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Jackson: Chinese Enterprise Management

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Sukhan Jackson

# Chinese Enterprise Management Reforms in Economic Perspective



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Dr. Sukhan Jackson is Lecturer at the Department of Economics,  
University of Queensland, St. Lucia, Brisbane, Queensland, Australia

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Department of Economics  
The University of Queensland  
Brisbane  
Queensland  
Australia 4072

Sukhan Jackson  
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# An Introductory Overview

Economic reforms have been the centre of attention of Chinese policy makers, China watchers and people wishing to do business in China for more than a decade. This book aims to explain the dynamics of the mainstream Chinese economic reforms, particularly the reform of Chinese enterprise management. The core of the enterprise reform is the expansion of management autonomy involving decentralisation of decision-making powers to the individual firm. In China, decentralisation of management decision-making has been the precursor of similar reforms in related areas. So far, they include reforms in the supply of inputs and distribution of the finished goods, labour and wage reforms, affiliated reforms in the financial and banking system, and even some diffusion of ownership.

The significance of decentralisation of decision-making to managers is that this micro-level process has profound implications for the broad perspective of the whole economic system. The scope and velocity of the expansion of management autonomy in state firms ultimately determine whether the whole reform process is propelling China towards a form of market socialism or constitutes only a partial reform of the existing system. This book also addresses the wider question of the extent to which China is moving into market socialism since there is little doubt that China could not return to the old centralised economic system based on the Soviet model. In addition, this book attempts to add to the scanty knowledge of the detailed level of the real environment of the management reform by including a case study of a large state-owned enterprise in Sichuan Province.

The study is not concerned with political and cultural reforms. Consequently, it does not try to deal with the Democracy Movement associated with the 1989 Tiananmen massacre nor the changing position of intellectuals. The focus of this book is clearly on enterprise management in Chinese industry and does not cover all aspects of the rapidly changing economy.

Even now, the political upheavals in Eastern Europe at the beginning of the 1990s do not obscure the importance of the Chinese experience. Rather, the Chinese reform model has come into new significance in the context of the desire of these countries to reform to a kind of market economy. The Chinese experience is already a rich accumulation of more than a decade of more or less continuous reform efforts.

China, a latecomer in adopting centralised planning and a late starter in the reform movement, is now well ahead of the former USSR and Eastern Europe in market reforms (although not so in political reforms). The former USSR and the

East European countries were ahead of China in initiating economic reforms in the 1960s. That was the first serious attempt made to reform the economic system and, as a result, variations of the socialist economic system had evolved in different countries in Eastern Europe, as a result of transferring varying degrees of decision-making powers from the central authorities to the individual firm. Since then, there had been reversals and modifications. The reform, with some revisions, has survived in Hungary. Apart from the exceptional case of market socialism based on worker self-management in Yugoslavia (whose political future is uncertain owing to civil war at the time of writing this book), the former USSR and many of the other East European countries during most the 1970s and 1980s had followed a partially-revised centralised model.

For the 1990s, if the leaders in Eastern Europe, in particular the former USSR, Czechoslovakia, Romania, and Poland, are serious about turning to the market economy, they cannot afford to ignore the Chinese approach to the reform challenge. In formulating their own reform policies they will have to take the Chinese reform model into consideration.

A likely event in the reform process is the complete turnaround to become a capitalist economy as in East Germany. For countries that would remain within the boundaries of socialism the reform options are limited. Nevertheless, there are still alternative directions and paths of reform available in terms of the market replacing the planning mechanism. The debate in China during the 10 years or so has been whether the market should be subordinate to planning? Should mandatory planning give way to market forces in the production process? Should marketisation be extended to labour and capital, and other areas of the economy? These economic issues are all closely linked to the decentralisation of decision-making to the individual firm.

Thus the Chinese reform, during the last decade or so, was charted out in terms of these available options. A major characteristic of the reform movement since 1978 has been the oscillation between liberalising measures for a greater market role and reversals to more centralised planning measures; but overall, the reform has advanced towards market liberalisation.

Most vital to the understanding of the reform configuration in China is the awareness that politics had been closely knitted with economics. The formulation of economic policies has often been subject to political influences since the beginning of the People's Republic of China (PRC) in 1949. There have always been factional divisions within the Chinese Communist Party (CCP) on the issue of socialist construction. The well-known policy vacillations in the past reflected the internal power struggles amongst Party elites of the different factions. The same fissures in Party solidarity would prevail upon the direction of the post-Mao reforms. There have always been different groups, both in and outside the Party, holding a wide spectrum of views, ranging from the extreme left to the extreme right. A simplistic classification would include three major schools of thought:

1. The first comprises the leftist Maoist followers and associates of the “gang of four”. This faction had political support from Mao Zedong and therefore had greatly influenced developmental policies for a large part of the time in China, until the fall of the “gang of four” in 1976. They had subscribed to the traditional Stalinist type of centralised planning but had blended into the orthodoxy, the leftist Maoist principles of “class struggle”. These members of the Party Left are inactive, at least temporarily, in the post-1978 period.

2. The second consists of the centre-left groups who, in the past, were the political rivals of leftist Maoist group, and many of them were branded as “bourgeois” and suffered persecution during the Great Leap Forward (GLF) in 1958–1960 and the crest of the Cultural Revolution (CR) campaigns in 1966–1969. They had always advocated a role of the market as a supplement to planning, and contact with the world outside China. After 1976, they held political power and the economic thinking of this group has influenced the reform policies for most of the time in the 1980s and now in the early 1990s. Nowadays they are also referred to as the “conservatives”.

3. Thirdly, the rightist groups have existed in China even as early as the 1950s. Their pro-market views were kept “underground” during the Maoist period but given full “flowering” during the reform decade especially after 1984 when marketisation reached a peak. They are also called the “liberal reformers”. However, the second group, the conservatives, seemed to have recovered sufficiently to press for more centralisation in 1988 under the austerity programme which has continued into the early 1990s. The position of the liberal reformers was greatly weakened by the Tiananmen Incident of 1989, and especially after Zhao Ziyang was removed from the position of General Secretary of the CCP.

Thus, the medley of reform measures has to be seen in the context of the diversity of economic views on the functioning of the Chinese economic system.

The post-Mao reforms are significant because earlier “reforms” under Mao’s rule did not address the agenda of marketisation and the accompanying decentralisation of powers to the basic production units. A different genre of decentralisation was pursued.

Maoist decentralisation did not involve the basic units, but only the supervisory levels in the bureaucratic hierarchy, for example, the transfer of economic decision powers from the central economic ministries to the local authorities. In fact, leftist Maoism remained steeped in the Stalinist orthodoxy of centralised planning, but in China, the planning powers were transferred from the centre to local authorities at both the provincial and country levels. Moreover, during the Great Leap Forward and Cultural Revolution periods drastic steps were also taken to scale down the operation of the market towards the “withering away of the market”.

There was a short-lived attempt to give the individual firms more management autonomy in 1957 when the centre-left group gained political power. Then the

exercise soon came to an end after the upheavals of the Great Leap Forward. Although the post-Mao reform was the second attempt at enterprise reform, it is important because it has, despite the ups and downs, endured for more than 10 years. Such a time span would surprise many observers outside China when the reform was inaugurated in December 1978.

During the reform decade, interesting changes were also happening in the collective and private sectors but the main focus in this book is the state-owned sector. More than the other sectors, the state sector dominates the economy in China. This book is structured around the main themes of the reform of enterprise management in the post-1978 period<sup>1</sup>. The themes are the ones relating to managerial decision-making, enterprise financial powers, and personnel matters including wages, and authority relations in the factory,

Chapter One examines the economic impetus for the post-Mao reforms and the performance indicators of the Chinese economy during the reform decade. To provide a better understanding of the Chinese reform process, this chapter also discusses the determinants of systemic changes that would lead to a “metamorphosis” of the administrative command system into market socialism.

The scope and speed of the reform are also determined by the ideology of the power brokers of the day. Chapter Two presents the various approaches to reform as advocated by the major schools of thought in China. The post-Mao reform period is not without controversy as the conservative reformers and their liberal counterparts argue over the respective roles of planning and the market, and their views directly affect the decision-making powers of enterprise managers. The process of decentralisation of decision-making powers for managers are examined Chapter Three and references are made to the enterprise reform in Sichuan Province which was the pacesetter of enterprise reform in China. The factory managers’ new autonomy in the area of above-plan production has led to the restoration of the product market for industrial goods in China and the role of the bureaucracy in the marketisation process is also discussed.

A large part of the enterprise reform is concerned with the financial relations between the state and state-owned enterprises. Chapter Four deals with the development of various profit retention schemes under the enterprise reform and the impact of more financial powers for enterprise managers. Chapter Five examines the economic issues and incentives arising from the reform of enterprise financial funding, including the introduction of the corporate taxation system. The mounting problem of recorded financial losses in state-owned enterprises, the difficult task of imposing a harder budget constraint and the controversy of the bankruptcy enterprise law are also discussed in Chapter Five.

The areas in labour management covered in Chapters Six, Seven and Eight are those of labour and wage policies, and the labour and wages reforms. In Chapter Six, we first look at the legacies of the Soviet wage model and the leftist Maoist policies on labour and wages. This provides a brief background to the discussion

in the two subsequent chapters. The post-Mao wage policy and wage trends are examined in Chapter Seven; and Chapter Eight presents the multiple approaches to wage reform in China and the related economic issues.

There is a scarcity of published case studies of industrial enterprises in China because of the enormous difficulty of access to these “closed” workplace communities. Materials collected from two-months’ interview with the management staff of the Sichuan No. 1 Textile Factory have been written up as case study of one of the earliest firms in China to carry out the enterprise reform. The case study provides an insight into the actual implementation of the reform measures. First, Chapter Nine looks at the issue of authority relations between the factory manager and the Party cadres; and the working of the workers’ congress in the case study, as well as presenting a brief background of the Sichuan No. 1 Textile Factory with a particular focus on the factory workforce. The two main aspects of the enterprise reform carried out in the case study, namely the decentralisation of decision-making powers and the wage reform, are examined in Chapters Ten and Eleven.

In Chapter Twelve, the concluding chapter, I have argued that China’s increasing involvement in foreign trade and joint ventures, and China’s own investments overseas would make it hard to retract to its previous leftist position of isolation. The eagerness shown by the Chinese leadership to keep up contact with foreign countries, despite the ups and downs of the reform movement, should give some indication of the future path of China’s reforms.

This book has centred on the reform of enterprise management because it is a major component of the whole Chinese reform process. The most critical economic issue is that so far in the post-Mao period, the reform policy objective has concentrated primarily on operational efficiency of the individual enterprise unit rather than the operational efficiency of the economic system which would involve more far-reaching reformist measures to develop the factor markets for capital and labour. The Chinese economic reforms have come a long way in more than a decade and the rate of marketisation of the product market has been impressive; and in the 1990s the reform of enterprise management has reached the stage of how to “interface” the market and state ownership. In the new decade of reform, state-owned enterprises continue to hold the key to the economic transformation process in China.

## Note

- 1 For a comprehensive study of management in China before 1978, readers are recommended to read Oiva Laaksonen (1988) *Management in China during and after Mao*. Berlin and New York: Walter de Gruyter.





# Chapter One

## Genesis of the Chinese Reform Model

### 1 New Leaders, New Direction

The post-Mao economic reforms in the People's Republic of China (PRC) officially commenced in 1978. A new set of economic policies emerged after the historic meeting of the Third Plenum of the 11th Central Committee of the Chinese Communist Party (CCP) in December 1978. The concerns of the post-Mao leaders for economic efficiency and contact with the outside world were reflected in their two-pronged strategy of "readjustment and reform". Their goal was to climb to a new take-off point in order to ensure rapid economic development during the Seventh Five-Year Plan (1986 – 90) and in the 1990s.

The new economic direction was in place only after the political consolidation of anti-Maoist forces and restocking of the leadership with supporters of Deng Xiaoping (*China News Analysis* 19 January 1979: 2–9, 22 June 1979: 1–7); and residual resistance from the old guards in the Party to the new policies should not be underestimated. Indeed, pressure from opponents would explain the low-gear serialised nature of the official announcements on the Plenum decisions. The 1978 Plenum communique prescribed two or three years of "restoration, readjustment and reorganisation", being still compatible with the earlier post-Mao developmental platform of the "four modernisations" (of agriculture, industry, science and technology and defence).

#### 1.1 Readjustment and Reform of the Maoist Chinese Model

The new economic strategy was a decisive shift in another direction towards:

1. a reform of economic management to solve the problem of separation between production and market. The reform would make room for a market economy (but in a supplementary role to the planned system) to create competition among the enterprises and to end the existing local protectionist policy in each province for its own products;
2. a balanced proportionate development of all branches of the economy. The existing priority given to heavy industry (especially iron and steel), and the attendant neglect of agriculture and light industry, had upset the balance of the national economy. A period of two or three years was thought necessary to correct the sectoral imbalance between agriculture and industry; within agriculture

between grain and industrial crops, between arable farming and animal husbandry and forestry; within industry between production of capital goods, energy fuel and the processing industries;

3. a change in the banking system, from being merely money depots to an active role in new loan policies; and

4. contact with the outside world in the new open door policy. The Party had made important decisions to bring in foreign technology, to co-operate with foreign countries and to use their capital (*China News Analysis* 22 June 1979: 2–7).

The best definition of the Maoist Chinese model comes from Dernberger (1982) who has identified three major ingredients that made up what Western observers have referred to as “the Chinese model” (before the post-Mao reforms):

1. a centralised or “command” economic system;
2. a Stalinist (“big push”) development strategy; and
3. radical principles of Maoist ideology.

China in the early 1950s adopted the blueprint of Soviet economic planning of that time. The institutions of Soviet planning and the Stalinist development strategy have more or less continued until the introduction of the post-1978 economic reforms. It was the third ingredient—the radical Maoist ideology which guided China during the Great Leap Forward in 1958–1960 and the Cultural Revolution period in 1966–76—that contributed to the uniqueness of the Chinese model. (Throughout this book, the “Cultural Revolution period” refers to the 10-year period from 1966, when the Cultural Revolution movement officially began, to the fall of the “Gang of Four” in 1976). The impact of radical Maoist ideology was felt most in the industrial sector because Chinese factories were the organisations that had to carry out the dual objectives of a production unit and a socio-political unit. All the three ingredients of the Chinese model were to be changed. Most of all, the Maoist radical principles were swept aside by the efficiency-oriented new leadership under Deng Xiaoping. Then, the 1978 Third Plenum made a historic decision to readjust the Stalinist-type development strategy and to reform the centralised command economic system.

In the Chinese context what did the two terms “readjustment” and “reform” mean in 1978? The term “readjustment” was used by the Chinese in 1978 to refer to policy changes to be made to the above second component. The policy changes entailed a new shift from the Stalinist “big push” development strategy based on top priority for heavy industries and high accumulation rate. The new strategy was to restore more balanced ratios of sectoral investment with higher priorities for agriculture and light industry. Readjustment in 1978 also meant changing the accumulation-consumption ratio in favour of a larger consumption fund so as to improve the living standards of the population.

On the other hand, the term “economic reform” in the post-1978 period means

changing the *economic system* and therefore is more correctly called “systemic reform”. We are looking at “systemic” changes in the socialist context rather than the possible transformation of the socialist to capitalist system which is not feasible in China in the near future (although far-reaching reforms inevitably would involve changing the political structure). In the socialist scenario such a reform represents the recognition of the need to change the planning institutions of the traditional centralised model.

The formulation of policy measures for systemic reform is more complex and difficult than the readjustment policy measures. Without radical changes to the economic system, readjustments could be made from time to time in sectoral investment proportions and in the accumulation-consumption ratios to boost living standards. In the past, various readjustment measures were adopted when necessary and then abolished. On the other hand, “systemic reform” requires radical changes to the already entrenched institutions of the planning mechanism, to the extent of replacing them with new institutions of the market mechanism. Therefore reform policies are demanding of political courage from the leaders as systemic reform would inevitably impinge upon a multitude of vested interests.

## 1.2 Impetus for Reforms

What were the impetus for reforms in the post-Mao era? After the CCP took over China in 1949 they copied the traditional Soviet model of economic planning, and the institutions of planning became entrenched despite several modifications made by Mao Zedong during the Great Leap Forward in 1958–1960 and the Cultural Revolution period of 1966–76. So why the attempts to change the economic model after 1978?

The most important reason was the new leadership of the CCP under Deng Xiaoping. In his class approach to the analysis of changes, Gordon White (1982) identifies the technocratic strata as the basis of support for the post-Mao leadership. The political struggles of the past 20 years (in the 1960s and 1970s) reflected factional representation within the CCP, which according to White, was based on three basic class agglomerations:

The Party’s left reached out to a motley collection of groups among the general population, notably the less favoured or more insecure segments; the Party’s right . . . is linked to burgeoning technocratic strata who use their crucial role in the modernisation programme to gain access to decision-makers and political organisations, between these two is the “Leninist centre”, which embodies the principle of one-party dominance and the planned/administered economy, with its strength concentrated in the Party-government apparatus (White 1982: 10).

The above analysis based on the shift of class power provides insight into the new economic approach. What were the economic justifications for this form of strategy?

The policy changes were a response to the re-examination of the relevance of the Soviet-type model of the economic system. The 1978 Third Plenum was a benchmark of China's official acceptance of the need for a systemic reform. The new open door policy also meant that domestic factors were not the only determinants of change. Underlying the new leadership's pre-occupation with economic efficiency was the perception of the need to catch up with the modern world and the present-day technological revolution in capitalist countries.

The pro-reform view was that the centralised model of the economic system had outlived its usefulness for China. As Chen Changrong of the Sichuan Academy of Social Sciences remarked:

Viewed historically, such a system had helped to make it easy for the state to centralise manpower, material and financial resources for a set objective and exercised positive effects on New China's quick healing of her war wounds, for the rehabilitation of her economy, the settlement of a series of economic and social problems left over by Old China, and on the building of a rudimentary industrial basis. With the further development of the economy, however, it had gradually revealed its drawbacks (Chen Changrong 1982).

By now, the centralised model was thought to be incompatible with the new developmental strategy which placed a premium on higher factor productivity and intensive economic growth. The pro-reformists argued for planning reform and pointed out the following defects of the current planning system.

First, they saw the situation of the shortage of goods in demand and overstocking of other goods as the result of the inability of planners to co-ordinate production with societal needs. The blame was on the excessive centralisation of micro-economic decision-making powers in bureaucratic planners both at central and local levels (Liu Guoguang and Zhao Renwei 1980; Liu Guoguang 1989). Under mandatory planning, enterprises were issued with compulsory output orders and their products were purchased by state agencies at fixed prices. Reformers argued for the "marketisation" of the production and distribution processes.

Second, they were critical of the existing state-enterprise financial relations. Under the existing system of funding, all capital assets of enterprises and a greater part of the working capital were provided by the state gratis. There was no incentive for efficient performance because, apart from a portion kept by the enterprise for expenditure purposes, all profits had to be handed over to the government. Subsidy payments to enterprises making losses and the non-existent threat of bankruptcy had created a situation of a soft budget constraint. Efficiency had no effect on personal income in this situation of no personal gains or losses. Employees lacked the motivation to "economise production consumption, improving the quality of products, and increasing varieties so as to meet

the demands of the market and consumers” (Liu Guoguang and Zhao Renwei 1980: 5).

Lastly, there was concern that development of new technologies had declined. The individual enterprise had limited financial powers to initiate technical innovations because a large part of its depreciation fund was taken over by the state. There was excessive waste under the administrative allocation of funds, materials and labour so that funds often lay idle, enterprises were overstaffed, and labour productivity was low.

At the start of the reform, available economic data indicated that Chinese industrial firms had to be more efficient. Data for 1980 showed that, compared with 1952 (beginning of the First Five-Year plan), the value of fixed assets in state enterprises had increased 27-fold; but the gross industrial and agricultural output increased only ninefold, national income by only fivefold, and the average per capita consumption in both urban and rural areas had only doubled (Xia Zhen 1981). The diminishing returns of capital as shown in Table 1.1 warranted serious concern. Table 1.1 compares the situation of state firms in 1965 (before the onset of the Cultural Revolution) with the end of the Cultural Revolution period in 1976. The financial results reflected the Cultural Revolution policy approach of the importance of politics over economics.

The generally poor economic performance was reflected in the low living standards of the population. In 1978 per capita national income was only 316 yuan (then equivalent to US\$183), about 1/46 of the USA's, 1/37 of Japan's and 1/11 of the former USSR's (the Chinese national income figure did not include earnings from the service industries, for example, education and health). China could only guarantee its people a basic living and was still one of the world's poorer countries.

Apart from the political upheavals and leftist economic policies during the preceding 10 years of the Cultural Revolution period, the trend in economic deterioration in China was symptomatic of the weaknesses of the traditional centralised model, which were also the causes of a secular trend of decline in the Soviet-type economies in Europe. The problem for China was how to achieve higher efficiency in the allocation of resources and better results within an *unchanged* political and social environment.

### 1.3 Review of Economic Performance of Reform

It is now more than 10 years since the post-Mao economic reforms began in China. The reform process was carried out in phases, on an unsteady course in which a number of obstacles had to be overcome. Nevertheless, the dynamics of the reform had been sustained despite the regular intervals of “stabilisation” measures involving controls and centralisation. Chinese officials had adopted

Table 1.1 Comparison of Financial Results of State Industrial Firms

Items	1965	1976	Increase
Total fixed assets (100 million yuan)	961	2495	160 %
Profits & taxes transmitted to state (100 million yuan)	281	504	79 %
Subsidies to state industrial firms (100 million yuan)	58	177	205 %
	(1966)		
Profits & taxes earned per 100 yuan capital invested	34.5 yuan	19.3 yuan	- 44 %
Profits earned per 100 yuan of GVIO	21.9 yuan	12.6 yuan	- 42.5 %

Compiled from:

1. Xu Yi and Chen Baosen (1982) *Zhongguo de Caizheng 1977-1980 (Finance in China 1977-1980)*. pp. 1 and 2; and
2. Li Chengrui and Zhang Zhuoyuan (1982) "Zhongguo jingji de fazhan" (Economic development of China) in *Zhongguo Shehui Zhuyi Xiandaihua Jianshe (I) 1977-1980 (China's Socialist Modernisation and Construction (I) 1977-1980)*. Reprinted in *Jingjixue Wenzhai (Economic Digest)* No. 4, 1983, p. 70.

Note: GVIO = Gross value of industrial output.

what had been described by some Western observers as an ad hoc approach; but in the context of the formidable task of the reform, there were very few alternatives for such a large and diverse country. At each phase of the reform process, corrective steps were deemed necessary to smooth out as much as possible any disequilibrium resulting from the new or revised reform measures. Re-adjustment would bring on the next round of reform measures. The decade of reform, as a whole, had yielded some impressive results in China's economic performance as shown in Table 1.2.

Data on economic aggregates for the past 10 years show impressive growth rates. In 1979-88 national income rose at an average rate of 9.2 per cent each year, gross agricultural output value at 6.2 per cent, and gross industrial output value at 12 per cent (with light industry at an average rate of 15 per cent per year and heavy industry at 10.9 per cent). For the 1979-89 period, the average annual increases of these economic indicators dropped slightly as shown in Table 1.2 owing to the impact of readjustment measures introduced in September 1988.

Table 1.2 Growth of Economic Aggregates, 1979–1989 (average annual increase in percentage)

Category	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1979–89
1. National income	7.0	6.4	4.9	8.2	10.0	13.6	13.5	7.7	10.2	11.3	3.3	8.7
2. Gross agricultural output value	7.5	1.4	5.8	11.3	7.8	12.3	3.4	3.4	5.8	3.9	3.1	5.9
3. Gross industrial output value	8.8	9.3	4.3	7.8	11.2	16.3	21.4	11.7	17.7	20.8	8.5	12.4
a. Light industry	10.0	18.9	14.3	5.8	9.3	16.1	22.7	13.1	18.6	22.1	8.2	14.3
b. Heavy industry	8.0	1.9	-0.5	9.9	13.1	16.5	20.2	10.2	16.7	19.4	8.9	10.7

Note: During the 1979–1990 period, the average annual increase in national income was 8.4 per cent, gross agricultural output value was 6.1 per cent and gross industrial output value was 12 per cent (with light industry at an average rate of 13.9 per cent and heavy industry at 10.3 per cent). The austerity programme, began in September 1988, clearly had an impact.

Sources: 1990 *Zhongguo Tongji Nianjian* (*China Statistical Yearbook*), pp. 36 and 58;  
1991 *Zhongguo Tongji Zhaiyao* (*China Statistical Extract*), p. 3.

When we look at the input side, Cyril Lin (1989) has rightly observed that performance is more ambiguous and data on factor productivity are “too few and crude” for accurate assessment. Table 1.3 shows that for the state-owned industrial enterprises, labour productivity appears to have increased (maybe because capital has also increased) but the official cost reduction index suggests that costs are rising, but this is partly due the higher input prices under the reform. Overall, economic achievements in China had been outstanding in the 1980s compared with the secular trend of economic decline in the former USSR and many Eastern European nations during the same era (see Winiecki 1987).

Table 1.3 State-Owned Industrial Enterprises: Factor Productivity and Costs, 1979–1989

	Gross output value per 100 yuan original value of fixed assets (in yuan)	Costs per 100 yuan of sales revenue (in yuan)	Labour productivity increase over previous year
1979	103	72.4	6.4 %
1980	101	73.7	2.0 %
1981	96	74.6	-1.8 %
1982	95	75.4	2.3 %
1983	95	75.8	7.6 %
1984	96	75.7	7.8 %
		Rate of cost increases of comparable products over previous year	
1985	94.97	7.70 %	8.0 %
1986	89.03	7.34 %	1.66 %
1987	104.15	7.04 %	7.9 %
1988	113.09	15.59 %	8.31 %
1989	116.85	22.17 %	1.46 %

Compiled from various years of *Zhongguo Tongji Nianjian* (China Statistical Yearbook).

## 2 Enterprise Management Reforms of the Chinese Model

Of the various reforms feasible in a state-socialist economy, theorists have regarded the *reform of enterprise management* as having the most significant



implications for transforming the traditional model of socialist planning. The spearhead of the Chinese reform model is the reform of enterprise management.

Management reforms meant giving more autonomy to the grassroots enterprise unit by the decentralisation of a number of decision-making powers. The post-1978 reform of enterprise management has broad theoretical implications for systemic changes in China's socialist economy, since it involved a basic change in the country's dominant "mode of production" (White 1984). Thus the enterprise management reform, most of all the other reforms, had a fundamental impact on systemic changes into a form of market socialism in China. In this book, the dynamics of the management reform from the beginning in 1978 to the present will be examined.

Although this book is not intended as a comparative study, references will be made to the situation in the former USSR and Eastern Europe, in view of the recent developments there. Reform options appear to be rather limited if kept within the scope of a state-socialist economy. Apart from the "market socialism" model of Yugoslavia based on worker management, the major alternative to the Soviet model of centralised planning is, if we use W. Brus' term (1972), a "planned economy with regulated market mechanism" or a "decentralised model". It is important to point out that Brus' concept of the functioning of this so-called "decentralised model" hinges on the fact that individual firms must be given management autonomy to make economic decisions, and to be guided by the market mechanism instead of the planning mechanism.

Interesting changes are also happening in the collective and private sectors but the main focus of this book is the state-owned sector because the state sector dominates the economy, and in particular the industrial sector. Of the total industrial workforce estimated to be 62,276,000 people in 1989, 68.6 per cent of them worked in the state sector, compared with 29.6 per cent in the collective sector and 1.8 per cent in the other forms of ownership (compiled from 1990 *Zhongguo Tongji Nianjian* [*China Statistical Yearbook*]: 411). Out of the 143.9 million people (including 6.48 million self-employed) who made up the total workforce in all the non-agricultural sectors in 1989, there were 101.08 million people employed in the state sector accounting for 70.2 per cent of the total, about 24.3 per cent were in the collective sector, 0.9 per cent in the other forms of ownership (foreign joint ventures and privately-owned businesses), and 4.5 per cent were self-employed (compiled from 1990 *Zhongguo Tongji Nianjian*: 113).

## 2.1 “Macro”-Management and “Micro”-Management of State-Owned Enterprises

In China state-owned enterprises are run *directly* by either the central authority or by local authorities at the provincial, municipal or county levels. Hence we can discern two levels of management.

First, there is the level of “macro”-management, intrinsic to the functioning of the planned economy, and carried out by bureaucratic agencies which are responsible for the administration, planning and co-ordination of economic activity of a number of factories and enterprises within their geographical area. Throughout this book, this level is referred to as “enterprise management” (as in other published works on the planned socialist economy) to distinguish it from the second. The second is the level of “micro”-management within the enterprise organisation (hereafter referred to as “factory management”), covering areas such as the division of labour and authority relations, as in a capitalist enterprise.

The Maoist management “reforms” were, in fact, efforts made to change authority relations *within* the enterprise organisation, that is, in factory management. Consequently, Chinese factory management during Mao’s time was dissimilar to that in the former USSR. For instance, although Joseph Berliner’s well-known *Factory and Manager in the USSR* (1957) began the trend for subsequent studies on managerial incentives in Soviet factories, his approach is not applicable to China. For most of the time, managerial incentives had been insignificant in the reward systems of Chinese industry.

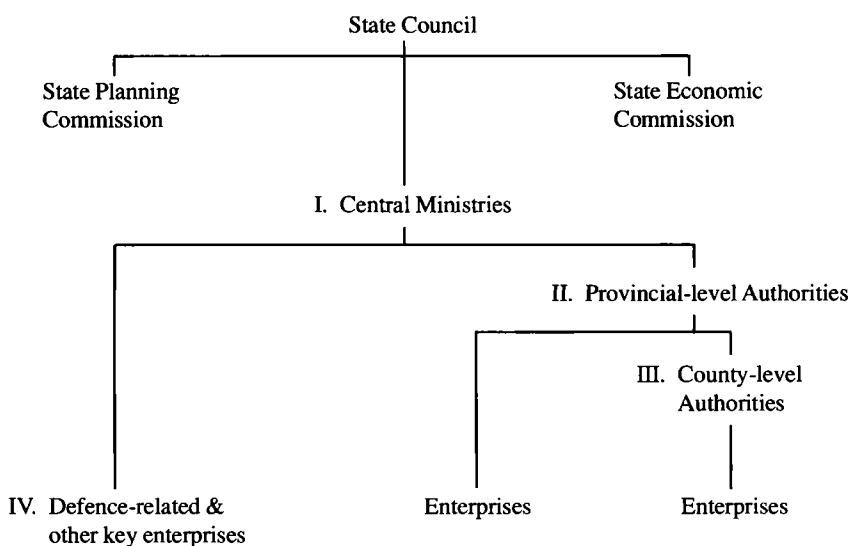
On the other hand, the system of enterprise management was basically intact in China for nearly 30 years until the 1978 Third Plenum initiated moves to reform the economic system. Although it may be argued that planning was practically non-existent during the Cultural Revolution period, the institutions of “macro”-management were not destroyed to the extent that planning could not be resumed almost immediately. Views on planning during the Cultural Revolution period were contradictory, and whilst detailed planning was often impractical, Andrew Walder notes that the Maoist leadership in principle preferred to “retain a good measure of centralised state control over the economy” (Walder 1981: 230), in order to steer China along what was perceived as the “correct” path of socialism. In any case, state-enterprise relationships at “macro”-level management, spawned by Soviet-type economic planning, remained practically the same because it was not a *key issue* until the introduction of the systemic reform in the post-Mao era.

Thus, the post-Mao enterprise reform was a departure from previous economic “reforms” which merely shifted planning authority back and forth between the central government and the provincial and other local jurisdictions. Basically, the authority relationship between the state and its enterprises

remained unchanged, being set in the mould of the Soviet-style planning system introduced in the 1950s.

China adopted the Soviet model of enterprise management in the early 1950s. It was a centralised system of macro-management organised around a network of several branches of industry. Each industry-branch was administered by a hierarchy of authorities, ranging from the central authorities at the top, to the provincial level, then the city or county level, and right down to the individual enterprises at the lowest level. The enterprise is the basic unit and operates as an independent accounting unit; it consists of a number of workshops which in turn are made of many work-teams (Jackson 1988; see also Laaksonen 1988: 137–143). Figure 1.1 shows the decision-making hierarchy in Chinese industrial management.

Figure 1.1 Industrial Management and Planning Hierarchy in China



(Note: during the reform decade many enterprise organisations, including the defence-related ones, entered into joint ventures with other state-owned firms or collectively-owned firms in the production of a variety of goods outside the state plan. In some cases, the issue of the right of ownership and the right to profits would need further clarification if and when disputes occur among the participating organisations.)

The interchange of decision-making powers back and forth between the central authorities and the lower echelons is an issue of centralisation and decentralisation, yet to be solved under socialism. Since the 1950s, China has also gone