



Socialist market economy and industrial reform in China during the Dengist era from 1978 to 1997

Wan-Sze Hui

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**"Economie des Marchés Socialiste" et Réforme
Industrielle dans la Chine de l'Ere Deng
de 1978 à 1997**

**"Socialist Markets Economy" and Industrial Reform in
China during the Dengist Era
from 1978 to 1997**

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A mon père, Chiu-Ming HUI ...

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FF: French Francs.

kg: kilogram(s).

km: kilometer(s).

Lt.: liter(s).

Rmb: *Renminbi*, People's currency, also called Yuan, Chinese monetary unit. Rmb and Yuan are used synonymously.

t: ton(s).

USD: US Dollars.

LIST OF ABBREVIATIONS:

AIB: Automotive industry Bureau, 6th. Bureau under Mechanism Ministry, replaced by the CNAIC in 1983-84.

BAIC: Beijing Automotive Industry Corporation. It is often called, in Chinese documents, BLVLC (Beijing Light Vehicle Ltd. Corp.).

BJC: Beijing Jeep Corp. Ltd.. (Part of the BAIC).

CALC: Chang'an Auto Ltd. Corp..

CASS: Chinese Academy of Social Sciences.

CATRC: China Automotive Technology and Research Center (Tianjin).

CGAIC: China Guizhou Aviation Industry Corp.

CKD: Completely Knocked Down.

CNAIC: China National Automotive Industry Corporation, established the 7th. May 1982 [Yearbook, 1983].

CNAVIC: China National Aviation Industry Corporation.

CNHTC: China National Heavy-duty Trucks Corporation.

CPC: The Communist Party of China, Parti Communiste Chinois (PCC).

CPPCC: Chinese People Political Consultative Conference.

CSMM: Chang'an Suzuki Machinery Manufactory. (Part of CALC).

DAI: Department of Automotive Industry (of MMI).

DCAC: Dongfeng Citroën Automobile Company. (Part of DFM).

DFM: Dong Feng Motors (Group), or SAW.

ED-SETC: Enterprise Department, *Qiyesi*, of the State Economic and Trade Commission *Jingmaowei*.

EE: Eastern European.

FAW-VW: FAW-VW Auto Company.

FAW: First Auto-Works. First automobile plant in China.

FSU: Former Soviet Union.

FYP: Five Year Plan.

GAGC: Guangzhou Automobile Group Company.

GLF: Great Leap Forward, Grand Bond en Avant (GBA), *Da yuejin*.

GM: General Motors (USA).

HHAM: Harbin Hafei Automobile Manufactory.

IIE-CASS: The Institute of the Industrial Economics, of the Chinese Academy of Social Sciences.

IMF: International Monetary Fund.

JACG: Jinbei (Gold Cup) Automotive Company Group.

JLMC: Jin Ling Motor Company.

JV(s): Joint-venture(s).

LMVF: Liuzhou Micro Vehicle Factory.

MBT: Material Balance Table.

MEI: Modern Enterprise Institution, *Xiandai qiye zhidu*.

MMI: Ministry of Machinery Industry.

MOFERT: Ministry of Foreign Economic Relations and Trade. (MFTEC for French abbreviation).

NORICO: North Industries Corporation.

P/M/ARs: Provinces, Municipalities, Autonomous Regions.

PEE: Postes d'Expansion Economique, the French Embassy.

PRC: People's Republic of China. République Populaire de Chine (RPC).

SAIC: Shanghai Automobile Industry Corporation.

SANA: State Administration for National Assets, *Guoyou zichanju*.

SSAMB: State State-owned Assets Management Bureau, *Guojia guoyou zichan guanliju*.

SAT: State Administration of Taxation, *Guojia shuiwu zongju*.

SAW: Second Auto-Works. Second automobile plant in China, also called DFM.

SETC: State Economic and Trade Commission.

SEZs: Special Economic Zones, *Jingji Tequ*.

SICMB: State Industrial and Commercial Management Bureau, *guojia gongshang guanliju*.

SKD: Semi Knocked Down.

SMC: State Mechanical Commission.

SOE: State-Owned Enterprise, *Guoyou Qiye*.

SPC: State Planning Commission.

SPDs: Socialist Production *Danweis*. *Danweis* de Production Socialistes (DPSs).

SPNs: Socialist Production Networks. Réseaux de Production Socialistes (RPSs).

SSB: State Statistics Bureau.

SSRC: State Systemic Reform Commission, *Guojia Tigaiwei*.

SSTC: State Science and Technology Commission.

SVW: Shanghai Volkswagen Automotive Ltd. Co. (Part of SAIC).

TAIC: Tianjin Automobile Industry (Group) Corp..

TMF: Tianjin Mini-automobile Factory. (Part of TAIC).

TVEs: Town and Village Enterprises.

VW: Volkswagen.

YAGC: Yuejin Auto Group Corp..

INTRODUCTION (en français)

1. Origines et questions principales de notre recherche

"Seul le socialisme peut sauver la Chine" a été un slogan officiel familier à des millions des Chinois¹. Au milieu du XIXème siècle, Karl Marx a affirmé que, "le capitalisme a empoisonné la Chine en même temps que l'opium"². De nos jours, la troisième Session Plénière du XIème Congrès du PCC de Décembre 1978 a conduit la Chine de l'ère Maoïste (1935-1976)³ à l'ère Denguiste (1978-1997), ce que nous savons avoir mené, depuis 1992, sur la voie de "l'Economie de Marché Socialiste (EMS)" [Deng, 1993]. Celle-ci est souvent considérée fonctionner selon la logique d'économie de marché capitaliste.

Selon cette nouvelle notion d'EMS, la réforme des "*Danweis* de Production Socialistes" (DPSs)⁴, généralement connues sous le nom de "State-owned enterprises (SOEs)" ou dites "entreprises d'état", a été promue depuis 1996, dans le but "d'établir une Institution Moderne d'Entreprise (IME)". Néanmoins, transformer les DPSs en

¹Le slogan était cité dans la première clause de "Politiques de base, générales et spécifiques" formulée pendant la troisième Session Plénière du XI Congrès Central du PCC en Décembre 1978 [cf. Ma et al., 1982, pp.45].

²Karl Marx (1818-1883) et Friedrich Engels (1820-1895) ont écrit une série d'articles sur des aspects variés de la Chine du milieu du XIX Siècle. Les articles sont rassemblés dans un livre intitulé *La Chine*, par Roger Dangeville [Union Générale d'Editions, 1973, citation p.313].

³Mao Ze-dong (1893-1976) a été reconnu comme le Président de la Commission Central Militaire pendant la Conférence Zunyi en Janvier 1935 durant la Longue Marche (1934-1935), puis il a été reconnu comme le Président de la Commission Centrale du PCC, une position, selon Cabestan [1994, pp. 20-1], forgée spécialement pour lui durant le VII Congrès du PCC. Mao a occupé ces postes jusqu'à sa mort en Septembre 1976. Mao n'a jamais été Président d'Etat.

⁴Nous allons expliquer plus loin au chapitre trois pourquoi nous utilisons le terme DPS plutôt que SOE. Concernant le terme Chinois "*danwei*", selon le *Dictionnaire de la Nouvelle Chine*, *danwei* a deux significations: une unité métrologique, ou une organisation. Dans le vocabulaire quotidien du peuple Chinois, c'est l'abréviation de l'unité de travail (*gongzuo danwei*). Selon Sylvain Lazarus et Lu Feng [1989, "*Danwei*: une forme spéciale socialiste" (*Danwei: yizhong teshude shehuizhuyi xingshi*), dans *China Social Sciences*, no.1, pp. 3-18], *danwei* est l'organisation de base par laquelle le Parti et les gouvernements contrôlent la vie sociale, politique et économique des résidents urbains. Ces auteurs proposent donc de regarder la *danwei* comme une "forme spécifique socialiste". En réalité, jusqu'au début des années 1980s, les *danweis* contrôlaient l'allocation des logements, des céréales, de l'huile comestible, des rations de tissu, etc. ; elles émettaient des "lettres d'introduction" pour acheter les billets de transport de longue distance et pour réserver les chambres dans les hôtels, de même que des lettres de permission pour le mariage, pour l'adoption d'enfants, et pour entrer dans l'armée ou dans une université ou encore changer d'emploi. Les *danweis* organisent généralement les obsèques des ouvriers. La plupart des fonctions de *danweis* continuent toujours depuis la réforme commencée en 1978. Dans les "State-owned enterprises" donc, le poste de travail est attribué pour la vie, ce qui est

IME signifie rendre les DPSs fonctionnelles comme "agents (du marché socialiste)" au sein d'une soi-disant "économie de marché socialiste ". Ainsi, aujourd'hui, la nouvelle idée officielle pour les dirigeants Chinois semble être "Seul l'économie de marché socialiste peut sauver la Chine".

Après vingt ans de réforme pendant l'ère Denguiste, la Chine semble s'être réveillée⁵ - le niveau de vie de la population s'est largement amélioré⁶ et ⁷, le niveau élevé de croissance économique⁸ a été illustré et étudié par des nombreux économistes et institutions économiques dans le monde entier⁹. Par exemple, le ratio de croissance moyenne annuelle de la production agrégée pendant la période 1979-1996 a augmenté de 9,9%, soit 4,2% de plus que les vingt-quatre dernières années [Imai, 1997, pp. 111-41]¹⁰. Les exportations Chinoises ont augmenté d'environ 21 millions Y en 1979 à

généralement connu en tant que le "bol du riz en fer". Durant certaines périodes même, l'emploi était transférable à un membre de la famille.

⁵ Napoléon a décrit la Chine comme un "dragon endormi". Pour Napoléon, "quand la Chine s'éveillera, le monde tremblera" [De Beer et Rocca, 1997, p.19].

⁶ Si une personne s'était rendue en Chine avant les années 1980s, elle aurait trouvé, par exemple à Beijing, que les vêtements des citadins étaient plutôt mornes, les biens de nécessité quotidienne distribués par des bons attribuant des quantités fixes à chaque individu, et que même les postes de télévision noir et blanc étaient rares, il n'y avait pas de machine à laver dans la vie quotidienne ni dans les magasins. Alors depuis, elle peut constater que les vêtements des citadins sont devenus modernes, les biens de nécessité quotidienne pouvant être achetés sans limites de quantité dans des "marchés libres (*ziyou shichang*)" (un vocabulaire quotidien des Chinois, qui veut dire les stands non étatiques près des zones résidentielles). Les biens durables deviennent plus populaires. Bien qu'il subsiste encore des différences entre les provinces de la côte Est et celles en arrière pays, le niveau de vie général des Chinois a été remarquablement amélioré.

⁷ Quelques évidences statistiques: en 1952, la consommation annuelle de nourriture était de 193 kg par personne et par an, elle atteignait 207 kg en 1979, et 385 kg en 1990. La croissance pendant ces 11 dernières années est 12 fois supérieure à celle des 27 premières années. Du début des années 1950s à 1983, les tissus étaient distribués sous forme de bons, 4-6 mètres par personne et par an. Cette limite est annulée après 1983. Autres exemples de progrès, en 1988, pour 100 individus, on comptait 13,2 postes de télévision, 6,2 machines à laver, et 1,8 réfrigérateurs [Tong, 1992, p.3], ce qui était loin d'être le cas avant.

⁸ Nous n'allons pas discuter ici les controverses concernant les concepts des indices macro-économiques appliqués à la Chine, comme la "croissance économique", PNB, "l'indice des prix de vente au détail", "l'indice des prix à la consommation", "la production brute industrielle", etc..

⁹ Cf. OCDE, 1996, *La Chine au XXIème siècle - implications globales à long terme*, pp. 7-21 ; Ren Ruoan, 1997, *Les performances économiques de la Chine*, OCDE, pp. 11-8 ; UNIDO, 1992, *China - towards sustainable industrial growth*, p.148 ; Woo, 1994, dans *Journal of comparative economics*, June, p.276 ; travaux de la Banque Mondiale, etc..

¹⁰ Selon Imai, les données Chinoises sur le PNB sont disponibles seulement depuis 1978. La croissance citée est fondée sur le "produit matériel réel net" pour la période 1955-1978 et le PNB pour la période 1979-1996 [SSB, China Statistical Year Book, 1993, p.34 ; ibid. 1996, p.42 ; People's Daily, 23 Janvier 1997 cité dans Imai]. Selon la source officielle Chinoise, la croissance économique est 9,3% pour la période 1979-1993 [Qin, 1994, *China*. Nouvelle Star Press, Beijing, p.46].

environ 1 553 billions Y en 1997¹¹. En 1991, la Chine exportait déjà 20% de son PNB¹², et elle était le 15^{ème} plus grand exportateur du monde. Alors elle n'était que le 34^{ème} pays en 1978 [Smith, 1993, p.62]. Selon la Banque Mondiale, la Chine était le 10^{ème} pays du commerce mondial en 1997 [*Nouvelle d'Europe*, 5 Mars 1998].

Toutefois, malgré cette amélioration saillante du niveau de vie et la rapide croissance économique, les différents ressorts de la réforme industrielle ne sont pas parvenus à entraîner la restructuration des DPSs avec succès ou satisfaction. En 1997, sur 87 000 DPSs (dont 4 600 de grand taille), les deux tiers d'entre elles étaient déficitaires [Z. X. Li, ed., 1996, p.3 ; rapport restreint], ce qui correspondait à 110 millions d'ouvriers, dont 30% de sureffectif. La valeur de la production industrielle des DPSs (1995) atteint seulement 47% de la production nationale¹³. Et cette valeur dans le PNB a chuté de 79% en 1978 à 43% en 1996 [Chen, 1996, p.1].

Dans ces circonstances, nous apercevons un paradoxe: La situation générale des DPSs a empiré alors qu'en même temps le niveau de vie de la population s'est amélioré et qu'une croissance économique remarquablement élevée a été constatée de 1978 à 1997.

Examinons de plus près ce paradoxe. Comme nous venons de le mentionner, les aspects correspondant à la macro croissance ont été étudiés par de très nombreux économistes du monde entier, et la croissance elle-même a été généralement justifiée par une amélioration remarquable du niveau de vie des Chinois. Nous n'approfondirons donc pas davantage ce point. En revanche, nous nous concentrerons sur le côté négatif

¹¹Nous calculons la valeur des exportations de 1997 en nous fondant sur la valeur totale des exportations et des importations Chinoises de 325 billions USD [*Nouvelle d'Europe*, 5 Mars 1998], et de l'excédent du commerce extérieur de 40,3 billion USD [SSB, RFI, 30 Décembre 1998]. Ici nous prenons 1 USD = 8,5 Y.

¹²Ou bien 1 958 billions Y. Pour information, le Japon exporte 12% de PNB la même année [Smith, 1993, pp. 61-2]. Et pour les Etats-Unis, la définition du PNB est la valeur totale de produits finis et services du pays, ce qui inclut la consommation de masse, les investissements bruts, toutes les dépenses gouvernementales ainsi que les exportations nettes. Pendant la fin des années 1980, le calcul Chinois du revenu national exclut les dépenses gouvernementales et les services personnel, transports publics, et l'amortissement des investissements.

¹³(2 588,993 billions Y / 5 494,686 billions Y)% = 47% [calculé basé sur les chiffres de CASS, 1997]. Ici nous notons que selon les sources ou les industries, les résultats diffèrent. Dans un entretien avec C. Zhang [SETC, Interview, 28 Août 1996], il expliquait que le ratio de la production de DPS sur la production industrielle était de 78,5% en 1979 ; 59,7% en 1987 ; 34% en 1994 ; et 40% en 1995. Ce qui varie selon les industries: par exemple en 1995, pour l'industrie d'énergie (charbon, pétrole, électricité), le ratio se monte à 88%, et plus particulièrement pour le pétrole il est de 99% ; pour l'industrie de l'acier, il est de 75% ; pour celles de la chimie et de la mécanique, il est 40-50% ; enfin pour le textile, seulement 8%.

du paradoxe, c'est-à-dire sur la réforme industrielle depuis 1978. Cela nous amènera à la question suivante:

Comment ont été réformées les "*danweis* industrielles d'état" (i.e. DPSs) en Chine pendant la période 1978-1997?

Cette question a une double face. D'abord, les DPSs prises dans un ensemble forment toujours la partie principale de la planification centrale, ainsi chaque changement affectant les *danweis* entraîne un changement correspondant de l'administration gouvernementale. Un changement souvent commence avec l'émission de "règles ou règlements" par le Gouvernement central. Comme nous allons le voir, la réforme elle-même a été plutôt *décrétée*. Donc la première face concerne les décisions de réforme industrielle par le Gouvernement central, autrement dit le changement environnemental de la réforme industrielle, en autres mots encore, le changement systémique et institutionnel. Ce qui nous amène à poser la question suivante: Comment caractériser l'environnement de la réforme industrielle, qui est d'une manière générale "l'économie de marché socialiste"?

La seconde face concerne la *réforme industrielle* suivant un tel changement systémique et institutionnel. Nous verrons qu'une *danwei* industrielle a souvent été connectée étroitement avec les autres *danweis* industrielles sous la planification centrale en formant des réseaux. Donc pour nous, la *réforme industrielle* doit être étudiée, d'une part en regardant la réforme des réseaux industriels (au niveau d'une industrie), et d'autre part en regardant la réforme à l'intérieur des *danweis* (les aspects organisationnels et managériaux au niveau des *danweis*).

En fait, ces deux faces de la réforme industrielle Chinoise sont complémentaires. Il serait difficile ou réducteur d'étudier une seule de ces deux faces sans considérer leur interrelation. C'est ainsi ces deux faces complémentaires qui constituent le sujet principal de notre étude: en d'autres mots, l'impact du "changement dynamique" de la soi-disant "économie de marché socialiste" sur le changement structurel des "réseaux de production socialistes" (RPSs, explication dans Chapitre I),

et sur le changement organisationnel et managerial des "*danweis* de production socialistes" (DPSs, explication dans Chapitre I).

En environ vingt ans de réforme, les réformateurs Chinois ont pris progressivement conscience que tous problèmes remontent en définitive au retard de la réforme industrielle et qu'il est presque impossible de contourner, même *pragmatiquement*, cette entrave. La réforme industrielle est elle-même un point clé de l'établissement de "l'économie de marché socialiste" [Z. H. Zhou, 1995, p.8]. C'est la raison pour laquelle une meilleure compréhension des problèmes de la réforme industrielle en Chine par une étude approfondie des ces questions, revêt une grande importance pratique et théorique.

2. Propositions

Pour étudier les questions précédentes, nous allons étudier l'évolution systémique et institutionnelle menant de la planification socialiste vers "l'économie de marché socialiste" et l'impact de cette évolution sur la réforme industrielle. Nous avancerons trois propositions autour de trois notions clés, à savoir, "*Economie des Marchés Socialiste (EMS)*", "*Réseaux de Production Socialistes (RPSs)*", et "*Danweis de Production Socialistes (DPSs)*".

La première proposition concerne le changement dynamique de planification socialiste vers la soi-disant "économie de marché socialiste". Ceci nous amène à nous interroger sur la nature de cette notion "d'économie de marché socialiste". Plus précisément, la question ici est: Comment caractériser "l'économie de marché socialiste"? Comment ont changé les principaux éléments constitutifs de l'EMS, c'est-à-dire, les aspects légaux, politiques, administratifs et de marché? Comment agissent ces constituants sur "économie de marché socialiste"? Et pourquoi nous mettons l'"*Economie des Marchés Socialiste*" en forme plurielle?

"L'économie de marché socialiste" n'a bien sûr plus la même logique que celle de la planification socialiste pure et dure, pourtant, elle fonctionne selon des critères différents, même opposés, à ceux de l'économie de marché capitaliste. En son lieu,

coexistent l'idéologie socialiste et les éléments de marché. Politiquement, elle est toujours contrôlée étroitement par le PCC ; légalement, la "capacité de faire des institutions légales" (législation) s'améliore ; administrativement, le contrôle administratif se réduit ; et du côté du marché, des relations de marché se développent rapidement en dehors du Plan.

Les deux autres propositions concernent l'impact de ce changement environnemental sur la réforme industrielle au double niveau de l'industrie d'une part et des *danweis* d'autre part.

La seconde Proposition est appliquée au secteur automobile. Le secteur automobile Chinois n'est pas une "industrie automobile" mais un "ensemble de *danweis*", issues des *réseaux de production socialistes* (RPSs) sous la houlette de la planification, fabriquant les produits automobiles. En ce cas, quelle est la nature de ces RPSs? Quelles sont les méthodes réformatrices prônées par le Centre (politiques industrielles)? Comment ont évolué la structure et les relations parmi les objets de cet ensemble pendant la période Denguiste?

Ce secteur a évolué des RPSs vers un ensemble de *danweis* automobiles, chacune ayant sa propre tutelle administrative ministérielle ou régionale. Ces *danweis* sont en train de former un semblant d'industrie automobile (processus inachevé), par introduction des éléments d'économie de marché capitaliste, comme des investissements étrangers (capitaux privés), méthodes de gestion et technologies étrangères. Les relations dans les réseaux existants sont des "contraintes administratives" qui sont parfois dures, parfois souples. Et les relations sont remplacées à un certain degré par des relations de marché.

La troisième Proposition concerne les *danweis* (de grande taille). Pour la réforme managériale des *danweis de production socialistes* (DPSs), le droit de propriété privé et la privatisation ont été des tabous officiels. Le processus de la réforme a cherché donc, à promouvoir la responsabilisation économique, mais recourir sans un système du droit de propriété privé politiquement reconnu et légalement défini.

3. Présentation du contenu

La thèse comprend deux parties, soit en tout six chapitres suivis d'une conclusion générale.

Dans la première partie, nous allons étudier le changement systémique et institutionnel de l'environnement des DPSs, en proposant une discussion sur la nature de "l'économie de marché socialiste". Pour la réforme industrielle, nous allons considérer le changement institutionnel selon quatre aspects: politique, légal, administratif et de marché.

Dans le chapitre premier, nous regarderons le contexte historique autour des notions de "socialisme" et de "marché", puis nous présenterons notre approche. Dans le deuxième chapitre, nous nous intéresserons à la nature de la soi-disant "économie de marché socialiste", à l'évolution des politiques industrielles de la réforme et leurs particularités. Nous montrerons que la notion "d'économie de marché socialiste" est en fait une coexistence *non compatible* de socialisme et de marché, la nature de "l'industrie socialiste planifiée" étant plutôt un ensemble des *réseaux de production socialistes*, et la nature des "State-owned enterprises" étant plutôt *danweis de production socialistes*. Puis le chapitre trois retracera le changement des quatre aspects de l'environnement institutionnel de la réforme industrielle. Et c'est dans ce chapitre, nous expliquerons pourquoi nous mettons "l'Economie des Marchés Socialiste" en forme plurielle.

La deuxième partie concerne la réforme industrielle elle-même. Pour nous, la réforme industrielle ne peut être appréhendée qu'en deux niveaux: le niveau industriel et le niveau des *danweis*. Au niveau industriel, nous caractériserons la nature des *réseaux de production socialistes* automobiles et leur évolution ; au niveau des *danweis*, ce sera la nature des *danweis de production socialistes* et leur évolution.

Cette partie a trois chapitres. Dans le chapitre quatre, nous proposerons une revue générale de l'émergence et de l'évolution des RPSs automobiles et DPSs automobiles. Au chapitre cinq, nous analyserons les aspects du changement structurel industriel et des politiques industrielles du secteur automobile. Dans le chapitre six,

nous analyserons la réforme des *danweis* et les problèmes auxquels elle fait face. Plusieurs cas de *danweis* de secteurs différents seront présentés ici. Nous allons montrer que la réforme a été une tentative de *responsabilisation économique* sans un système de droit de propriété privé. Nous aboutirons alors à quelques questions ouvertes dans la conclusion générale.

INTRODUCTION

1. Background and principal questions of our research

"Only socialism can rescue China" has been an official slogan to which are familiar millions Chinese people¹⁴. In the mid-19th. Century, Karl Marx once pointed out that, "capitalism has poisoned China together with opium"¹⁵. Nowadays, the important Third Plenary Session of the XI Congress of the Communist Party of China (CPC) held in December 1978, had driven China from the Maoist era (1935-1976)¹⁶ to the Dengist era (1978-1997), which is well-known, since 1992, to undertake the road of "Socialist Market Economy (SME)" [Deng, 1993], which itself, is often deemed to run with capitalist market logic and principles.

Under this new notion of "socialist market economy", the reform of "Socialist Production *Danweis*" (SPDs)¹⁷ or generally known as "State-owned enterprises (SOEs)", has been promoted as "to establish Modern Enterprise

¹⁴The slogan was cited in the first clause of the "Basic general and specific policies" formulated in the Third Plenary Session of the XI Central Committee of the CPC (December 1978) [cf. Ma et al., 1982, pp.45].

¹⁵Karl Marx (1818-1883) and Friedrich Engels (1820-1895) wrote a series of articles on various aspects of China in the mid-19th. Century. These articles have been gathered in the book titled *La Chine*, by Roger Dangeville [Union Générale d'Editions, 1973, p.313].

¹⁶Mao Ze-dong (1893-1976) was recognized as the Chairman of the Central Military Commission in the Zunyi Conference (January 1935) during the Long March (1934-1935), then he was also recognized as the Chairman of the Central Committee of the CPC, position, according to Cabestan [1994, pp. 20-1], created specially for him during the CPC's VII Congress. Mao had held these posts until his death in September 1976. Mao had never been the State's Chairman.

¹⁷We will explain below in Chapter One why we use the term "SPD" rather than "SOE", and why the term Socialist Production Networks (SPNs). Concerning the Chinese term "*danwei*", according to *New China dictionary*, the term *danwei* has two meanings: a metrological unit, or an organization. In Chinese people's daily vocabulary, it is the abbreviation of a working unit (*gongzuo danwei*) or a production unit (*chengchan danwei*). According to Sylvain Lazarus and Lu Feng [1989, "*Danwei: a special socialist form*" (*Danwei: yizhong teshude shehuizhuyi xingshi*), in *China Social Sciences*, no.1, pp. 3-18], *danwei* is the basic-level organization through which the Party and governments control the social, political and economic life of the (urban) residents. They proposed to regard the *danweis* as a "specific socialist form". In reality, until early 1980s, the Chinese *danweis* controlled the allocation of housing, supplies of grains, edible oil, cloth rations, etc. ; they issued "introduction letters" to buy long distance transport tickets and to book rooms in hotels, and letters of permission for marriage, for bearing or adopting children, also introduction letters to enter the army, university or to change job ; the *danweis* organized generally the obsequies of workers and staff. Most of these functions of *danweis* still continue since the reform launched in 1978. In the "State-owned enterprises", lifetime job tenure was guaranteed, it has been generally known as the "iron rice bowl", and during certain periods, the employment was transferable to one's family members. Here in our study, we use the terms "working units", "production units", *danweis* equivalently.

Institution (MEI)" since 1996. To transform the SPDs to "Modern Enterprise Institutions" means somehow to render the SPDs to function as "(socialist market) agents" in the so-called "socialist market economy". Now the new official idea to Chinese leaders seems to be "Only socialist market economy can rescue China".

After twenty years' reform in the Dengist era, China seems to be waking up¹⁸ - the population's living standards have been largely improved¹⁹ and ²⁰, high economic growth²¹ has been illustrated and studied by numerous economists and economic institutions worldwide²². For example, the average annual growth rate of aggregate output during the 1979-1996 period jumped to 9.9%, 4.2% higher than the preceding 24 years [Imai, 1997, pp. 111-41]²³. China's exports had augmented from about 21 million Y in 1979 to about 1 553 billion Y in 1997²⁴. In 1991, China exported already 20% of its GNP²⁵, and

¹⁸Napoléon ever metaphorized China as a "sleeping dragon". For Napoléon, "when China will wake up, the world will tremble" [De Beer and Rocca, 1997, p.19].

¹⁹If one had been in China before 1980s, one ought to have found that, for example in Beijing, the city population's clothing were drab, daily necessity goods were distributed by vouchers with fixed quantity to individuals, even monochrome televisions were rare, there were no washing machines in people's daily life nor in department-stores. Then since 1980s, one can see that, the city population's clothing has been getting new fashioned, daily necessity goods can be purchased with no more limits of quantity or in "free markets (*ziyou shichang*)" (daily vocabulary for Chinese people, meaning the non-State vendors' stalls gathering near residential areas). Durable goods have become more and more popular. Although there still exists difference between eastern coastal provinces and inner ones, the general living standards of Chinese people have been improved.

²⁰Here are also some statistical evidence: in 1952, the annual food consumption was 193 kg/head, it attained 207 in 1979, and 385 in 1990, the growth rate of the last 11 years is 12 times more than that of the first 27 years. From early 1950s to 1983, cloth was distributed by vouchers, 4-6 m/head.year, this limit was canceled after 1983. Other progress for example, in 1988, for 100 individuals, there were 13.2 TV sets, 6.2 washing machines, and 1.8 refrigerators [Tong, 1992, p.3], this was not the case before.

²¹We will not discuss here on the controversies concerning the concepts of the macro-economic indices applied to China, such as "economic growth", GDP, "retail price index", "consumer price index", "gross industrial output", "price deflator", and the like.

²²Cf. OECD, 1996, *La Chine au XXI^e siècle - implications globales à long terme*, pp. 7-21 ; Ren Ruoan, 1997, *Les performances économiques de la Chine*, OECD, pp. 11-8 ; UNIDO, 1992, *China - towards sustainable industrial growth*, p.148 ; Woo, 1994, *Journal of comparative economics*, June, p.276 ; various works of the World Bank, etc..

²³According to Imai, the Chinese GDP data is available only since 1978, the growth rates cited are based on the "real net material product" for the 1955-1978 period, and GDP for the 1979-1996 period [SSB, China Statistical Year Book, 1993, p.34 ; *ibid.* 1996, p.42 ; People's Daily, 23rd. January 1997 cited in Imai]. From Chinese official source, the economic growth rate was 9.3% from 1979-1993 [Qin, 1994, *China*. New Star Press, Beijing, p.46].

²⁴We calculated the export of 1997 based on the total Chinese export-import value of 325 billion USD [*Nouvelle d'Europe*, 5 March 1998], and the foreign trade favorable balance of 40.3 billion USD [SSB, RFI, 30 Dec. 1998]. We used 1 USD = 8.5 Y.

²⁵Or 1 958 billion Y. For information, Japan exported 12% of its GNP in the same year [Smith, 1993, pp. 61-2]. Also, the American definition of GNP is the total value of final goods and services produced in the country, which includes personal consumption, gross investment, all government expenditure, and net exports. Through

was ranked 15th. largest exporter in the world, whereas it ranked 34th. in 1978 [Smith, 1993, p.62]. According to the World Bank, China ranked 10th. trading country in the world in 1997 [*Nouvelle d'Europe*, 5 March 1998].

Behind this outstanding improvement of living standard and the rapid economic growth, however, the various industrial reform resorts has not restructured the SPDs successfully or satisfactorily. By 1997, among some 87 000 odd SPDs (about 4 600 large size ones), 2/3 of them were in deficit [Z. X. Li, ed., 1996, p.3 ; restricted report], they employed 110 million workers with 30% surplus. Industrial Output value of SPDs (1995) attained only 47% of the National Industrial Output²⁶. And industrial Output over GDP fell from 79% in 1978 to 43% in 1996 [Chen, 1996, p.1].

Under this circumstances, we see that there is a paradox: the general situation of the SPDs had been getting worse meanwhile the population's living standard had been improved and remarkable high economic growth had been reported from 1978 to 1997.

Now let us have a closer examination of this paradox. As we have just mentioned above that, the aspect concerning the macro growth has been studied by so a large number of economists worldwide, and the growth itself has been more or less justified by a remarkable improvement of daily life of Chinese individuals in general, so we will not carry out further discussions on this point. We will concentrate on the negative side of the paradox, i.e. the *industrial reform* since 1978:

What has happened to the *industrial reform* during the period 1978-1997?

This question has double facets. Firstly, the SPDs as a global set was a key part of the central planning, each time there was need for some change on the *danweis*, change happened also for the Government. A change often followed the issue of some "rules or regulations" by the central Government.

late 1980s, the Chinese calculations of national income excluded government expenditure and personal services, passenger transportation, and depreciation investment.

²⁶(2 588.993 billion Y / 5 494.686 billion Y)% = 47% [calculated based on CASS, 1997]. Here we notice that, different sources, or different industries gave different results. In an interview with C. Zhang [SETC, Interview, 28 Aug. 1996], the SPD/industrial output value was 78.5% in 1979 ; 59.7% in 1987 ; 34% in 1994 ; 40% in 1995. Also for different industries, for example in 1995, for the energy industry (coal, petrol, electricity), it was 88%, in which especially for petrol sector, it was 99% ; for steel industry, it was 75% ; for chemical and mechanic works it was 40-50% ; for the cloths industry, it was only 8% [ibid.].

As we will see below, the reform itself had rather been *decreed*. So the first facet concerns what had been decided for the industrial reform by the central Government, this was the environmental change of the *industrial reform*, in other words, the systemic and institutional change. This leads to the question: how to characterize the environment of the *industrial reform*, which is in general the "socialist market economy"?

The second facet concerns what do we mean by the term *industrial reform* face to such systemic and institutional change? As we will see, an industrial *danwei* was often tightly connected to other industrial *danweis* under the central planning (industrial networks). Thus we cannot study the *industrial reform* without consider the reform of the industrial networks (at industry level) and the reform inside *danweis* (organizational and managerial aspects at *danweis'* level). How had been reformed the "State-owned industrial *danweis*" and their networks in China?

In fact, these two facets of the Chinese industrial reform are complementary to each other. It is difficult or reducing to study one of them without considering the interrelations with the other. Thus these two complementary facets consist of the main subject of our study, which is in other words, the impact of the "dynamic change" of the so-called "socialist market economy" on the structural change of the "socialist production networks" (SPNs, explanations in Chapter One), and on the organizational and managerial change of the "socialist production *danweis*" (SPDs, explanations in Chapter One).

Since some twenty years' reform, Chinese reformers have realized progressively that, all problems fall ultimately to the sluggishness of the industrial reform, and that, it is almost impossible to bypass, even *pragmatically*, this hindrance. Industrial reform is an important crux to the establishment of the "socialist market economy" [Z. H. Zhou, 1995, p.8]. Thus a better comprehension of the problems of the industrial reform in China through a close study of the above questions is of great practical and theoretical importance.

2. Propositions

Concerning the above questions, we will study the systemic and institutional evolution from the socialist planning to the "socialist market economy" and the impact of this evolution on the industrial reform. We have three propositions around three key notions, namely, "Socialist *Markets* Economy (SME)", "Socialist Production Networks (SPNs)", and "Socialist Production *Danweis* (SPDs)".

The first proposition concerns the dynamic change from socialist planning to the so-called "socialist market economy". This leads to question on the nature of the "socialist market economy". The question here is: how to characterize the "socialist market economy"? how have changed the main constitutive elements of the SME, i.e. the aspects of legal, political, administrative and market environments? How these constituents act in the "socialist market economy"? And why we put "Socialist *Markets* Economy" in plural form.

"Socialist market economy" has no more the same logic of pure socialist planning, yet it functions under different even opposite criteria of capitalist market economy. It is a co-existence of socialist ideology and market elements. Politically, it is still controlled tightly by the CPC ; legally, the "capacity of making legal institutions" (legislation) is improving ; administratively, the administrative control tends to be reduced ; marketly, marketized relation is developing rapidly outside the Plan.

The other two propositions concern the impact of this environmental change on the industrial reform at industry's level and at *danweis'* level.

The second Proposition concerns the automotive sector. The Chinese automotive sector is not an "automotive industry" but a set of relevant *danweis*, producing automotive products, and reformed *from* the socialist production networks (SPNs) under the planning. Then what was the nature of the SPNs? What were the reform methods promoted by the Central (industrial policies)? How had evolved the structure and the relations among the "automobile-relevant *danweis*" in the Dengist period?

This sector was evolving from automotive Socialist Production Networks to a set of *relevant* automotive *danweis*, each had its own tutelage of upper administrative organs under ministries or regions. These relevant

danweis are forming a seeming-automobile-industry, through capitalist market elements (uncompleted process), such as foreign investments (private capitals), foreign management and technology. The relations in the existing networks were "administrative constraints" that were sometimes hard sometimes soft. These relations were being replaced at a certain degree by market relations.

The third Proposition concerns the (large) *danweis*. In the reform of management of the SPDs, private ownership and privatization have been official taboos. The reform process had been to promote the economic responsabilization but without a private ownership system politically recognized and legalised defined.

3. Presentation of contents

Our thesis has two parts, wherein six chapters followed by the General Conclusion.

In Part One, we will study the systemic and institutional changing of the SPDs, while giving a discussion on the nature of the "socialist market economy". For the industrial reform, we will consider four aspects for the institutional change: political environment, legal environment, administrative environment and market environment.

In Chapter One, we will look at the historical background around the notions of socialism and market, then we will illustrate our approach. In Chapter Two, we will see the nature of the so-called "socialist market economy", the evolution of the industrial policy and industrial reform and its particularities. We will point out that the notion of "socialist market economy" is in fact a non-compatible coexistence between socialism and market, the nature of "socialist planned industries" was *Socialist Production Networks*, the nature of "State-owned enterprises" was *Socialist Production Danweis*. Then in Chapter three, we aim at drawing out the four institutional environment change of the industrial reform. We will explain here why we put "Socialist *Markets Economy*" in plural form.

Part Two concerns the industrial reform. For us, the *industrial reform* must be considered at two levels: industry level and *danweis'* level. At industrial level, we will characterize the nature of the automotive Socialist Production Networks and their evolution ; at *danweis'* level, we will characterize the nature of the Socialist Production *Danweis* and their evolution under the reform.

Part Two has three chapters. Chapter Four will give a whole review of the emergence and evolution of the Chinese automotive SPNs and automotive SPDs. Chapter Five will give analyses on aspects of industrial structural change and industrial policy of the automotive sector. In Chapter Six, we will discuss *danweis'* reform and the problems they face, various case studies will be presented here. We will point out that the reform had been a tentation of economic responsabilization without a legal private ownership system. We will conclude with some open questions in the General Conclusion.

PART ONE: FROM SOCIALIST PLANNING TO "SOCIALIST MARKETS ECONOMY"

1^{ERE} PARTIE: DE LA PLANIFICATION SOCIALISTE A "L'ECONOMIE DES MARCHES SOCIALISTE"

This part consists of three Chapters by which we would like to examine our Proposition One. We try to sketch some key characteristics of the so-called "socialist market economy" and to draw up its nature through systemic and institutional change point of view, centered on the industrial reform in China. Since almost twenty years of reform in China, nobody has seriously question on "what is the 'socialist market economy'". We try to give an outline of the so-called "socialist market economy", while putting the industrial reform in a long (at industry level) and a short (at *danweis'* level) zooming vision.

Here we recall the Proposition One: "socialist market economy" has no more the same logic of pure socialist planning, yet it functions under different even opposite criteria of capitalist market economy. Politically, it is still controlled tightly by the CPC ; legally, the "capacity of making legal institutions" (legislation) is improving ; administratively, the administrative control tends to be reduced ; marketly, market is developing wildly outside the Plan.

In Chapter One, we will look at the existing points of views concerning our questioning and we will describe the methodology of our approach. In Chapter Two, we will try to characterize the nature of the so-called "socialist market economy" through change of main systemic aspects before drawing up a historic review of the industrial reform, we will end the chapter by pointing out the salient particularities of the Chinese reform. In Chapter Three, we will study empirically and historically the nature of institutional change from socialist planning to the so-called "socialist market economy", it concerns mainly the evolution of institutional environments for the SPDs, namely, political, legal, administrative, and market environment.

Then in Part Two, we will look at the impact of systemic and institutional evolution on the industrial reform.

RESUME DU CHAPITRE I: CHANGEMENT SYSTEMIQUE INSTITUTIONNEL ET SINGULARITE SOCIALISTE: DEUX NIVEAUX D'ANALYSE DE LA REFORME INDUSTRIELLE

Dans ce chapitre, nous allons étudier les points de vue existants concernant la notion "d'économie de marché socialiste" et présenter notre approche.

La notion "d'économie de marché socialiste" montre que la question, soulevée par l'Ecole Autrichienne dans les années vingt, de l'existence de l'économie dans le socialisme ou non reste encore ouverte. Mais le pragmatisme de l'autorité Chinoise fait qu'elle ignore le côté théorique de la question et introduit des mécanismes de marché tout en gardant l'idéologie socialiste, c'est-à-dire concrètement, le système du droit de propriété public où le "peuple entier" est le propriétaire des moyens de production. En termes Marxistes, les mécanismes de marché sont considérés comme des outils économiques qui fortifient le développement de la force de production. En tout cas, "l'économie de marché socialiste" n'est pour l'autorité Chinoise qu'une première étape dans la modernisation du socialisme. Réformistes et conservateurs s'opposent sur la question de savoir si l'introduction de l'économie de marché conduira inévitablement la Chine vers le capitalisme [Jiang Ze-min, 1992]. Les discussions parmi les économistes Chinois sont vives (huit écoles de pensées). Pour eux, il est cependant inutile de contredire l'autorité, de sorte que personne ne s'interroge sur le concept "d'économie de marché socialiste". Les débats reposent donc sur des compréhensions différentes de cette notion, et restent plutôt normatifs et prescriptifs.

Au contraire, notre approche est d'abord positive et empirique. Elle est basée sur des observations de terrain, notamment de nombreux entretiens avec des managers des *danweis*, des ouvriers, des officiers, des ingénieurs, des chercheurs, etc.. Notre démarche est ensuite systémique et institutionnelle car les réformes, en modifiant les règles du jeu, ont un impact sur l'organisation et la structure de l'industrie et des *danweis*. Nous soulignons l'évolution des *réseaux de production socialistes* vers des secteurs industriels différenciés qui restent marqués par leur passé socialiste. Le secteur automobile en est un exemple, sur lequel il existe encore peu de travaux. Ainsi, nous utilisons les outils de l'économie industrielle pour analyser les particularités de l'industrie automobile Chinoise et les comparer à celles de l'industrie automobile dans l'économie de marché capitaliste. Nous rappelons par ailleurs la multi-fonctionnalité des *danweis*. Selon Komiya [1985], "il n'y a pas d'entreprise en Chine", ou selon von Hirschhausen [1994], "les combinats ne sont pas des entreprises". Pour les transformer en "entités économiquement responsables", les réformes tâtonnent par expérimentation de différentes méthodes de gestion.

CHAPTER ONE: SYSTEMIC-INSTITUTIONAL CHANGE AND SOCIALIST SINGULARITY, INDUSTRIAL REFORM OF TWO LEVELS

1. Existing points of views relevant to our questioning

The Chinese industrial reform from the late 1970s to the late 1990s, was a complex process with its particular theoretical and historical background, at the outset of our study, before looking at the methodology of our approach, it is interesting to contrast the existing different points of views.

The larger background of the industrial reform was the notion of the so-called "socialist market economy". This notion shows us that the debate on the question "are socialism (planning) and (capitalism) market compatible?", has been far from terminated. Historically, this debate can be traced back to the question "can economic calculations be possible in socialism?" or more radically in other words, "is there *economy* in socialism"?

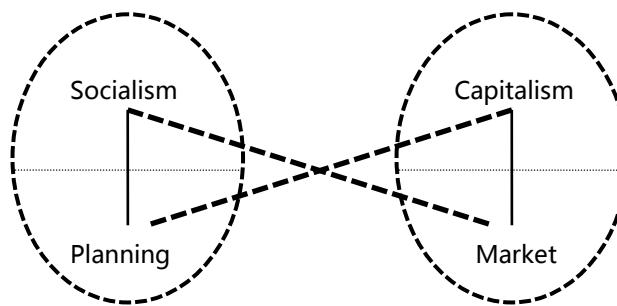
Evidently, there are four concepts around the debate: capitalism and market ; socialism and planning. It is generally considered that capitalism and market are two non-separable concepts, the same for socialism and planning. The origin of the *non-compatibilism* between socialism and market comes from the Marxist theories of the non-existence of *money-commodity* in the socialism. In practice, following the establishment of the ex-URSS in 1917, a

first debate on the question "can economic calculations be possible in socialism?" took place from 1920s to 1940s. Marxists advocated to get rid of market in socialism. For economists of the Austrian School, there was no economic calculation in socialism [von Mises, 1920 ; von Hirschhausen, 1994].

Nowadays, even a rigorous theoretical consideration on the question of the separability or non-separability between "market and capitalism", "planning and socialism" still needs to be deepened, yet numerous (socialist) theoreticians, especially many Chinese ones, consider them as separable [Figure I.1].

Also, Chinese leaders advocate the compatibility and separability, which allows the birth of the notion of "socialist market economy" in China. Yet in reality, this notion is rather a result of political willing or of political decision pushed forward by Deng. Many Chinese economists share the idea of the Chinese Authority, trying to justify the notion of "socialist market economy".

Figure I.1: Capitalism, market, socialism, and planning.



In fact, they relativized the level of compatibility and separability. For them, by strict definition of market and planning, they are not compatible concepts (e.g., ownership which can be either private or non-private), but with extended connotations, market and planning can be compatible, separable. Even in some managerial aspects, market and planning can be interseptive, for Jin [in Dong et al., 1997, pp. 143-53], the State-owned enterprises in a capitalist market economy have to be submitted to some governmental policies, moreover, the Government is at least the owner or one of the owners, thus at this level, it is impossible to separate politics and production even in capitalist market economy. However, politics and production can be separated in aspects of management of a State-owned enterprises, because the latter have relatively autonomous decision power in most of the managerial affairs.

Even there is a certain degree of consensus about the notion of "socialist market economy" in China, yet there are still various approaches among Chinese economists. Here in this section, we will look at these various

points of views. We begin by that of the Chinese Authority (Section 1.1). Then we look at the theoretical research of Western economists on socialism and market (Section 1.2), and that of Chinese new generation economists (Section 1.3).

1.1 "Socialist Market Economy", Modern Enterprise Institution: pragmatism of the Chinese authority

The term "socialist market economy" must be the most pragmatic coinage of the Chinese Authority in the Dengist era. It is in fact the result of several painful struggles and debates since about thirty years in China.

The first discussions on the subject of "commodity economy" happened early in 1956, but it had been quickly broken off by the "Anti-Rightist Movement" in 1957 [C. Wu, 1988, pp. 279-80]. In the early 1960s, under the background of redressing the Great Leap Forward (GLF), there began a second wave of discussions on this theme. Sun Ye-fang²⁷ had been one of the first Chinese communist economists criticizing the socialist planning. He advanced that, the crux of the reform, "is not the division of decision power at different levels of Governments", but "to give the autonomy to enterprises", and "to establish the planning based on the *value rule*"²⁸. But his opinion and other similar ones were

²⁷Sun Ye-fang (late senior researcher of the CASS), 1961, "About the question of financial system inside the all-people owned economy", in *Selected works of Sun Ye-fang*. People's Press, Shanxi, cited in Wu [1993, p.67].

²⁸Here we notice that before the mid-1980s, only Marxism, Leninism, Maoism were allowed in academic economic studies in China, so Sun used the Marxist term, "value rule", which meant for him in fact is, to give

soon considered as "anti-revolutionary revisionism" during the Cultural Revolution. So early industrial reforms in the 1950s-1960s stayed mainly *administrative division* of decision power at different level of Governments, i.e., decentralization or centralization.

However, the industrial reforms in the late 1970s were, principally based on Sun's earlier ideas but with a larger scope: to give the *danweis* the decision power together with "part of the profits".

In the early 1980s, some Chinese researchers²⁹ pointed out that the reform should shift from "product economy" to "commodity economy". This means "to use economic rules, to shift the unique planning to full playing of market functions guided by the planning" [Wu, 1993, p.68]. This led to an acute debate on the "socialist planning principle". Some conservators pointed out that, "we cannot absolutely put our economy as 'commodity economy', this will blur the boundary between socialist planning and anarchic capitalist economy, and will blur the essential different nature between socialist economy and capitalist economy" [Wu, 1993, p.69]. At the moment, the industrial reform was at a standstill. The debate was closed *ex cathedra* by the *Decision of the Central of the CPC about the economic system reform*, issued in the Third Plenary Session of the XII Congress of the CPC (20th. October 1984) [Wu, 1993, p.71]. The *Decision*

the *danweis* "part of the profits". Before and during the Cultural Revolution (1966-1976), studies on all other subjects were considered "anti-revolutionary" (needless to add, this often meant that one was not politically correct, and risked to be tortured, imprisoned [...]).

²⁹Headed by Xue Mu-qiao, Director of the Bureau of Reform of the State Council, 1990, *On the economic system reform in China*. Tianjin People's Press. Evidently before mid-1980s, many Chinese economists worked in Governmental or State institutions as cadres.

pointed out that "the (old) economic system fetters the development of productive force", and the economic reform "should change from the root and should establish a lively and vital new system, which is the *socialist planned commodity system*"³⁰.

Then followed the period (1984-1989) of "double-track price system (*shuanggui jia*)", in a larger context of "double-track economy": two prices, one for the Plan, the other for the "commodity economy". During this period, methods to reform *danweis* such as "enlarging the managerial rights", "contracting responsibility system" had begun.

New problems³¹ under this "double-track price system" touched off another violent debate in 1989-1991. Conservators³² pointed out that, "commodity economy" was leading China to "market economy", and, "if we do not care the question of 'named capitalism', or 'named socialism', this will lead indeed the reform and open policy to the evil way of capitalism". This time again, the debate was closed *ex cathedra* by the Speech of Deng during his inspection tour to Southern China³³:

Don't think that carrying on a little bit of market economy is to take the capitalist road, that's not true. Planned economy is not equivalent to socialism, capitalism also has

³⁰This is also known as "Bird-cage economy", term coined by Chen Yun (1905-1995), late Commissioner of the SPC.

³¹Such as: augmentation of Governmental budget deficit, price increasing, corruption, and especially the "panic purchasing" in 1988.

³²Cf. "Can reform and opening not care of the question of 'named socialism' or 'named capitalism?'" in *Contemporary trend of thought* (Dangdai sichao), #2, 1991 ; "Socialism must replace capitalism", in *China daily*, 17th Dec. 1990 ; "Distinguish and analyze market and market economy", in *Seeking of the truth* (Zhenlide zhuiqiu), #2 1991.

³³18th - 21st. January 1992, Deng visited Wuchang, Shenzhen, Zhuhai, Shanghai.

planning ; market economy is not equivalent to capitalism, socialism also has market. Planning and market are all just economic tools.

In this speech, Deng separated capitalism and market, socialism and planning. During the same voyage, Deng also pointed out that: "more planning or more market is not the essential difference between socialism and capitalism. [...] planning and market are just the economic resorts".

Deng's point of view marks the pragmatism of the Dengist era.

Soon after, the XIV Congress of the CPC (12th. October 1992) decided that the "goal of the economic reform" was to establish "Socialism Market Economy"³⁴. Then China entered officially into the period of "socialist market economy", which has been the theoretical guiding line of the Chinese reform since then.

However there has never been a clear official definition of "socialist market economy" made by any of the Chinese leaders. We can only get a glimpse of their ideas in their speeches. These ideas are often ambiguous and have double-faces, with one hand an ideological obstacle denying capitalism, and the other a pragmatism making use of market to develop socialism. For example, the general secretary of the CPC Jiang Ze-min³⁵ ever pointed out,

Even by introducing market economy, we will not become capitalism. The goal of the reform and opening is to let market take root in China.

³⁴Jiang Ze-min made *Political Report*, in which he advanced for the first time, the term "Socialist Market Economy".

The XV Congress of the CPC held in September 1997 might mark a breakthrough³⁶ for the industrial reform in China, inasmuch as the "Sharing system, *gufen zhi*"³⁷ has been decided to be generalized to the SPDs³⁸. The sharing system was regarded as one resort to establish Modern Enterprise Institution.

From the late 1970s, until the late 1990s, even there have been divergence of points of views inside the Party (mainly conservators and reformists), the basic tone of the Chinese Authority on keeping the road to establish the "socialist market economy", and Modern Enterprise Institution has been quite stable³⁹. Moreover, political decisions have played important role for the train of reform, as the notions of "socialist market economy", Modern Enterprise Institution have been contrived rather inside the Party, on the other hand, pragmatism runs almost above the socialist ideology except the Party's sovereignty, which appears often in the leaders' speeches as "keeping the social and political stability".

But what is "socialist market economy"? Many people has asked this question without getting a definite answer. In fact, "socialist market economy"

³⁵"93Tokyo Forum" held on 12th. Dec. 1992, organized by NHK [Tong Da-lin, 1993, *New era of humanity*, China Friendship Press, Beijing. p.209].

³⁶Politically, this congress marked the beginning of the veritable "Jiangist era" after Deng's death.

³⁷"Share system", or "Joint Stock system", had been until that moment, scented all along the twenty years of reform a tendency of *privatization* (against the socialist ideology) by the Chinese Authority.

³⁸According to the President Jiang Ze-min, the sharing system will be generalized to all "State-owned enterprises", until only 1 000 of them will stay "State-owned" [Cf. *Humanité*, 12th. September 1997, and *People's daily* (overseas edition), 13th. September 1997].

³⁹At the moment of the eighth anniversary of one of the conservators' representative magazines *Midstream* (Zhongliu) in early 1998, conservators raised another debate on the question of "named capitalism", or "named socialism" [RFI, 31st. May 1998], but this seemed to have had weak influence to the train of establishing "socialist market economy".

is a quite ambiguous term. Many Chinese economists put it as "market economy", or "modern market economy" while emphasizing that China remains socialism [Dong et al. ed., 1997, p.1, p.569]. If we refer to the author of *Biography of Deng Xiao-ping*⁴⁰,

"socialist market economy" =

muddleheaded socialism, bashful capitalism, deep-rooted feudalism.

"Muddleheaded" shows the very pragmatism of the Chinese Authority. The goal of this pragmatism is as what Deng noted, "the most basic task of the socialist stage is to develop the productive forces. The socialist superiority finally must reflect that, compared to capitalism, its development of productive forces is faster and higher, while on this basis, improving continuously the people's living standards" [Deng, 1993, 63]. Thus, in order to "develop the productive forces", there is, such as Fan described, "no argument on principles in dealing with controversies, [...] No-encouragement-but-no-ban" [Fan, 1994, p.104].

In a way, the pragmatism somehow reduces the socialism to the development of productive forces.

Similarly, the ambiguity happened also to the notion of Modern Enterprise Institution. We will come back at this point below, especially in Chapter Six.

⁴⁰Zheng Yi, 1996, *Biography of Deng Xiao-ping*. Ming Pao Press, Hong Kong, p.346.

1.2 "Socialist Market Economy" and its basic composing units - Socialist Production *Danweis*

The Chinese industrial reform is a complex process with its own theoretical and historical background. Existing points of views are numerous and diverse.

1.2.1 What do Western economists say?

Here let us turn to a historical evolution of the question. Von Mises [1920, 1932] and the ultra-liberalists of the contemporary Austrian School⁴¹ were the first to point out a theoretical and practical⁴² unfeasibility of economic calculations in socialism. The unfeasibility of economic calculations leads to the impossibility of efficient resources allocation and rational productive organization in socialism, due to the absence of a genuine market (prices) for capital, as planning (under public ownership) replacing market competition, and real goods distribution replacing price system [Wu, 1989, p.558 ; von Hirschhausen, 1994]. In other words, there is no private ownership and market in socialism [Zhang, 1996, p.15].

⁴¹Namely Ludwig Edler von Mises (1881-1973) ; Friedrich August von Hayek (1899-1992), 1935 ; Lionel Charles Robbins (1898-1984) [Cf. G. R. Steele, 1993, *The economics of Friedrich Hayek*. St. Martin's Press, New York ; Song, ed., 1998, pp. 482-97].

⁴²Practical according to Hayek and Robbins [Tadeusz Kowalik, 1988, "Lange, Oskar Ryszard", in *The New Palgrave*, p.126].

Marx was "almost totally silent" on this point [Nove, 1988, p.400]. Von Mises argued that rational economic calculation and resources distribution is impossible in socialism, because there is no money-commodity as a *general equivalent*, to calculate or compare costs, or to measure the intensity of wants [Nove, 1988, p.403 ; von Hirschhausen, 1994, pp. 14-8]. For von Mises, there is *no economy* in socialism.

Polish economist, Oskar Lange was the first who introduced market concepts into socialist planning both practically and theoretically⁴³. The essential point of the socialist theorists⁴⁴ at that moment was: price fixing by "trial and error" of "Central Planning Board" could imitate the price fixing process by "trial and error" mechanisms through market competition in capitalism [Zhang, 1996, pp. 14-5]. The chief purpose of Lange's study of 1938 was to disprove von Mises' argument. The earlier-age conviction of Lange [1938] was: the neoclassical welfare economics was best suited to serve as a foundation of a theory of socialist economy⁴⁵. The above ideas have been known as the Lange-Lerner-Taylor theorem, whose central message was that *ownership did not matter*, one could have the advantages of the price system without the disadvantages associated with private ownership [Stiglitz, 1994, p.81].

⁴³As a theorist, Lange was ever lecturer at several Universities in Poland and in the USA, and as a man of action, he was member of parliament, and of State Council of Poland [*The New Palgrave*, 1988, p.123].

⁴⁴Namely Fred Manville Taylor (1855-1932), 1929 ; Landauer, 1931 ; Heimann, 1932 ; Dickinson, 1933 ; Oskar Ryszard Lange (1904-1965), 1936-1937 ; Abba Ptachya Lerner (1905-1982), 1934-1937.

⁴⁵Kowalik, 1988, in *The New Palgrave*, pp. 123-8.

In fact, Lange's earlier work originated from "reforming capitalism by socialism". Lange changed this original orientation in his later works, he then tried to "reform socialism by capitalist ingredients", he reduced also the planning only to some "key industries" (such as bank and transport), he often called the "centralistic command model" as "war-time model", i.e., central planning should only be used during war-time.

The features of Lange's model for socialist planning are: 1) large enterprises can be public-owned, while keeping small size private enterprises, 2) to exercise planning economy, while it should not be operated through real goods but through monetarized economic process. Labor market and consumption goods market should exist. 3) to keep the freedom of selection of consumption and of job. The consumers' preference following the demanding price should be the criterion to orient the production and resources allocation. 4) to fix the relative price by market mechanisms, but this price does not come from direct market demand/offer but fixed by the Central according to the market demand/offer [Wu, 1989, p.559].

At that moment, this debate had been limited in the abstract discussions among Western economists, it had no effective influence on the ex-USSR, which was the first and unique socialist country in the world.

Then, after the 1950s, the question "to what level socialist planning economics can make use of market mechanisms" was raised again. Some

suggestions for the "reformed socialist models" were proposed, for example, the "improved command economic model" of Allan Gruchy⁴⁶; the "planned quantitative centralized model" of J. Wisinski⁴⁷; the "cooperative model"⁴⁸; and the "Yugoslavian model"⁴⁹. In this period, it was generally considered that there were three models for socialism: 1) highly centralized, 2) highly decentralized, 3) "combined" of the first two categories. In the following, the models of Brus and Sik are considered as in the third category [Wu, 1989, p.561].

In the 1960s, Polish economist Włodzimierz Brus distinguished "economic model" and "social economic institution", the former being determined by operational principles, and the latter being determined by basic productive relations. He distinguished three levels of decision: 1) macroeconomic activities decision, 2) enterprise daily economic activities decision, 3) family and individual economic activities decision.

⁴⁶In *Comparative economic institutions*, he classified command economies into three categories: "mobilizing (command) economy", this is like the GLF in China; and "authentic command economy", like the Stalinian USSR model; and the "improved command economy", like the post-Staline USSR and most of the Eastern European countries (excluding Yugoslavia and Hungary) [Wu, 1989, p.560]. Yugoslavia has been the first which reformed the Stalinian model in the early 1950s [ibid., p.555].

⁴⁷Wisinski [Australian economist, *Socialist economics*], he distinguished the centralization by "technocratic centralization", where economic procedures are managed by hierarchic institutions of the planning, and where economic calculations are processed by real materials rather than price equilibrium; and "planning calculation centralization", which means, the use of modern calculation technics to reform the old planning model, for example the "real goods equilibrium" is replaced by mathematical solutions at the Central level planning [Wu, 1989, p.560].

⁴⁸Also known as "Igaria model", term advanced by American economist, B. Ward, in which, the cooperative enterprises are managed by workers themselves, the motivation is to earn maximum profit for each worker. Market plays main role for the resources allocation, the State manages only the public sectors through economic policies, the system is a highly decentralization, it is the anti-pole of the highly centralized socialism. In-between these two poles, there is a "combined model", with an "organic combination" of planning and market like the "Yugoslavian model" [Wu, 1989, p.560-1].

⁴⁹In which the "state-ownership" is replaced by labor-collective-ownership. Workers make decisions on the production and distribution, the collectives' profit and individuals' profit are the incentives. The economic activities and relations are coordinated by economic legislation and social contracts [Wu, 1989, p.560].

Then he classified the socialism by four operational models: 1) the total centralized model, i.e. the decision processes of the above three levels are all centralized ; 2) only the third level is decentralized, the first and the second levels are centralized, he called this "totalitarianist model" ; 3) "macro control centralized model", when only first level is centralized ; 4) "market socialism model", i.e., all the three levels are decentralized [Wu, 1989, pp. 562-3].

For Brus, the first and the fourth model are not preferable ones, socialist economic model must be the second or the third one. For him the job and consumption choices can only be at family and individual level. The centralization of this level can happen only under special circumstances when resources are extremely rare, for example, during war-time. For the "market socialism model", Yugoslavia was an example. One of the advantages of this model is that the productive *danweis* are motivated by profits (incentive), but the disadvantages are: disconnection between macro and micro efficiencies ; the social accumulation rate is low⁵⁰ ; grave inflation⁵¹ ; and high unemployment⁵² [Wu, 1989, p.564-5].

Between the second and third models, Brus advocated the third one⁵³, i.e., "State-controlled market and free enterprises". This means that the

⁵⁰Because production units decide the proportion of accumulation and consumption, and their "goal function" which seeks the maximization of the income of the laboring collective and of the individuals, the later are supposed to seek maximum consumption.

⁵¹Because production units have to make credits for investment, which leads to the credit-flation, and inflation, and thus purchase power for productive means and consuming goods is higher than supplies.

⁵²This is due to the goal-function of the *danweis*, which tend to employ less workers.

⁵³For the second, Brus concluded its features as: 1) decision model, what to produce, the quantity to produce, the productive technology to use, the choice for raw materials, the salary standard and reward forms, are all decided by the central planning organ, 2) for the planning method, it is the strict hierarchic structure, i.e. lower

macroeconomic decisions are made and controlled by the State, and then the "enterprises" make decisions on their own accounts, and they compete in this controlled macroeconomic environment. This model has three features: 1) the standards that the State fixes, have only orientation function. Productive units can make their own goals according to the market and their own interests. 2) the raw materials are no longer distributed by the Central but purchased on market, also the products will be sold on market too. 3) the measure to recognize a unit "bad" or "good" is by its profits, no more by the planned quotas [Wu, 1989, p.566-9]. But this model has a basic problem: how to keep the units' decentralized decision on the same line with the macro decisions⁵⁴? This leads to two major problems concerning input/investment and pricing [Zhang, 1996, p.17].

In fact, Brus wanted to perfect the socialist planning by market mechanisms. For him, this was a "planned economy with adjustable market

hierarchy is part of the upper hierarchy, 3) for the informational structure, the guiding structure is vertical from upper to lower level, complemented by the horizontal structure among production units, and between producers and consumers. The information from upper to lower level is of form of "orders", the information from lower to upper level is of form of "reports", 4) both in economic calculation and resources distribution, real material is mainly used for the balance, money is only a tool for the central decision, but not a basis for the choices of production units, this is rather a "passive money", not an "active money", (active on market). The advantage of this form is the concentration of use of resources, which in Lange's term, this is an "almost war-time economy", and which cannot durate for two main disadvantages: a) the "ratchet principle", production units' interests have conflicts with the State's interests, for example, production units prefer to have lower quotas, and the Central prefer to have high quotas, and b) there are many standards that the central planner cannot control at all, as a result, they can only concentrate the control of production volume and value, consequently production units take care of only quantitative standards, but ignore other factors such as quality, new products' development, application of new technology and economic efficiency.

⁵⁴The State still controls the production units in three ways: 1) macro planning limits the units' and individuals' activities, e.g., if the State decides to establish an automobile production unit, and it must produce only light trucks, in this way, the unit is also located as part of the macro decision, 2) the goal-function is still set up by the State, i.e., under certain principles set up by the State, production units can choose to earn maximum profit (this needs a rational pricing system) or production volume (they can ignore cost). Thus it is easy that the units' goal-function diverges to the global (social) interests decided by the State, 3) the State can adjust the activities

mechanisms". Even he deemed that socialism could not run without market, but he emphasized that the *nature* of socialism was planning. For him, socialism is an "economy with commodity production and commodity exchange", but socialism is *not* a "commodity economy"⁵⁵. In the "decentralization model", to use adjustable market is not to squeeze out planning, but to perfect planning [Wu, 1989, p.570].

Later, in 1968, the designer of the ex-Czechoslovakian reform, Ota Sik advocated the separation of macro-level non-equilibrium and micro-level non-equilibrium. His theoretical basis consists of: 1) the contradiction under socialism: working is not the first necessity for most of the people, working aims at consumption. Thus the contradiction is between the "really-used-laboring" and "necessary-laboring". "Socialist market relation" emerges and exists based on this contradiction, and is the good way to solve the contradiction. 2) Sik distinguished macro and micro non-equilibria. His analysis is quite technical. Here briefly, the macro-level non-equilibrium signifies the non-coordination of the total supply and demand of productive means and of consumption goods⁵⁶. The micro-level non-equilibrium signifies, when equilibrium attains at macro level⁵⁷, the supply and demand of

of production units by various "economic parameters" (or say, "economic levers") such as price, salary, credit, tax, etc.. But "how can planned price run with market competition?" stays an open question.

⁵⁵Cf. Brus, 1981, *Socialist politics and economy*, Chinese version, China Social Science Press, Beijing, p.45-69, cited in Wu, 1989, p.569.

⁵⁶In other words, the non-equilibrium between the categories I and II of the "reproduction theory", because of the non-coordination of compensation in value, and of material substitution due to C, V, and M.

⁵⁷I.e., when there exists coordination of the categories I and II of the "reproduction theory".

production⁵⁸ do not coordinate. Evidently, these two kinds of non-equilibria have totally different nature.

For Sik, in the case of capitalist commodity economy, the micro-level non-equilibrium can be rectified through market, i.e., through price variation on market, thus capital transfer (realized by producers) and re-organization of productive structure (entering and exiting an industry) can be motivated by profits seeking according to the price information from market. For the macro-level non-equilibrium⁵⁹, if this is only a problem of insufficient demand, the problem can be solved by capital transfer from supply to demand side. But if the macro-level non-equilibrium is due to over-production, then the immediate consequence will be a decrease of production⁶⁰, then follows dismissal of workers or lower salary, this gives thus more pressure⁶¹ and leads to other serial reactions. This is also the real reason of the capitalist economic crisis. So according to Marx, only after a total destruction of some production force in capitalism, an equilibrium can be then recovered [Wu, 1989, pp. 574-6].

According to Sik, there have been some misunderstanding points in the traditional socialist political economics. Often, one wants to decrease market

⁵⁸In the category I.

⁵⁹I.e. the $v + m$ in category I, and the c in category II, do not coordinate, where v is the part of national income of the workers, m is the part of national income of the investors (capitalists). In the value of "economic growth", the distribution of national income changes if v does not augment and m augments, then if suppose m is only for accumulation, then the demand for consumption good will decrease [Wu, 1989, p.576].

⁶⁰Decrease of production in category II, then capital from category II will be transferred to category I, but this will lead to a surplus of demand of productive means in category I. Thus the capital in category II cannot be transferred to category I. So in category I, there will also be a corresponding decrease of production.

⁶¹On category II.

mechanisms (only) at micro level instead of solving the problem of macro-level non-equilibrium. For him the macro-level should be controlled by the State, and the micro-level can function "freely" under market mechanisms. So he advocated that, under socialism, it must be planned adjustment⁶² of macro economic distribution, and free market at micro-level, i.e., free market for production units⁶³ [Wu, 1989, p.575].

According to Wu [1989, pp. 571-2], the contribution of Sik to prove the necessity of market relations in socialism was un-precedented.

In fact, the Polish School (headed by O. Lange) was the first who criticized socialism. Their main argument was based on informational structure. For them, as market is squeezed out in socialism, the horizontal relations among production units, and that between producers and consumers are cut, thus economic information can only go through the vertical hierarchic structure. However the Central planner cannot get immediately necessary information in order to make suitable decisions, meanwhile production units cannot neither make freely decisions corresponding to consumers' demand, instead, they must listen to the Central planner. Thus Lange advanced "modelizing market" by the planning organ. His theory leads to two directions, one is to introduce more market, even to use real market to replace planning,

⁶²In Sik's model, this includes three main factors: wage level standard determination, tax rating and tax collecting, dividend management, and also other minor factors such as total credit value fixing, consumption credit limits fixing, other social offsetting [Wu, p.578].

⁶³In Sik's model, there are: 1) large enterprises of labors, 2) mixed (labors and private owners) medium size enterprises, 3) private small enterprises. All enterprises must be autonomous. As for the market, Sik needed transparent market, and that monopoly must be eliminated [Wu, 1989, p.583].

the other is to use highly developed computer to improve the informational system and the planning. This was why they were also called the "Computer School", or the "Computer Utopic School". In his late years, Lange became the head of this School.

However what Sik pointed out is that, apart from the informational structure problem, there is also a problem of incentive structure. Only market mechanisms can coordinate the different interests of a society, hence that of collectives and of individuals. If the problem of incentive cannot be solved, the computers cannot solve the problem of informational structure finally.

We can therefore contrast the approaches of Brus and Sik, there are three different points between them: 1) the macro control, Sik emphasizes the control on the demand side, Brus emphasizes the control on the supply side, 2) price, Sik uses market price, but Brus sets the price, 3) as wage is concerned, Sik takes it as a macro factor, Brus takes it as a micro factor, at the level of production units [Wu, 1989, pp. 585-6].

Another analysis quite similar in conclusion, is provided by the Hungarian economist, J. Kornai, who advocated the separation of the macro and micro levels' "adjustment". His "adjustment model" consists of two kinds of administrative adjustment and two kinds of market adjustment: IA (direct administrative adjustment), IIA (indirect administrative adjustment), IB (market adjustment without any control), IIB (market adjustment with macro-control). For Kornai, the situation in Hungary after the reform in 1960s attained IIA. The

goal of reform was to transform from IIA to IIB [Zhang, 1996, pp. 19-21]. The reform path is supposed to run from IA to IIA to IIB [Table I.1].

Table I.1: Kornai's reform path.

	I	II
A	IA (direct adm. adj.)	IIA (indirect adm. adj.)
B	IB (market adj. no control)	IIB (mkt adj. with macro-control)

Nowadays, the idea of reforming the socialist planning by capitalist market ingredients still subsists. Since 1980s, there are two approaches for the reform of the socialist countries in the world: firstly, the "Shock therapy" of the Harvard School⁶⁴, in respect to the collapse of the ex-URSS, this is an extreme idea to "reform" the socialism as it intends to "destroy" the socialism and to "replace it" by capitalist market economy, however a capitalist market economy takes time to grow up from the "socialist ruins" ; secondly, the "gradualism"⁶⁵, in respect to the Chinese reform since the early 1980s. In fact, these two ways show also the root of the long un-solved enigma: the compatibility between socialism (planning) and (capitalism) market and the "free combination" of these four concepts.

In the studies of neoclassical economics, socialist systems are in general treated as "sub-optimal", the production units are considered as "monopolistic enterprises". Neoclassical economics has an approach founded

⁶⁴Namely Jeffrey Sachs, etc..

on *methodological individualism*, which consists of setting up conditions under which a set of agents maximize the social well-being by optimizing the allocation of scarce resources for alternative usage (L. Robbins). In this economic system: The principle policy insight of economics is that a competitive price system produces desirable results and that Government interference will generally lead to an inefficient allocation of resources⁶⁶.

In this vision, economics is a science with objectives of defining policy capable of rendering a group of individuals to an optimal stage: the general equilibrium, which is perfectly identifiable in theory, but in practice, never attained. Then socialism is treated as a grave *disequilibrium*. The "State-owned enterprises" are treated as (monopolistic) public property, without clear incentives or satisfactory governance of State's assets [Hirschhausen, 1994, pp. 23-5].

In neoclassical economics, two main traditions can be distinguished: to use socialism to *repair* the shortcomings of capitalist market economy, or to reform socialism by capitalist market elements. During the War II, Lange considered "mixed-type economies" to reform the capitalist structure⁶⁷, and on the other hand, "mixed economy" to prevent the central authority's arbitrariness in determining accumulation rates⁶⁸ in his "revised model of

⁶⁵According to Fan [1994, p.103], "Gradualism is less an 'adopted approach' or a 'chosen strategy', but more an *ex post* description of an unintended evolutionary process".

⁶⁶Fisher, F. M., 1987, Adjustment processes and stability, in John Eatwell et al. ed., *The new palgrave*, New York, Mac Millan.

⁶⁷By "calling for a socialization of the monopolies which he regarded as threats to political democracy and which he blamed for generating unemployment" [T. Kowalik, in *The New Palgrave*, 1988, pp. 123-8].

⁶⁸Through ceding saving to individual consumers so that their preference will be reflected [ibid.].

market socialism". Later other economists, among others, James E. Meade⁶⁹ advocated "revised liberalism" in mixed economies. For Meade, market should be brought to full playing, and Government should control at a certain level money and price in order to well coordinate liberty (of individuals' behavior), efficiency and fairness. This conception has had much influence, and falls also in the mainstream economic tradition, i.e., to use socialism to *repair* the shortcomings of capitalist market economy. Some Chinese economists have tried to inspire from the concept of "mixed economy" in order to find a suitable "revised (planned) commodity economy" in the late 1980s⁷⁰.

However, this was not without strong replies, Joseph E. Stiglitz [1994], for example, explained how the neoclassical (Walrasian) theory, "which has dominated economic thought over the past half-century, not only may have provided an inadequate framework for understanding market economies but may have wrongly encouraged the belief that market socialism could work". He proposed an alternative model based on economic theories of information to understand the failures of socialism, including market socialism, which is derived from the standard neoclassical model, and the problems in the transition from market socialism to market economies.

From another point of view, the neo-institutionalists take the socialist planning as organizational operations, and for them, there is too much

⁶⁹1975, *The intelligent radical's guide to economic policy*. George Allen & Unwin Ltd., London. Translated into Chinese in 1989.

⁷⁰Ou Xiao-li and Luo Qing, 1989, Preface to *The intelligent radical's guide to economic policy* [ibid.], pp. 6-7.

bureaucracy⁷¹ in the "enterprises". However the point of view of North [1990] of analyzing an economy by institutional change has given much inspirations to Chinese economists. The Chinese neo-institutionalists believe that given the political constraints in China (such as the "public ownership" under the socialist ideology), the task is to find an optimal, or at least a better institutional design for the emerging "socialist market economy" era.

Lastly, Bomsel [1994], Giraud [1998], Hirschhausen [1994], warned to reconsider the socialism as a "*singular* phenomenon", and thus not to apply generally existing paradigms and concepts to its study. Hirschhausen [1994] has studied on the nature of the *Combines*⁷² in the Eastern Europe and in the ex-USSR. One result of the research work was that, the *Combines* in these countries "were not enterprises", *Combines* have been transformed into enterprises through process of splitting-up and then capitalization.

The above conception is not alone, after examining the different operational and managerial manners between the Japanese enterprises and the Chinese "State-owned enterprises", Ryutaro Komiya [1985] enunciated that "there was no enterprise in China". This suggests also to regard the Chinese socialism and its composing production units as singular objects of study.

⁷¹It seems to be an "American tradition" (mostly in political science) to treat China as a "bureaucracy" (especially for China in the 1960s) [Harwit, 1995 ; Smith, 1993], or "politicized bureaucracy" [Ezra Vogel, 1970, "Politicized bureaucracy: communist China", in Fred W. Riggs ed., *Frontiers of development administration*, pp. 556-68. Duke University Press, Durham, NC., cited in Harwit, 1995, p.5].

⁷²*Combine* means the "State-owned industries" in Russian before the collapse in the early 1990s.

This above brief revision gives the general historical background in Western economics studies related to the notion of socialist planning, thus the notion of "socialist market economy" in contemporary China. The above evolution shows the root of the calling of "socialist market economy". Certainly, the evolution cannot offer a conclusion on the Chinese reform and on what is the "socialist market economy" in the Chinese practice. In the following, let us look at what Chinese new generation economists have suggested for the Chinese reform, or the Chinese way towards "socialist market economy".

1.2.2 What do Chinese new generations economists say?

Since the mid-1980s, many Western mainstream economic works have been translated into Chinese, a large number of Chinese economists of younger generations further their training in developed countries, and what is more, many non-Governmental research institutions have been allowed to be established in the country. On the contrary to the former period of unique studies on Marxism-Leninism-Maoism for the elder generations, the rise of new generations of Chinese economists has been accompanied by richer fields of economic studies. By the late 1990s, it was generally recognized that there were seven Schools of ideas of Chinese economists about the Chinese

reform [Ye, 1993, 1994]. We think that one other school (the first one below) should be added, here below we give a brief revision on these points of views.

1) "School of new interpretations" (Yu Guang-yuan). This school gathers those who support the notion of "socialist market economy" by giving new interpretations of Marxian/Marxist works, and of socialism. The representative figure is Yu Guang-yuan⁷³. Economists of this School are mostly those who studied political economics before the opening. Yu [1994] pointed out that, "socialist market economy" is part of socialism ; and for "all-people ownership", he pointed out that in their works, Marx and Engels meant rather "social ownership (*Gesellschaftlich eigentum*)" than "public ownership (*Gemeineigentum*)". This implies that the "Public ownership" developed in China has been a result of a translation misunderstanding. Yu defined the socialism as:

<p style="text-align: center;">Socialism =</p> <p style="text-align: center;">social ownership of means of production + socialist market economy + socialist distribution principle⁷⁴.</p>

We may compare this definition with that of Lenin⁷⁵, who ever defined also socialism in a formula, according to which,

⁷³Senior researcher of the CASS.

⁷⁴I.e., from each according to his ability to each according to his work.

$\text{socialism} =$ $\text{Soviet power} + \text{the Prussian rail management institutions} + \text{the American technology}$ $\text{and trusts} + \text{the American national education [...]}$

The new interpretation of the Marxian works was crucial to the theoretical progress of Chinese economists about the reform and to Chinese leaders, as since then, "share system" can be considered as "social ownership" (owned by the society, or individuals in the society), which is *not* private. However, there lacks rigorous theoretical definition of the notion of "social ownership", as well as the notion of the "socialist market economy", and the reason why "socialist market economy" should be seen as a part of socialism.

2) "School of whole system coordinative reform", or "price reform School" (Wu Jing-lian). The expression "whole system coordinative reform" was firstly given by Liu Ji-rui⁷⁶, himself was one of the figures of this School. This School was formed in mid-1980s. The principal figure is Wu Jing-lian⁷⁷. Their points of views were quite controversial. The central point of their research was how to set up competitive market mechanisms in China, the center of the intended reform should touch the aspects of price, tax collection, budget, finance, internal and external trades [Ye, 1994, p.47]. They pointed out

⁷⁵Lenin, *On the socialist economic construction of the Soviet Russia*, Chinese version p.96, cited in Tong, 1992, p.143.

⁷⁶Liu Ji-rui, 1987, "Trains of thoughts of reform that we can choose", *Reading* (dushu), #9.

⁷⁷Senior researcher of the Development Center of the State Council.

that the main reason that the old system had low efficiency was because it depended on administrative orders to allocate resources, China should then replace the old administrative system by new form of resources allocation based on market mechanisms.

The original idea of this fraction was to criticize the policy of "decentralizing power and resigning profits (*fangquan rangli*)", and to study the economic overheating as well as the demand expansion in the mid-1980s. They pointed out that double distortion of price was the key display of problems of the Chinese planning system. In 1985, they put "planned commodity economy" equivalent to "controlled market economy". As a wishable system, "controlled market economy" is composed of 1) agents are the enterprises that are "self responsible of profit and loss", 2) competitive market mechanisms, 3) macro-adjustment through market [Ye, 1994, p.10].

They were the first who casted away from the main policy of "decentralizing power and resigning profits" which had been dominant for the early stage of the reform. They advanced market-oriented reforms. For them, "socialist market economy" should replace the old system by market mechanisms [Ye, 1993, 1994]. In their works, they *almost* put "socialist market economy" as "market economy". Wu pointed out that, "socialist market economy is a fair society plus a market economy"⁷⁸. This means, "socialist market economy =

⁷⁸Barry Naughton, "Chinese reforms in industry and finance 1994-1998", seminar organized by Centre d'études prospectives et d'informations internationales (CEPII), 6th May 1998.

socialism + market economy = social fairness + market efficiency" [Dong et al. ed., 1997, p.3].

In the mid-1980s, this fraction pointed out that, "price reform" could not be bypassed. For them, coordinative reform could be triggered by the price reform, so they were known in China also as the "price reform School". They advanced that, the reform should take place at some key points, and should be processed coordinatively by different aspects of the overall system. In order to realize the "track change (*zhuangui*)" from the old system to a new system, they advanced that the reform could be divided into two phases: clarifying the economic relations, and then clarifying the non-economic relations [Ye, 1993, 1994].

So for this School, the "whole system coordinative reform" means: to set up self managed/profited enterprises, to set up competitive market mechanisms, and macro-adjustment based on market mechanisms, and that socialist can accept market. They advanced that from the resources allocation point of view, market-oriented economy is nothing but another name of "commodity economy" (Lenin) or of "monetary economy" (Marx) [Ye, 1994, p.12].

In fact, in the late 1970s, some economists and some Chinese leaders had advanced some embryonic ideas of the notion of "socialist market economy", but "socialist market economy" as a series of concepts and theories, have been then completed, improved and advanced by the "School

of whole system coordinative reform". They were the first who advocated the "goal-model" of the Chinese reform should be the establishment of "socialist market economy", which means market economy with macro-adjustment [Ye, 1994, p.12]. Their research have been concentrated in proving that only competitive market mechanisms can solve the problems of allocation of scarce resources in China.

Here we summarize the basic ideas of this School:

- The old system allocated scarce resources by commands or administrative orders. The old model itself could not overcome the informational and incentive shortcomings, hence there existed inefficiency. Under the conditions not to change the system with these above shortcomings, any reform such as "decentralizing power and resigning profits", or "reinforcing the incentives" could not succeed.

- To replace the command model by market-pricing mechanisms to allocate resources, this can overcome the shortcomings of information and incentive mechanisms. Only to "commoditize or monetarize the economy" is not enough, it must be also "marketized". But as market has intrinsic shortcomings such as "feature of after the event", "feature of blindness", spontaneity, fluctuationess, so the socialism can manage and adjust the market in order to realize the socialist goal of justice.

- "Reform *troika*": they were against the idea of "either to set the reform priority to the enterprises or to the pricing", for them the three aspects as

mentioned above were important: 1) "enterprises as agents" which are "self responsible of profit and loss", 2) competitive market mechanisms, 3) macro-adjustment through market, must be processed synchronically and from the same starting point.

- Socialism does not exclude the market. Market just offer the possibility to get to Pareto optimum by price equilibrium but it does not decide the distribution of the optimized social welfare among social groups. So in "socialist market economy", the advantages of market can be brought to full play, and on the other hand, the "People's State and People's Government" can assure its "people's optimal interests".

- "Socialist public ownership" can include many different forms of ownership. Small enterprises can be owned by individuals or groups. Large enterprises can take forms of different social organizations, such as "public companies", insurance companies, social welfare foundations, etc., or they can be shared among enterprises (majority), individuals (minority) in form of shared company. The shares can be transferred freely.

Their ideas are similar to those of the "relaxing environment School" (below). The main difference between them is that the former emphasizes more on the interactive relations between reform and development, for them, just after a shortage (planned) economy, it is difficult to set up a long-term stable purchasing market, which will be possible only if total demand is almost equal to the total offer.

3) "School of gradualists", or "School of setting up relaxing environment of reform" (Liu Guo-guang). It was formed in the mid-1980s. They advocated to reform *very* gradually with *small sets* of policies. The principal figures of this School are Liu Guo-guang⁷⁹, Zhang Chuo-yuan, Dai Yuan-chen [1990], etc.. Their central research was on the transformation of economic models and development models. Their main question was: under a "double system" in China, what kind of macroeconomic theory, or policy should be chosen?

At the beginning, this School had the following ideas: a) Take the share system as the goal-model for the industrial reform. b) To use market mechanism to solve the problem of coordination of macro-decision and micro-decision which was absent in the model of decision of Brus. c) They deemed to use indirect control based on planning, the goal-model of the reform should be indirect control by "planning as guide" and economic levers. d) Market adjustment is an internal need in socialist commodity economy: the emergence and development of market is a basic condition to complete a whole adjustment system.

Since the late 1980s, the ideas of this School began to be perfected. They began to work for a general thinking of the reform, and the corresponding short-term, mid-term reform policies. They pointed out that even after years of reform, Plan and market stayed still at the level of "two

⁷⁹Senior researcher of the CASS, so are most of the followers of this School.

separate blocks". They studied the boundary and coexistence of planning and market, and they advocated "two-level division" of Plan and market at both macro and micro level, and especially they promoted to make use of Plan and market through price signals and quantity signals at micro level [Ye, 1994, pp. 26-7].

This fraction emphasized that, based on the Chinese reality, the macroeconomic management should create a relaxing environment for the reform and development. Then they were against the extensive development policy and the "speed development policy". Their main idea was: "relaxing environment", and "limited purchasing market", which meant supply should stand lightly superior to demand, they deemed that this idea was the fruit of research combining Western economics, Eastern European economics, plus a consideration of Chinese particularities.

They had been considered as "fence-sitters" between price reform and ownership reform. In fact, they looked for an "interactive coordination" between price reform and ownership reform. They advocated the (real) gradualism, i.e., *partially coordinative* reform, or say "small sets of reform (*xiao peitao*)". Their choice was often close to that of the Central Government [Ye, 1993, 1994, p.28].

4) "School of ownership reform" (Li Yi-ning). This School was formed in mid-1980s. The principal figure is Li Yi-ning⁸⁰. Li advocated "three levels" and "three theories". "Three levels" designates: a system and economic operations under it, the goal of social development, and the position of humankind in society. "Three theories" designates the "theory of second adjustment", the stand that "equilibrium is not the goal", and "ownership reform" [Ye, 1993, 1994, p.127].

The basic feature of this School is that, for them, the key of reform should not be price or other reforms, but an "enterprise reform", particularly ownership reform. Their central theory is the "non-equilibrium theory"⁸¹, based on which, they have studied the "non-equilibrium" operations and the corresponding basic features of the Chinese economy. They emphasize that, in order to bring market mechanisms to fully playing, there is a first need of vitalizing the *main body* (agent) of the market, which are *new enterprises*. So the main guiding line of the reform is to construct *new enterprises* through "share system", which means to proceed firstly with ownership reform.

They put socialism as a "non-equilibrium" phenomenon relatively to the Walrasian equilibrium (which is for the case of capitalism market economy). For them, China can reform this "non-equilibrium" by ownership reform.

⁸⁰Professor at the Department of Economic Management of the Beijing University.

⁸¹LI, Yi-ning (1990) has firstly advanced the notion of "non-equilibrium" of the Chinese economy, *Non-equilibrium Chinese economy*, Economic Daily Press, Beijing.

For capitalism market economy, the Walrasian equilibrium is a perfect economic situation with complete market and sensitive pricing mechanism. The equilibrium study concerns two kinds of questions: 1) questions concerning the existence and stability of a general equilibrium, 2) questions concerning the relations in an economic system under optimal situation. But as a matter of fact, rather non-equilibrium often happens. Starting from this observation, theories of non-equilibrium have been firstly studied by Keynes, in his *The general theory of employment, interest, and money* [1936]. He pointed out that economic behavior reacts not only to price signals but also to quantities. Market can hardly coordinate all transactions, this is why in capitalist market economy, there is often over-production, unemployment and insufficient demand (i.e., equilibrium with non-sufficient employment). In the 1960s, R. Clower and A. Leijonhufvad firstly studied the macroeconomic non-equilibrium theories at microeconomic level, this marked the new era of non-equilibrium studies. The more was under way, together with some other Western economists, they have generalized the research to planned economics. Benassy, Malinvaud, Portes have applied non-equilibrium theories to economies of under-developed countries [cf. Baslé et al., 1988]. The basic points of non-equilibrium thoughts is to recognize the reality of non-equilibrium, the limit of the price adjustment, the necessity of quantity adjustment, and the transition from non-equilibrium to equilibrium. The development of direction of this research has brought Western economics to

a new level, moreover, some policies issued based on non-equilibrium theories have also often been considered as effective [Ye, 1994].

The non-equilibrium theories have had remarkable influence on Eastern European economists. In 1971, Kornai, in his *Anti-equilibrium*, has criticized Lange's "trial method" to achieve the socialist planning equilibrium, and has criticized Kontrolovich's method of achieving the socialist equilibrium by calculating the "optimal shadow price" through linear regression. Kornai advanced that, centrally-controlled economy cannot operate only by a unique price signal. Later in his *Shortage economics*, Kornai advanced again the concept of "shortage equilibrium". According to him, shortage is a "normal situation" of a traditional socialist economy [Kornai, 1980].

The "School of ownership reform" was the first who considered the non-equilibrium theories in Western economics for the case of China. They are considered as to have developed non-equilibrium theories with Chinese specialties. Here briefly, their three basic theories are:

- "Equilibrium is not the goal": in two books, *System, goal, men - challenge to economics*, and *Socialist political economics*, Li Yi-ning has pointed out that equilibrium is just an analytical method, which analyses the relations between the total supply and total demand, and also the relations among other variants in a socialist economy, thus this helps in finding the problems and the corresponding strategies. For Li, an equilibrium is only the starting point of an analysis, which is not itself the final goal of the (Chinese)

reform, on the contrary, non-equilibrium is normal in modern commodity economies or in market economies. Static equilibrium does not correspond the reality in China.

- They distinguish two kinds of non-equilibria: a) Non-complete market, non-sensitive pricing (where there exist both over-supply or over-demand, and under-supply or under-demand), but the micro-agents are "vitalized" production units (self-responsible to profit/deficit). b) Non-complete market, non-sensitive pricing, but the micro-agents are not "autonomous commodity producers" (not self-responsible to profit/deficit). For this School, the first kind of non-equilibrium happens in capitalism, and the second kind of non-equilibrium happens in socialism. Non-complete market or non-sensitive pricing can happen in both non-equilibria, this is why this School has advanced that in the non-equilibrium in China, the most important task is to vitalize the *danweis*, i.e. to undertake firstly ownership reform [Ye, 1994, p.18].

They have analyzed the limits of market adjustment and the necessity of Government intervention in the socialist non-equilibrium. For them, non-equilibrium in socialist planning is a normal phenomenon, China should shift as fast as possible from the second non-equilibrium to the first kind of non-equilibrium.

They have found that the public *danweis* can hardly function under market mechanism, and that socialist economics since Lange has not

successfully combine the planning and the market. This is also, again, why they advance to reform the *danweis* firstly.

- On the analysis of the features of non-equilibrium of socialist macroeconomy: there are two non-equilibria at macro level: when supply is superior to demand or, when demand is superior to supply. In the case of capitalism, the non-equilibrium happens rather when supply is superior to demand because of over-production ; but in the case of socialism, shortage is an inexorable phenomenon. On this aspect, this School has the same point of view as Kornai. However, for this School, even the systemic problems were solved and enterprises became "autonomous commodity producers" which are supposed to be self-responsible to its profit/deficit, but if there existed still limits of resources (with certain degree of limits of demand), then socialist non-equilibrium would still exist (with a smaller gap). In other words, even the market mechanisms were set up within socialism, the most favorable environment that *danweis* could have is to get "demand *just lightly* superior to supply", there could not be more relaxing environment for the socialist economy.

5) "School of macro-economic reform as the priority" (Wang Jue). In this School, there are various sub-fractions of ideas and suggestions. Among others, the idea of "giving priority to the macro-economic reform" is relatively

systematic and representative. The principal figure is Wang Jue⁸², for him, when the total aggregate variables lose equilibrium, any other reforms (price or ownership reforms) cannot bring the economy out of vicious circles. So the reform of macro management system, and macro-control is the most important, and thus the starting point of the reform is the transformation of the Government's function and Government's behavior [Ye, 1993, 1994, p.4].

Wang has criticized the Stalinian idea of "exterior shell of commodity production" for its constraints of leftist dogmatism and the later limited reforms on this model, he has analyzed the economic reform in the ex-Yugoslavia and Hungary, and the "theory of three-models" (according to Brus). Wang advocated that, all these existing reform theories are not suitable or enough to constitute the theoretical base of the Chinese reform, and that it is necessary to construct systematical Marxist economic theories.

For Wang [1985], commodity economy based on socialist public ownership can combine with the planning, and socialist economies can have 3 models: a) commodity production and market mechanisms, b) (non-commodity) production and planning mechanisms, c) commodity production and planning mechanisms. The starting point of the Chinese reform was the second model, and the goal-model should be the third model. So the central point of the reform is to reform the "planned economy" at macro level so that

⁸²Professor at the CPC's Central School.

(centralized) non-commodity production become (decentralized) commodity production [Wang, 1989a ; Ye, 1994, p.20].

For this School, the reform should be carried out at the following five aspects: a) production units should become autonomous commodity producers which are self-responsible to their own profit/loss, b) To develop various forms of ownership corresponding the diverse relations inside production units, c) To separate the production units from the Government, this means to separate the role of administrative management of the Government, and its economic adjustment role, in particular, the function of managing "State-owned assets", d) The Central-local Governments' relation: the Central must decentralize part of power of decision and of management to local governments, e) To construct multi-level markets such as market of productive means, market of capitals, market of labor, market of real estate, and market of technologies, etc. so that the market competition becomes multi-level, and that the relations among production units run through these markets.

Based on the lesson of the Chinese history from 1953 to 1962, and that of the 10 years' Cultural Revolution, they pointed out that the history has shown the vicious cycle: "inflation - contraction - second inflation - more contraction". So after all, the key point of the reform is the "macro management system reform", i.e., reform of the role/function of the Government in a large sense. This School criticizes the points of views of those

who advocates ownership reform and price reform by the argument that, if the Government does not change, it is impossible to reform the production *danweis*, or carry out "price reform" because: a) the Government cannot afford the inflation caused by price reform, b) price reform cannot automatically lead to *danweis*' reform.

6) "School of domination of operational-right reform" (Yang Pei-xin). This School represented a mainstream thought in the 1980s in China. The principal figure is Yang Pei-xin⁸³ [1990]. Their central research was on the reform of production *danweis*. The basic idea is to separate the "ownership right" and the "operational right". They advanced that, "all-people ownership", or "State's ownership" must continue to exist, but the operational right can be decentralized to the *danwei*'s level. It was based on their theory, that the "management responsibility system" was carried out in the late 1980s and early 1990s [Ye, 1993, 1994]. The famous case of experimentation of the "management responsibility system" was the Shougang⁸⁴ experience. Criticism on this fraction has been controversial. Even, some criticized that the essence of their idea was to advocate "privatization" [Ye, 1994, pp. 462-3].

⁸³Senior researcher of the Development Center of the State Council.

⁸⁴The Capital Steel Plant (Shoudu Gangtie Chang, Shougang in short). It has been quite controversial among Chinese economists in the critics on this experience based on the main question: Was the "Shougang model" a temporary model or a goal-model. Evidently, the reality has proved that the "management responsibility system" was a temporary trial model for the Chinese industrial reform.

The origin of this School can be traced back to the "theory of enterprise-selfishness" advocated by Jiang Yi-wei⁸⁵ since the early 1980s. The "theory of enterprise-selfishness" means that, the specialty of socialism is to realize *democratic economy*, in which, the "basic production units" should be the "enterprises", that should have independent operations, independent accounting, and independent rights and duties, but under the uniform leading of the State. Then the key role inside the *danweis* should be in turn the workers (democratic economy) [Jiang, 1993, p.2]. In summary, Jiang's reform theory is: democratic economy - enterprise key role - workers key role.

In fact, early in the 1960s, Sun Ye-fang ever advocated the separation of operational right and ownership right. Certainly, the operational right for Sun at that moment, was defined based on the inexistence of commodity and monetary relations in all-people ownership. It meant only the usage and the control of depreciation of fixed productive means, it excluded the relation on the distribution of profits between *danweis* and the State, and it excluded that the *danweis* could carry out diversified investment [Ye, 1994, p.435].

The main contribution of this School is that, the separation of the "sub-rights" of "property rights" leads to a cognitive progress for the economic

⁸⁵Jiang Yi-wei (1920-1993), late senior researcher of the CASS, he had several other official titles such as committee member of the National People's Congress, etc. [Jiang, 1993, p. i-ii].

research of property rights in China⁸⁶, then Chinese economists divide the concept of "property *right*" into several rights:

- a) right of ownership,
- b) right of occupation,
- c) right of control (decision),
- d) right of usage,
- e) right of disposal,
- f) right of residual.

The debate about the central ideas of this School has been controversial. In general, the principal defaults of this fraction are summarized as: a) The separation of operational right and ownership right does not affect the origin of administrative intervention of the Government to the *danweis*, b) It does not tell how to define the "State property rights", neither how to make the boundary of the "operational rights", c) Neither how to construct "enterprise moral person" [Ye, 1994, p.34].

7) "School of property rights reform" (young generation economists⁸⁷). This school was developed since late 1980s. Generally speaking, there are three sub-fractions inside this School: a) "Public property rights" fraction: they advocate that "public property rights" should be the base but not the only one, it should be complemented of "individual and private property rights"⁸⁸.

⁸⁶It is important to note that, in French or English, the term "property *rights*" is in plural form, however, the same concept in Chinese is in singular form. In fact, in the Chinese language, there does not exist plural form for a word. It took time in China to realize that the term "property *right*" is divisible to several sub-rights.

⁸⁷Such as Tang Feng-yi, Liu Shi-bai, Tian Yuan, Hua Sheng, etc., there is no a principal figure for this school.

⁸⁸Such as Jin Li-zuo, Liu Jun, Chen Yi, Du Xia, Hao Yi-sheng, Tang Feng-yi, Tian Yuan, Liu Shi-bai, etc..

b) "Individual property rights" fraction: they advocate that the Chinese property rights system and social relation should be re-established based on "individual ownership" of individual labors⁸⁹, c) "Private property rights": they advocate that "private property rights" should be the only prescription for the reform⁹⁰. The first sub-faction represents the mainstream of this fraction.

This school looks for a compromise between the "socialist public ownership" and the commodity economy. The main difficulty that this School faces is that, they touch the bottom line of the Party's ideology (private ownership). Moreover, both studies in theories and in practice need to be deepened [Ye, 1993, 1994, pp.499-500].

The basic points of views of this School are: a) The main functions of property rights are, to delimit the responsibilities of "debts, power, profit" in economic activities for the owners of properties, and to supply an incentive system for economic operations. b) The nature of exchange of commodities is the exchange of property rights. Thus only if when the property rights will have had been clarified, then real market entities and high efficient market operational mechanisms can then be formed. c) In a modern commodity economy, enterprises should own independently its assets in order to cast off administrative restraints from the Government, so that they can become a veritable vital *moral person* which is self-managed, self-responsible of profit/loss, and self-developing. d) In a modern commodity economy, "share

⁸⁹Such as Hua Sheng, Zhang Xue-jun, Luo Xiao-ming, etc..

system" is the *best* form for the clarification of property rights. e) Well-set property rights institutions can better guarantee the efficient allocation of social resources through market mechanisms. f) Each economic system has its corresponding property rights system, mono-public ownership suits highly centralized planning system ; multi-formed property rights suits modern commodity economies. Thus in the socialist economic reform, the property rights structure must be restructured. g) On the choice of reform strategies, they advance the idea that the property rights reform *should* be regarded as the guiding line of the Chinese reform [Ye, 1994, pp. 36-7].

For this School, the main problems in the Chinese reform are: a) the owner's function and the Government's function are fusioned, b) the managerial system and resorts are rather administrative than economic, c) existing "economic operating" repels the logic of commodity economy, d) the financial and accounting systems operates under the principle of "uniform income uniform expenditure, uniform management uniform allocation (*tongshoutongzhi, tongguantongpei*). These problems lead to confusions and crisscrosses in the relations of property rights and Government's roles, and the inefficiency of rights, duties, incentives, restraints, execution and control inside *danweis* [ibid., p.39].

Their ideas for a reform can be summed up into three points: a) to remould the existing mono-State-property rights structure into "doubled

⁹⁰Such as Steven Cheung, professor of economics at the University of Hong Kong, etc..

property rights" structure, i.e. to distinguish the State-initial-owner's rights, and "relative enterprise property rights", b) to separate the State's function and the State property rights, to personalize and to disperse the State-owned assets, c) to foster multi-formed entities of properties inside *danweis* such as State shares, shares of social moral person, shares of collective of workers, individual shares. They think that in this way, new micro level entities that suit the "socialist market economy", can be formed.

In the late 1980s, this School was rather silent, it then became more mature after the early 1990s. They began to publish articles⁹¹ to clarify the misunderstanding of their ideas by others. The decision of the XV Congress of the CPC of "generalization of share system" issued in 1997 signified the positive influence of this fraction to the Chinese reform.

8) "School of institutional transformation" (young generation economists⁹²). This School was developed since the early 1990s. Most of them have got deep influence from the neo-institutionalism of Western economics, also they have the less influence from the official socialist theories. They use concepts and methods of, mainstream economics, particularly neo-institutionalism, such as property rights, transaction costs, economic organizations, principal-agent, public choice, rent-seeking, institutional

⁹¹For example, Tang Feng-yi, 1991, etc..

⁹²Such as Justin Lin, Fan Gang, Sheng Hong, etc. [Ye, 1994, pp. 573-4], there is no a principal figure for this school.

arrangement/structure, institutional entity/role, institutional equilibrium/non-equilibrium, institutional demand/supply, etc., to study the Chinese case. All these ideas are new for the analysis of the Chinese reform. Economists of this School have translated many excellent works of Western economists into Chinese, especially that of the neo-institutionalists, hence they are considered to have introduced many new research contents, new methods, and new analytical angles to the Chinese research field⁹³.

Generally speaking, they have three postulates.

The first postulate of this School concerns their analyses on the reform from institutional change angle. In other word, "institutions" are "economic goods", scarce resources, thus institutions face also a problem of optimal allocation. The operation of a system costs, the same when institutional change happens, a institutional change has its benefits and costs.

For them, the reform is in fact a choice and a change of existing "institutions", but under two conditions. Firstly, any institutional change's benefits should be superior to the costs. Secondly, there will be minimum transaction costs in new institutions. The institutional change should be motivated by the effort of economizing the transaction costs hence to augment the operational efficiency of new institutions.

Thus for the Chinese reform, the final choice should be made after a comparison of benefits and costs rather than random choices. The necessary

⁹³Their first research results were published in *Economic research*, and *Economics trends*.

and sufficient condition for an institutional change in China is that the institutional non-equilibrium cannot continue.

The second postulate concerns that, a reform is a public choice process and a social game. For one individual in a society, there is individual costs and benefits ; for a society, there is social costs and benefits. Thus the main question and the center of their research concerns how to converge the individual and social discrepancy in the process of public choice so that the public choice can reflect the opinions of most of the individuals in order to minimize the conflicts in a social game, as well as to decrease the transaction cost (looking for higher efficiency) of the whole system (market, enterprises, Government).

The third postulate concerns that, in general, the nature of a reform is often a change of existing situation of allocation of resources among individuals, it is often a non-Pareto change. This leads to anti-forces of the reform coming from the groups which get optimal benefits from the existing situation. The task is to transform the "non-Pareto reform" to "Pareto reform". In the reform practice in China, the early reforms were the ones the most Pareto-approximate, but later reforms were not the most Pareto-approximate. A basic method is a re-distribution of "reform dividend", in order to get a "reform compensation" [Ye, 1994, p.43]. Other methods are such as "specially permitted reforms", for example, the Special Economic Zones in China ; or to make use of national and foreign debts, etc. [ibid., pp. 583-8].

The propositions for the reform of this School have been rather conceptual than operational. They have three main ideas:

- The principle of minimum transaction costs: market, enterprises, and Government are three transactions (institutional arrangement) that co-exist in the Chinese economy. Any one of them cannot undertake the whole allocation of all resources and meanwhile keep at minimum transaction costs in any place at any time. Any one of them has functions that are non-substitutable. The reform strategy should look for a combination of market, enterprises, and Government respectively at their minimum transactional cost area. This is considered as to give a new angle of analysis for the question of how to combine the planning and the market in China [ibid., p.586].

- "To decompose the reform" and "to pay for the reform". An institutional change has high costs, so the "time factor" must be considered. This is in fact a question of speed and social affordability (related to reform costs). When time is short, there will be more cost to share among individuals, conflicts will be higher, anti-force will be higher. Thus in order to minimize the reform costs, the reform should be decomposed into pieces. Moreover, as reform is a non-Pareto change, so to diminish conflicts on benefits allocation and on reform is costly, thus the society needs to subsidize the losers of the reform.

- The principles to choose reform strategies are suggested to be: 1) "Marginal equilibrium" principle, this means to minimize the anti-forces of

new institutions established in one reform step, in order to "make soft" the limit conditions of a change. 2) To look for "partial equilibrium", this means to reform partially so that to avoid to maximum the constraints. 3) To find the best combination of imposed and induced institutional change from the position of the Government, in order to orient the reform to minimum costs [Ye, 1993 ; 1994, p.44, p.589].

This brief revision of the Chinese economic Schools of thoughts⁹⁴ shows us that the Chinese economists' research have the following features:

1) The official point of view to improve the "planning economy" by "socialist market economy" is dominant. One general point of most of the Chinese economists is that, they are not against socialism, they just advance ideas to "improve" socialism. So globally, they keep in line with the official point of view. However, there has been rather a consensus among Chinese economists on the point that the Government controls too much the *danweis* in the planning system.

2) They try to cast off the influence from traditional (Soviet style) socialist theories, to go nearer to the Western mainstream economic theories. Most of them have got influence from the Western mainstream economics (neo-classical, post-Keynesian, neo-institutionalism and other branches),

⁹⁴Which is rather sketchy, some of the economists can be well classified in one School as in an another.

however, the general usage and direct applications of concepts in the Western mainstream economics still needs to be justified or deepened.

3) Most of them are rather normative/prescriptive than positive. In fact most of the existing Chinese works have been rather normative. The tendency is that they are becoming more and more positive.

In the following Section, we will present the methodological choice of our research.

2. Our methodology

2.1 Field observations: a great practical and theoretical variety and diversity

The above review shows us that recent analyses on the Chinese "socialist market economy" have been various and diverse. It is still early to make an overall theoretical paradigm on the subject. The basic principle of this dissertation is, neither to give some panacea, nor to set up a goal model of the industrial reform in China, but to give a positive analysis of the reform process of the Dengist period. In other words, our approach is empirical, non-normative, and inductive. It originates mainly from our direct (on-site) and indirect observations of the reality of the Chinese industrial reform. Another approach would be to begin with theoretical deductions to be then

confronted to empirical facts. But the threat is too high to meet the very singularity and fast changing becoming of the Chinese case.

In order to understand firstly what has happened there, our principle is to keep as close as possible to the Chinese reality. In fact, our research has sought to be firstly inspired from the reality happened in China since 1978. We have our on-site investigations and interviews that we carried out in 1996⁹⁵, together with all the information that we have collected and followed from a wide range of Chinese journals and documents that have not yet been translated into Western languages.

In order to illustrate the great variety and diversity⁹⁶ of the concrete behaviors of the being-reformed *danweis*, and to show that the managerial behavior was from monotone to variety, we will use some of cases from both of our own observations and existing works. Guthrie's remark [1996] supports our point of view:

Existing lectures of institutional theories in economics and studies of economic transitions have largely focused on the broad institutional change that occur at the State

⁹⁵On-site inquiries within the research program of CERNIA for the French Ministry of Industry on the conditions of profitability of the autoparts JVs in China [cf. Giraud et al., 1996]. Eight months stay covered visits in the cities of Beijing, Tianjin, Changchun and Guangdong, industrial zones where main automotive plants are located, with a certain degree of concentration of foreign investments. We have discussions with managers of *danweis* (mainly large size), directors of production, engineers, labor unions, workers, services stations, vehicles' drivers of *danweis* or *cadres*, new rich owners of cars, JVs' staffs who use car to go to work in Beijing, some workers who were constructing sky-scrapers in Beijing, and many Ph.D. students, researchers working on the similar subject. We had about fifty formal interviews and assisted numerous seminars and Ph.D. courses.

⁹⁶Here we may not forget the remark of a French sociologist, Alexandre Vexliard (1911-1997), when he was carrying on case studies on the tramps in France during 1948-1953. He noted that, "seule la méthode dite des cas [...] permet de connaître, dans la diversité, les conduites humaines concrètes" [1957, *Le clochard, étude de psychologie sociale*, Paris, Desclée de Brouwer, pp. 13-4, cited in Laurent Mucchielli, 1998, *Revue Française de sociologie*, xxxix-1, pp. 105-138].

level in periods of reform or at macro-level evolution, but the impact of systemic change, or of institutional change to the level of industrial organizational change, or enterprise behavioral change, has been weak.

Before a more reliable statistical system⁹⁷ will have been set up in China, large scale statistical works will be hardly reliable⁹⁸, so we will emphasize more on qualitative analyses than quantitative ones. If we will use also some statistical data or results, this is because we think that is interesting to give a rough idea/tendency on the subject that we are discussing.

Around our questioning, certain concepts that have been largely used for the socialist reform may lead to confusion. Certainly sensitive, rigorous, appropriate, semantic usage of certain concepts *should* take place, as has noticed Grawitz [1993, p.327], "confused notions, classifications or categories, limit the thought, impede to search the relations, the links that unite in the reality, the links that an arbitrary cut separates". Also Durkheim [1895, in Grawitz, 1993, p.329] has noticed that the "*savant*"⁹⁹ must firstly define the things that he treats so that we know and he knows well what the question is".

But in reality, these "carelessly used concepts" of the Western mainstream economy to the Chinese case often rest as powerful ideas in the mind of many of us.

⁹⁷It is still impossible to say how wrong the figures are in the Chinese statistical documents. For example, according to Shan Wei-jian ["Stagflationary spectra", *Business China*, 17th April 1995], statistical figures can be "manipulated", and China lacks "more refined statistical techniques", etc..

⁹⁸According to Shan Wei-jian [Investment Banker of J. P. Morgan, fax, 25th May 1995], the "growth figure contains too much "water", i.e., unsold inventories, unrealized sales, etc..

⁹⁹According to *Le Robert & Colins*, the French word, *savant*, corresponds to scientist (for sciences studies), or scholar (for arts studies).

For example, for the term "transition", we are skeptic to the general usage of "transition" for the reforms in socialist countries (ex-USSR, Eastern Europe, China, Vietnam, etc.). Change happening there is not "transitions" from Centrally Planned Economies towards a market economy. Transition largely used in mainstream macro-economics, means the shifting period from disequilibrium (motivated by "market failure") to equilibrium, the process is often continuous and transitive [Bomse, 1994]. Also, "transition" often supposes the existence of an "end of the tunnel", yet nobody can be sure to know right now where the Chinese reform will go exactly, such as Lo suggested [1997, p. xi]: "I use the term system transformation instead of the widely-used term transition. The term transition implies the presumption of the possibility and desirability of something called the market economy. In contrast, the term transformation implies an open-ended process leading to the formation of an institutional framework that might incorporate the market mechanism but is not itself on the whole reducible to the market economy". In reality, the reforms in China go beyond a simple shifting, they consist of systemic and institutional change.

Another example concerns the debate "whether there is economy in socialism". Most of the existing lectures follow the traditional idea talking about "socialist economy" or "socialist economic system". However, since 1920s, von Mises and economists of the Austrian School had pointed out that it is impossible to carry on economic calculations in socialist system [von Mises, 1920]. Von Hirschhausen [1994] even advanced that there is *no economy in socialism*, thus it is unwise to talk about "socialist economic

system". According to Giraud [1996], only in (systemically) institutionally stable periods we can bring veritable economic analyses.

Thus in our study, we distinguish the word *economy* at two levels. On one hand, economy signifies the activities of production, exchange, and distribution in a society. Thus we use the term economic system for socialism as there are activities of production, exchange and distribution. However, on the other hand, the planning mechanism is *not monetary*, thus economic calculation is impossible¹⁰⁰, the indices of reference and rules of the game are different from that of capitalist market. Thus in this study, the term economy, economic system concerns only the activities of production, exchange, and distribution.

Since the birth of the term "socialism"¹⁰¹, debates around this subject have been sporadically continuing in the economic history. However, both research and experimentation concerning socialism in theoretical field and in practical field, are still far from satisfactory, the "socialist enigma" has been far from solved. By this work, we would like to join many of the researchers who would want to contribute to this field of research. Of course, our intention is in no way to find an answer to such a "big question". We will just try to give, on this "big background", a better comprehension on the Chinese industrial reform, on what has been "done" with the Chinese "socialist market

¹⁰⁰In the MBT, the point of equilibrium is not achieved by price adjustment as in a capitalist market economy [Gregory, 1988 Chinese version, p.162].

¹⁰¹It is said that the word "socialism" was first used by Pierre Leroux in 1832 [Nove, 1988, in *The New Palgrave*, p.398].

economy", on the automotive industry taken as an example, and then on the so-called "core part" of the system: the "socialist economic basic units", the production *danweis*.

2.2 A systemic-institutional-singularity consideration

2.2.1 Why systemic consideration?

We will take a *systemic-institutional-singularity* consideration to study the "socialist market economy" and the industrial reform in China¹⁰². The systemic consideration is primordial to better analyze the Chinese industrial reform as the latter is in a larger reform background, moreover, this approach can be better if supplemented by the institutional approach but in the point of view of "socialism as a singular phenomenon". We question on what are the main features of the so-called "socialist market economy"? This consists of the first aspect of our study.

The basic idea is that, only a consideration of the change of rules of the game is little sufficient. System, composed of organization and structure matters. North [1990, pp. 4-5] has noted, that the rule of the games (institutions) are different from organizations which include the various actors

¹⁰²Certainly, technological progress is also very important for the industrial evolution of a country. But for China, technological change is not as important as that of institutional change. Its technological progress since 1980s has been marked rather by imported Western technologies in most of the sectors.

in a society, and that, "Institutions, together with the standard constraints of economic theory, determine the opportunities in a society. Organizations are created to take advantage of those opportunities, and, as the organizations evolve, they alter the institutions" [ibid., p.7]. Only institutional approach itself seems to reduce the changing "socialist market economy" system as simple institutions. For an industrial reform, if the structure and organization of an industry do not change, then whatever optimal institutional change cannot give its full play to well reform the production units. For the Chinese industrial reform, it is necessary at first to look at the change of the existing Party-controlled administrative/hierarchic structure, then institutions, and then to see its impact on the industries. Thus a systemic-institutional consideration is more helpful.

2.2.2 Why institutional consideration?

For the institutional consideration: Commons emphasized the function of the State and the laws. For the Chinese industrial reform, many transformations depend on a large number of new laws issued after 1979. In the institutional studies, it has been distinguished formal institutions (written laws¹⁰³, *Constitutions*) and informal institutions (customs, traditions, cultures)

¹⁰³ Hayek might be the first who distinguished *law* and *legality*, he noted that it was legitimate for Hitler to kill the Jews, as he did not act against the German laws at that moment, but it was not legal, as the content of legality is to assure the liberty and safety, otherwise it is *not* legal (even allowed by laws) [C. Wu, 1988, p.46]. This may be a useful reference for the Chinese reformers.

[North, 1990]. For the case of China, here we will consider only the formal institutional environment change. The mainstream institutionalist studies consists of two points, firstly emphasis on the change of the rules of the games, and secondly, the half of the famous Coase Theorem II: the economy of transactional costs is the direct impetus for institutional change [C. Wu, 1988]. This theorem has become a "Golden Rule" for many of the Chinese economists since the early 1990s. However, the basic assumption of the Coase Theorem II is that, the choice of new institutions is a *social game*, but, for the Chinese reform, it is far away from a social game. A veritable social game is doubtless based on democracy (public choice). However, this is not at all the Chinese case, as we will see below in China, it has been rather the Central Committee of the CPC who chooses, which is far from public choices.

For the case of China, we should say "the stability of the leadership of the CPC and sometimes the economy of transaction costs is the direct impetus for institutional change". This is also why we treat the socialism as a *singular* phenomenon. In the Chinese socialism, not only there does not exist public choice (social game), but also, there does not exist money as a *general equivalent* for *veritable economic* analyses. Thus we cannot really well analyze the Chinese reform if we do not treat it firstly as a singular phenomenon. The general tendency of recent research works on the Chinese industrial reform, of using the logic and concepts of capitalist market economics in the analysis of

the Chinese case, as well as the assumptions of certain studies are far from the understanding of the real situation.

2.2.3 Why industrial organization level?

The systemic and institutional environment constitute the living frame of the *danweis*. When the living frame changes, the *danweis* re-adjust their reactions. Then, facing the systemic-institutional change, how have the *danweis* reacted? This consists the second aspect of our thesis. For the industrial reform China, we emphasize two levels of considerations: industry level and *danwei* level.

Why industry level? - Until now, in most of the works on the Chinese industrial reform, emphasis has been put on the *danweis'* level, a consideration of the *danweis'* reform related to the *industry level* has been *ignored*. Even there are some studies on the industrial sectors, they are rather "Scherer-applied-style" studies ¹⁰⁴. However, the *danweis* form *socialist production networks* under the Chinese socialist planning, effective understanding of the industrial reform cannot be attained without a consideration on the networks that the *danweis* form. The networks and the *danweis* form rather a non-separable entity under the Party-State-Planning.

¹⁰⁴ Cf. Ma Jian-tang, 1993, *Structure and behavior - Chinese industrial organization research*. People's University Press, Beijing.

Thus the study of the reform of the "State-owned enterprises" in China cannot be disjointed from their entity - the socialist production networks.

To understand the reform at industry level, we have studied the automotive sector. We have had the opportunity to work for a research program on the conditions of profitability of the French autoparts producers in China for the French Ministry of Industry [Giraud et al., 1996]. Automobile, the "machine that has changed the world"¹⁰⁵ began to change China since the early 1980s. There are even some economists who gave very interesting definition of the Chinese "socialist market economy" as "a Confucianism mixed with State socialism plus automobile" [Daniel Haber and Jean Mandelbaum, 1996, p.46].

On the other hand, the Chinese automobile industry has been one which has met rapid development and change in the following aspects:

Firstly let us give here briefly some statistical evidence about the "Chinese automotive industry". Since 1953 when the first automotive factory First Auto Works (FAW, about 270 000 of personnel in 1995¹⁰⁶) has been set up through help from the ex-Soviet Union, China has by now over a hundred constructors (more than the total number of constructors in the World), however by the mid-1980s, none of them had attained a comparable annual production quantity of vehicles as one of the constructors in developed

¹⁰⁵Cf. Womack, James P. et al., 1990, *The machine that changed the world*. Macmillan, New York.

countries. Moreover, only few (usually not more than ten¹⁰⁷) of them produced more than 60 000 vehicles (10 000 cars) per year. But the "almost miracle" is that, according to the CASS [1997, p.130], by mid-1990s, the real production volume attained 149 million vehicles (390 000 cars) in 1996, and the production capacity attained 2 million vehicles ; in 2010 China aims to produce 6 millions vehicles (4 million cars).

From the "industry/offer" point of view, based on the concept of *industry* issuing from division of work in the mainstream economics, it is still an open question to take it as a genuine automotive industry. Until the late 1980s, almost all (large or small) plants produced "from A to Z". Compared to developed countries, they had low level of professionalization (division of work). Consequently there is not a comparable "Autoparts Industry" neither. Administratively, these plants do not belong to a same Ministry, thus they have problems of coordination: the problem of *tiaotiao kuaikuai*¹⁰⁸. Moreover, according to the CASS [1997, pp. 130-43], the capacity of technological exploitation was weak, the products were mainly industrial vehicles (e.g., trucks, little differentiated) other than passenger cars. Constructors produced with high inputs, low quality, without any competitiveness in international automobile market.

¹⁰⁶For comparison, Ford attained about 10 300 personnel in the Rouge River Factory (Detroit) in 1929 [Roos, 1990, p.149]. Chrysler had about 130 000 personnel in 1989, was the eighth largest in the World that year [ibid., p.140].

¹⁰⁷Twenty-five in 1993 [CASS, 1996, p.87].

¹⁰⁸This means that some *danweis* are subordinated to different ministries (vertical), some of them are subordinated to local governments (horizontal).

Concerning importation, from 1984 to 1990, a total of 910 186 vehicles (342 734 cars, or 37.66%) had been imported into China, this was equivalent to about one billion USD¹⁰⁹. Totally there had been over one million automobiles imported to China by mid 1990s. The importation spent over one billion USD of the Chinese reserve of foreign currency [Sun, ed., 1995, p.30], this was too much. According to a Chinese auto-expert¹¹⁰, "With this amount of foreign currency, we can build ourselves four to five FAW-size plants". This idea had been a kind of general willing of certain policy makers too, in other words, instead of buying imported cars, it is better to produce by Chinese constructors themselves.

From the "mentality of users or demand" point of view, like in many developing countries, to own a car, or rather an imported car is quite "new-fashioned". From our on-site discussions, we remarked that many Chinese cadres show their superiority by the marks of their cars. The "demand" of cars has increased impressively. We notice that the passenger car *users* (not necessarily buyers) in China have evolved: they were mainly cadres until 1980s, then the number of taxis augmented rapidly in the 1990s, and then the number of individual owners augmented continuously since late 1990s. The Chinese authority allows more and more people to obtain driving license, and accords credits for buying cars since 1997. TVE managers, people working for

¹⁰⁹For comparison, in early 1993, there was 20 Billion USD sales of motor vehicles in the USA.

¹¹⁰Interview with Mr. Zhao Ying, Senior Research Fellow in IIE-CASS, 29th Feb. 1996.

Sino-foreign JVs, and even Chinese families began to become potential car-buyers. So there is a need of more and more cars in China.

From the Government point of view, before mid-1980s, the automobile production was not at all a priority in the socialist planning. Then the Chinese leaders have remarked three facts that may make them to change idea, 1) passenger cars' importation had been important (the Government did not want to use all the foreign currencies to import cars), 2) there had been an increasing voice of demand (information from market, a sign that Chinese Government's policy began to become more economically oriented than politically oriented), 3) they have observed that all developed countries¹¹¹ in the World have a "modern automotive industry". Therefore, if China wants to "change face" ¹¹² and to become developed, it should "*modernize* its automotive industry".

Then base on a suggestion of the State Planning Commission (SPC), the XIV Congress of the CPC (12th. Oct. 1992) decided to put the automotive industry as a "pillar industry" (i.e., with development priority), it had also been

¹¹¹Certain of them have made automobile exportation the backbone of their foreign economic policy. For example, Japan's 69.5 Billion USD of abroad sales of automobiles (22% of total value of its exports in 1990) [Yamaichi Research Institute, 1992], constituted 75% of its 40 Billion USD trade surplus with the USA [Nihon Keizai Shimbun, 1992, *Japan Economic Almanac*, NKS, p.107]. For South Korean, 2.5 Billion USD passenger car exported in 1992 (3% of total export), was one of the fastest growing sector with 20% growth rate in the foreign sales from 1991 to 1992 [*Country Report: South Korea and North Korea*, 1993 second quarter, The Economist Intelligence Unit, London, cited in Harwit, p.7].

¹¹²In the late 1970s, China's streets/roads were populated by inefficient, unattractive, and often unreliable vehicles designed in the early 1960s or even decades earlier [Harwit, 1995, p.3].

decided in the ninth FYP (1996-2000) that the automotive industry became the 5th. most important development priority¹¹³.

Among these elements, we see that the most significant one was: automobile was politically decided as a "pillar industry". Under this policy, the change in this "industry" was potentially significant for the *danweis*, and was significant in terms of establishment of several JVs in the early 1990s. We cannot forget also that the "automotive industry" is one relatively open to foreign scrutiny¹¹⁴.

Hence, we think it is interesting to study this "almost miracle" in the points of view of: 1) the Structure: how has this sector been changing under new policies based on existing "automobile relevant *danweis*", or say Socialist Production Networks (SPNs)? 2) the Relations: how do the *danweis* adjust their relations in a seemingly nascent industry since early 1980s?

2.2.4 At the *danweis'* level

Then we go down to the *danweis'* level to see how they had evolved under the systemic and institutional change, how had their management changed. This is what we call the lower level of the Chinese industrial reform.

¹¹³In the ninth FYP, there are 2 "basic priority sectors": agriculture (first) and infra-structure (second), and then 4 "pillar industries": mechanics-electronics industry (third), petroleum-chemical industry (fourth), automotive industry (fifth), and materials of construction industry (sixth) [Zheng, ed., 1995]. "Priority industry" for foreign investors means: they cannot have majority in the JVs created in such industries, for example in DCAC (JV of Citroën and SAW), Citroën has only 25% shares together with other banks.

The taboo concerning the *danweis'* reform is *privatization*. However, this taboo is contradictory, at the same time, it is an ideological limit for the Party, meanwhile in practice, the prohibited zone is set uniquely for the SPDs, the existing individual enterprises are private by essence but without a genuine private ownership institutional environment legally recognized.

In fact, from the point of view of practice of reform, the problem was not yet privatization, but to solve the *dilemma of responsabilization*, which means to solve, before all, the *soft administrative constraint*, in order to establish effective incentive mechanisms and informational mechanisms to *responsabilize* the *socialist managers* and the workers so that they work *economically* for the shareholder(s), either public (State, all-people) ones or private ones. This kind of problematique exists also in a capitalist market economy (principle-agent), but of different nature. For the case of China, to responsabilize the socialist managers and workers need finally a well-defined *non-abstract* ownership, thus the question of privatization or not in China matters.

Our original idea was to give a panoramic view on the situation of the industrial reform of two levels. For the industry level, we will look at the automotive sector, for the *danwei*-level, we will not limit on *danweis* of one (automobile) industry, but will look at in general the different reform programs for the *danweis*. Also, because we have observed a *great* variety of

¹¹⁴According to Harwit [1995, p.7], industries with more obvious defense-related applications, or ones at the

various models of reforms in different *danweis*, it is difficult to find few typical examples. In order to have a general reviewing on the whole reform situation, we will see the big pilot projects, to show the various aspects of the SPDs in the reform.

In short, we have a four-level consideration. The first and second levels concern the systemic and institutional evolution: what has been the systemic and institutional change concerning industrial reform from 1979 to 1997? What has been the evolution of resorts of reform and the performance?

Then the third level concerns evolution of the automotive industry: what policies have been made in consequence of the systemic and institutional change? How have the industrial structure and relations among the SPNs changed?

The fourth levels concerns the various reform programs on the SPDs, and how have the managerial aspects of the *danweis* changed?

2.3 Our approach

Here we summarize our approach in the following table [Table I.2]:

Table I.2: Our approach.

Concerning the SME	Systemic change
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often secretive cutting edge of technological advance, may be less viable subjects for analytical study.

Concerning the SME	Institutional change
Concerning the industrial reform: SPNs	Industry level reform
Concerning the industrial reform: SPDs	<i>Danweis'</i> level reform

2.3.1 Systemic consideration

Systemic change means the evolution of a social or economic system over time. The studies on the "socialist market economy" in China touches the field of systemic change. The systemic consideration originates from the school of comparative economic system studies, which has met important development since the beginning of the 20th. Century [Neuberger, 1984]. But a systemic approach can be different from the study of the comparative economic systems at the point that the former concentrates on studying the systemic and institutional evolution over time in one country, and the latter concentrates on the comparison among various systems.

There exists various definitions of economic systems. Instead of treating them globally by "isms" traditionally, the modern approaches tends to characterize the economic systems by numerous technical traits [Gregory and Stuart, 1988, p.5].

An economic system consists of mechanisms and institutions, created by a society (in a given geographic territory), for economic decision making concerning what to produce, how to produce, and to whom to produce¹¹⁵.

Gregory and Stuart [1988, p.7] has defined an economic system as a function of multiple variables. Theoretically, to determine an economic system, one *should* make clear all its traits. However, in general, four characteristics can differ largely different systems [Gregory and Stuart, 1988, p.257]. They are 1) Organization/structure of decision hierarchy (among economic agents). 2) Ownership of properties (public or private): control and income. 3) Mechanism of information and adjustment: market or planning. 4) Determination of goals and mechanisms of incentives (material or spiritual).

The difference between the systemist approach and the institutionalist approaches consists of that, the latter emphasize on the relations among human beings ; but the former put attention on a larger focus, it includes not only the relations among human beings, but also the structure, the organization, and the mechanisms in a society. The latter is rather one aspect of the systemist approach. The systemist approach is somehow *holistic*.

It has been criticized that the objects of studies of institutionalism disperse on politology, sociology, psychology, etc., thus it lacks a united and systematic set of theories, the existing theories themselves has not yet attain a maturity of development [Jiang et al., 1996, p.358]. In most of the existing

¹¹⁵Cf. Egon Neuberger, 1984 ; Gregory and Stuart, 1988, p.7.

works of Chinese economists, accent has been put much on the institutional side, the systemic approach has been rather ignored. Since the late 1980s, many Chinese economists affirm very firmly that, "the problem of the Chinese reform is a question of system (*tizhi wenti*)", in other words, China should change completely its system, only the change of rules of the games is not sufficient for the reform. Moreover, the institutionalists have developed their methods based on the capitalist market economy background, thus extensive studies of their methods, of what will be suitable to be applied in the Chinese reform, can only be made after some further considerations.

2.3.2 Institutional change (evolutionary approach): four sets of rules of the game

Institutions matter. For North [1990, p.3], "That institutions affect the performance of economies is hardly controversial. That the differential performance of economies over time is fundamentally influenced by the way institutions evolve is also not controversial". In his study, he examined the nature of institutions and consequences of institutions for economic (or societal) performance. He outlined a theory of institutional change, how the past influence the present and future, the way incremental institutional change affects the choices set at a moment of time (*path dependence*) and its nature, all this is to better understand the differential performance of economies through time.

Following the rising of the neo-institutionalism in the mainstream economics, most of the Chinese economists have been bedazzled by this school after their works began to be translated into Chinese since the early 1990s.

According to S. Cheung¹¹⁶, on the question of Chinese development, many economic theories are *irrelevant*, the Chinese problem is a problem of institutions, i.e. problem of property rights, other economic theories are not important for China. In other words, China *should* consider the influence of the institutions (property rights) rather than the aspects of finances, market, or regulation. The macro or micro theories, production function, econometry are all of little importance for the Chinese economy.

In fact, the emphasis on the "institutional change" as change of the rules of the game, has been interesting to the Chinese reform. Institutions in a country forms the frame where human beings or group(s) of human beings have the code of action and certain liberty of action without the institutions' determining their every driving [North, 1990]. Institutions consists of a series of rules restraining the human beings' behavior [North, 1990 ; Schultz, 1968]. Institutional change signifies therefore the change of the rules of the games.

In this approach, establishing the "socialist market economy" has consisted of modifying or setting up new rules of the game based on the old rules of the planning system. This is rather an *evolutionary* process than a

¹¹⁶Cited in Huang, 1995, p.2.

revolutionary process. If looking at the emergence and the development of "market ingredients", such as the so-called "individual-managed economy (*minyíng jīngjì*)", growing beside-and-from the Plan since the early 1980s, China must be, herein using the Chinese leaders' terminology, a "initial stage socialist"¹¹⁷ country, with the most substantial institutional change.

In reality, the reform has been originally planned and decreed for the first time during the Third Plenary Session of the XI CPC congress. Then, every further progress has been made either by a *Resolution* of the Party, or by a speech of an important leading figure. Even though there are some "induced traces" (clamors from bottom), the reform since 1978 in China was propelled by the voluntary change from the Central.

Furthermore, if the "share system" will be generalized as said by the end of 1997 (almost not realized until the end 1999), then one of the socialist ideology, public ownership system, is going to be challenged. So the reform touches deep institutional transformation. Thus to study the institutional change in China is very important, even North [1990, p.110] has notified this point: "Socialist economies are just beginning to appreciate that the underlying

¹¹⁷This is an expression which provides a broader ideological basis for deepening the reform since the early 1980s. The expression was first officially declared in the *Resolution of the Central Committee of the CPC on several Party's historic questions after the establishment of the PRC*, adopted during the Sixth Session of the XI Central Committee of the CPC on the 27th. June 1981. This resolution states: "Our socialist system is still the initial stage". Then on the 28th. September 1986, the Sixth Plenary Session of the XII Central Committee adopted the *Resolution on the guiding principles about to construct the socialist civil consciousness by the CPC Central*. This resolution gave a "brilliant exposition" about the "initial stage" of the Chinese socialism. Then on the 25th. October 1987, the *Political Report* of the First Session of the XIII Central Committee of the CPC reaffirmed again "initial stage of socialism in China". This idea has been replayed in 1992 by writing in the *Party's Constitution* that, "The initial stage socialism signifies essentially the emancipation and the development of the productive force, the elimination of the exploitation and the polarization and the ultimate realization of commune prosperity" [Cabestan, 1994, p.39].

institutional framework is the source of their current poor performance and are attempting to grapple with ways to restructure the institutional framework to redirect incentives that in turn will direct organizations along productivity-increasing paths".

Concretely concerning the rules of the game in China, 4 sets of formal rules may be most important to the Chinese industrial reform¹¹⁸: 1) the political rules, 2) the legal rules, 3) the administrative rules, 4) the market rules. To study how institutions, as rules of the game have been changing politically, legislatively, administrative, and marketly, consists of important aspect on the study of the Chinese industrial reform. The change of these rules illustrates the transformation from rules of socialist central planning to that of "socialist market economy". These rules consist of the environment of the industrial reform.

The other contribution that the institutionalist approach brings to the Chinese reform is that, many aspects of their studies are the center of change in China, for example, the aspect of incentives, information, property rights. These studies will be interesting to analyze the Chinese reform if the Chinese socialist singularity will be considered together.

Certainly, the institutional consideration is an important cognitive progress for the Chinese reform, however, the reform of such a complicated socialist system cannot be reduced uniquely at institutional level.

¹¹⁸For capitalist market economy, Boyer [1988, "Regulation", *The New Palgrave*, p.127], distinguishes five forms of institutional forms (or sets of fundamental relations for Aglietta [1982]): 1) competition, 2) institutionalized compromises (State-as-arbiter), 3) monetary constraint, 4) international regime

2.3.3 A consideration of the singularity of socialism and SPDs

The concept of "socialism" is controversial. Real socialist practice is also various [Nove, 1988 ; Duverger, 1993]. According to Tong et al.¹¹⁹, there are 53 "various forms of socialism" by the end of 20th. Century. Whether the "self-called socialism" in China is socialism or not, is evidently also a controversy. In fact, China is often put aside in most of the Western works on socialism.

In general, the socialist singularity has been studied mostly compared to capitalism. Firstly, "socialist money" does not play the role of a *general equivalent*. Thus rational economic calculation as in capitalist market economy is not possible in socialism [von Mises, 1920]. Secondly, the "socialist enterprises" are rather multi-functional production units than veritable enterprises as in capitalist market economy [Hirschhausen, 1994]. Thirdly, "socialist institutional change", the reform process in China, is rather motivated by political concerns, the initial idea was not to endogenize non-economic externalities as done generally in capitalism, as noted by Davis and North [1979], "the reorganization of institution is to endogenize the externality so that it may increase social total revenue or decrease this revenue".

(hierarchization of international economy), 5) forms of wage relations. For the case of China, the elements 1), 3), 4), 5) fall in the field of emerging market relations.

¹¹⁹Tong Da-lin, Wu Ming-yu and Liu Ji, 1988, *An introduction to questions of contemporary capitalism*. Science Press, Beijing, p.1. Tong is the Director of the World Observatory of China.

"Socialist market economy" is in fact something after a series reforms on the socialist planning without casting off with the basic socialist ideologies. The fact that the Renminbi is until today un-convertible shows its weak legitimacy as a veritable *general equivalent* inside the country and in international trades.

On the other hand, are Chinese production *danweis* also multi-functional? In addition to our experience witnessing the end of the Cultural Revolution and the first years of the reform, we have organized visits into several Chinese "State-owned enterprises" in 1996.

1996 is already twelve years after the start of the Chinese "urban reform" (1984). Most of the names of the visited *danweis* have been changed from quite socialist style into quite capitalist style, for example, from "Plant Number #" into "so and so Company" or "so-and-so Group". The titles of our interlocutors were rather "General Managers", or "Chairman of the Board", in the place of what were familiar to Chinese people such as, "Secretary of the Party", or "Factory Director".

However behind this change, some traces still show how the *danweis* functioned with the old rules of the game. Although, profit seeking, or relating profit and the personnel's effort (often called labor productivity), or keeping/increasing the assets value have become the objectives of these "companies" or "groups", yet behind these new-fashioned names, titles and new objectives, the posts of General Managers or Chairmen of the Board, were

often occupied by the same people heading the production units under the socialist planning, they were often the Secretary of the Party, or other former leaders of the *danweis*. Our discussions with the insiders of *danweis* confirmed that it was and still is usual to hear in the language of a factory directors/managers that, "we undertake this strategy according to the Central's instructions", or "according to the higher level authorities", or "according to the relevant stipulations of the Party", etc..

For the workers/staff, there was still one "meeting day" weekly (often every Tuesday or Thursday) for "political studies". Even by now, they still live in the *danwei*-built apartments, they receive regularly payment in kind from their *danweis*, such as, foods, and other daily necessity goods like shampoos, detergents, towels, etc.. Cheung [1982, p.26] noted that, these incomes in kind can worth many times their nominal pay. Even though there have been numerous cases of "separation" of the non-productive or social parts from the productive part since mid-1990s, some schools and hospitals¹²⁰ are still part of these "companies" or "groups". Salaries are not decided by the *danweis*, but by the Central.

Even the first *Bankruptcy Law* (trial version) of the People's Republic was promulgated in 1986 (formal version in 1988), bankruptcy cases had become

¹²⁰A little more than 10% of Chinese people received free medical care. They are: cadres, army men, teachers, university students, workers of production *danweis* and their dependent family members. Since 1990s, a ceiling expense has been set by the *danweis*, and the waiting period for reimbursement has become much longer, some newly rich families even give up to claim the reimbursement. In 1981, the hospitals provided approximately 25% of the country's total health services. Rural areas often operate voluntary cooperative medical systems (e.g., "barefoot doctors") [Worden et al. ed., 1987].

more popular only since mid-1990s. At the beginning, bankruptcy was somehow cognitively difficult to be accepted by the *labor mass*. In the Chinese industrial history, there was no bankruptcy during the period from 1949 to 1985 until a first bankruptcy case of the "new China" was pronounced [Y. Zheng et al., 1996, p.127]. During that period, never had been closed a *danwei*.

In our inquiries, we see that recently in some of the *danweis* in the pilots projects selected for establishing the MEI, they do not dismiss surplus workers, even the ones with mental diseases [cf. the SLS case in Chapter Six].

These observations confirm the multi-functionality pointed out by Hirschhausen [1994], and the "non-enterprise" point of view pointed out by Komiya [1985]. Chinese economists often use the terms as "government appendages", or "the beads of an abacus" for the "State-owned enterprises"¹²¹. Furthermore, *danweis* are not as the public enterprises in a capitalist market economy. The main reasons are: 1) they have different institutional environments, the latter is established based on a generally existing private ownership, and it functions in a market economy with price signals from market measured by money as a *general equivalent*. 2) They have different internal power relation: Party's influence, syndicate's attachment to the Party, etc.. 3) They have different social protection function: housing, medical care, etc..

¹²¹Lecture notes of the Industrial Economics Department at the Graduate School of the CASS [S. L. Zhou, March 1994, p.1 ; H. Wang, 1986, p.152].

Thus the Chinese socialism is a singular phenomenon, the *danweis* are not enterprises. This is why we use the term SPDs (Socialist Production *Danweis*) rather than SOEs (State Owned Enterprises) in this study.

3. Conclusion

In this chapter, we have looked at the discussions on the central points of the Chinese industrial reform from the late 1970s to the late 1990s. The central points are around the notion of "socialist market economy" and "modern enterprise institution". We have tried to give an analytical review on points of views of the Chinese Authority. Then we went back to look at the socialist theories in the history of economic studies, and we have seen what new development has been made by Chinese economists on these new concepts. Based on these rich historic and actual theoretical background, we have given the methodology of our study around the three propositions that we gave in the Introduction.

From the Chinese official point of view, the notions of "socialist market economy" and modern enterprise institution are issued pragmatically by some open-minded Chinese leaders, particularly Deng Xiao-ping, in order to catch up the development level of developed countries, hence to improve people's lives and to modernize the industry.

Most of works on the Chinese reform talk about industrial reform under "socialist market economy" in China. In fact, for the Chinese reformers, it is a reform of socialism, or say a step in the modernization of the Chinese socialism. "socialist market economy" stays in a larger context of "modernizing the socialist construction" [Deng, 1993].

In this context, the following "big questions" still stay open: Are socialist, planning and capitalist, market compatible concepts? Is the notion "socialist market economy" a logic concept?

In mainstream economic studies, the idea of "market socialism" was a powerful one. It suggested that it was possible to have all the advantages of market economies without the disadvantages attendant to private property and the frequently associated large concentrations of wealth [Stiglitz, 1994, p.9]. Similarly, some Chinese economists gave the following formula: SME = social fairness + market efficiency [Dong et al. ed., p.3].

For Gregory [1988, p.12], the planning and market are not compatible. Fan pointed out [1994, p.102], What has happened in China so far is mostly the growth of a new system in parallel of the old one. Also, Fan pointed out [ibid., p.105], Now, more and more Chinese people understand that the market cannot be planned or created in planned ways.

We share these points of views. By the functioning of planning and market, it is either market which decides the price, or planning which decides the price ; there is either competition (market) or no competition (planning),

never both of them work at the same time on one "economic agent". "Planning" and "market" cannot set the same price for the same field. It is one side "socialist", one side "market". "Socialist market economy" is in fact a *plate-coexistence* of "planning" and "market", market and planning are *not* compatible. Thus the so-called "socialist market economy" is a non-compatible coexistence between socialism and market.

Moreover, we cannot ignore that in existing socialist countries or that had existed, planning associates often with one Party-State politics. This is why we underline the point of view to take the socialism and the being reformed socialism as a *singularity* [cf. Hirschhausen, 1994 ; Bomsel, 1994].

If we can bypass the above two "big questions", however, the question "what are the concrete contents of "socialist market economy" in China?" cannot be bypassed in studies of the Chinese reform.

Thus we have proposed to look at this question in a systemic-institutionalist angle meanwhile to take the socialist reform as a singularity. For the industrial reform in China, we proposed a two-level consideration, i.e., at industrial organization level (automotive sector) and at the SPDs' level.

Here in the following chapter, we begin by an investigation on the nature of the so-called "socialist market economy" and the process of the industrial reform since 1978.

RESUME DU CHAPITRE II: LA NATURE DE "L'ECONOMIE DE MARCHE SOCIALISTE" ET LA REFORME INDUSTRIELLE DEPUIS 1978

Le but du socialisme était d'améliorer le capitalisme et de substituer la planification aux mécanismes de marché. Dans le "système économique socialiste" Chinois, il y a trois critères de base:

1) le droit de propriété public des moyens de production. Les moyens de production appartiennent au "peuple entier" ou à un sous-ensemble du "peuple entier" (une collectivité). Il y a donc, des *danweis* de production du "peuple entier" (étatiques), ou collectives.

2) le "*principe socialiste de distribution*": selon un slogan officiel, "on gagne plus si on travaille plus, on gagne ce que l'on a fourni comme travail, on n'aura pas à manger si on n'a pas travaillé" (*duolao duode, anlao fenpei, bulaodongzhe, budeshi*). Par ce principe, on ne peut pas tirer un revenu du "capital" dont on dispose. Le *capital* n'est pas censé exister dans un tel système. Pour les *danweis* (de grande taille), le Plan qui finance les besoins de trésorerie et les investissements absorbe les profits et éponge les pertes. Ainsi, elles ne sont pas encouragées à faire des profits ; elles "mangent dans la grande marmite publique" (*chi daguofan*). Les salaires du corps managérial et des ouvriers étaient plus ou moins identiques, et donc peu incitatifs. De cette manière, les travailleurs "mangent aussi dans une marmite publique".

3) Le système de planification renforce le système de droit de propriété public. La planification peut être verticale (*tiaotiao*, ministérielle) ou horizontale (*kuaikuai*, régionale), elle est présentée dans les "Tables de Balance des Matières" nationale ou locales. Ces tables calculent "la demande" ou "l'offre" des biens dont la production est centralement ou localement planifiée. Ce système de planification a des problèmes sérieux au niveau de l'information et du contrôle. D'abord il est difficile pour la hiérarchie supérieure de vérifier le signal de pénurie qui vient d'en bas. Puis, quand il y a une erreur dans la planification, ces signaux de pénurie encouragent des stockages irrationnels dans les *danweis*.

Les *danweis* de production dans un tel système forment des réseaux de production verticaux ou horizontaux que nous appelons *réseaux de production socialistes*. Dans ces réseaux, les *danweis* sont des organisations multi-fonctionnelles qui jouent un rôle politique, administratif, social et de production.

Dans quelle mesure "l'économie de marché socialiste" remet-elle en cause ces trois critères? Tout d'abord, le système de droit de propriété public n'a pas changé, mais les capitaux étrangers (privés) peuvent désormais exister, et la catégorie de "propriété collective" peut inclure des "collectivités" assez petites, allant jusqu'à une seule personne (société individuelle, *geti jingying*). Pour les deuxième et troisième critères, les changements sont plus radicaux. Par l'actionnariat, les ouvriers peuvent détenir des actions de leurs *danweis*, ce qui rend possible un revenu du capital. Par ailleurs, avec l'introduction des relations de marché, il y a de moins en moins de produits planifiés, et

les *danweis* ont de plus en plus de pouvoirs de décision sur leurs approvisionnements, leurs productions, leurs ventes, leurs personnels et leurs finances.

Historiquement, les réformes avant la fin des années 1970 ont vu alterner des périodes de décentralisations (*fangquan*) et de centralisations (*shouquan*) entre le Gouvernement central et les Gouvernements locaux. On peut appeler cela un processus politico-administratif. Mais, à partir de 1978 jusqu'à 1994, les réformes ont été plus *économiques*, dans le sens où le pouvoir de décision sur une partie des profits des *danweis*, ainsi que quelques autres droits, ont été cédés aux *danweis* elles-mêmes. Depuis la *Loi des sociétés* de 1994, les *danweis* de production peuvent se transformer en société. On peut donc dans cette période de réforme d'après 1978, distinguer deux grandes phases: 1978-1994, et 1994-1997. L'objectif de la réforme des *danweis* depuis 1994 devient de les transformer en "Institutions Modernes d'Entreprise (*xiandai qiye zhidu*)" selon la loi, et d'en faire un terrain expérimental.

CHAPTER TWO: NATURE OF THE SO-CALLED "SOCIALIST MARKET ECONOMY" AND THE INDUSTRIAL REFORM SINCE 1978

In this Chapter, we will look at the nature of the so-called "socialist market economy", and will draw up a historic delineation of the process of the Chinese industrial reform, which falls in a larger context of the "urban reform"¹²². The industrial reform before 1978 could be summarized as two *non-monetary* intermittent policies between, the Central (*Party-State-Government*¹²³), and the local Governments or SPDs. These two policies are called "power decentralization (*fangquan*)" and "power centralization (*shouquan*)". These two policies were non-monetary and were politico-administrative, this means power shifting among the Central and local governments [Yang, in Dong et al. ed., 1997, pp. 30-9].

Before 1979, there had been two waves of decentralization: In 1958, there was the first politico-administrative decentralization, which in other words, change of level of *tutelles* of the SPDs from Central level to provincial level, large national level SPDs were submitted to the large cities. For example, Shougang was submitted from the Ministry of Metallurgy to the Beijing City

¹²²The industrial reform is one part of the "urban reform" in China. The urban reform concerns a large rang of fields including planning, materials, finances, money, commercial *danweis*, trades, prices, labor, salaries, productive *danweis*, ownership, governmental functions and organs, etc. [W.G. Yu, 1993, p.16]. Among these different fields, the reform of industrial *danweis* consists of the central task.

¹²³Explanations below.

Government, or Wugang¹²⁴ was submitted to the Wuhan City Government, etc.. In 1970, there was a second politico-administrative decentralization, however, this process was not very meaningful under the disorder of the Cultural Revolution.

Then since 1979, the third wave of "decentralization" came out. But this time the decentralization has been getting more and more economic scope. The specificity is that the decision power on profits and various other rights were given to the *danweis*. If we take the word "decentralization" in its strict signification, this wave of decentralization could be delimited until 1992 when the *Regulation on transforming the management mechanisms in all-people-owned industrial enterprises* was promulgated, which gave fourteen powers of decision to the *danweis*. This *Regulation* was the last rule for the Central concerning decentralization¹²⁵.

Then after 1992, the industrial reform progressed in a larger range. Since the beginning of the reform, the following resorts had been undertaken: leasing systems¹²⁶ authorized in 1978 ; share system authorized in 1987 ; contracting system authorized in 1988 [D. W. Li et al. 1990] ; since the CPC's XIV Central Committee (1992), there has begun a wave of "revitalizing the state-owned enterprises" which was fixed as an objective in the Eighth FYP (1991-1995) [Z. X. Li 1996] ; then "Corporatization" following the promulgation

¹²⁴Wuhan Steel Plant.

¹²⁵Interview with SETC, 28th. Aug. 1996.

¹²⁶This means the renting of production means. This was firstly used for the agricultural reform, lands were leased to farmers.

of the *Company Law* taking into force in July 1994, and "modern enterprise institution" as one of the tentative plans of Corporatization for the SPDs especially large ones, in the Ninth FYP period (1996-2000).

In fact, the industrial reform after 1978, has become more and more *capitalized* and *responsabilized*. This means, SPDs have become responsible of their financial results, and incited by retained profits. For the industrial reform after 1978, most of the Western economists take 1984 as a critical year¹²⁷, however this year was just marked by the beginning of urban reform by the Central, no substantial change happened in the *danweis*, relatively substantial change happened in 1994 with the issue of the *Company law*. On the other hand, most of the Chinese economists have different various points of view [W. Yu, 1993 ; Z. Zhou, ed., 1995, etc.]. Because the systemic or institutional change has been mostly decreed from the Central, thus we can look at the periods according to the rules and laws issued by the Central. So we divide the industrial reform from 1978 up to end 1990s into two phases:

Phase 1 from 1978 to 1994, decentralization of power with monetarized incentive (profit, bonuses) instead of ideological slogans/red banners (class struggle and permanent revolution)¹²⁸.

¹²⁷Cf. De Beer and Rocca, 1997 ; Jeffries, 1993 ; Sah, 1990, etc..

¹²⁸The "urban reform" began 1984. According to De Beer and Rocca, the "open door policy " had been affirmed in late 1970s, yet the measure of "modernization of urban economy" began only in 1984, the reason of this prudence was essentially political. In fact, the urban reform consisted of mainly SPDs' reform and there were immediately 3 principal difficulties: 1) the workers' status had to be called into question, thus led to urban disturbance and led to worsen the opposition between workers and cadres, 2) the urban zones weighed heavily the State's budget, 3) the change concerning SPDs' reform touched all fields: personnel, commercial management, investment management, technological innovation etc. so that the SPDs became independent entities from political power [De Beer and Rocca, 1997, p.80].

Phase 2 from 1994 to present, grouping around Modern Enterprise Institution, responsabilization, in the context of the *Company law*.

These 2 phases can be decomposed to the following steps¹²⁹:

For phase 1 - 1978 to 1994:

- 1) 1978-1982, decentralizing power resigning profits (*fangquan rangli*).
- 2) 1983-1986, from profit levying to taxes collecting (*li gai shui*)¹³⁰ ; transforming the allocation of funds by credits (*bo gai dai*).
- 3) 1987-1991, development of the Contract Management Responsibility System (CMRS, *chengbao zeren zhi*)¹³¹, and empowering (*shouquan jingying*).
- 4) 1992-1993, more general experimentation of the share system (*gufen zhi*)¹³².

For phase 2 - since 1994:

- 5) 1994-1997, experimentation of "Modern Enterprise Institution (MEI, *xiandai qiye zhidu*)" by diverse manners: corporatization, generalization of "share system" advanced in 1997, "transformation debts to shares" advanced in Sept. 1999.

In the following, we will firstly look at the nature of the notion "socialist market economy", and then we will give a closer examination of these two phases of the Chinese industrial reform in the Dengist era.

¹²⁹Steps 1 to 3, cf. W. Yu, 1993 ; steps 1 to 4, cf. Z. Zhou, ed., 1995, p.12 ; T. Wang, 1994.

¹³⁰This means: to keep the original "industrial/commercial tax" on the sales amount ; to put income tax on the basic profit (for profitable *danweis*, at rate of 55% ; for non-profitable *danweis*, using 8-grades accumulated rate), then the profit after tax is shared between the State and the *danwei* [Jin, 1997, pp. 33-4].

¹³¹First experimentation of CMRS for SPDs in 1985, first case adopted officially in agriculture in 1981.

1. Nature of the so-called "Socialist Market Economy"

For our systemic-institutional consideration, the starting point of a reform is important. As North [1990, p.47] noted: "Given the initial bargaining strength of the decision-making parties, the function of rules is to facilitate exchange, political or economic. The *existing* structure of rights (and the character of their enforcement) defines the existing wealth-maximizing opportunities of the players, which can be realized by forming either economic or political exchanges. Exchange involves bargains made within the *existing set of institutions*, but equally the players at times find it worthwhile to devote resources to altering the more basic structure of the polity to reassign rights".

For the case of China, it is important to identify the initial *existing systemic and institutional situations*. We will see how socialist planning has led to the so-called "socialist market economy" since 1978.

1.1 Socialist planning, SPDs

Originally, socialism has been created based on the critics and improvement of capitalist market. Socialism advances to get rid of market mechanisms, of money and of commodity (Lenin). In capitalism, market

¹³²Cf. Department of ownership structure of the production division of the State System Reform Commission, "1990 development review of the share system experimentation". The "share system" started in 1988, only 10% shares were allowed to individuals [Fan, 1994, p.114], more experimentation began in 1990.

mechanism functions as an institutional environment for production, exchange, and distribution, if it is canceled, then some other mechanism must be found to replace it, the answer was planning.

Planning theories sources from early discussions of Soviet economists and recent works on mathematical modeling of economic systems [Gregory, 1988, p.158]. There have been various definitions of planning, the most simple one is that of G. M. Hill, planning can be regarded as "to solve an optimization question under certain constraints" [ibid., p.159].

The Soviet official definition of planning is: "Socialist planning is established on strict scientific base ; it needs continuously to epitomize the practical experience of communist construction and the achievements of science and technology. To make economy functioning under planning means prediction. Scientific prediction is based on the recognition of the socialist objective economic rule. Socialist planning has the feature of goals. The leading of economic planning needs to determine priority sectors, the key priority sectors are heavy industrial sectors, because they determine all industrial sectors and the development of the whole national economy" [ibid.].

For the Chinese authority: "The pre-condition of planned economy is public ownership of productive means. [...] Planning is whilst the guarantee of reinforcement and development of socialist public ownership of productive means. Planning can overcome anarchism, so the national economy can be developed alone with plans and proportions ; human forces, materials, capitals can be used efficiently ; contemporary science and technology can be used and spread step by step, productive force can be continuously developed ; the need of the society and of the whole people can be fulfilled in a best way under the conditions of the moment, and the socialist productive goals can

be realized [...] meanwhile to augment the authority and discipline of the planning, to establish the unity of thinking among cadres and the mass, to prevent and correct departmental selfishness, decentralism and liberalism. Production and construction, people's life must all be carried on alone with the planning. We must prohibit any organization and individual to destroy the State economic planning" [Ma ed., 1982, pp.19-20].

Generally speaking, the models of capitalist market economies have been established upon the hypothesis of behaviorism of individual maximization. This hypothesis is quite trustworthy [Gregory, 1988, p.157].

If we refer to Kornai [1992], a "socialist country", is one whose political sphere is entirely dominated by a unique (Communist) Party¹³³ calling on the Marxist-Leninist ideology¹³⁴, then China has been such a socialist country since 1949, and China has never given up officially the fundamental Marxist-Leninist ideology until nowadays¹³⁵. In this socialist country, the system of production, exchange and distribution is officially deemed as "socialist economic system", and the rules of these activities (the game), are officially called "socialist economic institutions" [Ma, ed., 1982].

¹³³In China, there are in fact eight other officially recognized Parties besides the CPC (details cf. Chapter Three), yet evidently, only the CPC reigns.

¹³⁴Here in this dissertation, the term "Marxian" stands for the academic theories of Marx, for example the theory of surplus value, etc. ; the term "Marxist" stands for the revolutionary political legacy of Marx, for example, ex-USSR was a Marxist country, where according to Duverger [1993, p.1290], the theory was elaborated by Marx, the practice was inaugurated by Lenin.

¹³⁵During the XV Congress of the CPC held in September 1997, it was recalled once more in the *Party's Constitution* that, "The Communist Party of China takes Marxism-Leninism, Mao Ze-dong's thoughts, and Deng Xiao-ping's theory as its guide of action". It was the first time that "Deng's theory" has been added into the *Party's Constitution* [Cf. *People's Daily* (overseas edition), 13th. September 1997 ; Cabestan, 1994, p.37 for former *Party's Constitutions*].

In a socialist country, the goal of the planning is established, run and controlled by the Central [ibid.]. The planning is considered by the Chinese Authority as a *fundamental political act* [Lefebvre, 1978, p.157]. So it is not neutral, and is even the center of political struggles of the political lines. From the Chinese official point of view, the "socialist economic system" connotes three basic features [Ma ed., 1982, pp. 16-20]:

Firstly, the productive means¹³⁶ are "public-owned", this is why the term "public ownership" is used. It is argued officially that, production will be processed and it will produce wealth if and only if when the productive means combine with human being, and that such combinations vary in different social patterns, the difference is determined by the different forms of ownership of means of production. For example, in capitalism, the ownership is private ; in the Chinese socialist system, it is the "public-ownership", which consists of two principal forms: all-people-ownership and collective-ownership¹³⁷. All-people ownership signifies that all the productive means and the products are owned by the "laboring people (*laodong renmen*)", represented by the Party-State-Government ; collective-ownership signifies

¹³⁶Namely, land, forests, rivers, mines, and various productive tools, machines, equipment, workshops, buildings for productive purpose, energy, power, information means, transportation tools, raw materials, supplementary materials, etc. These are called the "set of laboring means" and the "objects of labouring", they are used during the production processes by human beings [Ma ed., 1982, p.16]. In China, the productive means are distinguished from "individual consumption goods", or "means of life" (*shenghuo ziliao*), which are regarded as "private" according to the *Constitution*.

¹³⁷During some periods from 1950s to late 1970s, "individual ownership" did also exist in China, this was deemed as the "supplementarity" of the "socialist public-ownership" [Ma ed., 1982, pp. 16-7]. In China, "individual ownership" is distinguished from "private ownership" by the reason that "an individual is at the same time a labor", "exploitation" in the (capitalist) private ownership does not exist in "individual ownership".

that the production means and products are owned by a collective sub-group of the "laboring mass", which is mostly at the cities and towns levels.

Secondly, the "socialist principle of distribution" for individual consumption goods: from each according to his ability, to each according to his work, no working no food¹³⁸ and ¹³⁹. The original official willing of this principle consists of: 1) arousing the enthusiasm and creativity of the workers, it is somewhat the "spiritual incentive" of the socialist system, 2) promoting the production, in order to increase the general living standard, 3) remolding the bourgeoisie into working labor by the rule of "no working no food". The bourgeoisie was supposed to have food even without working before socialism, under this rule, if they do not work, they will have "no food". So the Chinese Authority considers this principle to be able to a) avoid egalitarianism, b) eliminate social difference, and c) arouse labouring enthusiasm. But in reality, the contrary of this principle had happened, for example, the famous "cauldron food phenomenon (*daguo fan*)", which means either an individual works correctly or not, he/she earns the same as others.

¹³⁸We note that, the "*communist* principle of distribution" is: from each according to his ability, to each according to his needs. According to Marx [*Critique du programme de Gotha*, 1875], between capitalism and communism, there is a *period* where the former transforms to the latter [cf. Zhao Y., 1996, pp. 2-3]. Marx himself used "socialism" and "communism" almost as interchangeable terms [Nove, 1988, p.401]. For Marx, the "end of the tunnel", or the "end of human story" was supposed to be the "communist society".

¹³⁹Lenin [*State and revolution*, 1917], explained that, the historical transformation from capitalism to communism consists of three periods: 1) in the first period (revolution), the proletariat seizes the State's power by revolution in order to become the ruling class and to obtain democracy, 2) in the second period (socialism), to establish the proletariat's dictatorship, public ownership of means of production, and the socialist principle of distribution, and then, 3) in the third period, under the socialism, undergoes the great development of productive force, of politics and of culture, as well as of getting rid of classes. Then follows the advanced phase of communism [cf. Zhao Y., 1996, pp. 2-3].

Thirdly the central planning, which was patterned from the Soviet style in the 1950s. The central planning depends on a Central organ that calculates and balances quantities of major products to be produced (both for input and output, this corresponds that are called Demand and Supply in capitalist market economy). According to Chinese Authority, the public ownership is a prerequisite for the centrally planned economy, and the latter reinforces and favorites the development of the former [Ma et al. ed., 1982, p.19]. The Chinese central planning system was substantially modified for the first time by a decentralization of decision power from the central Government to the provincial Governments during the Great Leap Forward. Then the degree of centralization and decentralization fluctuated with political currents in the 1960s and 1970s [Worden et al., ed., 1987].

How does the Chinese central planning system worked? At the national level, planning began in the highest bodies of the Party-State-Government: goals and priorities were determined by the Party's Central Committee, the National People's Congress, the State Council, then decisions were communicated to the second level - ministries, commissions, and other organs under the State Council¹⁴⁰ so that the national economic plans could be put into effect. The SPC worked with the State Economic Commission, the State Statistical Bureau, former State Capital Construction Commission, People's Bank (a "seeming Central Bank"), other economic ministries and organs

¹⁴⁰There could be over 100 ministries, commissions, bureaus, academies, corporations under the State Council, which were concerned with economic matters [Worden et al., ed., 1987].

subordinated to the State Council, in order to formulate plans. The plans could be short-rang (less than 3 years), mediums-rang¹⁴¹ (3 to 5 years, e.g., FYPs), and long-rang (more than 10 years, normally 10, 12, 15 years). Economic activities were planned/controlled by annual plans, which were formulated in autumn preceding the being planned year¹⁴². The mediation of an annual Plan was a national "Material Balance Table (MBT)" which estimated the "demand and supply" for each "centrally controlled good", for each province/municipality/autonomous region (hereafter P/M/AR), and for *danweis* subordinated directly under the Central planning (hereafter "central SPDs"). The transfer of goods between intra-provincial *danweis* were planned in the balance. A serious overall deficit of a good was made up by imports. The initial targets were sent to the provincial level administrations and the central SPDs. This is what we call the vertical planning (*tiaotiao*). The provincial counterparts of the State Economic Commissions, and ministries broke the targets down for allocation among their subordinating counties, districts, cities and provincial *danweis*. Then counties further distributed their assigned (non-monetary) quantities among their subordinating towns, townships¹⁴³, county-owned *danweis*. Then towns assign quota to town-level "State-owned" *danweis*. The same procedure was for the cities, etc..

¹⁴¹Medium-rang plans were normally for recovery periods after chaos, e.g., 1949-1952 for Civil War, 1958-1960 for GLF, 1979-1981 for Gang of Four [Worden et al., ed., 1987].

¹⁴²So that the agricultural output of the current year may be taken into account [ibid.].

¹⁴³Townships distributed agriculture quota among their villages (this became contracts since early 1980s), then quota was assigned to the individuals and households of a village.

So the Government planned and controlled the public-owned production *danweis* in the aspects of production, supply, sales, personnel, finances, materials [Wang J., 1995b]. The managers/engineers/accountants of each *danweis*, after receiving the quota, compared the targets with their own projections. If they found that the planned output/input quotas exceeded their capabilities, they consulted with the representatives of the administrative body superior to them¹⁴⁴, which negotiated, readjusted the targets on the basis of discussion with subordinating *danweis*, and then they sent the revised figures back up the *planning ladder*, this was also called the *to/fro process* [Gregory et al., 1988, p.169]. Then the Commissions, Ministries evaluated the revised sums and repeated the MBT procedure, they then used the results as the Annual Final Plan. The Annual Final Plan might then be officially approved by the State Council. As Kenneth Liberthal and Michael Oksenberg [1988, p.3] noted: Policy making was diffused, and often depended on bargaining among top central leaders, ministerial officials, and/or influential local politicians. Also, the planning was "fragmented" cross various bureaucratic levels [Harwit, 1995, p.11].

The provincial level planned/controlled in turn the targets for the goods that were not included in the Central planning, together with the quota of centrally-planned goods, it had its "provincial level MBT". Through a similar process (estimation, disaggregation, negotiation, review, reaggregation) as

¹⁴⁴Hence, one of the points of corruption.

above, it got its "provincial level Annual Final Plan". The same process then happened at the counties, and cities level, etc.. This is what we call horizontal planning (*kuaikuai*).

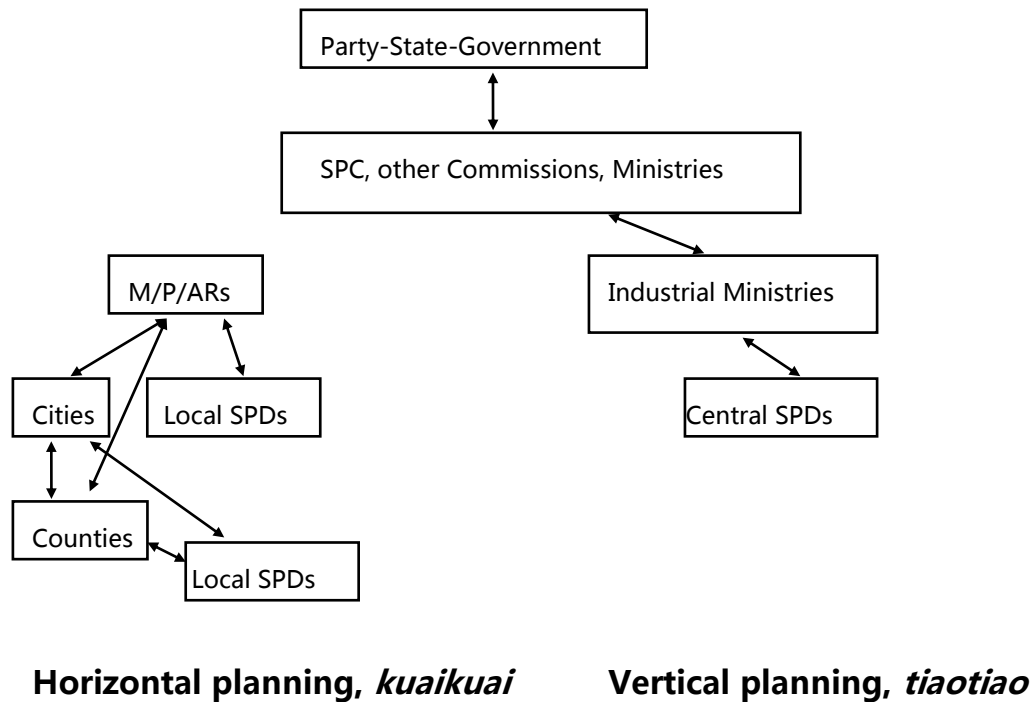
The end-phase of this *to/fro process* Central planning system occurred at the level of the central SPDs, or of the "local-owned *danweis*". Having received their input/output quotas, these *danweis* reduced their schedules of production to ten-days plans, one-month plans, six-months plans, etc..

The former soviet economy was organized by many specialized ministries, each corresponding to a different productive enterprise, e.g. mining, machinery, textile, etc.. Each of them controlled some gigantic factories, this was described as the U-form economy, or the "branch organization" [Nove, 1980 ; Gregory and Stuart 1981 ; Ericson 1991]. In contrast, Chinese economy has been organized mainly based on a geographical principle since 1958, this is known as the M-form economy or the "regional organization" [Granick 1990 ; Qian and Xu 1993]. The Chinese economy consists of over 30 municipalities, provinces and autonomous regions, each of which is a reasonably well diversified sub-economy, producing an array of goods similar to those in other provinces. [Qian et al. 1996].

In fact, the Chinese planning was at the same time M-form (majority) and U-form (minority). U-form corresponded the hierarchy of the planning process between the Central and the SPDs directly sub-ordinated to the Plan.

M-form corresponds the planning process for the provinces [Figure II.1 ; cf. Lefebvre, 1978, p.160].

Figure II.1: Simplified figure of the planning process.



A salient feature of the planning system is the material balance¹⁴⁵. Once the State Planning Commission had determined the input (namely land, labor, assets, and mid-products) in order to produce one unit of output, it could fabric a table of demand of each input. Under the condition of invariant technology, the SPC desired to get the most quantity of output with fixed input.

Both Hayek and Mises emphasized that, for an economic system, certain balance is primordial. However, there exists serious problems of information

¹⁴⁵For detailed technical planning methods, cf. Gregory and Stuart, 1988, pp. 163-92.

and control in this central planning system [Stiglitz, 1994]. The socialist planning was ever characterized by Kornai [1980], by soft budget constraints which was source of waste and of shortage.

Material balance planning cannot stop the participants in the economy (managers, ministers, central planner) to react to signals of insufficiency of materials (Powell). When planning errors are inevitable (non-balance between the outputs and the corresponding inputs for these outputs), managers and the planner will face to various *shortage signals*. Managers realize that some materials are more difficult to obtain than others, or materials in the *danweis* under them are insufficient than others. The *shortage information* goes up to the ministers who have to determine whether the shortage information is reliable.

The positive side of the shortage information is that internal re-distribution of resources, such as personnel exchange or barter exchange, can be carried on in order to achieve balance. However the negative side is that the managers tend to store up as most as possible materials that risk often to be in shortage, which leads to waste and large quantity stockage.

In the planning theories, it has been distinguished three categories of planning models: non-price-oriented, price-oriented, and mixed. For non-price-oriented planning, the logic is to maximize the outputs based on existing goods, assets and technology, prices are not necessary in this process. Price-oriented planning needs to find a series of price solutions in the above

maximization equations, like the "trial and error method" of Lange. Theoretically, these two planning methods will lead to a same result, which is to maximize the production outputs based on existing resources constraints [Gregory et al., 1988, p.171].

In the execution of the Plan, as noted by Bomsel [1991, p.4] for the ex-USSR and Eastern European countries, "the price system used in the balance is practically constant. The payments among enterprises, which are (in general) ministerial departments, are registered and controlled by the [seeming] Central Bank. It is uniquely scriptural transfer. The only 'visible' money is that used for salary payments".

About the Plan and the execution of the Plan, the degree of centralization is different, as noted by Pairault [1981, p.347], "The fact that it is impossible to conceive a decentralized economic administration does not signify that such a planning system implies that all *economic* decisions are made in a centralized manner. Similarly, that does not signify *a priori* that the economic choices are operated without preliminary consultation to enterprises or organisms that apply the decisions from the Central. However only a centralized planning permit to 'mobilize and organize the people, the whole to fight against a common objective¹⁴⁶' as only itself can cancel the hazards resulted of contradictory individual economic decisions".

As noted by Leonid Hurwitz [1972], "In the ideology of planning, all plans develop under the course assigned by the elites supported by the loyal and self-sacrificed mass".

¹⁴⁶ *People's daily*, June 15th. 1979, p.3.

On the subject of money, in capitalist market economy, money is a tool for the exchange and circulation of goods, it has three functions: 1) saving of wealth, 2) tool of payment, 3) universal money [Marx, 1867, pp. 106-114] ; in socialist planning, as Bomsel [1994, p.4] has noted, there are three separated money circuits: 1) a fiduciary money for salary payments, with counterpart of household expenditures, 2) a scriptural money for the internal transfer among economic organizations, 3) a convertible money for import/export agents which monopolize the foreign trades. There has been no research for the Chinese case for the period before 1978, but we can make hypothesis that this is also true for China before 1978.

Under this socialist planning, what is the position and role of the SPDs?

"Firm" or "enterprise" are *economic* concepts. In the point of view of a French jurist, "enterprise does not exist" [Martinet and Petit, 1982, p.21], only commercial companies are recognized by the law. In The *New Palgrave* [1988, pp357], a firm in capitalist market economy is "a profit-maximizing agent (whether by conscious, rational decision or otherwise), endowed with a known and given technology and operating subject to a well-defined market constraint".

For Martinet and Petit [1982, p.21], "a capitalist enterprise is a production unit of goods and services, who pursues an objective of profit maximization. They get supplies of production factors (capital, labor) on market, then combine them in an

optimal manner to supply on the market certain quantity of products in order to realize its objective".

A firm (or an enterprise) defined this way above lives in a market environment, which is different from socialist planning. As Kornai noted, that the nature and the rules of the game of "socialist enterprises" are different than that of the capitalist market economy [Gregory, 1988, pp. 183-4]. If we make reference to an "enterprise" in a capitalist market economy, then the SPDs are not the same as these enterprises, neither the "public enterprises". Certain characteristics of the enterprises are not at all available for the SPDs.

The objective of a productive *danwei* in a socialist planning is like the planning but in a much smaller scope, which is to realize the *planned* output with a minimized input [Gregory, 1988, p.173]. Moreover, as we have noticed in Chapter One (Section 2.3.3), the Chinese industrial *danweis* must afford an all-over social protection to their workers from birth to death.

During a Sino-Japanese conference titled "Market mechanism of competition and the function of enterprise", held at Okinawa, Japan in May 1985, the Japanese economist Ryutaro Komiya pointed out surprisingly for the first time that "there was no enterprise in China" compared to the Japanese firms in operational and managerial aspects. Numerous Chinese economists shared this point of view [Wu 1994 ; Zhou et al. 1995]. In fact, Early in 1956, *danweis'* managers had complained that the *danwei* were like "beads of an abacus", which means that they were manipulated by the Central, and *danweis* were

part of the Plan, part of the Government. They were not the same as an economic agent in a capitalist market economy.

The *multi-functionality* of the *combinates* analyzed by Hirshhausen [1994] in the Eastern European and the ex-USSR countries consists of: 1) that the production is not based on maximization of profit or of productivity of the *combinates* themselves ; 2) that the all-over social protection (from birth to death) that the SPDs must assume for its workers ; 3) the ideological control over the workers. In fact, this is also true for the Chinese industrial *danweis*.

For Chinese *danweis*, as noted by Alain Lefebvre [1978, 146]:

Le principe fondamental de la gestion des usines en Chine est que tous les problèmes de la vie de l'entreprise (production, répartition des revenus, relation entre travailleurs, etc.) doivent être posés en termes politiques. La direction de l'usine est donc une direction politique, celle-ci étant exercée par le Parti dont la compétence est par définition illimitée¹⁴⁷.

Together with the social protection from the *danweis* to their workers, so evidently, the Chinese industrial *danweis* were also multi-functional. Even after about twenty years' reform, the phenomenon of "enterprise playing society" (all-over social protection) exist still.

The SPDs form a kind of networks among them. The relation inside this networks were not market relations but rather administrative. This is why we call them Socialist Productive Networks (SPNs), term borrowed from Bomsel

¹⁴⁷The fundamental principle of the management of factories in China is that all problems of life of enterprise (production, allocation of revenues, relations among workers, etc.) must be treated in political terms. The directive body of the factory is thus a political directive body, led by the Party whose competence is illimited by definition.

[1995]. The flows of materials, or scriptural money circulates according to the planning. Before the reform, there existed horizontal networks of geographical characters and vertical networks of ministerial characters. This means, there were SPDs in a national level planning networks (vertical), and also local level planning (horizontal), the "*tiaotiao kuaikua*".

An important question is that what are the differences between the "public enterprises" in capitalist market economy and the SPDs?

According to Uekusa [1992, p.229], in a capitalist market economy, "public enterprise is one that the State or local public organizations own all or part of its capital". And the public enterprise has dual characters: public character and enterprise character.

According to Oshima Kunio, the public character consists of five points: 1) public ownership (the owner is the Government), 2) the end owner is the citizens, 3) the objective is public, i.e., to augment the quality of life of citizens and the national economic welfare, 4) the use is public, i.e., to supply public facilities/goods, 5) the reglementation is public, i.e., participation of citizens (through the central or local parliaments) [cited in Uekusa, 1992, pp. 233-4].

The enterprise character consists of autonomous management and internal efficiency [ibid., p.235]. According to Uekusa, independent accounting cannot be considered as an enterprise character because there exists almost always Governmental subventions.

If we take these above delimitation for public enterprises, then the Chinese "State-owned (public) enterprises" are different, because this characterization cannot be applied to the Chinese SPDs. Many of the Chinese "State-owned (public) enterprises" do not supply public facilities/goods, and there is no reglementation. The management is not autonomous but directed by the Plan. So the SPDs are neither public enterprises in a capitalist market economy. The most important is that, unlike enterprises functioning in a market environment, SPDs function in a Socialist Production Network. The former has a polity of "three separated power", the latter has a polity of one-Party autocracy.

Most of the goals of development of socialist economies (ex-USSR, and East European Countries, China) led to a relative autarky, which meant for industries, they wanted to form an economy with their own industrial base¹⁴⁸ [Gregory, 1988, p.504]. This industrial base is, in fact what we call Socialist Production Networks.

In other words, the SPDs do not function under "market economic logic". The SPDs function in a different logic which means different "institutional environment", and different internal and external organizations (institutional arrangement) compared to the capitalist enterprises. SPDs are not independent *vis-à-vis* higher-level authorities. They do not have decision powers like enterprises as economic entities in a capitalist market economy. As

we have mentioned, here an example, the observation of S. Gao, in the 1950-60s, to build a toilets or to buy a type-writer, SPDs had to ask for agreement from the central Planner [Nie 1994]. The decision was exogenous to *danweis*. This is why we prefer to call them Socialist Production *Danweis* instead of "State-owned enterprises", in order to avoid conceptual confusions.

In a word, the socialist singularity consists of three points:

- the planning is non-monetary, hence non-economic,
- the *danweis* are not enterprises,
- the SPDs form socialist production networks (SPNs).

This is the starting point of the reform since 1978.

1.2 Systemic aspects of the so-called "Socialist Market Economy"

In this section, we will see some main aspects of systemic change (at planning level) since 1978. We will look at the institutional change in Chapter Three.

1.2.1 Organization/structure of decision hierarchy

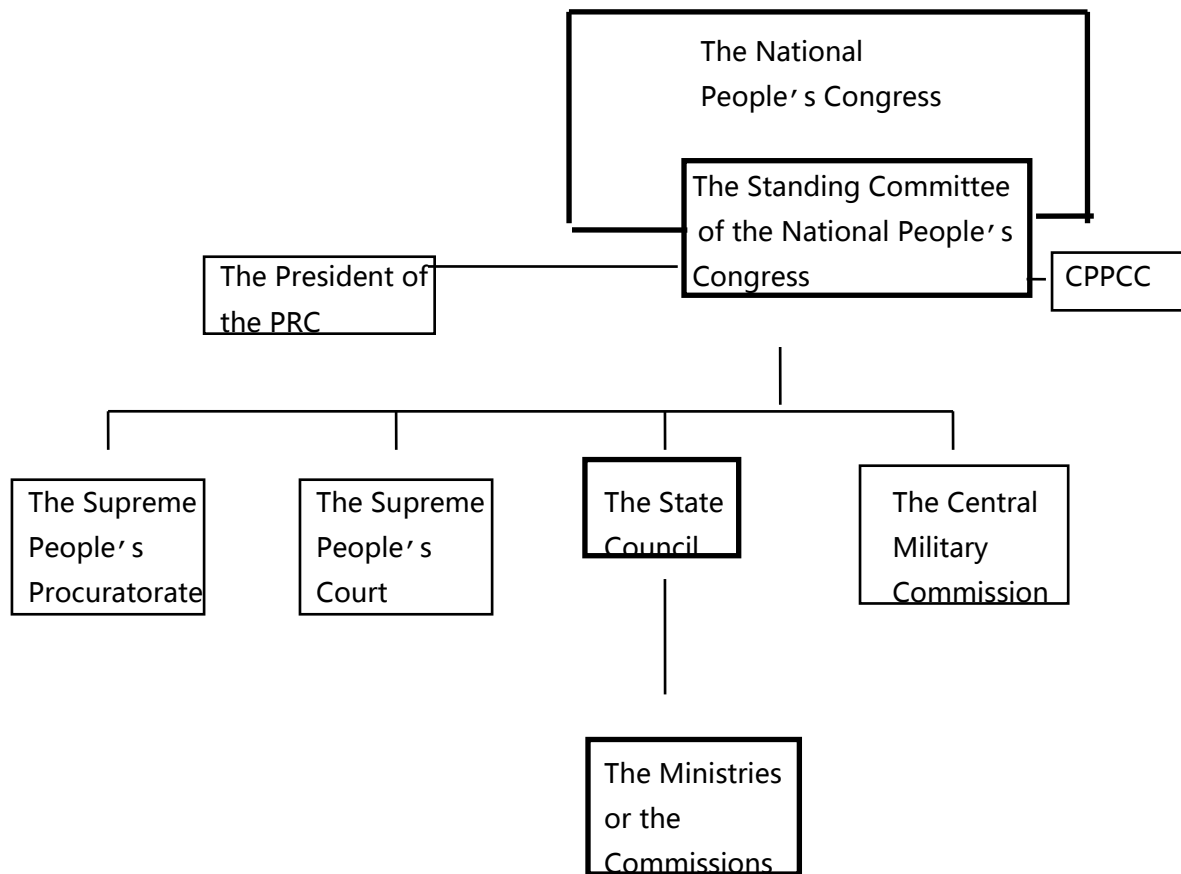
¹⁴⁸Cuba was an exception, even it practiced the soviet style central planning, it had to give up efforts on wide-ranging industrialization, and continued to rely on sugar production.

"State is nothing but a machine for the oppression of one class by another", this is a definition of State often proposed in popular Chinese dictionaries¹⁴⁹. According to North, State is the root of the rise and fall of economy of a society [X. Jiang, 1996, p.272]. The organizational structure of the Chinese polity has not met any changed since its establishment, even after some well-known substantial reforms started in 1978 [Figure II.2].

Formally, the Party does not manage the country, from the following figure, we see that, the State is represented by the National People's Congress.

¹⁴⁹For example, *The pinyin Chinese-English Dictionary*, 1978, reprinted 1988, edited by the Beijing Foreign Language Institute.

Figure II.2: The State's structure and the central legislative structure in China since 1983.



The formal State institutions are: 1) the National People's Congress, 2) The President of the Republic, 3) The Central Military Commission, and 4) the CPPCC together with the eight "democratic Parties" [Cabestan, 1994, p.72].

In fact, the National People's Congress, the CPPCC and the "democratic Parties" play relatively weaker role. The National People's Congress has been well known as a "rubber stamp", i.e., giving approval to any decisions of the Party. Since the early 1990s, the National People's Congress has begun to reclaim more and more real decision power.

Until now, change that has been carried on, touches only *lightly* the institutional level. The basic political principle of *democratic centralism* has been intact. The Chinese leaders still defend the Marxism-Leninism, and Maoist thoughts, emphasizing the leadership of the CPC. The Party has the overall hegemony over the State.

In fact, a fusion of the Party (politics) permeating into the State (legislation, Army, Government) has been formed and dominates the country. The Party is often controlled by few important figures¹⁵⁰ representing the political power. A. Doak Barnett asserted¹⁵¹: [...] in a fundamental sense (in the 1960s), it was the policy decisions made by personnel at the top of the system rather than the data or ideas from lower levels which determined the general shape of the plans ultimately adopted.

The Party and the State are undivided, the CPC permeates into the State, the Government, and the National People's Congress. The Party is in fact melted with the latter and it overrides the latter, in fact, it overrides all. The Party and the State form a unit *Party-State*. Under the socialist planning, instead of market mechanism, it is the Party-State which mediates the activities of production, demand, distribution and control.

The Party-State acts as the Government, the ruler, the players, and the controller for enforcement of the rules, this is the reason why we put the

¹⁵⁰Since the late 1970s, with the demand of a more complex international economy, the top leaders have become more limited in their choice of action, the influence of politics from above had waned [Harwit, 1995, p.6].

¹⁵¹Barnett, 1967, *Cadres, bureaucracy, and political power in communist China*. Columbia University Press, New York, p.84, cited in Harwit, 1995, p.5.

Central equivalent to the notion Party-State-Government. The "economic" reform begins *de facto* by a reform of Party-State on itself, and by tolerating some market mechanisms between production and demands, it renders its direct interventions more and more indirect. During the whole reform process, it makes the change of rules of the game (institutional changes), meanwhile playing the game.

According to Gregory [1988, pp. 265-6], a communist party is in fact a system of controlling. If we borrow the term of Bienaymé, the Party-State is like a "visible fist"¹⁵². Since the reform, more and more distinction of different political organs, especially the recently launched Chinese administrative reform, have shown that, the *fusion* of the Party-State has been recognized by the Chinese reformers¹⁵³. Moreover, more and more power has been given to the legislative and legal organs.

Both socialist countries and Western industrialized countries in the world, postulate the goal of the realization of the well-being of the population, but in different manners. For the realization of this goal, in general, the Western industrialized countries stand on three principles: the research of individual satisfaction (the sovereignty of consumers) ; the liberty of exchange in market ; the State should intervene only to guarantee this liberty. On the other hand, for socialist countries, such as in the ex-USSR or

¹⁵²Bienaymé, 1982, he was talking about the Government in a capitalist market economy, a "visible fist" is evidently the contrary of an "invisible hand".

¹⁵³Zhang, Cheng-fu, 1993, *Big change - the goal and behavioral choice of the Chinese administrative reform*. Reform Press, Beijing.

China, the official ideology affirms that the realization of the population's well being must pass by the State's (direct) intervention and must result from a political decision [Duchille, 1987, p.5].

1.2.2 Ownership of properties (public or private)

First of all, we remark that the ownership in China refers to only productive means, excluding individual consumption goods. According to Marxism, the change of ownership of productive means is a sign of economic institutional change [Gregory, 1988, p.16].

We will not argue if we can talk about the existence or not of "property rights" in China, we will just try to understand how this notion defined actually in China differs from what we have known in mainstream economic theories. By classical definition in mainstream economic theories, property rights consist of *usus*, *usus-fructus*, *abusus*. For the case of China, we will point out the specificity of "property rights", relations between the company and the investors, and relations between the company and the Governments (central and local). In the reform, according the *Decision*, "investors" are recognized. In fact, there are some cases that the bank debts were considered as investment, etc.. so relevant to this subject, are the triangle debts.

In China, it is often mentioned about the six aspects for a *danwei* under the socialist planning mechanism (human, finance/accounting,

materials/assets, production, supply, distribution). Since the late 1970s, property rights has become a new aspect additional to the old six aspects. The change of these aspects shows the reaction of the *danweis* to the institutional change. The aspect of finance/accounting was related to the general reform of financial and accounting systems, for the period of our study, laws and rules were being elaborated, we will not go further on this subject. The aspects of production, supply and distribution were often related to the organizational reform of one sector, this will be discussed for the case of the automotive sector in Chapter Four and Five. The human aspect concerned mostly the *danweis*, in terms of governance organization, relations among the managers and workers, etc.. Since the reform, discussions on property rights and ownership system can no more be neglected, even it is the most important aspect, and it has consequences on the other aspects. Here we will see these notions.

Property rights:

"Private ownership" is a concept of the capitalist market economy. The concept of "property rights" is a consequence of the private ownership. Gustave De Molinari [1891] was one of the first most active defenders of private ownership, for De Molinari, the economic difficulties are caused by property rights¹⁵⁴. The pamphlet consecrated to ownership of Thiers [1848]

¹⁵⁴Cf. Couret, p.63, in Charreaux et al., 1987.

might be the latest enunciator of the modern theory of property rights¹⁵⁵. It was Cauwès [1893] who defined the fundamental characteristics of efficient property rights which should be absolute, perpetual, and hereditary¹⁵⁶. According to Cauwès, "La société a pour garantie l'intérêt personnel ; de l'intérêt personnel procède le travail et le bon usage général de la propriété"¹⁵⁷.

According to the Roman law, property rights include the right of usage (*usus*), the right to use the fruits (*usus-fructus*), the right to dispose of the object (*abusus*). The exercise of the property rights can mean to sell the property, to destroy it, to use it intensively, to abandon it, etc.. This implies that the property rights are *exclusive*.

Recent theoretical development distinguishes *absolute property rights*, which are exclusive (*objective* in the French law), and *contractual property rights*, which concern only relevant parts (*subjective* in the French law) [Charreaux et al., 1987].

Public ownership in private capitalist market economy means: the Government owns or manages the firm. Under this system, Government becomes capitalist instead of private entrepreneurs [Greenwald, 1973, p.357]. It is important to notice that the public enterprises are still in a legal environment of private ownership.

How "socialist public ownership" is defined?

¹⁵⁵ibid..

¹⁵⁶ibid..

The Chinese *Constitution*'82, distinguishes personal belongings which can be *private owned*, and productive means which are *public* owned. And *uniquely* public-owned properties are protected by the State.

According to the socialist dogma, "the people are the master of the State, [...], the whole supreme power must belong to the people's representative elected by the people¹⁵⁸". Until the early 1980s, all socialist constitutions in the world contain this principle. According to the Chinese *Constitution*'82¹⁵⁹, "the whole power in the People's Republic of China belongs to the people. The people exercise the power by the intermediate of the National People's Congress ([...] and other local People's Congress) which institute the democratic centralism".

The public ownership in China is defined as "all-people-ownership" and "collective ownership". "All-people ownership" has been dominant, it means that all the people as an *entity*, is the owner of resources of the whole country. If for one person, he/she is only the owner of some personal consumable goods, he/she is not an *concrete* owner of any productive means. People are the *masters* of the country. A worker in the mass of all the workers is the master of his factory which is all-people owned, but the worker himself does not own nothing of his factory.

The word "people" has its political signification, here it means the "good Chinese", in other words, "the Chinese individuals who endorse socialism" [Wu,

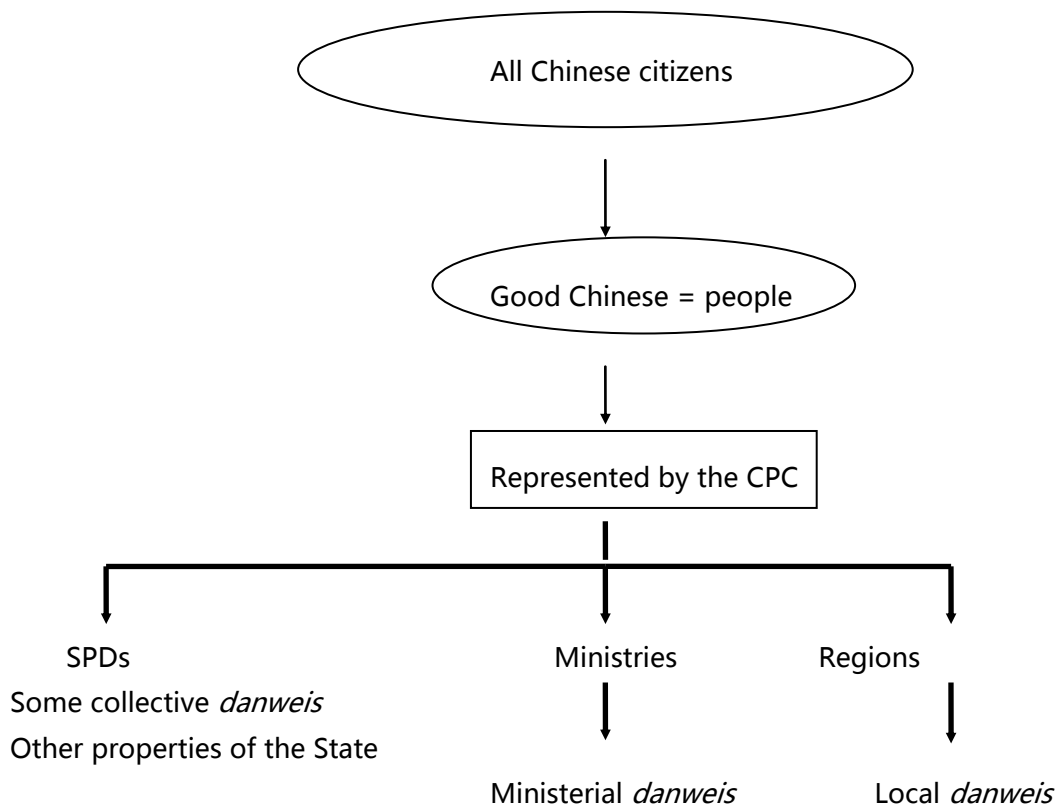
¹⁵⁷"the society is to guarantee the personal interests ; personal interest proceeds to the work and the good general usage of the property ".

¹⁵⁸Lénine, *Oeuvres Complètes*, t.24, pp.485, cited in Pairault, 1981.

¹⁵⁹Since 1949, China has drawn up 4 constitutions, respectively dated 1954, 1975, 1978 and 1982.

1993]. In his speech *On the Contradictions*, Mao Zedong stated that, "all the social classes and strata, all social groups who approve or support the socialist construction form the people (*renmin*)" [Pairault 1981, p.346]. "Bad Chinese" are thus excluded to the all-people ownership. They are hence not the masters of the country.

Figure II.3: People, all-people ownership in China.



By an other dogma, "the CPC represents the whole people¹⁶⁰". Then the CPC is the representative of "all-people" to manage the affairs of the whole State, including all "economic activities" such as production and distribution, then naturally the production in the SPDs. Theoretically "all-people" is the ultimate and legitimate owner of the SPDs, people are "the masters" of the SPDs, the

CPC which represents all-people exercises the "all-people's ownership right" over these SPDs. Therefore, "all-people-owned" means in fact, that the means of production are owned by a *subset* of "good Chinese", and are entrusted to the representative which is the CPC for the management [Figure II.3].

In fact, all the terms such as *people*, *all-people owned*, *master*, etc. are ideological terms, they did not have any direct economic effects to the individuals. All-people ownership is in fact a "paradox of socialist public ownership" [Fan, 1994]. This means that an individual in the set of people as a whole entity is the owner of the *danweis*, but an individual oneself is not a concrete of owner of nothing.

1.2.3 Mechanism of information and adjustment: market or planning

"Socialist market economy", considered as one of the variants of the socialist economies, its structure and constituents, its institutions and functioning, evolve with time. According to the Chinese leaders, "socialist market economy" is the "initial stage of socialism", to practice "socialist market economy" is "to better construct socialism".

Markets such as labor market, capital market, etc. did not exist in socialist planning. In practice, SME means the introduction of these market elements in the socialist planning. The emergence of these market helps to

¹⁶⁰*People's Daily*, 24th. and 25th., November 1980, p.5, cited in T. Pairault [1981, p.346].

change the SPDs system [Wang, 1986, p.394]. Here we limit the notion "market" at the "offer side" of industrial goods of industrial *danweis*. There were two ways of the emergence of market in China: growing from the Plan, and growing beside the Plan.

Growing from the Plan concerns the private sector and the newly created new collective or private companies using State owned capitals ("State capital erosion"). Growing beside the Plan concerns the private economies created by private or foreign capitals.

According to the different nature of ownership, we can divide the production units in China into two big categories: State sector and non-State sector. The State sector is composed of the SPDs. The non-State sector is composed of private companies, semi-private companies, community-owned *danweis* (or say collective *danweis*), JVs, individual-owned companies, foreign invested companies [Fan, 1994, p.108].

For the planning side, the SPDs had been transformed in various aspects in the Dengist era. As we will see in Part Two, the most visible change happened in the aspects of organization, governance, products and production. But some change were not significant, such as that social services still existed, and dismissals were reluctant, most of the new managers were the old leaders, etc., of course, there were still certain obligations imposed by the Governments, etc..

On the other side, these SPDs had to compete with the collective and individual companies, or foreign invested companies. Often the non-State sector enjoyed favorite policies in term of taxes, etc.. In a way, the "socialist market economy" as an institutional environment might not be favorable for the SPDs.

Since 1982, the planning has been a "mixed system" of *mandatory planning*, and *guidance planning* (use of economic levers such as taxes, prices, and credits instead of administrative fiat), and free market [Worden et al. ed., 1987, ch.8]. Mandatory planning controlled 60 products¹⁶¹ in 1984, very few by the late 1990s. For important materials, the Central Planning also had a planned distribution system for some important products¹⁶². Alone with the reform, planning had been reduced. Production *danweis* have become to reply more and more demand of "consumers", i.e., a nascent market demand.

As the market is nascent, there are several problems. For example, the difficult competitive environment, this consists of: 1) Regime inertia, i.e. the SPDs are not used to react to market demand, the products of the SPDs often do not correspond to market demand. This has been often criticized, however, few have explained the problem by pointing out the root point, i.e., the SPDs were constructed in a socialist logic, in which they needed not to "sale" their products to the "market" which was itself practically nil. 2) In the nascent tax

¹⁶¹Including coal, crude oil, rolled steel, nonferrous metals, timber, cement, electricity, basic industrial chemicals, chemical fertilizers, major machines and electrical equipment, chemical fibers, newsprint, cigarettes, and defense industry products.

¹⁶²Such as coal, iron and steel, timber, and cement.

system, there are many favorite conditions to foreign invested companies, but few to SPDs, they pay more taxes¹⁶³, this led to *unfair competition* for the SPDs. 3) Technologically, the equipment of SPDs is relatively obsolete. 4) Observations showed also that the bankruptcy cases were not necessarily a choice of market, there were numerous administrative or corruptive manipulations. 5) The SPDs have to afford the "social burdens" inherited from the old regime. 6) The emerging "market" has two faces, it is indeed like a bird in cage, i.e., a) wildness, disordered when out of control, b) it becomes strict planning (caged) when controlled.

It is distinguished market of consumer goods and market of industrial goods in China. Goods for consumption, or for individuals are not treated in the same manner [Worden et al., ed., 1987, ch.8]. The non-State-funded and foreign-funded companies led to that China's market for consumer goods is highly competitive. In contrast however, the industrial goods market remained relatively less competitive [Shan, 1995]. For industrial goods, even under the austerity program when demand had fallen sharply, the prices for raw materials and industrial goods could keep rising" [ibid.]. This leads to that the market signals were sometimes not liable.

1.2.4 Determination of goals and mechanisms of incentives: administrative constraints

¹⁶³E.g., the SPDs pay 33% income tax, the JVs pay only 15%.
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Profits seeking was not in the Chinese socialist ideology, seeking profits by *danweis* was not necessary or allowed under this ideology. During the Cultural Revolution, the "Gang of Four" even advocated that "we want rather poor socialism than rich capitalism". When Deng took power in 1974, he criticized this slogan, meanwhile he advanced to "allow one part of people to become rich firstly", and then "achieve quickly the goal of being rich together" [1993, pp. 171-2].

According to Deng¹⁶⁴: "If we don't talk about more labor more income, if we don't put attention to material awards, this can work only for advanced individuals. For the mass, it may work for a short period, but not for long time. Revolutionary gist is precious, without which, no revolutionary act is possible. But revolution is based on material base, if we only talk about sacrifice gist, without any material awards, that is idealism".

In the socialist planning, the incentives were rather spiritual and administrative. Administrative incentives can be meanwhile *administrative constraints*. They exist in the hierarchic structure of the planning system. In fact, the administrative constraints should be the object of analysis before considerations of "soft budget constraint" because they play more basic role than the latter, the budgets are all decided in the negotiations in the *to/fro process* mentioned above, in these processes, the administrative constraints/incentives matter.

¹⁶⁴In *Collection of awards of Chinese reform suggestions*, 1994, pp. 88-9.

Administrative constraints are sometimes hard, sometimes soft. It is hard by the "rigidity of quotas" of the planning, of pricing control, etc.. It is soft when it concerns the personal relations (*guanxi*), etc.. Generally, "Soft administrative constraint" entails soft budget constraint.

Since the early 1980s, incentives have become more and more material. In the "socialist market economy", administrative incentives/constraints and material incentives coexist.

In the above we have given an image of the main systemic aspects of the "socialist market economy". Here below, we will look at the policy evolution of the Chinese industrial reform.

2. Reform phase 1 from 1978 to 1994: towards monetarized incentives

The periods here are somehow different with some other economic lectures, we divide them by concrete reforms happened in the industries, they are rather "economic" than "politic"¹⁶⁵.

2.1 The first step reform 1978-1982: decentralizing power and resigning profits

¹⁶⁵Cf. Eyraud, 1999, p.248.

The beginning of the Chinese reform was rather imposed. The reform was launched by the return to power of Deng Xiao-ping, and was officially declared by the *Communiqué* and the *Decision* of the Third Plenary Session of the XI Central Committee (18th.-22nd. December 1978). The main gist of these Party's documents had been drawn up based on a Deng's *Closing Address* for a "Central Working Meeting" of the CPC held in December 1978, this *Closing Address* was in fact the thematic outline for the Third Plenary Session of the XI Central Committee [Deng 1983].

At the beginning of the reform, more attention had been put on the reform of agriculture and trade¹⁶⁶. Concerning the industrial reform, at this early stage, the Central Government' policy underlined the policy of "enlarging the autonomous rights of enterprises".

For the industries, as a matter of fact, with the acquiesce of the Government, there were six SPDs in Sichuan province, which had begun an experimentation of this policy of "enlarging the autonomous rights of enterprises" in October 1978. Then on the 13th. July 1979, the State Council promulgated five regulations¹⁶⁷ on "enlarging the autonomous rights" of the

¹⁶⁶A "working meeting" of the Central Committee of the CPC held on the 5th.-28th. April 1979 advanced the guiding principle of the national economy as: "adjustment (*tiaozheng*), reform (*gaige*), consolidation (*zhengdun*), improvement (*tigao*)". During the same meeting Deng Xiao-ping stipulated to establish the "Special Economic Zones (SEZs)".

¹⁶⁷These 5 regulations are:

- 1) *Several rules on enlarging the autonomous right on management of the State-managed industrial enterprises ;*
- 2) *Regulation on the preserved profits of State-managed enterprises ;*
- 3) *Temporary regulation about collecting taxes on fix assets of State-managed industrial enterprises ;*
- 4) *Temporary regulation about increasing the depreciation rate of fixed assets and improving the using of the depreciation fees of State-managed industrial enterprises ;*

SPDs [Yu, 1993, p.132]. These five regulations stipulated to transfer ten rights¹⁶⁸ from the Central Government to the SPDs. In this period, the industrial reform had been paid relatively lighter attention by the Central Government, compared to the agriculture and trade. At this stage, the industrial reform could be regrouped mainly in three domains: production and sales, investment, employment and internal organization.

Concerning production and sales, the enlarged rights were: 1) the right of formulating supplementary planning, which means that the SPDs could have the right to produce quantities more than the quota [W. Yu, 1993, p.17]. In other words, the quota has become a minimum threshold in the production process at SPDs' level. The surplus output ought to be sold to the supervisory administrative hierarchy (later to market) at an agreed price superior to that fixed by the Plan [Gelb et al., 1993] ; 2) the right of applying certificates for direct exportation of certain products. Evidently, the second right is against the "monopoly" of the China Import-Export General Corporation.

Concerning investment, the enlarged rights were:

- 1) The right of disposition of retained profits.
- 2) The right of disposition of depreciation funds.
- 3) The right of transferring, renting and selling idle fixed assets.

5) *Temporary regulation about using credit on amount of operating fund*, liudongzijin jinexindai, in *State-managed industrial enterprises*.

¹⁶⁸These ten rights include: right of supplementary planning, disposition of retained profits, disposition of depreciation funds, right of transferring or renting idle fixed assets, independent products exportation, employment, internal structural organization, etc. [W. Yu, 1993, p.17].

With these rights, the SPDs obtained certain liberty to use some limited amount of funds. There had been various manners for the SPDs to use these funds. Among others there were principally 4 manners: a) bonus in cash or in kind to (all) the personnel of the SPDs¹⁶⁹, b) afford the social expenses¹⁷⁰ inside the SPDs, c) to set up collective *danweis*¹⁷¹, d) re-investments into the production. By our on-site observations, at the beginning of the reform (from 1978 to 1980) the first priority of using these funds were often points a) and b) ; then since 1980, SPDs begun to set up collective *danweis* ; then since 1990, they began to re-invest more and more into production processes.

Concerning the employment right, the enlarged rights were: 1) the right of recruitment and dismissal workers ; 2) the right of internal structural organization. The employment right concerned only temporary workers¹⁷², who were not registered in the list of "permanent workers", they did not receive the same bonus as the permanent workers. There had not been

¹⁶⁹The bonus might be distributed at different scales for different hierarchies.

¹⁷⁰By our on-site observations, SPDs often use the funds to improve their internal services to the workers, such as to renew the school(s), hospital(s) or canteen(s), or to build a new public shower room, etc..

¹⁷¹This kind of new collective *danweis* are not real SPDs, as they are born out of the planning. The means of production are owned by the "mother SPD", they are mostly rented to the managers or workers who are often someone from the mother SPD. The new collective *danwei* pays an "lump sum rent" (including rent or part of the profits, etc.) to the mother SPD. They are managed rather by economic principles, i.e., they are profit seeking, after having paid all the costs (including input costs, salaries, and other costs), the managers have the right to distribute the profits. In fact, the new collective *danweis* can be issued from a SPD, or a State/Government organ. In the regions of Beijing and Tianjin, there are many this kind of *danweis* depending on State/governmental organs. Even universities and schools, have their own collective *danwei* for profit seeking. Early in December 1984 and Feb. 1986, the Central Committee of the CPC, the State Council had made respectively *Decision* on forbidding the administrative organs and the cadres of the Party's and administrative organs to do business or to handle enterprises. Further regulations on forbidding the Party's and administrative organs and the cadres to do business or to handle enterprises had been issued too. Since 1997, the Central has issued a circular to prohibit any "State/Governmental cadres (*guojia ganbu*)" and the Army to exercise commercial affairs, however there have been numerous "anti-examples" to this prohibition, there are even judges receiving shares, as gifts, from certain new collective *danweis* or from private enterprises. To do business is generally called in Chinese *xiahai* (go into the sea).

standard forms of this kind of employment, the situation was quite various. This new right stretched gradually the household registration system, or say *hukou*¹⁷³. Before the late 1970s, the permanent workers, especially who had rural families could have one of his/her children to replace his/her place after his/her retirement (*dingti*). The *dingti* had been gradually died out in the 1990s with the emergence and rapid development of TVEs¹⁷⁴ and "individual enterprises"¹⁷⁵. The right of internal structural organization was not generally applied until 1994, when SPDs had to begin to enter into real market competition at certain degree, we will come back to this point later in this chapter.

During this period, numerous pilot projects¹⁷⁶ had been emerging. These pilot projects were adopted by different administrative levels, they could be:

- the State Council,
- different commissions and ministries under the State Council,
- the municipal and provincial governments,

¹⁷²In SPDs, there were also periodical or seasonal workers who were employed only for a special project, for a short time.

¹⁷³In China, every urban household has a "residence booklet" (*hukou bu*) on which registered the names of a "household head (*huzhu*)" and of all other members of the household. Foods (wheat flour, rice, meat, fish, oil, etc.) and other daily necessity goods (cloth, coal briquettes, etc.) were distributed along the *hukou* before 1980. This system has met reform since the 1990s. Since 31st. December 1994, Chinese citizens can work in any large cities and get visa by their identity card [RFI, 1994.8.14]. According to Perry et al. [1997, p.3], this system once enforced a strict separation between city and country-side, which bespoke a gap between the living standard in urban and rural China that favored city-dwellers by a ratio of at least 3 to 1 toward the end of the Maoist period.

¹⁷⁴TVE means "town and village enterprise", which is one of the form of new collective *danweis*. The establishment of the "TVEs" entered officially into experimental phase when the State Council promulgated the *Rules on certain questions about the development of enterprises of communes and production teams (trial draft)*, the 3rd. July 1979. By these rules, these "enterprises" are exempted from taxes of 2 to 3 years.

¹⁷⁵They are rather called in Chinese "individual enterprises" (*geti qiye*). They were quite despised in the society until the late 1990s. Often these individual enterprises are considered to offer products of low quality.

¹⁷⁶Pilot projects are called in Chinese *shidian*, or "experimentation points".

- other lower level governments¹⁷⁷.

With the issue of the above mentioned five regulations, the State Council asked a small number of SPDs for experimentation. Apart from the above three domains of reform, other Commissions and Ministries undertook other experimentation reform projects concerning more management aspects¹⁷⁸, Sichuan province selected 100 industrial and transport SPDs for experimentation of management reform.

Until the end of 1979, the total *experimentation points* attained 4 200 ones. But in 1980, they attained already 6 600 ones, this corresponded 16% of the total number of SPDs under the Plan, or 60%-70% of total industrial output under the Plan, 70% in terms of profit [Gouri, ed., 1991 ; Yu, 1993]¹⁷⁹. The years 1981 and 1982 could be characterized by the establishment of various levels of *economic responsibilities* inside SPDs, this means that the State demanded, the supervisory administrative organs, the SPDs, workshops, working groups and workers to be *economically* responsible to their higher hierarchy, in order to improve the management and augment *economic* efficiency. Here we observe the emergence of the notion of *costs of management* (valued in money).

¹⁷⁷The pilot projects at these lower level governments have become popular only since late 1990s, with more and more decision power and more and more financial independence of local Governments. They concern rather very small size SPDs.

¹⁷⁸On the 25th. May 1979, the State Economic Commission, Ministry of Finance, and other four other relevant ministries issued a circular, that decided to choose eight large enterprises to form a pilot experimentation on "enterprise management reform", these enterprises include the Shougang (The Capital Steel Plant), Shanghai Qiche Chang (Shanghai Automobile Works, or Shangqi), and other 6 *danweis* respectively in the 3 municipalities - Beijing, Shanghai and Tianjin [Yu, 1993, p.132].

The first step¹⁸⁰ of reform could be summed up by three acts of the Party-State-Government: simplification of administration, decentralization of decision power, and resignation of part of profits of the SPDs.

A working meeting of national-wide industrial and transport *danweis* pointed out that the economic system reform ought to uphold the principle: "large planning, little liberty ; large centralization, little decentralization ; maintaining well the national wide situation, bringing the initiative of the local authorities into play". This can be the key points of this step.

¹⁷⁹Cf. also China News Agency, 21st July 1980 ; and *Report to the second meeting on enterprise development* (not published) cited in Li, in Gouri, ed., 1991.

¹⁸⁰This period was also marked by the issue of several other laws or regulations:

About bonus to workers, 1) the State Council issued complementary provision about the salaral bonus (31st. May 1981), it states that based on units of a responsible department or a company, bonus should be in-between 1-2 month standard salary, the maximum should not be superior to the amount of 3 month of standard salary, 2) the State Council promulgated the *Regulations about the rewards and penalties of the workers in enterprises* (the 10th. April 1982).

About investment, 1) the State Economic Commission, Financial Ministry, Construction Bank together issued a circular (12th. November 1980), which decided that, from 1981 and on, the State allocations under the State Economic Commission and the Financial Ministry on excavation, innovation, remodeling will be changed into bank loans, 2) the State Council approved a report of the State Planning Commission about to transform allocations to loans (18th. November 1980), which decided that, since 1981 and on, all independent accounting units, capable of reimbursing debts, will adopt this system, 3) the State Council issued the *Complementary provisions on strictly control the fixed assets and the investment scope* (24th. December 1982). By this provision, all self-arranged investment over the State's planning, will be taxed 30% more as "funds of main constructions of energy and transportation".

About economic contracts, 1) (1st. July 1980) the State Council advanced a *Temporary provision* about "economic alliance", 2) the *Law of economic contracts in the PRC* was adopted the 13th. December 1981, by the Fourth Session of the V National People's Congress, which takes in effect the 1st. July 1982.

About individual, private affairs, the State Council issued several policy provisions on the non-rural individual in cities and towns (7th. July 1981), which advanced to encourage and support the "awaiting jobs young people (*daiye qingnian*)" to take up individual affairs ; to rent or to contract steps by steps and in a planned way, the small artisans, repairing service and commercial points. This marked the emergence of the "individual enterprises" in China.

Three laws adopted by the National People's Congress concerning Sino-foreign enterprises: 1) 1st. July 1979, the *Enterprise law on Sino-foreign joint-ventures management in the PRC*, 2) 10th. September 1980, the *Income tax law for Sino-foreign joint-ventures in the PRC*, 3) 13th. December 1981, the *Law on income tax for foreign enterprises in the PRC*, which takes in effect from the 1st. Jan. 1982 and forth.

About market, 1) the State Council approved *Temporary provisions about the management of market of industrial production means* (8th. August 1981). It stipulates that the surplus products and the part of the "sales of enterprise itself" can enter into market for liberal purchase and sale, 2) the State Council gave out a circular to forbid blockade in purchase and sale of industrial goods (10th. April 1982).

The contract system entered also for the first time into experimentation in this period. Although the contract system had been adopted by over 36 000 SPDs by 1982 for experimentation, the relation between the Central and the SPDs stayed still unchanged [Yu, 1993, p.17], this means the Central still held the *infinite responsibility* to its SPDs. Had the SPDs become more efficient? This is a field of research with numerous controversies. Some economists had got positive evaluations¹⁸¹, meanwhile some others had got negative evaluations¹⁸².

Xue Mu-qiao¹⁸³ firstly advanced the defaults of this method, which, he named as "distribution reform", he said that this could not solve the root problems in China, the center point was to reform on the price and circulation channels, to set up competitive products market and financial market. Xue has been the origin of the "School of coordinative reform" [cf. Chapter One]. His idea was similar to Ota Sik's idea, i.e., "macro (aggregate) planning, micro (enterprise) market system" [cf. Ye, 1994, p.52].

2.2 The second step reform 1983-1986: *li gai shui*

¹⁸¹According to Byrd [1982, table 2, cited in Balassa, 1987], the ratio of net added value of depreciation to output value increased by 6% between 1978 and 1981.

¹⁸²Such as Ma [1983] and Rawski [1984] founded a decline rather than an increase in the share of added value in the industrial output for the same period (1978 to 1981). According to Tidrick [1986], some available estimates showed that the "total factor productivity" in the "State-owned industry" declined between 1978 and 1983.

¹⁸³1980, "Inquiry about questions of economic system reform, *guanyu jingji tizhi gaige wentide tantao*", in *Economic research*, #6.

The second step reform could be characterized by *li gai shui*, which means transforming the profit levying to taxes collecting. This step could be divided again into two sub-steps, the transformation was firstly established in 1983¹⁸⁴ with various taxing methods, and then in 1984, the taxing methods were unified to only one "regulated tax".

The transformation in 1983 stipulated that all gainful large and medium size SPDs ought to pay 55% income tax¹⁸⁵. Also they ought to hand-in to the Central profit after tax following 4 different methods: 1) contracted progressively increased rate (*dizeng baogan*), 2) fixed amount (*ding e baogan*), 3) fixed proportional amount (*guiding bili*), 4) regulated taxes (*tiaojie shui*). The remainder after all taxes and after levying of profit belonged to the SPDs. In this way, the (large and medium size) SPDs became responsible to their profit or loss of the remainder, this was called the "self-responsible of profit/loss (*zifu yingkui*)". For small SPDs, they were taxed by the method of "8-level progressive taxing (*baji lejijin shui*)". After having paid taxes, they were then responsible to their profit or loss of the remainder, the Central afforded no more allocations (*bokuan*¹⁸⁶). For specially gainful SPDs, the Central could again levy certain fixed amount (*chengbao fei*), or could take some fixed

¹⁸⁴The State Council approved the *Temporary methods about transferring the profit withdrawal into tax (Ligaishui) of the State managed enterprises* (24th. April 1983). This method took in effect from the 1st Jan. 1983 and forth.

¹⁸⁵The Ministry of Finance issued *Temporary provisions about to levy income tax on the State managed enterprises* (29th. April 1983). The provision provided to levy 55% income tax on realized profit of the State managed enterprises.

¹⁸⁶The State Council approved a report from the People's Bank on "unified management of the circulating funds of the State managed enterprises" (25th. June 1983). Since the 1st. July 1983 and on, the "circulating funds" will only be bank credits, the State will issue no more allocations.

amount from the profit even after all taxes and profit levying mentioned above [W. Yu, 1993, p.17].

In fact, *ligaishui* was to harden the soft budget constraint, but the "regulated tax", was case by case. It was calculated from the profit retain rate¹⁸⁷ [Wu, 1989, p.608]. The principle was "to protect the obtained benefits" with negotiable spaces. But administrative organ often took more tax from better *danweis* to help bad *danweis*.

1984 was marked by the urban reform, "planned commodity economy" was the base of the reform [Dong et al. ed., 1997, p.254]. The transformation of 1984 furthered the process of tax reform launched in 1983. It consisted of transforming various taxing methods summarized just above into only one tax: the regulated tax¹⁸⁸.

The goal of the second step reform was to standardize the relation between the State and the SPDs by fixing the *distribution form* so that, the SPDs could have "autonomous management" and "responsibility of their own profit/loss", this was to eliminate the "cauldron phenomenon (*daguo fan*¹⁸⁹)" of all SPDs under the Plan.

However, the reform of other fields of the socialist institutions did not "follow this rhythm", the pricing system was not "economically rational", the

¹⁸⁷Regulated tax = 1 - profit retain rate.

¹⁸⁸On the 18th. September 1984, the State Council approved a report from the Ministry of Finance on the second step of "transforming profit withdrawal to tax (*Ligaishui*)", and approved the *Trial method of second step of ligaishui*, which will take in effect from the 1st. October 1984 and forth.

¹⁸⁹Or called "socialist free riding" phenomenon.

notion of costs, of "average marginal rate" had just emerged, etc.. In other words, the *reforms* were just at the beginning, so taxing standardization could not be achieved without a *hitch*. The results of the tax reform was rather the contrary of its initial idea: after the second sub-step of tax reform on SPDs, the Central took about 90% of realized profit from SPDs, thus the *danweis* rather lost the capacity of auto-accumulation, auto-reform and auto-development, both SPDs and the workers lost their monetarized incentive¹⁹⁰. Until May 1985, the profits of SPDs had been decreasing continuously for 20 months, this led finally to an income decreasing of the Central. For the reformers then, the SPDs should be "revitalized".

Consequently the policy of *li gai shui* was replaced by other methods¹⁹¹. On the 7th. November 1986, the State Council approved the opinion of the State Systemic Reform Commission about the pilot project of "enterprise responsibility system". Six cities had been chosen for this project including Shenyang, Chongqing, Wuhan, Shijiazhuang, etc..

The second step of the reform¹⁹² also continued to undertake the reforms launched in step 1, for example, after completing the production

¹⁹⁰As we have seen just above, distribution of bonus in cash or in kind to (all) the personnel of the SPDs consisted a manner that was mostly practiced of disposing "autonomous funds" in SPDs. The State Council issued a circular on the primes in *danweis*, (16th. April 1984). The primes under 2.5 times of the salary amount would be exonerated of tax, otherwise they would be taxable.

Then in order to enlarge the monetarized incentives, the State Council issued the modified *Temporary provisions on primes in the State managed enterprises* (the 3rd. July 1985), the taxable limit of 2.5 times monthly salary was augmented to 4 times the monthly salary.

¹⁹¹On the 11th. Sept. 1985, the State Council approved the *Temporary provisions on several questions about revitalize the large and medium size State managed industrial enterprises*, edited by the State Economic Commission and the State Systemic Reform Commission. And on the 5th. December 1986, the State Council issued several provisions on deepening the reform and revitalizing the enterprises.

¹⁹²This period was also marked by the issue of several other laws or regulations:

quotas ordered from the Plan, the SPDs could produce and sell whatever they desired, including to sell the idle fixed assets to other SPDs at an agreed price among SPDs [Jeffries, 1993], but the price should fall in an interval fixed *a priori* by the Central. Since then, the SPDs were allowed to purchase and sell in an emerging market for the first time. They were allowed to have a merchant coordination at the margin of planning coordination.

This period was also marked by the first "*Bankruptcy law* (trial version)", issued during the 18th. Session of the VI Standing Committee of the National People's Congress, (2nd. December 1986). This law would take in effect three months after the implementation of the *Law on all people owned industrial enterprises* (in 1988). The issue of the trial version of this law marked an important step in reforming the socialist planning. The *Bankruptcy law* together with the *Law on civil litigation* (revised in 1991) and other regulations, have rendered bankruptcy cases legally possible in China. In fact, the first bankruptcy case happened before the official adoption of the *Bankruptcy law*. The first bankruptcy case in the "new China" - the Shenyang Anti-explosion Factory declared its bankruptcy on the 3rd. August 1986 [Yu,

About "workers' class" management, the 12th. July 1986, the State Council issued 4 regulations on the labor system, which took in effect the 1st October 1986. They were: 1) *Temporary provision on practicing contracted labor in the State managed enterprises*, 2) *Temporary provision on recruitment by the State managed enterprises*, 3) *Temporary provision on dismissing of workers violating disciplines by the State managed enterprises*, 4) *Temporary provision on unemployment insurance of workers in the State managed enterprises*.

About foreign invested enterprises: 1) the Second Meeting of the Standing Committee of the VI National People's Congress adopted a revised *Income tax law of the Sino-foreign joint-venture enterprises* the 2nd. September 1983. 2) the 10th. Standing Committee of the VI National People's Congress adopted the *Economic contract law concerning foreign affairs in the PRC* the 21st. March 1985. It took in effect from the 1st. July 1985 and forth. 3) the Fourth Session of the VI National People's Congress adopted the *Law on foreign invested enterprises* the 12th. April 1986.

1993, p.154], three months before the official issue of the *Bankruptcy law*. Even the first law of bankruptcy since 1949 was adopted in 1986¹⁹³, however we had to await until 1993 that waves of bankruptcy cases began to emerge in a larger scope in the country. There were about 5000 bankruptcy cases proceeded in every level People's Courts from 1989 to first semester 1996 [Zheng et al. ed., 1996, p.1].

Another remarkable point is that the 3rd. Plenary Session of the XII Congress of the CPC adopted *The decision of the Central of the CPC on the economic reform* (October 1984). This decision affirmed that the idea of the nature of the reform, it was "commodity economy based on the socialist public ownership" [Ye, 1994, p.53]. This idea was the embryonic form the "socialist market economy" pronounced later.

This second step was characterized by the following points: a first stage of responsabilization at the margin of planning ; a beginning of *merchant coordination* ; the promulgation of the *Bankruptcy law* ; the idea of "commodity economy based on the socialist public ownership". All this was a first threat to the planned system.

2.3 The third step reform 1987-1991: CMRS

¹⁹³In fact, the law (trial version) was issued in December 1986. The law would take in effect three months after the official implementation of the *Law on all people ownership industrial enterprises* (1st. August 1988). Thus the formal implementation of the *Bankruptcy Law* (trial version) will be the 1st. November 1988 and on.

CMRS means "contracting management responsibility system (*chengbao jingying zeren zhi*)". Following an initial slow down originated from the last step, the reformers wanted to accelerate the growth of industrial output now [*Communiqué*, 1985, 1986]. At the end of 1986, the State Council issued *Several provisions on deepening the enterprise reform and revitalizing the enterprises*, this gave the principal gist of this step reform. The central point of the third step of the reform (1987-1991) concerns to reform the SPDs' management mechanisms¹⁹⁴. Thus a new wave of SPDs' reform surged again.

In the year of 1987 and part of 1988, several municipalities and provinces groped around various reform resorts (trial and error). The trials were mainly: 1) share system ; 2) leasing system (*zulin*¹⁹⁵) ; 3) capital management responsibility (*zichan jingying zeren zhi*) ; 4) contracting management responsibility system (CMRS), etc..

At that time, due to several existing constraints, plus existing social and political factors, the first three methods had difficulties to be generalized national-wide. However, the CMRS could be generalized rapidly for the following four reasons: 1) the CMRS did not touch the question of ownership system, but a separation of ownership right and the right of management, hence it was easier to be accepted by the Central ; 2) the CMRS tended to set up new "enterprise-like organizational mechanism". This could be linked up to

¹⁹⁴At the same time, greater reliance on market had oriented the production to the needs of the population. The pursuit of profits often led to changes of products that did not conform to this need [Cf. Byrd, 1982, cited in Balassa, 1987].

the former two steps of the industrial reform, which were: decentralizing power and resigning profits, and transformation from the profit levying into taxes collecting [Zhou, 1995, p.17] ; 3) the CMRS took the form of contract, thus was considered to be able to clarify the relation between SPDs and the Central. The SPDs hence had clearer economic goals and had meanwhile certain autonomous rights of management [Sah, 1990] ; 4) the principle of the CMRS - "contracting the base, guaranteeing the handed-in revenue to the Central, retaining surplus profit, responsible to the loss" allowed the SPDs to have some larger margin, which gave them greater monetarized incentives, hence the CMRS could be accepted also easily by the SPDs [Zhou, 1995, p.17].

Until the end 1987, 78% of total number of "budgeted industrial enterprises (*yusuannei gongye qiye*)" (i.e., in the Plan), took the form of CMRS ; 82% of total number of large and medium size industrial *danweis* took the form of CMRS. Until 1988, there were 90% SPDs took the form of CMRS. In 1991, most of the SPDs continue to sign a 3-years contract, this was the beginning of the second wave of CMRS in the next step reform (1992-1993) [Yu, 1993, p.18 ; Zhou, 1995, p.17].

In fact, according to the *Provisional regulations on contracting responsibility system of the all-people ownership industrial enterprises*, issued by the State Council (27th. February 1988), the CMRS could have mainly the following five categories:

¹⁹⁵Cf. *Report to the second meeting on enterprise development* (not published), cited in Li, in Gouri, ed. 1991,

1) contracted handed-in profit by incremental rates after product tax¹⁹⁶, then the retained profit could be used in 5:3:2 proportion for production development fund, social welfare fund, and bonus fund. This kind of contract was suitable for SPDs which sought for stable production development, with weak influence of the price of raw materials on profit, and with high increasing potential.

2) contracted hand-in amount of profit as tax, then division of surplus profit by the Central and the SPD by various grading [Table II.2]. This kind of contract was suitable for SPDs with relatively high margins under normal production. But the incentives and pressure from the Central on SPDs were relatively small.

Table II.1: Scale of division of surplus profit of the CMRS.

% of surplus profit, x	% handed in to the Central	% retained by the SPD under CMRS
x < 5%	30%	70%
x > 5%	20%	80%

3) fixed amount hand-in to the Central. This was suitable for SPDs with low margin, but the products were for social necessities. These SPDs needed quickly technological innovation, and needed inclined policies. The positive side of this kind of contract was the better transparency, better monetarized incentive to the SPDs. The negative sides were that Central got less income,

p.525.

¹⁹⁶Product tax was called "VAT" later, i.e. "Value Added Tax", which was created since the 1994 tax system reform. VAT did not mean the same as tax on sold products as in France, but tax on the value-added of a *danwei*.

and that it led to problems related to the tax system reform and the Central-Local conflicts.

4) contract to encourage deficit SPDs to reduce the deficit. If the SPDs had deficit superior to a fixed amount, they would not be able to receive allocations. There were scaled allocations on various reduced amounts of deficits.

5) other specially authorized contracted cases, such as "whole sector contract", or leasing contract, or capital management contract, etc.. This corresponded only very small percentage of number of SPDs in practice[Zhou, 1995].

It was considered in general that the generalization of the CMRS had the following effects on the industrial reform:

Firstly, to change or to avoid the "cauldron phenomenon". As we have mentioned above, there were "two-levels cauldron phenomenon": one was that all SPDs "played games" with the Central for getting more allocations, second was that the workers played games with their SPDs in their work and social welfare, i.e., less work for the same income.

Secondly, a trial of separation of the right of owner and the right of management. According to Xiao [1991], by this system, the director of the SPDs were authorized to take decisions concerning: production, investments and sales.

Thirdly, a trial to guarantee the Central's income [Zhou, 1995, p18].

Fourthly, to link directly the performance and rewards inside the SPDs, i.e. the monetarized incentives through profit allocation and bonus scheme, profits affected were mostly earned by extraneous factors to the *danweis*. We note that prices and profits retention by the SPD depended on the norm established by the supervisory authorities [Balassa, 1988, in Reynolds ed., 1988].

The generalization of the CMRS underlined an important point, it was that, thereupon the Directors of the SPDs seemed to be less one "chessman" in the grades of the administrative hierarchy of the Central, but more a "pseudo economic agent" who could sign a contract at an equal level with the Central. Moreover, a certain degree of autonomous management was then officially admitted.

There were several problems coming out of the CMRS: Firstly, the contracted indicators could not be strictly followed by the contractees, the indicators varied under influence from other exogenous factors, such as the monetary policy, various tax quotas decided by the Central, or the emerging inflation. These obliged the contractees to negotiate continuously with the supervisory authorities in order to change the value of the indicators. Thus *transaction costs* and *informational costs* resulting from the negotiations weighed more and more important.

Secondly, the "myopic behavior" of the SPDs and their insiders. The Director of the SPD who was normally the contractee, the managers and the workers preferred immediate revenues, this often led to the so-called "loss of State-owned assets" in China.

Thirdly, the contracted SPDs had been contracted often only to profit but not contracted to loss. Most of the CMRS were applied by profitable SPDs, since the *owner* was still the *Central*, when contracted SPDs fell in deficit, the contract often came to premature end, this meant that the Central "took back" the deficit *danweis*, thus it was again the Central which took the infinite responsibility to the SPDs vis-à-vis loss [Zhou, 1995, p.19]. On the other hand, when the SPDs were profitable, the directors of these SPDs were just functionaries, their salary were not related to the profits, thus they were not encouraged to go further to improve the profitability¹⁹⁷.

In another angle, when the Director's responsibility was not related to the profits, how could his responsibility be related to the loss if he received no extra benefits from the positive profitability of the SPD?

Fourthly, the CMRS system obstructed the circulation of means of production because the latter were fixed by the contract. Thus the restructuring of the industrial structure was in turn obstructed.

¹⁹⁷For example, the Director of Hangang (Handan Steel Plant, *Handan Gangtie Chang*, in Hebei province) earned 24 thousand Yuan in 1996, while the profit of his factory attained 700 million Yuan. To note that for the same period, salaries of Chinese directors in private sector could attain 100 to 200 thousand Yuan/year.

Facing to these problems, the next step of reform entered to scene in 1992.

Before going to the following step, here we would like to note some remarkable points of this period:

Firstly, the issues of an important law in the year 1988 (13th. April), the VII National People's Congress adopted the *Law on all-people ownership industrial enterprises of the PRC* (*Quanmin suoyouzhi gongye qiyefa*¹⁹⁸), taking in effect from 1st. August 1988 forth.

This law applied only to SPDs, which corresponded about 70% of the national production output. The main point of this law was to limit the role of the CPC's Committee inside an SPD into two domains: 1) verifying the application of the central policies or the pre-defined orientation by the Central, 2) political and ideological controlling.

This law replaced the one issued in 1956, it imposed the responsibility of the SPDs' Directors under the CPC's Committee in the SPDs, and it allowed the overall control of the Party's Committee over the SPDs and the Directors. According to Jeffries [1993], the new law allowed the SPDs' directors "full authority" for the management decisions inside SPDs¹⁹⁹. In fact, a working

¹⁹⁸*Yearbook of Chinese procuratorial works* 1989, China Procuratorial Press, Beijing, 1991, pp. 280-5. (Center Chine, us.i.99)

¹⁹⁹We will discuss in Chapter Six, the phenomenon of "3 new organs vs. 3 old organs". Often, the directors might often also be at the same time the Party's secretary.

meeting on generalizing the "factory director's responsibility system" had been held in 1987, which advanced to generalize this system in the same year to large and medium size SPDs and then by the end 1988 to generalize this system to all the "all-people owned industrial enterprises"²⁰⁰.

Secondly, on the 21st. July 1988, the General Office of the Central Committee of the CPC and the State Council issued a *Circular about to resolve the problems of non-distinction of politics-enterprise in companies*. This marked a cognitive progress of separation of politics and production in *danweis*.

Thirdly, facing to phenomena of growing "inflation", social agitation due to more and more off-post workers²⁰¹, and the returning to power of the conservators in the Central, the period 1989-1991 were marked by a "rectification program" which influenced the industrial reform in three aspects: 1) tightened budgetary policies discouraged the SPDs to invest in costly projects and salaral augmentation, 2) the Party's Committee re-took the decision power over the factory directors. According to the result of an inquiry, 35% of the factory directors confirmed to be frequently conflicting with the Party's Committee, 3) SPDs were again projected to the Plan. According to Groves et al. [1994], in an inquiry to 769 SPDs, the numbers of

²⁰⁰The working meeting was held on the 25th.-29th. August 1987 by the State Economic Commission, the Central Organizational Ministry, and the National Syndicate.

²⁰¹These were workers still registered in the *danwei*, they lived still in the *danwei*'s houses, etc., but they needed not to work, they received a salary of 100 Y - 200 Y monthly. They are not considered as unemployed by the Authority.

SPDs having over-quota production for "free sales" on market decreased from 90% in 1988 to 20% in 1989.

For this period, the main problems were: no autonomy, centrally fixed salary (not proportional to the efforts and profits). Thus the next reform began by enlarge again the autonomy, augment the part of profit that the *danweis* could dispose, etc..

2.4 The fourth step reform 1992-1993: first wave of generalization of share system

Following the incapacity of the CMRS, and that of the "rectification program", which led to growth of unemployment, etc., the reform was re-launched in 1992 to aim at new economic growth and to focus on the share system.

The experimentation of the share system originated from the activities of fund-gatherings among peasants in rural production teams²⁰². In 1980, the Songjiang Wooden Articles Factory in Harbin firstly tried to gather funds in forms of shares in order to enlarge the production scope. In 1983, Longxi County in Fujian Province established the "Forester Share Limited Company" [Li et al., 1993, p.11]. With the softened Central policies on peasants' shares,

²⁰²There were two important official documents concerning this point: 1) The Central's Document Number 1 in 1984 stipulates to "encourage the peasants to hold shares in various enterprises". 2) The Central Committee of the CPC, and the State Council approved to change the name of "Commune and Production Team Enterprises" to "Town and Village Enterprises" on the 1st. March 1984.

the share system developed rapidly to the cities. The 26th. July 1984, the first officially registered "share limited company" in the Industry-Commerce Registry, was the "Beijing Tianqiao Department Store Share Limited Company" [Li et al., 1993, p.11]. Then since 1986²⁰³, there was a rapid development of the share system. However, for industrial *danweis*, we should await until the end of 1985 when the first share system was officially established. It was the Beijing Travel Bus Share Limited Company²⁰⁴ [Li et al., 1993, p.11].

The 5th. December 1986, the State Council issued *Several provisions on deepening the enterprise reform and revitalizing the enterprises*, this firstly allowed that "local authorities can select conditionally a small number of all-people-owned large and medium size enterprises to experiment the share system". Since then, there had been waves of generalization of the share system national wide, in 1987 and 1988. This development showed well *decreed characteristics* pushed by the Central, meanwhile *induced characteristics* pushed by the local Governments accompliced by the *danweis*²⁰⁵.

²⁰³ *Beijing Tianqiao Baihuo Gufen Youxian Gongsi*. In fact, apart from this company, there were two other "share companies" pretended to be the first share company in China: 1) November 1982, Shenzhen Baoan Enterprise (group) Share Limited Company was established (Baofu <1982> document) ; and 2) Shenzhen City Development Bank established in 1986. In reality, Baoan and Tianqiao did not have great influence to the share system development. Only until the "fairy tale of initial shares" of the Shenzhen Development Bank's, the share system had then been largely pushed forward [He, 1998, p.22].

²⁰⁴ *Beijing Luxingche Gufen Youxian Gongsi*. This "share company" was established mainly base on the Beijing Travel Bus Manufacture Factory, *Beijing Luxingche Zhizao Chang* (BLZC), assimilating the shares from the China Automobile Investment Company, *Zhongguo Qiche Touzi Gongsi*, and from Beijing Automobile Investment Company, *Beijing Qiche Touzi Gongsi*. The original BLZC held 80% of the shares. The latter two "companies" were "investment companies", in fact, they were just created for the moment for the joint-venture. They were normally called "void companies (*xu gongsi*)".

²⁰⁵ Here we note a Chinese specificity: the discrepancy of legal institutions and the reality. The State Council allowed the local authorities to select "small number" of large and medium size SPDs just for experimentation of the share system, but the reality was that there were waves of rapid development of the share system.

In spite of the generalization of the share system, there existed still an understanding divergence of the concepts and theories of share system both for the economists and for reform deciders. In practice, the non-transactionability of shares led to difficulties on the issue of stocks. In addition to the political difficulties in 1989, then for the period 1989-1991, the development of the share system was almost suspended.

In 1992, Deng's trip at the beginning of the year to Southern China encouraged the reformists. It was considered by the Chinese Authority that Deng had solved the dilemma of "named *Zi* or name *She*" (named capitalism or named socialism) by creating the notion of "socialist market economy" [Xiao in Dong et al. ed., 1997, p.254]. Then on the 23rd. July, the State Council issued the *Regulation on transforming the management mechanisms in all-people-owned industrial enterprises*. The goal of this regulation was to push the SPDs to adapt to market demands. For this done, the SPDs began to be regarded as *legalis homo (faren)*, they disposed since then 14 powers of decision²⁰⁶. In practice, "transforming the management mechanisms" was

²⁰⁶Concerning: 1) Production, SPDs became free to determinate their activity field, they could also change sector. They could refuse to execute the planning except that from the State Council. 2) Price, except few number of products with price fixed by the State Council or by the provincial Governments, the SPDs could fix freely their selling price of goods and services. 3) Sales, the SPDs were free to select their clients. 4) Purchase of raw materials, the SPDs could choose freely their suppliers and quantities. 5) Retained profits, the SPDs could use freely the retained profits. 6) Fixed assets, the SPDs could use in their willing the assets belonging to them. 7) Internal management of personnel, the directors of the SPDs could change the working posts of the workers according to their capacities and the need of the SPDs. The directors could also promote or move down an employee. 8) Salary and bonus, the SPDs can choose the manner of the salaral remuneration - base on capacity, on the working time or on pieces. No limits for the bonus. 9) Employment, the SPDs could decide the date and the number of personnel desired or dismissed, they could hence refuse to employ the graduate students sent by the universities or the other "waiting-job youth" sent by local authorities. 10) Taxes, the SPDs could refuse to pay the taxes fixed arbitrarily by the local authorities. 11) Investment, the SPDs could fixed freely the investment projects that are financed by their own equity or by loans. 12) Branches, every SPD had the right to create branches. 13) Taking over and fusion, with the governmental approval, two *danweis* could make

regarded by many SPDs as "cracking the three irons"²⁰⁷. Indeed, this regulation seemed to be a great progress in the *danweis'* reform, however, it lacked an effective control.

Then, "revitalizing the state-owned enterprises" was again officially agreed in the XIV Central Committee of the CPC held in October 1992, and was even fixed as an objective of industrial reform in the eighth FYP. In the same year, the Shanghai Stock Exchange began to operate under the "free transaction policy" [Yu, 1993, p.216 ; Z. X. Li 1996]. All this led to a second new wave of development of the share system.

The shared industrial *danweis* had mainly two forms: 1) Share Limited Company (SLC, *Gufen Youxian Gongsì*), and 2) Responsibility Limited Company (RLC, *Youxian Zeren Gongsì*) [Y. Sun, 1994]. By the end of 1993, the experimented SPDs for share system attained 11 560 ones, of total shares of 314.7 billion Yuan. Where, 3 261 SLCs (183 quoted on Stock Market) of shares of 259.1 billion Yuan ; and 8 299 RLCs, of shares of 55.6 billion Yuan. Among these shared companies, 22% were converted from SPDs, and 63% were converted from the *old collective danweis*²⁰⁸ [Zhou, 1995, p.21].

agreements for fusion or taking over. 14) Export-import, the SPDs could import or export directly or through commercial agents [*China Economic News* 1993 ; ED-SETC, 1995, pp. 235-55 ; Yu, 1993, p.213]. This regulation also prohibited the administrations of abusing their power, and announced disciplinary sanctions to people who hinder the autonomy of the SPDs [Tung, 1994].

²⁰⁷This was pointed out by Chen Jin-hua, the Responsible of the SSRC in a "Seminar of economic institution reform". The "3 irons" were namely, "iron rice bowl" for a secure life job ; "iron income" for equal income among workers, and "iron armchair" for a secure command post.

²⁰⁸This is to distinguish with the "new collective *danweis*" that are formed after the mid-1980s, such as the TVEs, etc..

In general, there were several problems of the reform process by the end of the fourth step reform: Firstly, the share system had been scented the tendency of privatization which was against the socialist ideology. Secondly, the delimitation of the "State's property" and relevant rights was vague, thus, the separation between the owners' rights and management rights was vague. Thirdly, the relation between the Central and the SPDs was still not clear. This had to be added the conflicts among the Central, local Governments and the SPDs. Fourthly, the hindrance to SPDs' internal organizational structural innovation was still relatively great, for example, the famous problem of the "3 new organs vs. the 3 old organs" [cf. Chapter Six]. Fifthly, the shared SPDs lacked still the "self-responsibility" both for profit and for loss, they lacked also mechanisms of self-control/self binding, which in other words "incentive mechanisms". Sixth, there still existed the persistence of the old bureaucracy and political transgressions of the emerging elementary market rules.

3. Reform phase 2 from 1994 to end 1990s: whither SPDs?

1994 was a very important year for the Chinese reform. There were several important change of the rules of the game. Chinese reformers and many economists²⁰⁹ understood that only isolated reform programs on SPDs was not enough, the environment of the industrial *danweis* should also be

²⁰⁹Represented by the school of "whole system complete reform" (Wu Jing-lian).

reformed. So this year was marked by the "whole system complete reform program", which included: 1) the reform on the "enterprise institution", or to establish the "modern enterprise institution", accompanied by the *Company Law*, 2) the reform of investment system, 3) the reform of tax system, 4) the reform of foreign exchange system, 5) the reform of monetary system and of banking system. Among these five reforms programs, the 1) was about the SPDs' reform, the others concerned the environment of the SPDs. Herein we will concentrate on point 1) concerning the industrial reform in the following.

3.1 The fifth step reform 1994-1997: MEI and "to seize the large ones, to release the small ones"

Concerning the SPDs' reform, this period could be characterized by the beginning of "establishment of the Modern Enterprise Institution" [Wu, 1994]. In the publications in the years 1994, 1995, many Chinese economists extolled the "Modern Enterprise Institution", term that borrowed from American economists' wordings²¹⁰.

The *Company Law*²¹¹ adopted the 29th. December 1993 took into force in July 1994. This law is destined to any industrial production *danweis*, collective *danweis* or newly established individual affairs that were to be

²¹⁰More detail in Chapter Six.

²¹¹The law was promulgated by the "Decree No. 16 of the Chairman of the People's Republic of China". This was the first *Company Law* of the "New China" since 1949 [B. Wang, 1996].

transformed into the legal form of a *company* defined by the law. According to this law, in a company, the decision power should come from the Shareholders' Assembly. It was after the promulgation of the *Company Law*, then there came new term of "corporatization (*gongsí hua*)", and "establishing the Modern Enterprise Institution" became one of the tentative guiding principle of corporatization for the SPDs (especially large ones). The guiding principle had been registered in the ninth FYP (1996-2000) ²¹².

In fact, in 1983, economists already pointed out that the State could become one of the shareholders ; in 1985, the World Bank put forward officially a proposal to China about "corporatization", where the State could be one of the shareholders, this could mean a kind of co-existence of socialism and market ; then since 1992, China advanced the notion of "socialist market economy", and meanwhile began to experience "share system", and advanced to set up "Modern Enterprise Institution. Then it was during the Third Plenary Session of the XIV Central Committee of the CPC (November 1993), that "Modern Enterprise Institution" was officially fixed up as the key point of industrial reform. Modern Enterprise Institution was deemed as an institutional innovation. This meant that China gave up the usual method of "decentralization/centralization of power and profits". The *Decision* of this Central Committee advanced: To construct modern enterprise institutions is the necessary demand of the development of socialized large (scale)

²¹²Since then the expression of "modern enterprise institution" has been used inundatively in China both in economic literature on the reform of these SPDs [L. Wu 1994 ; Y. Zhang 1996 ; S. Zhou 1994, etc.] and in the

production and of market economy, it is the direction of the enterprise reform of our country [ED-SETC, 1995, p.i, p.1]. Then the term was written in the *Company Law*²¹³.

To achieve the Modern Enterprise Institution, the State Council decided, according to the *Company Law*, to process a "Modern Enterprise Institution Pilot Project"²¹⁴ on 100 *danweis* in 1994 [cf. Chapter Six].

By the end of 1996, statistics in Chinese official documents showed that the result of the SPDs' reform as a whole was not satisfactory. Particularly, the results of the pilot projects were deemed as "not so satisfactory"²¹⁵. Thus the pilot projects were declared to be extended one year more. According to the Chinese press, such reform could not be quickly accomplished, it was criticized that only easy problems had been solved, the most difficult problems were still left for the future. There were several weakness of the pilot projects: 1) The forms of Modern Enterprise Institution project had been monotonous, 80% of the experimented *danweis* took the form of "State-single investor company". 2) The rights, responsibilities were still not clear at two levels: between the State and the *danweis*, and among members inside a *danwei*. 3)

current speeches of managers of large and medium size SPDs.

²¹³Article 1. of the law.

²¹⁴By the acquiesce of the Central, the local Governments began to undertake also "Modern Enterprise Institution Pilot Project" to the SPDs under their authorities. So this project had 2 levels, one was at the State level, the other was at the municipality and provincial levels.

²¹⁵This was not small SPDs and the non-State sectors: the average annual increase rate of industrial production value for collective *danweis* was reported 29%. From 1985 to 1992, the average annual increase rate was reported as 56% for the foreign relevant invested sector, and 46% for the individual sector. Reports also gave enthusiasm on the absorption of surplus labor force by the non-State sector. However, the success on small SPDs and the rapid development of the non-socialist sector were far away from reforming the *core* of the socialist industrial system in China. The core was formed by the large and medium size SPDs.

Even the form of the "modern company" was set up, however 70% Director of the Board was at the same time the General Director of the *company*. 4) the historic burdens still existed. An inquiry of the Authority to 10 000 *danweis* showed that 50% of them demanded that the Central to launch again deepened reform, which implied the insatisfaction of the reform [*China Management Daily*, 27th. Aug. 1996].

Thus new idea of Modern Enterprise Institution came out then, it was the policy of "To seize the large ones and to release the small ones (*zhuada fangxiao*)". This was a new "prescription" aiming at "re-revitalizing" the SPDs. It was declared by newly named Vice Premier Wu Bang-guo (March 1995). This was a strategy supported by the SETC²¹⁶.

"To seize the large ones" meant that the *large* SPDs²¹⁷ should stay controlled under the Central. In fact the reformers wanted to control only 500 to 1000 large SPDs in the strategic sectors, however it was difficult to *laissez-faire* some 10 000 other "less large" ones, since their triangle debts or difficult relations with banks were very problematic.

"To release the small ones" meant that the medium and small size SPDs could be contracted, rented or fusion, integrated, jointed (JVs with foreign investors or with other Chinese investors), shareheld, or even sold to collective

²¹⁶Interview with Chen Qing-tai, Vice Director of the SETC [Beijing Television program named "Tracing the pilot projects, *shidian zhuizong*", Summer 1996].

²¹⁷Here we note that, from now on, the medium size SPDs were no more considered together with the large ones.

groups or individuals²¹⁸. By this strategy, many small SPDs joined to the individual sector. For the small SPDs, there were also "pilot projects" organized by lower level Governments, for example, the Zhucheng model was considered as a successful model of reform of small SPDs.

The result of industrial reform by the end of 1997, could be resumed as the following²¹⁹:

1) For the Modern Enterprise Institution, there had been totally 2 500 SPDs in pilot projects at the central level and the local levels, 1 989 of them had become "companies", where 1 080 of them were "multi-shareholders responsibility limited company" or "share limited company". These companies were considered to have got progresses in the following points: the notion of "limited responsibility" ; the notion of *legalis homo* property institutions ; and the notion of company governance structure.

2) For the "capital optimization structure pilot project", the numbers of cities undertaking such project augmented from 58 ones in 1995 to 111 ones. Number of SPDs undertaking such project augmented from 300 ones to 512 ones. "Enterprise groups" augmented from 57 ones to 120 ones. The assets and the sales of these SPDs attained more than 70% of that of the total of the industrial *danweis*.

²¹⁸Cf. the *Decision on Several Questions about the Setting-up of the Socialist Market Economic Institution*. November 1993 [ED-SETC, p.3].

²¹⁹*Nouvelle d'Europe*, 4th.-6th. January 1998.

3) The project of "seizing large ones, releasing small ones" was applied to 512 large SPDs, for them, the Central made inclined policy on the right of export-import, right of bank loans, of technological remolding and innovation.

4) Until September 1997, in 111 cities, 389 SPDs got into bankruptcy, with total assets 14.8 billion Yuan. 622 SPDs were fusioned, with assets 49.9 billion Yuan. Total dismissed workers attained 113 million.

Our later discussions with researchers from the CASS confirmed that these program (for large SPDs) were not very satisfactory. It was reported in April 1997, that under these programs, the large SPDs were not only non-revitalized, but on the contrary, some efficient (gainful) ones became non-efficient. During the Fifth Annual Session of the VIII National People's Congress opened on the 1st. March 1997, the severe difficulties of the SPDs were for the first time officially declared, the President Jiang Ze-min affirmed that the SPDs had an "irrational structure". The Vice Premier Zhu Rong-ji also affirmed that, "10 millions of surplus workers are to be dismissed in these enterprises crippled with debts"²²⁰. Then the XV Congress of the CPC held in September 1997²²¹ decided to generalize the sharing system. It was also decided that even large SPDs could also be "shared" by individual or foreign capitals. In order to push forward the reform of SPDs, it was drawn into the Party's official

²²⁰Francis Deron, 1997, "La Chine se prépare à restructurer ses industries d'Etat", in *Le Monde*. 6th. March.

²²¹Politically, the congress marked the beginning of the "Jiangist epoch". In fact, Jiang began to be in power officially in 1994.

documents the terms of "share system", of "encouraging fusion" or "management buyout" (take-over).

After all different reform resorts, the general situation of the SPDs still got worse: inefficiency, triangle debts, non-reformed relations with the banks, dismissal pressure, etc.. What prescriptions the Central would propose next?

3.2 After 1997: still MEI ...

The Asian financial and monetary crisis in the late 1990s held down the rapid development of the share system. The industrial reform had almost bogged down.

Further reform was launched by the Central in 1999. The 4th. Plenary Session of the XV Central Committee of the CPC (September 1999) decided the following points on the industrial reform:

- Never change the *public ownership*, never carry on *privatization*. According to Jiang's speech: It is a big principle that China will never carry on privatization, this cannot absolutely be shook.

- The proportion of production of the SPDs will be reduced from 50% now to 25% in three to five year. Only strategic sectors such as energy, railway will be controlled by the Central.

- Annual salary system will be established.

- The guiding line of Modern Enterprise Institution will continue. New method for Modern Enterprise Institution on industrial reform is: "transforming debts to shares (*zhaizhuangu*)" in order to lighten the burdens of the SPDs, and to augment their competition. We note that by 1999, SPDs covered 60% employment over whole industrial sector, and corresponded 55% of the State's income.

- To accelerate the re-organization of *danweis*.

The road of the reform still stays long.

4. Salient peculiarities of the Chinese reform in the Dengist period

Certainly, there are elements that are not systemic and institutional for the Chinese reform. The main elements are: 1) the population, each 12 months, China gives birth of a Canada²²². 2) the natural resources and rural production need *capital* to exploit. 3) China is still a relatively poor country. Thus the economic goals are still industrialization and development. 4) the five thousands years' written historical cultural legacy, for which most of the Chinese people are proud of, plus the communist education, has deep influence to the individuals' behavior. All these elements play role not to be

²²²According to Professor Zhou Shao-zheng, Sociology Department, People's University [RFI, 24th. Aug. 1998].

ignored in the Chinese reform, which consists of the basic peculiarity of the Chinese case.

Now let us look at the Chinese peculiarity of the industrial reform:

1) Party's force and stability

The Party's decisions and Party's important figures' speeches played political, legal and administrative roles. They oriented the country's evolution. For example, as we have noticed above, the beginning of the Chinese reform was decided in the Third Plenary Session of the XI Central Committee ; and the boosting of the reform in 1992 was pushed forward by Deng's speech.

Certainly there were "demands for change" (clamors) from the bottom level, however the clamors were not motivated by democratic thoughts but often came out under very difficult living conditions²²³. Even there was change from bottom level in China in the reform, without the Central's *acquiesce*, no change could be sustainable in the Chinese case. For example the "family contracting system" in the countryside began in Fengyang County, which got the acquiesce of Deng [Deng, vol. II, 1983, p.275]:

After soften the rural policies, some places which were suitable for fixing of 'farm output quotas for each household' had applied this method, the results had been very good, the change had been very rapid[...]. In Fengyang County, most of the production teams had applied 'big assignment of work to individual (*dabaogan*)', they had brought an upswing in one year, they had changed the face. Some comrades worry about if this

will affect the collective economy. For me, this worrying is not necessary. Our general orientation is to develop collective economy. The places where apply fixing of 'farm output quotas for each household', the economic entity (*jingji zhuti*), is still the production teams/brigades²²⁴.

The Party's force has been also showed in its force of execution: it was criticized that, in China, once a law was issued, then the task was over, the reinforcement could not be carried on without the Party's instructions, or other administrative instructions²²⁵.

The political strategy - "reform, development, stability" has been the Central Government's guiding principle. "Stability" is the most important. China has an important demography, any error may touch off some social agitation, China does not want to follow the Yugoslavian experience of splitting up. Hence some of the new market logic were not easily adopted, for example, the careful dismissal of workers from SPDs, there were already a surplus of 200 millions rural population by official reports, on the other hand the SPDs supply a social protection to about 200 millions workers. To set up a "socialist market economic system", a consensus of balancing risks and benefits is not ready-made. Such a political strategy renders China to lower

²²³Should we cite Jacques Petit here: "L'homme est irrémédiablement seul pour choisir entre la soumission et la révolte".

²²⁴In fact some peasants in Fengyang County in Anhui Province were starving, "either die of starvation or die of contracting land", so they decided to contract the land. This was against the socialist ideology. In fact they were seeking rather to survive than profits, but they finished by getting profits with the important acquiesce of the Authority.

²²⁵Gao, 1995, *Interview series: Nobel laureates on Chinese economy and economics*.

the costs of the reform and diminish risks such as the serious growth of regionalism²²⁶.

2) Pragmatism and diversity

Deng was the author of three important ideas: 1) reflection on the Maoists' errors, 2) the pragmatism and, 3) gradualism of the economic reform [Cabestan, 1994, p.39 ; De Beer and Rocca, 1997, p.54].

Early in 1962, when rectifying the difficult situation after the Great Leap Forward, Deng already talked about the "cat theory"²²⁷, - No matter white cat, black cat, if it catches the rat [Wang, 1995, p.205 ; Deng, 1962]. "Cat theory" means pragmatism. This was also one of the guiding principle of development of "socialist market economy" after 1978. The debate of "naming capitalist or naming socialist" in China has been pragmatically bypassed by the Chinese reformers in the early 1990s.

This leads to that the ideology becomes a simple "decoration". Pragmatism blurs the gap between ideology and reality of "quasi-privatization" (or individualization), and it blurs the evolution from politically-oriented to economically-oriented [Z. Zhou, 1995, p.21].

²²⁶According to Zong [1995], in the analysis of fluctuation of price in 1995, he cited that some regions run counter the State's determination, they raised the prices of civil-used-energy, electricity, water, or rent. The State's rules were not respected.

²²⁷The original version of "cat theory" was said in Sichuan local dialogue by the General Liu Bo-cheng: "Yellow cat, black cat, if it catches the rat" [cited in Sleeted works of Deng Xiao-ping (1938-1965), p.305]. Now in the central square of the Special Development Zone of Wenzhou City in Xinzheng County, Henan Province, a monument of 1.8 m tall, and 7000 ft² of "Cat theory" has been established. 8 cats are established on the 4 roads exits instead of traditional lions, a poem tells: "White cat black cat bring profits and fortune ; Black cat white cat catches rats" (*baimao heimao zhaocai jinbao ; heimao baimao zhuashu jiuhaio*).

Another side of pragmatism is the "question of way of saying (*shuofa wenti*)", for example, Chinese Government prefers not to say "private" but "individual", it prefers not to say "private owned", but "non State owned", or "civilized", or "individualized", meaning "owned by individual". This was why some economists said the *danweis* would become something resemble the "private ones" [Cheung 1982].

The pragmatism is practiced at every level. SPDs are also pragmatic. They sometimes run counter the upper policies pragmatically, their slogan is "there are upper level policies, there are lower level counter-measures". This is the same for the local Governments.

This was one of the basic reason of a great diversity in the reality of *danweis'* reform because for one policy the *danweis* could try to act pragmatically in various manners so that the *danwei* or some people of the *danwei* could get profits. Thus in reality, there existed a great diversity of cases in the industrial reform [Naughton, CEPII, 6th. May, 1998].

3) Gradualism and experimentation

According to Deng [1993, p.113]: "our fundamental policy is to be audacious, to make stable paces, to walk one step ; look one step". The manner of the industrial reform is also described symbolically by a familiar Chinese proverb as "passing the river searching stepping-stones under water", it suites well the gradualism.

Gradualism from rural reform to industrial reform. The Chinese reform began firstly in the rural side, then industrial side. The scope of market-

oriented activities at beginning of the reform was greater in agricultural field such as reduction of compulsory deliveries, encouragement of sideline activities²²⁸.

For the industrial reform, most of the steps had been tested by the pilot projects. This was also a difference between the Chinese reform and the ex-USSR and EE reforms. Before to generalize new "rules of the game", Chinese reformers tried on pilot projects. There had been several *large* pilot projects at central level and numerous local pilot projects since the beginning of the industrial reform.

The gradual transformation left time for the establishment of the new environment. At least for the past decade, as Wang [1995, p.27] elucidated that the case of the ex-USSR was "a capitalism without capital and without capitalists" if without gradualism. By gradualism the SPDs also had time to reorganize themselves according to new "socialist market economy" logic, to form new industrial networks. It left time so that the "capitalists" emerged.

One other reason for gradualism was that, the Central Government could hardly loose the SPDs immediately, because its main revenue came from them. The reform was in fact an embarrassing matter for the Party-State-Government as the reform is led by itself.

For the institutional environment, the "economic legislation" needed time to be regularized. Even there had been plenty regulations or decrees on

²²⁸Balassa, 1987.9, *Journal of comparative economics*, #11, pp. 410-26, also in Reynolds ed., 1988, p.124.

industrial reform coming from ministries or commissions, but that were rather administrative rules, they were not legitimate for market. New laws and regulations were often later than the practice, they were issued after experimentation projects, which showed the necessity of the gradualism.

4) Stop'n go

This was not new for the reform. During the era of the socialist planning, "stop-and-go" happened already periodically: at the beginning of the quinquennial plans, investment were rather "hot", but at the end, it became "cold".

Now in the reform era, as market elements had been introduced, the stop'n go of both the planning and market acted together. This had led to some "industrial paroxysms". The planning stop'n go acted still in the same manner as in the socialist planning period. For that of the market: that depended on the toleration of the Party-State-Government which controlled the existence and development of the market elements²²⁹. It was often said in Chinese that "when the Central tolerates, the economies go ; when the Central controls, the economies stop". Normally the Central could not tolerate menaces to the "policy of stability".

5) Distinction/Discrimination of large and small *danweis*

²²⁹Colloquia of CIREM, 25th. June 1997.

Before 1983, there was no distinction among large, medium, small size in terms of administrative regulations²³⁰. Since the second step (1983-1986) of the industrial reform, China began to distinguish large, medium sized SPDs, and the small ones.

This is in fact another aspect of the gradualism (of reducing the Plan). Small SPDs entered into market firstly, then the medium ones, then the large ones. The policy after the mid 1990s was "to seize the big ones and release the small ones". The small ones were firstly allowed to be "individualized", which means "owned by individual people", it is called in Chinese "civilized (*minying*)".

6) Waves

Almost in every domain, there are often waves in China. In the industrial reform, local Governments or SPDs sometimes just "followed the example of those above (*shangxing xiaxiao*)". When the Central began a project, local Governments and *danweis* followed the examples of the upper hierarchy. On the other hand, the *danweis* often swarmed "like a warm of bees (*yiwofeng*)", they wanted to follow the examples of other *danweis*, especially when other *danweis* got profits from a project.

For example, the large sized SPDs pilot projects, many SPDs wanted to be selected as pilot project because the Central or local Governments offered allocations for the pilot projects, SPDs were at first place interested by the

²³⁰But the laws did not distinguish different sizes of the SPDs.

allocations. Then other non-selected *danweis* tried to participate other pilot projects, or local *danweis* tried to participate local pilot projects. Then there were waves of pilot projects.

For example, there were waves of bankruptcy in 1996, if SPDs wanted to pass to bankruptcy, this was because some SPDs or people earned profits in the process. This was ever called "to profit from the State", or "to harm the public to benefit private". Many other *danweis* tried to do the same as they wanted to get the same profits.

7) Inertia, reform resistance

One of the typical resistance was the phenomenon of "old three committees" versus "new three committees" [cf. Ch.6]. This was an institutional resistance, once used to old rules of the game, individuals had difficulties to adapt new rules of the game, especially when they would loss benefits in the new rules.

Then there was resistance from the Government. The SPDs normally had several "*popos*" (mother-in-law), who were the upper and lower level governments. As a Chinese jingle tells: "in China, one investor, many *popos*; in the Occident, many investors, one *popo*". "*Popo*" means the people or organs which can give orders to the *danweis*.

This was a difficult point for the reform since the problem was that: who was the representative of the "State's share" in a "modern institutionalized

enterprise"? In this way SPDs' reform was in another point of view, in a conflict re-distribution of benefits.

Another aspect of resistance was cognitive. This was at several levels. One level was that the new "owners" or "shareholders" lacked the "awareness of risks", "awareness of competition (*yousheng luetai yishi*)", and "awareness of owner (*suoyouzhe yishi*)", and "awareness of private ownership (*siyou yishi*)".

By almost 50 years of ideological education, Chinese people think often that capitalists/owners are equivalent to "exploitation". Another important point is that in China until now "private ownership of production means is not legal" according to the *Constitution*.

8) Individual and collective sectors

The individual sector grows beside the Plan by creation of individual (private) enterprises. The collective *danweis* were often created out of the Plan by using State capitals. According to Xiong [1995], the regions where non-State-owned economies were the most developed, where the general level of economy and the level of living standards increased more rapidly, and vice versa. The collective and individual sectors were also absorbing the workers that were dismissed from the State sector.

5. Conclusion

In this chapter, we have looked at the nature of the famous notion of "socialist market economy", the evolution of the industrial reform and its particularities.

"Socialist Market Economy" is in fact a co-existence of the central planning and market elements. If we put this in a formula then:

$$\text{SME} = \text{Plan} + \text{public ownership} + \text{market (wild bird)} + \text{ideology (cage)}.$$

Alone with the reform, the "socialist planning" has become loose for its economic activities, as the Central has reduced its control. In the planning, if the Plan was not respected, there was no more strict sanctions each time as the same as under strict planning, even sporadically there were some strict sanctions.

On the other hand, the market was "wild", because 1) market rules were not yet complete, 2) established rules were not well respected, 3) dysfunctioning of the rules of the game often happened ²³¹.

This is why we tend to say, "socialist market economy" is in fact a "co-existence of "Loose socialist planning" and "Wild Market". The market is not the same market as we know in a capitalist market economy, even it has

²³¹As a Chinese origin businessman in France said: "In France, you do your accounting correctly, you pay taxes, then you won't have any problems with the tax bureau. But in China, when I did the same thing, I always had problems with the tax bureau, they came to check us every week. You know why? Because in the tax bureau, a staff has "quota task" to complete each year. For example, he must collect 9 million Y taxes (from any of the 400 enterprises of his geographic region), when he accomplishes this sum, he will finish his task for the year. In practice, it is almost impossible for him to check all the books of these 400 enterprises. So he goes to only enterprises capable of paying taxes. The first year I paid 1 million Y, then, he asked me to pay 1.15 million the next year (15% rating) whatever situation I had in the enterprise". This phenomenon is not a unique one. It is called in general "whipping the faster cows" - you can pay, then you pay more and more, you cannot pay, then it is waste of time for me to come to check you each week.

grown largely near the mid-1990s. "Socialist market economy" is still some kind of "birdcage economy", with a wild bird. In this so-called *socialist market economy*, the systemic-institutional reform is just the beginning.

The industrial reform had the following features: on one hand, a tendency of *monetarized incentives*, which consisted of: profit retention schemes and more and more autonomous disposal rights on profits, on productivity-based bonuses ; and the tendency of separation of the State and the production²³².

The first phase reform including four steps, the steps 1 and 2 seem a "monetarized tendency" of the reform resorts compared to the period before 1978²³³ ; the steps 3 and 4 were based on the idea of separating management right from ownership right [cf. D. Chen, 1993, p.13]. On the other hand, the second phase reform was the beginning of a processes of responsabilization, which meant the establishment of company-like organizations from the SPDs through contracting or share systems, etc.. Since step 5, the guiding line is to set up MEI. However, a stereo-type of MEI was not found, as we will explain later in Chapter Six, the MEI is not a model of the SPDs' reform, but a *general guideline*. The XV National Congress of the CPC held in September 1997 advanced to further develop the share system, however the industrial reform

²³²This includes also a separation of the political function and economic function of the Party-State-Government. Then further tendency maybe relatively independent State, Party(ies), Government. But by now the Chinese Government is against this Western political idea. The analysis of this political process falls more in political sciences research [cf. Lazarus, 1992].

²³³We distinct the industrial reform before 1978 and after 1978 because the latter has been based on introduction of market elements and monetarized incentives.

seemed to be stopped since then. The 4th. Plenary Session of the XV National Congress of the CPC held in September 1999 decided to "transform debts into shares", this should be an extension of the share system.

Before 1994, the SPDs' reform concentrated only on the *danweis*. However, there has been a cognitive progress towards the consideration of the environment of the SPDs. In other words, the reformers have understood that if the infrastructure of "socialist market economy" were under-developed or incomplete, then the reformed SPDs of whatever method, cannot function correctly. Thus China tried to advanced the idea of forming a "complete set of reform (*peitao gaige*). Since then the fiscal system reform (since 1994), and financial system reform (especially in 1998), banking system reform (since 1994), social protection system and housing system (1998 People's Congress), and administrative reform (1998)²³⁴ have been gradually programmed.

The promulgation of the *Company Law* in 1994 has signified an institutional innovation of the reform process, this means that China began to establish a kind of agents²³⁵ in its "socialist market economy", that *resemble* to what are called "firms"²³⁶ in mainstream economic theory, and that can

²³⁴The 9th. National People's Congress has adopted the decision of administrative reform, suggested by the newly named Premier, Zhu Rong-ji, in Mars 1998. In the reform, 44 ministries have been reduced to 29, yet, Zhu has decided to set up a Ministry of Social Protection, which had been absent in the Chinese central Government since 1949.

²³⁵About the Chinese economic institutions, N. Cheung [1982, p.23] pointed out, "It may well be that China will never officially denote its economic system as 'capitalism', nor even adopt the term 'private property right'. The prediction is simply that China will eventually adopt a structure of rights which *resembles*, or functions in the manner of, a private-property economy".

²³⁶"Firm" as an "organization" is rather a sociological definition. According to A. Martinet and G. Petit, [1982, p.21], "in France, enterprise does not exist juridically". In economics for institutionalists, such an "organization" is rather considered as a bundle of contracts [cf. Bienaymé, 1982, p.10].

survive in the "socialist market economy". The reform relies no more just on "decentralization of power".

After twenty years' reform, all change is still *decreed* by the Central of the CPC. To re-launch the Modern Enterprise Institution by the end of 1999 showed that the Central has not yet found an appropriate way for the industrial reform.

In the next Chapter, we will look at the political-legal-administrative institutional environment evolution of this industrial reform, as well as the (nascent) market institutions.

RESUME DU CHAPITRE III: EVOLUTION DE L'ENVIRONNEMENT INSTITUTIONNEL DE LA REFORME INDUSTRIELLE

Sous la planification socialiste, il y avait peu de différences entre la politique, la législation, l'administration et l'économie. Le Parti, l'Etat, Les Gouvernements étaient liés organiquement, formant un "poing visible".

Dans ce contexte, pendant une vingtaine d'années de réforme, le corps législatif et l'administration ont tenté de marquer leur indépendance, bien que le contrôle politique reste toujours présent et que les réformes soient toutes orientées ou décidées politiquement. Tel est l'environnement institutionnel de la réforme industrielle.

Sur le plan politique, la structure n'a pas changé. Mais avant, le pays était directement géré au niveau du Parti. La Commission Centrale du Parti émettait des *Communiqués* ou des *Décisions*, et parfois la parole d'un personnage important du Parti comme Mao Ze-dong ou Deng Xiao-ping suffisait. Puis la Commission mobilisait ses organes et ses membres pour mettre en place ou contrôler ce qui se passait concrètement. La réforme est en fait une tentative "d'auto contrôle" du Parti, le but étant de *ne pas intervenir directement* dans les activités économiques bien que toutes décisions importantes émanent du Parti.

La structure législative n'a pas changé non plus. Néanmoins le Parlement Chinois se bat pour avoir plus d'autonomie et d'indépendance, et ne plus être un *tampon en plastique souple* (*xiangpi tuzhang*). Entre la fin des années 1940 et celle des années 1970, il n'y avait pas de loi issue des organes législatifs. Mais après, de nombreuses lois ont été votées, la plupart d'entre elles concernant l'activité économique.

L'administration se réduit aujourd'hui car beaucoup d'activités peuvent se réguler par les lois. Mais les règles administratives restent souvent nécessaires pour une bonne implémentation des lois.

Enfin, par consentement du Parti, le mécanisme de marché se met en place petit à petit avec la naissance des marchés des produits, ou du personnel, ou des bourses, etc..

CHAPTER THREE: EVOLUTION OF INSTITUTIONAL ENVIRONMENT OF THE INDUSTRIAL REFORM

In the Chinese socialist planning system, politics, legislation and administration consisted of the main parts of the overall entirety of the Party-State-Government. Along with the reform since the late 1970s, these aspects tended to have slacker relations even real separation among them has been rather superficial. Together with the market which has its own rules of the game, more precisely, the four complementary aspects, namely, political, legal, administrative aspects, and market elements gradually introduced into the socialist planning since the early 1980s, consist of the institutional environment of the changing background of the industrial reform in China, and they play important roles.

Among these four aspects, the political change has been more and more criticized and the most problematical. Evidently, the Chinese Authority does not want to change the Party-State-Government situation while liberalizing more and more other market or non-market activities. The legislative and administrative organs tend to have more and more substantial independence for their decision power or operations. The most spectacular should be the market environment, from non-existence to existence, even with more or less political and administrative controls.

In Chapter One, we have pointed out that the Chinese industrial reform has been a systemic change process which itself embodies institutional change. Although the reform goes beyond the aspect of simple change of the rules of the game, however the consideration of the institutional change consists of one of the most important aspects of the reform. In Chapter Two, we have looked at the nature of the so-called "socialist market economy", and the evolution of the industrial reform and its particularities, here in this Chapter, we will have a closer examination of the institutional environment change concerning the industrial reform. This consists of the background of the industrial reform that we will see further in Part Two about the automotive sector and the production *danweis*.

This chapter consists of five sections, in each of them we will look at one of the four institutional environments, ended by a conclusion.

1. Evolution of the political environment

A specific feature of the Chinese industrial reform is that, since the very beginning, important decisions have been all made by the Party. Even though there have been important institutional change in the productive and social spheres, the political sphere continues to operate principally according to the

norms and mechanisms established since the 1950s²³⁷. Deng launched firstly a debate concerning the political structural reform in Spring 1986, since then, there had been an era of tension for the Chinese political structural and institutional reform. The *trinom*, Party-Administration-Army (*Dang-Zheng-Jun*), remained in the same structure but their roles had changed lightly in the Deng's era. Sinologists had noticed that there began to have non-military background members in the Political Bureau after the XV Congress of the CPC (September 1997), evidence shows that the Army is still under the control of the Party, and on the other hand, it still has special influence and power over the political decisions²³⁸.

Various theories, especially that of political-sciences, have brought interesting insight providing rich and valuable understanding and inspirations on the Chinese political evolution. For example, theories of structuralism and functionalism²³⁹, that of sociology of organizations²⁴⁰, that of empiricism²⁴¹,

²³⁷ According to Cabestan [1994], there are three principal political institutions in China: 1) the CPC, playing a politically "holistic" role, 2) a State-machine whose organization resembles a modern democratic Western system superficially, 3) an Army subordinated to the CPC, having important influence in the political life. Moreover, there are 3 points of difficulty in analyzing the Chinese political system: 1) methodological difficulty, analysts from different origins (Chinese dissidents, Chinese leaders, Western analysts) bring their subjectivity because the political system weighs in ideology, 2) conceptual difficulty, both the Chinese cultural value and Marxist/soviet inheritance influence the Chinese political system, so "analysis of political speeches" stays the principal work in the conceptual deciphering at high ideological level, 3) informational difficulty, the language inaccessibility is difficult for western analysts, and the information inaccessibility is for outside Chinese analysts. Often, we can be better informed of the political change *outside* China [pp. 3-8]. In fact, the preparation of the XV Congress of the CPC in 1997 showed that the Chinese political system operates still in "black box", for example the next Premier had been decided internally and before any official meetings, this is called in Chinese, "internally decided, *neiding*". There are several degrees of internal information (*neibu xiaoxi*), set by the Central. Here we will not go further in the political-science-studies, interested readers may refer to Cabestan [1994] and Tsien [1983], etc..

²³⁸ Kun Shan, "Deciphering the game of the XV Congress", Oct. 1997 in *Democratic China* (MZ9710A), pp. 16-19.

²³⁹ Cf. Andrew Walder [1986], *Communist neo-traditionalism: work and authority in Chinese Industry*. University of California Press, Berkeley.

that of decisional analyses on the politico-administrative elites²⁴², and also that of relational analyses between the State and the society²⁴³. Here in this chapter, we will not go further in investigating the evolution of these directions, as in reality the whole political situation has not met significant change. Alongside the reform since the late 1970s, a political reform has been more and more solicited and problematical in China.

Recently, Chinese economists inspired from neo-institutional analysis of rules of the game have been more and more numerous. In fact the real structure and organization of the Chinese political system have not changed much, thus we think that the study of the evolution of the political "rules of the game" should be more interesting. So we will just concentrate at the political institutional change (only the rules of the game) concerning the industrial reform during the Dengist era. These rules were normally in forms of the *Communiqués* or *Decisions*, issued either by the Central Committee of the Party, or by other Standing Committees of the Party, even by other Party's working meetings. Non-official private meetings played also important roles. According to the *Constitution*, these are not legislative documents, but they often play decisive roles in orientating the general policies of the whole

²⁴⁰Cf. Harry Harding [1982], *Organizing China: The problem of bureaucracy, 1949-1976*. Stanford University Press, Stanford. Or more generally, Harding [1987], *China's second revolution, reform after Mao*. The Brookings Institution, Washington DC.

²⁴¹Cf. A. Doak Barnett [1967], *Cadres, bureaucracy and political power in communist China*. Columbia University Press, New York. Also Barnett [1985], *The making of foreign policy in China*. I. B. Tauris, London.

²⁴²Cf. Kenneth Lieberthal and Michael Oksenberg [1988], *Policy making in China: Leaders, structure and processes*. Princeton University Press, Princeton. See also Lieberthal and David M. Lampton [1992], *Bureaucracy, politics and decision making in post-Mao China*. University of California Press, Berkeley.

²⁴³Cf. William Parish and Martin White [1978], *Village and family in contemporary China*. University of Chicago Press, Chicago.

national economy, and particularly the industrial reform. As a matter of fact, the number of these Party's documents has been large too.

Our purpose of this section is to show that the essential decisions concerning the reform were rooted from *political* decisions, in other words, the reform could be said *politically-oriented*, the political situation including how the rules of the game were issued and how the rules of the game themselves had light change. Then in the following sections, we will see the legislative, administrative change and their impact on the emergence of market elements.

If there is a "political similarity"²⁴⁴ of the communist system compared to the different Chinese epochs, or even to the dynasties in ancient China²⁴⁵, it must be the "one-person governing (*renzhi*)"²⁴⁶. This means that the whole country's destiny depends on only one person's capacity-willing-power, based on a highly hierarchied bureaucracy which plays simultaneously the roles of legislation, administration, jurisdiction [Cabestan, 1994, p.13]. Since the beginning of this century, even though the imperial system has been replaced by a republican system, however, "one-person governance" has changed into

²⁴⁴According to Cabestan [1994, p.10], the (modern) concept of "politics (*zhengzhi*)" was inexistent in China before the end of 19th. century. Here by "political similarity" we mean the "similarity of manner of governing". We will not go further in politico-scientific debates.

²⁴⁵"Ancient China": here we mean the archaic imperial system of over 2 000 years' existence before the 1st. January 1912 when the Republic of China (*Zhonghua Minguo*), was established by the Nationalist Party Kuomintang (KMT) being in power until 20th. May 2000 in Taiwan.

²⁴⁶In political sciences, it is called "imperial institution", which consists of an Emperor who was considered as the "son of the sky" with a "celestial mandate", and a bureaucratic system composed of elites, developed since the first unification of the Qin Dynasty (221-207 B. C.) which had been well perfectioned and completed since the Tang Dynasty (618-907) [cf. Cabestan [1994].

"one-Party governing"²⁴⁷, moreover, the Chairman of the Party in power has been playing important role in the politics of contemporary China. For example, the actual reform has begun after the death of Mao and the return to power of Deng²⁴⁸.

The political decisions in China have a very ample scope, and by their essence, they cover the whole politico-socio-productive system in China, varying from agriculture to SEZs, from education to industries, or military strategies. The political decisions can be "direct" (applicable directly) or "indirect" (made by the Central of the CPC together with other governmental organs and often applicable under the name of the latter). Concerning industrial reform, to give a better insight in this forest of decisions, here we classify the principal decisions into the following categories:

Table III.1: Categories of political decisions.

Categories	Manner	Political organs	With other organs
1) About the fundamental policy of the reform, FYPs	direct	Deng's speeches ; Plenary Sessions of the Central Committees of CPC ; working meetings of the Party's Central ; Jiang's speeches	nil
2) About the industrial reform	direct and indirect	Central Committees of CPC ; the General Office of the Central	State Council ; the General Office of the State Council ;

²⁴⁷A slogan - "The CPC leads everything" confirms this principle [cf. *Constitutions*].

²⁴⁸Mao had been officially the Chairman of the CPC for 41 years (1935-1976) until his death. Deng was the Chairman of the Military Commission from June 1981 to November 1989 officially [Cabestan, 1994, p.31, p.33], then he stayed as "military representative" in this commission and retired from this last post in 1991 [RFI, 1995]. In fact, Deng had not officially taken posts as many and long as Mao, his specialty in power has been described as "control behind the curtain (*chuilian tingzheng*)" [cf. Cabestan, 1994 ; Harding, Walder, Barnett, Lieberthal & Oksenberg, Parish & White, op. cit.].

		Committee ; Central Political Bureau	Central Organizational Ministry ; Personnel and Labor Ministries
3) Others: i) Corporations, ii) price liberalization, COEs and private sectors, the SEZs and foreign investments, iii) Central-local relations	direct and indirect	Central Committees ; the General Office of the Central Committee ; Central Political Bureau of the CPC	State Council ; the General Office of the State Council ; Standing Committee of the National People's Congress

In the following sections, we will look at these three categories, the purpose is to show the evolution.

1.1 Political decisions about the fundamental policies of the reform

Fundamental policies gave the basic orientation that the reform would take. They were often decided through a series of decisions. Then the basic orientations were often caught in a slogan or catchwords that sum the step of the reform. In this way, every political decision and speech were directed towards non-political activities of the country. Here in this section we will look at the main ones, usually presented in the plenary sessions of the Central Committee of the CPC.

The reform beginning in 1978 was launched by the return to power of Deng Xiao-ping. Soon after was officially declared the *Decision* of the Third

Plenary Session of the XI Central Committee (18th.-22nd. December 1978). This date was considered as the turning point by the Authority for the Chinese economic development. In fact, the *Decision* of this plenary session had been drawn up based on a Deng's *Closing Address* for a "Central Working Meeting" of the CPC (13th. December 1978). Thus the *Closing Address* was in fact the origin of the thematic outline of the important *Decision* [Deng 1983 ; H. Wang, ed., 1986].

Furthermore, Deng's personality played an important role too. We remember that, before 1978, an extreme political slogan of the "Gang of Four" told: "We would rather prefer socialist poverty than capitalist prosperity". During the acute political struggles for power, Deng was ever sent into exile in less developed backward regions where he witnessed the extreme peasants' poverty there. On the contrary, his voyage to the USA in 1979 witnessed the American prosperity. This experience and certainly together with his other personal experience, all this motivated him to launch reform to enrich China.

Then a "working meeting" of the Central Committee of the CPC (5th.-28th. April 1979) advanced the "8-words fundamental policy" of the national economy: "*tiao zheng, gai ge, zheng dun, ti gao* (adjustment, reform, consolidation, improvement)". This policy had been the basic guiding principle for the reform. Then in September 1982, the opening address of Deng in the plenary session of the XII Central Committee of the CPC, emphasized that the

economic system reform was one of the important guarantee of the realization of the "Four Modernizations".

A few years later, the necessity and imminence to put stress of whole economic system reform in urban areas sowed a new decision in October 1984 (Third Plenary Session of the XII Central Committee of the CPC). This decision is interesting as it showed the approach of the reform. It drew a "scientific inference (*kexue lunduan*)" of "planned commodity economy (*youjihuade shangpin jingji*)". Later the notion of "initial stage of socialism" was officially declared in the *Political Report* of the First Session of the XIII National Congress of the CPC (October 1987). Then the Third Plenary Session of the XIII Central Committee of the CPC (September 1988) adopted the general guide lines, policies of administering the economic environment, and of reorganizing the economic order previously advanced by the Political Bureau.

Five days after the 1989 event, Deng made a speech pointing out that the reform road and opening strategy, made since the Third Plenary Session of the XI Central Committee (1978) was correct. He said "(we) must continue to insist to combine planned economy and market adjustment". Then the Fifth Plenary Session of the XIII Central Committee (November 1989) advanced to further administering, rectifying, and deepening the reform. It was stressed by the session that the reform of economic system was "self-perfectioning of the socialist economic system". Meanwhile, the main point was concentrated on the

Contracting Management Responsibility System (CMRS) for industrial *danweis*. This CMRS on profits of industrial *danweis*, of foreign trades *danweis*, and of Sino-foreign JVs was encouraged.

In order to promote the continuity of the reform, it was again Deng who declared the notion of "socialist market economy" during his trip to Southern China (January 1992)²⁴⁹. Then the notion was written into the *Political Report* of the XIV National Congress of the CPC held in October 1992.

Then, for the period of 1993-1995, the central points of discussions turned more to on the macroeconomic level, "inflation" had been largely discussed²⁵⁰, meanwhile the MEI was advanced in the Third Plenary Session of the XIV Central Committee (14th. November 1993), and pilot projects for industrial *danweis* were in preparation.

Jiang Ze-min, successor of Deng, advanced to generalize the share system, in his *Political Report* of the XV Central Committee (September 1997). He emphasized that "Stability overwhelms all", and "Only the development is the hard truth". These two catchwords were evidently inspired from the contradictory instructions handed down from Deng: "stability of sovereignty of the CPC ; development". Jiangist epoch, (1997- present) has continued these basic principles of the whole reform strategy.

²⁴⁹In February 1992, the Central of the CPC issued a circular about to study the main points of this speech.

²⁵⁰According to Dai Xiang-long, the Director of the People's Bank, the inflation of the first six months of 1995 had attained 18.5%, much higher than planned rate which was 6-7% [cf. *People's Daily*, 17th. July 1995].

Besides these decisions, the FYPs or other long term plans concerning the country's development orientation, were discussed and adopted in plenary sessions of the Central Committee in form of *Suggestions*, then adopted in the next National People's Congress. For example, the "*Suggestion of the Central of CPC on 8th. FYP and a 10-years plan of the national economic and social development*" was discussed and adopted in the 7th. Plenary Session of the XIII Central Committee (December 1990). The *Suggestion* intended to deepen the "economic institutional reform", and to insist to advance the "reform and opening", to take charge the industrial reform and rural development. Similarly the ninth FYP and a "2010 prevision" was *suggested* during the Fifth Plenary Session of the XIV Central Committee held (September 1995). The Plan decided to change the "economy" from "extensive model" to "economic and efficient" model, from socialist planning to "socialist market economy".

We remark here that the Central Committees made also suggestions of modifications on an ongoing FYP. So any change of a FYP could be legitimized in this way by the Party.

The point of this part is to highlight one main feature of the reform, that it has been conducted by a series of political decisions at the Party's highest

level²⁵¹, this is to say that the reform has been *politically-decided*, or *politically-oriented*.

1.2 Political decisions about the industrial reform

About the industrial reform concretely, the procedure was a bit different, the Central Committee of the CPC often made decisions in an indirect manner, i.e., it formulated them together with the State Council, or other governmental organs. Here we will look at the main decisions. Our aim will be two fold, firstly to underline the shareless seizure of the reform by the Party, secondly, to make apparent the progressive building of the reform.

On this aspect, at the beginning, the initial *Decisions* concerned mainly personnel management and "political thoughts control". For example, the first decision concerning *danweis* since 1978, concerned the temporary rules on workers' assembly, it was transmitted and issued by the Central Committee of the CPC and the State Council (July 1981). Concretely, it stipulated the rights of the workers' assembly. Then another provisional regulation on the work of the factory Directors was issued (January 1982), its basic principle stipulated collective governance of the Party Committee, "workers' democratic

²⁵¹Even though there had been some initiatives from the lower levels, the central acquiesce had been decisive. We come back to the example of peasants in the *Fengyang* County, they were poor to death (before 1978), they said, "either we die of starvation, or die of contracting land". They then went against the socialist ideology choosing contracting their land with their production team. Then the Third Session of XI CPC's Central endorsed and promoted this new *institutional arrangement*. Deng gave also his agreement.

management", and factory Director's administrative direction. The point was that the governance inside a factory assumed by the Party's cell before the late 1970s was changing.

Then the Central Committee of the CPC and the State Council made decision to rectify completely the "State-managed industrial enterprises" (January 1982). In May 1984, the General Office of Central Committee of the CPC, and the General Office of the State Council, issued a circular about to seriously process well the reform of the governance system of the "State-managed industrial enterprises". In September 1986, the Central Committee and the State Council, promulgated three regulations about the directors, work of Party's basic organs, and workers' assembly. By now the collective governance rather than Party's cell unique leadership in a factory was reinforced.

The Central Committee of the CPC, in May 1988, together with the Central Organizational Ministry, and Personnel Ministry, issued a circular named *Opinions about introducing the competitive mechanisms, and reforming the personnel system in all people ownership industrial enterprises*²⁵². This circular advanced to further reform the personnel system and to select "enterprises' managers" by a *competitive* mechanism, which was the contrary of an one-Party authoritarian mechanism.

²⁵²People's Daily, 31st. May 1988.

Around the 1989 event, there was a return to emphasize the Party's leadership. In September 1988, the Third Plenary Session of the XIII Central Committee of the CPC adopted a *Circular* about reinforce and reform the "political thoughts" in *danweis*. Then after the 1989 event, the Political Bureau of the Central Committee of the CPC discussed and adopted the *Circular* about reinforcing the Party's Construction, the circular advanced that, "the Party consists of the political core in enterprises' lower level organizations" ; and "the Party's organizations in enterprises should support the factory directors to exercise their functions and powers" (August 1989).

For this period of social non-stability, the Central paid much attention to the personnel management, the function of the Party's Cell, the political thoughts of all personnel in industrial *danweis*. Concrete aspects such as, the notion of "social protection system" became also a subject of discussions. Then in the Second Plenary Session of the XV Central Committee in February 1998, it was decided internally by the Party (*neiding*) to set up a "Ministry of Social Protection" (centralized social protection system) within administrative reform.

We see that the field of the Party's intervention inside *danweis* stayed mainly in the domain of personnel organizing and controlling. Other fields of industrial reform were rather in form of issuing of laws. Since the late 1970s, China has begun to adopt numerous laws to regulate each field of the national political, social and productive environment. But most of these laws

were firstly discussed and agreed inside the Central Committee of the Party before being officially adopted by legislative organs.

For example, the revised version of *Law of all-people ownership industrial enterprises in the PRC (draft)*, was firstly discussed and agreed in principle in the Third Meeting of the Central Political Bureau (January 1988), then the Political Bureau suggested the State Council to submit the law to the National People's Congress for consideration, then 11th January 1988, the National People's Congress issued this draft for extensive criticisms before officially and legally adopting it in April 1988.

Furthermore, the Central of the CPC paid also attention to the implementation of these laws.

For example, after the promulgation of the above law in April 1988, the Central of the CPC issued a circular about carrying out and implementing this law by asking the every-level Party's organizations and all Party members to play leading roles in implementing the law. The scenario for the *Company Law* issued in December 1993 had been the same.

Here we see that the Party did not only participate in setting up laws but also in practicing laws. In this way, it controlled the legislative and judiciary systems.

In fact, the Party controlled also the administrative system. We recall here the 14 decision powers delegated to the industrial *danweis* in July 1992, in fact, the origin of this *Regulation* was decided in a working meeting of the

Central of the CPC in September 1991. This meeting decided to undertake 12 measures to create favorable conditions to reform the large and medium size industrial *danweis*. Two other decision powers were added in the final version. For the implementation of this regulation, the Central of the CPC and the State Council issued a circular (October 1992) to ask every-level cadres, leaders to concentrate in the application of this regulation.

After the 1989 event, the Fifth Plenary Session of the XIII Central Committee emphasized on the contracting responsibility management system of enterprises (November 1989). Then in September 1991, a Working Meeting of the Central Committee, concentrated on the how to well reform the SPDs, and to stress on the "transformation of management mechanism", and decided 12 policies to make good external conditions for this transformation. Then this was emphasized by a circular of the Central Committee and the State Council (October 1992) later on.

The guiding principle of SPDs' reform of setting up "modern enterprise institution" was also firstly discussed in the Third Plenary Session of the XIV Central Committee of the CPC (November 1993). Then MEI became a kind of guiding line for the industrial reform.

The above main events show the Party's direct participation of making rules of the game for industrial *danweis* and its complementing as well as its controlling of the rules.

1.3 Political decisions concerning non-industrial aspects

The above decisions were not alone. Others touched upon non-State areas, and they were coherent and effective to the whole political strategy. Here we distinguish five aspects:

Firstly concerning the companies or corporations (*gongsī*). A series of change determined the nature of the link between companies and the political power. In fact, before the issue of the *Company Law* in 1994, entities that were similar to the form of companies had been created under the *Temporary provision of companies* agreed by the State Council and issued by the SICMB (August 1985). In July 1988, the General Office of the Central Committee of the CPC, and of the State Council issued a circular about to resolve the problems of "non-separation of politics-enterprise" in companies, i.e., the phenomenon of involvement of the Party in the entities of form of companies. Then the Central Committee of the CPC, and the State Council issued a *Decision* concerning checking up and rectifying companies, which required to solve problems of the "non-separation of politics-enterprises, of functionary-commerce, of speculation (*daomai daomai*), and of seeking exorbitant profits" (October 1988). Then in August 1989, the Central Committee of the CPC, the State Council made a *Decision* of furthering checking up companies. This shows that the Party was involved in the domain of companies which is supposed to be outside the planning system.

More concretely, the General Office of the Central Committee, and of the State Council issued a circular (February 1989) about clearing up problems of "concurrent posts" parallelly of cadres of the Party and of State organs in companies and *danweis*. The decision asked them to resign their concurrent job in companies and *danweis* or resign their job in the Party or State organs before the end of March. The objective was to separate concretely the Party and the productive entities, especially that were supposed to be outside the socialist planning, such as companies that were supposed to be elements of market.

Even after the formal issue of the *Company Law* (December 1993), there has been less Party's direct or indirect intervention to the companies, yet we notice that the article 17 of the *Company Law* points out clearly that the activities of basic cells of the CPC follow the rules of the *Party's Constitution*.

Secondly concerning the price liberalization. The *Decision of the Central Committee of the CPC on the reform of the economic institutions* was adopted during the Third Plenary Session of the XII Central Committee of the CPC (1984). It proclaimed: "an ampler development of commodity economy, is a insurmountable step for social economic development, and is a necessary condition for the modernization of China's economy". This was an important breaking-through of the Chinese reform, because it was the first time when the words "commodity economy" were written in the *Party's Constitution*.

Then the Central had paid high attention about the price liberalization. In August 1988, the Central Political Bureau held the 10th. plenary meeting at Beidaihe, it adopted in principle a scheme about price and salary reform. Then the Third Plenary Session of the XIII Central Committee of the CPC adopted the general guide lines, policies of administering the economic environment, reorganizing the economic order advanced by the Political Bureau, and adopted in principle an *Initial program* of reform on prices and salaries (September 1988). With the introduction of more and more market elements, prices began to be regulated by laws since the mid-1990s.

The legislative process was replacing gradually the political process.

Thirdly concerning collective *danweis*. Policies on the collective *danweis* and private sectors have become more and more open. During the period 1978-1997, the rapid development of these two sectors began to form a competitive environment for the SPDs. Meanwhile certain of their governance methods play an experimental role for the SPDs, and we also have to keep in mind that their development has helped to absorb the off-post workers from the State sector. Their development consists also the main economic growth in China.

However we cannot forget that their development has *not* been independent to the political decisions too. For example, in October 1981, a multi-employment system began to be allowed. For this subject, several

provisions were made by the Central Committee of the CPC and the State Council about the questions "to open all possibilities to vitalize economy, and to solve the employment problem in cities and towns". This led to the practice of contracting workers and temporary workers who were distinguished from "fixed workers" in collective *danweis*.

As one kind of the collective *danweis* in rural areas, the well-known TVEs were also approved by the Central Committee of the CPC and the State Council. The title "TVE" was changed from "Enterprises of Commune and of Production Team" (March 1984). The authority advanced that the TVEs were "important pillar for the rural production".

Also, it was under the acquiesce and agreement of the Central, that the private economy has been developing rapidly. In February 1988, the Central of the CPC and the Standing Committee of the National People's Congress suggested to modify certain clauses in the *Constitution* about "to allow the existence and development of private-managed economy under legal rang, and to allow that the *usus* right of land can be transferred under legal rang".

Fourthly concerning the development of foreign investment: the acquiesce and agreement of the Central have also played important role. For example, the *Decision* of the Central Committee (November 1989) advanced to further improve the investment environment for foreign capitals, and to concentrate forces on efficient management of already existing sino-foreign

joint-ventures and cooperations in order to give good operational examples, in order attract more foreign capitals.

On the other hand, a complementary and influential reform concerned the creation of the SEZs where the market logic runs, giving experiment of new models of new economic institutions. The initial decision originated again from political decisions. Also the Central has followed closely the development of the SEZs. In fact, in a working meeting of the Central CPC in April 1979, Deng stipulated for the first time to establish the "Special Economic Zones (SEZs)". Then the Central of the CPC agreed two reports of the Guangdong and Fujian provinces, which emphasized to practice "special policies and flexible measures" concerning "international economic activities" in these zones (July 1979). Then the Central of the CPC and the State Council issued the "Comments on the *Report of 2 provinces Guangdong and Fujian*" which confirmed to set the first four SEZs²⁵³ (May 1980) [Yu, 1993, p.134]. Then the Central of the CPC and the State Council adopted and transmitted the *Summary* for experimental projects of SEZs in December 1982. Then the SEZs were extended to Hainandao in 1983 while the Central of the CPC and the State Council adopted and transmitted the *Summary* of discussions of the development of Hainandao, which decided to give lager "autonomy concerning international economic cooperations". Then finally, the Central of the CPC and the State Council adopted and transmitted the *Summary* of

²⁵³They are Shenzhen, Zhuhai, Shantou in Guangdong, and Xiamen in Fujian. These SEZs are all near Hong Kong and Macao.

discussions about the coastal cities, and agreed suggestions to extend the SEZs to further 14 coastal cities²⁵⁴ (May 1984). By now, there are numerous SEZs almost in every provinces, they have been rather created in the early and mid 1990s by the local Governments.

Fifthly concerning the administrative reform and particularly Central-local relations: here we just underline that the personnel/organizational aspect was often dealt within the Party ; for the financial aspect, the Central-local relations tended to be regulated more and more by the new being-established fiscal system.

For example, in December 1982, the Central Committee of the CPC issued a circular on several questions on the reform of local Party's organs and local administrative organs. This circular instructed to reform the local administrative system ; to combine the administrative organs of regions and cities, to let the cities to manage the counties and the *danweis*, consequently the regional (and certain provincial) authorities did not participate directly to the management of industrial *danweis*, it would be the main cities which would play administrative roles. In 1998, facing the independence of the southern provinces, there were special personnel appointments in the administrative organs of Guangdong province and Shenzhen special administrative zone.

²⁵⁴These 14 coastal cities are: Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai

1.4 Concluding remarks: a politically-driven reform with no reform of political organizations

The long list of political decisions concerning the whole reform highlights two specific features of the reform:

Firstly, there had been light but significant political institutional change with a *political structural continuity*. This means that there had been no rupture in the structure of the political system from 1978 to 1997. In other words, political institutional change happened without structural change. However, contradiction came from that the reform had been propelled by the political decisions, and that at the same time, there had been a great difficulty for political reform²⁵⁵. This contradiction is one of the Chinese peculiarities compared to the evolution of former communist countries, such as the ex-USSR and eastern European countries.

Secondly, the reform has been politically-driven, institutional change has been often propelled from up to down²⁵⁶. Each important decision concerning the reform came following discussions inside the CPC or the decision of an important figure of the CPC.

(Pudong), Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, Beihai.

²⁵⁵Two principal points of difficulty were: 1) the CPC has been the origin of any reform in China, thus it will not allow a reform when its leading position is menaced, 2) individual's cognition on politics evolves gradually, this is related to education.

²⁵⁶Sometimes the reform had also "bottom up" feature [Naughton, 1989 ; Fan 1997, CIREM conf.], but any change could only continue under the Authority's acquiesce.

Here again, let us look at some key examples, the 3rd. Session of the XI Party's Committee initiated the "big discussion on that practice is the only standard to test the truth". This discussion eradicated the "two all"²⁵⁷, which had been frame of mind to launch market-oriented reform. There was necessity to eradicate this frame of mine before the beginning of the reform in 1979. Similarly the "planned commodity economy" discussed in the same session, became the basic idea of the "urban reform" started in 1984. That session conformed the "countryside contracting system". The XII CPC's Central Committee lauded "to keep mainly planning economy, assisted by market economy", the XIII CPC's Central Committee affirmed the "combination of planning and market economy". Then during his inspection tour in the Southern China at the beginning of the year 1992, Deng "solved" the dilemma of "name *Zi* or name *She*", and advanced the notion of "socialist market economy", soon after during the XIV CPC's Central Committee, "socialist market economy" was officially declared as the "actual phase of the reform" [Deng 1993 ; Dong et al. ed., 1997, p.254].

All the above shows us that the politics had conducted the evolution of the economic rules of the game, with mainly three characteristics: direct intervention; not only it made rules but also it implemented and controlled the rules ; even there were bottom-up moments, the Central's acquiescence *a posteriori* was always absolutely necessary.

²⁵⁷This is an extreme leftist ideology: "All decisions that Mao had made, we must insist ; all instructions that Mao

The above shows us also that if there was some change inside the political orientation, there was absolutely no change on how politics leads economic reform. This confirms the value of out-institutional perspective.

In order to obtain a comprehensive overview of the whole institutional evolution, here we turn to the other aspects, beginning with the legal context.

had given, we must follow steadfastly" [Editorial of People's Daily, of Red Flag, and of Army's Daily, 7th. February 1977 ; Deng, 1983, p.375].

Table III.2: Most important political decisions.

The *Communiqué* and other *Decisions* of the Third Plenary Session of the XI Central Committee, 18th.-22nd. December 1978.

The 8-words guiding principle of the national economy advanced in a "working meeting" of the Central Committee of the CPC, 5th.-28th. April 1979.

The *Provisional regulations on works of the factory Directors of the State managed enterprises*, issued by the Central Committee of the CPC together with the State Council, 2nd. Jan. 1982.

The "*Decision of the Central Committee of the CPC on the reform of the economic institutions*", adopted during the Third Plenary Session of the XII Central Committee of the CPC, 1984.

The Central Committee of the CPC, and the State Council approved to change the name of "Commune and Production Team Enterprises" to "Town and Village Enterprises", 1st. March 1984.

The *Decision of the Central Committee of the CPC about the economic system reform*, of the Third Plenary Session of the XII Central Committee of the CPC, 20th. October 1984.

The Central Committee of the CPC and the State Council promulgated 3 regulations on the factories' Directors, Party Cell in *danweis* and workers' assemblies, 15th. September 1986.

The First Session of the XIII National Congress of the CPC: the *Political Report* expounded the point, "initial stage of socialism in China", 25th. October 1987.

The Third Meeting of the Central Political Bureau, agreed in principle the *Law of all-people ownership industrial enterprises in the PRC (draft)*, and suggested the State Council to submit it to the National People's Congress for consideration, 9th. January 1988. Then 11th January 1988, the National People's Congress issued this draft for criticisms.

The General Office of the Central Committee of the CPC, and the State Council issued a *Circular about to resolve the problems of non-distinction of politics-enterprise in companies*, 21st. July 1988.

The Third Plenary Session of the XIII Central Committee of the CPC adopted the general guide lines, policies of administering the economic environment, reorganizing the economic order advanced by the Political Bureau, it adopted in principle the *Initial program of reform on prices and salaries*, and the *Circular of the Central Committee of the CPC about reinforce and reform the political thought works*, 26th.-30th. September 1988.

The Political Bureau of the Central Committee of the CPC discussed and adopted the *Circular of the Central Committee about reinforcing the Party's Construction*, 28th. August 1989.

Speech of Deng during his trip to the Southern China, "socialist market economy", January 1992.

The Third Plenary Session of the XIV Central Committee of the CPC in November 1993, advanced to set up "modern enterprise institution" which became the objective concerning the reform of the *danweis*.

Jiang Ze-min: "*On the 12 big relations*", in the 5th. Plenary Session of the XIV Central Committee of the CPC, 28th. September 1995.

The XV Central Committee adopted the *Revision of the Party's Constitution*, main modification is to add "Deng's theory" after the "Marx-Leninism, Mao's thoughts", 18th. September 1997.

The *Political Report* of Jiang during the XV Central Committee advanced to generalize the share system, while emphasizing that "Stability overwhelms all" and "Only the development is the hard truth", 18th.-23rd. September 1997.

2. Evolution of the legal environment

As we have seen above, the political environment had played the most decisive role in the Chinese reform. However, the legal environment had been becoming more and more important especially since mid-1990s. Legal environment change was in general expressed concretely in form of promulgation of legal documents. The same as the political structure, the legal structure has not met any substantial change neither, main change concerned that the legislative organs took more and more decision power vis-à-vis the Party.

The legislation since 1978, deals with a wide range of domains. This concerns, among others, the establishment of the "economic legal environment" of the industrial reform in terms of ownership system, property rights, investment, decisions, transactions, and forms of organization that one SPDs may take in its restructuring, as well as forms of emerging market relations among *danweis*.

Before going to a panorama of the institutional change of the legal environment, here we look at the Chinese legislative organizational structure firstly.

2.1 Structure of the legal system for economic legislation

In China, "legislation" includes promulgation of laws adopted by legislative organs and of the rules or regulations proposed by certain Governmental administrative organs [Ma, ed., 1982, p.603]. According to the current *Constitution* and the *Organization Law*²⁵⁸, the Chinese economic legislative structure has two levels: the central level and the local level.

At the central level, the legislative organs are:

1) The National People's Congress (*quanguo renda*), which is the highest legislative organ of the State. It is responsible for drawing up or rectifying the *Constitution*, as well as the basic economic laws and decrees. In the chapter two of the *Constitution*, the "economic function" of the National People's Congress was defined as "to decide the economic planning, to examine and to approve the economic provisions and decisions ; to explain the laws ; to make the decrees, etc.".

2) The Standing Committee of the National People's Congress. When the National People's Congress is not on session, the Standing Committee exercises the legislative power entrusted by the *Constitution*. It is responsible for drawing up and rectifying other laws and decrees that are not drawn up or rectified by the National People's Congress.

²⁵⁸The *Organization Law* concerns mainly the local People's Congresses and the local People's Governments. It was firstly adopted during the 2nd. Meeting of the V National People's Congress, 1st July 1979 ; and was amended during the 5th. Session of the V National People's Congress, 10th. December 1982, also during the 18th. Meeting of the Stranding Committee of the VI National People's Congress, 2nd. December 1986, and during the 12th. Meeting of the Standing Committee of the VIII National People's Congress, 28th. February 1995 [*Official report of the Supreme People's Procuratorate*, #26, 1995 ; Ma, ed. 1982, p.603].

3) The State Council, it is the highest State administrative organ. According to the *Constitution* and relevant laws and decrees, it has the power to draw up and approve "economic administrative rules or regulations".

4) The Ministries or Commissions under the State Council. They are State ministerial administrative organs. According to the *Constitution* and relevant laws and decrees as well as the rules and the regulations made by the State Council, they have the power to make "administrative rules and regulations" concerning economic activities within their responsibilities concerning their own functions or services.

At the local levels, the legislative organs are:

1) The local People's Congresses of the municipalities, provinces and autonomous regions. They are local legislative organs of the State, they can make and promulgate local "economic regulations and provisions", under conditions that these latter are not against the *Constitution*, the laws and the decrees, or the rules and regulations issued by the central level legislative organs. These rules and provisions should be reported to the Standing Committee of the National People's Congress for record.

2) The local Standing Committees of the local People's Congresses of the municipalities, provinces and autonomous regions. When the local People's Congresses are not on session, the local Standing Committees can draw up and promulgate local "economic regulations and provisions", under conditions that these latter are not against the *Constitution*, the laws and

decrees, as well as the regulations and provisions issued by the central level legislative organs. These regulations and provisions should be reported to the National Standing Committee of the National People's Congress for record.

3) The People's Governments of the municipalities, provinces and autonomous regions. They are the local level administrative organs, called local Governments. They can make and promulgate "standardized (*guifan xing*) local economic and administrative rules (*tiaolis*)", under conditions that these latter are not against the *Constitution*, the laws and the decrees, the "economic and administrative rules and regulations" issued by the central level legislative organs and by the local level legislative organs.

Similar to the political structure, there has been no significant change for the Chinese legislative structure since 1949.

2.2 Legal documents: a typology

We need to recognize the various types of the legal documents to better understand the institutional evolution as they consist of the (formal) rules of the game. Firstly a distinctive feature of the legal documents is that: their role and function were rather confused with administrative rules and regulations until the 1980s, and then they have become more and more distinguishable. Before 1987, the laws and other rules or regulations were not even distinguished in most of the official documents [*Almanac of China's*

Economy 1987]. Seemly, distinction has been made only since 1991 [*Almanac of China's Economy* 1992]. In fact, in the earlier versions of the *Almanacs of China's Economy*, laws, rules and regulations, and other important figures' speeches were put all together under the same rubric of "Economic policies".

Following the legislative and administrative structures, there are the following categories of the legal documents:

1) China is a constitutionalist country. The *Constitution* is drawn up and adopted by the National People's Congress which is defined by the *Constitution* as the highest State power organ²⁵⁹. This is the legal base of the whole country.

2) Laws, decrees, and decisions are made based on the *Constitution*. They are adopted by the National People's Congress.

3) Regulations and provisions, that are formulated by the central Government or ministries, or by the (local) People's Governments, based on the *Constitution* and the laws. They can be called "administrative documents" because they are "decreeing documents (*falingxing*)" with certain mandatority (*qiangzhixing*) and binding force. They are the concrete expression of the Government's general and specific policies. These regulations and provisions have ten different types according to different administrative hierarchies.

²⁵⁹Cf. art.57 of the *Constitution*'82.

Concerning the *danweis*, the first four types may mainly concern²⁶⁰ [Table III.3]:

a) the *tiaoli* (regulations), these are, complete, systematic, regulatory (*fagui xing*) documents with mandatority and binding force. They are formulated by the Party's or State's power organs, according to the Party's and State's relevant general and specific policies and laws, in order to orient long-term tasks and to assure the normal development of these tasks in one aspect of economic fields.

b) the *guiding* (provisions), these are regulatory documents with mandatority and binding force, formulated by State's, Party's, Government's organs, or social groups (*shehui tuanti*), or by industrial or administrative *danweis*, aiming at specific questions or at certain concrete task in specific spheres.

c) the *banfa* (methods), these are regulatory documents aiming at fixing concrete operating methods, concrete measures for one specific rules, decrees, or aiming at making concrete arrangements or concrete measures for certain task or certain activities.

d) the *xize* (detailed rules), these are regulatory documents for detailed operating methods or supplementary explanations, formulated according to rules, stipulations, methods from upper hierarchic leading organs, combined

²⁶⁰The other six types are: *zhangcheng* (rules or ways, at County level), *guihua* (plans, at *danwei* level), *tiaoling* (regulations, at service level), *zhidu* (rules, at service level), *shouze* (regulations, at individual level), *gongyue* (pledges, among people in a group, or infra-groups).

with actual situation of one's department and affiliated organizations or one's unit or one's branch.

Table III.3 Types of legal documents.

Name of the documents	Adopted by:	Level, or rang
The Constitution	National People's Congress	National level
Laws and decrees	National People's Congress	National level
Regulations and provisions:	Central or local State organs, or local People's Governments	
Regulations, <i>tiaoli</i>	Party or State organs	National level, or by sectors
Provisions, <i>guiding</i>	Party or State organs, or social groups, units	National level, or by unit
Methods, <i>banfa</i>	Corresponding rules, decrees	National level, or by sector, by unit
Detailed rules, <i>xize</i>	By organization, or by branch	To organization, or to branch

In parallel to the legal documents, there were also administrative circulars issued by relevant Governments' administrative organs, aiming at mainly explaining Government's policies to guide the administrative functioning. The important circulars acted often as the rules. The *Communiqués* or *Decisions*, issued by the Central Committee of the CPC or by other Standing Committees of the CPC, the political speeches of the Party's leaders, were not legislative documents, according to the *Constitution* and the laws. But they often played decisive roles in orienting the Chinese industrial reform, and more generally the "national economy".

Along with the reform, the legislative organs has made more and more efforts to distinguish their roles to the administrative or political parts. The relations of these mentioned documents are showed in the following figures. Figure III.1.a shows the normal relations among them ; and Figure III.1.b shows the political influential relations among them.

Figure III.1.a: The normal relations among the legal documents.

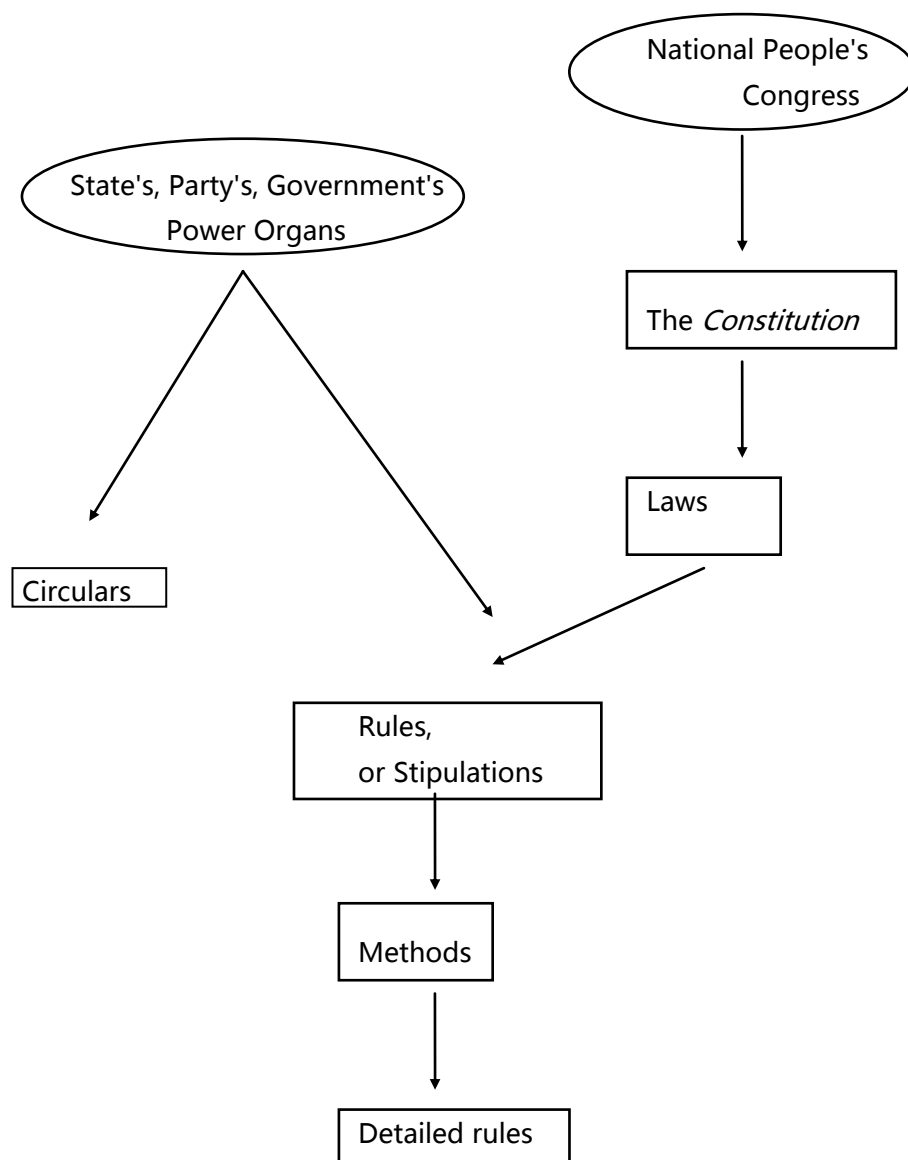
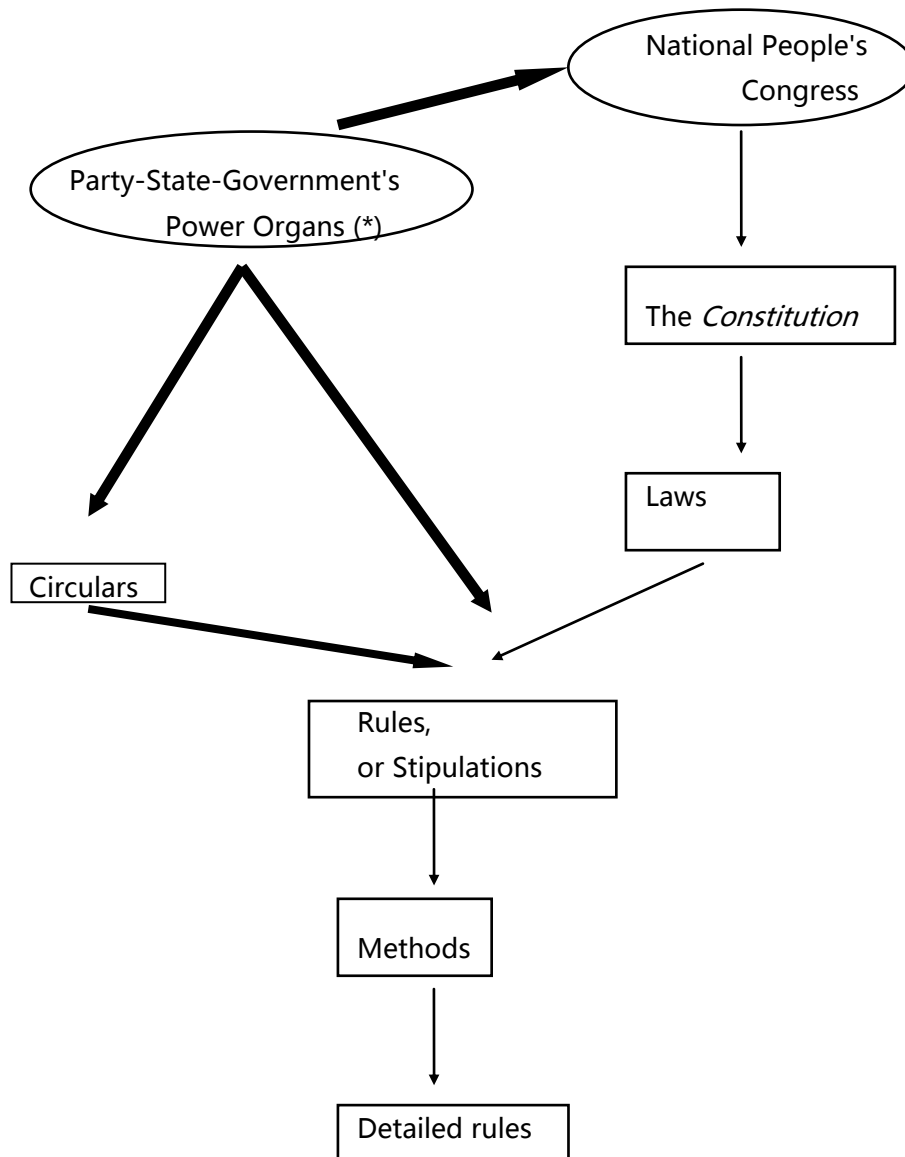


Figure III.1.b: The normal hierarchic relations among the legal documents, and political influence among them.



* Bold arrows show political influence.

2.3 The Constitutions

According to Mao²⁶¹, "An organization must have its rules, a State must also have its rules. The *Constitution*, is a series of general rules, a fundamental charter". Formally, the *Constitution* is the most basic legitimate "rules of the game" in China. Here below, after a quick review of the succession of the constitutions since 1949, we will turn to a more analytical study of the contents.

The *Common Program*²⁶² functioned as a *Constitution* until 1954 when the first *Constitution* was established. So it was sometimes called the *Temporary Constitution* or the *Constitution'49*²⁶³. Since 1954 there has been four constitutions in China. The first *Constitution* was established during the First Session of the I National People's Congress (20th. September 1954, reported by Liu Shao-qi). This *Constitution* was inspired largely from the Soviet *Fundamental Law* of 1936 [Cabestan, 1994, p.25]. It functioned in a correct manner until the First Session of the III National People's Congress²⁶⁴. The Cultural Revolution launched in June 1966 disrupted the established rules²⁶⁵. The second *Constitution*, adopted during the First Session of the IV

²⁶¹Cited in Zhang Chun-qiao [*Constitution'75*, p.19].

²⁶²The *Common Program* was issued during the First Plenary Session of the CPPCC (September 1949). It was drawn up based on three documents: 1) Mao Ze-dong 's report during the Second Plenary Session of the VII CPC's Central Committee (March 1949), 2) the "Resolution" of the same meeting, 3) *On the Dictatorship of People's Democracy*, a work of Mao (June 1949) [H. B. Wang 1994, p.95].

From 1949 to 1954 was a period before the official birth and operation of the National People's Congress. During this period, was established the *Common Program of the Chinese People Political Consultative Conference* by the Chinese People's Political Consultative Conference (CPPCC) which was an organ of the "front uni" grouping, under the leadership of the CPC, diverse parties and important personalities [Tsien, 1983, p87-9 ; Qin, 1994, pp. 37-38]. It is also interesting to notice that the CPC was minority in 1949 in the CPPCC [Cabestan, 1994, p.24]. Nowadays, CPC has over 46 million members [Worden et al. ed., 1987]. And the CPC controls everything of the State.

²⁶³But this title has been officially refused in China for motifs of juridical (and political) reasons [Tsien, 1983, p.5].

²⁶⁴Held during the period from 29th. December 1964 to 4th. January 1965.

²⁶⁵For example, the National People's Congress was no more held on session, the Chairman of the Republic, Liu Shao-qi was relieved of his duties by the Central Committee of the Party, and *non* by the National People's

National People's Congress (13th. January 1975, reported by Zhang Chun-qiao), was much more radical, and was reduced to only 30 articles, it canceled the posts of the President of the Republic and of the President of the People's Procuratorate. It introduced the "Rural People' Communes", and giving a dominant place to the CPC, to the Mao's thoughts and to Mao himself. The third *Constitution* was adopted just 3 years after the second one, during the First Session of the V National People's Congress (5th. March 1978, reported by Ye Jian-ying), two years earlier than a normal session. It showed a rectification of the leftism of the second one, it declared the end of the Cultural Revolution, and emphasized the People's Army's role, and it legitimated the removal of the "Gang of Four". The last and the fourth *Constitution* was voted during the Fifth Session of the V National People's Congress (4th. December 1982, reported by Zhao Zi-yang), also called *Constitution*'82. It rehabilitated and developed the first constitution. It modified the "proletarian dictatorship" into "people's democratic dictatorship", it restored from "mainly composed by representatives of workers, peasants and soldiers" in the second and the third constitutions into "worker class based on worker-peasants alliance's" as in the first constitution. The *Constitution*'82 is currently in effect²⁶⁶.

Congress, etc. - this was a period of "dictatorship of the proletariat" [cf. Worden et al. ed., 1987]. However, during this period, the first *Constitution* continued to be referred as if as nothing had come out abnormal [Tsien, 1983, p.5].

²⁶⁶Cf. *The Constitution of the People's Republic of China*, 1954, 1975, 1978, 1982. For a French official translation, published by Beijing Foreign Language Editions, see Tsien [1983, pp. 107-30], see also Cabestan [1994, p.31].

In fact, even the constitutions were means of political struggles for the Chinese leaders. The numbers of articles of the constitutions showed well the change of political atmosphere in China. In 1975, Zhang (member of the "Gang of Four") over-shortened the first *Constitution* reported by Liu²⁶⁷. Zhang's version of the *Constitution* showed the extreme leftist ideologies. The *Constitution*'78 after the fall of the "Gang of Four" rectified the extreme leftist second constitution. Then with the return to power of Deng Xiao-ping²⁶⁸, was established the *Constitution*'82 based on the *Constitution*'54, then the political line turned to the "right". The frequency of change of the constitutions, as well as the change of its contents shows somehow political (hence economic) *instability* in China [Table III.4].

Table III.4: The Chinese *Constitutions*.

Date	Reported by ²⁶⁹	Post	Meeting	# art.
20th. Sept.1954	Liu Shao-qi	Chairman of the State (elected 27th. April 1959)	First Session of I National People's Congress	106
13th. Jan. 1975	Zhang Chun-qiao	Member of the Small Group of the Cultural Revolution	First Session of IV National People's Congress	30
5th. Mar. 1978	Ye Jian-ying	Chairman of the Central Military Commission (Vice Chairman of the State)	First Session of V National People's Congress	60
4th. Dec. 1982	Zhao Zi-yang	Premier, and Secretary of the CPC)	Fifth Session of V National People's Congress	138

²⁶⁷ Opposite political side to Zhang. Liu was the President of China.

²⁶⁸ Same political side to Liu.

²⁶⁹ The destiny of the four reporters of the *Constitutions*: Liu died tragically during the Cultural Revolution (1968). Zhang was overthrown as a member of the "Gang of Four". Ye died "correctly". Zhao has been dismissed after the "1989 - 6.4 event".

Now let us see analytically and synthetically the contents of these *Constitutions*. Concerning the industrial reform, three main aspects are concerning:

1) The constitutions define the nature of the power institutions (*quanli zhidu*), and the ultimate rights of the people over all social and economic activities of the country. The people is represented in reality by the Party-State²⁷⁰. This aspect concerns the socialist principles, general economic principles, and the planning (mostly in the Preface and Chapter III of the constitutions).

2) The constitutions give a qualitative explanation on the task of the principal industrial development for the following new period. The explanation shows the general orientation of the industrial development and of the whole country. This concerns in general the *danweis'* management, and their autonomy (mostly in Chapter I of the Constitution).

3) The constitutions set the general rules on systems of ownership over means of production of industrial *danweis*, over land, over individual properties and the relevant rights. This concerns in general the property rights of production means and the consumption goods (mostly in Chapter I of the Constitution).

Here below we will see closely these three aspects.

2.3.1 Nature of the (political) power institutions

The preface of the first *Constitution* emphasized the leading position of the CPC²⁷¹. Only then was specified that China was a people's democratic country led by the workers' class, based on the worker-peasant alliance (ch.I, art.1). It defined the people's ultimate power under the democratic-centralism (ch. I, art.2). According to Mao's formulation²⁷²: "The centralism is on the base of democracy, the democracy is under the leadership of centralism".

Compared to that of 1954, modifications reinforced by the second *Constitution* were rather radical. It emphasized the proletarian dictatorship (art.1) and that the leadership of the workers' class was realized by its "own vanguard", i.e., the CPC. Also it added a theoretical base of the leading thought of the country (art.2), that was, the Marxism, Leninism, and Maoist thoughts. Even the National People's Congress was under the CPC's leadership (art.16)²⁷³. It added also the People's Congresses were represented mainly by the representatives of workers, peasants and soldiers (art.3). The fact that the Party permeated the State's *Constitution* was put more evidently (art.15)²⁷⁴. In

²⁷⁰There is often a whole article on the leadership of the Party in most of the legal and political documents.

²⁷¹The original text is, "In the great struggle of establishing the PRC, people in our country have woven a wide-ranged people's democratic *font uni* of every democratic class, every democratic parties, every groups led by the CPC" [*Constitution*'54, Preface, p.1].

²⁷²Mao, 1945, "Du government de coalition".

²⁷³According to art.16: "The National People's Congress is highest state's organ under CPC's leadership". The term "under CPC's leading" does not appear in the other constitutions.

²⁷⁴According to art.15, the Chairman of the Central Committee of the CPC commands the country's armed forces. This means the PLA is not the State's army, but the Party's army. We notice that the armed forces "belong to the people" in the first *Constitution* (art.20). The third *Constitution* kept the same tone as the second one (art.19). The last *Constitution* seems to be the most "reasonable" among these 4 constitutions, it states that "the Central Military Committee (CMC) directs the armed forces of the country" and "The chairman of the CMC has overall responsibility for the Commission" (art.93), and "The Chairman of the CMC is responsible to the National

general, the second *Constitution* defined the predomination of the CPC over all.

The third *Constitution* was made still largely based on the second one but rectified its radicalism. It declared the end of the Cultural Revolution [*Constitution*'78, p.6]. By mentioning that the representatives in the National People's Congress were elected by the regional representatives and the PLA's representatives, it emphasized the People's Army's role, in order to legitimate the removal of the "Gang of Four". Thus although the third *Constitution* kept still the "basic tone" as the second one, with still the terms as "proletarian dictatorship " (art.1), and "workers' class's vanguard", and "theoretical base of the country" (art.2), but it removed the expression that the National People's Congress was "under the CPC's leadership", and it put simply "people" in stead of "represented mainly by the workers', peasants' and soldier's representatives" (art.3). This shows a light regression to the first *Constitution*.

The last *Constitution*, marks somehow an important difference with the second and the third one, and a large regression to the *Constitution*'54. In fact, it rehabilitated and developed the first one. Compared to the first *Constitution*, the following points are remarkable. It modified the "proletarian dictatorship" (second and third) into "*people's democratic dictatorship*" (art.1), or instead of "socialist democratic country" as in the first one. It also explained the "democratic centralism" (art.3). The mentioning of the central-local

People's Congress and its Standing Committee" (art.94). This is more precise than to say "belong to the *people*"

division of functions and powers shows the stronger *localism* coming with the decentralization of powers and profits (art.3).

By now, there have been two constant basic principles of the Chinese political system: democratic centralism and the Party's leadership. And this, for the industrial *danweis*, means that before the *Company law*, the CPC's cell in *danweis* controlled all that is decided by the Factory Committee elected from the workers [Pairault, 1981]. We will see below how the Party controls after the *Company law*.

2.3.2 Principal industrial development tasks and the planning

As a consequence of centralism, economic evolution was highly influenced by the main priority and task defined by the Party. The beginning years (1949-1954) were considered as the "period of restoration of the national economy". According to the *Common Program*, the industrial development task was summed up as to realize the "neo-democratic economic guiding principle", which consisted of three points: 1) to establish the leading position of socialist industrial economic system in the national economy, 2) to protect and to develop with limits the national capitalist industries, 3) to protect and to develop the individual artisanal industries.

Evidently the objective of this period laid on rehabilitating the whole industrial production which was largely destroyed or damaged during the "Civil War"²⁷⁵.

For the period 1954-1975, the tasks were defined rather in extension of that in the *Common Program*. Here we refer to the first *Constitution* [p.1] that:

The period from the establishment of the PRC to the full establishment of socialism²⁷⁶, is a transition period (*guodu shiqi*), the general assignment of this period is to realize the socialist industrialization in the country, and the socialist remolding of the rural sector, the artisanal sector and the sectors of the capitalist industries and commerce.

The explicit goal was to replace the "capitalist ownership (*zibenjia suoyouzh*)", by the all-people ownership (art.10). The "socialist remolding" of the ownership of the production means was basically accomplished by the end of the first FYP (1953-1957) [H. Wang, 1994], almost all private industries had been nationalized. Until the end of 1970s, there are only 2 forms of ownership (art.5)²⁷⁷.

By its extremely political tone, the second *Constitution* was not like indeed only a constitution. And very few terms concerned the industrial development, only article 10 mentioned "promoting the production, promoting the

²⁷⁵1945-1949, also called the "Liberalization War".

²⁷⁶Socialism is considered as the goal-model by the Chinese authority. According to Mao, "The socialist society is a quite long historic stage" [*Constitution*'75, p.5, p.20]. According to Zhang, "Our socialist system is like a newborn sun, which is still young" [*Constitution*'75, p.24]. The preface of the third *Constitution* says: "Our country has become a socialist country with the beginnings of prosperity" [*Constitution*'78, p.5]. The preface of the last *Constitution* says: "Since the establishment of the new China, our country has gradually realized the transition from neo-democratism to socialism" [*Constitution*'82, p.2]. The modification of the *Constitution*'82 the 29th. March 1993, emphasized that "Our country is now at the initial stage of the socialism" [*Law yearbook of China* 1994, p.269].

working and to take the industry as a dominant role", and "to promote the socialist economy in order to develop planning and proportion" (art.10).

In Ye's report on *Constitution's modification*, even he criticized sharply the "Gang of Four", however, concerning the industrial development task, the third *Constitution* stayed largely the same as the second one, but it mentioned on the development of the "social production forces".

The last *Constitution* pointed out, "to perfect the economic management system and the enterprises management systems, to practice various forms of socialist responsibility systems" (art.14), and that the State applies the planned economy based on "socialist public ownership", and it will rely on the supplementary function of the market's adjustment, to guarantee the proportional and coordinated development of the national economy (art.15). It defined also the "conditioned autonomy" and democratic management of the industrial *danweis* and of "collective economic organizations " (art.16 and art.17). We notice also that, for the first time, the *Constitution*'82 allows various forms of foreign investments in China (art.18). It gave also moral incentive to active people²⁷⁸.

2.3.3 Management of SPDs, ownership, property rights

²⁷⁷ According to art.5 [*Constitution*'75, p.8]: "The PRC has now mainly 2 forms of ownership of production means: socialist all-people ownership and socialist laboring masses collective ownership".

²⁷⁸ In the last *Constitution*, it is written: "[...] Laboring is the glorious duty of all citizens with working capacity[...]" [art.42]. And the workers have the rights of rest, of retiring (art.43 and art.44), etc..

The Chinese constitutions distinguish the ownership of productive means and of personal private property of the citizens.

For the ownership of productive means, the first *Constitution*, defined four forms of ownership of productive means: State ownership, cooperative ownership, individual labor ownership, and capitalists' ownership (*zibenjia suoyouzhi*). The State ownership was defined as all-people ownership. The cooperative ownership was defined as laboring masses collectively ownership (art.5).

The individual ownership and the capitalists' ownership were supposed to be the two private ownership left over by the "old China". The personal private property concerned the living means of citizens. It includes legal revenues, savings, house and all other kinds of living means. The inheritance rights of citizens on these private properties were protected by the State (art.11 and 12). These principle stays the same for all the four constitutions.

The State-managed economy was defined as all-people ownership's socialist economy, it was predominant. According to art.6: "State-managed economy is the all-people ownership's socialist economy, it is the leading force in the national economy, and it is the material base of the realization of the socialist remolding of the State. The State assumes the priority of development of the State managed economy. Mines, rivers ; forests, uncultivated land and other resources are regulated by the law as State-owned, are all-people-owned".

The cooperative ownership was regarded as "semi-socialist economy" of laboring-mass-collective ownership (a subset of the laboring masses). It was a *transition form* from individual peasants, individual artisans and other individual labors into "laboring masses collectively ownership" (art.7). Moreover, the State reserved the power to requisition, to take over and to nationalize "other production means" (art.13)²⁷⁹.

The *Constitution*'75 defined that China had only two ownership of productive means (State and collective). For the corresponding period, individual activities were limited under very small scope, in addition, the Party-State ought to orient them gradually to "take the socialist collectivized road" (art.5). And according to art.6: "the State-managed economy stays the leading force in the national economy".

A much important point concerned the distribution principle which was new compared to the first constitution. The principles of "no working no eating", and "from each according to his ability, to each according to his work" was written in art.9.

As the third *Constitution* was made by political reasons concerning the "Gang of Four", thus it stayed basically the same tone as the second *Constitution* concerning the ownership system (art.5) and State-managed economy (art.6).

²⁷⁹ According to art.13: "The State may carry out, according to the law, requisition by purchase (*zhenggou*), taking over for use (*zhengyong*), or nationalization (*shougui guoyou*), urban and rural land, and other means of production".

In the last *Constitution*, there are 9 Articles concerning the ownership system. Again it defined the socialist public ownership of productive means as all-people ownership and laboring masses ownership (art.6). Again it emphasizes the predominant role of the State managed economy (art.7). But it insists *no more* the remolding of other forms of cooperative economic activities, they are then considered to be part of the socialist economy under collective ownership by laboring masses. Moreover, the State protects and helps the growth of the collective economy (art.8 and art.11).

To put all this synthetically, the first *Constitution* tolerated private ownership but encouraged "nationalization (*gongyoushua*)" of the private sectors left over from the pre-1949 period. The second *Constitution* was rather political, it showed the political struggles within the different political sides in the Party. The third *Constitution* played mainly the role to declare the end of the Cultural Revolution and to correct the extreme-leftism of the "Gang of Four" which was considered to be responsible of the ten years Cultural Revolution. It emphasized the new goal of the country which was the modernization of industry, agriculture, army, as well as science and technology. Compared to the first three *Constitutions*, the last one has much evolved. It has enlarged the limits of collective economies, and advanced that planning should be complemented by market (art.15). This has been the first time that "market" was mentioned in the *Constitution*. It has been also the

first time that in the *Constitution*, was mentioned the term "public ownership" which defined as "all-people ownership" and "laboring masses collective ownership". Also for the first time, it allows autonomy of management and of administration of the SPDs. It tolerates the existence of other forms of ownership under the title of "collective ownership". These were considered as the "capitalist tail" ²⁸⁰ before 1978 (art.8). It has allowed also foreign investments in China for the first time (art.18), it allows that the foreign investment to play important role in the Chinese industrial reform in certain sectors.

2.3.4 Amendments of the *Constitution*'82

Since 1982, two suggestions of amendments of some particular clauses have been advanced by the Party, the National People's Congress or its Standing Committee²⁸¹.

The modification of 1988 allows the existence and development of private-managed economies and transfer of the *usus* right of land under legal rang. The modification of 1993 was more important. There were nine clauses modified, among those five points are interesting [*Law yearbook of China*

²⁸⁰For the leftists, the "capitalist tail" that should be cut off. If we use the term of Nove [1988, p.399], it was rather "share-poverty socialism" during the cultural revolution.

²⁸¹For example, the suggestion of modification of 28th. February 1988 was firstly advanced by the Central Committee of the CPC together with the Standing Committee of the National People's Congress, then this suggestion was adopted (2 articles were replenished and modified) the 12th. April 1988 in the First Session of the VII National People's Congress [Yu, 1993, pp. 163-164].

1994, pp. 269-70]: 1) Concerning the socialist system, it was added "Our country is at initial stage socialism" (Preface). 2) Modification from "State-managed economy" into "State-owned economy" (art.7). And to change "State-managed enterprises" to "State-owned enterprises" (art.16). 3) To add the responsibility system of the family-contracting into the category of cooperative economy category (art.8). 4) The State will administer the national economy through "economic legislation" and "macroeconomic adjustment". "Prohibition to destroy economic planning" has been erased (art.15). 5) The "acceptance of State planning by the collective economic organizations" has been erased (art.17).

Further suggestions of amendments have been advanced in 1997 and 1998. Some suggestions concern the political (reform) aspects²⁸². Some suggestions from economists concern to add to the *Constitution*, the clauses such as "protection of the private-managed enterprises' interests", and "protection of the completeness of the private property", etc.²⁸³. These suggestions have not yet been adopted.

In looking at the Chinese constitutions, we see the evidence of the non-separation of Party, State, Government. The process of making any change has also showed that the Party (with its ideology) is still largely involved into the State and Governmental organs. In fact, they are combined legally by the constitutions. However, the evolution of the Chinese *Constitution* is

²⁸²Cf. *China economic times*, 13th. April 1998.

unprecedented. Along with the development and the need of the "socialist market economy" in the country, the constitutions tend to be less political.

2.4 The Laws

As we will see below, the number of laws has become more and more important, and in a tendency to replace progressively the administrative rules. Laws are having more weight among the rules of the game. For the period before late 1970s, there were few number of laws compared to the period after. We can characterize the "economic legislation" since 1978 into three periods: the early 1980s ; mid-1980s ; and since mid-1990s:

In the early 1980s, the "economic legislation" began by laws on income taxes concerning foreign invested enterprises²⁸⁴, law on individual income taxes (1980) for taxes collecting of relatively highly remunerated people.

In the mid-1980s, another wave of laws concerned economic contracts, for example, foreign technological contracts. Then laws on accounting, land, bankruptcy (1986), and on all-people-owned enterprises (1988) were issued.

Then since 1993, "economic legislation" has been more and more active. It concerns many domains: a) companies (1994), b) banks and financial fields, such as the laws on banks and commercial banks (1995), c) market, such

²⁸³Cf. *Figaro*, 4th. March 1998.

as laws on anti-unfair competition, on consumers' protection (1993), on market infrastructures such as on lawyers (1996), on pricing (1997), d) "collective economy", such as law on TVE (1996), or on partnership enterprises (*hehuo qiye*, 1997).

2.4.1 *Corpus Juris Civilis* in China

According to Chinese jurists, there has been no *Civil Code* (*Corpus Juris Civilis*) in China by historic reasons. Since 1949, there have been three waves of discussions of drawing up a *Civil Code*. The first two waves of the discussions were mainly based on a translated Soviet *Civil Code*, which rooted itself from the *Roman Law*²⁸⁵. Thus historically, the work on *Civil Code* in China has inherited largely from the *Roman Law* style. However the *Roman Law* has never been studied or directly translated into Chinese until 1996. The third discussion wave in China began by adopting a first *General Rules of Civil Law* in 1986²⁸⁶. The work of a *Civil Code* was on the way, but still needed further development [M. Huang 1995 ; La Xi Sisci, 1996]. Before the *Civil Code* will be accomplished, the *General Rules of Civil Law* give the rules about the rights of

²⁸⁴ Apart from the laws on agriculture or other fields, the first law concerning economic reform is the *Enterprise law on Sino-foreign joint-ventures*, issued in July 1979.

²⁸⁵ The first *Civil Code* was translated from German into Chinese during the first Republic (1912-1949). But suite of the entering to power of the CPC, all the republican laws were abolished. After 1949, the Soviet *Civil Code* was translated into Chinese, which itself was a translation of the German *Civil Code* (published 24th. August 1897, implemented since the 1st. January 1900). This German *Civil Code* was made based on the *Code Civil de Napoléon*, promulgated the 21st. March 1804 [M. Huang, 1995 ; La Xi Sisci, 1996, p.22].

²⁸⁶ During the Fourth Session of VI National People's Congress.

property (State, Collective and individual rights) and are destined to all production *danweis* [Liang et al. ed., 1996, pp. 472-526].

2.4.2 Laws concerning the industrial reform

Since the early 1980, a very large number of economic-reform-concerned laws have been issued. By the evolution of the laws concerning the industrial reform, we remark the following outstanding features of the industrial-reform-concerned laws:

The "economic legislation" tended to shift from the foreign invested enterprises to domestic SPDs. The first industrial-concerned law issued in July 1979, was the law on Sino-foreign joint-venture enterprises. Then the first laws on SPDs was issued in 1988. In fact, there have been few law on the SPDs. For the period we study from 1978 to 1997, only one law on the SPDs, *Law on all people ownership industrial enterprises*, adopted by the VII National People's Congress (13th. April 1988) taking in effect from 1st. August 1988 forth. As the SPDs were part of the planning, thus rules for them were mostly administrative issued by the Government.

The *Company Law* is destined not only to the SPDs, but to any productive entities (collective, or private) to take the form of a company. Even the law specifies that the decision power inside a company should come from

the Shareholders' Assembly, however the article 17 of this law defines the CPC's leading role in companies.

Moreover, there had been rarely laws on collective *danweis*. Some laws on TVEs and "partnership enterprises" have been issued only by the end of 1990.

The legislation shifts also from discrimination to equality, that is, there was distinction between "foreign" side and "domestic" side in terms of tax rates, bank credits, etc.. Since 1994, there has been tendency of equality, even distinction for "JVs" and "foreign enterprise" exists until present. The same for laws on "economic contracts" and "contracts with foreign links". The fact that legal environment for foreign invested companies is different from that for the SPDs, leads to competition distortion between the SPDs and the foreign invested companies. The tendency is to converge these two different domains.

2.5 Concluding remarks about the legal environment evolution

Generally speaking, the laws have been issued with a certain order: from coastal side-concerned to inland side-concerned ; from agriculture concerned to industrial concerned ; from less strategic fields to more strategic fields ; from civil side to penal side ; from economic to administrative.

Since the end of 1990s, there have been more and more revisions of existing laws, and numerous transformations from rules and regulations

issued by the Governmental organs into laws adopted by the National People's Congress. The latter declares the approbation of these rules and regulations and the old laws²⁸⁷.

Another remarkable point is the decentralization of the "economic legislation". The National People's Congress empowered certain of its local organs for local laws in November 1981²⁸⁸. Then in 1985, it empowered also the State Council for making temporary regulations on reform and opening²⁸⁹, the point is that, in fact, the State Council had begun to do this since 1949, this is just a procedure to legalize an existing fact.

We have followed some official Chinese publications regularly for the period that we study. At the beginning of the reform in China, the laws, together with the administrative rules and regulations, as well as the political decisions, and important speeches of the highly-ranked political figures, were all regarded and regrouped as the "State economic policy". Distinction of the nature of these important rules has been become evident recently and gradually²⁹⁰.

²⁸⁷According to our incomplete statistics, every year there are about 15-20 acts of approbation issued either by the National People's Congress and its Standing Committee, or by the State Council for the administrative rules [Almanac of China's Economy].

²⁸⁸The 21st. Session of the Standing Committee of the V National People's Congress, adopted the *Resolution about to empower the local People's Congresses and their local Standing Committees of Guangdong and Fujian provinces to make the SEZs' subordinating laws and regulations*.

²⁸⁹The Third Session of the VI National People's Congress made a decision on empowering the State Council to make temporary regulations or provisions about the reform and opening the 10th. April 1985.

²⁹⁰For example, *Almanac of China's economy* 1981-1989 and 1992-1995. For the first publication (that of 1981), all was regrouped together under rubrics "Important economic documents and economic policies and regulations". For those of 1982-1985, the important speeches of the highly-ranked political figures were regrouped separately as "Important economic documents", the rest was in the rubrics of "Important economic policies and regulations". Then for those of 1986-87, documents titled by "the Central of the CPC" had become rare in the rubrics of "Important economic policies and regulations". Since 1988, three important changes may

Since the mid-1990s, the Central Committee has made less decisions on the reform, looking at the last National People Congresses, the legislative capacity has become more and more important. However this is still a question of *form*, i.e., the CPC still plays important role behind the legislative form of setting up the rules of the game. Evidently the bottom line of this separation of politics and legislation is the stability of the leading position of the Party.

As SPDs were part of the Governmental organs, part of the planning, so aside this influence of the legal environment, there is another noticeable environment, the administration with its rules and regulations that are important for the industrial reform. We will see this in the following section.

be remarkable: 1) the rubric of "State economic policies and regulations" was transformed into "Economic legislation". 2) there began the distinction of laws (issued by the National People's Congress) and regulations (rules and regulations issued from Governmental organs). This distinction has become more evident since 1989. 3) there were rarer documents titled by "the Central of the CPC" (except 1993, a *Decision*, issued by the Party's Central and the State Council about Tertiary industries ; except 1994, two *Provisions* ; 1995, one *Opinion*).

Table III.5: Most important laws.

<p>1st. July 1979, Second Session of V National People's Congress adopted the <i>Enterprise law on Sino-foreign joint-ventures in the PRC</i>.</p> <p>26th. August 1980, the 15th. Standing Committee of the V National People's Congress decided to set up SEZs in Shenzhen, Zhuhai, Shantou, Xiamen, and adopted the <i>Regulations of the SEZs in Guangdong Province of the PRC</i>.</p> <p>10th. September 1980, Third Session of the V National People's Congress adopted the <i>Individual income tax law of the PRC</i>. This law is modified the 31st. October 1993.</p> <p>10th. September 1980, Third Session of the V National People's Congress adopted the <i>Income tax law for Sino-foreign joint-ventures enterprises in the PRC</i>. It is revised the 2nd. September 1983.</p> <p>26th. November 1981, the 21st. Session of the Standing Committee of the V National People's Congress, adopted the <i>Resolution about to empower (shouquan), the local People's Congresses and their local Standing Committees of Guangdong and Fujian provinces to make the SEZs' subordinating laws and regulations</i>.</p> <p>13th. December 1981, the Fourth Session of the V National People's Congress adopted the <i>Economic contract law of the PRC</i>. This law is modified the 2nd. September 1993.</p> <p>13th. December 1981, the Fourth Session of the V National People's Congress adopted the <i>Law on income tax for foreign enterprises in the PRC</i>.</p> <p>2nd. September 1983, the Second Meeting of the Standing Committee of the VI National People's Congress adopted a decision to revise the <i>Income tax law of the Sino-foreign joint-venture enterprises in the PRC</i>. The first version was adopted 10th. September 1980.</p> <p>21st. Jan. 1985, the 9th. Standing Committee of the VI National People's Congress adopted the <i>Accounting Law of the PRC</i>.</p> <p>21st. March 1985, the 10th. Meeting of the Standing Committee of the VI National People's Congress adopted the <i>Economic contract law concerning foreign affairs in the PRC</i>.</p> <p>10th. April 1985, the Third Session of the VI National People's Congress made a decision on empowering (<i>shouquan</i>), the State Council to make temporary regulations or provisions about the reform and opening.</p> <p>19th. March 1986, the 15th. Meeting of the Standing Committee of the VI National People's Congress adopted the <i>Law on mining resources of the PRC</i>. This law is modified the 29th. August 1996.</p> <p>12th. April 1986, the Fourth Session of the VI National People's Congress adopted the <i>Law on foreign invested enterprises in the PRC</i>.</p>

25th. June 1986, the 16th. Standing Committee of the VI National People's Congress issued the *Land Management Law of the PRC*.

2nd. December 1986, the 18th. Session of the VI Standing Committee of the National People's Congress adopted the *Law of bankruptcy of enterprises in the PRC (trial implementation)*.

23rd. June 1987, the 21st. Meeting of the Standing Committee of the VI National People's Congress adopted the *Law on technological contracts in the PRC*.

13th. April 1988, the First Session of the VII National People's Congress adopted the *Law on all people ownership industrial enterprises*.

13th. April 1988, the First Session of the VII National People's Congress adopted the *Law on Sino-foreign cooperative enterprises in the PRC*.

29th. December 1988, the Fifth Meeting of the Standing Committee of the VII National People's Congress adopted the *Standardization law (of industrial products) of the PRC*.

29th. December 1988, the Fifth Meeting of the Standing Committee of the VII National People's Congress adopted the decision to revise the *Land management law of the PRC*.

15th.-16th. October 1990, the Standing Committee of the National People's Congress held a working meeting with the legitimate people in charge of the SSRC and other concerned services, the meeting advanced to accelerate the elaboration of the laws which guarantee the reform, such as the *Planning law, Bank law, Pricing law, Company law*, etc..

9th. April 1991, the 4th. Session of the VII National People's Congress adopted the *Income tax law of the foreign invested enterprises and foreign enterprises in the PRC*.

20th. March - 3rd. April, 1992, Fifth Session of the VII National People's Congress adopted the *Trade union law of the PRC*.

4th. September 1992, the 27th. Meeting of the Standing Committee of the VII National People's Congress adopted the *Method of tax levying and management in the PRC*, meanwhile the *Provisional regulation on tax levying and management of the PRC*, issued by the State Council the 21st. April 1986 is abolished.

2nd. September 1993, the Third Meeting of the Standing Committee of the VIII National People's Congress adopted the modifications of the *Economic contract law of the PRC*. The first version of this law was issued 31st. December 1981. The revised draft was agreed in principle by the State Council the 28th. May 1993.

2nd. September 1993, the Third Meeting of the Stranding Committee of the VIII National People's Congress adopted the *Anti unfair competition law of the PRC*. The trial version was agreed in principle by the State Council the 28th. May 1993.

31st. October 1993, the Fourth Meeting of the Standing Committee of the VIII National People's Congress adopted the *Protection law on the consumers' rights of the PRC*.

31st. October 1993, the Fourth Meeting of the Standing Committee of the VIII National People's Congress adopted the modification on the *Individual income tax law of the PRC*. The first version was adopted the 10th. September 1980.

31st. October 1993, the Fourth Meeting of the Standing Committee of the VIII National People's Congress adopted the *Registered accountant law*.

29th. December 1993, the *Company Law in the PRC* was adopted during the Fifth Meeting of the Standing Committee of the VIII Assembly of the National People's Congress.

29th. December 1993, the Fifth Meeting of the Standing Committee of the VIII Assembly of the National People's Congress adopted the *Law of property declaration* (draft).

29th. December 1993, the *Revised Accounting law of the PRC* was adopted during the Fifth Meeting of the Standing Committee of the VIII Assembly of the National People's Congress.

29th. December 1993, the *Decision of the temporary regulation of the Standing Committee of the National People's Congress on VAT, consumption tax, operating tax of the foreign invested enterprises and foreign enterprises* was adopted during the Fifth Meeting of the Standing Committee of the VIII Assembly of the National People's Congress.

5th. July 1994, the 8th. Meeting of the Standing Committee of the VIII National People's Congress adopted the *Laboring law*.

31st. August 1994, the 9th. Meeting of the Standing Committee of the VIII National People's Congress adopted the *Auditing law of the PRC*. Meanwhile the *Regulation of the auditing in the PRC*, issued by the State Council in 1988 is abolished.

28th. Feb. 1995, the 12th. Meeting of the VIII National People's Congress adopted the revision of the *Law of tax levying and management in the PRC*. This law was firstly issued the 4th. Sept. 1992.

18th. March 1995, the 3rd. Meeting of the VIII National People's Congress adopted the *Bank law of the PRC*.

10th. May 1995, the 13th. Meeting of the VIII National People's Congress adopted the *Law on bills and notes/vouchers in the PRC*, taking in effect the 1st. Jan. 1996.

10th. May 1995, the 13th. Meeting of the VIII National People's Congress adopted the *Commercial bank law*, taking in effect the 1st. July 1995.

15th. May 1996, the 19th. Meeting of the Stranding Committee of the VIII National People's Congress adopted the *Lawyers' law in the PRC*.

29th. October 1996, the 22nd. Meeting of the Standing Committee of the VIII National People's Congress adopted the *Law of TVEs in the PRC*, issued the same day, taking in effect the 1st. January 1997.

23rd. Feb. 1997, the 24th. Meeting of the Standing Committee of the VIII National People's Congress adopted the *Partnership enterprise law of the PRC*.

9th. May 1997, the 25th. Meeting of the Standing Committee of the National People's Congress adopted the *Employment policy charter*, of the International Workers Organization, which is adopted in the 48th. Meeting in 1964.

29th. December 1997, the 29th. Meeting of the Standing Committee of the VIII National People's Congress adopted the *Pricing law of the PRC*, issued the same day, taking in effect the 1st. May 1998.

5th.-19th. March 1998, IX National People's Congress adopted 3 reform plans of Zhu Rong-ji, the new Premier - 1) SPDs reform will center at the MEI, 2) administration reform, 3) financial/banking system reform.

3. Evolution of the administrative environment: administrative rules

By the 1980s, political decisions and administrative rules²⁹¹ acted mainly in regulating every economic activities, there were few laws. The political decisions and administrative rules were often classified as part of the legal rules. In fact, the political decisions and administrative rules acted *in the place of* the laws.

As SPDs were like the administrative organs under the State Council, so there had been many administrative rules concerning every aspects of the SPDs. Along with the introduction of more and more market elements, a large number of the small and medium size *danweis* are allowed to function under market rules, thus the role played by the administrative rules tends to go down even the number of the administrative rules is still quite important. The number of issued administrative rules is still very large since 1978. Only by its quantity, we can feel the force of the planning.

As we have seen, the regulations and provisions or circulars are formulated by the State Council²⁹², or by other Commissions or Ministries, or the (local) People's Governments, based on the *Constitution* and the laws. These are "decreeing documents" with certain mandatority and binding force.

²⁹¹Here we use "administrative rules" to mean generally the rules and regulations issued by the central or local Governments.

²⁹²Or sometimes together with the Party's Central.

They are the concrete expression of the Government's general and specific policies in every domain, in particular the industrial policies.

As the Chinese reform is a gradual process, there had been heavy inertia of the planned system. Even there are laws, they need Party's or administrative order to implement the laws. For the example, after the issuing of the *All-people-owned industrial enterprises law*, the Party sent out a circular for this purpose²⁹³. In fact, in a way the political and administrative environment help the legal and the market environment. It is so evident that the Party is at the same time the umpire and player in the game.

Technically, three aspects concern the rules and regulations. Firstly, the detailed application methods of certain laws are expressed by the administrative rules issued by the State Council. Often, when there is a law issued by the National People's congress, there will be "detailed rules" or supplementary rules issued by the State Council for the concrete execution of the law. Secondly, there were numerous "temporary regulations" by the late 1980s, then they have been gradually replaced by laws at the early 1990s. In fact, almost all the legal or administrative rules for the period of our study were "temporary", or "draft". So were numerous laws. In the past, for the period of 1949-1954, also almost all laws were suffixed "temporary"²⁹⁴ too. Alone with the reform laws tend to replace more and more the administrative

²⁹³28th. April 1988, the Central of the CPC sent out a circular, asking every level Party's organizations and all Party members to be the first to carry out the *All-people-owned industrial enterprises law of the PRC*.

rules, once the law is issued, the corresponding regulation is abolished. There have been also new regulations replacing old ones. This shows the dynamism of the Chinese institutional change.

The general tendency of the regulations is to be more technical and economic, such as the index system of measuring SPDs' performance, or rules on the bonds and shares.

The field of influence of the administrative rules is very large, it touches every aspects of the country. The following table shows us some most important administrative rules and regulations from 1979 to 1997. By field of influence, concerning economic activities, we can look at the administrative rules in two aspects: market-concerned and industrial reform-concerned.

The market-concerned administrative rules touch upon every aspect of market regulation, such as price liberation, control of price augmentation (inflation), fixation of wage scale, income taxes for collective and private entities, VAT, foreign exchange control, etc..

The industrial reform-concerned rules touch upon every aspect of a sector or a *danwei*, for example, for a sector, the *Automotive industry policy* (March 1994) was issued by a circular of the State Council ; for a *danwei*, the administrative rules involve the management of a *danwei* (e.g., the responsibility of a factory director, or fixed assets management), the selection

²⁹⁴ Aron Shai, Brown Bag seminar at the East Asian Institute, Columbia University, 10th. Sept. 1998, based on his book, 1996, *The fate of Britain and French firms in China 1949-54 imperialism imprisoned*. St. Antony's Services.

of *danweis* for pilot projects, changing the allocation to credits, permission of selling products off-planning, to change the profit withdrawal to tax, separation of profits and taxes, to sell or rent the small size *danweis*, permission to use function-cars in local industrial *danweis*, etc..

In reality, the reform is in fact concretely oriented and carried forward by the administrative rules.

In a word, the administrative rules ever acted as laws before the 1980s, they constituted the large planning environment for the *danweis*, the great number of the administrative rules is necessary for the role that they play. At present, they still exist largely to accompany the reform, they act as the concrete methods of a political decision or a law. With the introduction of more and more market relations among the *danweis*, their role will decrease. But in short term, they play still important role for the industrial reform.

Table III.6: Most important rules and regulations.

<p>On 25th. May 1979, the State Economic Commission, Ministry of Finance, and other 4 relevant ministries gave out a circular, deciding to choose 8 enterprises to form a pilot on "enterprise management reform".</p> <p>3rd. July 1979, the State Council promulgated The <i>Rules (guiding) on certain questions about the development of enterprises of communes and production teams (trial draft)</i>.</p> <p>13th. July 1979, the State Council promulgated 5 regulations on the SPDs. The same year, the State Council asked the Ministries to select a few number of SPDs for experience. Since then, the SPDs can have certain autonomy and preserved profits.</p> <p>26th. July - 9th. August 1979, the State Council hold a meeting on commodity prices and national salaries. The meeting decided to raise the prices of pork meat and other 7 non-staples foods and consumer goods made from these foods. Meanwhile all workers receive some monthly prime for this "inflation", 40% of the working individuals will have promotion of wage scale.</p> <p>28th. August 1979, The State Council, promulgates the <i>Experimental rules on loans of basic constructions</i> after a relevant report by the State Construction Committee, Finance Ministry. Since then the State allocation for basic construction has become the bank loans.</p> <p>12th. November 1980, the State Economic Commission, Financial Ministry, Construction Bank together gave a circular, which decided that, from 1981 and on, the State allocations under the State Economic Commission and the Financial Ministry on excavation, innovation, remoulding will change into bank loans.</p> <p>18th. November 1980, the State Council approved a report of the State Planning Commission about to transform allocations ton loans, which decided that, since 1981 and on, all independent accounting units, capable of reimbursing debts, will adopt the this system.</p> <p>7th. December 1980, circular of the State Council: <i>Circular about strictly controlling prices, rectifying negotiated prices</i>.</p> <p>8th. August 1981, the State Council approved <i>Temporary provisions about the management of market of industrial production means</i>. It stipulates that, the parts as "enterprise self selling" or surplus can enter into market for liberal purchase and sale.</p> <p>16th. March 1982, the State Council promulgated the <i>Temporary provision about professional companies' management system national wide</i>. It says, national professional companies are not listed as the State Council's administrative organs, they are lead by relevant departments, these companies have autonomous management rights, and are economic entity.</p> <p>10th. April 1982, the State Council gave out a circular to forbid blockade in purchase and sale of industrial goods.</p>

6th. August 1982, the State Council promulgated the *Provisional regulations on commodity prices management*.

16th. September 1982, the State Council decided to release the prices of 160 small goods, to let them be adjusted by the market.

24th. April 1983, the State Council approved the *Temporary method about to transfer the profit withdrawal into tax, ligaishui, of the State managed enterprises*. This method took in effect from the 1st Jan. 1983 forth.

29th. April 1983, the Ministry of Finance issued *Temporary provisions about to levy income tax on the State managed enterprises*. The provision provided to levy 55% income tax on realized profit of the State managed enterprises.

1st. September 1983, the State Council approved to go further in releasing the small goods' prices, the second wave of price liberation concern 350 categories of goods.

4th. October 1983, the State Council approved the *Report about reinforce the policy of make price by its quality of industrial goods*, by the State Commodity Prices Bureau and the State Economic Commission.

5th. March 1984, the State Council promulgated the *Regulations on cost management of the State managed enterprises*.

18th. September 1984, the State Council approved a report from the Ministry of Finance on the second step of "transforming profit withdrawal to tax (*Ligaishui*)", and approved also the *Trial method of second step of ligaishui*, which will take in effect from the 1st. October 1984 forth.

11th. April 1985, the State Council promulgated the *Provisional regulations of income tax of the collectively owned enterprises in the PRC*.

26th. April 1985, the State Council promulgated the *Trial regulations on fixed assets' depreciation of the State managed enterprises*.

11th. Sept. 1985, the State Council approved the *Temporary provisions on several questions about revitalize the large and medium State managed industrial enterprises*, edited by the State Economic Commission and the State System Reform Commission.

7th. Jan. 1986, the State Council issued the *Temporary provisions on the income tax of individual industries or commerce in cities and town in the PRC*.

7th. November 1986, the State Council approved the opinion of the State Institutional Reform Committee about "pilot project of enterprise responsibility system". Then six cities have been chosen for this project: Shenyang, Chongqing, Wuhan, Shijiazhuang.

5th. December 1986, the State Council issued *Several provisions on deepening the enterprise reform and revitalizing the enterprises*.

27th. March 1987, the State Council issued the *Provisional regulations on management of enterprises' bonds*.

7th. April 1987, the State Council transmitted the SPC's *Temporary provisions about put large industrial groups as special cases in the State planning*.

7th April 1987, the State Council approved the *Methods about the foreign invested enterprises taking credits from the Bank of China*, which took in effect from the 24th. April 1987 forth.

23rd.-27th. April 1987, the State Economic Commission convened a seminar on the "contracting responsibility system (*chengbao zerenzhì*)", to study a plan on generalizing this system to the large and medium size enterprises.

25th.-29th. August 1987, the State Economic Commission, Central Organization Department, the National Syndicate held a working meeting on generalizing the "factory director's responsibility system", the meeting advanced to generalize this system at the same year in the large and medium size enterprises, by the end 1988 in all all-people owned industrial enterprises.

27th. February 1988, the State Council issued the *Provisional regulations on contracting responsibility system of the all-people ownership industrial enterprises*.

5th. June 1988, the State Council issued the *Provisional regulations of renting small size all-people ownership enterprises*, which took in effect from 1st July 1988 forth.

25th. June 1988, the State Council issued the *Regulations on private-managed enterprises in the PRC*, which will take in effect from the 1st July 1988 forth. And the *Provisional regulations on income tax of private-managed enterprises in the PRC*, and the *Provisions on the adjusted tax on individual incomes of private-managed enterprises*, which took in effect from 1988 forth.

15th. July 1988, *Regulation regarding the leasing system in small-sized state-owned enterprises*, in *Economic Daily*.

29th. July 1988, *Regulation regarding the privately-owned enterprises of the PRC*, in *Economic Daily*.

19th. February 1989, the State System Reform Committee, SPC, Ministry of Finances, State State-owned Assets Bureau issued the *Temporary method on enterprises' take over*. The State System Reform Committee, Ministry of Finances, State State-owned Assets Bureau issued *Temporary method on selling property rights of small State-owned enterprises*.

21st. March 1989, the Ministry of Finances, the State System Reform Commission distribute the *Experimental program of separation of profits and taxes in the State-owned enterprises*.

22nd. July 1989, the State Council issue a *Circular about authorized rights of State-owned land's usus right*.

10th. November 1990, the State Council issued a circular about to break the inter-regional "market blockade", to further vitalize the commodity circulation.

19th. July 1991, the State Council demanded enterprises to follow *Economic contract law*.

14th. August 1991, the Finance Ministry and the SSRC issued the *Pilot project method on SOEs about "separation of tax and profits", "reimburse loans after tax", "contracting after tax"*.

16th. November 1991, the State Council issued the *Method of assessment of State owned assets*.

11th. May 1992, the SASP, Finance Ministry, State Industry and Commerce Bureau issued the *Trial method of State owned capitals' registration*.

15th. June 1992, the SSRC, SPC and other 3 departments issued the *Method for share system pilot enterprises*. The same day the SSRC issued the *Opinions on norms of sharing limited companies*, and the *Opinions on norms of limited responsibility companies*.

22nd. July 1992, the State Council issued the *Regulation on transforming the management mechanisms in all-people-owned industrial enterprises*.

The 115th. "day to day" Meeting of the State Council adopted the *Provision about settle the surplus workers*, issued by Decree #111 the 20th. April 1993.

12th. May 1993, the State Council issued a circular about promoting the productive enterprises to well manage the import-export aspects.

26th. November 1993, the 12th "Day to day meeting" of the State Council adopted the *Provisional regulation on VAT in the PRC*, issued by Decree #134 the 13th. Dec. 1993.

26th. November 1993, the 12th "Day to day meeting" of the State Council adopted the *Provisional regulation on consumption tax in the PRC*, issued by Decree #135 the 13th. Dec. 1993.

24th. Jan. 1994, the 15th. "Day to day meeting" of the State Council adopted the *Provision on working hours*, issued by Decree #146 the 3rd. Feb. 1994.

12th. March 1994, the State Council issued a circular of the *Automotive industry policy*.

24th. July 1994, the State Council issued the *Regulation on supervision and management of assets of SOEs*, taking in effect the same day [SSRC, 1994].

31st. Dec. 1994, the SASP, the Finance Ministry, and the Laboring Ministry, issued the *Interim provisions on examining the protection and increase of the value of State owned assets*, taking in effect the 1st. Jan. 1995.

24th. Jan. 1996, a circular of the General Office of the State Council on the *Proposal of the State tax administration on adjusting the limits of jurisdiction in tax imposition and administration by Central and local tax organs* [1996, #3, pp. 81-2].

29th. Jan. 1996, Decree #193 of the State Council issued the *Regulations of PRC's governing the administration of foreign exchange*, taking in effect since 1st. April 1996. The document issued 18th. Dec. 1980 is abolished.

22nd. April 1996, SSRC, Finance Ministry, Laboring Ministry and Hygiene Ministry issued the *Proposals on expanding the reform of medical security system on a trial basis*.

10th. August 1996, the State Council (*bangongting*) notice on (*zhuanfa*) SPC's *Opinion about canceling the limit on local danweis to use economic car*.

10th. September 1996, the SASP issued the *Rules for the provisions governing the registration of property rights of State owned assets in enterprises*.

Supplementary provisions to provisions on the sharing of financial capital between Chinese and foreign partners to JVs. [1997, #33, p.1486].

21st. October 1997, Circular on issuing the *Provisions on issues related to tightening up financial supervision over SOEs*, and provisions [1997, #38, p.1652].

4. Introduction of market elements in China: main features

Before 1979²⁹⁵, the logic of socialism was to get rid of market, and China experienced a constant strive to hunt any rest of market-driven behaviors, seeking profits by individuals or productive *danweis* was discouraged. Since the reform however, most of the market elements have been *introduced* or promoted by the Chinese Authority. It is not exaggerate to say that market environment comes out important after the political, legal, and administrative environments. However market logic is based on "profits seeking and profits maximizing" by individuals, this was *not* the logic of socialist planning, this was what the socialist planning wanted to replaced. Thus without the acquiesce of the Central of the CPC, market elements could not have existed and developed in China.

Before starting a conceptual analysis of the place of market in China today, let us have a *direct feeling* of people's conception. In the questionnaire that we distributed in 1995-1996 ²⁹⁶, we questioned French autoparts industries which had projects in China, 24% of them thought that China ran market economy ; 35% thought that China ran planning ; 28% thought that Chinese economy ran in-between market and planning. In our discussions with some of the SPDs managers (especially that of the large or medium size) and Chinese economists in various occasions, on the question of the

²⁹⁵Even during the Cultural Revolution, the "Gang of Four" advocated that "we want rather poor socialism than rich capitalism". Deng criticized this slogan after he returned to power in 1974 [Deng 1993, p.171].

understanding of "socialist market economy", most of them omitted often the epithet "socialist" in the expression "socialist market economy", even some of them affirmed that the so-called "socialist market economy is just market economy".

By now the debate of "what is socialist market economy" stays still open. In Chapter Two Section One, we have argued that the so-called "socialist market economy" is a co-existence of market elements and socialist ideology and its public ownership. Here we will look at the concrete features of the market elements introduced in China. We will look at the following aspects:

- 1) Market as organization and institutions.
- 2) The birth of the market: growing outside the Plan, growing from the Plan (grey zones).

4.1 Market as organizations and institutions

According to Bienaymé, [1982, p.48], "The fundamental institution on which rests the organization of a society is the market". But as an institution, the market in turn rests on various elements and infrastructures. These determine the way and the extent that the market forms the basis of social regulation.

As a socialist country, China tries to make use of market elements to develop its economy. This is the so-called "socialist market economy". Here let

²⁹⁶Cf. Giraud et al. 1996.

us look at the market elements and infrastructure of this "socialist market economy" in the following aspects.

4.1.1 Price role and price liberalization

In a capitalist market economy, price acts as market signal both for consumption products or production means. But in socialist planning, the price is just like a symbol to facilitate the planning. The general equilibrium of the national planning is mostly based on the balance of real goods.

In China, until 1979, 95% of the industrial production was under compulsory planning [Chai, 1994], all prices were administrative, i.e., prices of industrial products were fixed by the central Plan²⁹⁷. However not all prices were fixed at the highest central level, for some local products and secondarily important products, decisions were made by local administrative organs. This must not to be misunderstood: it was rather an administrative *de-concentration* than decentralization [Bettelheim, 1971, p.23].

With the introduction of "commodity economy" since the late 1970s, price has been gradually liberalized. For industrial products, by 1979, the Plan controlled the price of only 256 products²⁹⁸. Since 1979, the SPDs began to have some decision power on off-quotas products, and could sell the surplus

²⁹⁷Yang Po, 1964, "Price policy in new China", in *Beijing information*, 23rd. November, p.6, cited in Bettelheim, 1971, p.19.

products with a price superior to the planned price [Gelb, Jefferson, Sign, 1993]. In 1984, the SPDs were allowed to buy and sell on emerging market once their planned objective was achieved. 20% price fluctuation was agreed by the Central, between the "market price" and the "negotiated price" [Byrd, 1992 ; Gipouloux, 1993 ; Fan, 1994]. The result was that the "dual track" pricing system existed with two channels of distribution [Chavance 1992], this led to the famous "*guandao* phenomenon"²⁹⁹.

After a return to Plan in the early 1990s, the price went on to be liberalized since 1992. Then, officially the Central controlled only 5% of consumption goods, and 15% of industrial commodities [Niu, 1994]. By late 1990s, only strategic products were still controlled. Price began to play more as a market signal in the "socialist market economy". For automobile products, prices were rather set by the Central Government, but with some margin of variation.

4.1.2 Demand and supply

To whom to produce? Demand in capitalist market economy means the "product-mix" that the consumers buy from a producer. Before the introduction of market elements in China, this notion did not exist in China,

²⁹⁸In fact, the Chinese central planning was much less important compared to the Soviet one. The Soviet *Grospan* controlled 15 000 products [Chevrier, 1991].

²⁹⁹I.e., the cadres (most of them were family members of the high level leaders) who controlled the goods and products made private profits by using the two distribution channels.

the choice of products and the quantity that should be produced by a *danwei*, all were decided by the Plan. The production *danweis* were coordinated by the Plan. They formed *networks* inside which, the industrial products circulated following the *planned directions*.

Since the twenty years' reform, there began to have a nascent demand following the nature of market economy. The demand of consumption goods had developed rapidly in terms of quantity, quality, consumers preference, channels of distribution, etc..

But for industrial products, it was more complicated as it concerned the relations among *danweis*, the industrial organization still needed to be reformed. As we will see in the next Part, for the automotive sector, the local Governments often made earnest efforts to encourage the automotive production on their territories. They influenced the demands of cars directly³⁰⁰ or indirectly through local *danweis*³⁰¹.

When an investor in a capitalist market economy decides to invest to establish a factory of certain product, he/she is often motivated by his/her personal ambition and the goodwill that the profit that he/she is supposed to earn will be superior than other forms of investment. Thus he/she has to try to produce always with a better quality and a less cost face to existing competitions.

³⁰⁰For example, the Wuhan city asked their cadres to use only Fukang car as functional cars.

³⁰¹For example, in Shanghai, most of the taxis are Shanghai-VW cars, and in Tianjin, most of the taxis are Dafa vans or Xiali mini cars.

However, most of the all-people owned production *danweis* have been set up under other reasons than individual ambition and profit seeking. For example, as we will see in Chapter Four, the SAW was set up rather under some political and military strategy. Since the reform, production units were encouraged by the Central to meet the nascent "market demand", which meant that the industrial product's outlet could be sold to downstream *danweis* under competition of quality³⁰² and price, etc.. From 1976 to 1989, free market penetration in the total production had augmented from 5% to 20% [Cycle Mines, 1993, p.24]. In 1993 ISO9000 standard was put into national wide application [CASS, 1996, unpublished *Industrial record*].

During the period of our study, for the automotive products, the distribution of was still controlled by State-owned *danweis*. Evidently, the organization and the manner of distribution was to be reformed. We will see the example of the automotive sector in the next Part.

4.1.3 Competition

In capitalist market economy, competition among firms is not a constant, it varies following economic sectors, and it is subjected to different

³⁰²To emphasize the notion of quality, 1992 was designed as the "Year of quality" [Far eastern review, 92.4.23].

intensities under specific conditions³⁰³. Competition renders the productive agents to maximize the quality of products and minimize the costs.

Under socialist planning, *danweis* in a same sector followed the orders often from the same superior hierarchy, thus among these *danweis*, there existed rather "socialist emulation" than a "market-nature competition". The emulation was not motivated by monetarized incentives, neither other material incentives but ideological encouragement, which was to constructing the Socialism and to achieve the Communism. SPDs were encouraged to "do better than the capitalist countries", to "serve the people", or to "satisfy the needs of the society". Since the opening, the Central encourages that the upstream and downstream relations among the SPDs should change from planned nature into market competition. In their jargon, *danweis* have to "find rice to eat by themselves".

There were several problems in the nascent market economy, such as mainly the difficult competitive environment. This consists of:

1) Systemic inertia, i.e. the SPDs did not know to react to market need, and the "sales of the products of the SPDs" did not correspond to the need of market. In many Chinese economic literature, we see that, when analyzing the SPDs' problem of the outlets of the products, they accused that the "sales of the products of the SPDs" did not correspond to the need of market. However, few have explained the problem by pointing out the root reason. That is that

³⁰³Cf. Roaymond Collard, 1971, *Le management de l'innovation*, p.1.

the SPDs were constructed in a socialist logic, in which they needed not to "sale" their products to the "market", the market was practically nil, their products circulated inside networks planned *a priori* by the Plan.

2) In the nascent tax system, there were many favorite policies to foreign invested companies, but few to SPDs, which paid more taxes, thus the competition environment was not fair.

3) Technologically, the equipment of SPDs was generally quite obsolete compared to the world level.

4) Observations showed also that the bankruptcy was not necessarily a choice of market, bankruptcy cases were often under administrative or corruptive manipulations.

5) For the automotive sector, the main entry barrier was rather administrative than economic. Investment was still decided by the central or local Governments than by private investors. Particularly, for all automotive JVs, the Chinese Authority did not allow more than 50% of foreign capital.

4.1.4 Market infrastructures

Market infrastructures cover a very wide range. They include all intermediate market institutions, such as, accounting and auditing system, law systems, banking systems, financial systems, foreign exchange, social security

system, housing system, etc.. However before the opening, most of these institutions did not exist, or they existed not for the logic of market.

The idea of the reform since 1994 has been to establish "completely coordinated reform (*peitao gaige*)". Then these infrastructures have to be set up gradually. For example the legal infrastructure such as the law systems³⁰⁴. This shows the change from "administrative relations" among *danweis* to a kind of "legal relations" under a background of market logic.

The accounting and auditing systems in China has been largely reformed since 1993. Relevant law and regulations about the SPDs' accounting system have been issued then. The reform of the accounting system reform has been quite qualitative, but the application happened often in foreign-invested companies, or private companies, and little in traditional *danweis*.

"Unemployment does not exist in a socialist country" - this is one of the slogans propagating "socialist superiority" vis-à-vis capitalism. The large existence of the "young people waiting for job (*daiye qingnian*)" in the 1970s and 1980s, showed that this slogan was not true. Needless to recall the existence of millions of off-post workers (*xiagang*)³⁰⁵. As a centralized unemployment system has not yet been established, and following the rural exodus, unemployment will be a key problem for China in the next years. As

³⁰⁴For example, unprecedentedly in the Chinese history, a *Dictionary of Chinese notarized lawyers* has been published (Hualing Press, 1993). In the introduction of this dictionary, it is written that following the development of "legal economy (*fazhi jingji*)", we need more and more services from lawyers. This means that relations among SPDs are to be solved in front of law, instead of administrative processes.

³⁰⁵Off-post workers receive a minimum salary (various from *danwei* to *danwei*) and can still occupy the apartment of their *danweis*, but they do not need go to work.

an economic concept, "unemployment" has been a new economic term used in China: in the *Government working report* of the Chinese Premier presented in the VIII National People's Congress in 1995, it was the first time mentioned the term "unemployment"³⁰⁶.

The general tendency of the reform was that the *danweis* could no more afford the over 30% surplus of their workers and staff. Now off-post worker are encouraged to work in collective or private companies. A labor market is nascent. It was also decided to create a centralized social protection system (Ministry of Social Protection 1998) to replace the decentralized old one [Naughton, 1997, in Lu ed., pp. 169-94].

Socialist bank played a role of cashier for *danweis*. Reforms on the banking system were often secondary and often linked to the industrial reforms. The "state-owned banks" and the "state-owned enterprises" were as the "siamese twins" [Wei and Wang, 1995]. The reforms such as "transforming allocations to credits" (*bogaidai*, begin in 1983), or "transforming debts to shares" (*zhaizhuangu*, advanced in 1999) were conceived to establish a suitable banking system for the "socialist market economy".

4.1.5 "Socialist *Markets* Economy" in plural form

³⁰⁶FRI, 12th. March 1995.

Here "market" means both that of industrial products (path from upstream *companies* to downstream *companies*), and that of goods for final individual users.

The nascent market in the 1990s was segmented. It was far away from uniform and completely competitive market. There were various forms of market segment, mainly, product segment, geographic segment, administrative segment. All these segments were *compartmentalized*. There was not a unified market. It was rather "Socialist *Markets* Economy" in plural form.

The product segment was due to "policy discrimination". The products were divided into consumption goods and means of production (industrial products). The policy of the Central *vis-à-vis* these two categories of products was different until nowadays. Even among industrial products, it was also distinguished strategic products and non-strategic products, etc.. The reform of prices, of distribution and of production for the strategic products was more tardy than non-strategic ones. This led to different "markets" for different products or goods.

Geographic segment: under the socialist planning, each P/M/AR was almost self sufficient. This regional autarky still played important role in the reform. This was related in fact with the so-called *kuaikuai* phenomenon, i.e., M-form horizontal compartmentalization.

Administrative segment, this was also a legacy from the planning. The products of *danweis* under one ministry circulated among themselves. This was related in fact with the so-called *tiaotiao* phenomenon, i.e., U-form vertical compartmentalization.

For example, the automobile products, almost each province had its own "automotive industry". Some provincial administration obstructed a constructor to buy parts from other provinces through various means. The "various means" could be administrative or economic. "Economic means" meant that the local Authorities used "monetarized sanctions" to constructors which did not trade with *danweis* in their own province, e.g., "regional importation taxes", etc.. Relations between Central-regions and among regions were still delicate and difficult to be managed by the Central.

With the ever growing development of the "socialist market economy", the Chinese *markets* tended to be more and more *economic*, which means a unified national-wide *market* for all products tends to emerge, but when?

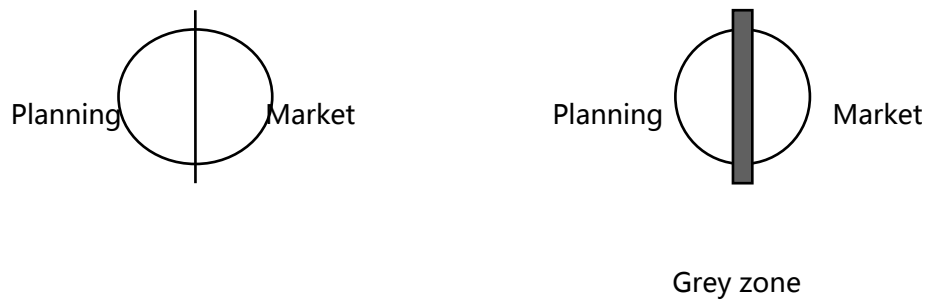
4.2 The growing up of the market economy

The growing up of the market economy has been a quite controversial question. There have been mainly two ways of interpretation for the growing market economy in China [Figure III.2]:

- the market grows outside the Plan, this means that the planning has not contributed to any market growth, and the market and the Plan form two contiguous areas.

- the market grows from the Plan (grey zone), i.e., the socialist planning contributes to, or say "invests for" the market growth [cf. Huchet and Yan, 1995].

Figure III.2: Market and Planning: from or outside the planning?



For the case of market growing outside the Plan: market entities (real enterprises) were formed mainly by individual or foreign capitals, or they were JVs between collective/individual and foreign firms. Their products, demand and supply of the products were almost predetermined by the market demand. They had competitive upstream and downstream relations (market relations). They tried to limit the "social burdens", for example, there was no housing services for the workers. Their logic of management was almost that of the capitalist market economy, i.e., cost minimizing and profit maximizing.

There were many evidences to show the rapid growth of the non-State economy. One of the examples should be the individual firms in the famous Wenzhou City. According to the third Industrial Census, the weight of non-

State capital (or more precisely: production means) had become very important, i.e., 56% [Table III.7].

Table III.7: Weight of different types of capital of industrial *danweis* [Jin, 1997, p.28].

Nature	% of Capital
State	44%
Collective	24%
Foreign invested	18%
Others	14%

For the case of market growing from the Plan: this was for the cases of the new "collective entities" created with part of the production means of the *danweis*, or Sino-foreign JVs created with part of the production means of the *danweis*.

In this kind of "new socialist market entities", products were mostly a kind of innovation or improvement of the old type products for the collective *danweis*, or they were introduced from foreign countries, like the case of automobile car production. For the case of automotive production, the demand (outlets of their production) of products this kind new entities could be foreign (exportation), private, or even State. The supply could also be foreign (importation), private, State, or Sino-foreign JVs. In this case, old form and new form upstream and downstream relations co-existed.

Workers and staff of this new entities, are part of the personnel of the original *danwei*, thus they keep part of the social advantages that they have got (e.g., housing), but they earn more wages.

The collective entities and JVs are mostly managed by methods brought by the private or foreign partner(s), for example, in car production, the management methods are brought from the foreign partners, so are most of cases of the autopart production.

As a matter of fact, these two forms of growth of market both exist in China. At the beginning of the reform market has grown rather from the Plan, and then it has grown outside the Plan since the end of 1980s. But this is weak to be a proof that the market and the planning are compatible. Co-existence does not mean systematically compatibility.

5. Conclusion

In this chapter, we have seen the political, legal, administrative, and market environments of the industrial reform.

By the evolution of the political, legal and market environments, we see that the Chinese economic reform did not even draw a "half-circle" to capitalist market economy as believed³⁰⁷. In fact, China has only made one small step, but not sure, to capitalist market economy because the "public ownership" is still not abandoned and private ownership is not yet legitimized by the *Constitution*. "Privatization" has always been a frame of mind for the Chinese reform, even the reform is tending to render the SPDs to

"profit-oriented" (economic objectives), and even many small SPDs have been somehow privatized.

After the twenty years' reform, concerning the political environment: there has been no any structural change, the Authority has become only more tolerant. In fact, this is rather a kind of acquiesce of the Party, which still controls everything, such as the orientation, the depth or the speed of the reform. So we can say that the reform has been propelled by political decisions. In other words, the reform has been politically-oriented. Once the bottom line of the Party's ideology and the stability of its sovereignty are not touched, the political control can be lenient, and market elements can be tolerated. Moreover, the Party helps to implement many of rules of market. Thus the CPC does not only set up the rules of the game, it plays the game with the rules it sets as well.

Concerning the legal environment: there has been no any structural change also, however the legislative organs have augmented its "capacity of making institutions"³⁰⁸. Along with the reform, legislation has been taking more and more place, legal environment is growing rapidly. From late 1940s to late 1970s, there had been almost no law issued by the legislative organs. Since then, a great number of laws have been issued. There had never been so many laws before the late 1970s. According to the *People's Daily*³⁰⁹, from 1979

³⁰⁷ Cf. Alain Peyrefitte, 1996, *La Chine s'est éveillée: carnets de route de l'ère Deng Xiao-ping*. Fayard, Paris.

³⁰⁸ Expression used in G. Palmade [1991, Chinese version 1997, p.137], here we borrow this expression to mean the growing independent legislative power of the People's Congresses.

³⁰⁹ 19th. October 1987.

to 1987, in a period of 8 years' reform, there had been issued over 500 laws and regulations, in which economic ones corresponded 70%. Legal environment has played more and more legitimate role, and has been becoming more and more developed and weighed in the economic reform.

The formal laws are typical rules of the game that standardize relations among individual or productive entities. They try to guarantee the reform to pass from politically-oriented to legally-oriented, and then market-oriented. Of course, the question "is a country of laws necessarily a country of rights?" stays still open.

Concerning the administrative environment: it has been reducing but very gradually because the planned part still needs the administrative rules to continue its operation. Moreover, the administrative rules often gives the executive detailed methods of certain important laws.

Finally concerning the market environment: under the acquiesce of the Party, and the guarantee of the legal and administrative environment, the market elements have been introduced gradually in China. Private economies have been tolerated and allowed to develop, foreign investment has played important role when they surged with their market-logic management know-how.

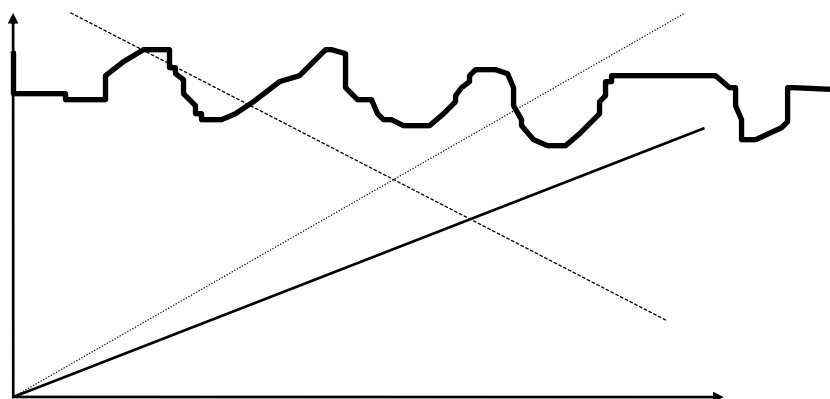
In a word, along with the reform, the institutional change consists mainly of a kind of separation of legal and administrative environments, and a growing up of market environment. However the involvement of politics to

other domains has not met substantial change. The political environment is dominant.

Briefly, political and administrative control has become lenient. Legislation is taking place in standardizing relations among productive entities. Market has been tolerated to grow. *Intuitively*, we can put the trends of these four sets of institutional change in the following figure [Figure III.3], political environment keeps relatively stable rhythm, legal and market environment are growing, administrative environment is decreasing. Their relations are showed also *intuitively* in Figure III.4 below, political environment has strong influence to other environment, the other three environment interact among themselves.

In the next Part, we will look at how the industrial reform has progressed in the case of the automotive sector and inside *danweis*.

Figure III.3: Institutional environment in China.



Legends:





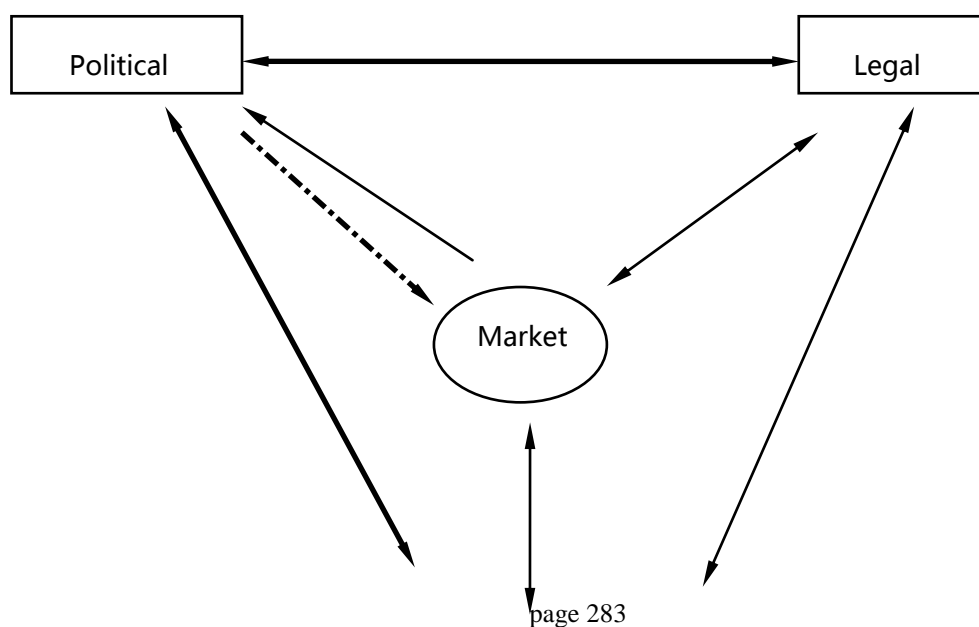
-  : political.
-  : legal.
-  : administrative.
-  : market.

Figure III.4: Relations among the four institutional environments.



Administrative

→ : influence.

PART TWO: INDUSTRIAL REFORM AT TWO LEVELS

2^{EME} PARTIE: REFORME INDUSTRIELLE: DEUX NIVEAUX D'ANALYSE

In Part One, we have looked at the systemic and institutional environment evolution of the industrial reform since 1978, we have discussed around the Proposition One concerning the nature of the so-called "socialist market economy" as the background of its industrial reform. Here in Part Two, we will examine impact of the systemic and institutional change on the industrial reform at "industry level" and "*danweis'* level".

As we have seen in Part One, it has been recognized and studied that the *danweis* under socialist planning were not *enterprises* as those in a capitalist market economy. However, it has not yet been well recognized that the networks formed by these *danweis* were, not at all as an *industry* as those in a capitalist market economy. The set of *danweis* in one "industry" under socialist planning formed rather a kind of Socialist Production Networks (SPNs), term inspired from Bomsel [1994]. These SPNs were changing to something that resembles an "industry" as in a capitalist market economy, but they have to destroy the existing *administrative constraints*. In Chapter Four and Five we will try to illustrate the specificity of the Chinese SPNs.

For us, "industrial reform" concerns the reform in an "industry" and in the production *danweis* composing the "industries". Six aspects of a *danwei* under the socialist planning mechanism were often mentioned and discussed in China: human, finance/accounting, assets, production, supply, and sales. These consist of the initial basic fields of transformation of the SPDs. Among these six fields, change in management of finance/accounting and assets was often related to the reform of accounting, fiscal systems. Only the aspects of human and production met frequent change according to policy change, we will see this in Chapter Six. The aspects of supply and sales concerned more the evolution of the SPNs, we will see this in Chapter Four and Five.

This Part concerns the Proposition Two and Proposition Three. Proposition Two: The automobile *danweis* were changing from socialist industrial networks (sets of relevant automobile *danweis*) to a "seeming industry" by aid of market elements brought by the foreign partners of the Sino-foreign JVs. Proposition Three: The reform of management of the (large) SPDs there was a process of economic responsabilization without private ownership and privatization.

Part Two is composed of three chapters. We will look at the automotive Socialist Production Networks in Chapter Four and Chapter Five. In Chapter Four, we will study the evolution and emergence of Chinese "automotive SPNs". In Chapter Five, we will give discussions around the Chinese automotive "seeming industry". We will see that the Chinese "automobile

industry" under the planning was not an "infant industry", but Socialist Production Networks organized under the central and local planning. The automotive SPNs were typically vertically and horizontally compartmentalized (*tiaotiao kuaikuai*). Then since the reform, each province had (or wanted to have) its own automobile production network. In the Dengist era, both vertical and horizontal departmentalization existed. Then in Chapter Six, we will go further to see the change at *danweis'* level by looking at the evolution of the experimental pilot projects.

RESUME DU CHAPITRE IV: ETABLISSEMENT ET EVOLUTION DES RESEAUX DE PRODUCTION SOCIALISTES AUTOMOBILES

La production automobile n'a pas été prioritaire dans la planification socialiste. Les véhicules étaient en effet considérés plutôt comme des moyens de production que comme des biens de consommation. Depuis la fin des années 1970, l'autorité Chinoise a compris très rapidement qu'il fallait moderniser l'industrie automobile. Parmi de nombreuses raisons, les principales sont: 1) un fort besoin intérieur, les dépenses d'importation de voitures pendant les années 80 ayant coûté plusieurs usines de SAW (usine automobile numéro 2, la plus grande en Chine). 2) de nombreux pays développés ont une industrie automobile, qui est une source de puissants effets d'entraînement, en terme Chinois "l'industrie de tête de dragon" (*longtou chanye*). 3) le nombre de constructeurs en Chine est plus grand que le nombre total des constructeurs dans le reste du monde, mais dans les années 1980 très peu d'entre eux avaient une capacité de production supérieure à 60 000 véhicules (dont 10 000 voitures) par an.

Le secteur automobile Chinois est jeune par rapport à celui des pays riches. La première usine a été construite au début des années 1960 avec l'aide technique de l'URSS. Vers la fin des années 1950 (GBA), la première vague de décentralisation industrielle a rendu les gouvernements locaux capables de dupliquer un grand nombre d'usines, mais elles ne produisaient que des copies automobiles de faible qualité. Pendant la Révolution Culturelle, la SAW a été construite avec les propres ressources du pays (auto suffisance), suivant des critères de construction plutôt militaires qu'économiques.

La production automobile était dispersée dans les réseaux industriels verticaux ou horizontaux (*tiaotiao kuaikuai*). Ainsi, les *danweis* de production (constructeurs et équipementiers) ne forment pas un véritable secteur.

Dès les années 1980, ces *danweis* automobiles ont été confrontées à l'industrie automobile mondiale, d'abord par l'importation des véhicules étrangers, puis par l'importation des technologies de production. Puis les JVs avec les entreprises étrangères ont apporté leurs méthodes de gestion, et introduit une logique de marché. La politique industrielle nationale (*Politique sur l'industrie automobile*, 1994) s'est alors orientée vers la formation d'une véritable industrie automobile (processus inachevé).

CHAPTER FOUR: ESTABLISHMENT AND EVOLUTION OF THE CHINESE AUTOMOBILE SOCIALIST PRODUCTION NETWORKS

The invention, production and popularization of automobile vehicles, have brought deep influence to our modern society. Automobile vehicles correspond one important aspect of what Chinese people often call the four basic needs of human being - "clothes, food, house, transport". Cars were ever named as the "first commodity" of the world [Shen and Ge, 1993, p.1].

An "automobile" or "motor car" means vehicles motivated by internal motors, run on roads, for passengers or for goods, with in general, four or more wheels. The term "automobile vehicle" is a more general term, it includes motos, tractors, and special-purpose vehicles³¹⁰. Since its invention, "automobile vehicle" as a concept has not changed much basically. However, from the point of view of technical and technological development, the automobile vehicles in our modern society have made great progress in terms of usage, of performance, of comfort, of manipulation, of gas saving, of security, and of environmental protection³¹¹, etc..

³¹⁰From conceptual point of view, automobile does not include other automobile vehicles, it means only passenger cars, but in practical statistics, they are often not clearly distinguished [Li, 1993, p.1].

³¹¹The main negative externalities for environment are noise and air pollution. The wasted gas of an automobile vehicle has 3 main components: hydrocarbon (HC), due to the non-sufficient burning of gas ; carbon monoxide (CO), due to insufficiency of O₂ in its burning ; nitrogen oxides (NO_x), due to over-heating [Li, 1993, p.13].

From the point of view of international trade, automobile industry was ever the first most important sector in the world³¹². Statistical data showed a positive-related proportion between the popularization rate of automobile vehicles and the degree of development of a country. So some Chinese economists deemed that the industrial modernization is equivalent to "vehiculization" [Li, 1993, p.I].

From point of view of human life, automobile is a tool of transport ; from the point of view of consumption, it means to augment efficiency, mobility and choice, which are just internal need of development of capitalist market economy ; from the point of view of production, it represents the comprehensive industrial level of a country³¹³, and it shows at an important degree the competitiveness of a country in the international market ; from the point of view of culture, the cartoon titled "*Automobile man*" showed that a kind of "automobile culture" has been formed³¹⁴, and that automobile vehicles have become a hardly separable part of the live of human being.

The energy crisis in the 1970s has brought a great shock to the automobile industry, after a short paroxysm, the automobile industry has adjusted quickly its products, and technical development direction to meet the new economic environment. The crisis did not damaged the basis of this

³¹²Just after the trade of munitions [Li, 1993, p.I].

³¹³For example, the high degree of depths of processing, there are at least 2 000 to 3000 totally different components to be processed, with different processing technologies. The production line is long. Involved industries are numerous such as steel, metallurgy, rubber, glass, electronics, electricity, petroleum, chemistry, plastics, paint, machine tools, machinery, instruments, computer, etc.. The automotive industry plays role of impetus for the relevant enterprises [Li, 1993, p.20].

industry, it just adjusted its development direction. Since the 1980s, behind the continuous increase of production, the structure of this sector has been changing. New technology, new materials often find their first fields of application in this sector.

An automobile vehicle is a sophistic product with high precision, it can be composed up to 30 000 to 40 000 parts [Desbois, et al., 1994, p.532]. The product has relatively high value and high added value. An automobile is a durable goods ³¹⁵ . An automobile industry is capital-intensive and technological-intensive. It is also labor-intensive too, especially for the case of China [*China automotive yearbook*, 1983, p.131].

Automobile production in China has a relatively young history compared to that of most of the developed countries of over one century³¹⁶. The automobile sector in China falls in the category of heavy industries. However it was not a first priority of investment in the socialist planning, then since the late 1980s, it becomes in general, the 5th. or 6th. importance, after raw materials, and heavy equipment production. etc..

Since the early 1990s, China began to reform its automobile production networks via importation of foreign technologies. There has been a kind of

³¹⁴ibid..

³¹⁵From the statistics of Germany during 1970-1984, average rebate age was 10 years. A little less than 10 years for passenger cars. For Japan or the USA, car change is more often, so it is less than 10 years. But in China, the average age is often over a dozen of years [Li, 1993, p.12].

³¹⁶Notably Germany, France, GB, USA, etc.. We note that the first veritable automobile with two cylinders V motor was born in 1889 [cf. Desbois, 1994, p.527 ; Roos, 1990, p.144].

"collision" between the modern international automotive industry and the Chinese automotive production networks.

The Chinese Government has decided in 1987 to prioritize the automotive industry within the overall development of the national economy in the run-up towards XXI Century. Prominent features of the plan include: 1) a shift of product type from loading vehicles which had *hitherto* predominated, to the far more capital intensive and technological intensive passengers cars. This is to be achieved through 2) inviting the participation of Western automotive trans-national corporations, and 3) restructuring the industrial structure and organization from the present situation of excessive fragmentation towards concentration, in order to boosting economies of scale and of scope. By 2000, the Chinese officially planned programs to increase the annual output from the figure of 700 000 units in the 1990s to 2 million units, of which domestic sales will attain 1.4 million units [Lo, 1992, p.1].

There were visibly three main reasons for the Government's decision: Firstly, the Chinese Authority wanted to import new technology to modernize its "automotive industry". Secondly, the passenger car importation had been too important, the Authority did not want to drain too much hard currency reserves to buy cars. Thirdly, the Authority might hope to foster a remunerative export-oriented automotive industry. In fact, there was a more larger context behind these reasons, since 1979, China has decided to quadruple its GNP by the end of 2000, and to become one of the most

developed countries in the world by the mid-XXI Century. Under this circumstance, China put the automobile sector as one of the "pillar industry", in order to arouse a kind of "industrial consciousness" for its industrialization [Li, 1993, p.III].

Here in this chapter, after a brief description of the pre-socialist period, we will concentrate on the creation and evolution of this sector, and then we will give a picture of the actual situation by main salient factors concerning the development of the automotive sector in China.

1. Pre-socialist period: 1901-1950

The Chinese automobile vehicle sector emerged from a stage almost *ex nihilo* in the mid-1950s. Before the founding of the PRC in 1949, there were only a few repairing or spare parts-producing factories located in certain big cities, namely, Shanghai, Tianjin, Chongqing, Nanjing, and Shenyang, with in totally around 2000 workers employed [Lo, 1992, p.14].

The first automobile vehicles arrived in Shanghai in 1901 (two cars)³¹⁷. Early automobile vehicles ran mainly on the streets of relatively industrialized Shanghai³¹⁸. Until the mid-1920s, about 600 trucks and 7 000 passenger cars

³¹⁷Tianjin Daily, 1994, cited in Chang, 1996, pp.118-9.

³¹⁸Cf. Tom O. Jones, 1918, *Motor vehicles in Japan, China and Hawaii*, Department of Commerce, p.44, Washington DC ; Harwit, 1995, p.3 ; Chang, 1996, p.119.

ran on the streets of big Chinese cities³¹⁹. These vehicles were mainly American models, and were owned mainly by foreign officials residing in China, or Chinese high level officials, or warlords. By 1936, there were 25 000 passenger cars in China, 48% of them ran in Shanghai [Harwit, 1995, p.16].

Automobile manufacturing was evidently limited³²⁰, before and during the Resistance War against Japan (1937-1945), and the Third Civil War (1946-1949)³²¹. During 1920s, large cities, such as Beijing, Shanghai, Tianjin, began to establish shops making bodies for imported motors and chassis. These bodies were wooden, and were constructed and painted by hand [Irvine, 1923, p.41]. During the Resistance War, some small-scale bus and truck chassis production plants appeared³²². However, there was no significant production of complete automobile vehicles in the country until the "socialist era".

By the end of this pre-socialist era, there was a fleet of only about 50 000 vehicles. Only few big cities had some factories for automobile parts change or reparation, or transformation of buses [*China automotive yearbook*, 1983, p.131]. The main reasons for the retarded automotive growth, both in

³¹⁹William Irvine, *Automotive markets in China, British Malaya, and Chosen*, Bureau of Foreign and Domestic Commerce, Washington DC, p.3 ; Harwit, 1995, p.3.

³²⁰There were some factories of buses transformation. During the 1940s, there were factories which copied micro trucks [*China automotive yearbook*, 1983, p.131].

³²¹The Third Civil War is generally called the Liberation War in Chinese documents. The Northern Expedition (1926-1927) corresponded the First Civil War [Guillermaz, 1991, p.20].

³²²*Chinese automotive industry yearbook*, 1984, p.131.

terms of usage and of production, were, few paved road, low living standard, as well as social³²³ and political³²⁴ conditions [Harwit, 1995, pp. 15-16].

2. Evolution and typical features since 1951

From 1953 to 1978, the automotive sector in China had been set up by the central planning. The main fruits of this effort was the two plants: FAW and SAW, as well as some parts production *danweis*. Then big change began only since 1980s.

Since the operation of FAW in 1956, until 1992, during three decades, China had developed production networks for mainly medium size trucks, the production capacity attained about 1 million units. The production of 1988 attained 0.647 million vehicles, or 1.33% of the worldly automobile production.

Even by the early 1990s, China has formed a fleet of about 5 millions automobile vehicles, it was still few compared to the worldly fleet of about 500 million vehicles. Chinese vehicles are mainly light trucks. In terms of volume and types, Chinese automobile production is far behind the worldly level.

³²³For example, the purveyors of human transport such as richshaw pullers, horse cart, would even try to block transport companies from using automobile vehicles, because this modern conveyance endangered their employment [Irvine, op. cit.].

The development of the Chinese automotive sector over the past five decades can be divided into two distinct stages: pre-reform era before 1980s and reform era after 1980s.

The period from 1950s to 1970s, can be characterized by a quantitative expansion, both central and local Governments encouraged establishment of automotive plants. Two large size plants (national level) and a large number of small plants (local level) were built up. On the other hand, advancement in terms of product quality, of technical efficiency and of technological innovations proceeded far more slowly.

Since the 1980s, domestic market became substantially opened to foreign cars, the competitive advantage was not on the Chinese side, owing to the big gap vis-à-vis foreign automotive giants with respect to product design, quality and cost-price competitiveness stemming from economies of scale.

The "car construction upsurge" of the 1980s, was in fact induced by a perceptual knowledge on the Western pattern of consumption - there was an abrupt shift of demand towards sedan cars. However car-makers had been producing medium vehicles. This resulted in a massive influx of foreign vehicle into China, as well as increases of selling prices in the domestic market.

³²⁴During the Second Civil War (1927-1937), vehicles were confiscated by the armies of the feuding warlords [Cf. Irvine, op. cit.]. In fact, during the period from 1912 to 1936, various riots, rebellions were very frequent, the whole society was in a continuous instability.

Then profit incentive acted as a powerful inducement to further worsen the fragmentation pattern of the industry. Local Governments strove to be the first to introduce foreign technologies in their region. Hence the central Government formulated in 1987 a first policy of concentration of market and specialization of production, then another policy for further restructuring of the automotive sector (1994).

Here below, let us look at in more details the main salient features of the two stages of the Chinese automotive sector:

Stage One (1951-1980):

Phase One (1951-1957): Soviet socialist style for automobile vehicles production.

Phase Two (1958-1966): "Walking on two legs"³²⁵, Great Leap Forward.

Phase Three (1967-1980): revolutionary style, self-reliance, SAW. For a predicted war.

Stage Two (1981- present):

Phase Four (1981-1995): importation upsurge of both cars and technology, establishment of JVs.

Phase Five (1996- present): restructuring from SPNs to an automotive industry.

2.1 Stage One (1951-1980): establishment of SPNs

³²⁵This means that both central and local Governments built national or local level automotive plants for transport need during the GLF.

2.1.1 Phase One (1951-1957): Soviet socialist style for automobile vehicles production

In the first FYP period (1953-1957), was built up China's first automotive production base, the First Automotive Works (FAW), relying on Soviet technology. The FAW turned out the first batch of "Jiefang" (Liberation) series trucks in 1956³²⁶. The first-phase production capacity was 30 000 loading vehicles per annum [Lo, 1992, p.14]. During this period, the existing repair plants and parts-producing plants in the country also underwent extensive technological transformation and organizational restructuring. The general orientation of this period was to boost specialized division of production. For example, the Beijing plant, was re-organized to be the country's biggest specialized parts producer to supply the FAW [Lo, 1992, p.14].

In fact, right after the founding of the People's Republic, the Chinese leaders moved quickly to the idea to create their own large-scale industrialized automobile vehicle production system. The principle characteristic of this first stage was: concentrated investment from the State, and imported Soviet technology.

Early in 1950, when Mao Ze-dong and Zhou En-lai met Staline, they have asked direct help from the ex-USSR for setting up an automobile plant. In August, the Ministry of Heavy Industry commissioned a "Preparatory Office"

³²⁶In fact, a first "socialist vehicle" was assembled in Tianjin in 1951, based on the rest of a charred American Jeep, Willys [PEE, 1996, p.5].

to pilot the development of the new Chinese "automotive industry"³²⁷. In a "Meeting on the automobile industry", it was decided that: "Due to the lack of expert of our country, we will invite the soviet experts to afford the whole design of constructing an automobile plant"³²⁸ [Li, 1993, p.75 ; Harwit, 1995, p.17].

Considering the advantage of the relatively developed supply of electricity, of steel, wood, and autoparts, as well as the capacity of transportation, Changchun³²⁹ had been selected among other cities³³⁰, to establish the First Auto Works. The Finance and Economic Commission of the Government Administration Council³³¹ approved that the FAW would be set up in front of the Mengjiatun Railway Station West (19th. March 1951). On the 26 April, the Commission approved the "Project of the FAW" which indicated that the FAW would be constructed from 1953-1957. The product was the soviet model ZIS 150 light truck (4-ton)³³², the initial annual capacity would be 30 000 vehicles per annum within 5 years, and 90 000 units after whole plant's construction [Wang, 1994]. This year, direct help in terms of technology, experts, and major complete sets of equipment, were sent already from the ex-USSR.

³²⁷CATRC, 1986, *Zhongguo de qiche gongye (China's motor industry)*, pp. 14-23.

³²⁸Before the arrival of the Soviet experts, emphasis was put on the workers' self-innovation at the manufacturing level.

³²⁹Jilin's provincial Capital, in northeast China. The 3 provinces in northeast China had been occupied by Japan from the early 1930s to 1945. The area possessed a high concentration of railway lines and other industrial development, which were considered as conducive to automobile production.

³³⁰Namely Beijing, Shijiazhuang (Hebei), Taiyuan (Shanxi), Xi'an (Shaanxi), etc. [Wang, 1994, p.454].

³³¹*Zhengwuyuan*, predecessor of the State Council (*Guowuyuan*).

³³²ZIS 150 itself was based on American World War II-vintage Ford trucks [Harwit, 1995, p.174].

In March 1953, an "Automotive Industry Administration Bureau" was formed replacing the "Preparatory Office", it was under the control of the First Ministry of Machine Building. In June, Mao issued by himself the "Indication of the Central Committee of the CPC about to put efforts to complete the construction of the FAW within 3 years". Then on the 15th. July, with a foundation stone laid by Mao for the Factory's founding, began the construction [Li, 1993, p.76]. The total investment for the FAW building was estimated as 608.71 million Y [Wang, 1994, p.556].

Early in 1953, parallel to the construction of the FAW, the Second Auto Works began to be conceived, it was planned to double the size of FAW [Wang, 1994, pp. 443-5]. These two automobile production plants will become the basis of the Chinese automotive sector.

FAW opened officially by the end of 1956. The first ZIS 150, 4-ton, renamed soon after as "Jiefang (liberation) model", was born the 13th. July 1956 [Chen, et al., ed., 1991, p.3 ; Li, 1993, p.76]. The model had 81% Russian parts in 1956. 100% localization rate was realized in 1965, nine years later [Harwit, 1995, p.19]. The output of 1956 was 1 654 trucks. The Central Planning projected to produce 4 000 Jiefang in 1957 [Wang, 1994, pp. 457-8]. The realized production of 1957 attained 6228, 55.7% more than the Plan.

During this period, the production and supply of autoparts were organized under the Automotive Industry Administration Bureau at central

level. At local level, the factories for reparation in Shanghai, Nanjing, Wuhan, Jinan began to produce pirated parts and motors [Chen et al., ed., 1991, p.3].

There are two main explanations that why the FAW was completely constructed in so a short period (3 years):

1) The policy of "foreign importation". FAW was constructed following the ZIS plant model, from production, to technology, productive organization, management organization and management institutions. The product technology and the factory design were both supplied by the ex-USSR, in addition to a large number of precise, large, special, and multipurpose equipment, as well as the training of numerous technicians and managers. This was a short-cut for establishing an automobile plant of that size *ex nihilo*.

2) The project was taken seriously by the leaders of the Central Committee of the CPC and the central planner. The Central Committee of the CPC issued special indications on the subject. Mao himself encouraged the project³³³. The construction of the FAW, was one of the major projects³³⁴ of the first socialist FYP. Support was demanded from 28 P/M/ARs. Over 1 000 industrial, administrative and academic *danweis* had offered help of their best cadres, experienced technicians, and well formed young workers. Over 100

³³³Mao put the foundation stone and wrote an inscription, "First Auto Works" on a stone standing still at the main entry of the original site of the factory [Chang, 1996, p.51].

³³⁴There were 156 major projects in the first FYP (including the FAW), and 694 "over-budgeted" projects. Explanation: the 156 projects were the core of the "industrial construction" of the first FYP, they were not subjected to budget limit. Then the amounts of investment for the construction, reconstruction, or restoration of production *danweis* were subjected to some budget limits, but 694 projects could exceed those limits, they were hence centrally managed too. For example, 10 million Y for steel plants, automobile plants (this means local ones were allowed), tractor production plants, ship production plants, wagon production plants, etc. [Wang, 1986, p.122].

factories and mines assumed the construction materials, mechanical equipment, and the production of coordinating products.

The establishment of the FAW can be resumed as: concentrated investment, whole importation, high construction speed [Li, 1993, p.77].

About passenger car development: by mid-1950s, the Party's Central recognized a need for a small number of passenger cars, at least for high level officials [Harwit, 1995, p.17]. The order to produce passenger cars for the first model, named "Dongfeng", was given in March 1958 to the FAW (Factory Director: Rao Bin), then the FAW advanced a slogan: "Win the time, win the speed, construct Dongfeng being gift for the 2nd. Session of the VIII Congress of the CPC". Then the paper design was completed within 4 days/nights, motor and gear box were produced within 3 days/nights, ... then after 23 days, on the 12th. May 1958, the FAW developed the first Dongfeng compact car Dongfeng CA71³³⁵.

Then one month later, a luxury car Hongqi 770 was produced. Another slogan in the FAW was "Ride on the Dongfeng (east wind), unfold the Hongqi (red flag), produce luxury car to meet Chairman Mao" [Sun, ed., 1995, p.18].

A little late of the same period, the BAIC developed Jinggangshan standard car, Dongfanghong compact car, and Beijing compact car.

Meanwhile the SAIC developed Phoenix compact car. Then after the adjustment in the early 1960s, 2 bases of car production were formed: Hongqi luxury car (1959)³³⁶, and Shanghai compact car³³⁷ [*China automotive yearbook*, 1983, p.243].

2.1.2 Phase Two (1958-1966): Walking on two legs, Great Leap Forward

Now the automotive sector in China entered into a period of rapid expansion. This signified an emergence of many new local assembly bases throughout the country. Such situation was a result of the industrialization strategy of "walking on two legs", i.e., centralized and decentralized drives proceeded hand-in-hand. This encouraged local authorities to build up a large number of new automotive plants in their territories, based on the expanded construction and agglomeration of the existing repair plants and parts-producing plants. The country hence experienced its first "automotive boom" [Lo, 1992, pp. 14-15].

³³⁵It was in fact copied from a French car model Simca [Sun, ed., 1995, p.17 ; Desbois, 1994, p.531]. After trying the Dongfeng CA71, Mao said: "Good, good, today, I finally ride on the car produced by our own men" [Chang, 1996, p.241].

³³⁶Hongqi series consists of: CA772, CA770 (1960s) ; and CA771, CA773, CA779J open car, CA770JH ambulance, etc.. By 1983, there have been produced about 1500 Hongqi, the annual production attained 200-300 ones. Hongqi has been based on the worldly luxury car level of 1950s and 1960s. It has advanced and modern systems such as, 8 V-formed cylinder, hydraulic pressure tappet, high speed gasoline motor, hydraulic dash changing system, automatic hydraulic gear box, power oil pump assisted steering wheel system, situation assisted braking system, etc.. Hongqi began to be reformed since the early 1980s.

³³⁷SH760 began to be produced in early 1960s, it has more models and bigger chairs. By 1982, over 20 000 units had been produced. The annual capacity was 6000 - 7000 ones. SH760A is a reformed SH760 with renovated motors, clutches, back axle gear, and warm air.

During this period, the FAW expanded quickly. After having its first-phase capacity completed, by 1958, the plant was able to turn 2.5-ton cross-country vehicles. This was followed by successful design and batch production of the "Hongqi" limousines. By 1965, the FAW began to construct its second-phase production lines with a capacity to produce up to 60 000 vehicles per annum. This new capability was also designed to produce three models of light trucks [Lo, 1992, p.15].

At local level, one of the new automotive plants was the Nanjing Automotive Works (NAIC) which turned out the "Yuejin" (Leap Forward) 2.5-ton loading vehicles in 1958. By 1966, the plant had attained an annual production capacity of 4 000 vehicles [Lo, 1992, p.15].

Another was the Beijing Automotive Works (BAIC), originating from a repair plant. It started to produce light cross-country vehicles in 1963, with an annual output volume reaching 500 units by 1966 [Lo, 1992, p.15].

A third important production base was the Jinan Automotive Works (JAIC), which later became specialized in the production of heavy trucks. In 1960, based on the production technology of the "Huanghe" (Yellow River) series light cross-country vehicles and 2.5-ton to 4-ton loading vehicles, the plant turned out the first batch of Huanghe 8-ton vehicles. The annual output volume reached 600 by 1966 [Lo, 1992, p.15].

A fourth plant later became to be specialized in the production of sedan cars was the Shanghai Automotive Works (SAIC). It started to produce jeeps in

1957, and turned out the first "Shanghai" car the following year. In 1966, the Shanghai plant produced 200 cars [Lo, 1992, p.15].

Finally, another newly-emerged plant of considerable scale was the Tianjin Automotive Works (TAIC), which had also undergone the transformation from a repair plant to a parts-producer, and then a constructor of lights trucks, micro cars and vans based on Japanese technologies since 1990s.

Alongside the expansion of automobile assembly bases, there also emerged a number of big plants specializing in parts production, of which the most important was the "Jiefang" parts production network which was comprised of more than 70 factories. It was capable of turning out more than 500 kinds of parts through cooperation. There were also other plants which could produce major spare parts for imported automobile vehicles.

During this period, the central authorities also decided to build up two more flagship automobile production bases: the SAW and the Sichuan Heavy Vehicle Works, whose construction began in 1964 [Lo, 1992, p.15]. It is interesting to note that during discussions on the third FYP in 1964, Mao said, "It's the moment to set up a second automobile plant" [Sun, ed., 1995, p.18]. Then national-wide preparations for this new plant became more concrete.

The tremendous expansion of the automobile industry during this period, however, led to an unfavorable situation of low-level duplication and excessive fragmentation. At its peak, there were more than 200 models being

turned out, mostly of crude quality. By 1966, the Chinese automobile industry comprised of more than 600 factories, including 22 assembly bases and 67 special-purpose automobile plants. The output volume in that year reached only 55 900 vehicles [Lo, 1992, p.15].

For the second FYP (1958-1962), according to the VIII Central Committee of the CPC, the main task of this period continued to further develop the heavy industries, to advanced the technological remolding, and to establish a solid basis of the "socialist industrialization" [Wang, 1986, p.199]. However, all turned rapidly into the Great Leap Forward (GLF, 1958-1960)³³⁸.

On the 18 June 1958, Mao asked Bo yi-bo³³⁹:

- Now, the agriculture sector has got a method, it is called "To take grain as the key link, to develop in an all-round way", what will you do for the industry?

- Then, for the industry, let's make "To take the steel as the key link, to promote industry as a whole"! - answered Bo.

In this way, a "steel production upsurge" underwent. This was an excellent example of the political decisions that were not at all *economic rational* for the Chinese economic activities.

³³⁸The GLF focused on the steel production. A typical fact was that the planned steel output for the year 1958 was augmented 4 times from 6.248 million tons in February 1958 to 10 million tons in June 1958 [Wang, 1995, p.13].

³³⁹Born in 1908, became Party member in 1925, one of the "Eight veterans" in 1995, only 3 veterans were still alive in 1998, namely Peng Zhen, and Yang Shang-kun, and Bo. After being Finance Minister, and the Chairman of the State Construction Commission, Bo became the first Director of the State Economic Commission (1956-1966). After the Cultural Revolution, he served as the Chairman of the State Machine Building Industry (1980-1982). He then became the vice-Chairman of the CPC's Central Advisory Commission (for retired elderly leaders). He is rather a moderate-conservative. His son Bo Xi-yong took a position as vice President of the CNAIC in the late 1980s [Harwit, 1995, p.44].

Soon after, all turned around the steel production. Automobile production had to support it without exception. The steel production needed a great supply of raw materials, hence needed a large volume and quantity of transportation.

During the GLF, there was a wave of decentralizing the *danweis* from central level to provincial levels. Then each province made use of the autoparts factories and the repairing plants located in their zone to copy and to piece automobile vehicles. This was a kind of "local Great Leap Forward program" for the automotive production.

By 1958, the number of constructors attained eight³⁴⁰. In which seven of them were built or reconstructed at provincial level³⁴¹. Meanwhile there were also a lot of parts factories established. According to incomplete statistics, during only several months in 27 provinces in China, over 300 points of production of imitated ZIS 51 trucks were established. Over 200 models of vehicles were invented in these provinces. A *Yuejin* model, 2.5-ton truck was developed in Nanjing [Wang, 1995, p.20]. But in 1959, many of those factories were closed [Chang, 1996, p.58] suit of bad quality, low efficiency, etc.. This was the first "automobile construction upsurge (*zaoche re*)" in the Chinese socialist automotive history [Li, 1993, p.77].

³⁴⁰ According to Yao Bin, known as the "father" of the Chinese automobile industry, the establishment of these 8 automobile plants showed the way that the Chinese automobile industry has taken - from complete set importation, to combination of imitation, and innovation/self-design [Chang, 1996].

³⁴¹ Beijing, Nanjing, Jinan, Shanghai, Tianjin, Sichuan, Shaanxi [*China automotive yearbook*, 1983, p.XII]

By 1960, there were totally 16 constructors, the number of special vehicle plants had augmented from 16 to 28. The Beijing Auto Works, Nanjing Auto Works, Shenyang Auto Works, Shanghai Auto Works and Jinan Auto Works were all constructed under this upsurge [Li, 1993, p.77].

As there was a great need of transportation tools, then there was a salient increase in the automobile vehicle production, with growth rate of 107% from 1957 to 1958. The trend of increasing continued until 1960.

Due to the GLF, by mid-1959, the Chinese fleet attained 170 000 units, of which 18 000 ones (10.6%) were over-used, or lacked parts, these vehicles could no more be repaired. The planned production of 1959 was even *less* than 18 000 ones [Wang, 1986, p.250].

For the passenger cars: the program of passenger cars got its first result in 1958, the FAW produced the first *Hongqi* model limousine, modeled on a Daimler Benz's 220 sedan. In the same year Shanghai Automobile Assembly Plant began to produce Phoenix model passenger car. The production of both was tiny [Harwit, 1995, p.17].

In these earlier days, all the constructors focused on the construction of trucks and industrial vehicles, to satisfy the need of transportation of the GLF. For the local level constructors, the networks of autoparts supply was organized at provincial level.

Then, the period 1961 to 1965, was the adjustment on the aftermath of the GLF. The main rules was the *Industry 70 articles* (16th. Sept. 1961) [Wang, 1995, p.170]. Since 1961, there was a first version of "8-words policy": *tiao zheng, gong gu, chong shi, ti gao* (adjustment, reinforcement, enrichment, improvement). In practice, this meant to reduce the heavy industries, but reinforce agriculture, and light industries.

Under this new adjustment (restrained) policy, the capacity of production of automobile vehicles³⁴² was reduced to 50% in 1962 compared to that of 1958 [Wang, 1986, p.269 ; Wang, 1995, p.118]. As shown in Table IV.1, from 1960 to 1961, truck production reduced from 17148 units to 2746 units, or -83.99%.

Then automobile plants concentrated mainly on repairing the over-used vehicles ³⁴³, rather than producing vehicles [Wang, 1995, p.128]. In the following table, we see that the annual increase rate of trucks production fell from 183.94% for 1962 to 24 % for 1964.

Table IV.1: Number of trucks produced, and increase rate during 1955-1965.

Year	% increase	Trucks
1955	-	61
1956	2611.48	1654

³⁴²Together with other 17 industrial products, namely, steel smelter, concrete processing, heavy equipment, electrical drill equipment (for electrical plants), machine tool, electric machines, etc..

³⁴³Then during three years' GLF, all transportation tools, i.e., all automobile vehicles, ships, airplanes from every administration, industrial *danweis*, army, schools ; and cooperatives, animal-drawn vehicles, man-drawn vehicles, were mobilized to serve the GLF. Simple roads, or "rustic railways" were constructed. All were continuously over-loaded, and over-used. This led to a sharp decrease, even a destruction of transportation tools later [Wang, 1986, p.247].

1957	276.54	6228
1958	106.57	12865
1959	5.81	13613
1960	25.97	17148
1961	-83.99	2746
1962	183.94	7797
1963	114.67	16738
1964	24.00	20755
1965	27.86	26538

The car production fell also rapidly, the whole nation produced only 98 cars in 1960³⁴⁴, then in consequence of the GLF, China produced only 5 cars in 1961.

To compensate for the small number of domestically produced passenger cars, China imported 1 000 passenger cars per year in average from 1954 to 1965. Most of those cars were from Eastern Europe. Polish cars were mostly prevalent in the 1960s. The pre-1949 imported cars from the West gradually became extinct, following lack of compatible spare parts [Harwit, 1995, p.18].

In 1963, began an experimentation of trust³⁴⁵ led by Liu Shao-qi. In the 1960s, Deng said: "the automotive industry in China is like period of scouts"³⁴⁶. Thus

³⁴⁴The USA produced 6.7 million passenger cars for 1960 [Chang, 1996, p.40-1].

³⁴⁵This experimentation was called "trust" in China, but the term "trust" did not mean the same as that developed in the West. We notice here: In capitalist market economy, the first "trust" was created in 1881, the Standard Oil Trust, it is the primitive form of monopolistic, or oligopolistic concentration of enterprises in the USA. The notion originates from an particular juridical instrument in the Anglo-Saxon law system. "Trust" means the "confidence" (of *trustors*) to an individual or a company (*trustees*). The trustees must protect the interest (*res*) of the trustors. The particularity is that the trust is not simply a mandatory, because its mission is not revocable by the trustors without an agreement from a court (being legitimized), and the trust can make decision without

to catch up with the international level, there was need to reform, according to the Chinese Authority, this "bunch of infants". Among the first 13 trusts (on various sectors), the China National Automobile Industry Corporation (CNAIC)³⁴⁷ was, for the first time established in October 1964. It was a trust of constructors and parts producers. 42 autoparts factories (in which 4 branches) among local level 169 professional autoparts factories were firstly selected for the trust, they corresponded 39% of the total (autoparts) output. Then 38 ones of them, plus 37 central level constructors and parts producers, which was totally 75³⁴⁸ ones formed definitively the CNAIC. The CNAIC was divided into 4 subsidiaries based on 4 geographic regions, namely, Changchun, Beijing, Nanjing and Chongqing, each city corresponded one subsidiary [Wang, 1995, p.159-61].

In fact, the CNAIC was set up as a "network of professionalized cooperation". Its core was formed by 2 main factories - Jinan Automobile Manufacture General Factory, Wuhan Automobile Manufacture General Factory ; and their 3 subsidiaries in Changchun, Beijing, and Nanjing. Then the core was "periphericated" by local level factories. The CNAIC functioned with

instructions of the trustors to manage, and to protect their *res*. This instrument had lead 3 waves of concentration (1882-1903 ; 1925-1930 ; 1960-1980), then it was replaced by techniques of simple pure fusion, or holding. Since 1890, there had begun several "anti-trust" laws in the USA, such the Sherman Act in 1890, the Clayton Act, and the Federal Trade Commission Act in 1914, the Miller-Kefauver Act in 1937, and the McGuire Act in 1952, as well as several modifications of the Clayton Act, etc. [R. T. Tait, 1971, "La representation des obligataires par un trustee", in *Les euro-obligations*. Paris, cited in Michel Lutfalla, 1992 ; "Trust", in *Encyclopaedia universalis*, pp. 994-6].

³⁴⁶I.e., immature. Bo Yi-bo, Commissioner of the State Council, 1982, "Speech on the First Meeting of the Board of Directors of the CNAIC", 7th. May [*China automotive yearbook*, 1983, p.3].

³⁴⁷*China automotive yearbook*, 1983, p.3 ; Compared to other sectors (cigarettes, medicine, salt, rubber), the automotive trust gathered less numerous factories [Wang, 1986, p.292].

"uniformed management and planification", which were beneficial especially for autoparts' production, distribution, technological services, etc.. It was considered as a success, following an augmentation of 40% of vehicle production in 1965 compared to that of 1964, moreover 15 new categories of vehicles were conceived [Wang, 1986, p.289 ; Wang, 1995, p.159-61]. The "sales" of autoparts was also organized centrally by the CNAIC, this was also considered as a success [Wang, 1995, p.159-61].

2.1.3 Phase Three (1967-1980): revolutionary style, self-reliance, SAW

This period covered three FYPs³⁴⁹. From 1966 to 1976, the Chinese automobile sector developed further in the direction of quantitative growth rather than qualitative improvement. The (administrative) decentralization in the early 1970s was the main reason for it. The decentralization enabled and encouraged provincial authorities to expand their own industrial production capability.

The project SAW, marked a new period of the Chinese automotive history. Unlike the FAW which got help from the USSR, the SAW had been pieced up almost only by Chinese design and technology. The SAW was supposed to follow the road of "self-reliance and arduous efforts" on product

³⁴⁸This corresponded 42% of the key 180 automobile constructors and auto-part factories. Constructors were only of central level.

³⁴⁹1966-1970, the third FYP ; 1971-1975, the fourth FYP ; 1976-1980 the fifth FYP.

design, factory design, factory construction, and the supply of equipment and technology. In 1967, the First Ministry of Mechanical Industry decided to help the construction of the SAW. Its help could be 1) to transform old factories into part of the SAW, 2) technological help, 3) personnel help, 4) to assume necessary accessories. Due to the Cultural Revolution, the automotive sector had been influenced much by the leftism, the construction of the SAW had spread out for 10 years (1967-1986).

The rule of self-reliance was well followed, among the 20 000 equipment and over 100 assembly lines, only 1-2 % of the critical equipment was imported from foreign countries. 98% of 18 000 categories of the equipment were self-produced³⁵⁰. Many self-made equipment was newly invented, especially the lathe sector had made great technological and technical progress in helping the SAW [Li, 1993, p.80].

Other automotive *danweis* were presented as "brother factories" vis-à-vis the SAW. The FAW offered help for the whole constructions of 11 professional factories for the SAW from 1965 to 1970. The Shanghai First Mechanical and Electrical Bureau helped the whole constructions of 7 professional factories of transmission shafts, standard parts and instrument panels. However, later in the new background of the "socialist market economy", the "brother factories" will become "competitors", planning logic will change into market logic.

³⁵⁰Supplied by over 500 lathes factories national wide [Chen et al., ed., 1991, p.5].

The original plan was to build up a plant of production capacity of 60 000 light loading vehicles per annum. This was later scaled up to a capacity of 100 000 units of 1 to 8 tons loading vehicles and cross-country vehicles. The political desire demanded that the production should begin as early as possible. The first batch of 500 vehicles were pre-maturely turned out by 1970, yet the quality of these products, as well as that of the construction works, was far below the planned targets. In consequence, from 1972 onwards, the SAW had to spend several years on renovation works.

The production capacity of the Dongfeng (East Wind) series EQ240 2.5-ton cross-country vehicles and EQ 140 5-ton loading vehicles, were respectively installed in 1975 and in 1977. In 1978, around 5 000 re-designed 5-ton loading vehicles were turned out [Lo, 1992, p.16]. Then the "Technical control meeting" of the main product, EQ140 (5-ton) light truck was held in 1975³⁵¹. The production capacity was basically completed in 1978 and began mass production [Li, 1993, p.80]. By 1985, SAW had produced 370 000 vehicles. The factory was declared completed officially in January 1986.

Mao's idea "To use the point of view of War to observe all, to control all, and realize all", influenced a lot the fourth FYP [Wang, 1986, p.329, p.353], as well as the automotive sector. This was why the choice of the site of the SAW was based on the principle: "Beside mountains, dispersed, concealed, or even in hideouts", which was rather political and military than economic rational. Thus the SAW

was a factory of "third front", built near Shiyan (Hubei) and Danyang (Shaanxi) in rear territories³⁵².

In reality, the most disadvantage of the SAW was the *military* choice of its site, in a remote gully without any basic industrial infrastructure, neither convenient transport networks. In addition, the "professional factories" were built in scattered regions.

These two disadvantages had led to two consequences: long building period, and extra expenses for the constructions, for the logistics and for the welfare of the staff and the workers. Since the early 1990s, the SAW tried to develop towards the East (Wuhan City), this was part of the *costs* of the reform of the socialist planning. Some Chinese economists consider that the choice of site of the SAW was a "policy error" [Li, 1993, p.80]. This kind of error was not unique, the same situation happened for the cases of Sichuan Auto Works and the Shaanxi Auto Works built for producing heavy-duty trucks.

Apart from the two centrally-managed automotive bases (FAW and SAW), and the five medium size plants³⁵³, during 1966-1976, there emerged a number of new production and assembly factories³⁵⁴. Among those, the Sichuan Automotive Works was one specially constructed with investment

³⁵¹By the end of this year, a complete set of equipment of cold working was equipped for the SAW [Wang, 1986, p.385].

³⁵²In 1968, Zhou En-lai signed an order: "The site of the SAW can be confirmed for construction at Shiyan in Hubei".

³⁵³Namely, NAIC, BAIC, JAIC, SAIC, TAIC. Since 1964, the SAIC began to produce Shanghai-model compact car, during the third phase, it attained a capacity of 5000 vehicles/year [Li, 1993, p.82].

³⁵⁴For the technical indicators of major models of motor vehicles turned out on the eve of the 1980s, cf. *Almanac of China's economy 1982*. pp. V138-9.

from the central government, also the plant was one of the few permitted to introduce foreign technology. In 1965, it introduced four models from French Berliet Company: 6-ton cross-country vehicles, 12-ton loading vehicles, 45-ton trailing vehicles and 25-ton dump trucks for mining use. The plant began production by 1973. Of similar status, the Shaanxi Auto Works, was also designated to produce heavy-duty vehicles. The "Yen'an" series SX250 5-ton cross-country vehicles were designed by this plant in 1968. The construction works of the plant were formally completed by 1977.

The Sichuan Auto Works was decided to be set up in 1965 to supply the need of the Army, mines, basic constructions and the third Front's development. The factory was located in Dazuba under the Yue Mountain. Relevant to this construction, the Chongqing Automobile Plant, Qijiang Gear Wheel Factory, Chongqing Autoparts Plant, Chongqing Hongyan Spring Factory were renewed ; the Chongqing Oil Pump and Glib Factory and the Research Center for Heavy Truck of Chongqing were built greenfield. Totally 6 factories and 1 research center formed the Sichuan Auto Works (or "Sichuan Heavy Truck Manufacturing Co."). The company had 60 000 workers and staff, with production capacity of 1 050 heavy trucks per annum, plus the production of autoparts left by the old factories. This complex could self rely in the assemblies, parts ; it could mutually supply in casting, forging, and pressing ; and it had complete mechanical work systems and logistics.

Similarly, the characteristics of this new plant were: beside mountains, concealed, dispersed, in hideouts, and self-supplied in energy, transport and living services. It was planned to build the factory in 3 years (1965-1967) with 200 million Y. However, the construction was stopped during the Cultural Revolution. So even in late 1970s there were still non-finished constructions.

Moreover the factory can produce only military purposed off-road vehicle, and the Army had limited its "demand" later, so it produced not more than 300 vehicles per year. Needless to talk about quality and efficiency, or economy of scale as in a capitalist automotive company.

The above case was not unique. Far before the completion of construction of the Sichuan Heavy Truck Manufacturing Co., Shanxi province began to build a similar plant also for military off-road vehicles in Baoji (in the Qi mountain valley). The capacity was planned as 1 000 vehicles per annum, also with an initial planned investment of 200 million Y as that for the Sichuan factory. It was also self-relied in all aspects. It was finished in 1978, but has never run in full capacity.

According to Li [1993, pp. 81-2], the cost to produce one off-road vehicle from these two factories was 200 000 Y per vehicle³⁵⁵. Even heavy off-roads are normally products of high cost, this cost was already 13 times superior to 15 000 Y per unit for the same product of the FAW ; and 10 times superior to 20 000 Y per unit for the same product of the SAW. According to

³⁵⁵Supposing the production attained 2 000 vehicles.

Qiu [1985], in the construction of these two factories in Sichuan and Shanxi, 20% of the total investment was used in the unnecessary constructions.

In fact, during the period 1966-1976, a second "automobile construction upsurge" spread across the country. Supported by local authorities, a huge amount of funding was channeled to the automotive production. This resulted in an explosive growth of number of automotive factories of both constructors and of parts-producers. By end 1976, there were totally 1 950 factories, including 53 assembly plants, 166 special-purpose automobile plants and 1 684 parts-production plants. The total output volume in that year reached 135 200 vehicles [Lo, 1992, p.16].

This second "automobile construction upsurge" attained peak in the years 1969 to 1971 following an increasing need of automobile vehicles. Each province except Tibet and Ningxia, had one or several constructors. In Jiangxi, there were established 16 constructors, among those, 8 of them was named as "Eight big sentry posts of the Revolutionary base of Jinggangshan". They produced from not more than 10 vehicles to 200 vehicles maximum per annum. Many human force and materials were input for producing those "country style" vehicles that became useless after just several months' running. According to the statistics of Jiangxi Province, from 1969 to 1973, during 5 years of "automobile construction upsurge", the whole province had produced

only 7000 vehicles, State investment was 20 million Y, total deficit attained 37.6 million Y. After 1974, many of the doubled-constructed factories were re-transferred to their old occupation - which was automobile repairing [Chang, 1996, p.58].

The second "automobile construction upsurge" was in fact encouraged by an upsurge of "*danweis*-transfer from Central Government to local Governments (*xiafang*)" in the early 1970s. The Mechanic Ministries, the 8th Mechanic Ministry merged with the First Mechanical Ministry in April 1970, then among the totally 310 *danweis* under these three ministries, 277 of them were transferred to local authorities by the end of 1970, including the FAW and SAW [Wang, 1986, p.368].

This upsurge continued until 1976. By this year, there had been national-wide 53 constructors and 166 special vehicle constructors. Under the policy of "construct largely (*daban*)", many small and medium size constructors were set up, covering 27 P/M/ARs (horizontal networks), and 10 ministries (vertical networks).

By late 1970s, there were automobile plants in all provinces except Tibet [Sun, ed., 1995, p.31]. Some provinces had even 8 or 9 constructors, but each of them produced not more than 1 000 vehicles/year in average, many of those were producing same products (repeated construction). Almost all of these plants were "small in size but produce all", i.e., low level

professionalization. They had multiple leading administrative organs (multiple *popos*). They were isolated either vertically or horizontally. The products were of low quality. They had low economic efficiency [Chen et al., ed., 1991, p.5]. During this third phase, many autoparts and accessory factories were also set up at provincial level [Li, 1993, p.82].

The automotive sector by the late 1970s was considered by the Authority as: low quality, few assortment ³⁵⁶, small quantity, scattered production, repeated constructions, multiple leading organs, i.e., multiple *popos*. Aiming at reforming this situation, the State Council issued the *Outline of ten years (1981-1990) development program for national-wide automobile models* (trial version), and the *Scheme of adjustment of national-wide automotive industries* (trial version). The larger context of this reform was showed by the *Temporary regulations about promoting economic alliances*. The State Council established a "Small group of coordination for the program of adjustment of automotive industry". In 1977, during the National Planning Meeting, the strategy from 1978 to 2000 on industrial development was decided: 1) Automobile products will be main industrial products, 2) The output and every economic indices must catch up with and surpass that of the developed countries, 3) Main productive aspects must realize automation, transport will realize high speed and modern technology [Wang, 1986, p.403].

³⁵⁶Especially for the popular key products, for example, there was no renovation for the Jiefang trucks for 20 years.

A general program of 23 years was set up for raw materials, infrastructures, steel bases and nonferrous metals.

This phase (1967-1980) began by the third FYP (1966-1970)³⁵⁷, but turned immediately to a period of the Cultural Revolution (1966-1976) which covered two FYPs. During this period, the Chinese automobile sector was isolated from the worldly automobile industry, according to some Chinese automotive experts, in this way, China lost the occasion of exchange with the World by staying door closed. This period met several policy errors. The construction plants set up in this period were considered by Chinese automotive experts as almost all inbornly deficient [Li, 1993, p.78].

2.1.4 Concluding remarks

For the stage 1951-1980, the Chinese automotive sector had undergone tremendous expansion, particularly in terms of number of *danweis*, of scale of an individual plant³⁵⁸, but meanwhile compared to the worldly advanced standard, the technological capability of the sector was far lower. The fact that the sector was in a state of excessive fragmentation, signified largely the sharing of fixed-assets per *danwei* and per worker, this meant in other words,

³⁵⁷ Also when the Premier Zhou En-lai advanced for the first time the "4 Modernizations".

³⁵⁸ For example, the SAW doubled the size of FAW for its construction.

the Chinese automotive sector was not capital intensive and technological intensive [Lo, 1992, p.18].

Following the establishment of the FAW, SAW, and other local automobile constructors, the basis of Chinese automotive SPNs had been set up roughly, it has the following features:

1) *Compartmentalization*. By the end of the second FYP, we see that two forms of embryonic SPNs were formed: a "ministerial level SPNs", around FAW and SAW, which were vertically controlled by the First Ministry of Machine Building, i.e., *tiaotiao*.

The others were locally and horizontally controlled by provincial Governments (M-form), there were mainly three provincial automobile production bases in Nanjing, Shanghai and Tianjin. These were rather independent and compartmentalized networks. Each provincial network was independent to that of the other province in terms of decision (different provincial Government), of input and output, i.e., *kuaikuai* [Wang, 1995, p.58]. The main inconvenient was that each province carries on its own benefits, this often led to repeated-investment and repeated-production.

2) "Large but all, small but all". This means that a large automobile *danwei* produces from A to Z, the same for the small ones. This was the contrary of the *work division* or *professionalization* as in industrialized countries. This led to the following features: a) low level of technology, b) low

production scale, c) low quality, d) high costs. In reality, most of the products could not survive for long time³⁵⁹ except a few of them [Wang, 1995, p.21].

3) After the arrival of the Soviet experts by mid-1950s, emphasis was put on the adoption of foreign (Soviet) methods and experiences. However the GLF reversed the situation again to stress on the Chinese own working style and self innovation by the ideas of domestic productive-level workers, and to campaign against the dominance of the foreign technology and equipment. The Sino-soviet split weakened China in the adoption of foreign technology, even China had contacts with France's Berliet company on construction of a truck factory in 1965³⁶⁰. One historian has noted that "Mao's program, simply put, envisioned the development and application of modern science and technology without professional scientists and technocrats" [Harwit, 1995, p.20].

Later on, China returned to emphasis on raising technical standards through learning with foreigners (Western countries) in 1980s.

4) The automotive production was politically-oriented. Any decision: from construction of a *danwei* to the design of a vehicle, was made by central or local administrative organs.

Moreover, the development of the automotive sector was tightly linked to the political atmosphere, for example, by the experimentation of trusts, the

³⁵⁹For example, the Shenyang Auto Works had designed and produced a first "Giant Dragon" light truck (2.5-ton), through the help of FAW using local means and combination of domestic and foreign methods. The factory designed and produced by itself the whole motor, body and chassis, and almost all the parts. This model was canceled after a production of only 700 units because of bad quality [Li, 1993, p.77].

³⁶⁰Barason, Jack, 1974, The automotive industry, in William Whitson ed., *Doing business with China*. pp. 170-89. Praeger, New York.

Chinese leaders wanted to unify the isolated vertical and horizontal automobile SPNs by setting up the CNAIC. This idea originated from Liu Shaoqi. However, the "trust idea" had become one of his crimes during the Cultural Revolution [Chang, 1996, p.184]. And the experimentation of trust was criticized and was canceled at the same time with the "Industry 70 articles".

5) Politics dominated all: during this period, the idea of *Third Front*³⁶¹ industries came out. The SAW was under this program. The construction of the new *danweis* were not based on *economic rationality*, but based on *political* and *military* considerations of which the criteria decided in a meeting of the Central Committee of the CPC on national affairs (August 1965). Thus the SAW and other local *danweis* of the moment was set up under a war logic: scattered, beside mountains, covered.

6) "Technological dualism", i.e., the combination of Chinese technologies and that of foreign ones, Soviet, Eastern European or Western since late 1970s.

This was the path which the development of the Chinese automobile sector took in the pre-reform decades. In the next stage, we will see an other period of development of the Chinese automobile sector: the reform era.

³⁶¹This is a purely geographic/administrative notion, it means some of the inner provinces. In the statistics in most Chinese documents, the following 11 provinces or autonomous regions are considered as the Third Front: Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Henan, Hubei, Hunan, Shanxi. Some of these provinces are in fact of First or Second Front, but statistically considered as Third Front [Wang, 1994, p.520].

2.2 Stage Two (1981- present): the reform era

2.2.1 Phase Four (1981-1995): importation upsurge of both cars and technology, establishment of JVs

The Chinese automobile industry entered into 1980s with 2 major features: 1) Technological dualism, i.e., the co-existence of relatively advanced and backward technologies side by side. The flagship like FAW, SAW were built up out of strategic considerations, while remaining large number of small-to-medium size plants mostly established through mobilization of local resources. This was the essence of "walking on two legs". This led to local development of automotive plants. 2) Technological backwardness of the automotive sector in general. From point of view of decision, the automotive sector was not among top priorities of the State development strategy [Lo, 1992, p.18].

This period began with the sixth FYP (1981-1985). At the beginning, the adjustment continued, then it turned rapidly to a wave of large volume importation of cars for several years, and an increasing of "emerging domestic real market demand" of cars. This stimulated some substantial change, especially with help from foreign automotive firms. Here by "emerging domestic real market demand", we mean that the use of cars was no more uniquely organized by the central planning, but could also be desired by

individuals, following their own *preference*, even 95% of the users were still administrative cadres or taxis [De Saint-Maur, 1994].

Throughout the decade of 1980s, the annual imported vehicles on average augmented 12.5%. The ratio of imported to domestic output volume has been consistently high. During 1981-1988, the annual average ratio of importation attained 32.3% ; in peak year of 1985, it was 81%. In fact, with regard to the case of cars, the high import/output ratio reflects the asymmetry between the domestic output and the "demand structure". According to Lo [1992, p.19], in average, for 1981-1988, the ratio of demand/domestic output was 324% ; at peak of 1985, it hit a record high 2035%. The average growth rate of annual import volume of cars was 57%, much higher than that of all automobile vehicles as a whole (12.5%).

The 1980s were a decade of tremendous growth in domestic sales. In the peak year of 1988, the volume was more than double of that of 1984. If excluding the sales volume of 1985, which was exceptional for having almost half imported (the import-to-output ratio was 81% in that year), the trend of tremendous growth was apparent: in average, the annual growth rate of sales for 1984-1988 was around 20%. Thus despite the competition from increasing imports during this period, the expansion of sales had fostered a correspondingly rapid growth of domestic automobile output volume. The average annual growth rate, both for 1981-1984, 1985-1988, was around 20% which was almost the same rate as that of the growth in volume of domestic

sales. The acceleration of the volume of domestically-produced cars was more phenomenal, registering 22% in 1981-1984 and around 40% in 1984-1988 [Lo, 1992, p.20].

The "emerging domestic real market demand" evoked a rapid growth in output volume which was sustained mainly by an extensive (not intensive) expansion of production capabilities, i.e. expansion of number of plants and workers. There were massive drives amongst local authorities to invest in the sector in order to reap the huge profits promised by the sales boom.

In October 1985, the SPC, SEC, SSRC, and the Mechanic Ministry jointly issued the *Circular about several questions of automotive industrial development program and its management system reform*, which advanced that, in the seventh FYP (1986-1990): 1) The main task should be on the technological reform, renovation of old factories, no more new factories would be constructed, 2) To catch up with the international level in terms of quality and technology, 3) To let the large *danweis* to be the leading *danweis*, to enlarge the *danweis'* autonomy so that they become *management-oriented*, 4) To professionalize the small *danweis*, so they would be able to cooperate with each other in order to produce large quantity. 5) To well mitigate the conflict of "demand" and "offer".

In 1986, the *Report of the development strategy of the automotive industrial until 2000* re-emphasized the same logic: 1) product models should

meet the market demand, 2) the productive *danweis* should achieve their own development capacity of new models, 3) the quality and technology ought to approach the 1990s' international level, 4) to augment international competitiveness, to realize zero importation of passenger cars.

Another prominent feature of this period was introduction of foreign technologies, especially for the production of cars. By 1989, the Chinese automobile sector comprised more than 3 000 plants, compared to 2 000 ones ten years ago, the sector employed 1.3 million staff and workers [Lo, 1992, p.20]. This included 119 assembly plants, 594 special-purpose automotive plants and about 2 400 autoparts plants. Amongst the assembly plants, only the FAW and SAW had an annual output volume exceeding 100 000 units. Another 6 plants reaching 10 000 units, whereas the remaining large number of plants stayed at far below the minimum efficient scales. The establishment of JVs with foreign was somehow a short cut to change this situation.

Concerning product design, at the beginning of this period, more than 30 new vehicles of heavy, medium, light, micro, and other special vehicles, buses were developed. And over 200 new models of special-purpose or and refitted vehicles were designed and manufactured. Of those the major marks were: Jiefang CA141 5-ton trucks, Yuejin131 3-ton trucks, Huanghe162 18-ton trucks, BJ122 1-ton trucks, Hongyan CQ30290 18-ton trucks and CQ19210 10-ton trucks, SX161 13.5-ton trucks. There were also various foreign-designed

models of cars, vans, trucks introduced into the automotive *danweis* [Lo, 1992].

In fact, before the important importation of passenger cars, until 1983, the Chinese Authority had not prepared a development of passenger cars. Then since 1983, the SAIC began to cooperate with VW to produce by CKD the Santana car, a model put in production in 1983 by VW. It was described as a popular economic car (gasoline or diesel), with worldly new-fashion front wheels drive, light and gasoline-saving, and easy to manipulate. The JV was officially created in 1984, it produced 60 000 cars per annum by the end 1992, the JV planned to double the production in two years³⁶².

The adjustment of the whole sector was both at macro and micro level. The macro level reform was marked the re-establishment of the CNAIC (7th. May 1982) for the second time³⁶³. The micro level reform was marked by establishment of several Sino-foreign JVs under new "enterprise institutions", we will come back to this point later.

For the macro level reform, the Central Committee of the CPC, the State Council, and the State Mechanical Commission advanced that "Industry should take the road of alliance", the relation among the *production danweis* and *user danweis* should establish "contracting relations" [Bo, 1982]. The institutional basis of this wave of reform were: the *Temporary regulations on reinforcing*

³⁶²"93 Tokyo Forum" held 12th. Dec. 1992 in Tokyo, organized by NHK, in Tong Da-lin, 1993, *New era of humanity*, China Friendship Press, Beijing. p.212.

³⁶³This is often called in Chinese documents the "second wave of reform in the automobile sector " [Bo, 1982].

economic alliance, adopted by the State Council, and the *Outline of 10-year plan for the development of the car models* (trial version), promulgated by the State Mechanical Commission (August 1980), and also the *Program for the reform of the national-wide automotive industry* (trial version).

These new rules of the game led to the re-setting up of the CNAIC³⁶⁴. Its members were re-named "Joint-Managed Companies (JMCs). There were seven JMCs:

- Jiefang JMC.
- DFM JMC.
- Shanghai JMC.
- Heavy Truck JMC (Jinan + Sichuan).
- Beijing-Tianjin-Hebei JMC.
- Nanjing JMC.
- Autoparts JMC.

The Jiefang JMC was grouped based on the FAW. Geographically, it touched over 20 provinces or cities. The JMC was composed of 65 motor factories, transformed vehicles factories, parts factories etc. [*China automotive yearbook*, 1983, p.446]. Apart from various trucks, the JMC produced Hongqi limousines, and was preparing to produce 3 lt. medium and luxury compact cars with light motor of 6 cylinders, and standard cars (1.9 lt.) and economic cars (1.7 lt.) of 4 cylinders motor.

The sixth FYP (1981-1985) concentrated on the aspect of technological renovation. The main result consisted of the completion of the "pattern

change" program in the FAW - For 30 years that the FAW had not change model of vehicles and their production pattern, then in 1981, the State Council approved the program, which was listed as a pilot project in the sixth FYP. The project was completed from 1980 to 1983. The new model CA141 has been designed, prototyped, tested, controlled and fixed. It became then the new main product of FAW. The production capacity was 68 000 units, which could be added 5 to 15% [Li, 1993, pp.82-7]. The corresponding motor CA6102 was developed in 1985. The mass production of CA141 began since 1st. Jan. 1987. Until June 1987, the production volume had attained 24 140 units. The production volume in June attained 5 785 ones, even superior to 5 667 units in a Nissan factory [Li, 1993, p.84]. The investment of this project was 400 million Y (three years). According to Chinese documents, this had made the Chinese automotive sector to progress 30 years [Li, 1993, p.84].

The DFM JMC was regrouped based on the SAW, it was composed of 66 *danweis* over 18 provinces. The mains products had been light and medium trucks. It did not produce compact cars before the establishment of the DCAC (JV with Citroën) [*China automotive yearbook*, 1983, p.459]. During the sixth FYP, the DFM JMC has attained a productive capacity of 100 000 vehicles [Li, 1993, p.84].

The Shanghai JMC was in fact "Shanghai Automobiles/Tractors Industrial JMC". It comprised 98 *danweis*, originally from 10 municipal

³⁶⁴Cf. Circular about: CNAIC to be an independent account *danwei* in the State's Plan.

administrative organs. There were 8 categories of products: cars, micro cars, mining vehicles, transferred vehicles, tractors (Shanghai Tractor Factory), motos, internal-combustion engines, and parts. The origin of the Shanghai automotive base was an old shop for parts changing and vehicle repairing before 1949. It was remolded in 1958, as State-managed Shanghai Automobile Assembly Factory under the Shanghai Agriculture Mechanics Company. It was renamed in 1981 as Shanghai Auto Works, then renamed as Shanghai Automobile/Tractor JMC in 1983.

Since 1964, the Shanghai base began to produce medium range cars SH760, which was renewed in 1974 as SH760A. 31 100 SH760 cars had been produced until 1982 [*China automotive yearbook*, 1983, p.459]. By 1983, the annual production of SAIC-VW attained already 20 000 Santana cars [*China automobile yearbook*, 1983, p.80].

Heavy Truck JMC was rather a geographical regrouping of the provinces Jinan and Sichuan. The main products were the heavy truck and military vehicles.

Beijing-Tianjin-Hebei JMC was composed of 103 factories (52 all-people-owned, 51 collective-owned), including Beijing Auto Works, Beijing Second Auto Works, Tianjin Auto Works, Shijiazhuang Auto Works, etc. The strategy was: Beijing developed light automobiles (1-2.5 tons) and light jeeps, Tianjin produced micro cars (0.5-0.8 tons), Hebei developed the parts and transferred vehicles. Then since mid-1980s, the Beijing Auto Works created

Sino-American JV with AMC to produce jeeps of 4-cylinder motors and light jeeps' parts. The AMC was responsible for the exportation of these parts, the JV produces also transferred BJ212 [*China automotive yearbook*, 1983, p.439 ; Li, 1993, p.84]. In this way, Beijing progressed in technology during the sixth FYP.

Nanjing Automobile Industry JMC was composed of 25 *danweis*, over 9 provinces, with main products as vans, jeeps, truck, special vehicles [*China automotive yearbook*, 1983, p.464]. According to Li [1993, p.84], Nanjing had also progressed in technological aspect during the sixth FYP.

China Autoparts Industry JMC was founded the 16th. March 1983, this signified a reform on the parts production. The ambition was to catch up with the international level, to set up 2 or 3 systems of autoparts production in order to satisfy the national-wide automobile plants, as well as the pieces of every kind of (mainly imported) vehicles. There were only 31 main factories in the JMC, this number was few compared to the total number of the part factories [*China automotive yearbook*, 1983, p.459].

The institutional arrangement of the CNAIC was "Manager's responsibility under Management Committee". The Board of Directors was the highest power organ, which was composed by the leaders of each JMC, the representatives of the each direct *danweis* under the CNAIC, the representatives of the downstream *danweis*, the automobile techno-economic

experts, representatives of the local governments, and representatives of the State Council [*China automotive yearbook*, 1983, p.56].

JMCs were directly under the CNAIC. Under the JMCs were called the "professional factories".

According to the Chinese Authority, the nature of the CNAIC was a "company", i.e., 1) it was an economic entity, it had an organization of an "enterprise", it was an independent accounting *danwei*³⁶⁵ ; 2) from legal point of view, it was directly under the State (Council), it was different from *administrative companies*, or administrative organs, it was an intermediate entity in the evolution from *administrative entities* to *economic entities*.

The function of CNAIC was to replace the AIB which was under the First Machinery Ministry, so it was responsible (temporarily) of the administration of the whole sector. In other words, the CNAIC played a role of the Government (ex-AIB).

Hierarchic relations of the CNAIC: it was at the same level of the Machinery Ministry, it could have direct relation with the relevant departments. The headquarters of the CNAIC comprises 200 staff grouped in 8 departments³⁶⁶ and 3 offices³⁶⁷. It played also the roles of: Financial Commission, Technical Commission, and consultant vis-à-vis subordinating *danweis*.

³⁶⁵The FAW, SAW had already had independent accounts in the Plan.

In fact, the CNAIC gathered partially the features of: a company, centralized planning of production, centralized strategy/policy, decentralized management. It combined responsibility, power and profits, either economic or political function together [cf. *Automotive yearbook*, 1983, p.64].

The so-called "decentralized management" signified in reality the presence of intervention of local Governments. For example, the Beijing-Tianjin-Hebei JMC was under the CNAIC but was also under the Beijing Municipality. Similarly, the Shanghai JMC was subordinated both to the CNAIC and the Shanghai Municipality. Also the Heavy Truck JMC was subordinated to the CNAIC and meanwhile to the Cities' Governments of each factories' geographical territory [cf. *Automotive yearbook*, 1983, p.99]. This was evidently a phenomenon of "multiple *pospos*" for the JMCs and its subordinating *danweis*.

The result of this *idealized* CNAIC was not so satisfactory. The CNAIC was canceled by the Document No.50 of the State Council (1987). Instead, was established a China Automobile Alliance (CAA, *Zhongqilian*), which included also the motorcycle producers. But CAA had similar function and role as that of the CNAIC.

In a meeting on the seventh FYP (1985), China realized that its automotive production had been ignored in the past but an "automobile

³⁶⁶Namely, technological development, quality control, program of reform, upstream supplies for production, consolidated accounting and finance, personnel education, import/export, sales and after sales.

³⁶⁷Namely, Reform Office, Enterprise Management Office, and General Office.

industry" was important to the country. Thus it was decided that the automotive production as a "pillar industry".

In China, there was an "official list" of the *danweis* that are authorized to produce automobiles. However since 1984, the Central Government and the local Governments began to have separated budgets, then all projects under 30 million Y could be approved by the local Governments [Chang, 1996, p.92]. Then many local automobile productive *danweis* were created.

Then a third "automobile construction upsurge" came out in the mid-1980s. The number of constructors attained about 125 ones, and by early 1990s, there were over 500 factories producing transformed vehicles using chassis produced by other *danweis*. compared to developed countries, there are not more than 30 large automobile enterprises, 92% of the market share is concentrated within 20 automobile groups [Chang, 1996, p.59].

At local level, and in military sectors, there were established also many multi-formed automotive groups. For example, the Jialing Motorcycle Enterprise Group (ex Jialing Mechanical Factory), Changsha Automobile Electrical Enterprise Group (ex Changsha Electrical Factory), and Shenyang Auto Works, etc..

According to the Vice-Premier, Li Lan-qing, "This 'automobile upsurge' is different from the first two ones. In the past, the production equipment was self-made, if they could not produce automobile products, they could produce other products, it was easier for the *danweis* to change their activities. But now many local *danweis* have

imported equipment that is particularly designated to produce automobile products, if they do not produce automobile products, they can do nothing! The most difficult *danweis* are those which have already a base, but impossible to go up to a larger economic scope neither to go down to change activities, thus it is difficult to reform them. How to change the activity of these *danweis*?!" [Chang, 1996, p.68].

It was only in 1989, under the political austerity that the "automotive boom" was temporarily cooled down. For the years 1988-1991, the instant effect was a drop of imported volume, a slump in "market sales" and volume, and in profit-tax. But a resurgence in 1991 was abrupt but still with slow improvement in product quality and R&D, only quantitative expansion [Lo, 1992, pp. 20-1].

By 1989 China produced haulage vehicles 335 000 units, in which light and micro ones was 164 000 units (49%). The stagnation in 1989-90 had plunged the automotive plants into an unprecedented predicament. The market slump resulted in a rapid increase of unsold inventories which tied up the "working capital" of the plants and in turn, forced them to stop production. By end 1989, total stocks inside automotive plants reached 40 000 units, plus 50 000 in hands of the State trading agents, the stockpiles tied up over 5 billion Y. The Shanghai-VW, and BJC had their stockpiles increasing respectively 16 times and 7 times [Lo, 1992, p.21]. All these plants suffered

losses. The FAW saw its financial balance first time in red, it lost 20 million Y in the first quarter of 1990 [Lo, 1992, p.23].

For the vehicles, the central Government imposed ceiling prices. For the JVs, if the LR <60%, it put also ceiling output. So all JV cars were restricted: by end 1989, Santana, LR = 31% ; BJC Cherokee, LR = 36% ; GPAC Peugeot 504, LR = 28% ; Tianjin Charade, LR = 41% ; FAW Audi-100, LR = 7%. All of them had the LR less than 60%. GPAC had established an annual production capacity of more than 20 000 cars, yet was permitted by the Government to turn out only 4 700 cars and 5 000 cars in 1989 and 1990. Result, each car sold, it suffered from a loss of more than 10 000 Y [Lo, 1992, p.24]. The GPAC was finally closed down in 1997 [RFI, 3rd. March 1997].

In Feb. 1990, in order to reinforce the macro adjustment, the CNAIC was again re-established for the third time. According to the *Official reply of the State Council on organizing the CNAIC*, the CNAIC now was a "socialist all-people owned enterprise", responsible on the management of its directly subordinated automobile *danweis*, it was empowered by the Ministry of Mechanics and Electronics to manage the whole automotive sector. Meanwhile the CAA was annexed to the CNAIC, the function of CAA was to investigate, to consult, to make plans for the whole sector, and to help the coordination and management of the CNAIC (doubled organization).

Within five years from 1988 to 1992, the State invested 500 million Y to eight automobile bases, covering four Central level *danweis* - FAW, SAW, Nanjing, and Jinan Heavy ; and four local *danweis* - Beijing, Tianjin, Shanghai, Shenyang [Sun, ed., 1995, p.31]. The products were mainly: heavy, medium, and light trucks ; cars, and micro cars.

For this phase, the production and technologies development was still limited on trucks [Rao, 1983]. General trend of the volume of production of trucks: it was roughly decreasing from 1950s (280 000 units) to 1970s (25 000 units), then it stayed stable.

During the eighth FYP (1991-1995), the SAIC stopped the production of the Shanghai car, it concentrated to the production of Santana, with capacity from 30 000 to 150 000 units. The FAW concentrated on medium, light trucks, and cars, since the 1980s, FAW changed the type of Jiefang. The SAW concentrated on heavy, medium trucks, and cars, it attained a capacity of 120 000 vehicles, it was considered by the Chinese Authority as the first successful example of "economic re-organization". Nanjing concentrated on light IVECO. Beijing and Southern West region concentrated on Suzuki light trucks. Tianjin concentrated on Xiali (Charade) micro car. Shenyang concentrated on Toyota Sea Lion mini-van and on GM small truck. The sectors of aviation and space and of weaponry developed also micro cars [Sun, ed., 1995, p.31].

The rapid expansion of the number of automotive construction plants implied a further fragmentation of the sector. Despite the central

Government's efforts to promote agglomeration and professionalization in line with a stipulation of the development plan of the sector laid down in 1987, yet the "structural rationalization" of the sector did not make substantial progress under the booming "sellers market" [Lo, 1992, p.20].

We remark that for this phase, the "distribution networks" began to be improved. There was 635 sales staff, and 137 sales points for the FAW, the SAW, Nanjing Auto Works, and Jinan Auto Works [Rao, 1983]. But vehicles were still considered as "means of production" with mainly "allocated users" by administrative processes.

Here we terminate this section by giving three remarks on the products, production bases and foreign technologies:

1) Since long time, the main model of the Chinese automobile was the medium trucks. This situation was described by Chinese automotive experts as "lack heavy lack light, naughty in car, only medium truck (*quezhong shaoqing, jiaochekongbai*)".

Thus vehicles could not meet the need both in volume, in grades and in model since the 1980s. So the adjustment strategy for the product structure in the 1980s was "to shift from light trucks to light cars, to micro cars and to heavy trucks ; from military to civil ; from long vehicles to short vehicles".

In 1986, 80% domestic demand (cars or vehicles) was imported. Then in 1992, 95% of demand was supplied by domestically produced products, only 16 000 imported vehicles, which was 10% of self produced vehicles [Chang, 1996, p.45].

2) In 1986, the CNAIC supported the FAW, the SAW, and Jinan Heavy to become "three big automotive production groups", then they began to be listed independently in the national planning³⁶⁸. This was the "big three" in a general sense. FAW, SAW, and Jinan were those of the 184 pilot programs for the automobile sector in the seventh FYP (1986-1990) in which the national-wide investment on the automotive sector attained 3 times more than that in sixth FYP (1981-1985). The gist to put automotive sector as pillar industry was set.

The construction planned for the "big three", meant 565 million Y for technological renovation in the seventh FYP. By the end of the seventh FYP, 378.55 million Y works was completed, or 67% of total budget. The budget was superior than average of the whole mechanical sector. Renovation of vehicle types concerned only trucks, special vehicles etc..

If we look at only the passenger cars production, there were other "big three and small four".

³⁶⁸In terms of production plans, material plans, fixed assets investment plans, imported technology plans, sales plans, import/export plans, financial plans, and workers' salary plan [*China mechanical industry yearbook*, 1987, p.II-12].

In August 1987, the FAW, the SAW, and the SAIC were recognized as the "3 big bases" for passenger car production.

About the "small four" for passenger car productions: in 1982, the SPC and the CNAIC decided to set up, one base for micro car production in Tianjin ; two other assembly factories, Liuzhou Tractor Factor, and State-managed Weijian Mechanical Factory ; and one special micro car Factory, Jilin Micro Car Factory. During the seventh FYP, the "micro car policy" was reinforced. Four micro car production bases were fixed in four geographic zones: Northeast, Tianjin, Nanjing, Southwest. We must note that numerous local constructors wanted to become one of the "small four". The choice was both political, administrative and economic (such as the scope of existing facilities).

3) During this phase, there was an important importation of a large number of foreign technologies, and establishments of several JVs in sector. The Chinese automotive sector had followed a closed-door strategy since 30 years, the worldly automotive industry had made rapid development during the 1960s and the 1970s. Especially during the 1970s, under the crash of the petrol crisis, the technology in production was largely improved, various new technology and materials were put in use in the automotive manufacturing. However China automotive production was stagnant during this period. In order to catch up the modern level, in the 1980s, there were imported 10 whole vehicle design/production technologies, 15 assembly technologies, 35

projects for parts production, 21 technological installations, 8 for road testing, and 14 for motorcycle production equipment, tectonics and assembly lines, CAO, and over 100 foreign other new technological aspects [Li, 1993, p.85]. By 1990, there were 13 JVs³⁶⁹ in the automobile sector, among those, 9 constructors with various products³⁷⁰, and 4 part manufacturers.

2.2.2 Phase Five (1996- present): restructuring, perspectives

By now, the Chinese automotive industrial policy has shifted from "self-reliance", to "importation of technology", with objective of further self development.

After the issue of the *Policy on the automotive industry*, in July 1994, the leading power was transferred from the CNAIC to the Ministry of Mechanical Industry [Chang, 1996, p.182], the inflow of foreign companies has been slowed down. The existing JVs are looking for better sales and better management. The State seeks to restructure the sector: it wants to form 2 or 3 big groups, with over 1 million capacity of production from the basis of 13 constructors [CASS, 1996, p.87]. The objective is to augment the products' quality and hence international competitiveness [*China daily*, 23rd. Aug. 1998].

³⁶⁹The foreign partners are from USA, Germany, France, Japan, GB, Italy, Thailand and Hong Kong.

³⁷⁰Namely passenger cars, Jeeps, light vehicles, heavy vehicles, special vehicles, motos [Li, 1993, p.85].

Since mid-1980s, China has been in the "third automobile upsurge", which tends to be calmed down by the end of 1990s. However, the second stage has been marked by this third "automobile construction upsurge", and the large number of Sino-foreign cooperation projects. The Chinese automobile sector has met substantial change in terms of technology, quality and management, through these projects.

According to Zhang Xiao-yu³⁷¹, there are three reasons for the three "automobile construction upsurges" in the automotive sector: 1) The State has not supplied a long term and stable automotive industrial policy, and it has under-estimated the demand. 2) The investment of long term has not been sufficient, and has not been concentrated. 3) The planning system, i.e., the purchase quota of the automobile vehicles has been allocated, when a *danwei* cannot get the allocated quota, it then tries to produce by itself [Chang, 1996, 77].

According to Cheng Yuan³⁷², "The Central prohibited the large number of *danweis* to start automobile production, however, the *danweis* are supported by the local Governments. The automotive situation in China is the result of trial of strength of Central administrative power with the local administrative power, it is not the result of economic rules" [Chang, 1996, p.79].

An important consequence of those "automotive upsurges" is that there are now too many "local pillars" in each provinces. The question "how to

³⁷¹Director of the Automotive Department of the Machinery Ministry.

³⁷²Reporter of the *Economic daily*.

reduce the number of these local pillars to form 2 or 3 national level large pillars?" becomes the next task for the industrial restructuring of the automotive sector.

Since mid-1990s, Chinese Authority has begun to seek a suitable way to restruct the automotive sector. Until 1997, it seemed that the Chinese leaders have realized the problems of the automotive sector in China have been well analyzed and identified, however there is not yet a suitable solution.

The Chinese automotive sector has not yet found a way for appropriate restructuring under the "socialist market economy".

3. An image of the Chinese automobile production by main salient evidences

After studying the creation and evolution of the Chinese automotive production networks, here in this Section, we will give some main salient evidences of its actual situation. We notice here that certain statistical results are just to give a rough idea³⁷³ of the actual situation. We will illustrate the situation of the emerging Demand/Offer of the Chinese automobile sector in terms of products and production, export/import, sales, fleet, and some relevant infrastructures, etc..

³⁷³These results are not rigorous due to several reasons, either the statistical system and method, or from different sources (Chinese or foreign documents), or even from the calculations due to the different connotation on

3.1 Products and production

The production of automobiles is generally a typical manufacturing sector. Nowadays, the automobile products are extremely complicated and there are largely various types of automobile products. We can divide them roughly into 3 categories: 1) passenger cars, 2) commercial cars, 3) components. An "automobile sector" is the set of all enterprises producing or trading these products. In different countries, the standards for the classification of automobile products may be different, so are the statistical standards. In a more detailed way, the sector can be divided into 10 sub-sectors, which are classified by final products namely, extra-heavy off-road vehicles, heavy vehicles, medium vehicles, light vehicles, micro vehicles, large buses, passenger cars, motos, components, and special vehicles.

Concerning only automobile products, they are themselves classified officially into 9 categories in China, according to the new official classification standard (GB9417-89)³⁷⁴, as shown in the following Table IV.2.

In this official classification of "automobile vehicles" in China, only categories 1) to 8) are considered as "automobiles" [DAI-MMI, 1994], the last

certain notions. As an example, many documents classify the category of vehicles differently from the official classification, even in a same document, some notions vary according to technical reasons, etc..

³⁷⁴The statistics before 1988 were rather rough in the yearbooks. Before 1994 when China has adopted the ISO standards, there were many internal standards each year [*China automotive industry yearbooks*, 1988, 1991, 1995] ; According to PEE [1996, p.32], the Chinese terminology of the vehicles is not "standardized", and is "little clear" ; See also Li [1993, p.14].

one concerns only trailers which are not *auto and mobile*. In most of the current studies/reports (including official ones), various re-combinations of this official classification for the term "automobile vehicles" can appear. Generally, in non-official documents³⁷⁵, "automobile vehicles" often consists of: trucks (category 1), off-road vehicles (category 2), light vehicles³⁷⁶, buses, and passenger cars.

In Chinese statistical documents³⁷⁷, "automobile production" is often composed of:

- trucks (category 1),
- off-road (category 2), in which "jeep" (first sub-category of category 2) is often listed separately,
- bus (category 5),
- car (category 6),
- chassis, which is not in the official classification of "automobile vehicles", but is often considered in most Chinese documents, as part of the "total automobile production". It is often considered in one totality, even there are different kinds of chassis for different vehicles³⁷⁸.

³⁷⁵These are often "overseas" studies. We notice here that, many figures in these studies are in general inferior than that in Chinese documents, and their items and classifications are various too.

³⁷⁶This term is quite dim, it is not at all a pre-defined rubric in the official categories presented in the Table IV.2 above. It is often a de-composition of the official sub-categories. We can deduce that, in some documents, it refers (only) to "jeeps" (sub-category 1 of category 2) ; in other documents, it can be a combination of light trucks (sub-category 2 of category 1), vans (sub-category 1 of category 5), or jeeps (sub-category 1 of category 2). The mini-van, such as Daihatsu, may be classed as "van" or "Minicar" - this is not very clear, it depends the documents.

³⁷⁷Cf. *Automotive industry yearbook*, 1988 ; DAI-MMI, 1994, etc..

³⁷⁸Most of the chassis are for the *Jiefang* trucks.

Table IV.2: Categories of automobiles and semi-trailers in China.

No.	Categories	Sub-categories	Characteristics
1	Truck 载货汽车	Mini truck	$Ga \leq 1.8t$
		Light truck	$1.8t < Ga \leq 6t$
		Medium truck	$6t < Ga \leq 14t$
		Heavy truck	$Ga > 14t$
2	Off-road vehicle 越野汽车	Light off-road vehicle (Jeep)	$Ga \leq 5t$
		Medium off-road vehicle	$5t < Ga \leq 13t$
		Heavy off-road vehicle	$13t < Ga \leq 24t$
		Extra-heavy off-road vehicle	$Ga > 24t$
3	Dump truck 自卸汽车	Light dump truck	$Ga \leq 6t$
		Medium dump truck	$6t < Ga \leq 14t$
		Heavy dump truck	$Ga > 14t$
		Mining dump truck	
4	Towing vehicle 牵引汽车	Semi-trailer towing vehicle	
		Pull-trailer towing vehicle	
5	Special purpose veh. 专用汽车	Van	
		Tanker	
		Crane / Lift truck	
		Box / Stake truck	
		Special construction vehicle	
		Special tipper	
6	Bus 客车	Mini bus	$L \leq 3.5m$
		Light bus	$3.5m < L \leq 7m$
		Medium bus	$7m < L \leq 10m$
		Large bus	$L > 10m$
		Extra bus	
7	Passenger car (PC) 轿车	Minicar	$V \leq 1Lt$
		Subcompact car	$1Lt < V \leq 1.6Lt$
		Compact car	$1.6Lt < V \leq 2.5Lt$
		Intermediate car	$2.5Lt < V \leq 4Lt$
		Limousine car	$V > 4Lt$
8	For future use 留用		
9	Semi-trailer 半挂车	Light semi-trailer	$Ga \leq 7.1t$
		Medium semi-trailer	$7.1t < Ga \leq 19.5t$
		Heavy semi-trailer	$19.5t < Ga \leq 34t$
		Extra heavy semi-trailer	$Ga > 34t$

Notes:

- 1) "Ga" = maximum plant-rated gross vehicle weight ; "L" = length ; "V" = displacement of engine.
- 2) For trucks, dump trucks, and semi-trailers, "Ga" = gross vehicle weight rating when traveling on highway ; for off-road vehicles, "Ga" = gross vehicle weight rating when traveling on off highway.
- 4) Medium and large buses include city bus, inter-city bus, coaches, and group bus. Extra-large buses refer to the articulated bus and double-deck bus.

Sources: DAI-MMI, 1994, *Automotive industry of China*, abridged edition, p.22.

In order to have a rough idea of the automobile production in China, we have constituted the Chinese automobile production (in unit) from 1955 to 1997³⁷⁹ [Appendix 1], using the notions in Chinese statistical documents as listed just above.

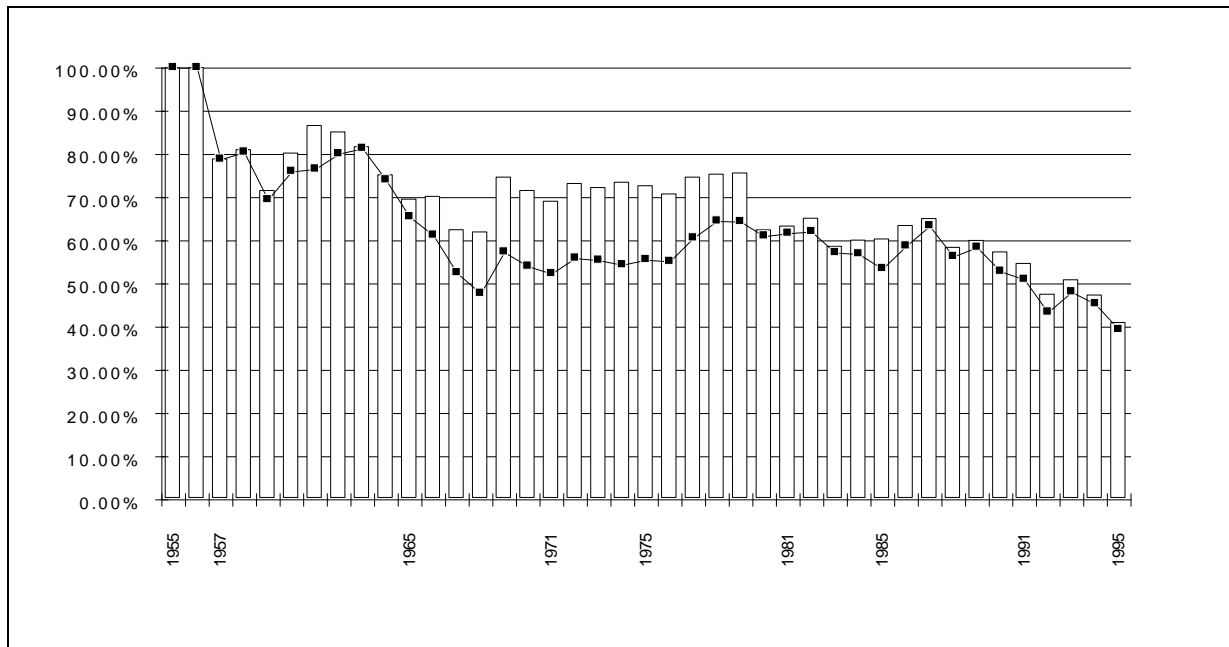
One of the salient point is that, generally speaking, the trucks' output on annual total output had decreased from 100% (61 units) in 1955 to 40.89% (571 700 units) in 1995 [Graphic IV.1]. This shows also the Chinese automobile production has been established on a truck production basis, or say, "industrial utility basis", i.e., the vehicles were considered as one of the productive means circulating in the Socialist Production Networks. In general, the decrease had been gradual.

Graphic IV.1: Trucks' output had been decreasing.

Chart: percentage of truck production on officially announced total automobile output.

Dot: percentage of truck production on calculated total automobile output.

³⁷⁹For the figures, we have refereed to various sources including CASS, CNAIC, DAI-MMI, French media, Harwit [1995], PEE, etc..

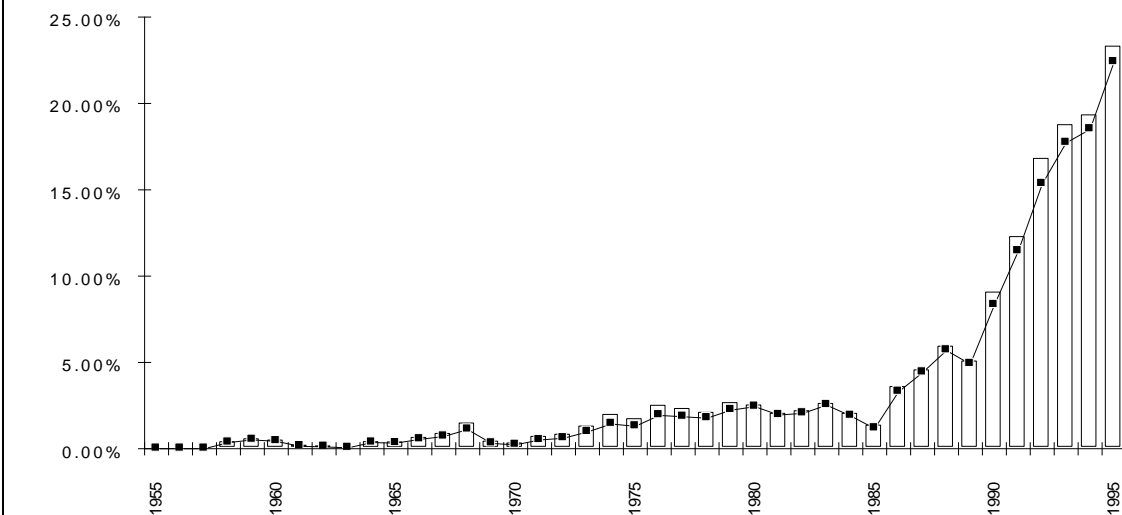


At the same time, the passenger car (PC) output on totally annual automobile vehicle output had increased from 0.36% (57 units) in 1958, even only 5 units in 1961, to 23.28% (325 400 units) in 1995 [Graphic IV.2]. Rapid increase happened in the late 1980s and early 1990s. With the rapid increase of the PC production, the composition of the Chinese automotive outputs (trucks, off-road, bus, car) had changed dramatically. Passengers car production had emerged rapidly almost *ex nihilo*.

Graphic IV.2: Passenger cars' output had been increasing.

Chart: percentage of PC production on officially announced total output.

Dot: percentage of PC production on calculated total output.



From historical point of view, the production bypassed 10 000 units in 1958 ; then bypassed 100 000 in 1971 ; and bypassed 500 000 units in 1988. From 100 000 to 500 000 units, there was 17 years. The development speed was not stable. 1 million units (1/5 cars) was attained in 1993, 23 years after 1971.

For comparison, for the Japanese automotive industry, 100 000 units was attained in 1956 ; than 1 million was attained 7 years later in 1963 ; 10 million was attained in another 18 years in 1981 when it became the worldly first [Li, 1993, p.87]. For South Korea, 10 000 was attained in 1967 ; 1 million was attained in 1988, 11 years after ; 2 million was attained in 1995, 7 years

later [Desbois, et al., 1994, p.567]. The time that China had spent to attain 1 million production was 23 years, which was over 2 times of Korea, over 3 times of Japan.

Refer to the appendix 1, we can draw the following features:

1) the main products were medium trucks. The FAW and the SAW were both designed for the production of medium trucks. Even there was production of cars, but the "batch production (*piliang shengchan*)" capacity of cars was not realized until late 1980s. China tends to compare its industrial development with Japan. In fact, Japan began by the trucks' production too. In a short time period after the War II, Japan had transformed from trucks production to car production. Since the 1970s, car has become the main product.

All developed countries had various starting points for the automobile production, they finally all have taken the car as main product. Car production corresponds over 60 % in these countries³⁸⁰ or even in some developing countries³⁸¹. The Chinese Authority emphasized that China has ran in the contrary of the history of those countries, the automobile production lacks the cars, light trucks and heavy loading vehicles, this is shown in the following Table IV.3. For the Chinese Authority, China must change this situation.

Table IV.3: Vehicle types, percentages on total production.

³⁸⁰For 1989, Japan was 68.5%, USA 62.9%, West Germany 94.1, France 87%, Italy 88.8%, GB 80% [Li, 1993, p.90].

³⁸¹In 1989, 91.4% for Brazil, 76.8% for Korea, 68.5% for Mexico, 64.9% for India [Li, 1993, p.90].

Vehicle types	1980	1989
Light trucks	24.1%	37.5%
Medium trucks	54.1%	40.1%
Heavy trucks	3.6%	3.5%
Comparison	29.4 : 66.1 : 4.4	46.3 : 49.4 : 4.3

Sources: *Mid-south vehicle information* (Zhongnan qiche xinxi), vol.3/3, 18th. December 1990.

According to Li [1993, p.92], the fact that most of the automobile production in China has been light trucks is not completely unfavorable - in developed countries, light vehicles represents about over 50% of the fleet, even 70-80% in some countries. In recent years, light vehicle in China has augmented rapidly, the fleet of light vehicles corresponds 90% of self-produced vehicles [ibid.]. Light vehicles have several advantages, they can serve both haulage or passenger transport (multiple usages), the real loading rate is often relatively high, moreover they are light and flexible. They are relatively cheaper. They do not need high quality roads. However, the production, quality of light trucks has been quite weak face to an increasing need.

2) From 1979 to 1988, within these 10 years, the automotive production had made a first main progress. It produced totally 3.27 million vehicles, 2.3 times of the former 23 years. The annual increasing rate was 15.7%³⁸². Then since the early 1990s, China has made some organizational change in its automobile production through establishment of JVs with foreign automobile production giants. We will come back to this point in Chapter Five.

3) The position of Chinese vehicle production compared to that of developed countries has been small. By the early 1990s, it was only 1.33% of the total worldly production. China ranked 11th. in its total automobile output in 1994 [CASS, 1996, p.87]. It ranked 8th. in 1995 [ASIMCO³⁸³].

4) The production of the models manufactured by JVs has passed rapidly that of the Chinese models, even the Chinese models look for development too. As we have seen in the last Section, there are three main Chinese passenger car models: Hongqi³⁸⁴, Dongfeng and Shanghai. But the corresponding volume of outputs up to now are rather limited, the production of each was not more than 1500 units by the late 1990s [cf. PEE, 1996, p.38].

It is generally recognized that Chinese people like compact sedan style cars. Many explications have been given, such as this style resembles the form of palanquins (symbol of richness), or the official hats of the mandarins of ancient China³⁸⁵, etc..

3.2 Automobile constructors and part-manufacturers in China

³⁸²17.6% for the world for the same period.

³⁸³An auto-components group [Research in internet, 7th. Dec. 1998].

³⁸⁴According to *Nouvelle d'Europe* [13th. July 1998], China had developed by 1998, over 30 varieties of Hongqi, a middle-market Hongqi costed 180-200 000 Y, up-market luxury extra-long Hongqi costed 300-500 000 Y. There were also extra-long limousines. According to the Chinese journal, Chinese people liked Hongqi. Individuals and *danweis* considered that Hongqi was as good as imported cars or even better (with personal nostalgic value).

³⁸⁵Discussion with the Bureau of Small Leading Group of the Automotive Industry of Wuhan, Cui Yue-lin and others, 10th. April 1996.

In China, vehicle manufacturers includes: automobile constructors, special vehicle manufacturers, motorcycle manufacturers, auto-motor manufacturers and the autoparts manufacturers. Here we will concentrate on automobile constructors and relevant part manufacturers.

By 1982, there were 2456 automotive industrial *danweis* in China [*China automotive yearbook*, 1983, p.139]. Among them, 58 automobile constructors (2.3%) ; special vehicle constructors 202 ones (8.2%) ; Motors producers 34 ones (1.4%) ; parts producers 2136 ones (87%) ; motorcycle producers 26 ones (1.1%). 1390 of the parts producers (57%) were under the MMI. There were 1106 (45%) all-people owned *danweis*, and 1350 (55%) collectively-owned ones. There were 1371 (55.8%) professional factories, and 1085 (44.2%) concurrent ones. 941 *danweis* had personnel inferior to 100 workers (38%) ; 100-1000 workers, 1341 ones (55%) ; superior to 1000 workers, 174 ones (7%). Automobile production's fixed asset (original value) inferior to 500 000 Y, 1192 *danweis* (48%) ; 500 000 to 10million Y, 1126 *danweis* (46%) ; over 10 million, 138 *danweis* (6%). Production value, inferior to 500 000 Y, 1198 *danweis* (49%) ; 500 000 to 10 million Y, 1138 *danweis* (46%) ; more than 10million Y, 120 *danweis* (5%).

By the end 1990s, there were about 120 automobile constructors in China and about 1600 official "autoparts suppliers" [DAI-MMI, 1994, p.8]. There were another at least about 2000 "suppliers" which were not officially referenced as "autoparts suppliers" [PEE, 1996, p.5].

The following Table IV.4 shows the number of *danweis* of the automobile sector compared to the total number of *danweis* of machine building national-wide, and those under Ministry of Machine-building.

The organization of the automobile production had evolved also in terms of relation with Central and local Governments. We have seen this in the last section, we will come back to this point in Chapter Five too.

The technology of the automobile production had stayed soviet style from 1953 to the late 1980s. Great progress had been made during the eighth FYP (1991-1995). During this period, 313 types of modern technology had been imported from developed countries, in which 26 concerning car-assembling, 153 concerning autoparts production. By 1996, there were about 350 Sino-foreign JVs in the Chinese automobile sector. 20 foreign countries were present, with about 1.5 billion USD of investment [CASS, 1997, pp. 131-2 ; PEE, 1996, p.5].

In China, the process of localization of the JVs was: selection of factory - signature of agreement - providing blueprint and technology - providing first samples - test of samples - results (if negative, go to "providing first samples") - providing first produceable samples - tests - road tests - results (if negative, go to "providing first produceable samples") - approval of purchasing - first supplying order of 750 sets - delivery - tests - results (if negative, go to "delivery") - order of big quantity by batches - reduced supplying of CKD [Sun, ed., 1995, p.144].

The parts production *danweis* were divided into 3 categories: A, B, C.

A: for closely cooperative and technologically capable, that could produce without help from the main *danwei*;

B: for semi cooperative and semi technologically capable, that could produce with some help from the main *danwei*;

C: for that could not produce without complete technological help from the main *danwei* [Sun, ed., 1995, p.145].

Table IV.4: Evolution of numbers of *danweis*.

Year	Constructors	Auto-parts	Special vehic.	Motorcycle	Motor	Total auto producers	# <i>danweis</i> mach.-bldg	# <i>danweis</i> under MMI
1949	0	9	3	0	0	12		
1950	0	15	7	0	0	22		
1951	0	22	9	0	0	31		
1952	0	27	12	0	0	39		
1953	0	32	12	0	0	44		
1954	0	45	13	0	0	58		
1955	0	55	14	0	0	69		
1956	1	86	16	0	1	104		
1957	1	95	17	0	2	115		
1958	8	181	20	2	6	217		
1959	14	191	25	2	6	238		
1960	16	216	28	2	7	269		
1961	16	235	30	2	7	290		
1962	17	267	34	2	7	327		
1963	18	294	45	2	7	366		
1964	19	334	54	3	7	417		
1965	21	427	61	3	10	522		
1966	22	520	67	3	10	622		
1967	22	575	68	3	10	678		
1968	25	658	69	3	10	765		
1969	33	785	75	3	12	908		

1970	45	1083	103	9	21	1261		
1971	47	1168	115	10	23	1363		
1972	49	1285	124	11	23	1492		
1973	49	1385	128	12	24	1598		
1974	49	1465	136	15	25	1690		
1975	52	1599	158	19	26	1854		
1976	53	1684	166	20	27	1950		
1977	54	1769	169	22	28	2042		
1978	55	1870	173	23	30	2151		
1979	55	2008	185	24	32	2304	104000	11362
1980	56	2076	192	24	33	2381	107000	11324
1981	57	2114	198	26	34	2429	104100	10870
1982	58	2136	202	26	34	2456	102300	10791
1983	65	2371	207	34	50	2727	101600	10734
1984	82	2385	248	38	58	2811	107600	11002
1985	114	2366	314	47	63	2904	110950	11112
1986	99	2314	338	50	58	2859	111291	11325
1987	116	2292	347	55	63	2873	113610	9955
1988	115	2376	386	81	63	3021	120000	10000
1989	119	2395	464	65	63	3106	121400	10400
1990	117	2417	459	62	64	3119	123000	10300
1991	120	2414	486	59	65	3144	116900	10200
1992	124	2290	479	72	63	3028	116200	9900
1993	124	2013	552	75	61	2825	113000	9700
1994	122	2041	536	91	55	2845		
1995	122	2047	516	109	61	2855		
1996	122	1878	520	130	62	2712		
1997	115	1949	544	143	54	2805		

3.3 Import/Export

The production of the automobile vehicles in China was relatively weak in terms of quantity, quality and types face to increasing internal need. There has been imported vehicles each year. As we have seen in the section above,

vehicle importation had marked the Chinese automotive history since 1901. Especially for the passenger cars, there were even more imported ones than produced ones in the 1980s. For the period 1951 to 1965, cars imported from the West before the "Liberation" became gradually extinct, the main reason was the lack of compatible spare parts [Harwit, 1995, p.18]. Most of the newly imported cars were from Eastern Europe. Polish cars seemed most prevalent in the 1960s³⁸⁶.

Before 1979, annual import did not exceed 30 000 units. But since the open-door policy, there has been several waves of car importation. In the 1980s (1985 was the peak³⁸⁷), 354 000 units were imported, in which 10 600 cars, this was superior to the sum of totally imported cars before 1985.

From 1950 to 1990, excluding the smuggled cars³⁸⁸, total official imported cars attained to 1.74 million units, which was almost $\frac{1}{2}$ of the total production of this period. China has paid 15 billion USD for these cars, equivalent to 3 times the accumulated investment of the State on the automotive sector for this period [Chang, 1996, p.53].

Since 1995, importation of automobile vehicles, particularly of passenger cars, has been decreasing. There are various reasons, one of those, according to the Automobile Import Trade Center of China, by end 1997, both

³⁸⁶ *Far eastern economic review*, 6th. May 1954, p.567, cited in Jim Mann, 1989, *Beijing Jeep*, Simon and Schuster, NY, p.31 ; Harwit, 1995, p.18.

³⁸⁷ The imported vehicle was 80% of the total production volume of the year.

³⁸⁸ For example, the "Hainan cars scandal" in 1984. There were 900 000 smuggled foreign cars arrived in the Hainan port [Chang, 1996, p.53].

quality and quantity of automobile production in China had been improved [RFI, 1998.3.1]. Another important reason was of course that the Chinese Authority wanted to protect its automobile production and did not want to pay its reserve of foreign currencies.

About the smuggling, here we have the car import/export from Japan to China for the first 6 months 1996, one can deduced easily the importance of the smuggled cars [Table IV.5].

Table IV.5: Car smuggling.

	Jan.	Feb.	Mar.	Apr.	May	June	Remarks
Export from Japan to China	2365	2489	5047	2911	3347	3840	excluding parts
Import of China from Japan	338	2848	2613	501	1664	1020	including parts

Source: He, 1998, p.324.

Another example, in 1992, Hong Kong exported to China 49 000 cars according to the Hong Kong Customs, however, the importation from Hong Kong to China according to the Chinese Customs was only 22 000 cars [Chang, 1996, p.168], thus 55.1% of the cars were smuggled.

In 1992, there were officially 1 050 smuggled cars passed by 12 coastal provinces, this corresponded 26.6 billion Y. For the first 6 months of 1993, there were already officially smuggled 6 791 cars, which is 4.7 times of that of the whole year of 1992. They corresponded 1.53 billion Y [Chang, 1996, pp.167-8].

In 1994, the Chinese GDP attained 3 000 billion Y, where 200 billion Y corresponded exportation [Chang, 1996, p.163]. However, the exportation of vehicles had been very weak.

About the negotiation with the WTO: the question is that, how to protect the "nascent seeming Chinese automotive industry" under the WTO?

Form the point of view of tax revenue, the import tax was ever 180-220% in China for 1994. It was the maximum in the world, compared to the average import tax for the world of 5%. Even in other developing countries, the average import tax was about only 13% [Chang, 1996, p.159]. WTO means immediately a huge loss on the import tax revenue of cars for China.

From the point of view of the *danweis*, according to the managers of the automotive *danweis*, "If we enter into WTO now, then our industry must *compete nude* with the international automotive giants!"

According to Ji Xue-zheng³⁸⁹: "Of Course we have a kind of *crisis feeling*. All these foreign technologies, security of vehicles, easy manipulation, economy of essence, surpass far away that of the Chinese vehicles. Once we entered the WTO, then the foreign vehicles would surged into China, then the strike for us will be non-negligible, so we cannot have no *crisis feeling*, and *pressing feeling*. The logic of 'the cart will find its way round the hill when it gets there' is baffling, we can't do nothing else than trying hard to catch up!" [Chang, 1996, p.162].

³⁸⁹General Director of the TAIC.

According to a Chinese manager, the high price of automobile vehicles in China will not decrease through entering the WTO, because the Governments always have other methods to maintain the final price, by ways of users' taxes [RFI, 11th. Nov. 1999].

We cannot forget also that, by 2000, there were 500 000 workers of surplus in the automotive sector [RFI, 2000.5.18]. China cannot ignore the social problems if some of the automotive factories will fall in bankruptcy.

Moreover a real restructuring on the compartmentalization of the sector, i.e., to form 2 or 3 giant automotive groups operating in market logic, in order to achieve economy of scale, has still a far way to go.

3.4 From point of view of "consumers" - demand

3.4.1 Demand

We can say that the reform of the Chinese automotive sector began by the commercial vehicles. During the sixth FYP (1981-1985), there was a great demand of vehicles for short distance transport (<100km). This demand was due to the need transferred from the railway transportation. For example, the transportation by vehicle was 4000 kg for 1981 compared to 1500 kg in 1980, which augmented 167%. There was also need for special vehicles for ultra-fresh food.

In 1980, the total volume of road haulage corresponded only 31.6% in China, compared to 70% in developed countries. The total turnover volume of road haulage was only 2.2% compared to 20%-30% in developed countries. A research (1980) of CATRC (Tianjin) showed that, within ten years there would be a need of 1.14 million vehicles, in which 300 000 new micro cars, and on the other hand 500 000 old vehicles would need to be changed. Each year there would be a need of 200 000 vehicles for road transportation [Rao, 1982].

Unlike most of the developed countries, cars, in China, have not yet attained a situation of *products of (mass) consumption*³⁹⁰. To have a car for the ordinary mass, was only conceivable until early 1990s. Before, only high level administrative cadres³⁹¹ or military cadres could use cars. They do not drive themselves, these *administrative-cars*³⁹² are equipped with professional drivers. According to the FIEV, by 1996, 90% of the cars were administrative-cars.

By the end 1990s, the upper limit of prices of vehicles were fixed by the Government, vehicles were still planned products in China. Passenger cars were more expensive than in developed countries. The profit rate in the world was around 4% to 5%, it was 10% to 20% in China. The cars' price could get 2 to 3 times higher than the international price level.

³⁹⁰In French, *bien de consommation* [Roos, 1990, p.4, p.99]. As we will see in the next Chapter, automobiles in China are still planned products and are considered as production means.

³⁹¹Normally, cars are "allocated" to a cadre by the higher hierarchy according to his level of position inside the Party-State.

Using the term of CASS [1997, p.135], the "automobile market was disordered" in China because of various "regional policies" on the selling and using of automobile vehicles. A car buyer had to pay more than 20 different taxes on the buying and using of a car in the 1990s.

For example, a Santana car, the factory cost was 80 000 Y, the factory price was 100 400 Y, the margin was 25.5%. Then the buyer had to pay the "purchase charges", localization fund, and special consumption tax, then the final "market price" would be 170 400 Y. When demand was higher, the price could be 200 000 Y. But it costed only 7 000 USD³⁹³ on international market. The import tax now was 110% to 150% (before adjustment, it was 180% to 220%). With an import tax of 150%, the price of the same car could be only 66 815 Y, much cheaper if imported.

Another example, the "market price" of a Citroën ZX was 124 600 Y, but the buyer had to pay totally 186 800 Y for a new car, i.e., he had to pay 62 200 Y for taxes³⁹⁴, which was 49.91% of the "market price". Even a truck like Dongfeng, Jiefang, the total taxes corresponded 31.9% of the "market price" [CASS, 1997, p.135].

In some cities, the buyer had to pay "tax of city beauty", or other diverse titles of taxes set by local governments.

³⁹²Among Chinese cadres of the State, the Party, the Army, or of the administration, "cars of function" are often called "*gongche* (public car, or the State's car)". However, *gongche*, for ordinary people, designates buses. So calling these cars as "administrative cars" is closer to the reality.

³⁹³Or 58 100 Y if we use the exchange rate of 1996, 1 USD = 8.3 Y.

³⁹⁴During the production, the DCAC paid already a tax of 10 600 Y, which was 8.5% of the "market price". There were also taxes during selling process: 35 200 Y [CASS, 1997, p.135].

Moreover, the procedure of buying a car was quite complicated too, the *buying voucher* should have 9 official seals to become valid. To renew a vehicle needed 13 administrative procedures.

Moreover using a car costed too. There were more and more "illegal" tollgates on roads, set by local authorities.

To avoid the local limits on vehicles buying, the General Office of the State Council agreed and transferred the SPC's *Opinion about canceling local limits on economic car using* in 1996, however, the "order of the market" in China still needed to grow further.

From 1949 to 1984 there was no real "occasional vehicles market", neither "autoparts market" for reparation or change. Now these two markets have been emerging rapidly. Repairing shops have been becoming more and more numerous everywhere.

3.4.2 Vehicle-users

As we just mentioned above, in developed countries, automobile vehicles are considered rather like *products of (mass) consumption*. However the situation in China is different. Since the mid 1980s, we can classify the vehicles users in China into five main categories³⁹⁵:

³⁹⁵These are all civil users, excluding the military users, that we do not discuss here.

- administrative users, mainly for passengers transport purposes.
- industrial *danweis*, and logistical *danweis*, for productive purposes.
- urban public transport *danweis*, long distance public transport *danweis*, and freight *danweis*.
- taxis, that belong to private or non-private units.
- private users, and new social groups (private companies, TVEs, foreign invested companies, etc.), the usage including passengers transport and freight.

Until mid-1980s, only the first three categories existed, and were all-people owned or collectively owned [Shen, 1993, p.13]. The central Plan fixed the quantities, specifications, price and also the construction *danweis* that the users should "buy" the vehicles. Before the reform, there were practically no individual-owned vehicles, taxis were rare too.

The administrative users represented a large part of the Chinese "automotive market", according to statistics of 1991, the every level organs of the State, of the Party and social groups had 10 790 000 working staff, in about 850 000 units³⁹⁶. By mid 1990s, the administrative fleet attained about 350 000 units, or 5.72% of the total fleet. This part of need of vehicles had following the features:

- Most of the vehicles were passenger cars.
- The numbers of the administrative organs and staff have been increasing steadily, so the need of passenger cars has been increasing steadily.
- The State allocation for passenger car purchasing has been stable.

³⁹⁶Theoretically, organs above county level could have 5 passenger cars in average, that under the county level there were about 20 organs for 1 passenger car. In reality, most of the organs bought more cars than it were allowed [Shen, 1993, p.91].

Vehicles for industrial *danweis* and logistical *danweis*: these vehicles were mainly for productive purposes, so they were mainly trucks. According to Shen [1993, p.92], by mid 1990s, a large and medium size *danwei* owned in average 15 vehicles ; a small *danwei* owned in average 5 vehicles ; a collective *danwei* (non-TVE) owned in average 1 vehicle ; there were about 20 million TVEs, they owned totally 1.2 million vehicles ; along with the rural development, rural villages began to have more and more vehicles³⁹⁷ ; a foreign invested company owned in average 3 vehicles. All these vehicles were estimated to about 4 million ones, or 66% of the fleet.

By mid-1990s, vehicles for public transport (buses) corresponded 1% of the fleet. Route freight vehicles corresponded 5.2% of the fleet.

Since the late 1980s, taxis have become more and more popular. At beginning, the vehicles for taxis were mostly the "*mianbao che* (bread cars)", which were a kind of mini-van³⁹⁸ for 6 passengers maximum. Then with the installation of several JV constructors in different geographic regions, since the 1990s, each city or province encouraged the use of vehicles manufactured in their own region for taxis. For example, in Tianjin and Beijing, most of taxis were Charade (Xiali) and Taihatsu bread cars³⁹⁹ (Dafa) which were mostly

³⁹⁷By the mid-1990s, an average of 70% of the automobile vehicles circulated in urban areas other than rural areas [interview Ministry of Construction, 18th. April 1996].

³⁹⁸According to the official classification, it should fall in the category of "mini-bus". The motors rank between 600 to 800 c.c. This kind of vehicle appeared in China only since 1984 [cf. DAI-MMI, 1994, p.18 ; De Saint-Maur et al., 1994].

³⁹⁹By 1995, to improve the circulation in Beijing, the municipality decided to forbid the "yellow bread taxis" (Daihatsu mini-van) whose model was considered outmoded 4 years before. There were 70 000 such taxis in Beijing. By end 1998, there were 2% of such taxis, but with 8% pollution, the authority of Beijing tended to

yellow. In Guangzhou, there were a majority of Peugeot 405 taxis. And in Shanghai, there were a majority of Santana taxis, etc.. By 1992, among the 486 cities, 400 cities had taxis, and 26 of them had over 1 000 ones, there were totally about 250 000 taxis, about 32% were domestic JV products, 24% Japanese vehicles, 16% Eastern European vehicles, 2.4% imported vehicles, 7.2% domestic products. The taxis corresponded 3.3% of the fleet [Shen, 1993, p.98].

The most salient phenomenon is the emergence and increase of the private ownership of automobile vehicles in China. The percentage of registered vehicles in China owned by individuals had grown rapidly since 1985. By 1991, the private fleet attained 960 400 units, of which 69% were loading trucks [Shen 1993, p.99]. The others were the special vehicles, light trucks, and passenger cars or mini-vans which were for private users (individuals or companies)⁴⁰⁰. This trend had been boosted mainly by the increasing per capita income levels, and by the loosening of Governmental restrictions on individual vehicle ownership so that private owners could obtain vehicles *out of planning*, or say, on the automotive market, and the development of relevant infrastructures⁴⁰¹. This was the main reason that the development of the car segment of the Chinese automotive sector had attracted the attention of leading car manufacturers from around the world.

forbid them [RFI, 2nd. Jan. 1999]. But they were the cheapest taxis in Chinese big cities, that were welcomed by ordinary Chinese people.

⁴⁰⁰ According to the Ministry of Construction, there were not more than 10% private cars, they were often for private commercial purpose, rarely just for personal displacement [Interview 18th. April 1996].

A specificity of consumption in China was the fluctuation of "demand" in China: this means the "hot wave" of demand of certain products of the Chinese people, or say "swarming phenomenon", a large number of individuals tend to buy the same product in the same period. The hot waves change from products to products, from durable goods to daily-used goods, and vary from year to year⁴⁰². The hot waves have never been stable, when hot waves came, *danweis* with large capacity had relatively more advantages ; when hot wave left, then the *danweis* with smaller capacity gained the initiative. The hot wave for automobile vehicles ever happened in the mid-1990s, but the effect was not as great as that for color TVs. It was limited by the prices, taxes, and infrastructures of the usage of an automobile vehicle [Li, 1993, p.136].

3.5 Fleet and motorization rate (MR)

Annually sold cars add to the quantity of car-in-use, minus the annually discarded cars, gives the automobile fleet (AF)⁴⁰³ of a country. The fleet divided by the population of a country, gives the motorization rate⁴⁰⁴, which is

⁴⁰¹Namely, driving schools, service stations, etc..

⁴⁰²This social phenomenon is not new for the reform era, it happened even in the 1970s, in those early days, clothes closet furniture, sewing machine were ever favorite for Chinese people. Then since the reform, "purchase hot waves" have happened for refrigerators, color TV sets, passenger cars, etc..

⁴⁰³AF is an indicator of accumulated stock of automobile vehicles in-use in a country. More precisely, $AF_{\text{end of year}} = AF_{\text{beginning year}} + \text{sale of the year} - \text{discarded car of the year}$.

⁴⁰⁴Also known as "popularization rate of motor vehicles" [DAI-MMI, 1994, p.18].

measured by number of cars over thousand inhabitants⁴⁰⁵ [cf. Roos, 1990, p.122 ; Desbois, et al., 1994, p.528].

There is annually over 10 million vehicles produced in the World. By 1993, the worldly fleet attains 120 million vehicles [*Automobile policy*, July 1994].

The price of a car is relatively high. The MR is determined by the income level (IL) of a country⁴⁰⁶. MR is higher if Price/IL is bigger, and verse versa. So to low down the price or to increase the income level are 2 basic ways to augment the automobile market [Li, 1993, p.10]. The capacity of an automobile market is influenced by 2 factors: natural factors and economic factors. The natural factors includes surface, and the population size. The economic factor includes real income or purchase power⁴⁰⁷.

The Chinese automobile part in the whole fleet had been continually increasing: 19.3% in 1960 ; 39.1% in 1965 ; and 76% in 1983 [*China automotive yearbook*, 1983, p.377]. The fleet by 1982 was about 2 million. The fleet was

⁴⁰⁵By 1998, China had conducted 4 population censuses respectively in 1953 (601.938 million), 1964, 1982, and 1990 (about 1.12 billion). The Chinese authority announced in 1987 that from 1990 and on, there would be one census every ten years, so the next one was in 2000 [Cf. Worden et al., ed., 1987 ; Guillerma, 1991, pp. 96-97 ; Interview Zhou Shao-zheng, Professor at Renmin University, RFI, 24th. August 1998]. Many Chinese documents use the result of 1990.

⁴⁰⁶According to statistics, if national income per capital, = 100-300 USD, MR = 1.7 - 5.2 ; if 300-500 USD, MR = 4 - 15 ; if 500-1 000 USD, MR= 10 - 30, at this level, the cars begin to enter into family ; if 1 000 - 5 000, MR = 20 - 180 ; if 5 000 - 10 000, MR = 170 - 400, there will be new Demand wave ; if 10 000 - 20 000, MR = 360 - 700, this is wholly popularized, this means also the developed countries has 80% cars out of the fleet [Li, 1993, p.19].

The relative coefficient between national economy and automobile demand is 0.97-0.99 [Li, 1993, p.20].

⁴⁰⁷By 1993, income per capita in China = 300 USD. In the 1970s, 45% of cars were purchased by credits in France, among those cars, 60% are popular cars, and 35% are luxury ones [Li, 1993, p.11].

also related to the production of petroleum which got a production of 100 million ton/year in China⁴⁰⁸. The fleet attained 9.17 million in 1993.

But the motorization rate⁴⁰⁹ of China in 1993 was only 6.9, this was very low compared to developed countries.

3.6 Sales, and services of after sales

Since 1949, the sales of imported cars had been managed by the commercial ministries [*China automotive yearbook*, 1983, p.377].

For the domestically produced cars, in 1956, the SPC empowered the Ministry of Transport to manage it. Then in 1961, the task was transferred to the Bureau of Materials under the Economic Commission. Until now the automobile vehicles are still "planned products", and must be distributed by the State Bureau of Materials, which has its branches in almost all P/M/ARs [ibid.].

Before 1960, the autoparts were planned to be "sold" in about 70 shops in large P/M/ARs by the Company of Transport and Electrical Parts under the Ministry of Commerce. The sales of 1960 was 730 million Y. Since 1961, after the negotiations among the First Machinery Ministry, Transport Ministry,

⁴⁰⁸With the same petroleum production volume, the USA had 19.94million vehicles.

⁴⁰⁹We notice that China classifies "cars & buses" together in the calculation of fleet and motorization rate. Certain economists remarked that, the ranking of motorization rate corresponds roughly with that of the GDP [Roos, 1990, p.123].

Ministry of Commerce, then by the approval of the State Economic Commission, the arrangement of the production and sales of the parts had been under the Ministry of Transport, which has established 158 supplying points nationally [ibid.].

Following the experimentation of trust in 1964, the part production and sales were transferred to the CNAIC, then with the liquidation of the CNAIC, it became the Automobile Parts Company under the First Ministry of Machinery. In 1969, the sales was "decentralized" to local Governments, or the Ministry of Machinery, Transport Ministerial system, and the Bureau of Materials. Then it became the Automotive Industry Sales & Service Company under the CNAIC in 1982. And there was an other Part Production JMC under the CNAIC established in March 1983.

By end 1983, the Automotive Industry Sales & Service Company had 322 supply points and 210 County level supplying points. The sales attained 1 890 million Y. At the same time, the main constructors and JMCs began to establish their own sales departments. By 1983, the main constructors had established 203 supplying points themselves.

The strategy for these "selling services" was to "combine the Four", namely, vehicle sales, part supplying, repairing, renewal of old vehicles. So the sales of automobile vehicles in China was often related to the sales of autoparts.

The sales structure and organization stayed basically the same. There were 3 levels for the vehicles sales services:

1) The system of the sales and technical service under CNAIC. It was the Parts Company under the First Machinery Ministry. It was a self profit/deficit unit under the CNAIC. Its function was: to sale (non-State-sales) of automobiles, special vehicles, motors, motorcycle, and relevant parts, market research, information feedback of sales & technical services, and quality information, etc.. It had in each P/M/AR and in 9 big cities, sales and technical services points under the CNAIC.

2) The Autoparts Company (thus Sales Department), firstly established in 1961, it was re-established in 1983, with 319 points of sales at provincial level, or at the level of the cities underneath the P/M/ARs.

3) Main constructors⁴¹⁰ services. They offered technical consulting, repairing, maintenance, and reimbursement. They have 203 points [ibid.].

3.7 Roads

Internal motors and roads are the 2 main aspects of the development of an automotive sector.

⁴¹⁰Namely, Beijing Automotive General Company, FAW, Shanghai Auto Works, Nanjing Auto Works, Jinan Auto Works, and SAW.

Until late 1980s, railway⁴¹¹ had been the basis of the Chinese transportation system⁴¹². It was centrally managed. The road transportation came at the second place⁴¹³, which was basically built and managed by local Authorities, but planned by the central Authority⁴¹⁴.

Since the mid-1980s, there has been an expansion of roads and urbanism. By 1986, there was a road network approximately of 962 800 km, 5.4% of which (52 000 km) was completed between 1980 and 1985, 81% of which (780 000 km) was surfaced, only 20% of which was paved with asphalt. By late 1980s, 60% of the highways needed repair⁴¹⁵.

By late 1990s, cities' streets⁴¹⁶ were narrow, crowded with vehicles, tricycles⁴¹⁷, bicycles, pedestrians, and sometimes trucks or carts pulled by tractors or animals⁴¹⁸. Many streets were occasionally or permanently full of

⁴¹¹About 52 000 km track in operation. By 1984, only 18% was double tracked. In 1979, 90% of the locomotives had steam engines. However by 1980s, production of diesel and electric train models grew rapidly. In 1985, 4 000 km of railway had been electrified, there were 280 000 freight cars, and 20 000 passenger cars, [Worden et al., ed., 1987, ch0]. By 1990s, expansion and improvement continued to progress.

⁴¹²In 1986, it carried 1.3 billion tons of cargo (two-thirds of the total ton-km), 1 billion passengers (over the ½ passenger-km). The average freight traffic density was 15 million tons/route-km, which was the double of that of the USA [Worden et al., ed., 1987 ch8].

⁴¹³The others were inland waterways, maritime shipping, civil aviation [Worden et al., ed., 1987], or subways.

⁴¹⁴Roads' design, building, and management concerned 3 parts. Firstly the Ministry of Construction, which was responsible to the design of all urban transportation system, and to all urban public transportation tools (buses, ferries, taxis, subway). It happened that the Ministry of Construction executed some projects approved by the State Council (for Municipal Capitals, cities with more than 1 million inhabitants, municipalities, and cities assigned by the State Council, e.g., the culture cities like Suzhou). Secondly, the Ministry of transportation, which was responsible for the countryside roads. Thirdly, the local Authorities, which were responsible to the constructions for the designs from the Central, they could have their own design and projects too. [Interview with Ministry of Construction, 18th. April 1996, cahier noir].

⁴¹⁵80% had gravel surfaces [Worden et al., ed., 1987, ch8 ; Guillermez, 1991, pp. 92-93].

⁴¹⁶Road transport is very slow in China, for example, by the end 1998, from center of Chongqing (first city of the world with 30 million inhabitants, 4th. new municipality of China) to its suburbs 10 km outside the city, workers of a Sino-Nippon JV, had to spend 1 hour by bus to go to work. [Article on Chongqing (Sichuan Province), The new 4th. Chinese Municipality, in *Géo*, December 1998, cited by RFI, 98.12.7].

⁴¹⁷Very important in daily transports (passengers, goods) for average urban Chinese, or even crucial for their survive since 1990s following dismissing from SPDs.

⁴¹⁸Many big cities have begun to set strict hours for non-automobile vehicles. For example in Beijing, the Xisi street located in the center of Beijing prohibited bicycles between 7:00am - 8:00pm, in order to assure better

"free-market" stands⁴¹⁹. Small house buildings had occupied gradually the streets which became more and narrow, especially in the old residential areas of cities⁴²⁰.

Local road networks in countryside were extensive, but many were narrow and gravel, and all were overcrowded with buses, jeeps, trucks, carts pulled by tractors or animals, tricycles⁴²¹, bicycles, pedestrians, and grains laid out to dry by local farmers. Especially with the high population growth rate from mid 1960s to late 1970s⁴²², the population needed more housing, then since the early and mid-1980s (following better income for peasants), many new houses were extended beside the roads in the country-side.

However, the roads transportation had been in continuous and rapid progress, especially since 1984, the authorities began assigning medium-distance traffic⁴²³ to highways to relieve the pressure on railroads. Owing to rapid increases in the volume of private trucking, highway road haulage traffic had been the fastest growing major portion of the transportation system after

automobile circulation. This was the contrary to many big cities in developed countries, that encourage more ecological transport tools, such as bicycles. Beijing is becoming the most polluted city in the world [*Jiefang*, 98.10.22]. Transport restriction rules depended on local Government, and varied in different cities.

⁴¹⁹Tolerance of individual economy led to the appearance of food-service stands of vegetable/meats/fish, as well as of cobblers, barbers, hair-dressers, tailors, tinkers. The number of such stands raised from 6.1 million in 1978 to 25 million in 1985, 85% of them were non-State. The increase continued in 1990s [Worden et al., ed., 1987].

⁴²⁰Big cities have planned to move people in these areas so that to make profitable use of the lands. Recently, the city of Beijing planned to use 240 million Y to improve the streets. 8000 people, 3300 houses, and 300 *danweis* would be moved. This idea had come out firstly in the 1950s, but it was given up because of the large number of people concerned [RFI, 98.3.1]. Shanghai, Tianjin had similar programs.

⁴²¹Until mid-1980s, only richer farmers could have a tricycle.

⁴²²The maximum average annual population growth rate of this period attained 28.8% [calculated based on figures of MOFTEC, 1998].

⁴²³I.e., certain goods and sundries traveling less than 100 km, passengers less than 200 km [Worden et al., ed., 1987, ch8].

water shipping. In 1986, highway haulage traffic totaled 259.6 billion ton/km, an increase of 47% over 1985, 80% of the volume was carried by non-State vehicles.

From 1988 to 1993, road transportation became the first important in China, annual road haulage progressed from 7.32 billion tons (1.45 billion tons for railway) to 8.40 billion tons (1.63 billion tons for railway) ; passenger transportation progressed from 6.5 billion people (1.23 billion for railway) to 8.61 billion people (1.4 billion for railway).

In general, roads seemed insufficient in terms of its length, its capacity, the quality and variety of the equipment [Guillermaz, 1991, p.92], especially face to an increasing usage of passenger cars. According to a statistics on 400 most largest cities in China, in urban area, the rate road-individual was only 5.6 m², against 2.8m² ten years ago⁴²⁴.

3.8 Parking

According to our on-site observations, in big cities, such as Beijing, Shanghai, Tianjin, Wuhan, Nanjing, few high buildings had underground or other parking facilities.

⁴²⁴Our interview with the Ministry of Construction, 18th. April 1996.

For example, in the narrow streets in Shanghai, we have remarked that almost all newly being constructed high buildings did not predict to construct underground parking⁴²⁵.

Another example, for a skyscraper like *Jing-guang Center*⁴²⁶, there were only 2 levels of underground parking, people working inside complained continuously their daily difficulty for parking.

Here let us see some examples listed by Chinese experts: most of the residential zones in urban areas did not have parkings at all. It was usual that an individual did not find a parking place after buying a vehicle. The famous Beijing Hotel had only 200 parking places, but often 400 to 600 vehicles or more needed to be parked during peak hours. A commercial zone of 4.18 km² in Shanghai had 5 000 parking places, but 8 000 vehicles needed to be parked during peak hours [Zheng, 1996, p.190].

There had been 2 regulations concerning this subject. Firstly, in 1988, the Ministry of Construction, issued jointly with the Ministry of Public Security on the norms of parking. This regulation concerned mainly public areas, and the methods to apply allocation for the construction of parking. Secondly in 1994, the *Plan of roads (static) transportation in cities*.

⁴²⁵Especially in central Shanghai, most of the boards of indications of constructions, which indicated often, the surface, height of the construction, number of floors, underground floors, did not contain a word for parking or underground parking facilities.

⁴²⁶One of the most noticeable skyscrapers constructed during the second half of the 1980s in Beijing, many foreign companies or organizations have their headquarters there, among others, the French Poste d'Expansion Economique (PEE).

According to the Ministry of Construction (our interview), with these regulations, many cities had constructed parking since 1988. But these regulations were apparently not enough. They were too flexible. Each city made their own programs. Moreover, the problem was not only investment, but also management, and lacking institutionalized organizations.

3.9 Other elements

Elements as driving license, auto-insurance, environmental protection were also very important elements for the development of an automotive sector in a country.

There was almost no driving schools for individuals before 1990s. By 1994, there were already 208 driving schools in Beijing City. Each year, it formed 120 000 to 140 000 new drivers. Among these new drivers, there were unemployed people, managers, and Party cadres. The latter had in general "service cars" with professional drivers, and they said that they preferred not to have drivers [Chang, 1996, pp.106-7].

Until 1998, 55% of vehicles in Beijing did not have exhaust pipes meeting relevant environmental protection laws. Vehicles were demanded to be examined technically, but certain "environmental norms" had not yet been completely established [8th. July 1998, RFI].

The number of service-stations had been increasing rapidly since late 1980s. There was a "ticket system" for gasoline, tickets were distributed in the *danweis* which owned vehicles.

4. Conclusion

In this Chapter, we have seen the creation, the evolution and the actual situation of the Chinese automotive *danweis*, and the upstream to downstream relations among them.

In the socialist planning period, the Chinese automotive production was planned networks. They could be horizontal geographically (P/M/ARs) ; or could be vertical administratively (ministries). Geographical horizontal networks were controlled by local level planning organs such as provincial Governments ; vertical networks were controlled by ministerial organs. These were automotive Socialist Production Networks.

Since the late 1980s, car production has been improved largely through foreign investment. If we must take the term "industry" for China, then, it is rather a "truck industry" than "automobile industry". Moreover, the trucks are mainly medium-size loading trucks. The production of all other categories of vehicles (heavy trucks, light trucks, passenger cars, etc.) and of autoparts were neglected in the socialist planning period, the situation has been changing since the installation of foreign automotive giants.

During the Dengist era, the being reformed Chinese automotive SPNs could be called as a "seeming automotive industry". The industrial policy issued in July 1994 tends to transform the SPNs into a veritable automotive production sector (uncompleted process).

In the next Chapter, we will see more the main various features of the being reformed automotive Socialist Production Networks.

RESUME DU CHAPITRE V: DE RESEAUX DE PRODUCTION SOCIALISTES VERS UNE INDUSTRIE AUTOMOBILE AU SENS D'ECONOMIE DE MARCHE

Du point de vue de la production, l'industrie automobile des pays développés est principalement caractérisée par une production internationale délocalisée, une forte coopération entre constructeurs et équipementiers et la recherche d'économies d'échelle. Du point de vue de l'organisation industrielle, la structure de marché caractéristique de l'industrie automobile est oligopolistique. Au niveau macro-économique, elle a une forte interdépendance industrielle avec les autres secteurs (sidérurgie, énergie, transport, ...). Elle offre également un grand nombre d'emplois. Ses produits ont une forte valeur ajoutée. Elle présente un avenir prometteur (besoin de transport). Dans tous les pays, l'intervention gouvernementale a été plus ou moins importante.

Pour la Chine, les *réseaux de production socialistes* (RPSs) automobiles ont quatre caractéristiques principales: segmentation géographique, constructions dupliquées, technologies obsolètes, faibles économies d'échelle.

L'histoire de la CNAIC, établie, remplacée, ré-établie, et re-remplacée, montre que l'autorité Chinoise s'efforce de développer une industrie. Or le but était de faire de la CNAIC une entreprise "inter-ministérielle et inter-régionale". On n'observe pas pour autant la suppression des RPSs verticaux et horizontaux, car ces réformes ont été plus administratives qu'économiques.

Dans une économie de marché, les caractéristiques des barrières à l'entrée sont les économies d'échelle, la prépondérance du coût liée à la technologie, la différenciation des produits, les stratégies de dissuasion et la politique industrielle. En Chine, ces caractéristiques ont les particularités suivantes: 1) l'avantage technologique des grandes *danweis* n'est pas valable en Chine, car une technologie importée peut rendre une petite *danwei* locale plus compétitive (modèle, qualité et quantité produites) qu'un géant national. 2) Les économies d'échelle ne sont pas un critère décisif. En effet, les séries sont généralement encore trop faibles. 3) Concernant la politique industrielle, l'approbation centrale nécessaire au-delà d'un certain plafond d'investissement peut facilement être contournée par les gouvernements locaux, qui sont pour leur part favorables à l'établissement de leurs propres industries automobiles. La segmentation géographique conduit donc à la formation de marchés locaux. 4) Il n'y a pas de différenciation des produits, un modèle pouvant être produit pendant 30 ans (exemple des camions légers).

Avant les années 1980, il n'y avait presque pas d'équipementier car les DPSs étaient "grandes et complètes, ou petites et complètes" (*da er quan, xiao er quan*). Les premiers constructeurs étrangers criaient: "nous produisons sur une île isolée". Depuis la fin des années 1980, l'arrivée de constructeurs étrangers, la production automobile

Chinoise moderne (qui commence par CKD), et enfin la politique de localisation du Gouvernement central, expliquent que des équipementiers Chinois soient en train de se former.

Généralement, les *danweis* automobiles connaissent quatre problèmes principaux: 1) le mode de production est extensif, 2) la professionnalisation des équipementiers n'est pas encore achevée, 3) il manque du personnel qualifié alors que le personnel non productif est en surnombre, 4) les *danweis* d'approvisionnement sont aussi en difficultés.

La gestion sectorielle de la Chine vise à mettre en place une technologie moderne de production, c'est-à-dire à dépasser le CKD en mettant en place une capacité de conception et de développement. Par ailleurs elle doit diviser les RPSs pour les transformer en secteurs différents suivant une logique de marché.

CHAPTER FIVE: FROM SOCIALIST PRODUCTION NETWORKS TO A SEEMING AUTOMOTIVE INDUSTRY

In this Chapter, we will look at the various main aspects of the Chinese automotive sector. The main point is that the automobile sector in China is transforming from socialist production networks to a seeming-automobile-industry.

The analysis is an industrial structure analysis. According to W. Liu [1995, p.7], there can be three types in this kind of analyses: 1) Questions of equilibrium of quantitative structure concerning the productive scale and scope. 2) Qualitative relations and efficiency of the structure. 3) features of input/output relations of industries, especially those that have similar technologies, etc.. Our analysis will be close to the second type.

We will begin by a brief review on some main standard features of the automotive industry in developed countries (Section 1). Then, we will look at the features of the Chinese automotive SPNs, this will be mainly reflected by various existing problems of the sector (Section 2). Then in the following sections, we will look at the evolution of the automotive SPNs in terms of entry barriers, competition, etc. (Section 3) ; in Section 4, we will look at the automobile components production ; in Section 5, we will look at foreign cooperation such as aspects of CKD, and localization, etc.; and in Section 6, we

will discuss the Government's policy for passenger cars production, and sector management, etc.. We conclude in Section 7.

1. Standard features of automobile producers in developed countries

Even the automobile sector in each developed country has its own specialty, yet they have certain similarities. For example, a general image of an automotive industry in a developed country is that few constructors are supported by a large number of professionalized autoparts suppliers. Nowadays, the automobile industry has become an industry of capital and technological intensive. Here below let us see briefly some main common features.

1.1 From production point of view

From production point of view, there are mainly two features for the manufacturing of the automobile vehicles of an automobile industry in developed countries: *professionalized cooperation* and economy of scale.

1) Large scope of *professionalized cooperation*. This is in fact also the feature of a mechanical engineering industry in general. This situation of *vertical non-concentration* has been formed under the internal or external

conditions of the development of the automotive industry. The process of the whole mechanical engineering can be usually divided into relatively independent steps, which are either a complete manufacturing of a part, or a professionalized industrial service.

Generally speaking, 60% of the cost of a constructor is purchased from exterior [Roos, 1990 ; Li, 1993, p.17]. This includes raw materials such as steel, iron, aluminum, and other metals ; as well as various parts, or accessories that the constructors do not produce themselves such as brake tubes (*xianguan*), batteries, electrical appliances, carburetor, sparking plug, oil pump, windscreen-wiper, lock, door handle, tyres, etc.. Thus evidently, the efficiency of the automobile industry is tightly related to that of the part suppliers.

2) The pursuing of economy of scale. Automobile production is of high input, high output and high added value. The history of the automobile industry shows us that the production of the automobile vehicles is influenced by the economy scale, even under different technological conditions, or when the quantity varies.

In general, economy of scale shows the relation between the production scale and the investment. It reflects also the relation between the market demand and the prices of various production factors. Large scale of investment is a necessary condition of economy of scale. It is interesting to note that as large scale is not the simple addition of all small scales, so large scale does not mean necessarily optimal scale [Li, 1993, p.18].

The average investment for one car, when capacity is 150 000 units, is 27% higher than that of when capacity is 300 000 units ; average investment at 100 000 units capacity is 65% higher than that at 300 000 units capacity [X. Zheng, ed., 1995, p.193].

1.2 From industrial organization point of view

From industrial organization point of view, an automobile industry in developed countries has the following general features:

1) Oligopolistic competition in products market but with a relatively high concentration. In an oligopoly, few number of producers share a market. After the development of over one century, the automobile industry has gradually formed an oligopoly structure.

For example, nowadays, the American automobile industry is a *troika* of GM, Ford and Chrysler. In France, we have Renault and PSA. In Italy, it is almost a monopoly of Fiat. In Japan, it is more numerous, there are the famous "big nine", however the market shares of Toyota and Nissan attain over 50%.

This shows also a high concentration of the automotive industry. The following Table V.1 shows the *concentrativity* of the automotive industry in some main automotive countries. We note that even in the ex-URSS, Lada, Moscovitch, Gaz and other two marks held 90% of the national production.

Table V.1: The *concentrativity* of the automobile industry in some main automotive countries in 1980.

Country	Number of producers with more than 80% of national production	Name of the companies	% over national production
Sweden	1	Volvo-Saab	100
Italy	1	Fiat	100
Spain	5	Seat, Ford, Renault, Chrysler, Peugeot-Citroën	95
USA	3	GM, Ford, Chrysler	90
Canada	3	GM, Ford, Chrysler	90
Brazil	3	VW, Ford, GM	90
GB	3	Rover, Ford, Chrysler	85
France	2	Renault, Peugeot-Citroën	80
Japan	3	Toyota, Nissan, Mazda	80
ex-FRG	4	VW, Ford, Daimler-Benz, GM	80

Adapted based on Bhaskar, Krish, 1980, *The future of the world motor industry*. Kogan Page, London.

Concentration happens also at international level, the top eight groups of the world attained 73% of the worldly automobile production already in 1980. The biggest groups usually establish their plants in different countries in the World [Li, 1993, p.64].

In fact, the oligopolistic situation shows the feature of maturity of the automobile industry. It is also the result of high competition and a series of merging during decades. In the USA, there were 12 constructors at the beginning of the century, the number augmented to 80 in the 1920s, but decreased to less than 30 in the 1930s. There were only 13 in 1950, and 4 in

1970. Recently, the AMC (American Motor Company) was merged by Chrysler, so nowadays, there are only 3 large groups: GM, Ford, Chrysler [Li, 1993, p.65].

In Europe, the situation has been similar. In 1920s, France had at least 150 constructors. The Great Britain had 40. Italy had 30 ones. Then in the 1950s, France still had 50. GB had 20. Italy had 35 ones. The ex-FRG had 25 ones. Only since the 1960s, the number of large European constructors decreased from 34 to 12 ones⁴²⁷.

From scattered organization to concentrated organization, and finally oligopolistic organization, results from that automobile manufacturers' searching economic of scale *as if* by prior agreement. Automobile industry is one of the industries whose economic of scale is primordial, in other words, the greater the production volume, the greater the profit.

Economic of scale means the long term cost curve decreases when the production quantity increases. One important measure for the economic of scale is the Minimum Efficient Scale (MES). When the volume of production gets superior to the MES, the increase of production quantity will not influence a lot the increase of the cost. There is not an absolute MES value, it varies from different products to different processes. Different automobile experts give different opinions too⁴²⁸.

⁴²⁷Namely, PSA Peugeot-Citroën (including Chrysler), Ford Europe, GM Europe, VW, Renault, Fiat, British Leyland, Daimler-Benz, Berliet, Alfa-Romeo, Volvo and Saab [Li, 1993, p.65].

⁴²⁸C. F. Pratten [1971] advanced that, the MES for a unique type passenger car enterprise, should be 500 000 vehicles ; the MES for several types of passengers car should be 1 million vehicles. D. G. Rhys [1972] advanced that, the MES for several types of passengers car should be 2 million vehicles. White [1971]

A part from economy of scale on production, other economies of scale on design and on development have become more and more important, in order to meet the need of new norms, such as gasoline economy, exhaustivity, or safety, etc.. Nowadays, the minimum general standard of MES for passenger cars has been augmented to 2 million vehicles [Li, 1993, p.65]. However, only five large groups⁴²⁹ in the world can achieve or approach to this standard.

Studies on Western automobile industry have shown that, smaller cars have relatively greater MES than larger cars. For example, for standard and luxury cars, a productive capacity of 250 000 vehicles may be the maximum, but for smaller cars, MES might be over 400 000 vehicles⁴³⁰.

On the other hand, when the production is less than the MES, the *cost punishment*, for smaller cars, is greater than that of larger cars. From the following table, we see that when production volume decreased from 400 000 to 100 000 vehicles, the unit cost increasing rate for subcompact car increases 44.7%, but only 16.5% for standard cars.

Table V.2: Percentage of production costs to the MES costs.

Quantity	Subcompact	Compact	Standard
400 000	100.00	100.00	100.00
300 000	104.83	100.98	100.04
200 000	114.68	108.89	101.02

advanced that the MES for a unique type passenger car should 200 000 vehicles, and for several types of passengers car should be 800 000 vehicles [Li, 1993, p.65].

⁴²⁹In 1997, the top five passenger car constructors in the world were: Toyota (2.91 million), GM (2.206 million), PSA (1.1819 million), VW (1.746 million), Fiat (1.563 million) [*China automobile industry yearbook*, 1998, p.520].

⁴³⁰Toder, Eric J., 1978, *Trade policy and the US automobile industry*. Preager Special Studies, New York.

100 000	144.70	133.37	116.50
50 000	204.78	182.31	147.43

Source: Toder [1978].

2) Trans-national production. The automobile industry is one of the earliest industries that happens to produce *transnationally*. Along with the *internationalization* of the automobile market, various forms of internationalization of automobile production have come out, including to set up factories in foreign countries, to set up JVs, to purchase the shares of an existing company, or to set cooperative production, etc..

A large number of studies on the Western automobile industry have shown that, Ford and GM were the pioneers in trans-national production. Then in the 1960s, European companies such as VW began to follow this strategy. Later on in 1980s, the Japanese companies began to change its model of production inside the country. In 1980, Ford's production outside the USA attained 54.9% ; that of VW attained 35.5%. In average, the production of the world out of the original country attained 20%⁴³¹.

This tendency does not only happen among developed countries, but also crossingly among developed and developing countries. Viewing the inflow of the foreign automotive producers to China, this tendency is still true. This leads to the formation of a quite complicated relationship networks for the worldly automobile industry.

⁴³¹Quinn, D., 1988, *Restructuring the automobile industry*. Columbia University Press, New York.

There are several explanations for this phenomenon, yet two of them are principle. Other explanations emphasize on cost-minimization, risk-minimization, or enlarging the scale economy, etc.. The two principle explanations are:

Firstly, the existence of the trade custom tax barriers, i.e., to produce transnationally helps to avoid the customs tax barriers for final products. If the importing country sets high custom taxes, then the final products exportation changed its form into semi-products exportation. For example, the Japanese enterprises Honda and Nissan set up factories in the USA, etc..

The second explanation is the products' cycle. The automobile products and production are becoming *mature*. With the influence of the Taylor model in the mass production, many parts can be separately produced by simple, ordered, and standard productive processes. Then some of the separated processes can be achieved in developing countries such as Brazil, Argentine, Mexico, or China under forms of labor-intensive production and parts-processing.

1.3 Strong Governmental influence and intervention

In general, the automotive industry depends *sensitively* on the macroeconomic environment, the transport infrastructures of a country, and

institutional environment, particularly it is related tightly with the Governmental intervention.

An evident but often ignored feature of the automobile industry in the world is the strong Governmental influence and intervention, either consciously or unconsciously, either in developed countries or in developing countries. The automobile industry in a country normally plays important role, its rise and decline or development touch not only economic aspects but also political, and social aspects.

So, for many countries, the development of automobile industry is not only a business of the automobile companies, but also a business of Governments. Automotive production is sometimes an "affair of the State", as the ex-President of GM said: "Things beneficial to the USA, are also beneficial to GM, verse versa". There can be 4 ways of governmental influence and intervention: policy, participation, automobile trading, and other forms. Here we will see the policy and participation aspects by some examples:

From the point of view of Governmental policy making. Here we can take a very familiar case: the active and positive influence of the Japanese Government on the rapid development of the Japanese automobile industry after the War II.

In fact, right after the War II, there was a debate on whether to develop the Japanese automobile industry. The General Director of the Nippon Bank advanced that, "It is nonsense to develop an automobile industry in Japan, we are in an

era of international division, the USA can produce cheap and good quality cars, why don't we rely on the American cars?" But on the other hand, the Ministry of Industry held a different opinion, it advanced that the automobile industry could stimulate and drive other economic sectors, especially the lathe and steel manufacturing industries which needed to be propped up and to be protected [Li, 1993, p.70].

Finally the Japanese Government decided to take the development strategy of "import-substitute" for the automobile industry. Under the condition of lacking capitals in the aftermath of the War II, big banks were encouraged to supply capitals to the companies such as Nissan, Toyota, and Suzuki to prevent them from bankruptcy. And then in the 1950s, the Japanese Government made favorable financial policies, and created favorite external environment for the development of the automobile industry. The policies included: to offer low interest credits for the equipment renovation, etc.. In 1951 and 1956, the Government implemented an institution of special subvention of depreciation for the constructors and autoparts manufacturers. Also in 1956, the Ministry of Industry decided to exempt the import taxes for purchased lathe equipments from foreign countries. The intervention to the automotive industry of the Japanese Government has been generally considered as successful [Li, 1993, p.70]. We note that the interventions are generally indirect.

Another example is: Chrysler in 1979. The Federal Government issued *Chrysler Company guarantee bill* in December 1979 in order to give financial caution to the company. Then Chrysler got sufficient capitals for equipment renovation and production adjustment in 1980 and 1981, it attained financial equilibrium in 1982 even at that moment, the American automobile sales slumped. Then in 1983, Chrysler began to earn profits and repaid the guaranteed credits. In 1984, Chrysler sold 2 million vehicles with 2.4 billion profits [Li, 1994, p.71].

From the point of view of Governmental participation, there are also examples that Government participated directly in the management of the automotive firms. In Europe, Renault (F), British Leyland (GB). Alfa-Romeo (I), VW (D), have all ever been controlled by the Governments respectively. Even Renault (F) and Lilan (GB) have ever been totally nationalized ; part of the shares of VW (D) belonged to the Government ; Peugeot-Citroën (F), Fiat (I) have tight relations with their Governments. Governments in European countries have been quite active in the automotive industry, and took "nationalization" as a tool for the equilibrium of their international budget, or as a tool for developing backward regional economies or to promote economic development [Li, 1994, p.70].

1.4 Other main economic features

1) Industrial interdependence (*chanye guanliandu*). An automobile industry is related to many other industries, thus it plays in a way the role of impetus for other industries in a country. According to the Japanese statistics, the direct rate of interdependence of the automotive industry to other industries is 1/2.7. For the indirect rate of interdependence, the effects will be much bigger [Zheng, ed., 1995, p.192].

From macro point of view, the transportation development is a necessary condition to the development of "commodity economy" or market economy. Without which, the latter will be delayed. Thus the automobile industry influences the whole national economy of a country.

2) The automobile industry offers a large number of employment. The density of direct and indirect employment, in Japan it was 1/10, that of the USA was 1/6. This has been mainly due to the production of passenger cars. In most of the developed countries, the car production corresponds 80% of the total automobile vehicles production. This is considered by the Chinese economists as important because the Chinese new city and town labors augment by 7 million per year [Zheng, ed., 1995, p.192]. They are considered as potential private drivers.

3) Promising future. In the goods turnover in China, the volume of road haulage is not high compared to other developed countries which has been continuously increasing. Only 11.79% in 1987, which was the highest in the history of the transport of China until 1980s. These rates in developed

countries in 1980 were: 22.7% for USA ; 38.4% for ex West Germany ; 40.7% for Japan. According to Chinese economist, China has great potential in road transportation [ibid.].

4) The automobile industry creates high added value. From a dynamic point of view, in a society where capital can transfer easily, the output of an industry with high added value in GDP augments continuously. In Japan, the output value of the mechanic sectors including automobile production was 4.1% in 1955, 14% in 1980 ; for these two years the automobile industry ranked from number 8 to number 2. The high added value is due to high income elasticity⁴³² and high productivity⁴³³.

2. Features of the Chinese automotive SPNs

The features of the Chinese automotive SPNs before 1980s were reflected by the existing problems of this sector. Thus we will check around these problems here in this Section.

Since mid-1980s, the automotive sector has been one of the 5 pillar industries⁴³⁴ [Zheng ed., 1994, pp. 69-74]. According to Chinese economists, for all these pillar industries, there were 4 big common problems:

⁴³²According to Zheng, this is true both for developed, or developing countries [Zheng, ed., 1995, p.192].

⁴³³The technology progress rate (1952-1961) in Japan, for the mechanical sector was the No.2 (11.8), just after that of the chemistry (18.8) [cf. Yang Zhi, 1985, *Introduction to industrial economics* (chanye jingjixue daolun), p.74].

⁴³⁴Namely, electronic, mechanic, petro-chemistry, automobile, construction.

(geographically) scattered, repeated construction, backward technology, and small economy of scale.

We will see hereafter that, the features of the Chinese automobile sector were sometimes very different from what we have seen as that of the developed countries discussed in the last Section.

2.1 Governments and the automotive SPNs

It might be strange to talk about the "management of an automobile sector by the Government" in a country like in the USA, however in China, the management of its automobile sector was an important work at all levels of the central or local Governments. As one of the Vice-Premiers, Li Lan-qing⁴³⁵ ever said:

In China, it is the State who sets up automotive factories, the State who constructs automobile vehicles, the State who buys those vehicles, and the State who offers credits to part of the population to buy cars firstly. This situation cannot continue. The problem cannot be solved immediately, but cannot continue for long term neither [Chang, 1996, p.102].

As we have seen in Chapter Four, since its creation, the automobile sector had been part of the Planning. All the automobile *danweis* were

⁴³⁵Li had also been a cadre in SAW in the late 1960s [Chang, 1996].

hierarchized under 25 Ministerial Departments, or the P/M/ARs. Administratively, they could be divided into four levels:

1) Central level *danweis*, listed directly in the central Plan. Such as the FAW, the SAW, etc..

2) Ministerial *danweis*, planned in central departments which themselves in turn were planned in the central Plan. Such as, military *danweis*, for example, Sanjiang (the Chinese partner of Renault in Hubei).

3) Provincial level *danweis*, listed in the provincial level Plan. Such as the TAIC, BAIC, SAIC, etc..

4) *Danweis* under the cities which themselves in turn were under provincial administrations. Many autoparts producers were this kind *danweis*.

These different levels of *danweis* corresponded in fact, the multi-level *administrative ownership*. We have also mentioned in Chapter Four that there had been 3 "automobile construction fevers", in fact, most of the local *danweis* were established during this fevers, and supported only by the local Governments.

In the Chinese socialism until now, the politics and administration are not separated from the production, the Party-State has been deeply involved in the economic activities. Following the reform of "separation of income and expenses" between Central and local Governments, relative economic profit of local Governments has been gradually formed, consequently they have more financial autonomy, hence they have somehow more power to participate in the productive activities under their authorities. This led to a phenomenon of

*regionalization*⁴³⁶ in China. The local Governments consist of the horizontal forces not to be ignored.

The vertical forces are the various departments of the ministries, such as Departments of Ministry of Aviation and Space, that of Weapons, that of Boats and Ships, that of Electronics, or that of Nuclear, and of General Logistics Department. Since the late 1980s, over 100 of military *danweis* under these governmental organs had been converted into civil ones producing automobile vehicles such as heavy trucks, light trucks, micro cars, coach, special vehicles, tipper for mines, motorcycles, parts and equipment. By 1992, the annual production of automobile vehicles of these *danweis* attained 2 billion Y, or 10% of the total value of the automotive sector. The volume of the micro-car and motorcycle production attained respectively 40% and 70% of the total of the sector [Li, 1993, p.127].

Similar to the local *danweis*, these departmental or ministerial *danweis* were supported by their upper hierarchy, and thus their optimal objective was that of the upper level hierarchies which was not necessarily the same of the Central Government. Thus they tried to keep clear with the limits set by the general automobile development policy of the central Planning. This was the phenomenon of *departmentalization*, which was also another specialty of the Chinese automobile sector.

⁴³⁶Also called as "principality economy" in Chinese [Li, 1993, p.126].

In the 1950s, there was only one central level *danwei*, the FAW. Then during the GLF, some P/M/AR level *danweis* were established. Then many ministerial *danweis* were established in the late 1960s, early 1970s. Later on, many cities level *danweis* were established. By mid 1990s, there were over 120 constructors, and around 2700 component *danweis* at different administrative levels. They consisted of different networks of the automotive production. The management (by the Governments) of these *danweis*, was thus also administratively multi-level. Every economic quotas, and plans, subventions, credit quotas were organized by the corresponding Governmental levels.

Two kinds of management of the automobile sector by the Governments were distinguished: sector management, and macro management.

The sector management assumed the functions of overall planning, planification, organization, coordination, direction, control and service for the subordinating *danweis*, under the form of the CNAIC. It was *cross ministries* and *cross region*.

The macro management concerned often the State Council, which assumed the functions of project approval, price fixing, tax rates fixing, norms setting, rules and regulations setting and policy making [Li, 1994, p.333,

p.336]. For example, the "First batch approval of economy of scale for fixed asset investment" concerned macro management⁴³⁷.

The *danweis* of different networks, were connected by their own upstream and downstream *danweis* in the same network. These kind of SPNs, at central level, ministerial level and local levels were *isolated* among each other. The geographic distance played sometimes determinant role for the isolation of the local SPNs (M-form). The subordinating *danweis* under these SPNs were compartmentalized by the respective networks.

The cost of running such isolated SPNs ought to be indeed extremely high. The Chinese leaders had realized this fact early in the mid 1960s. In order to reform the central level and local level SPNs, in 1964, began the first reform of the automobile sector. As we have seen in Chapter Four, the CNAIC was for the first time set up as a *trust*, which was canceled soon after. The CNAIC was re-established in 1982, to have a special account in the Plan. The CNAIC was then replaced by the CAA (1987). Then in 1990, the CNAIC replaced again the CAA. The CNAIC itself was designated to assume the functions either of the central Government, or of ministries ; itself formed in turn a central level isolated SPN.

⁴³⁷Cf. Zheng, 1995, pp. 372-3. Among 22 approvals in this batch, there were 7 projects concerning the automobile production: For passenger cars, the investment ought to be used for construction/renovation and technology innovation for cars under 1 600 cc, with a capacity of 150 000 units, the project ought to be approved by the State Council ; For light trucks with identical conditions but with capacity of 100 000 units ; For light buses, with identical conditions but with capacity of 50 000 units ; For heavy trucks, with identical conditions with capacity superior to 10 000 units ; Gasoline motor of less than 2500 cc, at least 150 000 units capacity ; diesel motors of less than 3 500 cc, at least 100 000 units of capacity ; and Motorcycle less than 150 cc and at least 200 000 units of capacity.

The problems of this kind of Governmental management system of the Chinese automotive SPNs were:

1) The automobile production was scattered both geographically and administratively, thus numerically, i.e., the constructors were numerous. The tendency had been more and more scattered from 1950s to the mid-1990s. As we have seen in the last Section, the number of automobile industries in developed countries had been decreasing until a kind of oligopoly was formed. But as we have shown in the Table IV.4 (Chapter Four), on the contrary to the development of the automobile industry in developed countries, the Chinese automobile constructors had been becoming more and more numerous by end 1990s.

Based on the worldly development experience, automobile industry is one of the industries where the economy of scale plays important role in the production. It is a simple fact that the automobile production is concentrated among only few firms [Roos, 1990 ; Li, 1993]. Nowadays, the top 10 automobile constructors of the world concentrate 75% of the total worldly production. It is a kind of high concentration in developed countries. The main reason for the oligopoly is the economic scale. According to Zheng [ed., 1995, p.63], when the volume of production attains 2 million vehicles in one company, then it can compete on the world market.

However, in China the sector was becoming more and more scattered. The volume of production of one Chinese constructor was largely inferior that

of a foreign competitor in developed countries. Only the production of light trucks of FAW and SAW attained the economy of scale according to Chinese experts. Meanwhile there had been already 56 light truck producers, but still 11 others wanted to join them. For passenger cars, even the planned volumes for the "big three and small four" had not attained scale economy. Yet there were still 17 other *danweis* that were producing or wanted to produce passenger cars [Zheng, ed., 1995, p.63]. We will come back to this point in the next Section.

2) Several SPNs but isolation among the networks. By the nature of their existence, the SPNs were vertically and horizontally separated, and isolated to each other. The isolation of several SPNs led to the problems such as: a) multiple higher hierarchies, for example, a central-level automobile *danwei* was subordinated directly to the CNAIC and the State Council, but meanwhile it was subordinated in some way also to the local Government where it is located. b) Several isolated SPNs rendered also the Government management scattered. c) The general organization of the sector was relatively disordered compared to an automotive industry in a developed country. d) Repeated constructions of *danweis* for the same types of products. Most of the vehicles were repeated - they were the copies of few existing models, we will give example of light vehicles below. Even the imported technologies were correspondingly repeated too [Zheng, ed., 1995, p.34, p.63].

Among the SPNs, or the *danweis* inside the SPNs, they were not "competing" under market rules (prices, quality, etc.), but there were a kind of *emulation*, which was often supported by the different levels of Governments. We call this *administrative emulation* instead of *competition*.

3) The so-called six aspects of the a *danwei*, namely "production-supply-distribution-personnel-finance-materials" of the subordinating automobile *danweis* were controlled by the corresponding SPNs, and each SPN had its own planning. Thus the *danweis* were not independent like a firm in a capitalist market economy, but they were *nodes* in these networks.

4) The technology was obsolete. Some Chinese automobile experts had made an interesting comparison between the Chinese and the foreign technologies: it was like "small sampans vs. aircraft carrier" [Chang, 1996], or "small sampans vs. combined sea fleet"⁴³⁸. Since mid-1980s, the Chinese automotive sector had tried to reform its small sampans through technology importation from Western countries. However, normally, the body of a vehicle was not developed in China, thus technology and molding tools had to be also imported in order to produce vehicles as quickly as possible to satisfy the emerging large domestic demand. According to Chinese experts, this importation could not really renovate the Chinese technology [Sun, 1995, p.32].

⁴³⁸Cf. Liu Jian-feng, 1995, "To reform the small sampans to combined sea fleet", in Zheng ed., 1995, pp. 19-20. Liu is a Vice Minister of the Ministry of the Electronics.

The rate of equipment/worker in China in the 1950s and 1960s, was higher than that in Japan. But in the late 1980s, it was only 1/100 of that in Japan, 1/36 of that in Korea. In the mid-1950s, China was backward fifteen years than worldly level, but in the 1990s, the backwardness was twenty-five years [Zheng, ed., 1995, p.63].

5) Bad quality of products. A model could be produced without significant modifications during 30 or 40 years, and the variants of the models had been few. For example the first generation Jiefang trucks of the FAW had been produced for 30 years. Even imported models like Santana had also been produced for over 10 years, new generation, Santana 2000 came out only since 1995. Moreover the production volume was small compared to a model in a capitalist country, the Chinese-produced vehicles corresponded only 2% of the worldly production [Zheng, ed., 1995, p.63]. However, the automobile products have relatively higher prices than that in a developed country. This was considered by Chinese experts as the consequence that Chinese automotive industry lacks the capacity of development of new models, and as "irrational structure of the products" [Chang, 1996, p.219].

6) How to reduce the number of the automotive *danweis*? This was part of the Governmental management on the sector. As we have seen in Chapter Four, the Vice-Premier Li had noted, as the decision power on import/export at certain level had been decentralized to the local Governments, so many of the local *danweis* had imported foreign equipment which was precise for

automobile products, thus it was more and more difficult to convert an actual automotive *danwei* to another activity. Conversion was thus difficult due to the imported sophisticated equipment.

On the other hand carrying on bankruptcy was often the synonym of "social in-stability", which was absolutely one of the first vexations of the Party-State system. So how to reduce the numbers of the automotive *danweis* in China stayed an open question.

What the central Government has done by now was to just stop the augmentation of the number.

7) Users' market. According to the usage and function of the vehicles, the Chinese users' market could be distinguished into 4 categories: public users, commercial users, service users, and private users. This aspect was related also to the "sales networks reform", which was one or several steps backward. We will come back to this point below.

8) *Administrative barrier* and political control: local Governments helped the establishment of automobile *danweis* in their region, so the entry and exit barrier of a *danwei* was rather administrative than economic. From the point of view of whole management of the sector, the central Government or the CNAIC could not prohibit the new establishment of automotive *danweis* in the regions. The emerging market rules were still compartmentalized. Thus the barriers were weakly adjusted either administratively or marketly.

Even there had been reforms with the introduction of JVs since the mid-1980s, the SPNs had not substantially been transformed. *Once the SPNs rests, it is difficult to imagine a successful restructuring of the automotive sector in China.*

2.2 Four crises at *danweis'* level

If we go down to the *danwei* level, face to the transformation from Socialist Production Networks to a kind of automotive industry with market logic, we can observe four main crises:

1) Larger input for small output. For the first FYP, the investment for FAW was 600 million Y ; for SAW, 2 billion Y. Then for the seventh FYP, 12 billion Y was invested to establish the 8 automotive bases, however, part of the constructions had not yet been finished until late 1990s. On the other hand, their negative liability attained 6 billion Y [Sun, ed., 1995, p.32-3]. In general, the automobile products were even not competitive in terms of prices and quality vis-à-vis imported products, or even those of the JVs.

On the other hand, the Chinese input was questionable. By international experience, an automotive company could make profits only after certain degree of scale economy, thus there ought to be strong capital input at the beginning. However in China, the investment in automotive sector was only 1% of total investment of the country, its value corresponded only 1/8 to 1/6

of that of developed countries [Zheng, ed., 1995, p.64]. The eighth FYP (1991-1995) planned to invest 46 billion Y in the automotive industry, for the period 1986-1992, 18 billion Y for basic construction and technology innovation was planned [Zheng, ed., 1995, p.189], but in reality only 10 billion Y was realized, automotive industry could not really be a pillar industry [Zheng, ed., 1995, p.64].

There is somehow a contradictory phenomenon: it is well-known that the automotive sector lacked capital input at the central planning level, however, the local Governments showed a great capacity of capital gathering especially during the last "automotive construction fever" (1993-1994). A large number of automotive *danweis* were established at local level, they were supported by local Governments.

2) Autoparts crisis. In developed countries, there were only a few, or even only one constructor(s), but with thousands of component suppliers. For example, for the motor production of Chrysler, or of Golf of VW, the structure among the constructor and the component suppliers is a "pyramid form". A constructor is supplied by some main components suppliers, who are themselves supplied in turn by other more basic enterprises.

According to Lui Fu-yuan⁴³⁹, China had imported from 9 countries, 21 models of automobile vehicles (mainly passenger cars), for most of them, entire models were imported, but the production of the components in China

⁴³⁹Senior economist of the FAW.

was relatively quite backward. Some foreign automobile experts even ever said that, "To produce cars in China is like to work on an isolated island" [Chang, 1996]. This was due to the structure of the *danweis*, that had been established to produce all in one *danwei* (low level professionalization) or in one network (closed circuits).

Moreover, the production techniques and technologies were relatively obsolete. We will come back to this point below.

3) Personnel and social affairs crisis, brain crisis. The new environment of the automotive sector since mid-1980s required adaptable personnel organization in a *danwei*. This concerned the common problem of all *danweis*: a quite large number of personnel surplus, social protection, housing, and schools and hospitals under the charge of the *danweis*.

Concerning the brain crisis, according to Chinese experts [Chang, 1996], the *danweis* lacked brains and equipment to self develop modern vehicle models. According to certain French investors, the Chinese engineers were well educated but often too theoretical, and there often lacked engineers with on-site capacities and well-experienced workers. In general, the Chinese education tools, training-ship conditions were considered as "a little obsolete for a modern automotive industry"⁴⁴⁰.

4) Raw materials crisis. The raw materials concerned steel, petroleum, chemical, textile production etc.. According to Shen et al. [1993], to produce a

Dong Feng 5-t truck, it needed 985 different materials, among those, 764 types of steel, 9 types of cast iron, 200 nonferrous metals, and 12 non-metal materials. Most of these relevant *danweis* were also in difficult situation in terms of quality of products, management of delay of delivery, etc..

2.3 "Socialist Distribution Networks"

Let us see firstly how the "Socialist Sales Networks" of the automobiles in China had been organized:

Until now, automobile vehicles are considered as "production means", and are still planned products in China. The evolution of the automobile vehicles' distribution could be distinguished into three periods.

In the first period, 1953-1978, the distribution was planned and controlled by the central planning. This period could be divided again into three steps. The first step from the first FYP (1953) to 1966, the distribution was strictly centrally planned. The method was called "regional management and regional balance of material allocation under the central planning"⁴⁴⁰. The SPC made MBT [cf. Chapter 1], and distribution Plan, which were then approved and issued by the State Council. Then the "sales department" of the First Mechanics Ministry organized globally issued orders to production

⁴⁴⁰Meeting of Club Chine, FIEV, 4th. Jan. 1996.

⁴⁴¹This means the quantity and assortment differences were balanced among regions under the central control [Shen et al., 1993, p.3].

danweis. Both the production *danweis* and the user *danweis* had no power to control the process. The second step from 1966 to 1976, the situation was considered as "chaos". The ordering and distribution were confided to every level industrial departments. Local Governments could dispatch 25% automobile products. The third period, from 1976 to 1978, the method was "two levels management", which meant products of the *danweis* which were planned by the Central were be dispatched by the Central, that were planned by local Governments were dispatched by the local Governments. During this period, the Socialist Distribution Network was vertical.

The second period, 1978-1991 was marked by the *Several decisions about accelerating industrial development* issued by the CPC Central (April 1978). This document still emphasized to reinforce the management of goods and materials, unified planning and unified allocating. However, the document pointed out that except certain imported automobile vehicles, other domestic vehicles out of planned-distribution could be decided and distributed by P/M/ARs. The State Council approved and issued the *Temporary regulations on the management of the industrial production means* (1991) allowed the *danweis* to sell themselves part of products out of the production and distribution planning. Self-selling systems of each automotive *danweis* began to be established. This encouraged the growth of "market" of the automobile vehicles later.

By 1988, eight automobile vehicles trading companies in the cities of Beijing, Shanghai, Tianjin, Guangzhou, Shenyang, Wuhan, Chongqing, Xian had been set up with over 1 000 selling points. A kind of horizontal decentralized selling networks were set up. Then the China General Selling Company of Automotive Industry was established in 1992, this corresponded a kind of vertical decentralized selling network. The following Table V.3 shows the percentage of the planned distributed automobile vehicles in the 1980s.

Table V.3: Percentage of planned distributed automobile vehicles in the 1980s.

Year	%
1982	92.3
1983	79.5
1984	58.3
1985	39
1986	36.1
1987	36.8
1988	33.7
1989	22.19

Source: *Guide of China automobiles*, *Economic daily* edition, 1991, Beijing.

The third period, from 1992 to present, has been marked by the development of the self-selling system of each automotive *danweis*, the JVs have played active roles in the development. However this process has not had immediate satisfactory results. For example, until 1996, the DCAC as an independent company negotiated hardly its independent selling rights of its cars.

Some sales training programs have been undertaken by JVs in China. The center of sales trainingship of the DCAC was opened in September 1999,

the first 500 staffs were trained specially for the selling system of the DCAC products⁴⁴².

Nowadays, there are three distribution channels of the automobile products in China: central planning, local planning and self-selling systems of each *danweis*, or companies, the latter sell their products on the emerging market with the increasing number of private individual users.

The pattern from producers to users of vehicles has been changing from:

Production or importation => planning => users

to

Production or importation => planning or market => users.

2.4 Foreign firms and the Chinese automotive SPNs

There were 120 foreign invested automotive firms by the end of the last century. The main forms were JVs, cooperations, technological transfer, etc.. We can remark several points concerning the foreign investment.

In terms of objectives and strategies of the Chinese and foreign partners, they were not necessarily the same. Most of the Chinese partners

⁴⁴²This project was organized jointly by the DCAC, French Education Ministry and the Chinese Labor Ministry. Some similar project of cloths was set up in 1998. According to Mr. Blanchet of the French Education Ministry, the French training programs were a little behind the American, English and German ones [RFI, 13th. Jan. 1999].

were under central level or local level planning, in other words, they were the SPDs. The Chinese objective was to modernize the technology of its automotive sector so that it can be competitive on the international market. The foreigners' objective aimed at the *potential internal Chinese market*. Thus it is true that certain main substantial change had been brought by foreign firms in the automobile sector in terms of technology and management, however it was not strong enough to influence significantly the SPNs and SPDs by the end of 1990s.

In terms of production, almost all passenger cars in JVs began to be produced by CKD or SKD. According to Chinese experts, CKD or SKD were a kind of simple selling, China cannot obtain the capacity of self development of vehicles, which is the real modernization of the technology through these mode of foreign investment [Chang, 1996].

In terms of investment of imported technologies, the investment projects were quite scattered. 12 billion Y investment was planned in the seventh FYP (1986-1990) for the automotive sector, however $\frac{1}{4}$ of this investment was not used "economically" - The imported technologies and production lines were independent or often incompatible to each other, many parts could not fit to most of the vehicles.

On the other hand, some technologies were repeated, some examples: there have been several repeated importations of the production technology of the Suzuki light trucks ; four *danweis* imported similar air-conditioning

technologies ; automobile sealing parts technologies had been imported by 13 different *danweis*.

This was also one of the reason of the irrationality of the products' structure, the low production volume, and the inexistence of economy of scale. The products of lower importation costs such as heavy vehicles, light vehicles, and diesel vehicles were mostly relatively better developed in China, and were produced to a certain scale, China did not need really to import these technologies. However, the importation of whole passenger car production technology is costly but necessary for a real modernization (especially self development capacity) of the Chinese automobile production, yet no foreign firms has brought with them the most important part of technology.

3. Entry barriers

To study the Chinese automotive sector, we face firstly the problem of scattered organization since long time. This situation had been worse even after the automotive sector was decided to be a pillar industry. Here we try to analyze the conditions and reasons for this situation. The central point of our analysis is the nature and particularities of the "entry barriers" of the Chinese automotive sector.

As the Chinese automobile sector had been evolving from a set of isolated SPNs with a large number of *danweis*, to, something unknown, which we may call a "seeming automobile industry". Both automobile SPNs and seeming-automobile-industry are not the same thing as an automobile industry as in a capitalist market economy. Thus we cannot use the concepts developed in the theories of IO in mainstream economic, directly for the Chinese case. Entry barrier is an important concept in the Industrial Economics, it is different from the short term analysis of the industrial structure, it emphasizes the changing process vis-à-vis *time* of an industrial structure. In other words, this is an analysis of long term, the duration is when a competitor enter or exit an industry. The essence of this concept was in fact very important for the Chinese case, here we will see the features of this concept in the Chinese socialist automotive case.

3.1 Entry barriers in capitalist market economies

In a capitalist market economy, the main motivation for a firm entering into an industry is to seek profits. Thus when an investor decides to establish a firm, he/she must predict the situation of the demand and offer of the market and the production costs. This kind of information can be collected from existing firms in the industry, in other words, the profits of existing firms attract the new comers.

Under a situation of complete competition, an entry will stop until there will be only normal investment return with no other extra profits. However, under an oligopoly, the situation of normal investment return without extra profit will not happen, it may be possible that even existing firms gain much profits, there still exist other conditions or constraints for new entries [Li, 1993, p.112]. These conditions have been defined as *entry barriers* by J. S. Bain in 1956. According to Bain, the conditions for entering can be roughly defined as the preponderance of cost and price of the existing firms compared to potential firms. In fact, all constraints can be finally summed up to costs⁴⁴³. Corresponding to the entry barriers, there are also exit barriers, which can be measured by the loss when a firm exits an industry, they are related directly to the sunk costs.

In Bain's analyses, there are three origins of the entry barriers: 1) absolute preponderance of cost, 2) products differentiation, 3) economy of scale. From point of view of supply, an automobile industry is capital and technological intensive, economy of scale is emphasized in the production. Thus for the new comers in the automotive industry, the existing firms have evidently absolute preponderance of cost, and preponderance of economy of scale, which consist the entry barriers. From the point of view of the demand, the automobile market has a great variety, and can be highly divided. Highly divided market has low substitutivity, in this case, the product differentiation

⁴⁴³Theoretically, the difference between the average costs of existing firms and of new entry firms, represents costs entry barrier.

as an entry barrier has become weak. An enterprise can exist in an industry once it can find a target market with certain capacity⁴⁴⁴.

Bain's theory of entry barriers has been complemented by new concepts and theories, such as "Strategic entry deterrence", and "policy barriers" developed by Demsetz etc.. In fact, in Bain's definition of entry barriers, it consists of all conditions or constraints for a firm to enter an industry, these conditions can originate from costs, or from demand of products, or even from policies. Thus the new theories are in fact further development of Bain's theory.

Generally speaking, we can distinguish two groups of entry barriers: policy ones and economic ones. Economic barriers are mainly, absolute cost preponderance, product differentiation, scale economy. Policy entry barriers, by definition are those from the Governments policies. There can be normally 3 forms of policy barriers. Firstly, transferable production quotas (of quantity) for existing firms, that is issued by an organ with legal force. New comers must buy the quotas from the existing firms, this is hence an additional cost for them. Secondly, new comers must apply/buy a permission to enter the industry. Thirdly, institutional discrimination, i.e., different rules of the game for existing firms and the new comers [Li, 1993, p.114, pp.117-9].

⁴⁴⁴For example, the Japanese automotive industry before and after the petroleum crisis of the 1970s [Li, 1993, p.123].

3.2 Features of Chinese entry barriers

The Chinese automobile industry is backward compared to the international level. From the point of view of numbers of the *danweis*, the number had been almost continuously increasing since 1956, it tended to be stabilized in the late 1990s [Table IV.4]. As we have mentioned in Chapter 4, there have been three "construction hot waves" in China, many *danweis* were established during these waves. The number of Chinese constructors is almost the total of the numbers of all automobile industries in the World, but the total of the produced quantity do not even attain that of one of those industries in a developed country. This shows that the *forces* that hold back new entries have been weak. Now we will see the reasons.

From hierarchy point of view: there were three levels of *danweis*. They were mainly central level ones, and provincial level ones (P/M/AR), and local cities level ones. The decision of the establishment of a *danwei* was made either by the central planning organ, or the local planning organ. This was in fact a kind of *administrative barrier*. With similar reasons for the "soft budget constraints", the administrative barrier could be *soft* too.

The "entry" or "exit", were often decided by non-economic but social or political decisions. For example, the main cause of the third "automobile construction fever" was that each province wanted to have their own "automotive industry".

For the social decisions, Chinese people were in general not familiar with bankruptcy even it had been allowed by the law. Normally, the first reflection of Chinese managers and workers when a factory ran in deficit, was to maintain the factory's operation by changing its activities. For example, during the third "automobile construction fever", a factory (local *danwei*) of automobile reparation in Hebei province, began to assemble *copied* Beijing Jeeps. The factory Director said that, "We have to maintain our factory's live, otherwise, our workers will not have enough to eat. So when we see that there is a demand of jeeps, we decided to produce jeeps". This was why even a constructor in which workers polishing up vehicle bodies by hand with hammers still kept operational [Chang, 1996], in this way, the quality of these products or vehicles were not guaranteed.

Even the decisions were often socio-political ones, however, we cannot exclude that, there were also economic reasons too. Just in the above example, there existed also a concrete "demand of jeeps" for the factory so that it could survive. The "demand" originated often from the fact that the automobile products in China were "planned products", i.e. user-*danweis* had to apply "quota" to buy a vehicle. With the economic growth in China, many small size *danweis*, TVEs, or individual companies needed a vehicle but without quota, so they bought cheaper and bad quality products from local *danweis*.

For exit barriers: the social and political resistance was heavy. It was practically difficult for a *danwei* to be closed up easily as it was tightly related with its the workers' lives.

The number of firms (n) in an industry is one of the parameter of the degree of concentration of the industry, measured by $1/n$. When n increases, the concentration rate (CR) is low. According to Li [1993, p.121], for Japan in 1983, $CR_4 = 0.83$, $CR_8 = 1$, which meant, there were only 8 constructors ; for China in 1989, $CR_4 = 0.58$, $CR_8 = 0.76$. Compared to European and American automobile industries, the CR of the Japanese automobile industry was already relatively low. Thus, compared to the developed countries' automobile industries, the concentration rate in China has been very low.

From product point of view, the main products in China have been medium loading vehicles, the production has almost been concentrated in the FAW and the SAW.

However for other products, especially such as light vehicles and passenger cars, the production was scattered. Even after the designation of "pillar industry" for the sector. Until now, there has not been substantial restructuring on the scattering as each constructor is more or less supported by certain administrative organ, either central or local.

During the seventh FYP (1986-1990), light vehicles were developed rapidly. However the "irrational product structure" of the sector - "lack of

heavy, short of light, in-existence of cars", had not been improved. While the production of light vehicles augmented rapidly, the numbers of the constructors augmented rapidly too. According to the gist of the seventh FYP, the production of light vehicles should be concentrated on 4 bases: Northeast, Beijing, Nanjing and the Southwest. However the result came out as "big 4 small 6, but one cannot distinguish who is big who is small" [Chang, 1996].

In reality, by the end of the seventh FYP, there had been 42 light vehicles constructors, among those, there were only 6 with volume of production superior to 10 000 units, and most of the products were copies of the small number of existing models. The production was, evidently, *repeated*.

For the passenger cars production, even it started only recently, the situation has been tending to become similar as that of the light vehicles production. The original planification for passenger cars production (Beidaihe meeting), decided to establish three passenger cars production bases (FAW, SAW, Shanghai), but the result had became "big 3 small 3", with that of Guangzhou, Tianjin, Beijing. All the 6 bases had established Sino-foreign JVs or cooperations, and they all enjoyed certain prioritizing policies⁴⁴⁵. Apart from these "big 3 and small 3" under the CNAIC, there were also numerous local *danweis* desiring to produce passenger cars, they were strongly supported by the local Governments. As a result, the passenger cars production has become scattered too.

⁴⁴⁵Including special bank loans and the forced retirement of old vehicles in user-*danweis*, etc..

According to some Chinese automobile experts, looking at the number of Sino-foreign JVs, or cooperations of the automobile constructors in China, it is not exaggerate to say that, at certain degree, the scattered and repeated introduction of foreign capitals has disturbed the Chinese sectorial development program [Li, 1993, p.123]. This might be the main reason of the issue of the *Automotive industry policy* in 1994.

So in general, the entry barriers for the automotive sector were weak. There were economic and non-economic factors that influence the entry barriers of the Chinese automobile industry.

Here below let us see the economic and non-economic sides of the Chinese entry barriers in the sector. As we have seen above, in traditional mainstream economics, there are three origins of the entry barriers: 1) absolute preponderance of cost, 2) products differentiation, 3) economy of scale. These three economic factors have different features for the Chinese automotive sector. Beginning with these three points, we will also point out several other Chinese specialties.

1) Regarding the absolute cost preponderance, there were the following three elements that limit the absolute cost preponderance as an effective entry barrier in China:

a) The absolute cost preponderance: change from *planned* to *marketized*. Explanation: as most of the automotive *danweis* were in the

planning of the Governments (central or local), thus they enjoyed lower "planned prices" for input products. So absolute cost preponderance was based on the socialist planning system. But since about a decade, the production and sales of the autoparts had been more and more marketized. When the market mechanisms were introduced, the proportion of the State planning had been reduced, the lower prices of the raw materials or other materials supplied by the planning to the automotive *danweis* had gradually given way to the emerging market prices, which were issued more and more from approximate fair market competition. As a result, the *planned preponderance of cost* tended to give place to *marketized cost preponderance*.

b) Imported foreign technology could soften the entry barrier. The existing technology level was backward compared to the international level, there was almost no *protective screen* of technology and of know-how vis-à-vis imported international technology and equipment. A new comer (new comers in China were almost all local *danweis*), even a very small local *danwei* could enter easily with high quality products through imported technology in order to overcome its inferior local position. An example for light vehicles, the price of Yuejin 131 of Nanjing Auto Works (NAW, local *danwei*, but quite big, with Central's investment) could be sold at 30 to 40 kY, the profit of each vehicle could be several thousands Y. However, the Jiangling Auto Works (local *danwei*, small compared to NAW) had imported the technology from

Suzuki to produce Jiangling (Suzuki N series), which had better performance and body, the selling price was 110 to 120 kY, the profit of each vehicles attained several hundred thousands Y. High profit rate counteracted the high production cost. This shows also that foreign technology could influence the entry barrier of the automobile sector in China.

c) Geographically, China is a country with vast territory, different regions were *different markets*. Who was near a better market, who could have the cost preponderance for production and sales. The *market compartmentalization* tended to be more evident under the support of local administrative force.

Hence these elements blurred the absolute cost preponderance in the automotive sector in China, which was consequently weak as an entry barrier, and which had different nature of the same concept in a capitalist market economy.

2) Regarding the economy of scale. In the Chinese automobile sector, only some production *danweis* of medium size vehicles had approximately the MES (Minimum Efficient Scale), all other automobile products' production was far under the MES. This fact had two consequences: a) The scale of each *danwei* was similar, thus almost no constructor could make profit of the economy of scale. Moreover, the costs of production were almost the same. Thus there was no menace to *danweis* in term of economy of scale for

medium size vehicles. b) As there lacked some main *danweis* with sufficiently large economy of scale, as a result, this led to a cut-down of the initial cost of entry. Thus it was relatively easier for Chinese *danweis* to enter the automotive sector than those in developed countries. According to Chinese automobile experts [Li, 1993, p.125], the capacity to produce one light vehicle needed an investment of 20 000 Y, thus for a capacity of 100 000 vehicles, the total investment should be 2 billion Y. Nowadays, the average scale of the light vehicles production in China was around 5 000 units, if according to this average capacity, the investment should be 100 million Y. By 1989, there had been three local *danweis* with investment over 100 million Y, and several ones over 50 million Y. A sum from several ten thousands to 100 million Y, was not a real problem for many local *danweis*. Although, there were restrictions on the approvals of the local projects, yet it was quite easy for the local Governments to divide a big project into pieces of small projects to go round the restrictions from the Central. Thus the effect of the scale of economy as an entry barrier was weak too.

In fact the notion of scale economy in China was just the beginning. There had not been systematic and complete data on the costs, that was difficult to realize positive data analyses on the scale economy. Most of the existing results were based on estimation [Li, 1993, p.134], and they were mostly internal studies. There had not been yet some systematic and complete published results on this point [Li, 1993, p.134].

Generally for developed countries, there are three groups of factors that influence the scale economy: a) technology, b) economic factors, such as relative prices of input materials, c) institutional/environmental factors⁴⁴⁶. For China, things were different at the following points: a) The technological conditions were different (backwardness) from the international level. b) Economic conditions were different, for example, the prices for input materials were not all defined by market. c) The main automobile product was loading vehicle, but that of the developed countries was passenger cars.

Studies⁴⁴⁷ on the economy of scale of the Chinese automotive sector stayed only at referential level. For the developed countries, there was a hidden premise, which was that the market had infinite capacity. This was not true in China especially because the Chinese automobile buyers had been *administrative buyers*. The purchase power for private automobile buyers was still limited. Moreover, the infrastructures, either technical (such as service stations) or administrative (circulation permits for big cities, driving license, etc.), were not yet well equipped for private drivers. According to foreign studies, nowadays, the "market capacity" (of passenger cars) in China was about 600 000 to 700 000 units. An automobile firm with a capacity of 2 million as in France would be over-capacity for China if exportation would be impossible. However, there was almost no international market for the

⁴⁴⁶Cf. Maxcy, G., and A. Silberston, 1959, *The motor industry*. George Allen & Unwin Ltd., London ; Maxcy, G., 1981, *The multinational motor industry*. Croom Helm.

⁴⁴⁷UNIDO, 1992, *Establishment and development of automotive industries in developing countries*. Part I & II.

Chinese automobiles. In some sense, the fact that the MES in China was smaller than that of developed countries, might be necessary.

Yet until now, the production volume increasing of the automotive sector in China had relied on mainly the augmentation of numbers of automobile constructors, but not economy of scale.

3) The product differentiation, as we have mentioned above, for the automobile industry in a developed countries, this is in general, a weakened entry barrier due to the great variety of the automobile vehicles.

For the Chinese case, the product differentiation was even a non-existent entry barrier. In China, only few models had been, since long time, produced with significant quantity. The Jiefang model had been produced during 40 years. Meanwhile there have been many similar copies of the model by local constructors.

4) For the non-economic factors, Governmental intervention was the main one. The Governmental intervention could be at central level or at local level.

Local level intervention was becoming stronger following the *regionalization* of the planning power in China. Under this circumstance, the power of the local Governments, as non-economic influence, contended with

the *central administrative entry barrier* for the sector. However, when the local Governments had certain level of decision and investment capacity, their optimal objective should be the local Governments' profits (not that of the Central). For example, when shortage of automobile vehicles happened during the "hot purchasing waves" in the early 1990s, expected profits was high, then the local Governments were warmhearted in the automotive development in their region. This was the specialty of the Chinese automotive sector. The fact that the Government played a role to reduce the entry barrier was on the contrary of the international tendency.

5) The Central Government had not supplied an effective "Sector Development Policy" as favorable institutional environment for the sector. Moreover there lacked also an authoritative executive organ which controlled this supposed policy.

6) The existing *danweis* of the sector lacked effective mechanisms to attract the new investments in a concentrated manner. Then the result was, the investment in the automotive production had been scattered, and there were many small *danweis* with small scales but supported strongly by the local Governments.

7) In the emerging market conditions, the competition of the automobile *danweis* was not only an economic affair among *danweis*, but also that among the local Governments, or among Ministerial Departments. So the competition was also administrative. The Chinese automotive sector was in fact dismembered by the administrative forces of both local Governments and Departments. In some sense, this consisted of a resistance force of the reform of this sector⁴⁴⁸.

3.3 Concluding remarks

In the period of our study, the Chinese automobile sector was a set of automobile relevant *danweis*, each belonged to its tutelage upper administrative organs. It was not an "automobile industry" in economic sense, which is defined by the division of work⁴⁴⁹. Many Chinese automobile experts advanced to set up economy of scale for few *danweis*, to augment the sectorial concentration, this was also the Central Government's Policy which was translated concretely by reducing the decision power of local Governments and of departments on big projects. But this policy had a weak point, which was that, the local *danweis* and the departmental (or ministerial) *danweis* could easily go round this policy by two ways: dividing big projects

⁴⁴⁸The same phenomenon existed also in other sectors.

⁴⁴⁹Cf. Adam Smith ; George Stigler, 1951 ; Li, 1993, p.147.

into small projects, or setting up Sino-foreign JVs. By these means, the small *danweis* could achieve at certain level economy of scale too.

So the root problem was not lacking of economy of scale, or sectorial concentration, but a lack of mechanisms that could prevent local Governments and ministerial department from setting up *danweis* in a scattered way, so that economy of scale could become an effective entry barrier of the automotive sector in China.

The automobile sector was not well coordinated under the Socialist Market Economic system. Maybe, only a complete restructuring of these different level *danweis* of local Governments and vertical ministerial departments under market logic (under capitalist private ownership) can really solve the problem?

4. Automobile components production

Generally, when talking about "automobile industry", one often concentrates on the most famous automobile constructors. However, behind these big constructors, there are numerous multi-national components or autoparts producers with large scale and advanced technology, such as TRW (USA), Bosch (Germany), Lucas (GB), GKN (GB), Valéo (France), these are actually the most famous autoparts producers in the World.

Historically, the parts production completed the constructors, and was led by the constructors. However, since the 1990s, the center has been shifted more to the autoparts producers. In developed countries, autoparts producers participate more and more the development of new models, they have more and more responsibilities, and more decision power vis-à-vis the constructors. In recently years, the most important technological progresses have been often made in the autopart production. The competition of the automobile industries become a kind of competition of autoparts producers.

In China, the parts production has been also complementary to the vehicles' assembling. But often either the part production has been organized inside the constructors (the same for large or small ones), or has been since long time ignored.

Since the early 1990s, when the Chinese automobile production met that of the international advanced level, meanwhile the main product shifted from loading vehicles to passenger cars, especially imported passenger car models, then the part production had become a bottleneck.

4.1 General features of components production in developed countries

The firms that produce or supply the autoparts are called autopart producers, or cooperative firms. In developed countries, the autopart

production consists of an important part of the automobile industry. An automobile vehicle is composed of over ten thousands parts. The production of automobile vehicles involves many other industrial activities of other sectors. *Vertical work division* is a salient feature of the modern automobile industry, which means that most of the autoparts are produced by professional manufacturers, then these products are assembled by the constructors. However the feature of "economy of sequence" is not as evident as for the petrol-chemistry industry, or for the steel industry [Li, 1993, p.149].

According to their usage, the autoparts can be divided into three categories: 1) original equipment (OE), 2) pieces for change (RP), 3) spare pieces (SP)⁴⁵⁰. RP and SP are to replace damaged pieces. Normally, the OEs are produced following the design and requirement of the constructor. RP and SP are sold on market, their demand relies on the demand of final products and the lives of the OEs.

According to the products themselves, there are "components", and "unit components" being a system themselves such as the carburetor, sparking plug, etc.. Even chassis and bodies are often listed independently in statistics, they are however considered as also autoparts. For some traditional reasons, tyres, and batteries are not considered as autoparts, but rather as relevant products.

⁴⁵⁰ At international level, OEs corresponded 80% , RPs and SPs corresponded 20% in the early 1990s [Li, 1993, p.159]. China was far away from this standard, but for the Chinese experts, the international level would be the goal of development of the Chinese autoparts production [Li, 1993, p.145, p.159 ; Interview CERNA with French autoparts producers].

Autoparts production covers very large ranges of products. TRW, the largest American autopart producer employs 97 000 personnel, with over 70 types of products ranging from electronics, to clutches, transmission shaft, steering gear, air-compressor, air-conditioning, etc.. Its annual sales attained 7.5 billion USD in 1992.

Whether a constructor produces the parts by itself, or gets them produced through the autoparts producers, depends on the historical conditions and its scale. GM produces 70% of its parts, but Saab (Sweden) produces only 25% of its parts. The situation varies from country to country, from constructor to constructor.

The tendency of development of the autoparts production was that, "until end of the century, autoparts will be covered by 50 professional companies with 2nd. and 3rd. level supporting networks." [Chang, 1996, p.287]. This meant that there should be more concentration, and tighter vertical integration.

4.2 A brief historic review of the automobile components production in China

The part production has been developed along with the automobile vehicle production. Before the 1950s, there were only some factories for reparation. When the FAW was under construction, the Central and the local Governments had synchronically established, or transformed 86 parts *danweis*.

During the GLF, another batch of part *danweis* were established. Later on, for military preparations, the Central set up two assembly *danweis*, the Sichuan Auto Works and the Shaanxi Auto Works, and for them, the Central invested 70 million Y to renovate several autoparts *danweis*. By 1965, the Central had accumulated an investment of 200 million Y on the autoparts *danweis*, or 20% of the total investment on the automotive sector of that period.

In the late 1960s, the State planned to construct the SAW in Hubei, meanwhile 29 autoparts *danweis* were constructed or renovated there. Approved investment was about 100 million Y. In the 1970s, "demand" exceeded "supply" due to the second "automobile construction fever", meanwhile it was believed that the regions should have their own self-sufficiency, thus there were established at local level a large batch of autoparts *danweis*.

Among all the autoparts *danweis*, most of the key *danweis* worked around the FAW and the SAW. Others worked around other large constructors and local medium or small size constructors. These cooperative relation had been historically stabilized. In such way, the evolution of the autoparts *danweis* had followed that of the constructors, they corresponded the scales of the constructors. Thus, most of them produced only for loading vehicles which had been the main vehicle.

Often, they could not concert well with the constructors, which sometimes had to produce themselves a large proportion of the parts. So the

FAW and the SAW had both relatively high self-producing rate of autoparts, this led to a situation of highly vertical integration⁴⁵¹. This was the so-called "large but all (*daerquan*)" - large constructors produce almost all parts themselves. For example, the SAW had 75% self-production rate. During the period of decentralization, the rate decreased to 58% for 5-ton trucks.

In fact, even for the small assembly *danweis*, the self-production rate of autoparts was very high too. This was called "small but all (*xiaoerquan*)".

The organization of the Chinese autoparts production was scattered and disordered, the relation between the part *danweis* and the constructors was distant. This led to difficult professionalization, and thus the scale was limited, and the autoparts producers did not have product development capacity themselves.

4.3 Situation of the automobile components production in China since mid 1980s

Significant change had happened alone with the importation of foreign models by the Chinese constructors since mid 1980s. The foreign pioneers ever grumbled that they had to produced vehicles "on an isolated island"

⁴⁵¹In fact, the degree of vertical integration is not a standard to measure whether an automobile industry of a country is well developed or not. The analysis of vertical integration is meaningful when it is related to historical conditions and real economic conditions. For example, the autoparts production in Italy is also highly vertically integrated, there is no parts producer independent of Fiat. For different reasons, Ford and GM have also attained a certain degree of vertical integration. For example, Ford participated the production of steel, plastic, and glass.

[Chang, 1996, p.283], so most of them encouraged their habitual autoparts suppliers to follow them.

Then the Chinese Authority had understood rapidly the necessity to reform the autoparts production if it wanted to reform its "automotive industry". It was firstly emphasized that the parts production should "develop synchronically with the main engine", then the parts production should be put as the "center of the center of the automotive industry". Several meetings *ad hoc* had been held by the Authority about the rate of localization (LR).

During the sixth FYP (1981-1985) and the seventh FYP (1986-1990), the Chinese automotive sector had imported from 9 countries, 56 types of parts production technologies and key pieces of equipment. 100 parts factories were planned to be renovated. The foreign investment helped the evolution of the parts production in China.

During the seventh FYP, 150 projects were planned with a total investment of 2 billion Y. By 1989, 0.95 billion Y investment had been realized. Among these projects, 51 projects concerned passenger car with a total investment of 0.67 billion Y, by 1989 0.53 billion Y had been realized [Li, 1993, p.154].

By the end seventh FYP, there were 2363 parts *danweis*, among those, 1240 worked for constructors, 1123 as repairing shops. The original value of the fixed assets was 8.334 billion Y (5.386 billion Y net value), which was 1/3 of the automotive sector ; 23 of them had fixed assets over 20 million Y, 37

had fixed assets over 10 million Y, 1400 of them had less than 3 million Y. The total industrial output attained 14.065 billion Y, with 573.2 thousand employees.

By the end 1990s, about 270 autoparts *danweis* became *veritably* professionalized. They were equipped with certain capacity. They had begun to gain certain market share. Over a dozen products⁴⁵² were supplied until 80% to 90% of the market by two or three key *danweis*. After some technological and managerial renovation, the quality of the products had been improved, some products⁴⁵³ began to be exported to international market. In 1989, the realized value for autoparts exportation attained 50 million USD.

By 1997, there were around 4 000 *danweis* in China relevant to autoparts production, about 2 000 of them were classified as "professional *danweis*", i.e., parts producers ; the other 2000 were classified as "concurrent *danweis*". By mid-1990s, 61% of the Chinese components were for exportation [Zheng, ed., 1995, p.63].

On the other hand the LR (localization rate) had been progressed for the domestically manufactured automotive vehicles (or motors). For example by the early 1990s, the LR attained more than 85% for Kangmings N series motors imported by the Chongqing Automobile Motor Factory ; the LR for Styre heavy loading vehicles attained over 60% ; the localization for passenger

⁴⁵²Namely spark plug, steering wheel, universal valve, valve inside of tyres, ignition coil, thermostat, etc..

cars and jeeps has progressed more slowly because of greater difficulty, however, the LR for Cherokee, Santana, Xiali attained 30% to 40% ; Audi, 6.68% ; Peugeot, 17.8%. The LRs continued to augment until now, this reflected the evolution of the parts production in China.

In fact, the autopart production in China had been having two substantial changes since the mid 1980s:

1) The products portfolio transformed from RPs, SPs to OEs. The Chinese autoparts production had developed from a base of reparation, thus for a long period, the production was concentrated mainly RPs and SPs.

For the 23 years from 1961 to 1983, 2/3 of its industrial output in value was of RPs and SPs, only 20% to 30% was of OEs⁴⁵⁴. For comparison, the average rate of OEs during the period 1974-1983, was 78.2% for Japan ; over 2/3 for the USA. For the period of 1982-1986, the worldly average rate for OEs was 80%⁴⁵⁵.

2) The products transformed from that for medium size loading vehicles to passenger cars, especially imported models of the passenger cars. This had begun since the 1980s when China began to introduce foreign automobile production technology. Just for the years 1980s, China had imported from 9

⁴⁵³Such as spark plugs, universal valves, standard pieces, horns, etc..

⁴⁵⁴Cf. Ding Yi-zuo, 1989, "Some suggestions for the transformation of the autoparts industry of our country", in *Automobile information*, July, cited in Li, 1993, p.155.

⁴⁵⁵According to the statistics of the International Trading Commission of the USA, cited in Li, 1993, p.155.

countries 19 models of automobile vehicles (6 for passenger cars and jeeps). The autoparts for these imported models, especially for the cars, had very different quality and design to the existing Chinese autoparts. As we just mentioned, that the Chinese autoparts had been mostly designed for loading vehicles, they could not meet the need of the new imported models in terms of performance, of technological level, and of new raw materials. The localization of these parts had been a new challenge to the Chinese autoparts production.

4.4 Problems of the automobile components production in China

As we mentioned above, a foreign automobile expert ever said that: "In China, we seem to produce automobiles vehicles on an isolated island!" [Chang, 1996, p.283]. This shows the weakness of the autoparts production in China. In fact, the autoparts production was a kind of bottleneck for the Chinese automotive development. Here we will see the main points of weakness.

1) The biggest problem was that the parts production did not satisfy the new models of vehicles, especially cars which were often produced by the Sino-foreign JVs. Let us see this point of weakness in the following aspects:

a) In terms of quantity: for the old model of Jiefang, there were only 374 parts manufactured by autoparts *danweis*, which correspond 30% of the total cost. However for Shanghai Santana, there were 1 556 parts manufactured by

autoparts suppliers, corresponding 76.6.% of the total cost, only 23.45% of the parts were manufactured inside the constructor itself. For the Cherokee of BJC, there were 1586 parts produced by the autoparts suppliers by the early 1990s [Li, 1993, p.156]. Then it was not exaggerate to say that the JVs seem to produce vehicles "on an isolated island".

b) In terms of products assortment: the parts for cars were different from that for loading vehicles, even some of the parts were completely new⁴⁵⁶ for the Chinese autoparts producers. Moreover, as there had been several different imported models, their technical standards were different, so the parts production had become more difficult, the autoparts market was in fact *partitioned* for domestic models and foreign models.

c) In terms of quality: for example, the locks and keys, 4 000 non-repeated codes for loading vehicles were enough, however it ought to be at least 200 000 for cars, in consequence, special computerized equipment for lock-cores and keys had to be imported. Another example, the power for the motor for the Beijing Jeep BJ 212 was 1.1 kW, but that of Cherokee was 1.4 kW, 27% more ; the weight of the motor for BJ 212 was 9.8 kg, but that of Cherokee was 4.8 kg, 51% less ; the thickness of the case of the motor was 6.5 mm, but that of the new one was 2 mm ; the oval rate of a diameter of 74 mm case was only 0.04 mm [Li, 1993, p.157]. All this was difficult or impossible for

⁴⁵⁶Namely, universal valve, breaking disk, hydraulic tappet, air-conditioning, etc..

the Chinese producers, and all the corresponding change in production needed a series of technical and technological renovation.

d) In terms of scale of production: generally speaking, the autoparts production in China since long time, had stayed small scale production, in a background of low concentration and low professionalization.

2) Low concentration, i.e., dispersed and disordered organization. Until end 1990s, there were totally over 2 000 autoparts factories. The number of *danweis* that produced parts of same norms, of same model, for a same model of car could attain 50 to 60 ones [Chang, 1996, p.281]. According to Fang Li-min, the General Director of the Beijing Tianwei Oil Pump-head Joint Stock Ltd. Co.: "There were over 130 factories for the same oil pump-head production in 1995. Then by the support of Government, and the sieving of market, in 1996, there were still 80 ones" [Chang, 1996, 281].

For developed countries, the autoparts production is concentrated. For example, the Tom Thermostat Company (US) produced a quantity of 46 million units per year. The Armstrong (GB) produced 8 million dampers per annum. The VDO (Germany) produced dashboards 19.9 million units and 8.1 million units of flexible shafts. The Champaign Company (USA) produced spark plugs 400 million per year [Chang, 1996].

The following Table V.4 gives a comparison of Chinese (1985) and Japanese (1981) production for 6 autoparts. We see that for the 6 components, the number of Chinese producers was 2 to 12 times to that of

Japanese firms. But the average production volume was about 1/491 to 1/31 times to that of Japanese firms.

Table V.4: Comparison of six autoparts production in China (1985) and Japan (1981).

Products	Num. factories		Output (1 000)		Average output (1 000 /factory)	
	China	Japan	China	Japan	China	Japan
Piston	37	6	6 880	91 650	185	15 275
Carburetor	23	7	1 332	14 260	57.9	2 037
Air valve	32	4	16 820	258 000	525	64 500
Wiper	36	3	1 525	17 530	42.3	5 843
Damper	30	3	1 370	67 370	45.7	22 457
Spark plug	6	3	23 200	361 520	3 867	120 506

Source: Mo Rui-sun, 1990, An inquire into the industry of autoparts of our country, in *Research on the automobile industry*, #4.

3) Low level of professionalization. There are 2 measures for the level of professionalization. One is the "professionalization rate" which is defined as the quantity of main professional products of a factory over the total quantity of same category of products of the whole autoparts industry. The other is the "rate of kit" which is defined as the quantity of the products destined to form a kit part for the constructor over the total quantity of the same product of the factory.

According to Chinese statistics by the early 1990s, even there were some key factories, such as Changsha Automobile Electrical Equipment Factory whose professionalization rate attained 30%, kit rate attained 65% ; or as Nanjing Electrical Enamel General Factory - Spark Plug Sub-factory whose professionalization rate attained 72%, kit rate attained 90%, however, in general, the Chinese autoparts *danweis*, including both professional and

concurrent ones, attained an average professionalization at 9%, kit rate attained about 8%.

For developed countries, the professionalization rate of Japanese autoparts production in 1970 was 70%, it attained 85% in the 1980s. That of the USA attained also 94%. Thus the level of professionalization of the Chinese autoparts production was relatively quite low compared to that in developed countries.

Thus the scale of production of autoparts in China was small, the capacity of large quantity production was not formed. If we use the word "competition", then they "competed" at a low level in terms of products' quality, quantity, technology, and self development, etc..

4) Most of the autoparts *danweis* had weakly qualified technical personnel (low performance), thus they lacked the independent capacity of products' development. In general, they produced for a long period a product based on the drawing from a constructor. Some of the factories were not even equipped with basic testing tools and instruments. Some of the famous autoparts factories lacked also systematic quality control [Li, 1993, p.158].

5) Upstream industries were obsolete, their products were not well developed⁴⁵⁷. As a result, many critical parts could not be made from national materials, otherwise some of the parts were made with an inferior quality. For example, the resin for paints and hermetical parts had very bad quality.

Chinese rubber could be used, but the quality did not attain the international level. The same situation for glass, for certain grade of steel products, for electrical components, for electronic products and for energy, etc. [Chang, 1996].

6) Generally speaking, the autoparts production had been since long time ignored by the Central Authority, however, nowadays, local Governments' support had been important in the renovation of the autoparts production in China.

For example, Shanghai had relatively complete autoparts production system thank to the Municipal Government's support. The profit-taxes that the autopart production had realized in 1993 was 2 billion Y, 40 billion Y for 1994. The Shanghai Government had invested 5 billion Y in the autoparts production. A "Bureau of Localization" had been set up, lead directly by the Municipality Authority. There had been 4 mayors who ever emphasized the car production. In 1986, Mayor Jiang Ze-min (now President) said: "Car is the big project of our city, each quarter must give their support". Later on, it was the Mayor Zhu Rong-ji (now Premier), who advanced "to take the car assembling as the cock, to develop horizontal cooperations".

By end 1990s, Shanghai had about 180 autoparts producers. The LR in 1993 attained 82.3% for Santana [Chang, 1996].

⁴⁵⁷Such as the petrol relevant industries.

However, the problem was that each P/M/AR tried to have their own system of autoparts supplying. So the scattering problem persisted under the local supports.

7) For the trade of the autoparts, there existed trade barriers among P/M/ARs, but no market competing selection. It was often that the Sino-foreign projects were repeated for the same product, or same technology in different P/M/ARs.

The cooperation between the part suppliers and the constructors was not tight. This led easily to absence of quality guarantee. The production costs were sometimes even higher than imported autoparts⁴⁵⁸. The State Council ever issued a special document to "launch a movement to crack down on producing and selling false and bad quality autoparts" [Chang, 1996, p.285]. The Central used both the "stick and carrot", it ordered the responsible department under the State Council to check at all levels, and it ordered the every level of local Governments to check at all levels, the false and bad quality parts [Chang, 1996, p.286]. However, the results had not been significant. The main reason ought to be the lack of effective administrative incentive for this kind of administrative orders.

For the Chinese autoparts production, further progress should be done to overcome the bottleneck.

5. Foreign investors, CKD, localization

5.1 Preliminary remarks about CKD

CKD, Completely Knocked Down⁴⁵⁹ means to assembly with imported parts and to sell the vehicles locally. CKD is a kind a international "trading", which gathers production, technological transfer and trade together. CKD is largely used in the automobile trading. At the initial stage of automobile industrial development in developing countries, CKD had been a popular starting-form, and then followed the *localization*. It had been a shortcut for developing countries to cut down their distance from the industrial level of developed countries.

Since the seventh FYP (1986-1990), the situation that China developed light, heavy vehicles and passenger cars had shown that China had taken the road of CKD. The strategy for developing the passenger cars of the eighth FYP (1991-1995) was also CKD.

⁴⁵⁸Even with the level of customs duty of imported autoparts at 48% in 1982, and about 30% in 1994.

⁴⁵⁹CKD dated from the beginning of the 20th. century when Ford established several automobile assembly factories in South America (in Argentina, 1916 ; Chile, 1924 ; Brazil, 1925-27 ; Mexico, 1926, etc.). Then GM and Chrysler had followed the example. The main motivation was to economize the costs of transportation of exportation. Then after 1950s, after a wave of worldwide protectionism, many countries limited at various degree the importation of entire automobile vehicles, but were relatively loose for automobile pieces. According to statistics, the average customs duty on pieces was 50% less than of the entire vehicles. This had pushed the development of CKD. Until end 1990s, there were over 75 countries/regions which had been established CKD. The number of factories of CKD attained around 300 ones, of which 70% were in developing countries. Successful cases to start an automotive industry in Asia were the Japanese and Korean CKDs. There was also SKD, Semi-Knocked Down, which functioned in a similar but simpler way of CKD, for SKD, no special equipment was needed, the body was already welded and painted, the motor and other main parts were all pre-assembled. There needed only to twist the screws and add internal decorations. Between CKD and SKD, there were different degrees of varieties.

When talking about CKD, we often talk about the LR (Localization Rate⁴⁶⁰, value of locally purchased parts on the value of a complete vehicle). There are 2 methods for the calculation of the LR. One is "direct calculation", the other is " weighted average method".

1) By direct calculation method:

$$LR = \frac{A}{A + B} \times 100 \%$$

where A represents the purchase price of local autoparts including commercial taxes ; B represents the CIF price including customs duty and commercial taxes.

The direct calculation method is relatively simple, it is has been used, in most of the developing countries at the beginning of the development of their automobile industry. But the disadvantages of this method are: 1) "cost penalty"⁴⁶¹, i.e., the more the localization rate, the higher the relative cost. There has not yet been such studies for the Chinese case, here just as an example, for the BJC, XJ series jeeps, the number of local parts whose prices were lower than imported parts corresponded only 1% to 2% in early 1990s. 98% to 99% of the parts had higher prices than the imported parts [Li, 1993, p.202].

⁴⁶⁰*Taux d'intégration* in French [PEE, 1995, p.4].

⁴⁶¹A concept of Jack Baranson, firstly advanced in the 1960s. When studying the automobiles sectors in the developing countries, Baranson found out that, when the LR augmented, the relative cost augmented. The curve of this relation was often called "Baranson curve" in the studies of automobile production.

Another example, the price of a tyre was 43 USD in the USA, after adding the charges of customs duty, packaging, and transport, arriving at the BJC, the price was 284 Y, however, the local tyre's price was 465 Y, 63.73% more expensive than the imported one. Moreover, there were somewhat man-made exaggerations accumulated in the calculations, so the LR was often higher than the reality.

2) By the weighted average method:

This is an improved method based on the direct calculation method. It needs to *give* a weight to each part, and then to calculate the weighted percentage of the local-produced part. Then LR is defined as the sum of the percentages of weighted average of each part.

This method has been considered to reflect more precisely the reality. It is often smaller than the direct LR. But "to give the weights" is also rather empirical and subjective, the weights vary from country to country.

Nowadays, following the tendency of globalization of the automobile production [De Banville, 1992 ; Sachwald, 1993 ; Heneault & Legoupil, 1994], it has been not really necessary for backward countries to obtain 100% LR. It was generally considered that if LR attained 65% to 75%, then a product could be regarded as basically localized [Li, 1993, p.205]. In China, if LR attained $\geq 60\%$, then the vehicle was considered as a "national car" [Chang, 1996, p.217].

5.2 CKD in China: examples

Until end 1990s, except the medium size automobile vehicles, all other models, namely, heavy vehicles, light vehicles, micro vehicles, passenger cars in China, had been developed under the CKD form. Apart from the CKD projects supported by the central Plan, there were also CKD projects supported by the local Governments or by certain ministries. CKD had ever become a wave in the automotive sector.

Example of Heavy Auto Works and Styre (Austria) for the production of Styre 91 series heavy loading vehicles. This was one of the earlier projects. The products of the project included: 6 intervals of ton-range ; 5 drives ; 15 basic models and 147 varieties of models ; water-cooling engine of straight 6-cylinders, 9.726 lt., with 3 engine-types of natural inhaling, increasing pressure, as well as increasing pressure middle-cooling ; power range from 200 h.p. to 370 h.p..

The entire vehicles were assembled with worldly famous marks such as, the F.S. clutches, ZF steering gear and steering oil pump, EF and Furler gearbox, and Warburk pneumatic elements, etc.. This project had been decided and preliminarily prepared in the sixth FYP (1981-1985), and carried out completely in the seventh FYP (1986-1990). The total initial investment was 0.71 billion Y. The LR of 1988 had attained 61%, then the vehicles were considered as national products.

Example of the BJC. In January 1984, the Beijing Auto Works and the AMC (purchased by Chrysler Corporation in 1987) [Harwit, 1995, p.79], set up the BJC, the first JV in the automotive industry in China. After long reflection and comparison, the original plan of developing new car model was replaced by the project to produce the new series of Cherokee XJ starting from CKD.

In September 1985, when the first BJ/XJ214 came out of the assembly line, the LR was only 9.1%, in which 7.4% labor costs. Thus the LR on parts was only 1.7%. The LR of 1989 was 35.51%. The BJC projected to obtain an LR of 84.1% in 1990, but the real LR of 1990 was only 43.51%. By 1996, $LR_{Cherokee} = 60\%$.

Example of the Shanghai-VW. This has been the most noticeable JV for passenger cars production in the Chinese automotive sector. As the technology for car production has higher level, so this JV had revealed in a large range the problems existing in the Chinese automotive sector. The contract was signed in October 1984, the production began in September 1985. The product was Santana 1.8 lt. Although, the autoparts production in the Shanghai region had been important, however, the LR process of Santana had been difficult. In 1986, the Vice-Mayor of Shanghai City set up a horizontal "Leading Small Group" gathering banks, customs and taxes relevant departments, to make 6 preferential policies.

A "Meeting about the Localization of Shanghai Santana" was held, by the Municipal Government at the end of 1987 in order to solve the localization

problems. 132 horizontal part producers were designated in the meeting, of which 101 of them had signed an agreement of trial-production for 1 438 parts, corresponding 92.4% of the total parts (1 556), of which only 151 ones were approved. Moreover, the Shanghai-VW set up also a "Localization Community" firstly gathering 93 factories, 12 universities and colleges to exchange information and experiences in order to advance the process of localization of the Santana.

The efforts of the Shanghai Santana was enormous and typical. The results of LR of Santana had been positive. By 1996, the $LR_{Santana} = 80\%$. By 1996, LR of Santana attained 80%. LR of Cherokee attained 60%. LR of Xiali attained 60%.

5.3 Features of CKD in China

- The Central Government's policy stayed only at level of general calls, no precise stipulations had been set up.

- As there had been restriction on the importation of CBUs (entire vehicles), meanwhile the demand of vehicles exceeded the supply. Then the CKD products were sold with higher prices in China. Thus this covered up the cost penalty resulted from small scale, and the production brought plentiful profits. The *superprofits* transferred from buyers reduced the motivation of JVs and *danweis* of CKD to localization.

Economically, imported parts had mostly lower prices than national-made parts. Even constructors by CKD had to pay foreign currency⁴⁶² for imported parts, they could largely pay it by the superprofits. This happened for the production of both light vehicles and cars.

In this case, the CKD was reduced from a "comprehensive trading method" into a "pure trading method". The CKD constructors and the corresponding foreign firms earned excess surplus from the Chinese vehicles-buyers [Li, 1993].

Moreover, the parts producers were not even encouraged to achieve localization as they did not receive any superprofit in order to re-invest in their technological renovation. In fact, the Baranson curve did not fail in the Chinese case, but the profitable situation of most of the CKD producers resulted from price distortion, and importation control, etc..

According to Chang [1996, p.297], there were 3 defeats for the CKD production in China: 1) Chinese *danweis* had low level of technology, for the production of over 10 000 parts, there was need for buildings, equipment, and technology, thus the parts would have high costs, even higher than imported parts. 2) When fast localization was required, then there were quality problems. 3) In general, there was a net deficit of foreign currency for the CKD automobile trading, because at least, the key parts had to be imported.

⁴⁶²China has applied foreign currency control since 1949.

- For the Chinese automotive sector, the CKD was regarded as "short-term training course" [Chang, 1996, p.292]. They tried to follow the South Korean example. South Korea had taken 7 years for this training course before its own capacity of vehicle-development was got. Then, in this country, a car was developed within 3 years with an investment of 220 million USD, the development of the motor of 1.5 lt. costed 100 million USD. Hyundai ever engaged a British engineer to design the "Little Horse" [Chang, 1996, p.294]. According to Chang [1996, p.296], "the Chinese constructors are too busy to produce, no one thinks to 'buy brain' from developed countries, and this leads to that the Chinese automotive sector relies continuously on foreign automobile enterprises". So it was doubtful when China should finish this training course.

Here, let us see how an automobile professional thought, Hong Ji-ming, General Manager of SAIC-VW said: "In the early 1980s, we started the JV to produce Santana by CKD..., otherwise, we still stopped at the production level of the old Shanghai model. Even the Santana 1000 is an old German product of 1982, however, the old Shanghai was a copy of a German car of the 1940s..., so CKD is a good method to catch up the worldly level".

Furthermore, Hong said: "Foreigners want to sell to you or import to you their parts, meanwhile, they do not want that you have your own capacity of development, of designing, they are not eager to new development projects. They also develop new models, but the those projects are not centered for China". For example, the development of Santana 2000 was processed in Brazil, only 2 Chinese experts were sent there (regarded as too few by the Chinese professionals). There

were 4 high level Directors in the JV, 2 Chinese, 2 German. Hong, as the General Manager was responsible of the administration, the other Chinese Vice General Director was responsible to the personnel affairs. The 2 German managers were responsible to the production and the market sales, which were key posts [Chang, 1996, pp.290-91]. The Chinese partner thought that the German partner did not give any concession on key points.

- Localization was in fact a process of industrial development and technological renovation for the Chinese autoparts production under the reform. The process of localization in China had been slow, the projected program could not be achieved continuously, the period for localization was longer than that of the development or renovation of products. There were probably 2 reasons for this: insufficient knowledge on the localization, the Chinese partners were too impatient to improve their technological level, the expectation from the Authority and the society was too high, so the CKD rates were decided at a unrealistic level. Thus the quality was also influenced. The result came out as "haste makes waste". The other reason was that, the product life in developed countries was normally 5 to 7 years, however, the localization process in China needed at least 8 to 10 years. Thus sometimes, even a new product was introduced in China, but when the localization was realized, the product should have already bypassed the product life in developed countries. At most, Chinese *danweis* would just *copy* an old

product from the developed countries, because of lack of self-development capacity.

In China, only the 2 automotive bases, FAW and SAW had certain level of self-development capacity, CKD in these bases compared to that in other local small factories had different effects in long term. Some Chinese experts thought that the Chinese institutional system could not adapt to any modern automotive industrial development [Li, 1993, p.212].

It is sure that the foreign investment in the automotive sector had contributed at some degree the industrial reform, however, the relations between the Chinese and the foreign partners in long term might be doubtful. This was because that they had different objectives. The objective of the Chinese partners was to modernize their technology, production, and management, then they aimed at exporting to the international market. However the objective of the foreign partners aimed at the Chinese domestic market.

6. Government's policy, sector management

For an industry, there are sector policy, and sector structure. In traditional economic theories, sector policy is mostly for socialist, or

developing countries⁴⁶³. A typical definition in Western economics is: "for some developing countries, sector policy means the strategy for its industrialization and trade" [Wang and Yu, ed., 1993].

Along with the reform in China, the term "sector policy" had been more and more accepted and used. A generally accepted definition in China was that given by the Development Center of the State Council: "sector policy is a complete whole set of comprehensive policies, with development as destination, with reform as its guarantee, coordinating the prices, taxes collections, finances, budget, foreign trade, foreign currency, and planning"⁴⁶⁴.

The term "sector policy" had been firstly used in China for the seventh FYP (1986-1990), which announced 6 basic principles: to adjust the structure of the sectors to meet the social demand, change, and the modernization of the economy ; to accelerate the rural development, energy, transport, communications and raw materials sectors ; to develop the tertiary sectors ; to emphasize on the technology innovation of the *danweis* and to take the intensive development way⁴⁶⁵.

6.1 Government's policy, sector management

⁴⁶³As Samuelson noted, socialists shows its skepticism on the free activities motivated by profits relied on free market economy. They insist to introduce planning mechanisms to coordinate different departments. Nowadays, when this plans emphasize "high tech" industrial development, they are often called "industrial/sector policy" [Samuelson, 1992, *Economics*, Chinese version, p1294].

⁴⁶⁴Cf. Wang Jun, and Yu Ji-xin, ed., 1993, pp. 215-304.

⁴⁶⁵Cf. Wang Jun, and Yu Ji-xin, ed., 1993, p. 216. It was called the "Seventh FYP version *Sector policy*" [p.220].

Within the 1987 automotive industry planning, the most important feature was to change the "product-mix" from predominantly medium range loading vehicles to the far more capital-intensive and technological-intensive sedan cars. The motivation behind this change was that the production of passenger cars was characterized by a higher level of technological sophistication, hence the development was likely to promote technical change for the country's manufacturing sector as a whole [Lo, 1992, p.5]. The second factor was that of domestic demand, the open-door policy of the 1980s opened eyes of the Chinese people to the consumption pattern of the capitalist world, there emerged a general belief that the country was on the eve of an era characterized by a massively expanding demand for cars, which stemmed particularly from the persistence of the phenomenon of "car fever" over the 1990s [Lo, 1992, p.6].

According to the official idea, the acceleration of the development of the automotive sector, and the shift of emphasis concerning its product-mix, were to be achieved mainly in 2 ways: by sourcing advanced technologies from Western automobile producers ; and by promoting concentration of the industrial structure in order to enable domestic producers to reach the MES (Minimum Efficient Scales) at international standard [Lo, 1992, p.7].

The idea to restrict the number of sedan car producers was formulated and implemented against a background of excessive fragmentation of the sector, and the situation tended to worsen in the 1980s, following the

inducement of upsurge in demand, the tremendous increase in car prices in domestic market throughout the decade, alongside the massive influx of foreign cars. The fragmentation was the enthusiasm of local authorities which, under reforms, were provided the power and incentive to build up the extra-planned plants for reaping the huge profits [Lo, 1992, p.8].

The idea of "pillar industry" was firstly advanced in 1985, but until 1990, the Chinese share of automobile production in the world industry value had decreased from 2.8% to 1.5%. Then in the early 1990s, the value had just augmented to the level of 1985. The reason, according to Zhong Bo-yuan⁴⁶⁶ [Zheng, ed., 1995, p.28], was because the macro-deciders had various regards vis-à-vis the importance of the automotive industry in the national economy, which led to weak industrial policies, weak capital gathering and melting, as well as weak concentrated investment.

The danger for the Chinese automotive industry to stay in the stage of assembly, i.e., to remain in a stage of permanent infancy, had not been noted until the automotive industry national working convention in March 1991, before then, both the concerned authorities and the producers had repeatedly stressed that, through the massive importation of foreign technology, the industry was well on the way to catching up with the world advanced level [Lo, 1992, p.11]. The mild market environment had good effects in enabling the existing sedan car producers to rationalize their networks of parts production.

⁴⁶⁶Cadre in the CNAIC.

This in turn promoted progress in a crucial aspect of the development of the sector: namely, the increase in local content of the foreign-designed cars - localization.

The primary task of the CNAIC (rescinded in 1988, re-establishment in Feb. 1990) was to prevent local authorities from building up extra-planned automobile production *danweis*, and to rationalize the existing capabilities in the direction of fostering the development of the designated plants [Lo, 1992, p.12]. Another task was to direct the large number of parts plants to move into the product chains of the 6 sedan production bases. this had involved the co-operation of the State Planning departments and the banks [Lo, 1992, p.12].

The national automobile convention held in March 1991 showed the awareness of the Beijing Authority that the Chinese automotive sector would be trapped in a state of permanent infancy if it continued to solely target the domestic market. It was essential to catch up the worldly technological level. This was again stressed in the 1992 convention. But the idea had not taken root in the car-constructors in China. The future development of the Chinese automotive industry will depend largely on the bargaining between the central Authorities and the car-constructors who were in turn backed by the corresponding local Authorities to concentrate on the huge profits from domestic sales [Lo, 1992, pp. 2-3].

The national automobile convention of 1992 stressed also self-development, and to speed up structural rationalization in the direction of specialized production and economies of scale/scope, so that the automotive sector became competitive in world market. However the task was tough: bargaining between the central and the *danweis* backed by the corresponding local Governments was not easy [Lo, 1992, p.12].

The 1994 *Policy on the automobile industry*, decided stopping contract with foreigners on whole vehicle assembling. Even there is possibility of cooperation, the following conditions must be required:

- 1) Start with 40% rate of localization.
 - 2) Foreigner must help China to have its own self-development capacity. Cooperations to develop new vehicles.
 - 3) Part of the products must be sold in foreign countries.
 - 4) Foreigner must offer the newest model to be produced in China.
- As well as China must hold majority, etc..

We note that among the existing 200 imported technologies for the automotive production, for only few of them, China obtained the development capacity. Once China does not have its own development capacity, it cannot run alone the international speed of product renovation, thus difficult to compete in the World.

The automobile sector in China had been importation-protected since long time. But with the open door policy, it is facing more and more international competition. From the mid 1990s to the 2010, the main task of

the Chinese automotive industry is to develop passenger cars, heavy trucks, and special vehicles. The automobile products concerned are: key parts for passengers cars ; M category buses ; parts for economic cars ; chassis for large and medium buses ; N category of trucks ; special vehicles ; new motors ; L category for motorcycles ; motors ; technology and equipment ; moulds ; basic parts ; casted and forged raw parts [Zheng, ed., 1995, p.73].

Passenger car production is the core of an automobile industry in the World. China is taking the way to this goal. So the strategy for passenger cars is the core of the Chinese automobile production. There are several aspects of the passenger cars development: parts production, localization of imported technology, investment, development goals, development of new model, marketing and other social economic environment.

If "crossing the river touching the stones under river" can be the pragmatic way for the Chinese leader for searching the way of "socialist market economy", then there is no question of "crossing the river touching the stones under river" for the automobile industry, as the world automobile history has given a very good example for "how to cross the river".

6.2 Why China wanted to develop its "automobile industry"?

The debate on this question had been intense.

Here we list the reasons that were mostly argued in China:

- High "income demand elasticity", when the per capita income augments, the demand of automobile will augment rapidly [Zheng, ed., 1995, p.50]. China projected to become a developed country in the new millennium, the potential demand of automobile vehicles is predicted as great.

- High rate of industrial interdependence, the automobile production can lead the development of other industries. For example, in the 1970s, in Japan, 20% steel, 25% lathes, over 50% rubber, 60% glass, 90% gasoline were used in automobile industry and its products [Zheng, ed., 1995, p.50]. China wants just to make the automotive sector as a cock for the whole industrial development.

- High labor productivity, it is higher when the scale is larger. In the USA, and Japan, in the early 1990s, the value added of automobile labor productivity was 1.3 times of that of the manufacturing sector [Zheng, ed., 1995, p.50]. China wants to achieve higher labor productivity too.

- Expenses in consumption. In Japan, the average age of an automobile vehicle was 9 years in the early 1990s. During this period in China, the taxes of consumption, tax on purchase, tax on gasoline, taxes for road, and insurance, the total of these expenses could be the price of buying a car. These expenses for the truck was 3 times the price of the vehicle. Then there were still reparation costs, maintenance, etc., so the tertiary industry could be developed. The automotive industry creates supplies and creates demands

[Zheng, ed., 1995, p.50]. How can China loss this opportunity to development its market demands?

For 1978-1992, the Chinese GNP augmented from 358 billion Y to 31380 billion Y, excluding the price effects, the annual increasing rate was 9.3%. Consumption per capita augmented from 175 Y to 935 Y, the annual increasing rate was 6.8%. Peasants' net income augmented from 134 Y to 784 Y, the annual increasing rate was 8.2%. The income of people from cities and towns augmented from 316 Y to 1826 Y, the annual increasing rate was 8%. China wants to realize its industrialization through the development of its automotive sector and the promotion of automotive products. This is evident.

6.3 Outlook to the third millennium

There are a number of uncertainties around the Chinese automotive *seeming industry*. In terms of quantitative expansion, and even of technological advancement, tremendous development is foreseeable, this is simply because of the State's prioritizing policy and subsequent massive investment drives, as well as the industrial system which has so far been built up [Lo, 1992, p.58].

The question whether or not the Chinese automotive sector will eventually develop into maturity in terms of catching up with the world advanced automotive producers, remains unanswered.

Three factors are most important for the Chinese automotive seeming industry: the worldly context (e.g., China's entering into the WTO), the State development strategy, the institutional framework and organization of the industry. Here we see the last 2 factors:

- Politically, the State promotes the industry's survival beyond infancy, and makes its export competitiveness. Thus this will increase export even in pre-mature stages. Technologically, China will join the worldly competition, China will keep in touch with the fast moving innovations of the worldly level. Economically, it is difficult to survive on a protected domestic market to have the pressure and incentive to improve efficiency to match the worldly competitive level. A choice of import substitution or export promotion stays at crossroads. These facts appear to remain unrecognized in China, particularly among the *danweis*.

- The CNAIC seemed likely to be the first to grasp the problem. It advanced firstly to join the world competition in March 1991. However, despite the technology importation in 1980s, the gap with the worldly level is big. China must change its strategy, but "*how?*" stays still an open question.

Promoting export will be uneconomical in the infant stages, and will affect interests of *danweis* and local authorities.

Things will also depend on strategies of foreign investors, their willingness to transfer technology, and also the future planning of the JVs [cf. Li, 1993, p.255-6].

Some predictions in figures according to existing documents:

- Annual production will attain 3 to 5 million, in which 60% cars, 25% light and transformed vehicles. This will satisfy 90% of the national demand, in which 50% are cars. Some cars will enter into families. Motors can satisfy the national demand, and have some export.

- To augment the capacity of technological development, 90% of cars and light vehicles must attain international standards.

- Productivity attains 15-20 vehicles per worker, main *danweis* achieve 20 to 30 unites per worker.

- According to the law of scale economy, to establish 1 to 2 groups with over a million vehicles production. 2 to 3 groups with production from 300 000 to 600 000 units. Each type of vehicles will occupy 70% of the national market [Zheng, ed., 1995, p.73].

7. Conclusion

In this Chapter, we have seen the features of the Chinese automotive SPNs under the planning, the foreign investment, and their transformation to a seeming automotive industry. The automobile *danweis* in the SPNs depended on how these networks were operated and to be reformed. The

industrial reform tended to let the SPNs to give way to the emerging market and *monetarized* relations (uncompleted process).

In fact, the main problem was just the existence of these administrative SPNs themselves. A splitting-up of the SPNs may be a right solution for an effective reform.

In the next Chapter, we will look at the Chinese industrial reform at *danweis'* level.

RESUME DU CHAPITRE VI: REFORME AU NIVEAU DANWEIS, RESPONSABILISATION ECONOMIQUE SANS LE DROIT DE PROPRIETE PRIVEE

Les *danweis* ont la particularité de ne pas être des entreprises au sens d'agents sur un marché. Elles sont multi-fonctionnelles [Hirschhausen, 1994] ou pluri-fonctionnelles [Eyraud, 1999]. En effet, elles assument des activités de production, et à la fois des activités politiques, administratives et sociales. Donc, nous les appelons donc *Danweis de Production Socialistes* (DPSs).

Les ambitions de la réforme industrielle sont de transformer ces DPSs en "agents de l'économie de marché socialiste", ou encore "institutions modernes d'entreprise" (*xiandai qiye zhidu*). Concrètement, elles sont devenues des "entités plus indépendantes par rapport à la planification, avec des relations de marché".

Ce processus de réforme, inachevé, pose des problèmes aux niveaux macro- et meso-économique:

- le Parti-Etat doit renoncer au contrôle de la plupart des *danweis*, mais il n'y est pas prêt.
- les *danweis* sont des "agents économiques sans droits de propriété clarifiés".
- il reste à établir de nouvelles relations de marché à la place des *Réseaux de Production Socialistes* (RPSs).
- la notion de marché doit être introduite et mise en pratique dans la gestion des *danweis* (personnel, finances, production, approvisionnement, ventes).

Subsistent également des problèmes au niveau micro-économique:

- manque de capitaux.
- coexistence des nouveaux et des anciens organes de gestion, *xinsanhui* vs. *laosanhui*. (Résistance au changement de la part des anciens organes).
- incitations économiques ne se sont pas encore assez substituées aux incitations idéologiques et administratives.
- manque de R&D et renouvellement insuffisant des produits.
- concernant les pratiques de vente, un manque de différenciation (pas de marque, pas de publicité) explique une grande homogénéité des produits (bas coût pour prix bas, pas de stratégie de prix). De plus, l'absence de réseaux propres de distribution pour une *danwei* et l'absence de SAV empêchent le feed-back de l'information. Enfin, il n'y a pas d'autonomie pour l'exportation.

Face à ces problèmes, la méthode retenue est de laisser coexister différentes solutions et de multiplier les expérimentations pour retenir les plus satisfaisantes. Cela explique le grand nombre de projets en cours et à venir.

Reste que l'idéologie socialiste impose encore que le système de droit de propriété public demeure inchangé. Pour les petites et moyennes *danweis*, la privatisation peut déjà exister en marge de la légalité. Pour les *danweis* de grande

taille, la réforme fait le pari d'une responsabilisation économique sans un système de droits de propriété privée.

CHAPTER SIX: REFORM AT *DANWEIS* LEVEL, ECONOMIC RESPONSIBILIZATION WITHOUT PRIVATE OWNERSHIP

In this Chapter, we will study how the industrial reform had undergone at the *danweis*' level. In Section 1, we will look at the features of traditional model of the SPDs. In Section 2, we will discuss around the notion of the MEI. In Section 3, we will see the *internal* aspects of the *danweis*, existing problems face to the MEI. In Section 4 we will look at some examples of the pilot projects. In Section 5, we will discuss around privatization and responsabilization.

The main point is around our Proposition Three: In the reform of management of the SPDs, there was a process of economic responsabilization. We will discuss around the "economic responsibility" (vs. privatization), which means a searching of an effective incentive and control mechanism among "emerging economic agents" in the "socialist market economy".

1. Features of *traditional* model of SPDs before the reform

Here we notice that, in Chinese documents, all that concerns the socialist planning before the reform is in general called "traditional". Before

looking at the reform, we look firstly at a brief summary of the features of the *traditional* model of SPDs.

A traditional productive *danwei* was not like an economic agent like in a market economy, it was a basic unit in the planning system. Its model of "socialist State-managed enterprise" was pre-determined by the socialism. It had two features: 1) in this system, the management of national economy had an administrative and hierarchic structure, with high level involvement of the Party. The SPDs were located at the lowest level of this hierarchy. 2) The centrally-decided planning was made and adopted firstly in the Central Political Bureau of the CPC, then after formalities of the State machine (People's Congress, etc.), the orders would then be transmitted from hierarchy to hierarchy until the *danweis*, then the latter were supposed to execute these orders [Cabestan, 1994 ; Worden et al., ed., 1987 ; T. Wang, 1994].

Concerning the rules of the games, there were the following aspects:

Firstly the ownership, it is generally called "public ownership", however it had different features *vis-à-vis* the State ownership in a capitalist market economy: 1) The involvement of the Party. 2) In real management of these *danweis*, the Central Government did not manage the *danweis* as independent units but manages them as parts of its structure. These parts formed a kind of networks under the Planning (Socialist Production Networks). The consequence was that the decisions around the *danweis* were not made *vis-à-vis* the concrete situation of each *danwei*, but *vis-à-vis* the Socialist Production

Networks. The products circulated either under direct allotment, or, even if by values in money units but the money was not a general equivalent⁴⁶⁷ and the value was not related to economic profits or productivity. 3) The "public ownership" was divided vertically (Tree-form) and horizontally (M-form), the famous *tiaotiaokuaikuai*. This meant that each ministries, regions took the public properties under their authority as *their* property, i.e., they were the representatives of the Central in their ministry/region. Thus certain decisions were made in Ministries or Regions.

Secondly, the large industrial *danweis* were created at the beginning following the soviet styles⁴⁶⁸, thus the operations of large *danweis* were "motivated" by the planning including production, material allotment, exchange, distribution, finances, wage rates, prices, etc.. It was a kind of micro-planning inside a *danwei*. The *danweis* were responsible only in respecting the orders from higher hierarchy.

Thirdly, the principle of management of *danweis* was: "Unified leading, hierarchic management, division and combination according to ministries, industries and administrative regions". As a result, one *danwei* could have several upper hierarchies, *popos* [T. Wang, 1994, pp. 148-9]. For example, the Wuhan Municipality had a certain power on the DFM which was a national

⁴⁶⁷ An economic definition of money is that it is a *general equivalent*, for measure, for exchange, etc. [Hirschhausen, 1994].

⁴⁶⁸ According to Liu Shao-qi [Constitution'54, p.24]: "Some foreign capitalists have disappointedly found that the road that we declared to take in our *Constitution* is, in fact the road taken by the Soviet Union. Yes, our road is exactly that taken by the Soviet Union, for us this point is without any doubt. The Soviet Union's road is a road

level *danwei*. All the *popos* tried to get involved in a *danwei* for some profits. When a *danwei* had better results, it tried to be independent of these *popos* ; but when a *danwei* had bad results, it tried to get help from the *popos*. In general, the different upper hierarchies represented rather extra pressures to the *danweis* [T. Wang, 1994, p.149].

It was based on these features that the SPDs began to be reformed.

2. Modern Enterprise Institutions (MEI)

To establish the "modern enterprise institution" was one important reform orientation during the Dengist period. The term MEI was firstly mentioned in the CPC's official document, "*Decision on several questions about setting-up socialist market economic institutions*", drawn up during the Third Plenary Session of the XIV Central Committee of the CPC (November 1993). The *Decision* pointed out: "To establish the modern enterprise institution, is the inevitable need of developing large-scale social production and market economy, and is the direction of reform of the State-owned enterprises in our country". Then since the ninth FYP (1996-2000), setting up MEI became a kind of guiding line⁴⁶⁹ for the SPDs' reform. We may observe that the Chinese economists have given

following the historic law, that our human being will necessarily take, if one wants to avoid this road, it is impossible. We consistently consider that the Marxism-Leninism is a universal truth".

⁴⁶⁹Then the expression of MEI has been used inundatively in China both in the current conversation of the large and medium size SPDs' managers and in economic literature [J. Wu, 1994, p.174 ; Y. Zhang 1996 ; S. Zhou 1994, etc.]. It is not considered as a method but a guiding line of the industrial reform [Li Peng, 5th. Mars 1998 (IX National People's Congress), *Government working report*].

several explanations on the meaning of MEI, they usually just stressed on different aspects in their understanding of the *Decision* of the Party's committee. As we will see below, most of the Chinese economists thought that in China, MEI should be established as firms in developed countries [Wu, 1994, p.174].

Here let us see the "official version" (in the *Decision*) of the MEI, it emphasized to realize "clarified property rights, clarified responsibilities, separation of Government and enterprises, and scientific management" in the SPDs. More precisely, the article 4 of the *Decision* has precised five characteristics of the MEI [ED-SETC, 1995, pp. 1-2]:

1) clarified relations of property rights: the State-owned properties in the state-owned enterprises belong to the State, the enterprise has the all the rights of a *legalis homo* over the properties including the properties invested by the State as one of the investors, enterprise become *legalis homo* entity enjoying the civil rights and civil responsibilities.

2) an enterprise uses all its *legalis homo's* properties, to manage autonomously under conditions prescribed by law⁴⁷⁰, to assume the sole responsibility for its profits or losses, pays taxes in accordance with the regulations, bears the duty of ensuring and increasing the value of the assets invested by investors.

3) investors enjoy the rights of owners according to the property value that they have invested, which are, right of *fructus*, right of important decisions, and right of choice

⁴⁷⁰The articles concerning COEs, the phrase is shortly "manages autonomously", without "under conditions prescribed by law", thus COEs have more flexible fields of action.

of managers. In case of bankruptcy, investors take limited responsibilities according to the amounts that they invested.

4) enterprise organize the production in accordance with the market demand, in order to increase the labor productivity and the economic profit, the Government does not intervene directly in production and management activities. Enterprises are 'selected by their force' in market competition, that with long term deficits, or with capitals inferior to debts should go bankruptcy according to the law.

5) to establish scientific enterprise governance system, scientific organization, and scientific management institutions, adjust the relation among the owners, managers and workers, to form a mechanism combining the incentives and restraint.

All enterprises should make efforts in this orientation.

Under what background MEI has been taken as the guiding line for the industrial reform? In fact, the terminology refers to some American economists' wordings, particularly the formulation of Alfred D. Chandler, Jr. [1977]⁴⁷¹ has been widely cited in publications of many Chinese economists [J. Wu, 1993, 1994, etc.]. According to Chandler, the "modern enterprises" are deemed as "new economic institutions" in modern (developed American)

⁴⁷¹In his book named *The Visible Hand - The Managerial Revolution in American Business*, A. D. Chandler, Jr. examined the development of the American firms since the end of the 19th. century, as well as the evolution on production and distribution process from the 1790s to the 1840 in the USA, "from the time when the ratification of the *Constitution* provided the legal and political underpinnings of a national economy until the decade when a new source of energy, coal, began to be used extensively in production and the railroad and telegraph began to provide fast, regular, all-weather transportation and communication." [p.13]. He illustrated that (American) "business enterprises" changed from "traditional single-unit enterprises" to "modern business enterprise acquired functions *hitherto* carried out by the market". The business enterprises have become, he continued, "the most powerful *institutions* in the American economy", and they still have dominant position in the nowadays (developed American) economy. These firms are managed by several level of professional managers. Inside, the right of property, the ownership (*abusus* and *usus fructus*), and the right of management (*usus*) are separated. Now "modern enterprises" are deemed as "new economic institution" in the contemporary mainstream economics.

economies. In fact, it is defined as the organizations of (American) firms developed since end 19th. Century, which still have dominant position in the developed market economy in the USA nowadays. Such firms are managed by several levels of professional managers. The property rights (*usus*, *abusus*, and *usus fructus*), are separated in these firms, the right of management (*usus*) is confined to managers. On this basis, the term "modern enterprise institutions" was fabricated by Chinese economists and adopted by the Authority for the reform of the SPDs [J. L. Wu 1994, p.174 ; Y. Y. Zhang 1996 ; S. L. Zhou 1994]. Chandler has been inundatively quoted.

Critiques and explanations of MEI varied among Chinese economists.

For most of them, MEI was in fact just the capitalist enterprise institution but set up based on mainly "State-ownership system" [interview Zhang, 1996.8.28]. According to T. Wang [1994, p.11]: Enterprise institution is generic term for forms of organization, management methods and legal norms for enterprises, existing in a given socio-economic institution". Their idea was that MEI was just the SPDs with a more decentralized management, nothing concerning central questions of the social-economic institutions, particularly the question of ownership.

Some of them thought that the MEI was to set up enterprises that correspond to the development of modern market economy, it did not equal to corporatization or *legalis homo* enterprise system. For them, "some comrades has equalized corporatization to setting up modern enterprise institution, this is wrong"

[Tao 1994]. For them, the attributes of MEI were: a) "limited responsibilities", so it could disperse management risks, b) capable of gathering social capitals, with professional management. All enterprises which did not have these features were not modern enterprise institutions [Zhou 1995].

Certain others emphasized on the corporate governance aspect. They defined the features of MEI as the following: a) MEI was a corporation, whose management was based on *legalis homo* property, an MEI had the same civil rights and responsibilities of a natural person. In this way, the boundaries among the property rights of the company, of that of the shareholders (this means other *danweis*, excluding individuals), and of that of the State were clear, and hence formed the base to eliminate the "cauldron phenomenon (*daguo fan*)". b) It was controlled and managed by a structure of corporate governance, established based on clarified company's *legalis homo* property, which meant that the Shareholders' General Committee confided the management of the company's *legalis homo* property, to the Board of Directors selected by the Shareholder's General Committee, the Board made strategic decisions on the company's management, it hired senior manager(s) to execute the decisions made from the Board. In this way, there would be a real separation of the Government and the *danweis*. The corporate governance could guarantee that the managers control the enterprise under the condition that the investors had the final right of control [Wu 1994].

For some others, the MEI, as one of the tentative plan to achieve the corporatization, was considered as a transformation of the SPDs to corporations with clarification and pluralization (including individual shareholders) of property rights. The pluralized property rights helped the enterprise to gathering capitals in the society, and formed a mutual bind through property rights so that the management became more democratic and scientific [Lui 1995].

Others criticized that Western economists have never defined the term "modern enterprise institution", if China was going to set up modern enterprise institution, China's specificity and the specificity of developing socialist economy should both be considered, it was wrong to consider the Western enterprise systems as modern enterprise institutions [Gao 1994].

Some Chinese economists have criticized by the difficulties in establishing the modern enterprise institution: 1) results of the SPDs were in general bad, social burdens (internal and external) were heavy, conditions for gathering external capitals is not mature, 2) the capital liabilities (*fuzhai*) were high, insufficiency of capital entailed the lack of motivations for big *danweis* to invest in other *danweis* that are generally difficult to control, so the SPDs are not motivated to buy other *danweis'* shares, 3) for the gainful *danweis*, they might not want to share their profits with others, thus they were not motivated to sell their shares neither [Lui 1995]. As a result, *pluralization* of shares and of property rights was just an abstract imagination, was almost

impossible, 4) some economists pointed out that, not all SPDs can be transformed into modern enterprise institutions, moreover MEI needs also the reform in other supporting environment systems [Wang 1995b].

Summarizing of all the controversies existing about the characteristics of Modern Enterprise Institution, we may conclude the mean features of MEI as the following: 1) based on public ownership, since the socialist ideology has never been given up⁴⁷², 2) co-existence of "state-owned", "*legalis home-owned*", "individual-owned" [Wu 1994, p.174, Zhou 1994] with clarified and pluralized property rights, the "*legolis homo-ownership*" means shares owned by other *danweis* or organizations, 3) establish limited responsibilities, but the State has still unlimited responsibility when the Modern Enterprise Institution is in deficit, 4) managed by professional managers, 5) (socialist)-market oriented [cf. Section 3 of Chapter Two].

Certainly, the Chinese version of MEI has different historic background and different assumptions than the Chandler's version. The "capitalist MEI" has been developed from a capitalist market economic environment ; the Chinese version of MEI coined in mid-1990s concerns somewhat a guiding line, an orientation for the reform of the Chinese industries from a basis of socialist planned *danweis*. One can hardly ignore the nearly 200 years' development of the capitalist modern enterprise institution in a background of some 300 years' development of the capitalist market economy both theoretically and

practically. This different historic background leads us to look at below the specific problems that the Chinese MEI is facing to.

3. Main existing problems face to the MEI

China has been aiming at modernizing its industry since the late 1970s. From 1993 to nowadays, the notion of MEI has come out to be one of the important reform gist on the large and medium size SPDs. "Establishing modern enterprise institution" has been even written in the *Company Law*.

Like any other reform resorts, the MEI had been stipulated and experienced to solve the problems of the SPDs facing the new environmental and institutional change of so-called "socialist market economy". However, "How to achieve the MEI?" or "How to reform the SPDs?" have been until now still essential questions for the Chinese Authority.

Certainly before these questions, we have to look at the main problems of the SPDs, here we divide the problems of the SPDs at macro level and micro level.

3.1 Problems at macro and meso levels

⁴⁷²We remark here again that, "privatization" has always been a frame of mind for the Chinese reform. But the reform tends to render the SPDs "profit-oriented" (i.e. capitalist market economic objectives).

Generally speaking, there are five main problems from the point of view of macro level:

Firstly, for the Chinese leaders, the problem is the control of the Party-State-Government over the *danweis*. Under the socialist planning, the SPDs were dominant. After introduction of market mechanisms, non-State economic factors have been allowed to co-exist with the SPDs, and have begun to undertake dominant positions in certain fields. How should the Party-State-Government control the SPDs under market, or should the Party-State-Government give up the control over the SPDs, are still core questions.

Secondly, the SPDs were only "factories" under planning, now they should become "firms" or "enterprises" under an environment with market elements but under socialist public ownership which is called "socialist market economy". However, by the paradox of public ownership in China [cf. Figure II.3], "all people" as a whole set is the owner of the SPDs, but one person is not an owner, but the "all people" is represented by the Party-State. Thus a real owner of *danweis* is vacant. Under the "vacant ownership", when the SPDs makes profits, everybody is responsible, but when they were in deficit, nobody is responsible. Moreover, most of the *danweis* make often deficit. There is no effective economic responsabilization.

Thirdly, under the central planning, the *danweis* had their horizontal and vertical relations (SPNs). Now with market mechanisms, they have to establish

new relations with other production *danweis* under these market mechanisms, meanwhile, they have to redefine new boundaries of themselves.

Fourthly, under the central planning, the management was administrative. In the case of investment, decisions were made by the Central, there was no bankruptcy. If one investment was judged wrong, the administrative process of "close-stop-combine-transform (*guan-ting-bing-zhuan*)", was only administrative. For example there was no legal procedure to close-down a factory. The procedure was only administrative. In this case the workers and machines were then allocated to other *danweis*.

Since the early 1980s, although many powers have been decentralized from the central Government to *danweis* or local Governments, and from local Governments to the sub-ordinated *danweis*, but most of the *danweis* cannot decide themselves in the aspects of investment, price, structural organization, personnel rotation and their salaries, etc.. Most of them belong still to the administrative organs [Wang Jun, and Yu Ji-xin, ed., 1993, p.276-7]. Thus *danweis* are still annexes of the Party-State-Government, even most of them have changed into the forms of "companies" according to the *Company law* since the mid 1990s.

Particularly, after years of decentralization, many decision powers have been given to the cities, however at cities' level, cities controlled strictly the SPDs more than central and provincial levels, this was hard administrative constrain, for example, "orientation plannings" had to be achieved, otherwise,

no investment, no materials would be accorded from the cities level. At cities' level, it was still rigid central commanded planning.

Fifthly, under the central planning, the macro policy concerning worker was "low pay high employment". Thus often, five workers completed a job for three workers and they shared the total pay destined to three workers. With introduction of market, there comes out the problem of surplus of workers.

These are the big problems in the industrial reform that the Chinese Governments has to face, as they have been managing these aspects of the SPDs since 1949.

3.2 Problems at micro level

Here let us see the main problems of the SPDs from micro level point of view:

1) The channel of capital gathering and melting is monotone. Evolution from central subventions before the 1970s, to credits⁴⁷³ (*bogaida*) since mid-1980s, to transformation from debts to shares since late 1990s seem not to change much the situation.

The *danweis* lack constantly money to renovate their equipment, technology, that are often obsolete. Without the "recognition and protection of

private ownership", and relevant institutional rules, *danweis* cannot make use directly of the great volume of idle savings of the private individuals⁴⁷⁴.

Until end 1990s, there were only 1/3 of the industrial equipment of *danweis* modernized, of which only 13% could be compared with the international level, of which 22% met the national modernization level, and of which 2/3 was still obsolete. A lot of equipment had to operate "over-duty". The China Industry Association made statistics in 1990 on 134 *danweis*, which showed that the average age of use of equipment was 15 years, 39% of them operated "over-duty" [Wang Jun, and Yu Ji-xin, ed., 1993, p.276-7].

2) The internal management system is conflictual inside *danweis*, the discipline is *soft*, the structure is over size, management methods are obsolete (arbitrary policy-making). Many rules and regulations have been just made, but without any enforcement, the factory directors think of their own (administrative) career and their personal profits. With the introduction of market ideas, the workers began to loss their spirit of "master of the factory" which was important *ideological incentive* until the 1970s, meanwhile new economic incentives have not been established effectively, thus they have low disciplines, low incentives and low productivity.

⁴⁷³ Credits were decided by administrative organs, this was an administrative constraint (sometimes hard, sometimes soft or negotiable). The interest rate was low, the repayment happened before income tax, so had little influence on the profits of *danweis*.

⁴⁷⁴ For some Chinese economists these idle savings have been one of the reasons of the "purchase waves" of color TV sets, automobile vehicles, etc. [Wang and Yu, 1993].

The creation of management organs inside the *danweis* was not based on the need of the production and management purposes, but on political need and personal relations. The quality and capacity of the managers were often not considered in a recruitment. This often led to double organizations such as the co-existence of the new and old three organs (*xin lao sanhui*), and low efficiency of management [Wang Jun, and Yu Ji-xin, ed., 1993, p.276-7]. We will see in details below the actual governance (*xinsanhui* vs. *laosanhui*) of most of the SPDs under reform.

3) No effective incentives for the managers and the workers, unsatisfactory quality of personnel. Incentives can be distinguished generally as *ideological incentives*, *administrative incentives* and *economic incentives*. Before the open-door policy in the late 1970s, ideological and administrative incentives were the main incentives in productive activities, as well as in political and social lives. For *danweis*, profit seeking was not the main existing motivation.

Under "socialist market economy", economic incentives has been becoming more and more dominant. However, for most of the managers of the SPDs, their salaries are still relatively and largely low compared to their equivalents in a sino-foreign JV, or in a foreign invested company. When their performance or behavior was doubtful, administrative incentives came in the first place, however the administrative sanctions were often soft, managers were often protected by the *administrative networks*.

Moreover, the quality of the cadres and workers is low. According to the 3rd population general survey, among industrial labors, under middle school education level corresponded 78%, of which illiterate or semi illiterate corresponded 7.1% ; University level corresponded only 1.6%. In the mechanics industries, 60% of the engineers and technicians could not suit the imported technology and equipment, over 45% of them could not suit the waves of computerization, 12% of them had education that did not fit their posts. Moreover, their efforts were not related to the incomes, thus their initiative was dampened.

On the other hand, there has been a drain of people of talent: They went to abroad, or to foreign invested companies or TVEs. The technicians on the production lines and key posts had decreased from 34% in 1987 to 20% in 1992, and they continued to decrease [Wang Jun, and Yu Ji-xin, ed., 1993, p.278].

4) Products and sales. The *danweis* lacked the motivation to exploit outlets of their products. They were not sensitive to the market change and need. "What to produce, how to produce, for whom to produce" still stayed at the old mentality of relying upper hierarchies' decisions. In general, they used relatively low qualified technique of sales compared to JVs in China, or firms in developed countries. Needless to explain here the modern sales technics in capitalist market economy, such as the "4P" method - product, price, paths, promotion.

In China, there were the following problems concerning the products: a) there were many same or similar marks (very often for light industries) of products. b) *danweis* over emphasized on the cost loss which was often related to low price, but there was often no consideration of a price strategy. The factors such as offer, demand, competition, money value, or consumers' psychology were almost not considered at all. c) *danweis* lacked self sales networks in the national territory, e.g. even for the JV, DCAC had to negotiate with the SAW with great difficulty to set up a national self sales network. It was more difficult for many ambitious Chinese *danweis* to talk about market enlargement to the international level. d) no appropriate advertising methods. e) no good after-sales services. f) no channels of market feedback of market information and market need. g) *danweis* did not yet have the autonomy of foreign trade, they were also under the constraint of the foreign currency control.

More, the products did not evolve much, they got old, they were of low quality. An example, the Jiefang truck, had been produced over 30 years. The spirit of products development was absent, neither the capacity to do so. Thus most of the products did not meet international standard. For example, in the early 1990s, refrigerator repair rate was 2/10 000, compared to 0.5/10 000 in developed countries, 4 times more [Wang Jun, and Yu Ji-xin, ed., 1993, pp. 279-88]. According to Chinese experts' analyses, this was due to that the ambiguity of the property rights, which leads to insufficient incentives.

Finally we have to note that after 20 years' reform, there were still some mental obstacles for the reform of the SPDs in the 1990s. These mental obstacles existed generally in the mind of a very large number of Chinese individuals and managers of SPDs [Wang Fang-wu⁴⁷⁵, FAW, 1993b, p.6]:

- Ideological obstacle, which led to the impossibility of recognition of private ownership of production means by the Constitution.

- "Destructive to the State", which was a general reason for many oppressions during the Maoist period, but the mentality existed still until 1990s. When State assets were sold to individuals, it was considered as "destructive to the State". Privatization is one of the ideas considered as destructive to the State.

- "To change color" of the workers to "capitalists" if they owned shares of the *danweis*. This was considered as a degeneration of the "socialist master of the factories". This was a frame of mind especially in the beginning years of the reform. Change of this frame of mind has been easier than other mental obstacles.

We can hardly ignore the resistant effects of these mental obstacles in the reality

Here below, we will see two phenomenon in the management of the reformed SPDs.

⁴⁷⁵Research Bureau of Techno-economic Policies of FAW.

3.3 Governance, power organs: *xinsanhui* vs. *laosanhui*

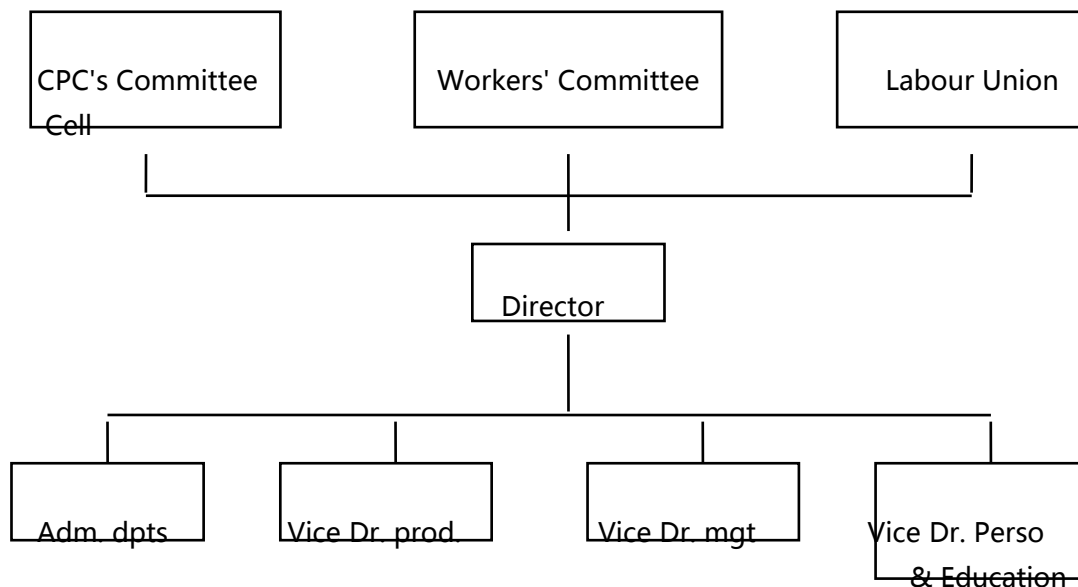
Inside a *danwei*, in the 1970s, the management was 3-levels: Factory, Workshop/ or sub-factory, Small group / or Workshop section [Wang, 1995, p.171]. The decision maker was the Workers Committee, named by the Party and then "elected" by the whole personnel. The Workers Committee made decisions, according to the central planning, on the subjects of productive organization and technical transformation, it fixed the bonus amount, internal rules and it elected the Director. The commander (*zhihui zhe*), was the Director of the factory, elected by the Workers Committee based on his technical and administrative capacity (if not based on personal relationship, *ganxi*). The Director of the factory executed the decisions made by the Workers Committee. The supervisor was the Party's Committee in a *danwei*, it assured ideological control, and verified the conformity of the decisions made by the Workers Committee as well as the commandment of the Director (whether the commandment followed the precepts defined by the Party and the rules edited by the Central), it mobilized the personnel to work well through the syndicate and the Communist Youth League [Pairault, 1981, p.344].

The management structure of an SPDs had passed from "factory director responsibility system" from end 1940s to mid-1950s, to the "factory director's responsibility under the CPC's Committee Cell system" since the

mid-1950s, then to the "factory director's responsibility under the Workers' Committee system" since the end 1970s.

Under these system the management structure were known in China, as the "three old organs (*lao san hui*)". They consisted of: 1) the Workers' Committee, 2) the CPC's Committee Cell, 3) the Syndicate. Figure VI.1 illustrates the management structure of a typical equipment factory in Beijing under the "three old organs".

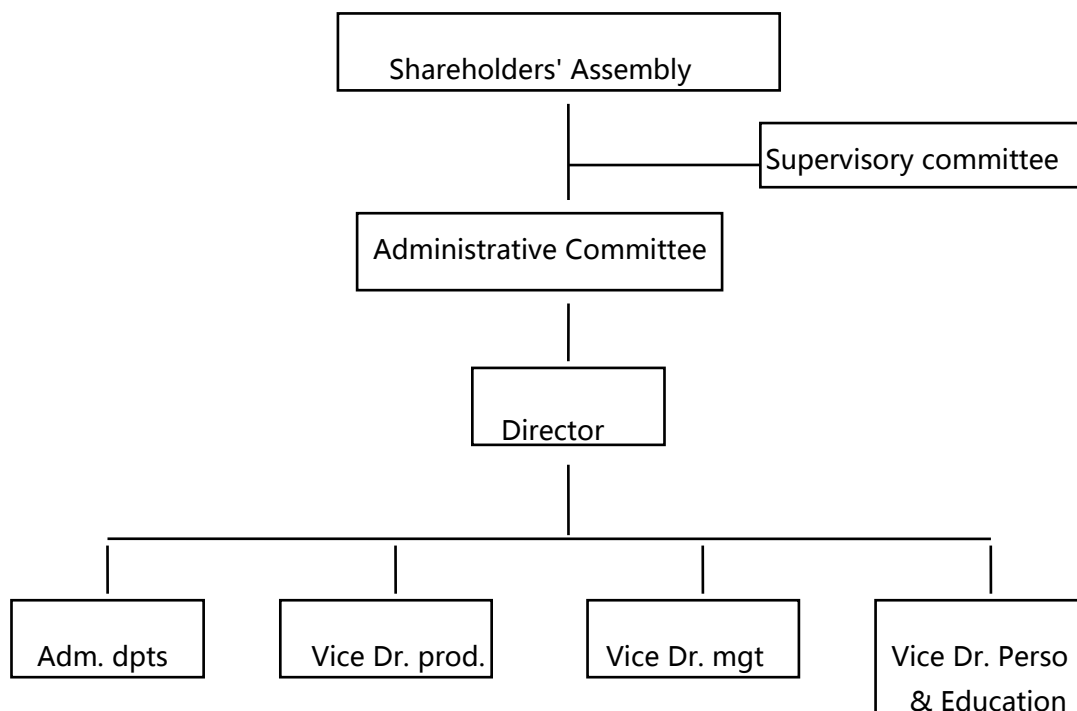
Figure VI.1: Organigramme of a SPD in the 1970s.



Until now, most of the *danweis* have been converted into forms of companies. One aspect of the conversion consisted of the transformation of ancient management structure to new management structure inside the reformed *danwei*. In these new companies, new forms of organs of power have been established according to the *Company law*. They are called the

"three new organs (*xin san hui*)". They are: 1) the Shareholders' Assembly, 2) the Supervisory Committee, 3) the Administrative Committee. The new organization in the typical equipment company mentioned above under the "three old organs" is illustrated in Figure VI.2. They are the new *legal* management organs in the companies.

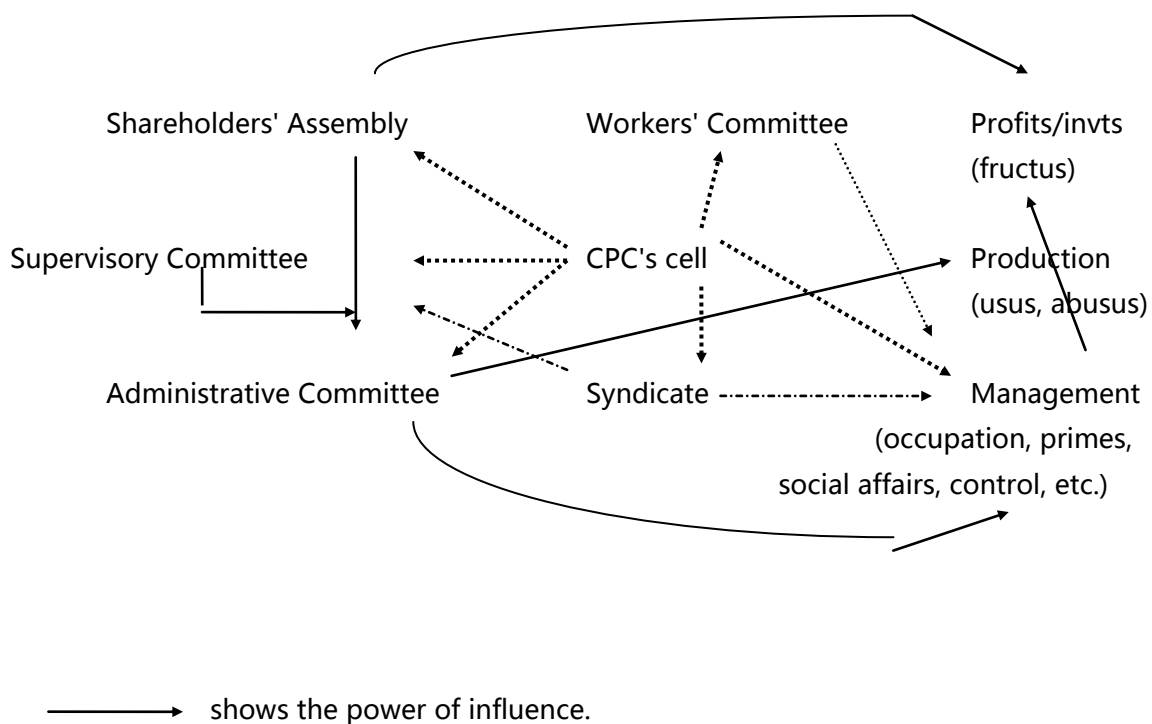
Figure VI.2: Organigramme of a reformed SPD since 1990s.



However, the old organs of power were not ready to give up their power of influence and the vested interests. So there began to have conflicts between the "old three organs" and the "new three organs". Thus how these "six management organs" interacted in a reformed SPD is quite an important question. In the following Figure VI.3, we try to illustrate the conflicts of power influence of the six organs over the management of a SPD. We simplify the

management of a SPD into aspects of profits (fructus), production (usus, abusus) and personnel management. The figure shows functioning of the partial property rights of a private ownership system in a public ownership system.

Figure VI.3: Who decides what in a reformed SPD?



Moreover, workers were praised as the "master of factory" before (ideological incentive), they were proud of their status, proud to be a "State-managed *danwei's* worker"⁴⁷⁶, they were unwilling to loss their position and

⁴⁷⁶A medium-length novel, by Li Pei-pu, *To learn smile* [Xinhua Wenzhai, #2, 1997, p.84-96], showed well the workers' mentality. Workers of SPDs showed their superiority by telling others "we are State-managed *danweis*, our *danwei* pay us all medical expenses ...".

the vested interests neither. To well deal with these problems, setting up efficient incentives for both managers and workers, became one of the most important tasks in the industrial reform.

But in an other point of view, in these reformed *danweis* or corporations, workers began to be able to hold shares of their *danweis*. In this way, workers famed as the "master of the factory" without really owning something before 1970s, have become concrete owners with shares of their *danweis* in hands. To hold shares of their *danweis*, or to have monetarized incentive, made ideological incentive concrete more than never even the private ownership has not yet been recognized and protected by the *Constitution* in China.

Alone with the reform there have been more and more "off-post" workers. They are not fired, but they need not to go work, they still live in the house of their *danweis* and they receive about 1/3 of the salary⁴⁷⁷. The off-post workers are in fact due to the "over employment", i.e., a work that needs 5 people employs 10, and professional working individuals cannot bring into full play their technical potential [Gregory, 1988, p.40]. Off-post workers are not considered by the Authority as unemployed workers. In cities as Beijing, there had been over thousand "centers of re-employment" established for off-post workers from 1995 to end 1990s. The reform direction is that, these

⁴⁷⁷We cannot ignore that many of these off-post workers have another job, such as taxi drivers, etc..

centers are to be canceled at the beginning of 2001⁴⁷⁸, the off-post workers will go directly to the "market of labors", i.e., they should find jobs themselves, and will be canceled in the list of the workers of their original *danweis*.

By end 1990s, monetarized incentives were accompanied by more and more increased decision power of managers *vis-à-vis* the CPC Committee in *danwei's* management. Greater latitude had been given to managers for making production and investment decisions on the off-quota input and output that were sold to consumers directly or indirectly through commercial channels [Balassa, 1987]⁴⁷⁹. However the CPC Committee has still important influence overall in a reformed *danwei*, the clause "following the CPC's leadership" is also written in the *Company law*.

3.4 Managers, "phenomenon of 59 years old"

By late 1990s, there had been a "phenomenon of 59", this meant that more and more managers committed "economic crimes", especially managers of around 59 years old⁴⁸⁰, this concerned mainly the grave drain of the "State-owned assets" to individuals in charge before their retirement. The "59

⁴⁷⁸ *Beijing Youth Daily*, 2 May 2001.

⁴⁷⁹ *Journal of comparative economics*, #11, pp. 410-26, September 1987. Also in Reynolds ed., 1988.

⁴⁸⁰ In mid-1998, the Central Disciplinary Control Commission (*zhongji wei* of the CPC), Division of Supervision (*Jiancha bu* of the CPC) exposed 3 grave economic crimes: the Director of Hongta Group, Zhu Shi-jian was condemned of corruption and of acceptance of bribes (executed by shooting), the General Manager of Lanzhou Steel Works Groups, Zhang Bin-chang, acceptance of bribes, Director of Lanzhou Liancheng Aluminum Factor, Wei Guang, acceptance of bribes. The 3 individuals have all got the "National May 1st. Prize", "National Excellent Entrepreneur Prize", "National Excellent Manager Prize", etc.. According to the Authority, they did not "maintain their integrity in their late years" [*Huasheng monthly*, Aug. 1998, pp. 16-22].

phenomenon" was specific for the managers of large SPDs. By the end of 1997, China had carried on an examination to 130 000 leading organs of *danweis*, concerning 560 000 leading members (*lingdaobanzi chengyuan*). Then 40 000 leading organs were changed, touching 86 000 managers. Over 30 000 of them were under-graded or "released from his post". The main reasons were either technical management skills⁴⁸¹ or corruption.

According to Chinese researches, the problems concerning these managers were: 1) low salary⁴⁸² of the high level managers of the SPDs, compared to their equivalent in a developed company. There was reform on the "annual salary" but with much difficulty. 2) lack of "market of managers", or often say "market of entrepreneurs". However, it is difficult to name the Chinese managers as *entrepreneurs*, as they are not as the same as "entrepreneurs" in developed countries. In China, "entrepreneurs" does not exist. Another point is that a manager was often "internal-decided (*neiding*)" by the Personnel Organization Bureau (of the CPC), no competition *a priori*, even there would be a market of managers, it is still doubtful whether such a market could help for the naming of a manager. It is often said in China that, "Will China be rich or not, is decided by the Personnel Organization Bureau (of the CPC)". This is still the reality. The managers of *danweis* were decided by administrative orders, which was an administrative constraint (soft or hard).

⁴⁸¹There was also a "phenomenon of being a dog in the manager", which means there were a batch of factory Directors/Managers who were incapable, but occupy the posts [*Huasheng monthly*, Aug. 1998, pp. 16-22].

High grade seminars had been organized on this phenomena in China, experts analyzed that, the 2/3 of the problems rooted from the *system*, and 1/3 of the problems rooted from the personal quality. A person could be capable at the beginning of his taking post, but the system would make him finally incapable to well hold his post, the system transformed one from a "good man" to a "bad man"⁴⁸³. One factory Director said, "I've been Director for 20 years, the key is to listen to the higher grades, otherwise, you will be changed or declared guilty".

There was also a reason of mentality. Some managers were awarded with money, but they dared not accept, they offered it to the kindergarten of the factory and the like (unwillingly), because they were feared to be judged of corruption. Thus most managers were more concerned with meeting production quotas than undertaking technological innovations, as they were not motivated and any innovation would be risky for their post and for the "political correctness" [*Huasheng monthly*, Aug. 1998, pp. 16-22].

By end 1990s, managers often said: "there are two main things that the mangers must do - 'to find the market, to see the mayor". This reflected the evolution of the job of managers: they had to find buyers and to socialize with Governments so that their *danweis* could survive. Deng ever said, "the Government should give up the "three not": to give up that the Government should not

⁴⁸²The general salary level of managers was relatively low compared to in developed countries. Here as an example, the Director of the Board of Zhejiang Zhenhai Oil Refining Chemical Industry Share Ltd. Corp., Zhang Jia-ren said: "my annual salary is 53 000 Y, equivalent to 2-4 times that of the workers" [ibid.].

⁴⁸³This happened often in administrative organs. Distinguished administrative officials in China are often squeezed out if they do not accept bribes [ibid.].

control, to give up that is impossible for the Government to control, to give up that the Government is not capable to control" [ibid.]. This reflected that the reform on managers is also related to the reform of the Government.

These were the main problems of the industrial reform at the *danweis'* level in China. Can the guiding line of MEI solve all these important problems from root? During the period of our study, in China what had been really done in the reform was to put forward pilot projects in order to observe the results, and then generalization (by the Central) if the results were more or less acceptable. Certainly the reform of socialist system is without precedent in history, hence it seemed to be an intelligent way that the industrial reform has been taking the scheme: pilot experience - observations - generalization.

4. Key pilot projects⁴⁸⁴ of the SPDs reform by end 1990s

In 1994, China firstly distinguished the large SPDs to the medium and small ones. The large ones were often transformed into companies (Joint Stock companies, shareheld, or State-controlled) or stay SPDs. The forms for small SPDs were more variable than the large ones. Many small ones may become companies, or COEs, or jointed, fused by other companies, or even

⁴⁸⁴The method of "pilot projects" is not new for China, numerous pilot projects have been undertaken since 1949. As we will see below ("57 groups"), some recent ones can find their historical references.

individually-owned which was often called "private" in China, but as we have seen that private ownership does not yet exist following the absence of recognition and protection by the *Constitution* as well as the absence of relevant institutional environment and rules.

In 1996, the reform on the Chinese SPDs reached to the point described by the Government as "To seize the larges and to release the smalls". This was a reform resort aiming at revitalizing the large SPDs, and leaving the small ones out of the control of Governments⁴⁸⁵.

From socialist planning to "socialist market economy", the Chinese reformer has to solve the problems of the SPDs. At the beginning of the reform, the number of models of reform for the SPDs had been relatively few, but they were applied widely to a large number of SPDs. Then since the mid-1990s, there has been a great variety of new models of reform of the SPDs in China at every administrative level. Below we will present the main pilot projects.

There have been 4 waves of experimentation of pilot projects since 1978. These pilot projects could be at central or local levels. Both were based on the Modern Enterprise Institution:

⁴⁸⁵Project led by the Vice Premier Bang-guo Wu. By April 1997, it was reported that this program was not successful, the large SPDs were not revitalized, moreover some efficient small ones became non-efficient. As a result, the Chinese Leaders preparing the XV Party's Congress in fall 1997 tried to push the reform of SPDs by drawing into Party's official documents of terms to encourage fusion or management buyout of even large SPDs by private enterprises, and also to encourage share-holding of the SPDs.

First wave of pilot projects 1978-1982: still decentralization of (decision) power. The Chinese leaders had used to set up experimental pilot projects for many of its reform projects. Certainly as we have discussed in Chapter Two until 1982, the reform of SPDs followed the same "guiding line" of "decentralization of power and resigning profits". The first government-organized reform dated 25th. May 1979. It was at central Government level. The State Economic Commission, Finance Ministry and 4 other governmental organs had chosen 8 (Shougang, Shanghai Auto Works) SPDs in Beijing, Tianjin, Shanghai for management experimentation [Yu, 1993, p.132], this might be the first pilot projects after the open door policy. There were also similar projects at provincial level, e.g., Sichuan Province has selected 100 SPDs in industries, transport sectors for experimentation of power decentralization. The China News Agent reported satisfied results of this project [13th. July 1979]. By July 1980, there had been 6 600 odd SPDs entered in the decentralization experimentation, this corresponds 16% of national wide industrial enterprises [China News Agent].

This first wave of pilot projects was stopped by an *Outline of report of a seminar about the industrial management system* organized by the State Economic Commission and the Bureau of System Reform of the State Council, adopted by the State Council (1st. April 1981). The *Outline* demanded to reinforce the experimental project of "enterprises' autonomous rights", but not to increase the number of the experimental enterprises.

During the second wave of pilot projects (1987-1991), key words were *ligaishui* (transforming profits to taxes), *bogaidai* (transforming subventions to debts), and the experimentation of the "contract management responsibility system" (CMRS).

The third wave of pilot projects (1992-1993) consisted of the experimentation of share system, and different channels for profits and taxes (*lishui fenliu*).

The fourth wave of pilot projects (1994-1997) consisted of the experimentation of Modern Enterprise Institution. Whilst, the infrastructure to compete the realization of MEI began to be installed or reformed. This project concerned 2 levels: State level, the municipality and provincial level.

There were over 2 000 pilot projects at the local level [CASS, 1996, p.242]. The local levels' reform was organized by each local Governments, which led to a great variety, even Central ones, they try to have certain variants. Some local projects copied the methods of Central Government ; some created other methods in an allowed range by the law ; some created methods that should be illegal but they transformed the methods partially in order to stay within legal range. As an example, the Zhucheng model was considered as a successful model of reform for medium size and small SPDs.

About the Central-Governmental organized ones, there had been a series of pilot projects⁴⁸⁶ aiming to solve generally the problems of the *danweis* in the passage from socialist planning to "socialist market economy" from the point of view of the Party-State. Main recent projects were four: the "57 groups projects", the "100 *danweis* pilot projects", the "Socialist Holdings", and the "Optimization of capitals", etc., which consisted of the fourth wave of pilot projects before the death of Deng from 1994 to 1997. These projects aimed to experiment a general way for the so-called MEI according to the *Company law*.

The Central's guiding line was "one policy four pilot projects"⁴⁸⁷. The "one policy" was "to seize the large ones to release the small ones".

4.1 The "57 enterprise groups pilot project", 2 cases (FAW, SAW)

According to Chinese documents, this was the third wave of forming "enterprise groups" in China since 1950s [CASS, 1996, p.205]. The first wave was around 1955 during the first FYP, many "professional companies" were formed as results of the remolding of the "national capitalist" industries and commerce. The second was in the 1960s, i.e., the "experimentation of trusts" [ibid.], we have given the example of the automotive sector in Chapter Four.

⁴⁸⁶Namely, CMRS experiment, *ligaishui* experiment, share system experiment, separation of profit and taxes, etc..

⁴⁸⁷Interview with Zhang, SETC, 28th. August 1996.

The third wave referred to the numerous formation of horizontal related "economic alliances" of various forms since 1978. Especially, since the eighth FYP (1991-1995), there had been a series of works concerning mainly the organization and the development of the "enterprise groups". The aim to form "enterprise groups" concerned the following points: 1) the creation of "enterprise groups", 2) pilot projects of the "enterprise groups", 3) remolding the "enterprise groups" into corporations, 4) empowered management of State-owned assets, 5) concerning horizontal organizational structure: merging, anti-monopoly, bankruptcy, etc. were to be undertaken, 6) vertical organizational structure: State Holding companies, State-single investor corporations, Sectorial management, sectorial associations could be formed.

The idea was to shift from horizontal isolated "ministerial management" into non-governmental vertical sectorial management [CASS, 1996, p.213].

In fact since the mid-1980s, the organization and development of "enterprise groups", and development of share system had been the main industrial policies and main practice in the horizontal reform until mid-1990s. By March 1994, 18 000⁴⁸⁸ "enterprise groups" were registered, then by June 1995, the number attained 20 000 ones [CASS, 1996, p.206].

The third wave could be divided into 4 phases: 1) 1978-1986, brewing period, beginning of economic alliances. 2) 1986-1991, creation of "enterprise

⁴⁸⁸Cf. Wu, Sheng, 1995, "An inquiry into certain questions about enterprise groups", in *Research in group economies*, #1, cited in CASS, 1996, p.206.

groups", alliance relations tended to be stabilized. 3) 1991-1999, pilot project trying to find efficient ways of "enterprise groups".

1) 1978-1986:

The tendency of "economic alliance" began in the late 1970s. In fact, since 1978, the State Council had adopted a series of measures to reform the "tiaotiao kuaikua", which meant "economic (market) relations" among "enterprises (*danweis*)" were cut off artificially by the Governmental departments and the local Governments. Early in 1979, some Governmental departments and regions, while implementing the "8-words policy": *tiao zheng, gong gu, chong shi, ti gao*, adjustment, reinforcement, enrichment, improvement, began already some pilot projects to promote the horizontal alliances. Then in first semester of 1980, the State Council advanced a strategy of "to develop preponderance, to protect competition, to promote alliances". The 1st. July 1980, the State Council issued the *Temporary rules about to promote economic alliances*. Then May 1984, the State Council issued *Temporary rules about further enlarging the autonomous rights of State-managed industrial enterprises*.

In this phase, there appeared various forms of "economic alliances" bearing various titles, such as "united managed enterprise", "jointly managed enterprise", "economic alliance entity", "horizontal alliance entity", "enterprise flock", "one continuous line cooperation", "united company", etc.. During this period, in the reform of Governmental organs, a batch of Governmental

departments were renamed as "corporations", these were the so-called "administrative corporations".

2) 1986-1991:

The term "enterprise group" appeared in mid-1980s, and began to be popularized. In fact, this concept was introduced from Japan [ibid.]. In March 1986, the State Council issued *Rules on several questions about establishing and developing horizontal economic alliances*. By the end 1987, the SSRC and the ex-State Economic Commission issued jointly the *Several opinions about establishing and developing enterprise groups*. Then all the various titled economic alliances were renamed as "enterprise groups".

Most of these Chinese enterprise groups were formed based on horizontal alliances. Mostly, there was one dominant *danwei* as the kernel, centered by several other *danweis*. They were originally united in aspects of production, technology, and management, then since mid-1980s, they began to practice "capital alliance" through holding shares among them.

During the first and the second phases, most of the "enterprise groups" were still restrained by the administrative hierarchic relations, by financial and budgeting relations, and by the public ownership relations with the Central, as well as by the corresponding binding relations with the local Governments, and by relations with certain departments of the Ministries. Thus most of them lacked the "capitalized links" inside the groups.

3) 1991-1999:

In order to solve this last question - lacking capitalized link inside the groups, which was analyzed in a report of the SSRC, it was advanced clearly, in the *Ten years national socio-economic planning*, adopted by the VII National People Congress in 1990 and in the eighth FYP, to "establish in a planned way, a batch of enterprise groups that are trans-regional and trans-departmental".

Then on 14th. Dec. 1991, the State Council issued a *Circular about to select a batch of large enterprise groups to form a pilot project suggested by the SPC, the SSRC, and the Production Bureau of the State Council* (document [1991]#71) [CASS, 1996, p.207]. Hence began the recent "enterprise groups pilot projects".

From the end of 1992 on, there were a series of corresponding relevant rules and regulations issued by the State Council. These documents are [CASS, 1996, pp. 208-9]:

- *Method of approval of pilot projects of enterprise groups.*
- *Methods about the personnel of enterprise groups going abroad (including Hong Kong and Macao) and about invitations of foreigners for business affairs* (trial version).
- *Methods of registration and management of pilot enterprise groups* (trial version).
- *Opinions about granting import-export rights to productive enterprises.*
- *Methods about statistical management of enterprise groups* (trial version).
- *Methods about enterprise groups with independent accounts in the Plan* (trial version).
- *Temporary rules on the financial questions of the enterprises groups.*
- *Methods of management of salaries of workers in enterprises groups* (trial version).
- *Method about how to set up financial corporations for the enterprise groups.*
- *Circular about paying income taxes for large enterprise groups.*
- *Additional circular about paying income taxes for large enterprise groups.*
- *Regulations for transformation of mechanisms.*
- *Company law.*

According to the CASS [1996, p.209], for some special reasons, the methods of personnel management had not yet been completed by end 1996. Then based on this institutional environment, the project of 57 groups began to be processed.

The objective of this project:

As said above, the enterprise groups were in general created through horizontal alliances of existing different *danweis*. We call them here A type of "enterprise groups". In these groups, the "son-enterprises" were related with the "mother-enterprises" by mainly 2 links: products link, and administrative hierarchy.

There were also B type of enterprise groups that had been developed along with the reform of decentralization of investment decision power, of generalization of share systems, and of geographical locations from coastal side to inner side. Many original *danweis* had created a batch of new "son-enterprises" through forms of single-capital son corporations and JVs (Sino-sino, or Sino-foreign). Then through the same methods, these son-enterprises had created a batch of "grand-son enterprises".

The difference between A and B was: For the A type, they were formed by existing independent *danweis*, the relations were horizontal, they lacked "capitalized" linkage, the organizations were not transformed into shares, or say they were not *shared*. Most of them had only just the superficial forms without any real change in their *danweis*. For the B type, they were created by

danweis, the created corporations took the form of Limited Responsibility Corporation according to the Law. The relation of original *danweis* and created ones were vertical, their relations were capitalized in form of shares.

For the A type, the original idea was to form "ring share-holding" like the top six enterprise groups in Japan. But they had been formed based on certain Chinese historical background, simple imitation could not solve substantially the problem of lack of capitalized and market relation inside groups. By 1996, there had not been a such group in China which was considered as to have successful result [CASS, 1996, p.208]. However, the A type included almost all the key *danweis* in China, they were the main source of the Government taxes income. Thus the Government then tried to transform the type A enterprise groups into B type. This was the real objective of the "57 enterprise groups pilot project⁴⁸⁹". This was called the A-type problem.

In the document [1991]#71, the task of this project was noticed as:

It plays important role if the work of the large enterprise groups pilot project leads to good results, this will promote the re-adjustment of the enterprises' organizational structure, will promote the rational flow of productive factors, will bring full play of leading role of the State-managed large and medium size enterprises, in order to form collective preponderance, to augment the international competition, to further enhance the effectiveness of the national macro-adjustment. The organization of the

⁴⁸⁹By 1996, the number of this project had been augmented to 100 ones. But has been considered to be non-appropriate by some Chinese reformer and economists [SETC, 28th. Aug. 1996].

enterprise groups should be favorable to the development of productive force, the development of new products, the increase of efficiency, rational combination of resources and technology. The development of enterprise groups is a long term task, every region, every department should strengthen their leadership on this work, should sum up the experience carefully, should lead correctly ; should be prudent and steady, should respect the "principle of free will" (of the *danweis*), must guard against gathering together to create disturbances, and with the aim of the development of enterprise groups gradually, must go in strength along with the development of national economy.

The situation and progress of this project:

Among the 57 selected enterprise groups, 41 ones had independent account in the Plan ; 33 ones had established financial corporations ; 54 ones had got autonomous import-export rights ; 46 ones had got the power of approval for cooperation with foreigners ; 7 ones had processed the experiment of management of State-owned assets by empowered rights ; 22 ones paid uniformly taxes for the group.

To solve the A type problem, the following methods were used concretely⁴⁹⁰:

- to create JVs with Chinese or foreign investors or banks, the JVs could be in China or in foreign countries,
- internal separation,
- procurement and (rewarded) merging,

⁴⁹⁰We can find real examples in "enterprise groups" such as FAW, DFM, Huaneng, Baogang, Pangang, Yizheng, Wukuang, etc..

- internal administrative hierarchic division of capital and assets,
- empowering of management of assets or capital, etc.

By these ways, the relations among "mother-*danweis*" and "son-*danweis*" became related by shares, which was rather capitalized, hence property rights could be talked even that the private ownership was vacant and that the all-people ownership was paradoxical.

By July 1999, the Beidaihe meeting emphasized on furthering the *danweis*' reforms, new measures were decided to be issued to "deepen" the reform of the "enterprise groups", this concerned the establishment of "enterprise benefit community"⁴⁹¹.

Here below, let us look at two cases.

Case 1: First Auto Works Group (FAW)

Brief presentation:

As we have mentioned in Chapter 4, the first Chinese automotive plant, the FAW was set up through help from the ex-Soviet Union during the first FYP. The Jiefang trucks had been the main products during 30 years. The first Jiefang 4-ton truck came out the assembly line in July 1956, the last unit marked the end of this product the 29th. Sept. 1986, the total quantity of production of this truck is 1 282 502 units [Sun, 1995, p.55].

By 1982, FAW had 472 associated factories, with totally over 200 000 workers, the main factory FAW had over 40 000 workers⁴⁹². Since the end of 1982, FAW had been chosen to be one of the 8 experimental points for empowered management of capital and assets, and to be one of the "57 enterprise group pilot project".

In 1983, there began a renovation project in the factories, which was completed in early 1993. The renovated FAW doubles the size of the old FAW. The main site has 370 000 m², with 8 400 new machines, 24 000 pieces of equipment, the new main products

⁴⁹¹RFI, 6th. July 1999.

⁴⁹²*China automotive industry yearbook*, 1983, p.131. By early 1990s, the SAW had about 800 000 workers [Sun, 1995, p.23].

are light vehicles, the key product is CA141. The total investment for the renovation was 11 billion Y. The FAW is the second large automotive plant in China in terms of numbers of workers and associated factories, site size, and production volume, etc.. But in 1991, the sales in value of the FAW was the first in the automotive sector [ibid., p.81].

In May 1987, the Beidaihe meeting decided that FAW became one of the 3 bases of car production. In 1988, FAW decided to form a JV with VW, and to cooperate with Audi, products of these cooperations were planned to come out from production lines in April 1990, this means that the preparation period was short⁴⁹³ [Sun, 1995, p.55]. The slogan of the proposal for the car project was "FAW starts quickly to produce cars in order to keep off the mass importation" [ibid., p.82]. The JV (FAW-VW) was set up the 6th. Feb. 1991 [ibid., p.117].

In 1992, facing to the emerging hard competition at national level, and the negotiation of China entering the GATT (WTO), the FAW reorganized its internal structure, 63 services were reduced into 51 ones. By the mid-1990s, the "FAW group" had become a trans-regional, trans-sectorial, multi-ownership, multi-strata, all-azimuthal "enterprise group" with functions of research, development, production, distribution, financial, foreign trading [ibid., p.95]. It had 273 "member enterprises", including:

- core: 39 directly subordinated specialized factories, 4 directly subordinated research Institutes and Schools ;
- close stratum: 21 corporations, which were 10 FAW-owned subsidiaries, and 11 subsidiaries with majority shares ;
- semi close stratum and loose relational stratum: 251 corporations which were 13 corporations with minority shares and 238 relevant *danweis*.

By early 1995, the total capital of FAW attained 37.8 billion Y, including net fixed assets 9.46 billion Y, total number of personnel attained about 273 000⁴⁹⁴. Annual production was 38.5 billion Y (corresponded profit-tax 2.314 billion Y). The product structure has been continuously re-adjusted since the reform. The volume of diesel vehicles augmented 92.3% compared to early 1994. The volume of Audi augmented 13%. The volume for light vehicles augmented 62%. Total volume of vehicles produced in 1994

⁴⁹³In fact, FAW decided to cooperate with Chrysler to produce cars. In 1987, the Number 2 Motor Factory of FAW decided to introduce the technology of Deutch 600 motor of Chrysler. But then Chrysler augmented the price for the body after the signature of the agreement. Then with the support of the State Committee member Zou Jia-hua, the General Director of FAW (Geng Zhao-jie) decided to cooperate with Audi in 1988. Then Chrysler wanted to sell its technology license for only 1USD, which was considered as too late by the FAW. The FAW wanted to construct an assembly line of 150 000 capacity. The difficulty was great, the report of feasibility was ever detained by Li Peng. When the quality of carbon was not good enough, the Governor of Jilin Province helped the FAW to seize by force crude oil from passing trains to solve the emergent problem of launching the project, can this be done in a developed country?

⁴⁹⁴For comparison, Ford attained 10 300 odd of personnel in the Rouge River factory (Detroit) in 1929 [Roos, 1990, p.149]. Chrysler had in 1989, 130 000 personnel, the eighth largest in the World [ibid., p.140].

attained 185 300 units. Total sales for 1994 attained 16.9 billion Y (17.67% more than 1993), profit-tax for 1994 was 2 billion Y (35.6% more than 1993) [Zhang, 1997, p.101].

The capacity of production of medium trucks attained 120 000 units ; that for light vehicles attained 60 000 units ; that for Audi attained 30 000 units.

Products:

Generally speaking, the automobile products in China has been described by Chinese analysts as "lacking heavy and light, cars are close to blank". This has been the guide line for the reform in the automotive industry, i.e., to produce heavy and light trucks and to produce cars. This has been without exception the guide line for the product re-adjustment for the FAW.

The medium truck Jiefang have stayed still the key product. The renovation of the factory in the 1980s has allowed a re-generation of this product. The quality of the medium trucks progressed much compared to that in 1950s.

The light truck "small Jiefang" began to be produced in early 1993. The "small Jiefang" and similar trucks were well demanded vehicles by users *danweis*. The volume of production progressed quickly, 186 "small Jiefang" were produced in Feb. 1993, then 2026 ones were produced in June, all vehicles were sold immediately [Sun, ed., 1995, p.129].

For the passenger cars, the strategy was to start from luxury limousines, then to try to produce compact cars. Since 1988, the capacity of 30 000 Audi cars had been constructed, the objective was to build a capacity of 150 000 units of standard cars, this had been completed by end 1993.

Nowadays, the main products are: medium truck CA 141 ; Hongqi limousine ; Audi standard limousine ; Jetta subcompact cars ; Golf subcompact cars; light vehicles series [ibid., p.81].

On the subject of Hongqi: the first Hongqi was the model Hongqi 72 [ibid., p.132]. Before the Hongqi was conceived, Chinese leaders rode on American jeeps. Having seen Mao in an American jeep in 1949, Staline offered Mao JIS 100 and JIS115 limousines [ibid., p.133]. Then the Hongqi models 770 (3 rows of seats) and 772 (special) were developed [ibid., p.134]. Hongqi was a "political vehicle". The Hongqi models was stopped to be produced in 1981 because the model was highly gas-consuming compared to imported Western cars. Then the model has been re-produced again since 1992, because many Chinese people are nostalgic of the vehicle, and they think that the Hongqi is a "national product". A Hongqi was sold to a rural entrepreneur (Wang Wen-qian) for the first time in Feb. 1993. The quantity sold in 1994 attained 2000 ones. Hongqi is now destined to the "psychological market" in China [ibid., p.135]. The new project of

standard "Hongqi" began to undertaken in 1998. The FAW cooperates also with Ford to developed and remold large Hongqi cars.

The car project: FAW-VW Auto Ltd. The JV was established the 6th. Feb. 1992. The total investment of the JV amounts to 4.2 billion Y including foreign currency 886 million DM, the German side holds 40% of the capital. The FAW-VW has bought in 1987, at the price of 400 million USD, all the productive equipment of the VW's closed plant in Westmoreland, Pennsylvania, USA. This plant also produced the Golf model, the equipment included welding, painting, assembling and inspection facilities. Chinese staff were sent to the US to disassemble the plant.

The new plant of the JV in China covers 80 000 m² for casting, 90 000 m² for assembly line. The construction began in winter 1990. The painting room has 54 000 m², part of which was cold confined. The imported equipment included 9 000 pieces, 11 assembly lines. The first Jetta came out the assembling line the 17th. Oct. 1991. Then the production shifted quickly from SKD to CKD [ibid., p.117].

At initial stage, the FAW-VW concentrated on two second-generation models: 1.3 lt. Golf car and the 1.8 lt. Jetta car. It would turn to the third generation products that VW would turn out in the late 1990s [Lo, 1992, p.46].

Audi-100 Project: the FAW designated this project to be a preparatory base for its own car production. The plant was formally installed in April 1990, turning out 3 400 cars during the installation process. The planned output volume in 1991 was 8 000 cars, LR = 14.5%. The selling price in Chinese domestic market was 200 000 Y. $LR_{1993} = 40\%$. According to the Chinese Government, the Audi-100 and Audi-200 will be adopted for the use of the high level leaders, substituting for imported cars [ibid., p.46].

Light vehicles project: The technological sources were multiple. The main body was from Nissan Japan ; the engine was a combination of American Chrysler-design and UK technology, etc..

Reform:

The FAW group was formed by horizontal re-grouping. The "son-*danweis*" were like the "member *danweis*". The link was not capitalized. In order to form a linkage among the main factory of FAW and the other "member *danweis*", FAW had to offer some advantageous tasks to the member *danweis*. To change the role of "simple parts supplier" of the member *danweis*. At the beginning of the reform, in order to obtain good relations with the "son-*danweis*", the main factory made several concessions by giving them assembling tasks. The main plant kept only the difficult tasks of motors and

some key parts with high investment, relatively low efficiency and complicated technology.

For light vehicles, the FAW became motors and parts supplier to Xingguang, in Harbin, Jinbei in Shengyang, Dongfeng Auto Factory in Changchun, and Jilin Auto Industrial Corporation.

For medium trucks, FAW made concessions by giving task of better economic efficiency, of better return on investment, and of better development prospects, to the "member *danweis*". For example, the introduced technology of producing the driving cabinet of FK from Mitsubishi was given to the Qingdao Auto Factory ; The assembly of 9-ton diesel truck was given to Xinjiang Auto Corporation, etc..

So at the beginning, the linkage was made of a "hierarchic re-distribution" of products' advantages.

The passage to capitalized relations was costly. In 1986, FAW signed agreement of close alliances with 4 factories in the two cities of Jilin and Changchun. The agreement stipulated that the 6 aspects of management of personnel, finances, materials, production, supply, distribution were uniformly organized by the headquarters, however in practice, the financial relations and channels of the 4 "son-*danweis*" could not change facing to many problems of understanding and of practical questions. For example, the Jilin Auto Industrial Corporation and the Changchun Dongfeng Auto Factory were both already assembling factories, one for the Jilin mark micro cars (vans), the other for the Dongfeng light trucks. After the re-grouping, both of these two factories wanted to be assembling sites, which was not economic for the group. At the moment, the administrative relations, the financial and tax channels could not be changed at the FAW group level, thus the FAW had to make concessions so that the assembling capacity of production 10 000 vehicles of 2-ton truck was given to Changchun Dongfeng Auto Factory, and the assembling capacity of production of 50 000 vehicles of 1-ton truck was given to Jilin Auto Industrial Corporation.

Since then, there had been many conflicts among the kernel *danweis* of the FAW group. Another main problem came from the relations of the Central and the local Governments in terms of their budget incomes. To solve these conflicts, the FAW decided to carry on a reform of "uniform management" of capitals inside the group. The practice was to carry on "paid merging", which seemed to work. Later on, by the same method, the FAW merged also Dalian Bus Factory, Siping Special Vehicle Factory and Wuxi Diesel Motor Factory. All these factories are then in the core of the FAW group.

Then to continue to solve the above "loose link" problem, the FAW had used various forms of merging or alliances since 1993: administrative division, technological shares, management compensation, capital shares, etc.. By these methods, the Lingyuan Auto Factory, the Yanbian Road Bus Factory, Huaiyin Transformed Vehicles Factory,

Shandong Auto Transforming Factory, and Guizhou Parts Factory became all majority or minority "son-*danweis*" of the FAW. By "administrative intervention of property rights", the Qingdao Auto Factory, Sichuan Special Vehicles Factory, Harbin Light Vehicle Factory (Xingguang), Chengdu Auto Factory, Liuzhou Special Vehicles Factory became "total son-*danweis*" of the FAW.

Jinbei in Shenyang was one of the large bases of light vehicles production in China. It has been quoted on Chinese stock market. In 1995, for the first time, the FAW became the "mother-corporation" of Jinbei by buying its shares on stock market. We remark that in this case, as the Jinbei was already on stock market, it was no more possible to use administrative methods. Thus this is a capitalized relation.

Existing problems:

- Inside the group FAW, the main tendency was that the main factory FAW offered technological or productive help to the "son-*danweis*", often without conditions. The links were loose, were not capitalized.

- According to Geng Zhao-jie, the General Manager of the FAW: the FAW had produced 1.28 million Jiefang truck, but FAW had not restrained any profit of sales of this product, hence FAW had no funds for the "auto-development" [Sun, ed., 1995, p.56]. Then the value of the fixed assets that the FAW had augmented since the seventh FYP belonged to the State, but the FAW paid the interests of the loans. So the FAW lacked capital. However the problem was not only a problem of lacking capital, but also a problem of blurred owners and rights of *danweis* in general.

Motivation for the FAW in the "57 enterprise groups project":

- 1) to demand for exoneration of taxes from the Central in order to accumulate more capital,

- 2) to "sell the property rights" on the fixed assets that FAW had developed by itself since 1987, to better clarify the ownership,

- 3) to review the operational capital,

- 4) to carry out discussions with the People's Bank in order to change the "irrational" interest system⁴⁹⁵,

- 5) to solve the problem of social burdens. According to the FAW [1993, p.9], there was 20% surplus of workers, and 20% retired workers that the group had to afford. The group had over 100 000 workers in surplus, but it had not the right to dismiss them. The internal security could not be guaranteed, because some workers after *laojiao* ought to come back to the *danwei*. It was generally said that: in the FAW, except a crematorium,

⁴⁹⁵In 1993, the interest rate for loans was 10.98%, the interest for savings was 3.15%, the different was 8.83%, this was considered as irrational by the FAW [FAW report, 1993, p.8].

there existed everything! From birth to death of the life of a worker and that of his family members depended all on the group. The FAW had 31 kindergartens, 22 primary and middles schools, plus also services of Police, of fire control, of hospitals, and service of civil constructions⁴⁹⁶. Non-operational expenses attained 120 million Y in 1993.

The long term development objective of the FAW was to become one of the top 500 big enterprises of the world [Sun, ed., 1995, p.81].

Concluding remarks:

- The reform of the FAW has showed a generally accepted idea, which was that in socialist planning, it was easier to gathering investment and to concentrate this investment in a large project, was not always true. For example, in 1986, when the FAW wanted to form kernel links with Jilin Auto Industrial Corporation, and Changchun Dongfeng Auto Factory, both of them asked to produce light trucks. Then FAW had to separate 2 light trucks assembly lines into these 2 factories. This was absolutely counter the principle of economy of scale. This was economically irrational. But in a socialist planning, economic irrationality ran over economic rationality and was often supported by administrative and political backgrounds.

- The reform was not guaranteed by legal contexts, for example, when the agreement had been signed among the FAW and the 4 factories in the 2 cities of Jilin and Changchun, then when there arrived problems of

⁴⁹⁶Furthermore, the civil constructions had been more and more since the reform, these constructions were: an intersecting bridge for Chanchun city, 10 million Y ; movie festival, several million Y ; publishing a magazine, a hundred thousand Y ; street lamps, etc. [FAW report, 1993, p.11].

understanding of the agreement, then the FAW had to made concessions, thus the economic rationality was not guaranteed by the law.

- The renovation for the production of medium vehicles that was carried out in the seventh and eighth FYPs (1986-1990, 1991-1995) costed about 11 billion Y. During these periods, the State accorded no more "free investment" to the *danweis*, as the FAW (as many others) had not kept any accumulated development funds, so the renovation or technological reconstructions were carried out by bank loans. However, the property rights of the fixed assets obtained through the renovations belonged to the State, the *danwei* had to pay the interests, the FAW paid 0.2 billion Y in 1992 for these renovations. This had been "lethal" to the *danweis* [FAW, 1993, p.5]. This shows us that the Chinese public ownership was in fact administrative and political. Even the terms shares, property rights were used, these terms did not have the real signification as in a developed country.

Case 2: Dongfeng Motors, DFM⁴⁹⁷ (or Second Auto Works Group, SAW)

Brief history of DFM:

The SAW began to be constructed in 1964 (officially 1969). In 1975, a base of production of cross-country vehicle EQ 240, 2.5-ton was completed. The State terminated its investment (totally 1.67 billion Y) to the SAW in 1978.

⁴⁹⁷In this dissertation, we use the terms DFM, or SAW equivalently. In fact, historically, the *danweis* have been renamed several times, but their initial names stays often in people's mind. Chinese documents, except official ones, do not distinguish each time the various names of the *danweis*, the main reason might be the non-substantial change of these *danweis* behind a simple renaming. This mixed usage of the various names of *danweis* is valid for all the *danweis* mentioned in our work.

The SAW group, or the Dongfeng Auto Works Industrial Joint-Managed Company was set up officially in 1981. The Dongfeng Auto Export-Import Company was set up in 1983, which meant the SAW group got the right of export-import⁴⁹⁸. The Xiangfan base began to be constructed only in 1984. The Dongfeng Trading Company was set up in 1985.

By end 1985, DFM cut across 21 provinces or regions/cities. It had 126 joint-venture factories. It realized 1.07 billion Y of profit. The total factor productivity were respectively 37 600Y (DFM) and 19 800Y (JVs). Profit on fixed assets per 100Y were respectively 39.5Y (DFM) and 46.9Y (JVs) [*China Economics Yearbook* 1986].

The construction of DFM was completed totally and officially in 1986 after the State's checking and acceptance. The production capacity was determined as 850 000 units. DFM became also an independent accounting unit in the Planning. The production attained 100 000 units in 1987. A project of building up a capacity of production for 300 000 cars was approved by the State in 1988. The foreign partner Citroën was selected in 1990.

In 1992, the Franco-chinese JV, DCAC was set up, the first Citroën ZX, were assembled by CKD under the name of Fukang. The SAW group was officially renamed as DFM group [DFM documents ; Sun, ed., 1995, p.92]. 140 000 vehicles were produced [Sun, 1995, p.23].

By 1993, the production capacity attained 200 000 trucks. DFM held 90 000 workers including 9 000 technicians. DFM had 11 Single-invested or majority "son-companies" (investment over 10 million Y), and 27 sharing son-companies (investment over 1 million Y), professional factories 37 ones. Total fixed assets attained 4.675 billion Y. Sales attained 7.862 billion Y, the 8th. of the top 500 Chinese *danweis*.

By 1993, DFM had produced totally 1.43 million vehicles, annual industrial value increasing rate was 13%, fixed assets augmented from 1.67 billion Y to 5.3 billion Y, accumulated profit-tax was 9.4 billion Y. The profits-taxes levying to the State was 4.8 billion Y, or 2.5 times that of the initial investment. [Ma Yao, General Director of SAW].

By the end of 1990s, the DFM had 320 joint-managed factories, cross 28 P/M/ARs. The number of its attained over 350 000. Fixed assets attained 8 billion Y. The group had 53 sales companies, over 300 services and repairing points national wide. The slogan of the DFM: if there is a quality problem, there will be a DFM technician coming within 24 hours [DFM documents ; Sun, ed., 1995, p.26].

By now, the SAW is the biggest automotive plant of the country in terms of its area, number of personnel, and capacity of production producing more than 140 000 vehicles per year.

⁴⁹⁸This was the first foreign trade entity in the automobile sector approved by the State in China [*Annals of China's enterprises register (special edition)*, 1984, pp.840-1].

Products:

The products of DFM began by the loading trucks. They were EQ140-1 5-ton series ; EQ 240 2.5-ton cross-country series ; EQ 245 3.5-ton cross-country series ; EQ 145 6-ton heavy truck (Ga. = 11 ton) ; EQ 153 8-ton diesel heavy truck (Ga. = 14.1 ton) ; 11 categories (172 variants) of transformed vehicles ; and Citroën ZX Fukang passenger cars.

Reform projects:

In 1989, the State approved that the SAW underwent an experimentation of "Empowered property rights management".

In 1995, DFM was selected as one of the "57 group pilot project".

Management reform facing low economic efficiency:

- Introduction of modern management method. Early in 1979, the SAW introduced a Japanese management method, "total quality", which was considered to have some positive results. Since 1983, there had been a movement of "excellent quality" - one goal was to be realized each year. In 1986, there was a "General survey of technology" to investigate into the precision of the equipment, 12 000 errors were found among several ten thousand working procedures. Most of these problems were solved by the workers themselves, 2000 were solved by the branch factories [Sun, ed., 1995, p.25].

- personnel training. There had been continuously several training programs of the personnel since the establishment of the plant [ibid., p.26].

- the organization of the governance was the "Factory Director responsibility system". The SAW emphasized on *quality*, thus "Factory Director responsibility system" was related to the "Factory Director *quality* responsibility system". Until now, a "quality meeting" is held once a month. In 1986, the SAW got the title of "quality products" ; in 1987-88 it got the title of "top-grade products" ; 1989 it got the title of "exempt of quality control" ; in 1992 it got the "State excellent products" [ibid., p.26], etc..

Car project: To set up a Franco-chinese JV was approved by the Central in December 1990, the project was to set up the DCAC with production capacity of 300 000 passenger cars. The first phase of the construction that was finished in 1996⁴⁹⁹, would produce 150 000 ZX cars and 200 000 motors in the 1990s.

The first car came out from assembly line in 1992. In the same year, 1 000 ZX cars were put into market. The first ZX cars were produced by CKD.

⁴⁹⁹The construction delay was only 48 months [Sun, ed., 1995, pp.4-5].

The contract was signed by the French and Chinese partners in 1991. The total investment was 7.5 billion FF⁵⁰⁰, which was at that moment, the largest amount in a cooperation agreement in industrial activities for France. According to the Chinese law for JVs, China should hold majority, however the DFM lacked capital, then the French Government offered low interest loans to the DFM so that the latter holds the 70% of the capital. The French partner holds 25%, in which some French banks hold 5%.

The Chinese Central Government paid highly attention to this project for the following reasons:

1) The technology was the most advanced at that moment. The Fukang (Citroën ZX) was a new model which entered the European market only since March 1991 [Sun, 1995, p.151]. In fact the ZX was put into Chinese market earlier than in Europe⁵⁰¹.

2) DFM was a big *danwei*, in the Chinese industrial reform, the Government expected the success of reforming the DFM so that it became an example for the reform of other *danweis*.

3) The JV locates at the middle reaches of the Yongtze River, which is a development priority just after the coastal cities. The DCAC consists of an important link in the Chinese industrial strategy. The central authority expects to form 2 large automobile groups in China with modern technological level.

Nowadays, the ZX cars become more and more favorite to modern Chinese people [RFI, 25th. May, 1998]. In 1997, ZX occupied 7.5% of the Chinese automobile market. It was expected to be 10% in 2000. The JV plans to produce 150 000 cars in 2001.

The management of the DCAC was considered as modern by the Chinese partner. The productivity had augmented continuously every year. The Chinese General Director in Xiangfan plant, Yao Bao-jun said: "Each worker of the JV can operate several machines. Our goal is to catch up with the factory of Citroën in France (Aulnay), to become one of the top automotive plants of the world". There were 5 000 personnel in the JV, including 50 French technicians and engineers.

Yao gave a metaphor: The DFM produced only trucks. The production of trucks and of cars are very different. Producing truck is like elementary school level, production car is like university level. Many workers of our plant have to "jump" from elementary school to university" level.

In fact, 85% of the workers attain education of high school. 45% graduated from universities. Many of them have come to France for training-ship.

There were many difficult points existing in the cooperation. For example for the production of injection motor, the 2 main difficulties were: 1) language, French technicians did not speak Chinese, Chinese technician did not speak French nor English.

⁵⁰⁰Or 7.898 billion Y [Sun, ed., 1995, pp.4-5].

⁵⁰¹*Hebdomadaire Economique*, May 1998.

Thus all depended on interpreters, even for small trivialities. A small error in translation could lead to big error. 2) The working discipline in the productive groups followed that in France. In order to catch up with the expected progress, so Chinese workers might give even superior efforts than that in France, but can they afford the extra efforts?

Since 1996, the DCAC has set up over 200 sales points in 12 cities in China. The French General Director, Duch⁵⁰² said: "We believe that the Fukang car is in a situation of explosion".

Even Chinese Government has limited the production of automobile vehicles recently, the number produced of ZX cars still increases by 20% per annum. There were 4 000 units produced in 1998. The main outlet for the ZX is taxis running mainly in Wuhan. Beijing began to use ZX taxis since mid-1998. The 2nd. phase of construction has begun in the end of 1990s.

The main competitor of the DCAC is the Shanghai-VW, which has earned relatively much profits since years by the Santana passenger cars, thus the latter can bear relatively heavy advertising costs.

The Chinese General Director of the DCAC Wuhan plant, Wang Shu-tang said: "The Wuhan plant has 2 300 personnel, 270 ZX cars are produced everyday. Senior technicians are all trained in France. Many of the technicians can speak French. The working hours are 2* 8 hours". The average monthly salary of normal workers was 1 000 Y. That of Wang was 2 500 Y. Of course, there were supplementary bonus such as housing, food, etc. All the workers belong to the Syndicate, whose function is supposed to protect the benefits of the workers, which is supposed to be also the benefit of the plant. There were 200 CPC members in the JV plant. Wang is a CPC member, but the CPC organization did not participate in the management of the JV⁵⁰².

According to Gilles Robert, the French Manger of the JV project, the JV project began in late 1980s. At that moment, the Chinese automobile market was still closed. To set up a JV was the only way to penetrate into the Chinese market. Since these years, the Chinese automobile market has not got bigger, but he believed that the sales of the ZX can be augmented.

The relation between FAW and SAW:

The relation of the FAW and the SAW is quite particular. In a way, it was the FAW who created the SAW. At the beginning of the construction of the SAW in the late 1960s, the FAW undertook the main construction of the SAW,

⁵⁰² *Humanité*, 28th. Oct. 1998.

including 11 specialized factories, 1 heat and power station, and the electroplating systems, 5 auxiliary factories. A newly developed model CA140 truck of the FAW was offered to the SAW unconditionally which was renamed as Dongfeng later on [Sun, 1995, p.76]. During the socialist planning, they considered each other as "fraternal factories", among them, no economic competitions, only "socialist emulations" could happen.

After the market mechanisms have been introduced in China, the FAW and the SAW have become more and more "competitors" on market in the place of "brother factories" under the Plan. Especially for certain products, the competition had been immense, for example, the FAW 141 and the SAW 140 5-ton trucks with both maximum speed of 110 km/hr.

In the production of passenger cars, the FAW firstly chose Golf for a capacity of 30 000 vehicles and Audi cars. To compete with the FAW, the SAW chose Citroën. The DCAC got low interest loans from the French Government, the first phase construction was completed in 1993, the capacity was predicted as 150 000 vehicles.

In fact, there was some great difficulty in the French cooperation, however the project was too big to stop, Chinese managers said: "unable to stop, unwilling to continue" [Sun, 1995, 78].

Then in turn, to compete with the SAW, the FAW decided to build a capacity of 300 000 vehicles for Golf [ibid., 78]. The FAW and the SAW were becoming more and more real competitors under market conditions In the

early 2000s, Chinese automotive constructors plan to compete to export their vehicles, by 2001, the quantity of export is planned to attain a little less than 10% of the national production⁵⁰³. The main problem will then be a quality problem.

The "enterprise groups" project was considered by the Central as a good example for the "enterprise group" development in China. By the end of 1990s, there had even appeared some "enterprise groups" for the TVEs, such as the Hengdian Group in Zhejiang Province. Some individual enterprises began to form "enterprise groups" too [CASS, 1996, p.210].

4.2 The "100 *danweis* pilots projects", *baijia shidian*, 2 cases (YMB, SLS)

The pilot project of 100 *danweis*, was supposed to take place from 1995 to 1996. Originally, the policy of this pilot project was drawn up by the SETC. However in practice, among these 100 pilot *danweis*, 70 of them were managed by the SETC, and 30 of them⁵⁰⁴ were managed by the SSRC (*Tigaiwei*). Through our on-site discussions with the CASS by end 1996, most of these projects delayed their programs, for example, by end 1996, the submission of reform projects of selected *danweis* to the State Council for examination and approval process had not been completed.

⁵⁰³RFI, 17th. May 2001.

⁵⁰⁴Cf. SSRC, Document No. 2 of the Conference of Modern Enterprise Institution Pilot Project [1996].

This pilot project had been discussed even before the Third Plenary Session of the XIV Central Commission of the CPC held in November 1993 and was carried out based on the *Decision*⁵⁰⁵ of this meeting. There were a series of conferences and seminars held in Beijing in November 1993, bringing together directors of some candidate *danweis* and researchers from academic fields to discuss the feasibility of this project. At that moment, theoretical and academic fields did not give any clear and *unanimous* idea of the project, the relevant "economic management departments" of the Central did not give any standard methods to the 100 pilot projects neither, but the candidate *danweis* of the pilot project knew that the task for them (supposed to set up MEI) might be "profitable", because, by their experience during the socialist planning, each project organized by the Central meant often extra allocations in terms of State's investment⁵⁰⁶ [interview Zhang 19th. Aug. 1996].

Generally speaking, the goal was to experiment ways of "empowered management of State-owned capital (*guoyou zichan shouquan jingying*)" [CASS, 1996, p.211], and of setting up MEI. There were 4 objectives for this project [ibid., p.240]:

1) To search possible effective ways to combine the all-people ownership and market economy, to promote the change of management mechanisms of *danweis*.

⁵⁰⁵Namely, *Decision on certain questions about setting up socialist market economy* [CASS, 1996, p.240].

⁵⁰⁶So many *danweis* had proposed their candidates for the pilot projects.

2) To explore the ways to separate administration and *danweis*, so that the *danweis* would be no more the annexes of the administration but agents in market, which would be managed autonomously according to the principles of market economy.

3) To clarify the relations concerning the property rights, to establish gradually the management and administrative system of State-owned assets, to establish the property rights of "enterprise-legal person. So that the *danweis* would become *legalis homo* enjoying civil rights and capacity bearing civil responsibilities ; so that to uniform the civil rights and capacity and the behavioral capacity of *danweis*, in such way, they would be responsible for their profits and loss.

4) To perfect the internal governance system of *danweis* in order to form mechanisms of clarified rights and responsibilities, of united cooperation, and of mutual-controlling.

For this project, the 100 *danweis* were chosen by the Central Government (State Council and some Ministries) [Zhang, 1997, p.54]. This project was supposed to be started in 1995 and to be completed by December 1996. However, by statistics of the CASS at end 1996, most of these projects were delayed by various reasons. The main reason was that the process of examination and of approval at higher level of the projects submitted by the candidate *danweis* had been long⁵⁰⁷. By August 1996, some

⁵⁰⁷Interview with Zhang, SETC, 19th. August 1996.

95 of the candidates had got approvals from the Central Government, one⁵⁰⁸ was disintegrated, another one was merged, and other 3 projects were still under discussions. Thus 98 projects were valid⁵⁰⁹.

There were officially 7 main tasks that the pilot *danweis* were supposed to realize in 2 years (1995-96) [CASS, 1996, p.240-1]:

1) To perfect the organization of corporation in *danweis*, so that the *danweis* could enjoy the property rights of corporations. According to the relevant measures, they were supposed to make inventory and evaluation of the capitals and assets, to delimit the property rights, to check up the debts, to clarify the part of capitals and assets that would belong to the corporation, in this way the "State-owned assets" could be thus registered and clarified.

The organizations, departments that the State had given authorization to put capital and other investors could enjoy the rights of shareholders of their shares according to the law. These rights included the return on capitals, decision power for major events and selection of managers, etc.. The shareholders bore also the responsibilities limited to their investment. The investors (shareholders) were not allowed to participate directly the concrete managerial activities, they could not govern directly the assets of the

⁵⁰⁸Namely, Shanghai Radio Factory No.3.

⁵⁰⁹Interview with Zhang, SETC, 28th. August 1996.

corporation. The investors could not draw their shares, however the property rights corresponding the shares could be transferred according to the law.

The reformed *danwei*, which had become a corporation, could enjoy civil rights and responsibilities, they became autonomous in the management, self-responsible of profits and loss, they bore the responsibility to keep the appreciation of the capital of the corporation. In this way, they were supposed to become an agent of the market, they relied no more the administrations, and had no more administrative hierarchies.

2) To determine the managerial organ of the State-owned assets. The principle was to separate the management function of the Government on the national socio-economic aspect and that on the State-owned assets. The Government empowered some "investment organs" to be the "main bodies of investment" which managed the State-owned assets through the rights of shareholders according to the law. These organs were special State-holding corporations. They could be: State investment corporations, State-owned capital managing corporations, and large "enterprise groups".

The separation of the Central and *danweis* was planned from top to bottom, in 3 levels:

Level 1: corresponded how the State exercises its function of owner or shareholder. The Government had several departments, in the socialist planning system, each department had their own *danweis*, thus the departments had power on their *danweis*. One of the reform aspect was to

separate the *danweis* from the governmental departments. Thus a Governmental organization *ad hoc* was established to replace the departments and to exercises the "ownership right" on the *danweis*. The organization *ad hoc* was the "State-owned Assets Management Commission" which was supposed to be the only owner of these *danweis*. By 1996, this commission had not yet been completely set up, the delay showed the difficulty to advance this pilot project. There were similar organs at the local Governments' level for local level pilot projects [Zhang, interview, 26th. Aug. 1996].

Level 2: Two types of organizations were set up for the 100 pilot projects: 1) the "State-owned single investor corporations (*guojia duzi gongsì*)". Most of projects (77 ones) had this form. The State (sometimes called "the principal" in Chinese documents) empowered "organs of State assets investment" (sometimes called "the agents" in Chinese documents) to manage these "State-owned single companies". 2) the "State Holding Corporations", in which the State held only part of the shares, other shareholders were other organizations, *danweis*, corporations, banks, etc.. These two organizations were set up according to the *Company law*.

Level 3: the reformed *Danweis*, or now called corporations, they were either under the "State-owned single investor companies", or under the "State Holding Companies", which were supposed to be their shareholders.

3) About the organizational form of each *danwei*: this depended on the particularity of each *danwei*. Some *danweis* produced special products or in special sectors, they could be transformed into "State-owned monopoly capital corporations", but most of them should become "limited responsibility corporations". If some of them were well qualified, they could become "limited shared corporations" with individuals, only few of them would be "subscribed on stock market". The existing "national sectorial general companies" could be transformed to State-holding corporations but could not become sectorial monopoly. *Danweis* in form of "enterprise groups" should re-organize themselves by the relations of headquarters-subsidiaries.

4) Concerning the internal governance, the "State-owned single investor corporations" should set up Directive Board, whose members should be appointed by the State-owned Assets Management Commission. Other corporations with "multi-investors" should all set up Board of Shareholders, Board of Directors, and Supervisory Committee. The members of Board of Directors, and of the Supervisory Committee should be elected according to the *Company law*.

5) Concerning the reform of systems of personnel and of salaries. The pilot *danweis* were to cancel the status of "State cadre" for the managers, to break the "status difference"⁵¹⁰ among workers and staffs, to establish the

⁵¹⁰The status of workers in a *danwei* were: "all-people ownership workers", which means those were registered in the planning, who enjoyed all the social advantages of the *danwei* ; "collective ownership workers", enjoyed less social advantages, managed at local or *danwei*'s level ; temporary workers who had almost no social advantages, etc..

"two-way selection" mechanisms for the personnel recruitment and management. The General Manager, Vice General Manager, and high level managing body should sign contracts with the Board of Directors, other employees should sign contracts with the corporation. The corporation and the employees could terminate a contract according to the law. When there would be major change in the activities of the corporation or there would be major difficulties, the corporation could dismiss employees once it bore the corresponding responsibilities written in the contract. The State controlled indirectly the national total amount of the salary of *danweis*. The salaries of employees were decided by the corporations themselves ; the remuneration (annual salary and primes) for the General Managers and for the high level managing body were decided by the Board of Directors. The remuneration for the Director of the Board of Directors, and Supervisors were decided by the Assembly of the Shareholders. Concurrent Directors and Supervisor could receive subventions.

6) The pilot *danweis* were to perfect the financial and accounting system in the corporations, to apply generally the *Enterprise finances general rule*, and the *Enterprise accounting norm*, so that these aspects corresponded the requires of the corporation institution and approached the international standard.

7) The pilot *danweis* were to perfect the syndicate, to strengthen the democratic management of employees. In the State-mono-shareholder

corporation, or corporations set up by 2 or more SPDs or State-owned investment-main-bodies, the Representative Assembly of Workers and other forms should apply the democratic management. In other limited responsibility corporations and shared limited corporations, the Representative of Workers or the Syndicate representatives could apply the democratic management. The representatives could negotiate equally and sign collective contract with the corporation on the subjects of salaries, working hours, and working conditions, they should be the effective mechanism to coordinate and stabilize the enterprise-worker relation. When the corporation made major decisions on the production, management, it should listen to the opinions of the syndicates and the workers. When decisions concerned immediate profits of workers, the representatives of workers and of syndicates attended the meetings as nonvoting delegates.

For the above point 2), by August 1996, among the 100 pilot *danweis*, 77 ones became "State-owned single investor companies", some of which were transformed into headquarters-subsidiaries relations by changing the second level *danweis* or productive main bodies into multi-shareholders limited responsibility corporations or shared limited corporations. 21 ones had various forms of evolution, 2 were disintegrated or refused. By March 1996, 16 ones became "shared companies" with multi-investment bodies. For the 100 *danweis*, they had established 584 subsidiaries (all were shared), 437 majority

shared subsidiaries, 310 branches, they bought shares (minority) in 619 corporations. In real concrete process, the three levels in point 2) could function from bottom to top, i.e., the *danweis* could find by themselves the State single investment companies to whom they wanted to "offer" their shares, or to become attached. In Chinese, this was called "sons can find their fathers". By the end 1996, level two and three had been basically completed, but level 1 had not yet begun. This was the contradiction of this project.

According to the Chinese Authority, the project was successful, by March 1996, 59 of them had reduced their debts, in which 13 had reduced the debts until more than 10%. On the separation of social functions from *danweis*, Among 100 *danweis*, 4 hospitals were separated out which lead to 130 kY of charges reduced ; 26 schools were separated out reducing charges 2.6 million Y. 93 000 superfluous workers were dismissed, among those, 23 300 retired, 55 200 re-oriented to tertiary sectors, 9413 under trainingship programs, and 6006 unemployed [CASS, 1996, p.241].

Among the 77 ones, 38 of them did not have subsidiaries, another 39 ones had subsidiaries (held shares of the subsidiaries). Some of these subsidiaries had various shareholders, including non-State shareholders. But most of the subsidiaries were still 100% held by the head quarters by the end of 1996. All of them (headquarters and subsidiaries) had the legal form required by the *Company law* [ibid.].

If there were non-State shareholders, they were allowed to hold maximum 20% of the shares of the *danweis*, they can be:

- shares for workers and staffs (*zhigong gu*),
- shares bought by other corporations (*faren gu*),
- shares on stock market (*shangshi gu*),
- shares bought by foreign capitals (*waizi gu*).

Still corresponding to the above point 2), the Board of Directors were appointed, people were often from the old system. For the General Directors, the Central Organization Division of the CPC (*Zhongyang zuzhibu*) sometimes with other Party's organs, gave their opinions on the candidates. Then the candidates were be "voted", "adopted" and "authorized" (legal form only) by the Board of Directors. Thus the Central Organization Division of the Party selected candidates for the post of the General Director [interview, 26th. Aug. 1996].

At lower level, in the subsidiaries of the above 39 ones and that of the other 23 ones of various forms, the Boards of Directors and General Directors were often formed and adopted under the *Company law*. According to Chinese experts, it seemed that the reform at lower level was more approximate to the real market economy. For example, the subsidiaries (of the 39) in the Provinces of Jiangsu and Ningxia, the local Party's Organs even could not intervene the Boards of Directors [interview, 26th. Aug. 1996].

In reality, most of the managers were almost the same people, many operational processes stayed the same as in the socialist planning system. For most of the *danweis*, only the "name" of the *danweis* had been changed.

Now we will see 2 examples of these 100 *danweis*. Here we begin by a case in the mining industry⁵¹¹.

Case 1. Yanzhou Mining Bureau (YMB, *Yanzhou Kuangwujū*).

Address: 82, Fushan road, Zouxian Chengguan, Shandong Province.

Sector: Coal excavation and production.

General situation and brief history of the YMB:

YMB was one of the only two mining *danweis* in the "100 pilot projects"⁵¹². YMB had been selected after a recommendation of the Party's organ of the Mining Ministry. The decision was made by the State Council.

The objective of the YMB project was to search efficient ways of deepening the reform, of transformation of management mechanism, and of establishing the MEI. YMB was under the leadership of the SETC assisted by the Mining Ministry and certain bureaus of local Government concerned. For the "100 *Danweis* Pilot project", the YMB aimed to become "Yanzhou Mining (Group) Limited Company" (YMLC).

The concrete goals of reform were: 1) to create more flexible management mechanism, 2) to obtain higher labour productivity, better economic profit, 3) to become more competitive on the international market.

Geographically, situated in the Southwestern plain of Shandong Province, the YMB has on its East, the 104 national road ; on its West, the Grand Canal between Beijing and Hangzhou, as well as the new railway Beijing-Kowloon⁵¹³ ; as well as 2 other railways on the North leading to the Rizhao Port on the East, and connected to an other railway linking to Longhai on the West.

There were 2 coalfields under exploitation: Yanzhou Coalfield and Jining East Coalfield. The net coal pit area was 446.6 km². The geological reserves attained 4 milliard tons of which 2.1 milliard tons were miningful. The coal type was gas-coal. There were

⁵¹¹In 1993-1996 the Chinese mining production had stayed still the first of the World [*Nouvelle d'Europe*, 1998.3.5].

⁵¹²There was no mining industry in the "57 groups pilot project".

⁵¹³Which was completed and opened to public since Summer 1996.

also other rich miningable ore reserves, such as kaolin, just in the Tangcun decrepit pit, the reserves attained already 31.55 million tons.

The Yanzhou mining district started its operation in 1958. But the YMB was set up in 1976. It is a ultra large basis of mining production and exportation in China. Since 1992, YMB had obtained several awards from the Central or various State or non-State associations:

1992: "National wide outstanding enterprise (Golden Horse Award)" ; First Prize of the 3rd. National wide management modernization innovation ; Technology Progress Award ; "China Quality-Efficiency Advanced Enterprise" ; "Typical Enterprise of First Lot of Changing Management Mechanism" ; "Shandong Respecting of Contracts Award".

1993: First Quality for the coal, awarded from the State Technology Control Bureau, and the Association of the China Quality Management.

1994: "Yanzhou Coal" was classed the unique "Famous brand product widely recognized in China" by China Social Investigation Institute.

YMB positioned at the number 209th. of most "profit and taxes" handed to the State in 1992, it became the 113th. in 1993 among the first 500 largest *danweis* in China. YMB was the number 3rd. of the "Top Ten" of the Chinese mining industry.

In 1994, the gross production volume attained 14.61 million tons ; total industrial production value was 2.806 billion Yuan ; realized profit was 239 million Y ; turned over tax was 145 million Y (to the State) [YMB, project, p.11]. The realized total asset was 6.547 billion Y [YMB project, p.11, p.46]; Operational asset was 5.783 billion Y ; Non-operational asset was 0.764 billion Y ; Ownership right shares 2.314 billion Y ; total liabilities 4.233 billion Y ; total receivable 0.817 billion Y ; debts 0.81 billion Y [Project Program of the YMB, 1994, p.11].

According to the YMB, its principle problems that should be reformed were:

- 1) non-separation of Government and the YMB, non-flexible management,
- 2) *Tiaotiao kuaikuai*, irrational industrial structure,
- 3) lacking funds, heavy debts,
- 4) heavy social services,
- 5) hard competition on market.

Guiding rules of the reform:

The *Decision*, issued by the Third Plenum of the XIV CPC's Central Committee, November 1993.

The *Company Law*, issued by the Fifth Session of the Standing Committee of the VIII National People's Congress, the 29th. December 1993.

And the *Program of Pilot Project* issued by the State Council, the 2nd. November 1994.

Aspects of the reform:

1) Ownership: the ownership was State-owned (public). The formal owner was the State Council. Until 1995, the YMB had been preparing to transformed to Yanzhou Mining Limited Company (YMLC) according to the *Company law*. For this reform, the question "who would be the concrete owner" had been quite a problem of discussion.

For this pilot project, the YMB "took temporarily the Mining Ministry" functioning in the role of its investor [YMB project, p.18]. The relations between the YMLC and its subsidiaries after the reform would be "empowering (*shouquan*).

2) Assets management, finance and accounting, emergence of costs:

The YMB was supposed to augmented the assets values, and productivity. By the reported finance and accounting figures, costs were rarely reported.

3) Main products, production and technology:

Main products of YMB were raw coal and washed coal. Differentiation of activities: no more sectorial limit. The YMB began to have activities in other industries, such as sectors of technology, trading, finance, etc.. The YMB predicted that by the end of 1996, 38% of total sales would be non-mining activities. This rate would attain 55% for the quinquennial period 1997-2000 ; and will be 45% non mining activities for the quinquennial period 2001-2005.

In the future, the YMB will have three branches of activities, they are:

a) activities in mining, electrical products, road, port, shipping, the YMB planned to realize comprehensive management development,

b) deep mining processing, comprehensive utilization development,

c) 10 main activities covering rural, industrial and tertiary activities: construction materials, textile-clothes, mechanical production and repairing, mining tools, construction installation, cultivating foods, commerce, tourist trade, science and technology development, finance, kaolin.

The YMB had not attained any international technological standards, but it declared to respect the standard GB/T19000 - ISO9000.

4) Upstream and downstream relations:

Relations with other SPDs in the socialist production networks: The upstream relations concerned: a) machines and tools, b) mines (natural rent). The supply of mines was a kind of "socialist oligopoly": there were 94 important mining *danweis* in the Plan, they were the principle suppliers in the whole country.

"*Tiaotiao kuaikua*": was limited by ministries, and by regions. But the YMB wanted to brakd the geographical limit (*kuaikua*).

The demand of the mines was quite various: there were the electricity plants, boilers of other *danweis*, and the individuals⁵¹⁴.

By the end 1990s, there had not been much growing market relations.

5) Personnel:

By January 1995, there were totally about 75 200 staff and workers in the *danwei*. Their working posts: raw-mining production personnel corresponded 25 800, or 34.3% ; non-raw-mining production personnel was the same number 25 800, or 34.3% ; rear services 20 600, or 27.4% ; others 3000, or 4%.

From administrative status point of view: among these 75 200 members, 66 132 were "all-people workers", or 87.94% ; the other 12.06%, or 9068 people corresponded the "collective workers". YMB had to assume 12 304 or 16.59%, retired and on leave personnel. Surplus personnel was 13 800, or 18.37%. 15% of the total personnel were engaged in social service departments.

From hierarchy point of view: managers corresponded 10 213, or 13.6%. Various technical personnel corresponded 9 269, or 12.3%.

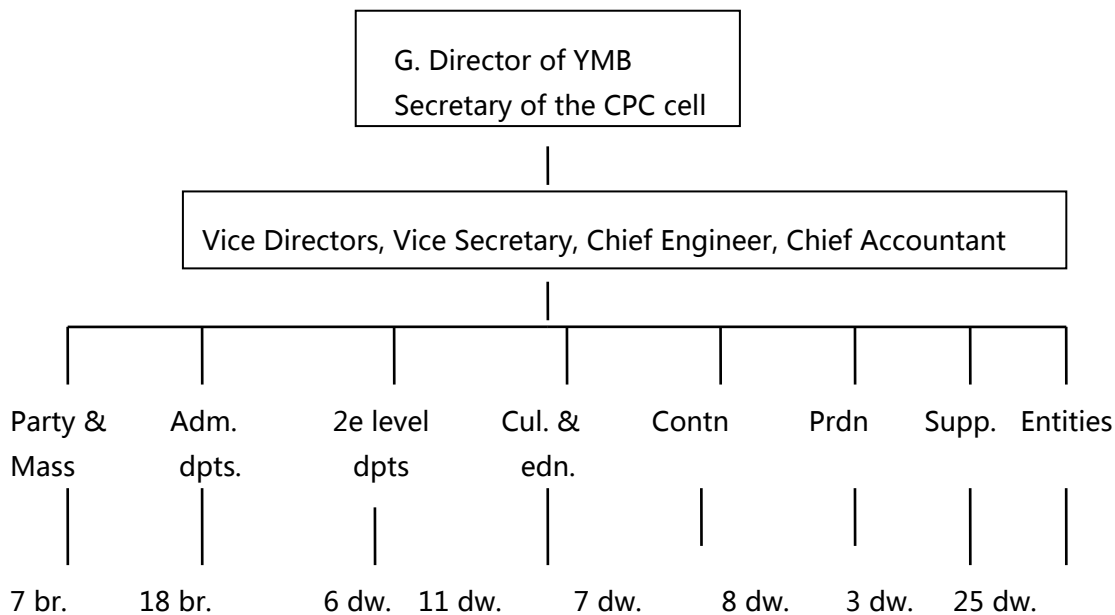
There were 25 functional services, and 22 direct subsidiaries. In the totally 47 units, there were 36 "independent accounting economic entities".

The ancient organigramme:

Now let us see the organigramme just before that YMB entered the "100 *Danweis*" pilot program.

⁵¹⁴In 1996, we still saw often, 3-wheel tricycles running in the big cities such as Beijing, Tianjin, Shanghai, Wuhan, supplying mines for households. Consumptions of households were subsidized by local Governments.

Figure VI.4: Socialist organigramme of the YMB.



From this organigramme of the YMB, we remark the following characteristics:

This was a typical M-form organization. Under the first level of General Director and Secretary, there was then the second level of Vice-Director, Vice Secretary, Chief Engineer and Chief Accountant, then there were in parallel 8 functional organs.

These 8 organs were: 1) Departments of Party and the Mass, 2) Administrative Divisions, 3) Secondary *Danweis*, 4) Production *Danweis*, 5) Construction *Danweis*, 6) Culture, Education, Hygiene systems, 7) Entity *Danweis*, 8) Auxiliary *Danweis*.

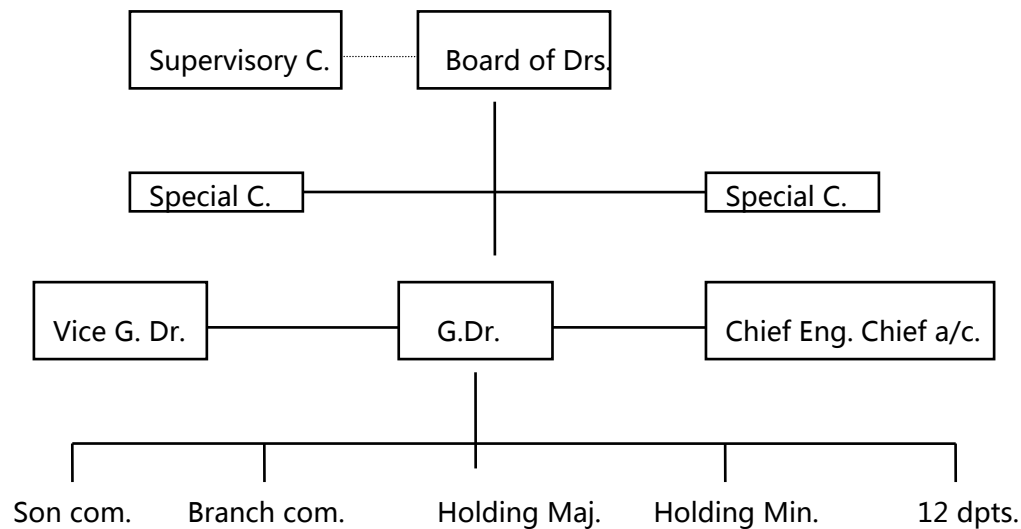
The Secretary of the Party and the General Director were at the same level. We underline the existence of the "Departments of Party and the Mass (*dangqun bumen*), under which there were, the "Bureau of the Party's Committee" subordinated to upper Party's Committee ; the "Organization Department" subordinated to the Central Organization Organ of the Party ; the "Department of Propaganda" ; the "Disciplinary Commission, Supervisory Committee" ; the "Organs Party's Committee" ; the Syndicate ; the "Youth League". Among these departments evidently, the CPC's Committee played important role in management decisions inside the YMB.

We notice that in the "Secondary *Danweis*", there were "Public Security" and "Armed Forces". So the YMB, as a *danwei*, played some part of the police's role.

Then in the "Culture, education hygiene systems", there were one "Party's School", one "Workers' University", two "Technical Schools", two Middle Schools, two Primary Schools, two Hospitals, and one Sanatorium. These became the "social burdens" since the reform.

The new organigramme:

Figure VI.5: The new organigramme of Yanzhou Mining (Group) Limited Company.



The 12 departments included Bureau of the General Director, Finance/Accounting, Labor Salary, Personnel, Planification, Development for non-mining activities, Production/Technical affairs, Construction, Security, Social affairs, Coordination, Machine/Electricity.

We note that in the new organization, there was an independent commission which was not listed in the new organigramme: The CPC Commission of the Yanzhou Mining (Group) Limited Company. It had 4 departments: Party's affairs, Labor Union, Disciplinary department, Youth League. And under the Party's affairs, there were 3 divisions: Bureau of the Party's Committee, Organization Department, Department of Propaganda.

By these organigrammes, we notice that there had been significant change in the structure of management of the YMB. New callings of working posts from market economy replaced the old socialist terms. The special committees were set up to solve the conflicts with the old system.

Analytical remarks on the YMB case:

- Before 1995, there was not much substantial change, YMB had been a *danwei* under the Central Planning. The YMB assumed the multi-functionality: production, social, ideology/political control.

- Through the pilot project, the YMB changed legally from a *danwei* under the Plan to a limited company according to the *Company law*. The relations of the "mother company" and the subsidiaries were "entrusting", certain Chinese experts called this the "principal-agents" relations. But under the superficial change, the ownership was still "public" ; most of the new managers were the ancient leaders, real functioning stayed almost the same.

In real functioning, the 12 departments under the General Director were the same as before, the Party & Mass organs existed still, the other *danweis* changed just the name, their relations with the core stayed almost the same.

- It seemed that the most important motivation of the YMB to become one of the pilot project was not to reform the *danwei* into something that would performant in the "socialist market economy" but to demand "help" from the Central. This was a very general mentality in the ancient industrial events. The YMB demanded to be a Yanzhou Mining (Group) Limited Company being entrusted by the State, so that the State would help it to readjust the structure of liabilities, or not to pay the "city maintenance and construction tax" and the "education added expenses", etc. [project, pp. 38-47].

- The reform for YMB had not brought satisfactory results in general until beginning 1998. The "economic growth" for the first two months was only 7.2% compared to 8.8% in 1997, the profits of the *danweis* decreased largely, many products un-suitable to market stayed in stock (558 billion Y), costs increased relatively. One of the most difficult sector was the mining sector. The production of mines had decreased 13.9%.[*Les Echos*, 1998.4.27]. According to recent statistics of income of the SSB, for the first 6 months of 1998, the average salaries of the workers in China varied from 462 Y/month (manufacture) to 828 Y/month (insurance). The workers of excavation were the most unlucky, they received in average 537Y/month which was inferior compared to that in 1997 [RFI, 10th. Aug. 1998]. At the beginning of 1998, Zhu Rong-ji, the new Premier decided to carry on administrative reform, since then, Ministry of Mining were canceled [*Lianhe bao*, Taiwan, 1998.3.2]. All ancient mining bureaus would be transformed into companies. The State decided that 94 most important mining *danweis* would be decentralized to local Governments [RFI, 1998.5.28].

Case 2: Shenyang Lathe Stock Limited-Liability Company (SLS)

Address: 2, Second block, Northern second street, Tiexi District, Shenyang, Liaoning.

Sector: Industry of Mechanic manufacturing.

Factory Director/Senior Engineer, DONG Qing-xiang.

Brief history of the SLS:

The SLS was known as the Shenyang First Mechanical Works (SFMW) before 1995 when the plant was selected into the 100 pilot projects. The SFMW situates in the

Liaoning Province north-eastern China. It was established during the FYP (1953-1957). The establishment of the factory was one of the State-invested 156 key engineering projects [Wang, 1994, p.556]. According to the First Quinquennial Plan, this factory falls in the category of investment with maximum amount of 5 millions Y⁵¹⁵. It was transformed from an ancient factory of 20 years old at the moment. For the period 1950s to 1970s, this plant was the biggest multi-producing mechanical plant in the country, and was one of the 18 factories of same kind which were nicknamed as the "18 *arhats*".

Since 1949, the plant has been expanded. By 1994, SFMW had produced about 180 000 lathes, and had formed 20 000 to 30 000 technical and management qualified personnel, the total "tax-profit" was about 800 millions Y.

The SFMW had a portfolio of products of 120 norms and of 300 categories of numerical controlled lathes, flexible units, machining centers, as well as standard lathes. The products varied from up market to down market. SFMW had various Chinese or international clients.

Reform:

The reform has begun in 1978 by a "fusion". Then a series of reforms had taken place inside the *danwei*. By the end of 1993, the factory had principally 5 changes:

1) From a unique form of "all-people ownership" into a diversified ownership, namely, "State-ownership the principle, other-ownership the supplement".

2) From one *danwei* into multi-*danweis*, the management became trans-regional, trans-provincial, and trans-national.

3) Products variation, from one sector to trans-sectorial.

4) From one angle management method into several angles management.

5) From one profit source curve into several profit source curves.

This period was described as the embryonic stage for the development of "mother-son enterprises" relation.

These reform programs were described as successful by the managers of the plant, for example, during 1978-1993, it earned 10 millions USD foreign currency ; also, since the second trimester of 1993, under shortage of funds, the sales still attained 100

⁵¹⁵Based on *The First Quinquennial Plan of the National Economic Development of the People's Republic of China*, People's Press 1955, cited by H. B. Wang [1994, p.122, p.327]: "For better managing and mastering by the State of the major basic construction units, in the light of the specific situation of our country, we stipulate off-norms investment by separated categories. [...]. For example, for industries, the off-norm of the industrial construction units are: steel industry, 10 millions Yuan ; non-ferrous, chemistry, cement industries, 6 millions Yuan ; electrical plants, transmission lines and substations, mining industries, petroleum industries, petroleum processing industries, mechanical (except transport mechanics) industries, repairs and spare-parts industries for vehicles and ships, textile (including printing and dyeing) industries, 5 millions Yuan ; rubber industries, paper making industries, sugar industries, cigarette industries, medical and pharmaceutical industries, 4 millions Yuan ; ceramic industries, food industries (except sugar) industries, and other various light industries, 3 million Yuan.

million Y. Based on the calculation method provided by the State, the Gross Margin in 1993 was superior than the historical record of the plant. According to the Director: "We are conscious that, compared to advanced enterprises of same kind in the world, especially from the point of view of Profit per-person, ours is just the $\frac{1}{4}$ or even $\frac{1}{5}$ of the world level. This reflects our general management level lags behind, we have the problem of 'vitality of enterprise'".

The SFMW was assigned as one of the 100 pilot projects for establishing the modern enterprise institution in 1994. For the SFMW, the first step was to transform the factory into a corporation having relations of "mother-son form" with its sub-factories.

For the SFMW, the modern enterprise institution had its immediate and deep historical significance. According to the Director: "it concerned the consolidation of socialism and whether socialism can triumph over capitalism, modern enterprise institution should have profound social attribute connotation, which must reflect the 'Chinese particularity'. Meanwhile the objective of modern enterprise institution is to make large and medium SPDs integrated to market economies and to international convention following the law of value and the law of supply-demand, in order to improve enterprise's economic efficiency, and to bring out the goal of maximization of profit ; to improve the personnel quality ; to rationalize the proportion of right, responsibility and benefit ; to guarantee that staff and workers to have their 'status of master', hence to form a mechanism which brings clear responsibilities, cooperations, and controlling of each aspects".

Principle problems facing to setting up modern enterprise institution:

1) the SFMW had 280 000 m² staff and workers' residence, it was worth 140 millions Y (500 Y for 1 m²), together with other collective welfare devices including hospitals, liquid gas station, schools, kindergartens, all these were not operating assets, they were to be deduced from the margin, this was considered as a very difficult problem, each year, the charge was heavy.

2) there were about 1 000 staff and workers who did not participate neither the production nor the management, but they were included in the calculation of "whole productivity rate". Also, there were people who were not appropriate to their posts, for example, about 100 ones had different levels of mental diseases that the SFMW took care of.

3) On the relation with the government, there were some relations difficult to cut off, this influenced the efficiency. For a scrapping declaration of a mechanical vehicle, the approval from the competent administrative office ought to be obtained, as well as that from the transportation offices and that from the financial offices. Another example was that the Government used to reduce the production value and the growth rate, it was well known that even the production value and the growth rate were not necessarily

suitable to the benefit of the *danwei*, yet the competent offices often went against the willing of the *danwei*, and went against the principle of increasing benefit of the *danwei* [Project 1995].

What SFMW needed to do to achieve the modern enterprise institution:

1) to clarify the property rights, according to the Director: "this is the source of vitality of the *danweis*, this means, based on a certain base of property rights, to re-adjust the structure of the rights. More concretely, the competent bureaus who manages the state-owned assets should be 'enterprized' so that they can seek the optimum and maximum appreciation as well as stabilization of profit and assets. Hence the *danweis* will not lose the battle in the market economy. In reality, the country lacks the law on property rights, thus there is no juridical guarantee. On the other hand, the governmental competent bureaus do not have any 'enterprization mechanisms', this makes it difficult that the *danweis* pursue the optimum, maximum appreciation as well as stabilization of profit and assets".

2) to rationalize the organization. Since about 2 decades' reform, *danweis* lacked still the basic management capacity, they were often the center of numerous contradictions of governmental policies. For SFMW, the MEI was a "system innovation" from previous reforms which was based on decentralization from the Central level to local levels.

According to Dong [p.5], it was known that traditional *danweis* were the fruits of planification, they displayed unique patterns of production, of factory, and of (all-people) ownership, the State or the competent bureaus at the upper hierarchy undertook unlimited responsibilities. This had led to the irrational allocation of resources, bad effects of management and low efficiency.

For Dong, a rational organizational system should have the following characteristics: a) Institutionalized corporation, which was the organizational form, the most typical, most advanced, most efficient under market economic conditions. b) Based on public ownership, to insist and to perfect the "Directors (Managers)-responsible mechanism" to guarantee that they exercise their functions and powers according to the law. This would lead to the following results: a) the *danweis* would have multi-*legalis homo*, and would become economic entity with auto-manageable, auto-balanced of profits and losses, auto-developing, and auto-controlling. b) the production would obtain high precision, high efficiency, high specialization. c) the management would attain pluralization, plural-angles, plural-efficiency.

According to Dong [p.6], these should be the criteria of the rationalization of organization of *danweis*, which could vitalize them, and this was the direction of development of the *danweis* in China. These criteria should be realized step by step.

3) to perfect the internal management. Strict management according to the law should be undertaken, as well as rational and legal management, so that the benefit of the State, of the *danwei* and of the staff/workers would augment all. Internal production corresponded the external circulation ; internal resources allocation corresponded the external environment ; and management strategy corresponded the concrete management methods. This meant from mono-production management to all-azimuthal management.

Analytical remarks on the SFMW case:

The situation of SFMW was similar to that of the YMB.

- Before 1995, there was not much substantial change, the SFMW had been a *danwei* under the Central Planning. It assumed the multi-functionality: production, social, ideology/political control.

- Through the pilot project, the SFMW changed legally from a *danwei* under the Plan to a limited company according to the *Company law*. But under the superficial change, the ownership was still "public" ; most of the new managers were the ancient leaders, real functioning stayed almost the same, the SFMW ; social burdens were difficult to cut off.

- Similarly to the YMB, the most important motivation of the SFMW to become one of the pilot project was not to reform the *danwei* into something that would performant in the "socialist market economy" but to demand "help" from the Central.

4.3 Other pilot projects

- "Socialist holdings"

The Pilot Project of State Holding Company (Socialist Holdings, SHs) concerned only three *danweis*, they were all under the Ministry of Industry, they were:

- China Petro-Chemical State Holding Corporation (*Zhongguo Shiyou Huagong Konggu Gongs*i, SINOPEC was the ancient name).
- China Nonferrous General Company (CNNC, *Zhongguo Youse Konggu Gongs*i),
- China Aeronautics General Company (CAGC, *Zhongguo Hangkong Konggu Gongs*i).

The objective concerning these SHs projects were about the "socialist competition". The relevant rules of the game were: 1) in 1980, the State Council issued the *Provision about to develop and to protect socialist competition*, 2) in 1993, the *Law of anti unfair competition*, 3) the *Company law*, 4) other different *Opinions* and *Methods* issued by the State Council or other Ministries or Commissions, and 5) some fourth coming *Laws* and *Regulations*⁵¹⁶ [Chen, 1996, p.2].

This pilot project began in November 1994, but by 1996, definitive reform process had not yet been well precised. There were 3 basic characteristics for this SHs: 1) to maintain the old (socialist public ownership) system, 2) to change the industrial organization according to the *Company*

⁵¹⁶The National People's Congress was preparing the *Law of anti-monopoly*. This law was considered as the "Basic of Law of Market". In his article, Chen [1996, p.2] deemed that the SHs should consider the linkage with the existing laws as well as the fourth coming *Law of anti-monopoly*.

law, 3) the Holdings touched upon the whole sector (*quanhangye*) that each of them belongs.⁵¹⁷

This project corresponded the State strategy of "big company, big group", these 3 SHs were supposed to become something like "State Monopoly" in a capitalist market economy [Chen, 1996, p.2]. In fact, among these three SHs, only CAGC was almost the same size as its international competitors. According to Chen [ibid.], the production capacities of SINOPEC and CNGC were among the first ones in the World, however, the scope of these 2 SHs were inferior compared to their *big* international competitors.

Under the public ownership. The investor was considered as the State Council. The total shares (and property rights) belonged to the State Council. This project did not have significant results, we can say that it ended up with nothing definite.

- "Capital structure optimization pilot projects"

The Pilot Project of Capital Optimization took place in cities at the provincial and municipal levels. It was organized by the SETC. Most of them were the cases of bankruptcy, or dismissing of employees. It began in June

⁵¹⁷One of the different features between these companies and those "One company for one sector" in capitalist market economy was that, the latter function under special laws, not under *Company laws* generally.

1994 in 18 cities. By 1996, it had been extended to 58 cities [interview SETC, 28 Aug. 1996], then to 100 cities by 1997.

The contents of capital optimization pilot project were: increasing values of assets in certain cases, various resorts such as remolding, fraction, merging, auction, and bankruptcy for other cases.

Value increasing of capital: in the early 1980s, the Central changed subventions (sometimes called "free investment") to *danweis* into credits or loans, *bogaidai*. This led to a great augmentation of liabilities in *danweis* meanwhile with decreased assets values. This was the main motivation of this project.

Remolding consisted of renewing the technology of production of the *danweis* so that they would survive in the "socialist market economy". Fraction was encouraged to solve the problem of surplus workers by arranging them to other professions.

Bankruptcy: it was said in China that "the SPDs had not 'died' since about 40 years", 15% of them could not no long continued to function, thus "they must die". Even the *Bankruptcy law* was issued in 1988, however there had been only several hundred *danweis* put to bankruptcy until 1993. So the Central encouraged bankruptcy cases through this project. By 1996, there were many bankruptcy cases reported in the Chinese mass media. Often *danweis* with better results merged that with bad results, real bankruptcy cases were not numerous. The bankruptcy was called "die hard". Two

problems had to be solved in the die hard cases with great difficulty: 1) outlets of workers, and 2) the way that banks took back the loans. The loser in the bankruptcy cases were the workers⁵¹⁸ and the banks⁵¹⁹ [interview SETC, 28th Aug. 1996].

During the eighth FYP (1991-1995), especially in 1993 and 1994, many organs of "property rights transactions" were established national wide to facilitate the merging, and share holding among *danweis*. Many *danweis* tried to find foreign investors to solve their problems.

The optimization of capital project was a kind of local reform, but it was organized by the Central. Later on, the project became more and more local.

The method of forming groups was used too, but this just led to the formation of large groups, the production content had not been changed. This was called by a foreign economist as making "ladder economies" which could avoid over mass-dismissing. Shanghai was firstly chosen to process this reform method in 1992. Each year about 100 000 working posts were canceled since then. According to Zhou of the SETC of Shanghai, they were going change the groups into "large international groups". In this ambitious project, bankruptcy and privatization had not been noted in the agenda [Les Echos, 5th. Aug. 1999].

⁵¹⁸ According to a circular of the State Council, the workers were paid 36 months salary in case of bankruptcy. Most of the die hard cases sold their lands to pay the workers. Bankruptcy was "expensive" for many *danweis*, especially military ones and many electronic factories built in remote areas which were considered as "strategic plants". Most of the workers and staff were selected among most well educated population, who paid their

5. Economic responsabilization without private ownership

In a capitalist market economy, the property rights are clarified. According to A. Randall⁵²⁰, clarified property rights means: 1) exclusivity, 2) transferability, 3) completeness, i.e., complete information on the punishment of transgression of ownership. 4) mandatority, i.e., the exercise of the ownership right is mandatory.

However, in China, the situation was different:

1) There is only one "owner entity" which is the all-people. One person does not have any ownership to nothing. As the CPC represents the all-people, so the CPC is not neither the owner. So it is blurred that who is the real responsible, who is the owner.

As the management of the SPDs is administrative, so one of the consequences is the "soft administrative constraint". Theoretically, the State Council executes the ownership, the departments or the local Governments have only the "hierarchized rights of management". I.e., the right of management is itself separated into several hierarchic levels [Jin, 1997, p.396].

youth in these faraway areas in the 1960s and 1970s, it was difficult to re-arrange them [interview SETC, 28th. Aug. 1996].

⁵¹⁹For example, the Shanghai Construction Bank could take back only 10% of the loans, 90% was lost.

⁵²⁰1975, "Growth, resources and environment: some conceptual issues", *American journal of agricultural economics*, 57, pp. 803-9, cited in Uekusa Masu, p.4].

Until now, "private owner of production means" is not defined and protected by the *Constitution*. By the sharing system, the property rights have been quantified to other *danweis* mostly, thus the large SPDs hold shares of each other, and all of them are still all-people-owned. For the small *danweis*, by the sharing system, the property rights have been quantified to individuals, but this is a kind of "illegal privatization without private owner".

2) The *danwei* works for the State, the degree of capacity of dispose the property is often approved by the State. The State prohibits the *danweis* to dispose the assets without authorization [Jin, 1997, p.397]. No incentives are from real profit seeking.

3) The "transfer" of the property rights is costless. When a Central *danwei* is decentralized to a local Government, or when a local *danwei* is centralized to the Central, there is no cost, only a piece of paper with a red seal is enough. However, the exchange of property rights, i.e., transferability, can be realized only if it is private property rights [Callon, 1997, p.8].

4) The State manages the *danweis* by "real material flux management". So the value of the property rights of a *danwei* does not exist. Moreover, to evaluate correctly their values will depend on the monetary reform.

5) The "State-owned enterprises" in China are "owned" by other *danweis*, various administrative level organs, such as the State Council, the Ministries, provincial Governments, and even cities under the level of P/M/AR. Thus the "State-ownership" is in fact a *multi-level administrative ownership*.

This ownership system cannot suit the introduction of market economic elements. There are two main problems issued of this all-people ownership for *danweis*. 1) the *danweis* have no right to dispose the property, there were many idle property. This leads to false evaluation of State property. 2) the *danweis* do not have incentives for profit seeking.

The concepts of ownership, property rights have been largely used in economic analyses in China since early 1990s. However the first root problem is the recognition and protection of private owners by the *Constitution*, but until nowadays, there has been no sign that the Chinese Authority is willing to change the *Constitution* on this subject. Thus any idea of the reform of the property rights in China is just superficial.

Furthermore, there are two main reasons of the Chinese leaders to against the property rights' reform: 1) the property rights' reform can lead to privatization (of large SPDs), however the ideological obstacle has not yet been overcome. 2) there is a cultural specificity, that is, the plural form of "rights" cannot be showed in the Chinese grammar, so Chinese people did realize there are several rights in the "property rights". Recently the recognition of the plural form of "property rights" seems to solve the problem: i.e., China can reform some of the rights of the property, but the owner's right can still stay as "all-people owned", the right of residues, the right of management, and the right of control can be given to the *danweis*.

By the separation of these rights, the SPDs can stay as "State-owned" meanwhile, managed by managing individuals (private). In this way the ideological obstacle" of privatization will not be a problem (pragmatism again). So some Chinese people think that the property reform is thus not necessary [Jin, 1997, p. 399].

In practice, the SPDs belong to the State Council, who represents the CPC and who in turn represents the *all-people*. For some Chinese economists, the owner and the property rights at the level of State Council is clear. But under the State Council is not clear [interview SETC, 28 Aug. 1996]. Because it is "several folds State-owned", which includes: Central Government level owned, local Government level owned, and branch administration owned, etc..

Under the State level by 1996, the power distribution was as the following:

- 1) State organs with power/rights on investment:
 - the State Planning Commission,
 - the SETC.
- 2) State organs with power/rights on appointment of high level personnel, including high level management personnel, vice PDG, General Accounting Chef, Secretary of Party/Youth League cells, and Chairman of the Syndicate:
 - the Party organs,
 - Central or local personnel departments.
- 3) State organs with power/rights on profits: the Ministry of Finance. Normally it was one of its subordinated State State-owned Asset Management Bureau (SSAMB, *Guoziju*), that was in charge of collecting from SPDs the profits after taxes. But it was the Ministry of Finance who had the power and the rights.
- 4) State organs with power/rights on lands: State Land Bureau.

By end 1990s, how had these organs operated? There had been solutions at the municipal and provincial level. For example, the Shanghai State-owned Asset Management Bureau (SSAMB) was composed by every parties of the subordination of these Central Organs. They often decided together and in unanimity.

But at the Central level, it related to the State Council level administrative reform. This would wait until March 1998 when the 4th. generation Premier Zhu Rong-ji coming into power to pronounce administrative reform at the State Council level. We have to await more evolution for this point.

The paradox was that, for example, the SSAMB ever thought it had the right to sell the SPDs, but this right was refuted by the State Council. But the local SSAMBs were the *owners* of the SPDs, they could *sell* the SPDs under their control.

All-people ownership system is the fundamental aspect of the foundation of socialism in China, this is written in the *Constitution*. The last *Constitution* precised that the leading position of the "all-people ownership" is either "State-owned" or "Collectively-owned". Before 1979 when individual business were allowed in China, there were only two type of productive

danweis ⁵²¹ : "all-people-owned enterprises" and "collectively-owned enterprises (COEs)". Sometimes the former were called also "large collective", the latter "small collective".

This was not distinguished by the size of the activities, but by the concept of the "owners". "Large collective" meant "all people owned", "small collective" meant "a subset of all people owned". In practice, "collectively-owned enterprises" belonged to the local governments, or other SPDs, but they were only partially, or even were not enumerated in the Central Plan. By the relevant Chinese laws or decrees on the "collectively-ownership", we see that this was quite a singular concept, for example, for some COEs which were set up in an industrial residential quarter, all people living inside the quarter were considered as the "collective owners".

"State-owned enterprises" were originally called "all-people owned enterprises (*quanmin suoyou qiye*)" from 1949 to 1984 ; then they were called "State-managed enterprises (*guoying qiye*)" from 1984 to 1995⁵²², they were "all-people-owned but managed by the State which was permeated by the CPC" ; then they have been called "State-owned enterprises (*guoyou qiye*)". By now most of them have change into forms of companies.

Privatization has always been regarded as the most great frame of mind for the Chinese leaders who insist on their socialist ideology. Since the

⁵²¹Only for the term *danwei*, there were three categories: SPDs, *qiye danwei*, non-productive *danweis* (*shiye danwei*), administrative *danweis* (*xingzheng danwei*), see Lu and Perry [1997, p.4].

⁵²²Cf. Chen Zhong, 1992, p.1, "*guoying qiye*" was mentioned in the eight FYP.

beginning of the reform, several waves of reform have been undergoing: leasing systems authorized in 1978 ; share system authorized in 1987 ; contracting system authorized in 1988 [D. W. Li et al. 1990] ; since the CPC's XIV Central Committee in 1992, the wave of "vitalizing the state-owned enterprises" which was fixed as an objective in the eighth FYP [Z. X. Li 1996] ; then "corporatization", and "modern enterprise institution" as one of the tentative plan of corporatization in the ninth FYP ; share system has been authorized in the CPC committee in 1997, then ideas of setting up "industrial groups" have been studied again. However all these methods and ideas were to reform but avoiding the "privatization evil".

In fact we can look at what have been done for the industrial reform such as the CMRS, share system, corporations, *ligaishui* (transform profits into taxes), or *zhaizhuangu* (transforming debts into shares), all these resorts have been based on giving *economic responsibilities* to the *danweis*, i.e., they are responsible to the profits and losses, especially losses. This *economic responsabilization* has been undertaken without privatization and private ownership for the large *danweis*.

For many small *danweis*, workers can now hold shares of their *danweis*, but can we call this privatization? Privatization needs existing systemic conditions, such as the recognition and protection by the *Constitution*, and such as the relevant institutions concerning the various rights of a private owner. However, as we have seen in Chapter 3, the Chinese *Constitution* does

not recognize neither protect the private ownership. Thus it is a kind of privatization without private ownership, it is in fact an *individualization*, which means the shares are held in hands of individuals.

For the large SPDs, according to the *Constitution*, the owner of the SPDs is *all-people*, represented by the Party-State-Government, who is neither a natural person nor a legal person, SPDs have been established as parts of the Party-State-Government. As a result, *danweis* are *not* entity resulted from free contracts of different parts as in a capitalist market economy based on private ownership. In a capitalist market economy, there are often laws *ad hoc* for the existence, the decision manner, and the functioning of nationalized firms. This is not the case for the SPDs which are not established by private individuals but as parts of the administration without autonomy of production and of management. The economic responsabilization in the large *danweis* has been based on a *vacant private ownership*. In the reform from socialist planning to "socialist market economy", when institutions of market economy act on these *danweis*, owners are vacant, as well as the rules of the game *ad hoc* are absent. Then any decisions on the *danweis* will lack legitimacy and effective banding force, consequently the restraints that the *danweis* bear are administrative and ambiguous. This leads to an ambiguity of the rights relevant to the ownership, then an ambiguity of economic responsibilities on the *danweis*.

The notion "MEI" and the great variety in the reform of the *danweis* showed that there was no concrete and clear-cut program to reform the SPDs. Situations could be different from case to case. But most of the methods were supposed to augment "efficiency" of the SPDs, this was to render the managers to be responsible of the profits and loss (economic responsabilization), and the workers to be responsible of their work, but without effective incentive control. So until now the industrial reform is still one of the most important and difficult problem in China.

For the reform of large SPDs, what has been done really in China, was to render "economic responsibilities" to the managers and worker. However, without an effective and private ownership, how can the relevant rights be well-defined and clarified? how can economic responsibilities can be really responsabilized?

Certainly, the initial problem of the SPDs are the non-separation of the Party-State-Government and *danweis*. The separation of the Party, the State and the Government consists of political reform, this does not fall in the field of our discussion, however, how to separate this Party-State-Government and the *danweis*? Will there be an efficient way for the separation(s)? Would the separation of the Party, the State and the Government be separated in the firstly place before the separation of the political-administrative spheres and the *danweis*? All these are still open questions which needs more thoroughgoing theoretical and practical work.

6. Conclusion

In this Chapter, we have discussed around the problems of reforms on the SPDs, the MEI and some main pilot projects, then we have discussed on the *economic responsabilization* without private ownership.

Many problems of the SPDs have not yet been solved at root through the different waves of pilot projects. In fact before the concept MEI, Chinese reformers wanted to carry out some kind of "institutional innovation", to find new structural organizations and new rules of the game that is not privatization for the Chinese industrial reform and that has never existed in the world. China had been looking for a way and a goal to modernize its industry for the modernized socialist market system. For this done, the number of pilot models supposed by the Central were limited, but the forms and methods of reform in different regions and at different administrative levels according to different size of SPDs were various. Especially, under the policy of "to seize the larges, to release the smalls", the small *danweis* could have more flexibility in their reform. We can almost say that the forms were unlimited. What lesson has all this given to the Chinese reformers?

Only very recently, it has been realized at certain degree that China cannot, at least, it is not realist that China carries institutional innovation for its "State-owned" industrial *danweis*. According to some Chinese economists,

MEI should be anything that has been effectively existing historically or actually in the world, probably something that has been developed in the "undesirable" capitalist market economy [Jin, 1997, p.9].

What has been done in the twenty years' of reform was to *responsabilize* the managers, the workers, the *danweis* of their profits and losses. The Chinese reform has follow a way of *economic responsabilization* without private ownership, as the Chinese *Constitution* does not recognize and protect the "private ownership of production means". But privatization had happened for small *danweis*. This is a kind of "illegal privatization with vacant private ownership".

By the separation of different rights of the "property rights", Chinese reformers think that it is not necessary to legitimate the private ownership. However, all the reform resorts have not been so satisfactory, the economic responsabilization process has been accompanied by numerous cases of corruptions. Based on public ownership, some Chinese experts suggested the Government should undertake the following measures: to set up same rule for all *danweis* and corporations of three different origins (*danweis*, JVs, foreign invested), so that they play "fair competition" ; to learn from governments of foreign countries, whose work should be: to welcome investment, to set taxes on profit and to sentence crime", in this way, the reform will have better results. But we wonder whether a successful reform and complete *economic responsabilization* will need an environment of private ownership?

GENERAL CONCLUSION

In this study, we have inquired into the nature of the "socialist market economy", of the SPNs and of the SPDs during the Dengist era. We have seen that the "socialist market economy" is neither socialist nor capitalist. The so-called "socialist market economy" does not mean a compatible relationship between socialist and market economy. As a system, it is a kind of co-existence of "loose socialism" and "wild markets". This is called by the Chinese leaders as the "initial stage of socialism".

In this co-existence, China has a mixed situation of socialist ideology (public ownership), of market elements, and emerging private economies, even privatization for small SPDs and some large SPDs. But the private ownership is not yet recognized and protected by the *Constitution* and by the political sphere.

Under the socialist planning, the so-called "State-owned enterprises" were not "enterprises" as in a capitalist market economy. They were *socialist production danweis* (SPDs). They formed some isolated *socialist production networks* (SPNs).

In the so-called "socialist market economy", the ownership is still "public ownership", i.e., all-people ownership for the large SPDs. But most of the SPDs have taken the new forms of companies, however, most of them still operate

by the same people, with the same obsolete technologies of production. Even new rules of the game have been set up, old institutions are not ready to give up their influence and vested interests.

The Chinese automotive sector has given a typical image of the SPNs, they were vertically and horizontally isolated by *administrative barriers* and *regional barriers* which still exist. The automotive SPDs were not professionalized in their networks. Foreign investment has played important roles in the restructuring of the automobile SPNs, which was a kind of splitting-up of old networks and to establish market relations among the reformed *danweis*.

The root problem of the Chinese industrial reform is to realize at certain degree an *economic responsabilization* of managers, workers without private ownership. Even though the institutional change since 1978 has been important, the reform does not appear to be on a threshold of irreversibility, i.e., irreversible institutional and systemic change.

Hayek ever noticed that: "the situation between planning and market is difficult"⁵²³. The co-existence of socialist and market has been in reality difficult for the industries. Then, arriving on the point of "socialist market economy", how to continue the reform of SPDs?

Even the Chinese leaders deny by all means private ownership and privatization in China, they call it *individual ownership*, and officially, there is

no privatization by now, however in reality, privatization of small *danweis* have happened since mid-1990s, as in Zhucheng, in Shandong Province. For the large *danweis*, many of them have sold part of their shares to individuals (inside the *danwei* or not). Certainly, we have here a question of definition of the term "privatization", and it is true that in some countries such as in France, a company is called private only if private shares attain more than 51% of shares, but this percentage is quite subjective.

On the other hand, there has been "bigwigs' privatization", which is a kind of spontaneous privatization of the Governmental officials, sometimes, it is called "corruption". As political power intervenes on market, on State's allocation of resources, on banking and finances, on human resources management, etc., by a "process of approval (*shenpi*)", officials on the posts in the process of approval may accept bribes from *danweis* who want to get help from the Governments. So political power is a kind of richness in China. This leads to the fact that if you have power, you can be rich. In such a way, State's capitals can become personal richness. So corruption leads to a kind of "bigwigs' privatization" ⁵²⁴ . The dual-track system in 1980s, the experimentation of share system in 1990s were the bases of this kind of privatization.

Thus privatization has existed already in China, but without a legitimate "private ownership". Consequently for China, the question is not privatization

⁵²³Cf. *The road to serfdom*, cited in Heilbroner, 1983 Chinese version, p.512.

but "when private ownership will be set up in the *Constitution* and be respected and protected by the Law"?

Once private ownership of productive means cannot be respected and protected by the *Constitution* and the Law, any privatization is non-sense. Otherwise the property rights cannot be efficient in terms of "being absolute, perpetuity, and heredity" as Cauwès had defined⁵²⁵.

When there will be no ideological obstacle, and private ownership will be set up, then privatization will be generalized to the large SPDs, this may be the moment of irreversibility of the Chinese reform. Of course, China needs to establish new institutional and organizational instruments that permit eventually privatization to face problems such as the dismissed workers, etc.. Thus this will not be in a short future.

We can list the following main reasons that privatization is not for the immediate future in China:

- the actual market system still lacks orders.
- immediate privatization will be privatization without capitals.
- immediate privatization will lead to immediate seeking of productivity in large SPDs, then there will be a great number of dismissed workers, but the existing private economies and the tertiary sector are not yet ready to absorb so many workers.
- the mentality of Chinese workers stays still at the level that they are still the "master" of the *danweis*, so they do not want to be "exploited".

⁵²⁴He, Qing-lian, 1998, *The trap of modernization*. China Today Press, Beijing ; and RFI, 15th. Dec. 1998.

⁵²⁵P. Cauwès, 1883, *Cours d'économie politique*. 3rd. Edition, cited in Charreaux et al., 1987, p.63.

- the Authority is not ready to give up the socialist ideology, thus political reform may be necessary before setting up a private ownership system and privatization.

Thus a private ownership system and privatization will wait until it will be *politically acceptable* (ideology of the Authority) and *economically feasible* (mass dismissing, protection of owners, market of shares, etc.).

Other important questions are "what should be the 'third way?" and "is China 'qualified enough' to find this third way"?

In the speech at the Nobel Prize reward meeting, D. North [1993] pointed out: The countries with different initial conditions lead to completely different development roads, merely because of different institutional choices, some of them has got into traps, others has had quick development [Xiao, 1997, p.69].

Unlike Eastern European and ex-USSR countries who wanted to "return to Europe" and to adopt a private economy, China had not such an explicit example to follow neither a clear idea of the reform. Since the late 1970s, China has had "ceaselessly changing objective models" [Fan, 1994, p.103]. However, the Chinese leaders boost to lead a "Chinese specific socialist road". They are pretending to be "groping for stepping-stone to cross river" (which implies to allow different norms to exist), but meanwhile they seem to have already in their mind taking the existing "capitalist market road" as guide of

action. Do they really mean to lead China to some "institutional innovation" to find a "third way" in the future?

The *Resolution on certain Party's historic questions since the establishment of PRC*, of the 6th. Plenary of the XI Congress of the CPC pointed out: "The development of the socialist productive relations does not exist a fixed model, our task is, based on the demand of our country's development of productive force, on each period, to create relevant and conducive concrete forms for the progress of productive relations" [Wu, 1989, p.553].

Since long time, China has been taking a strategy of "catching up and surpassing the Great Britain and the USA (*chaoying ganmei*)", this was the famous slogan during the Great Leap Forward (1958) [Wang, 1995, pp. 10-11]. Then in 1977, during the National Planning Meeting, the advanced strategy for industrial development from 1978 to 2000 was: main industrial products and output must *catch up with* and *surpass* those of the developed countries ; Main production aspects must realize automation, transport will develop high speed, main products will have modernized technology, and every economic index must *catch up with* and *surpass* that of the developed countries [Wang, 1986, p.403]. What a similar formulation!

Is China trying to find a third way or it is just follow the footsteps of the developed countries by the old strategy of "catch up and surpass"? The human history has told us: there has been no a country in the World which

has realized the modernization⁵²⁶ relying on some socialist planning, however, all developed countries function under capitalist market economy [Jin, 1997, p.12].

Then the next question: Is it really necessary for China to find a third way? By the end of the XX Century, China should begin to reflect whether it should do what has been proved effective by the practice of other countries, or to continue to explore and experiment in the dark its own road. That is also why some new generation Chinese writers have suggested that China should take a strategy of "road of elephant", but not "road of tiger (USA)" or "road of wolfs (GB, France, ...)"⁵²⁷.

When China took the "socialist road" in 1949, its situation has been generally recognized to be "immature". Nowadays, is China "qualified enough", or say "mature enough" to find this "third way"? We may make a hypothesis that, a "third or fourth way" may only be found by developed countries.

⁵²⁶The level of development of the most industrialized countries.

⁵²⁷Cf. Peng Ming, 1998, *The fourth monument* (Disi zuo fengbei) ; and RFI, 1998.12.23.

CONCLUSION GENERALE (en français)

Dans cette étude, nous avons enquêté sur la nature de "l'économie de marché socialiste", de RPSs (*Réseaux de Production Socialistes*), ainsi que sur celle de DPSs (*Danweis de Production Socialistes*) durant l'ère de Deng. Nous avons vu que "l'économie de marché socialiste" n'est ni socialiste ni capitaliste. Le terme en lui-même n'implique pas une compatibilité entre socialisme et économie de marché. En tant que système, il signifie une sorte de coexistence de "socialisme souple" et de "marchés sauvages". Celle-ci est appelée par l'Autorité Chinoise "étape initial du socialisme".

Dans cette coexistence, la Chine connaît une situation mixte comprenant de l'idéologie socialiste (le droit de propriété publique), des éléments de marché, des économies privées émergentes, même des privatisations de petites DPSs et de certaines DPSs de moyenne taille. Malgré tout, le droit de propriété privé des moyens de production n'est pas encore reconnu et protégé par la Constitution et par la sphère politique.

Sous la planification socialiste, les soi-disant "entreprises d'état" n'étaient pas des "entreprises" à l'image d'une économie de marché capitaliste. C'étaient des *danweis de production socialistes* (DPSs), formant des *réseaux de production socialistes* (RPSs) isolés.

Dans la dite "économie de marché socialiste", le système de droit de propriété est encore "public", c'est-à-dire, c'est le droit du *peuple entier*, qui s'applique aux grandes DPSs. Bien que la plupart des DPSs aient pris les nouvelles formes de société, une majorité est toujours dirigée par les mêmes personnes, avec les mêmes technologies de production, souvent obsolètes. Bien que les nouvelles règles de jeux aient été établies, les vieilles institutions ne sont pas prêtes à abandonner leur influences, leurs intérêts et leurs droits acquis.

Le secteur automobile Chinois a donné une image typique des RPSs, qui sont verticalement et horizontalement isolés par des barrières administratives et des barrières régionales toujours existantes. Les DPSs automobiles ne sont pas divisées professionnellement dans leurs réseaux. Les investissements étrangers ont joué un rôle important dans la restructuration des RPSs automobiles. La restructuration commence par une sorte d'éclatement (*splitting-up*) des anciens réseaux avec pour but d'établir des relations de marché parmi les *danweis* réformées.

Le problème dès l'origine de la réforme industrielle Chinoise est d'arriver à un certain niveau de responsabilisation économique des gestionnaires et des ouvriers sans la propriété privée. Bien que les changements institutionnels aient été importants depuis 1978, la réforme ne paraît pas avoir atteint un seuil d'irréversibilité, c'est-à-dire, un changement systémique et institutionnel irréversible.

Hayek a dit que: "une situation entre la planification et le marché est difficile".⁵²⁸ La coexistence entre le socialisme et le marché a été effectivement difficile pour les

⁵²⁸Cf. *The road to serfdom*, cité dans Heilbroner, 1983 version Chinoise, p.512.

industries. Alors, en arrivant à "l'économie de marché socialiste" maintenant, comment continuer à réformer les DPSs?

Même l'Autorité Chinoise dénie de toutes ses forces le droit de propriété privé et la privatisation en Chine, appelé *droit individuel*, et officiellement, il n'y a pas de privatisations jusqu'ici. Or, en réalité, la privatisation des petites *danweis* a eu lieu depuis le milieu des années 1990, comme à Zhucheng, dans la Province de Shandong. Pour les grandes *danweis*, beaucoup ont vendu une partie de leurs actions aux individus (appartenants ou non au *danwei*). Certes, nous avons ici une question de définition du terme "privatisation", et il est vrai que dans certains pays comme la France, une entreprise est classée privée seulement si les actions privées atteignent au minimum 51%, or ce pourcentage est subjectif.

De l'autre côté, il y a eu des "privatisations de bigwigs", qui sont une sorte de privatisation spontanée par les officiers des gouvernements, parfois, elles sont appelées "corruptions". Comme la politique intervient sur les marchés, sur l'allocation des ressources, sur les banques et la finance, sur la gestion des ressources humaines, etc., au travers d'une procédure d'approbation (*Shenpi*), les officiers dans la procédure d'approbation, peuvent être corrompus par les *danweis* qui veulent atteindre des objectifs propres. Ce qui signifie que le pouvoir politique est une sorte de richesse en Chine: si vous avez le pouvoir, vous pouvez devenir riche. De cette manière, des capitaux étatiques peuvent devenir richesse personnelle. Ainsi certaines corruptions deviennent-elles "privatisation de bigwigs"⁵²⁹. Le système de "dual-track" dans les années 1980, l'expérimentation du système d'actionnariat dans les années 1990 sont basés sur ce genre de privatisation.

Donc la privatisation existe déjà en Chine, mais sans être accompagnée d'un système de droit de propriété privé. Par conséquent, la question pour la Chine n'est pas celle de la privatisation ou non, mais plutôt celle de savoir "quand un système de droit de propriété privée pourra être établi par la *Constitution* et être respecté par la loi".

Si le droit de propriété privé des moyens de production ne peut pas être respecté et protégé par la *Constitution* et la loi, alors toute privatisation devient insignifiante. Autrement dit, les droits de propriété ne peuvent être efficaces dans les termes définis par Cauwès⁵³⁰: "absolu, perpétuel, et héréditaire".

Quand il n'y aura plus d'obstacles idéologiques, et que le système de droit de propriété privée sera établi, alors seulement la privatisation aura du sens, et elle sera généralisée sur les grandes DPSs, et à ce moment-là, sera atteint le seuil d'irréversibilité de la réforme. Certes, alors la Chine aura besoin d'établir de nouveaux instruments institutionnels et organisationnels pour permettre cette privatisation éventuelle et pour faire face à des problèmes comme le licenciement de masse, etc.. Donc cela ne sera dans un futur proche.

Nous pouvons lister ci-dessous les raisons principales qui empêchent la privatisation d'être immédiate en Chine:

- le système de marché actuel manque encore d'ordre.
- la privatisation immédiate serait une "privatisation sans capitaux".

⁵²⁹He, Qing-lian, 1998, *The trap of modernization*. China Today Press, Beijing ; et RFI, le 15 Déc. 1998.

⁵³⁰P. Cauwès, 1883, *Cours d'économie politique*. 3^{ème} Edition, cité dans Charreaux et al., 1987, p.63.

- la privatisation immédiate entraînerait la recherche de productivité dans les grandes DPSs. Il y aurait donc un grand nombre d'ouvriers licenciés, tandis que les économies privées existantes et le secteur tertiaire ne sont pas prêts à les absorber.
- la mentalité des ouvriers Chinois reste encore marquée d'un sentiment d'être les "maîtres" de leurs *danweis*, refusant d'être "exploités".
- l'Autorité n'est pas prête à abandonner l'idéologie socialiste, donc une réforme politique serait indispensable avant la mise en place d'un système de droit de propriété privée, et la privatisation.

Ainsi le droit de propriété privée et la privatisation attendront qu'ils soient *politiquement acceptables* (idéologie de l'Autorité) et *économiquement faisables* (licenciement de masse, protection des actionnaires, marchés des actions, etc.).

D'autres questions importantes se posent aussi: "quelle serait la 'troisième voie'?" et "est-ce que la Chine serait suffisamment qualifiée pour trouver cette troisième voie"?

Dans son discours de la cérémonie de la remise du Prix Nobel, D. North [1993] remarque que, les pays ayant des conditions initiales différentes ont également des voies différentes de développement ; et que seulement par des choix institutionnels différents, certains se sont enfoncés dans des pièges, alors que d'autres ont connu des développements rapides [Xiao, 1997, p.69].

Contrairement aux pays de l'Europe de l'Est et de l'ex-URSS qui veulent "retourner dans l'Europe" et adoptent l'économie privée, la Chine n'a pas un tel exemple à suivre et n'a pas d'idée claire sur sa réforme. Depuis la fin des années 1970, la Chine a changé les objectifs de la réforme de façon continue [Fan, 1994, p.103]. Or l'Autorité Chinoise prône de prendre "une voie socialiste spécifiquement Chinoise". Ils disent "tâter les pierres en traversant la rivière" (ce qui signifie laisser coexister des normes différentes). Pourtant, en même temps, ils semblent déjà se former dans leur tête l'idée de prendre "la voie d'économie de marché capitaliste" comme guide d'action. Veulent-ils vraiment entreprendre une sorte "d'innovation institutionnelle" pour trouver la troisième voie?

La *Résolution sur certaines questions historiques du Parti depuis l'établissement du RPC*, de la 6ème Session Plénière du XI Congrès du PCC indique: "Le développement des relations productives socialistes n'a pas un modèle fixe, notre tâche est de se baser sur la demande de développement de la force productive de notre pays dans chaque période, de créer des formes concrètes, appropriées et contribuant pour le progrès des relations productives" [Wu, 1989, p.353].

Depuis longtemps, la Chine a adopté la stratégie de "rattraper et surpasser la Grande Bretagne et les Etats-Unis (*chaoying ganmei*)". Tel était le fameux slogan pendant le Grand Bond en Avant (1958) [Wang, 1995, pp.10-11]. Puis en 1997, pendant la Réunion Nationale de la Planification, la stratégie prônée sur le développement industriel de 1978 à 2000 était: la production des produits industriels principaux doit *rattraper et surpasser* ceux des pays développés ; les principaux domaines de production doivent atteindre l'automatisation, le transport doit développer la grande vitesse, les principaux produits seront produits avec les technologies

modernes, et chaque indice économique doit *rattraper et surpasser* ceux des pays développés [Wang, 1986, p.403]. Quelle formulation ressemblante!

La Chine est-elle en train de chercher une troisième voie ou de juste emprunter les pas des pays développés par la vieille "stratégie de rattrapage et surpassage"? L'histoire humaine nous indique qu'il n'y a pas un pays dans le Monde qui ait réalisé la modernisation⁵³¹ se fondant sur une certaine planification socialiste, pourtant tous les pays développés fonctionnent avec économie de marché capitaliste [Jin, 1997, p.12].

Puis la question suivante doit être: est-il nécessaire pour la Chine de chercher une troisième voie? A la fin du XXème siècle, la Chine devrait bien réfléchir pour savoir si elle doit faire ce qui a été prouvé efficace par la pratique des autres pays ou explorer et tâtonner dans le noir son propre chemin. C'est pourquoi certains écrivains Chinois de la nouvelle génération ont suggéré que la Chine doive prendre "une voie d'éléphant", et non pas "une voie de tigre (USA) ou de loups (GB, France, ...)"⁵³².

Quand la Chine prenait "la voie socialiste" en 1949, sa situation a été généralement considérée comme "immature". Maintenant, la Chine est-elle "assez qualifiée" pour chercher cette troisième voie? Nous pourrions faire l'hypothèse qu'une troisième ou une quatrième voie ne pourrait être trouvée que par des pays développés.

⁵³¹Le niveau de développement de la plupart des pays industriels.

⁵³²Cf. Peng Ming, 1998, *The fourth monument* (Disi zuo fengbei) ; et RFI, le 23 Déc. 1998.

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APPENDIX 1: Map of China - provinces and provincial capitals.

APPENDIX 2: Automobiles production in volume from 1955 to 1997.