practical level and is valuable for the state actors. Information and knowledge from other markets, especially from advanced American and European countries, can be used as good persuasions by institutional bricoleurs and they are good at decode and recode the knowledge and explain it to the locals. Institutional bricoleurs have facilitated the circulation between successful Western experience and China’s reality.

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98 Mr. Guo Shuqing, the former chairman of the CSRC and governor of Shandong Province, was a researcher of Philosophy and Marx-Leninism at the China Social Science Academy between 1985 and 1988, during which period he visited Oxford University as a visiting scholar. He has taken a series of important roles in central government. Before his role in the CSRC, he was the vice-chairman of the central bank and chairman of the China Construction Bank.

99 Mr Liu Mingkang, the chairman of the CBRC, has an MBA from the Cass Business School of London City University. He has played important roles in the Fujian provincial government and central government. Before his role in the CBRC, he was chairman of the central bank.
Cultural circuits provide resources for the state players and institutional bricoleurs. The status of the regional exchanges was controversial and there were reasons why they had been the target of the crackdowns. Before the campaign was launched, one of the interviewees from the CSRC told the researcher that the regional exchanges should be closed down and that they were working on this. In terms of how to distinguish the futures, forward and spot markets, the interviewee discussed this with the researcher and said she was looking for answers in the Western market practice.\textsuperscript{100} It might not be easy to find the answers, as the Western market does not deliberately separate these markets by their definitions. They are considered to be different parts of one complete market,\textsuperscript{101} while in China, this is the leftovers of previous events. After years of market abuse and two rounds of crackdowns in the 1990s, central government brought China’s futures market under close supervision and control through the CSRC and administrative regulations. To avoid barriers between provincial markets and a conflict of regional interests, the regulations stipulated that new exchanges needed approval from the regulator, which practically closed the door to founding new futures exchanges. In order to avert the impact of the global financial crisis, in 2008 China injected RMB4 trillion to stimulate the economy. With the relatively dull outlook of the real economy, the extra liquidity focused on China’s trading business, where quick profits seemed to be alluring. Since then, the huge potential of trading businesses has been revealed. Although the regulatory measures prohibited new futures exchanges, institutional bricoleurs demonstrated their capability for institutional crafting. They designed their exchanges to fulfil trading functions while circumventing the definitions of the regulations.

\textsuperscript{100} One interviewee told the researcher that the CSRC had been working on this point: how to redefine the boundary of the futures market and that the term ‘variant of futures’ should be amended. She also stressed that it usually takes at least three years to revise a regulatory measure.

\textsuperscript{101} The researcher raised this question on behalf of the government officials and senior manager in a meeting with LME management and executives from the regional exchange in London. The researcher participated as an interpreter.
At the end of 2011, when the State Council assigned the CSRC as the leading institution of the Inter-Ministry Joint Conference’, it was a chance for the CSRC to examine the exchanges that operated under the protection of the provincial and other ministerial government. The judgement of the committee would be crucial for the status of the exchanges. When the crackdown approached its end in 2013, the results showed that the CSRC approved most of the proposals from the regional governments and some exchanges were kept or restructured. Chairman Guo’s research must have collected genuine information and knowledge about the work of the regional exchanges. Through the investigation, the cultural circuit successfully transmitted the information to the state player and partially changed the initial intention of the lawmaker.

The regional government official is another conduit between institutional bricoleurs and central government. Sometimes, the institutional bricoleurs have no chance to present their ideas, as meetings with senior central government officials are by invitation only and, even if they participate, the executives are cautious not to speak too much. There is a story told by the executive of a regional exchange. Once, the executive and the regional government official were required to report to the CSRC about the trading model. The regional government official was required to be present as a responsible local regulator and it was down to the executive to clarify that his model had not breached any regulations. The official had a thorough discussion with the executive before the meeting. The executive offered his knowledge of the global regulatory change and how his model was encouraged in other countries as a means of improving market transparency. During the meeting, the regional official spoke for the executive and presented a powerful statement. This was better than having a presentation by only the executive himself as, when confronting central government, regional officials have more confidence and credentials. Formal institutions can be influenced through knowledge transfer. It is imperative for them to learn the global trend and domestic needs.

102 This story was told by the executive on his return from this report trip.
7.2.2 The state as a complex actor II: the constituents

The state as a complex actor was briefly discussed in chapter 6 and here it will be further discussed in more details. Deng Xiaoping proposed *xiaokang*, a family-oriented social order in both Confucius and Deng’s terms, as the milestone through which China approach *communism*, the CPC’s shared vision. Choosing *xiaokang* as a half-way milestone has an implication that capitalist style development in short term China maybe inevitable. Confucius used *xiaokang* as a contrast to *datong* and in his description, *xiaokang* was similar to capitalism and *datong* was close to communism. As discussed in chapter 1, these seemingly conflict between long term and short term goals does generate confusions for the outsiders, although some academic work has pointed out the consistent political logic underlying the CPC’s current policy. To put these opinions in context, more specifics about the state actors need to be explained.

One point which needs to be demystified is the idea that the state has one identity with a singular, unitary interest. In fact, as a social class the state consists of a large number of players with various interests. It is represented by the State Council, the constituted ministries, institutions, commissions and regional government. The State Council is ‘the highest executive organ of state power, as well as the highest organ of state administration’. Ministries, institutions, commissions and regional government are constituents of the State Council. Ministries administer a specific area, e.g. Finance, Commerce, securities regulation or central banking. Regional governments are also constituents of the State Council and regional governors are at the same rank as ministers (Huang, 2002). Regional governments represent the central power in the region and the regional interest at central government. The Chinese state therefore is a heterogeneous entity, with multiple interests, motives, beliefs and competences which reflects these different domains. Power overlaps within these

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103 Quoted from the government website: http://english.gov.cn/2013-03/15/content_2354765.htm
domains and often generates conflict of interests. Institutional bricoleurs may attempt to exploit these conflicts, though often they also suffer as a result.

The State Council is the forum for conflict resolution. This resolution often takes the form of government crackdowns in problematic areas to solve the conflicts. According to analysis by domestic financial media, in the recent third round of crackdown, only the regional exchanges would fall prey to the rectification as the power of the CSRC, the Ministry of Commerce and the PBOC might overwhelm the regional government as a crackdown initiated by the State Council was commonly understood as a support of ministerial power in the disputed area (Anon, 2012). Those regulated by the ministerial regulators would be well-protected by their regulators. For example, PBOC published notice in December 2011 closely followed the State Council’s notice in November. PBOC’s notice announced the legitimated positions of two exchanges under its regulation (PBoC, 2011). The scale of the action was nationwide, as there were about three hundred exchanges located in almost every region, even in the least developed regions, e.g. Xinjiang, Gansu and Xizang (Tibet).

The three most relevant ministries and institutions, the PBOC, CSRC, and Ministry of Commerce, responded differently to the State Council’s notice. The PBOC took quick and arbitrary action. PBOC is the keeper of sovereign gold reserve and regulator of gold trading and its derivatives. Hence when it comes to gold futures, PBOC is also the regulator. In December 2011, the month following the notice of the State Council, PBOC named two exchanges were legitimated for gold trading, and these two ‘have satisfied domestic investors’ gold investment needs” (PBoC, 2011). It was Shanghai Futures Exchange for gold futures and Shanghai Gold Exchange for gold spots. In the notice, there was a threatening suggestion that if this rule was violated, the suspects would be transferred to the Public Security and the local PBOC branch would provide

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104 PBOC is the central regulator of gold trading, and the CSRC is the central regulator of securities trading. Therefore, gold futures subject to regulation of both regulators.
‘administrative affirmation’ accordingly. It implied that if other exchanges did not cease trading gold related contracts, it would be illegal by the definition of this notice and could be considered as criminal activity and thereof subject to the Public Security’s jurisdiction. From the market players’ perspective, PBOC protected the exchanges it regulated from the crackdown and delegitimised competitor exchanges.

The CSRC was more democratic. The chairman-led research team visited many active trading regions, held enquiry sessions with regional officials, the senior management of exchanges and investors. In July 2012, the State Council published its approval of the CSRC’s implementation instruction for the campaign. It stated that the review would be based on the reports and proposals submitted by the regional government and that the regional government would take responsibility for implementing it after the proposal was approved (SC, 2012a). The Ministry of Commerce seemed to be *laissez faire* as it did not lead any actions but left it to the industry association to organise and formulate its rules. In December 2012, the China Federation of Logistics and Purchasing founded the China Bulk Commodity Circulation Exchange Association (CBCA), to self-regulate the forward commodity exchanges.

The stance of the ministries has implications for institutional bricolage. Institutional bricoleurs have to play by the game rules of the law-makers. If the law-makers leave no space for negotiation, institutional bricoleurs will have to retreat until other events emerge as an opportunity for further structural change. Different state actors have different attitudes and take different actions towards institutional bricolage in China’s futures market. Because the implementation of the State Council’s crackdown was led by CSRC, the outcome of the crackdown would be different and so as the landscape of the futures market. The CSRC-led Inter-Ministry Joint Conference did not follow the PBOC to publish a notice announcing the exchanges it favoured but carry out an extensive investigation and research. The Conference had allowed negotiation

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105 ‘Administrative affirmation’ is a form of legal documents transferred between China’s government departments confirming the perpetrator has violated the rules in the issuer’s jurisdiction. It is usually used by the market regulators to confirm the violation has been serious and should be escalated to the Public Security.
between the state and market players. It took the Conference eight months to investigate before it published the implementation details (SC, 2012a). The implementation proposal was compiled by each region, and the Conference would review and approve in batches. Until May 2013, there were still eight regions had not received the approval, meaning the rectification was still in process (Cao, 2013). The crackdown has lasted two years now and it is not finished yet. In 1994, it took about six months for the central government to clear up the market, reducing about fifty exchanges to fourteen (SC, 1993b; 1994). In 1998, the State Council further reduced the fourteen to three and announced the decision straight without pre-warning (SC, 1998).

It was fortunate for the institutional bricoleurs in regional exchanges that the state actors’ working style is changing towards regulating rather than controlling, negotiable rather than arbitrary. Negotiation then becomes possible because regulation, if not simply controlling, respects input from the industry, as well as their knowledge and expertise, their foresight and hindsight. The following section will continue exploring the interdependence between the state actors and institutional bricoleurs.

7.2.3 The interdependence

The state and the institutional bricoleurs are counterparties in the game. Nevertheless, they need each other. They are interdependent in this process. Actors representing the state have the power to change and they need input from institutional bricoleurs to figure out the specifications of their vision. In this sense, they empower institutional bricoleurs, because institutional bricoleurs’ ideas can influence them, hence the change. Meanwhile, they utilise the institutional bricoleurs’ inputs with caution.

On the one hand, the state actors and the institutional bricoleurs have common and conflicting interests, and the state actors will utilise their dominant power to ensure
their best interests. Incremental change allows the process of negotiation. As Sachs and Yang put it, the incremental measure of reform is a process that involves reformers buying out the vested interest groups (Sachs et al., 2003). The state actors are the vested interest groups in China’s futures market. On the other hand, Socialism with Chinese characteristics does not provide a blueprint with specifications in terms of how to engineer reform. The ‘Three Represents’ of Jiang Zemin and the ‘Scientific Socialist Development Theory’ of Deng Xiaoping both aimed to provide the criteria for evaluating the practice (Deng, 1994; Jiang, 2001). However, society is changing at a rapid pace and new questions keep emerging. When facing a particular problem, what exactly is the development trend of China's advanced productive forces and the fundamental interests of the overwhelming majority of the Chinese people are subject to reinterpretation (Chen and Chen, 2006). Leaving ambiguity means leaving space for debate and negotiation and the possibility for change. If the third crackdown remains the similar style as the previous two, institutional bricolage would have less space to work for. If the process is becoming less arbitrary and more negotiable, thereof the gradual ‘buyout’ of vested interest group may have worked along the reform process. Institutional bricolage is the drive for change and reform and the state actors have made it possible for them. Institutional bricoleurs and state actors are interdependent, as the state players rely on institutional bricoleurs’ inputs and the institutional bricoleurs rely on their power.

Again, the vested interest group is not one unified identity but a social class consists of large number of people representing various interests. The CPC is a party with eighty-six million members. As Bell described it, it is ‘a large and diverse organisation’ (Bell, 2010, p.2). Moreover, it is a CPC tradition that party members do not take only party roles. They work in all industries at all levels. Compared to the partisan regime, CPC members in China are more intersected with non-CPC people (Chen, 2011). Personnel working in the state sector often rotate, from government officials to executives of exchanges or brokerage companies, or the other way
Such role rotation enhances the cooperation among different roles and transmits the knowledge. One of the interviewees was the former president of the largest futures exchanges in southern China in the 1990s. He held two positions: central government official and senior executive of regional exchange. Let us call him Mr Zhang and the exchange the Asian Exchange, as per the requirement for anonymity.

In the early 1990s, when China’s futures market had just begun, Mr Zhang was an official of one of the ministries and his ambition was to build an exchange that could ensure China’s pricing power. Some trading rules now adopted by the CSRC-regulated exchanges were designed by him and the consultant he hired from the Hong Kong futures market. His exchange was closed during the second round of crackdown in 1998 and the traded varieties were moved to another exchange. Before liquidating the exchange, he was removed from his executive position by order of the Organisation Department of the CPC Central Committee. The media reported that his resignation was down to price manipulation events that occurred at his exchange. However, he believed that it was not the real reason. At that time, price manipulation was very common in all the exchanges in China. His ambition and contribution to the development of the futures market was misunderstood by the CSRC and the Party. He continued to build China’s commodity market. As a central government official, he soon became an advocate of the commodities forward market. He developed a standard of commodities forward market, had it approved and became a national standard. Among the regional exchanges that emerged between 2007 and 2011, the majority were designed according to the framework of his standard (PPI, 2012). Mr Zhang is an example that proves that the state player and the institutional bricoleur can be one individual. He was a controversial figure, as some other interviewees did not hold positive opinions as obviously the media had portrayed a corrupted and

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106 Job rotation in the state sector is a norm of the CPC. The state sector includes the government, its affiliated institutions and state-owned enterprises.

107 The trading rules he used included the ‘day limit’, the ‘burn-out’ and ‘limit lift’.

108 The Organisation Department is in charge of the personnel of all the party members and their positions in the organisational chart of the party.
destructive figure of him.\textsuperscript{109} One of them believed that he represented one of the interest groups at central level. Nevertheless, they recognised that Mr Zhang had contributed to the market’s development. What he did had an impact on the landscape of the market and the players.

Mr Zhang had the advantage of utilising resources from both pools. His connection between central government, the region and the industry made his exchange successful. The Asian Exchange was one of the largest futures exchanges in China before it was closed (Jiang, 1999), Even though the local economy was hit the most by the housing bubble and the Southeast Asian financial crisis (Ma and Zhang, 2008).

The state actors and institutional bricoleurs are not completely separate, antagonistic or incompatible. Institutional bricoleurs build social networks with state actors, as it is one of the most important instruments in their repertoire. They are both learners and there are active knowledge transfers between them. Ideas from institutional bricoleurs can be a political fortune for the state actor, while the power of the state actor helps institutional bricoleurs to achieve their business success. The state actors and institutional bricoleurs may represent different interests, whereas they still rely on each other to fulfil their ambitions. The state actors need innovative idea and economic performance to promote their political rank, which could both be contributed by institutional bricolage. This is especially this case for regional governors. Institutional bricoleurs would have much less impact if they could not count the power of the state actors as a resource. The above example is just a specific case that the institutional bricoleur and the state actor happen to be the same person. In the following sub-section, the more conflicting aspects of the relationship between the state actors and institutional bricoleurs will be elaborated.

\textsuperscript{109} In phase I of the fieldwork, two interviewees mentioned Mr Zhang and talked about the risk events happened on his exchange. There were obviously conflict views and interests. The financial media played a role in portraying Zhang’s negative image. The source is not referenced here as an agreement not to disclose the interviewees’ identity.
7.2.4 The dominant and the challenger

Not all the state actors maintain a harmonious relationship with institutional bricoleurs. Institutional bricolage changes the structure and structural change brings about niche market where business is new, profitable with few competitors. As a new emerged idea or business which often treads on precarious ground, the state actors have the power to judge and take actions to support or oppose it. In this sense, the state is the dominant player in power and the institutional bricoleurs are the challengers with ideas. This is not to say that all the previous listed Chinese and Confucius values about social harmony and intellectuals’ political mission and bright leaders’ responsibility of listening are not valid. On the contrary, discussion in this part is to deepen the understanding about the resistance the institutional change would incur in any societies. It further emphases that to make the state actors listen, the institutional bricoleurs have to effectively craft their culturally embedded way of communication. There would always be resistance from the stats sector or vested interest groups when the change comes. The reform is a multi-dimension institutional change and Chinese leaders have chosen to let the economic dimension move first. As some authors pointed out, China’s social change is led by economic reform and the political change is lagged behind and this way leaves the government with arbitrary and discretionary power (Sachs et al., 2003). Sachs and Yang argued that the government would ‘institutionalise the arrangement wherein the government officials are the rule-maker, the rule enforcer, the referee, and the player at the same time’ (Sachs et al., 2003, p.4). In such an environment, the institutional bricoleurs have learnt that the winner is the one that keeps him/herself close to the rule-maker, the rule-enforcer, the referee and the important player. The state sector produces formidable resistance and effective support for institutional change as it is represented by different actors with various interests. The system has provided formal channels for consultation and challenging, as that of the West societies. However, Chinese players preserve their culturally embedded, informal channel of negotiation and
influence as those channels are as effective and accessible as those formal ones in this cultural background.

The challengers add new elements to the structure, sometimes forcing the dominant player to face that of which they were ignorant. China’s futures market is the typical vertical silo structure categorised by Western practitioners (Norman, 2011). The vertical market structure refers to the structure in which trading activities and other related services and facilities are integrated into one organisation. Usually, trading activities include quotations, orders, deals, settlement, clearing, delivery, data repository and risk management. In the horizontal market structure, such as in the UK and European markets, the clearing house is a specialist organisation dealing with the post-trade services; the exchange deals with ex-trade services until the deal is made, then submits the trade to the clearing house. The data repository is a newly designed organisation, mainly in the US, that records derivative deals made in the OTC market. Nowadays, the clearing house is like a public facility (Kroszner, 2006), providing clearing, risk management and delivery services to most exchanges and their other clearing members, such as large market-makers.

In the US, the CME has integrated the trade-related services into one group. CME Clearport is a clearing house for all the exchanges under the CME group, but not for the exchanges outside the group. CME’s integrated structure is called vertical. In China, while the exchanges all have their own integrated platform, they do not share these with any other exchanges. There is no exchange group, as mergers and acquisitions need approval from the CSRC and no deal has been initiated or approved. There is no information, margin pool, or facility sharing between exchanges and this is called the vertical silo. This kind of structure is rigid and incomplete. A fluid structure should allow healthy competition and some degree of industry collaboration, in order to improve efficiency and reduce costs (Norman, 2011). If there is a service gap and the current players do not fill it then new players should be allowed to join. In China’s futures industry, at central level, there is no channel for establishing new
futures exchanges unless they are initiated by the ministerial regulator. Therefore, the regional exchanges emerged as challenges to the system. The vertical silo structure only serves ‘exchange-traded’ customers, so there is huge potential for the OTC market, which is not even recognised by the regulator. Some of the regions had a tradition of commodity trading and a relatively strong economic position that formulated their market structure in order to serve the OTC market.

The challenger supplies alternative solutions to the problems of the existing structure. Their competing ideas help the dominant to test out the institutional foundation, verifying which one make work better and accepted better. The state has a vision for change, whereas a top-down measure of institutional construction has turned out to be less successful: the chaotic condition of the first decade of the futures market being a lesson. The central government has the dominant and centralised power, while it is also decentralised by allocating it to the constituents. Without the challenger, who spots every nooks and crannies, the dominant would be continuously reinforcing and institutionalise its arbitrary and discretionary power. The state will then be exhausted by the political games among conflict interest groups within it, instead of driving reform forward.

After all, the Chinese state’s working logic is that it needs the dynamic from below to move the economic reform forward. The impetus and resistance come both from within, This is the background of institutional bricolage. The line of march is a response to current situation and is adapted to the communism vision and hence it is not formalised, or standardised. The working goal of the state actor is not any type or variation of capitalism. The formal narratives have apparently misled to the belief that China is undergoing a period of transition: in the economic dimension, from planning to a market economy; and in the political dimension, from dictatorship to democracy; with the free market and liberal democracy as the ultimate goal. As argued in Chapter 1, Socialism with Chinese Characteristics is the way to fulfil the vision without blueprint. If understand it from the *Communist Manifesto*, the CPC will choose for
China which stages to go through before it realise the communism. In this case, capitalism is the route, tool or instrument, instead of the destination.

7.4 Conclusion

The state and the institutional bricoleurs enjoy a dynamic and dialectic relationship. They together learn, improvise and change. Their knowledge and power are complementary to each other, and they need each other’s help to achieve their aims. Government officials have the power to shape formal institutions. This can be a force for or against the activities of institutional bricoleurs, as they represent different interest groups that can be for or against institutional bricoleurs. Nevertheless, institutional bricoleurs are resourceful and good at converting the force against them into one supporting them and utilise the conflicts of interest in the system. It appears that China is one of the most difficult foreign markets with which to work, largely because of the both rigid and fluid institutional environment. This may not be the case for institutional bricoleurs who have figured out the rules of the game. Once the players know that institutions are still in the making and that they can play a hand in the process, they will enjoy the activity as much as institutional bricoleurs do.

The state actors bear the responsibility to design institutions and cope with unexpected outcomes. When dealing with the problems of the market, it is usually estimated that the central government tends to use the dominant position to overwhelm the regional government and the market. Institutional bricoleurs then have to find their ways to negotiate and build consensus with the state actors and make alliances with interest groups. For the institutional bricoleurs, if their contribution is legitimised and their institutional bricolage is instituted, their activity of bricolage should be considered ended as it will be formalised. They could enjoy a comfortable status and regulatory control like the senior management in the CSRC-regulated exchanges, they could continue to be innovative but their activities would show less
bricolage style as they would enjoy more certainty, more protection and fewer motives for structural change.

Conclusion

The conclusion consists of three parts. The first is the ending of the institutional bricolage. It will reveal what has happened to those regional exchanges in the crackdown. The second part discusses the prospects of institutional bricolage and the last part aims to conclude the contribution of this research. The story may not provide an accurate measurement or prediction about ‘how far across the river’, but it will explain the development of China’s futures market from sociological perspective.

The end of the story about institutional bricolage

Readers may be curious about the end of institutional bricolage and there is good news to be reported. It seems that the institutional bricoleurs have done a brilliant job. Most provinces’ proposals have passed the scrutiny of the CSRC. Some regional exchanges were kept or to be restructured. This is a good news for the regional exchanges, as they will become fully legitimised and enter into a stable, less restricted development era. The positive outcome of one institutional bricolage implies the end of it because their creation is becoming a new element of the structure, the formal institutions. With some regional exchanges being approved, their innovative models are becoming formalised and institutional bricoleurs’ past endeavours are becoming part of the existing structure. The new frontier for change may emerge somewhere else as those actors may pursue new strategies. Some regional exchanges are being structured to become fully state-owned or even regulated by the CSRC. In this case, the institutional bricolage will become less prominent within those approved regional exchanges as control will formalise the way the actors doing things and the change, if
any, will become more organised and engineered. It will lose motivation and reasons to continue changing. If the regional exchanges can enjoy a monopolist position, why would they fight for structural change? If one looks at the condition of the four CSRC-regulated exchanges, the senior managers are appointed by the CSRC and most of the power is centralised in the CSRC. The management team cannot make strategic decisions by themselves. In this case, the executive team cannot be considered to be institutional bricoleurs anymore.

The state side of the ending is not to be missed as the interplay between the institutional bricoleurs and the state actors have been moving economic reform forward. After three decades of economic reform and opening up, the resistant force still persists. Guo Shuqing, the former chairman of the CSRC who led the crackdown in a democratic manner, unexpectedly stepped down from his post in March 2013, after only seventeen months. Xiao Gang, the former chairman of the Bank of China, became the new chairman of the CSRC. Unlike Guo, Xiao has a reputation for being prudent. There has been no official explanation for this change, but there is a rumour that Guo had taken too aggressive a measure of reform, thus upsetting vested interest groups. There is some doubt as to whether this is the case - this is a familiar explanation given within China’s political sphere for such exits. Central leaders are well aware of the necessity for reform and development (Yue, 2006). President Hu and Premier Wen raised the issue many times in public speeches: ‘the reform has gotten to the deep-water area’, and ‘we must push forward the political system reform without hesitation, it is time to test our party’s governance capability’. The media tried to interpret the implications of these speeches. Xinhua News reported that the premier emphasised reform many times, meaning it is time to deepen the reform, yet he felt it was not a very clear prospect and that there were obstacles ahead. The conflicts from within is the condition for the thriving of institutional bricolage. It is

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110 China’s plenary meetings of the NPC and CPPCC were held in March 2012, when Mr Hu and Mr Wen reported to the NPC and CPPCC. These are quotes from their speeches. See the related news report: [http://english.gov.cn/2012-03/08/content_2086694.htm](http://english.gov.cn/2012-03/08/content_2086694.htm)

111 Xinhua News is the national news media in China. Interpretation publishing page: [http://news.xinhuanet.com/politics/2012lh/2012-03/06/c_122794266.htm](http://news.xinhuanet.com/politics/2012lh/2012-03/06/c_122794266.htm)
due to the conflicts, there will still be nooks and crannies for institutional bricoleurs to work with.

**Change as a consequence of institutional bricolage**

Institutional bricolage is different from other economic activities because institution is a product with life. Its outcome shapes the individual and society. In a culture combines both rigidity and fluidity, the breakthrough of institutional change often comes from institutional bricolage, because institutional bricolage challenges the existing institutions by starting with yet legitimised, controversial area. When the outcome of an institutional bricolage becomes part of the established institution, people will accept it and their mindsets will gradually become institutionalised. After a while, they may not be aware of the influence of it and the boundary and barriers it generates. It is in this sense, institutional bricolage has profound meaning in any human societies, as through it the existing framework is challenged and improved thereof.

Institutional bricolage is also a postmodern way of thinking that always seeks opportunities to change the structure through agency. Change is the means and ends of institutional bricolage because institution is a living thing that will reproduce itself and institutionalise people. China’s economic reform relies on institutional bricoleurs to make changes happen more quickly, because they have fewer vested interests, path dependence or resistance to change. They actively promote changes because only through changes their ideas find space to survive and grow. Being activists in a relatively marginal position is somehow riskier than a career in a well-established area. Getting the job done is their foremost motive of all. Their way of perceiving the world, obtaining knowledge and getting the job done are shaped by the existing structure. The culture and tradition shape their perceptions and conceptions. Their way of negotiating and consensus building operates within the Chinese cultural framework.
They have studied the legal and regulatory system substantially and have a comprehensive and sophisticated understanding of society. Institutional bricoleurs are a group of dedicated and determined people. If the rules have limited their reasonable business pursuits, they will work to change the rules. This is the reason that studying institutional bricolage is to study the law of institution rather than the law by institution.

Institutional bricoleurs also have a desire to learn from practitioners in advanced economies. They understand that applying Western models to China without modification does not work. They work on the eclectic model by negotiating and consensus building with other stakeholders. In this sense, they learn from the West and educate domestic players, as part of the cultural circuit. They also mediate the variety of interests from different parties in order to gain as much support as they can. Taking into account the improvisational nature of institutional bricolage, it is meaningless to estimate where the market is headed. It can only be certain that it will be a mixture of the existing structure, history, learning and improvisation.

Contribution of this research

Generally, the difficulty presented to English writers and readers about understanding China’s phenomenon is the cultural, political and sociological difference. It is Confucianism, Communism and democratic dictatorship, while in the West it is Enlightenment, Capitalist liberalism and democracy. When study phenomenon in foreign culture and regions, if the understanding was built before decoding the cultural difference, it could easily become judgmental. Thinking and acting methodologically helped this research to generate more judgement-free understandings, in which the researcher almost became one of the actors and went through what the actors have been through. Therefore, it discovered something ‘unknown’ to the orthodox account. To distinguish this account from the others, this
study is about the rule of law, instead of rule by the law. It is about the process whereby institutions have been formulated, negotiated and modified continuously. China’s futures market lives in an institutional setting where some old elements can be traced back to 500 B.C, some new elements come from modern Chicago and London, and some conflicting characteristics that present both rigidity and fluidity. Furthermore, the key players utilise the rule of law to change the rule by law. It is the more holistic and critical angle of *structure and agency* that helped the researcher to understand the activities of the key players in China’s futures market. It is the process of interplay between the institutional bricoleurs and the state actors that explains the logic of the relevant rules.

The contribution of this research is that it has developed an original and novel account to better understand the dynamic of China’s socioeconomic change. It employed institutional ethnographic methods and discovered a under explored part which the orthodox accounts have missed. The answer to how and why China’s futures market has changed becomes more complete. Economic reform and opening up is seen as an advocate of structural change. Chinese philosophy values learning, a harmonious society, and the political imperative of intellectuals. Decentralisation, meritocracy and institutional bricolage together characterise the development of the futures market.

The concept of institutional bricolage developed by this research may have broader application for other research. Bricolage as a less engineered way of obtaining knowledge complements the normative work by explaining the part that cannot be standardised or studied scientifically. Bricolage as a common characteristic exists in all human societies but is a major in the fast-changing and culture-laden China. Institutional bricolage is the process that institutional bricoleurs play with institutions and the common property of structural changes within complex social system. Institutional bricoleur is not an identity can be fixed to a certain group or individual, but the change agent who carries out bricolage activities. Institutions are institutional bricoleurs’ resources and institutional change is their means. They need to change the
existing structure because it constrains their entrepreneurial ambitions. They may not
always be successful, but if they are, the structural changes they promoted become
part of the existing structure. The outcome of institutional bricolage is a new structure,
a combination of the new and the old. As a significant characteristic, institutional
bricolage may fade when the system changes its character. The structural change in
developed countries appears more organised than that in developing countries,
nevertheless, academics still found bricolage in financial innovation, entrepreneurship,
research activities and conversational processes (Innes and Booher, 1999; Kincheloe,
2001; 2005; Archer et al., 2009; Engelen et al., 2010).

Methodologically, this research process can be considered to be a research bricolage.
The fact that the researcher contributed intellectually to the organisation during
participant observation was beyond the original research design and it could not be
engineered. The researcher has a repertoire consists of the theories, methods and
methodology. With this instrumental set, the researcher improvised during the
fieldwork and changed the preliminary framework. Research contributes to existing
knowledge by adding new theories and hence research activity is a process of
structural change with the researchers as change agents. In this sense, research
bricolage may constitute any social research, but it is a prominent feature of an
explorative and discovering one. At the end of this research, it can be concluded that
bricolage is a common property of human activities as long as the agent is dedicated
to learning and change. Therefore, it can be a useful concept for continuous studies on
social changes in China’s context, or any other cultural framework.

**Appendix**

**Appendix 1**
## Appendix 2

### China Futures Market Statistics (1993—2012)

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover (Billion Yuan)</th>
<th>Volume (10K lot)</th>
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</thead>
<tbody>
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<td>1993</td>
<td>552.20</td>
<td>890.69</td>
</tr>
<tr>
<td>1994</td>
<td>3160.14</td>
<td>12110.72</td>
</tr>
<tr>
<td>1995</td>
<td>10056.53</td>
<td>63612.07</td>
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<tr>
<td>1996</td>
<td>8411.92</td>
<td>34256.77</td>
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<tr>
<td>1997</td>
<td>6117.07</td>
<td>15876.32</td>
</tr>
<tr>
<td>1998</td>
<td>3696.72</td>
<td>10445.57</td>
</tr>
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<td>1999</td>
<td>2234.30</td>
<td>7363.91</td>
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<tr>
<td>2000</td>
<td>1608.23</td>
<td>5461.07</td>
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<td>2001</td>
<td>3014.50</td>
<td>12046.35</td>
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<tr>
<td>2002</td>
<td>3949.02</td>
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<td>2003</td>
<td>10838.90</td>
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<td>2004</td>
<td>14693.53</td>
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<td>2005</td>
<td>13444.84</td>
<td>32284.75</td>
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<tr>
<td>2006</td>
<td>21004.63</td>
<td>44947.40</td>
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<td>2007</td>
<td>40972.24</td>
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<tr>
<td>2008</td>
<td>71914.19</td>
<td>136388.71</td>
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<td>2009</td>
<td>130510.72</td>
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<tr>
<td>2010</td>
<td>309116.47</td>
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<td>2011</td>
<td>275026.85</td>
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<tr>
<td>2012</td>
<td>342246.26</td>
<td>290092.48</td>
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Appendix 3

China Commodity Futures Trading Turnover (1992-2002) (RMB 100million Yuan)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Beijing Commodity Exchange</td>
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<td>Tianjin United Commodity Exchange</td>
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<tr>
<td>Shanghai Metals Exchange</td>
<td>488</td>
<td>3889</td>
<td>6821</td>
<td>4580</td>
<td>2305</td>
<td>1855</td>
<td>1855</td>
<td>416</td>
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<tr>
<td>Shanghai Oils &amp; Foodstuffs Exchange</td>
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<tr>
<td>Shanghai Commodity Exchange</td>
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<tr>
<td>Suzhou Commodity Exchange</td>
<td>681</td>
<td>4272</td>
<td>15020</td>
<td>9054</td>
<td>791</td>
<td>791</td>
<td>791</td>
<td>353</td>
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<tr>
<td>Zhengzhou Commodity Exchange</td>
<td>306</td>
<td>3473</td>
<td>11878</td>
<td>20208</td>
<td>2318</td>
<td>2318</td>
<td>2318</td>
<td>30155</td>
<td>30155</td>
<td>1835</td>
<td>2252</td>
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<td>Dalian Commodity Exchange</td>
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<tr>
<td>Shenyang Commodity Exchange</td>
<td>9</td>
<td>321</td>
<td>540</td>
<td>970</td>
<td>138</td>
<td>99</td>
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<tr>
<td>Chongqing Commodity Exchange</td>
<td>32</td>
<td>596</td>
<td>706</td>
<td>358</td>
<td>418</td>
<td>272</td>
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<tr>
<td>Chengdu United Commodity Exchange</td>
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<td></td>
</tr>
<tr>
<td>Guangdong United Commodity Exchange</td>
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</tr>
<tr>
<td>Shenzhen Non-ferrous Metals Futures Exchange</td>
<td>45</td>
<td>392</td>
<td>942</td>
<td>434</td>
<td>317</td>
<td>317</td>
<td>317</td>
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<tr>
<td>Hainan Zhongshang Futures Exchange</td>
<td>21</td>
<td>1238</td>
<td>22052</td>
<td>11826</td>
<td>666</td>
<td></td>
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<tr>
<td>Changchun United Commodity Exchange</td>
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<td></td>
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</tr>
<tr>
<td>Total</td>
<td>551</td>
<td>6203</td>
<td>39181</td>
<td>101525</td>
<td>84119</td>
<td>60915</td>
<td>36833</td>
<td>22341</td>
<td>16076</td>
<td>30155</td>
<td>39490</td>
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</tbody>
</table>

Data source: CFA. The top 3 of the year (1994-1998) are highlighted. From 1999 the 14 exchanges were consolidated into 3.

Remark: the trading turnovers between 1993 and 1998 showed in the chart are slightly inconsistent with the Appendix 1. The researcher has double-checked the CFA statistics webpage, and found that the data given on two pages are different. It might
because of the consolidation that the data of some closed exchanges were not verifiable. However, the difference is minor and the trend remains explicit.

Appendix 4

Fieldwork phase I, interviewees’ backgrounds

<table>
<thead>
<tr>
<th>Date</th>
<th>Interviewee Title</th>
<th>Organisation</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011.1.10</td>
<td>Project manager</td>
<td>State-owned proprietary and brokerage company</td>
<td>Shanghai</td>
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<tr>
<td>2011.1.11</td>
<td>Manager</td>
<td>CSRC-regulated exchange</td>
<td>Shanghai</td>
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<tr>
<td>2011.1.11</td>
<td>General manager (Dr)</td>
<td>State-owned brokerage company</td>
<td>Shanghai</td>
</tr>
<tr>
<td>2011.1.11</td>
<td>General manager</td>
<td>Investment consulting company</td>
<td>Shanghai</td>
</tr>
<tr>
<td>2011.1.12</td>
<td>Director</td>
<td>Brokerage company</td>
<td>Beijing</td>
</tr>
<tr>
<td>2011.1.12</td>
<td>Manager</td>
<td>Brokerage company</td>
<td>Beijing</td>
</tr>
<tr>
<td>2011.1.12</td>
<td>Vice-president (Dr)</td>
<td>CSRC-regulated exchange</td>
<td>Beijing</td>
</tr>
<tr>
<td>2011.1.12</td>
<td>Manager</td>
<td>State-owned brokerage company</td>
<td>Beijing</td>
</tr>
<tr>
<td>2011.1.13</td>
<td>Former secretary, former general manager</td>
<td>Beijing Futures Industry Association, brokerage company</td>
<td>Beijing</td>
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<tr>
<td>2011.1.14</td>
<td>Former general manager</td>
<td>State-owned brokerage company</td>
<td>Beijing</td>
</tr>
<tr>
<td>2011.1.14</td>
<td>General manager, professor</td>
<td>Brokerage company, University Research Centre</td>
<td>Beijing</td>
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</table>

Appendix 5

Fieldwork phase II, interviewees’ backgrounds

<table>
<thead>
<tr>
<th>Date</th>
<th>Interviewee Title</th>
<th>Organisation</th>
<th>Location</th>
<th>Remark</th>
</tr>
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<tbody>
<tr>
<td>2011.8.9</td>
<td>Manager</td>
<td>State-owned brokerage company</td>
<td>Guangzhou</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>Position</td>
<td>Organization</td>
<td>Location</td>
<td>Notes</td>
</tr>
<tr>
<td>-------------</td>
<td>---------------------------------</td>
<td>--------------------------------------------------------</td>
<td>------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>2011.8.9</td>
<td>General manager</td>
<td>State asset management company</td>
<td>Guangzhou</td>
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<tr>
<td>2011.8.14</td>
<td>Founder and general manager</td>
<td>Investment consulting company</td>
<td>Hangzhou</td>
<td></td>
</tr>
<tr>
<td>2011.8.15</td>
<td>Associate partner, former manager</td>
<td>Private equity, Shanghai International Securities</td>
<td>Shanghai</td>
<td>Treasury bond 327</td>
</tr>
<tr>
<td>2011.8.16</td>
<td>Chief risk officer</td>
<td>Brokerage company</td>
<td>Shanghai</td>
<td></td>
</tr>
<tr>
<td>2011.8.17</td>
<td>Chairman, former president</td>
<td>Commodity industry association, futures exchange (closed in 1998)</td>
<td>Beijing</td>
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</tr>
<tr>
<td>2011.8.18</td>
<td>Former general manager</td>
<td>State-owned brokerage company</td>
<td>Beijing</td>
<td>Follow-up interviewee</td>
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<tr>
<td>2011.8.19</td>
<td>Former general manager</td>
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<td>Beijing</td>
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</tr>
<tr>
<td>2011.8.20</td>
<td>Vice-president</td>
<td>CSRC-regulated exchange</td>
<td>Beijing</td>
<td>Follow-up interviewee</td>
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<tr>
<td>2011.8.20</td>
<td>Former broker</td>
<td>State-owned proprietary and brokerage company</td>
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<tr>
<td>2011.8.22</td>
<td>Official</td>
<td>CSRC</td>
<td>Beijing</td>
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<td>2011.8.22</td>
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<td>Official</td>
<td>Beijing CSRC</td>
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<td>2011.8.23</td>
<td>Former secretary, former general manager</td>
<td>Beijing Futures Industry Association, brokerage company</td>
<td>Beijing</td>
<td>Follow-up interviewee</td>
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