greater profitability for PLA enterprises. A good example was the military's ability to access railway rolling stock when others could not. Military enterprises also paid only a 9 per cent tax on their profits, as opposed to 33 per cent for non-military enterprises. Finally, military readiness and training suffered to some degree. This would have been a much more serious problem but for a rule preventing active duty troops from serving in the businesses. Many of the workers were family members of service personnel.

After Jiang Zemin ordered the PLA out of the commercial sector in 1998, the armed forces fought a rearguard action that has enabled them to retain interests in a few sectors such as telecommunications. The process has come almost full circle. Presently, most of the remaining PLA economic activities are in farming, just as in Mao's day. But the denouement of the experiment has been messy. Some officers left the armed forces with their companies. Other sweetheart deals turned over PLA operations to Party officials who had close military ties.

Notably, too, the state has had to pay the military for the value of the companies it has been forced to abandon. Mulvenon correctly predicted that the defence budget would need a substantial increase to compensate the PLA for its lost assets; and in June 2001, Vice-Foreign Minister Wang Yi told ASEAN officials that such payments to the PLA accounted for "much" of the 17.7 per cent increase in the defence budget for that year. That big budget rise was mistakenly interpreted in Washington DC as evidence for the "China threat" thesis. Perhaps Mulvenon should be required reading for the House and Senate Armed Services Committees.

Many of the most interesting questions about the armed forces are left unanswered by Mulvenon. How much damage has been done to the morale and effectiveness of the PLA? What is being done to address this? What does this say about the political power of the military in China? How was Jiang Zemin able to pull off his order to disengage the PLA from commercial activities? Inasmuch as central tax revenues in China have been dangerously low and only in the last few years have corrective measures been implemented, how can the national budget afford a modernizing military that provides little in the way of its own economic support? One obvious answer is arms exports, but for China, that market never recovered after the end of the Iran–Iraq war. A second edition of James Mulvenon's book, as the consequences become more clearly seen in future, would be welcomed.

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Chinese Business Groups: The Structure and Impact of Interfirm Relations during Economic Development, by Lisa A. Keister. Hong Kong: Oxford University Press, 2000. xiv + 220 pp. HK$145.00/US$19.95 (paperback).

Chinese Business Groups focuses on the large business groups, organized around state-owned enterprises, that have developed rapidly during China's period of economic reform. The book asserts that such business groups have been beneficial to economic development in Japan and Korea, and will be so in China, too. Lisa Keister first shows that business groups may contribute to growth by providing firms with alternative ways of financing and by procuring scarce resources, especially in underdeveloped market economies. The remaining chapters in Part 1 describe how business groups emerged since the reform and how they are structured. Part 2 examines some propositions about the groups' structures and the impact of this on the performance of firms. Keister claims that firms create exchange relations among group members—such as exchanges of board members and workers, mutual loans and commodity transactions—when they face market uncertainty, when there is a powerful firm in the group and when they have had a history of prior relations. As the exchange relations among group members become intense, firm performance improves. Chapters 7 and 8 confirm these propositions by regression analyses that use data from the 40 largest business groups and their 535 members.

As Korean *chaebols* face crises and Japanese *keiretsu* collapse as members drastically reduce mutual stock ownership, the basic proposition of this book that business groups are beneficial to growth can be challenged. It is questionable, moreover, whether one can compare Chinese business groups to those of Japan and Korea. For example, the Airline Group described in Chapter 6 as "one of China's largest business groups" consists of only nine subsidiaries besides the core firm. A fairly large firm—not a group—in Japan may have more subsidiaries: in 2000, the 2,722 listed companies in Japan on average had 11.8 subsidiaries. Two Japanese airlines, JAL and ANA, have 143 and 113 consolidated subsidiaries, respectively. A Chinese group as small as the Airline Group may not even be considered to comprise a group in other Asian economies. The statistics in Part 2, which indicate that the "40 largest groups" only had 13 members on average in 1990, also shows that Chinese business groups were still in a very embryonic stage.

Another difference between Japanese *keiretsu* and Chinese business groups, which Keister ignores, is that Chinese business groups are created under the government's strong encouragement and enforcement, whereas those in Japan are not. Keister overestimates the government's role in the formation of Japanese *keiretsu* while underestimating the government's role in the case of China. The amendment of the antitrust law in 1953 in Japan may have paved the way for the creation of ownership ties among *keiretsu* members, but the Japanese government never issued policies that could be compared to the Chinese government's decrees of 1991 and 1997, which called for the creation of business groups led by large state-owned enterprises, and which listed 120 groups that enjoy preferential treatment. In addition, many industry-specific policies, such as China's "automotive industry policy" of 1994, encourage enterprise groupings by promising privileges to large groups.

The structure of business groups is strongly influenced by these policies, and it is not surprising that some of the organizations created according to the policies do not function well. Little attention to these policies has led Keister to overestimate the function of business groups. A typical example is her evaluation of finance companies: Keister repeatedly points out that finance companies provided group members with alternatives to the underdeveloped financial market. But according to my observations, the finance companies' actual contribution to group members' financing is small: for example, Dongfeng Automobile Group Finance Company, the first finance company ever to be established by a Chinese business group, had assets equivalent to only 8.4 per cent of the group's annual sales in 1990—the very year for which Keister chose to confirm her propositions on finance companies by regression analysis. Finance companies in general have little operating funding because their scope of business is limited by the central bank. Many finance companies rely on stock brokerage instead of providing internal finance. Even the most successful one, Shanghai Automobile Group Finance Company, was far smaller in 1998—only 27 per cent in terms of assets—than one of the smallest nationwide banks, the Huaxia Bank. The finance companies of Chinese business groups are not comparable to the banks in Japanese *keiretsu*.

The book would have benefited by focusing more on in-depth case studies rather than statistical analysis. Case studies might have corrected the book's overoptimistic view of Chinese business groups and shown why they are not growing as rapidly as the rest of the economy. (The industrial output of the 122 largest business groups that are supported by the government grew by 12.5 per cent in 2000, while the national average was 15.6 per cent.) Case studies might have revealed that the groups often have inefficient structures that need restructuring in order to be competitive. Shanghai General Electronics Group, for example, contained three colour-television manufacturers located in Shanghai producing TV sets under different brands. Even after the creation of the group in 1990, the competition between the three firms continued until two of them went bankrupt in 1997. Similar structures can be found in many other groups, because the groups are often created simply by bringing together state-owned enterprises that are under the jurisdiction of the same industrial ministry. Under the encouragement of the government, some groups even accepted enterprises that duplicated their existing assets: FAW Group, for example, acquired four manufacturers of light trucks between 1993 and 1996, even though it already had two subsidiaries that produced light trucks. Some other groups are forced by the government to acquire ailing enterprises: Shanghai Bao Steel Group was forced to acquire six ailing steelmakers in 1998. These cases suggest that the structure of business groups can be better explained by government intervention than by advantageous ties and economic efficiency.

Keister is correct that Chinese business groups deserve greater academic attention. But in order to fully assess their impact on China's economic development we need to pay more attention to government policies and interventions that influence the structure and behaviour of business groups, and we need to examine whether inefficiencies and weaknesses are caused by such interventions.

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