

THE TRANSFORMATION OF THE CHINESE STATE AND ITS ROLE IN THE  
ECONOMY DURING THE REFORM PERIOD:  
THE SUSTAINING STATE OWNERSHIP

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## **ABSTRACT**

### **THE TRANSFORMATION OF THE CHINESE STATE AND ITS ROLE IN THE ECONOMY DURING THE REFORM PERIOD: THE SUSTAINING STATE OWNERSHIP**

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China's reform period which began in the late 1970s has been attractive both for the developing countries in the sense of taking the Chinese economic development as a model and the developed countries because of the new strategic position China has gained in the global power relations as a consequence of its economic growth, while the academic interest has also been rising. Focusing on the Chinese state as one of the most important actors of the reform process, without treating it as controlling and shaping all the other actors and the whole reform process, is one of the appropriate ways of having an understanding of China's reform experience. This focus makes concentrating on the theories of state literature compulsory in order to present the discussions on what state is. With the intention of indicating the transformation of the role of the Chinese state in the economy since the beginning of the reform period, the overview of the state-owned enterprise reform and specifically the policies of the Chinese state in the two strategic sectors of information technology and mining since the end of the 1990s provide an explanation of the sustaining state ownership in the Chinese industry after three decades of the reform period and its relation with the transformation of the Chinese state.

Keywords: China's reform period, Chinese SOE reform, Chinese state, state, transition state

## ÖZ

### REFORM DÖNEMİNDE ÇİN DEVLETİNİN VE EKONOMİDEKİ ROLÜNÜN DÖNÜŞÜMÜ: DEVAM EDEN DEVLET MÜLKİYETİ

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1970'lerin sonunda başlamış olan Çin'in reform dönemi, Çin ekonomik kalkınmasını model olarak almak istedikleri için gelişmekte olan ülkelere ve Çin'in, kaydettiği ekonomik kalkınma sonucu küresel güç ilişkilerinde kazandığı yeni stratejik konum nedeniyle gelişmiş ülkelere çekici gelmekte, bu konuya yönelik akademik ilgi de artmaktadır. Reform sürecinin önemli aktörlerinden biri olan Çin devletine, diğer aktörleri ve tüm reform sürecini kontrol eden ve şekillendiren bir aktör olarak yaklaşımadan, odaklanmak Çin'in reform tecrübesini anlamak için uygun yollardan biridir. Bu odaklanma biçimi, devlet nedir sorusu üzerine yapılan tartışmaları ortaya koymak için devlet teorileri literatürü üzerine yoğunlaşmayı da zorunlu kılmaktadır. Çin devletinin ekonomideki rolünün reform döneminin başından beri uğradığı dönüşümü göstermek niyetiyle, devlet işletmeleri reformu ve iki stratejik sektör olan bilişim teknolojisi ve maden sektörlerinde 1990'ların sonlarından itibaren uygulanan devlet politikalarının incelenmesi, Çin endüstrisinde reform döneminin başlamasından otuz yıl geçmiş olmasına rağmen devam eden devlet mülkiyetine ve bu durumun Çin devletinin dönüşümüyle olan ilişkisine bir açıklama getirmektedir.

Anahtar Kelimeler: Çin reform dönemi, Çin devlet işletmeleri reformu, Çin devleti, devlet, geçiş devleti

To My Mother, My Husband and My Cat

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## LIST OF ABBREVIATIONS

CAC	Central Advisory Commission
CAGS	Chinese Academy of Geological Sciences
CCF	China-China- Foreign
CCP	Chinese Communist Party
Chinalco	China Aluminium Cooperation
CNFC	China Non-ferrous Metals Corporation
COEs	Collectively Owned Enterprises
CRS	Contract Responsibility System
CSE	Conference of Socialist Economists
FDI	Foreign Direct Investment
IPE	International Political Economy
IT	Information Technology
NICs	Newly Industrializing Countries
MEI	Ministry of Electronic Industry
MII	Ministry of Information Industry
MIIT	Ministry of Industry and Information Technology
MPT	Ministry of Post and Telecommunications
PLA	People's Liberation Army
REHT	Inner Mongolia Baotou Steel Rare-Earth (Group) Hi-Tech Co.
SASAC	State-owned Assets Supervision and Administration Commission
SAWS	Chinese State Administration of Work Safety
SDPC	State Development and Planning Commission
SETC	State Economics and Trade Commission
SEZ	Special Economic Zone
SOAE	State-owned Assets of Enterprises
SOE	State Owned Enterprise
TVE	Township and Village Enterprise
WTO	World Trade Organization

## **CHAPTER 1**

### **INTRODUCTION**

With its records of annual growth rate which has been around 10 percent since the reforms began at the end of the 1970s, China's economic performance during its transition period has fairly attracted the attention of the whole world, both its developed and developing parts. The interest in China even surpassed the interest in the East Asian miracle economies in the 1980s and the 1990s, especially with its ability of avoiding the negative impact of the Asian Crisis. The increasing interest of the developed countries in China's reform experience has stemmed from the fact that its economic performance enabled China to return to play an important role in the global economic and political power relations which was lost since the Opium Wars (1839-1842, 1856-1860). By the help of its economic development that has been mainly based on exports and foreign direct investment (FDI), in other words on the introduction of economic openness, China has again become a regional and a global economic and political power in this period of thirty years. On the other side, developing countries have also been deeply interested in the case of China as they are willing to take lessons from the Chinese experience of economic growth for their own economic development.

At the beginning of the reform period, the academic interest in China's reforms was limited and the view that China's emerging economic success stemmed from the release of central planning principles and the adoption of neoliberal policies dominated the existing limited studies. In line with the increasing interest in China's economic success around the world, though with different intentions, an extensive literature which includes different approaches has emerged on China, its reform period, its economic success and development, the suitability of its development path to the other developing countries and the new position in the global power relations that it has gained as the reforms have progressed. The emergent literature on China's reform period and its economic and social consequences includes different

discussions based on several questions about the reform process and different conclusions which would be viewed to be supported by different theoretical approaches. The increasing academic interest in China brought different attempts to explain its transition process and its consequences in the last thirty years by focusing on the different elements of the process.

Regardless of their different focuses, but related to their theoretical approaches, the main division among the arguments of the authors writing on China's reform experience stem from the difference in their interpretations of the intention of the Chinese state in implementing and progressing the reforms. In this regard, there are two main arguments presented within the literature on the consequences of China's reform period. The first argument presents China's economic system as an alternative to capitalism and neoliberalism, while at the opposite the other argument asserts that China has been on the path of establishing a capitalist economy and implements neoliberal policies intensively especially since the mid-1990s. Among the latter group of authors, the ones who admire the mentioned transformation claim that China's economic success stems from the fact that the inefficiency of socialism is realized and neoliberal policies have been implemented since the beginning of the reform period, which was especially the dominant view in the literature at the beginning of China's reform period as mentioned above. On the other hand, the authors who strictly criticize this transformation, state that China and the Chinese workers, and as a consequence of the integration of China to the global capitalist accumulation process, workers all around the world have been suffering and will suffer because of the destructive impact of Chinese capitalism (cf. Hart-Landsberg and Burkett 2006, Harvey 2007).

It is important to mention that the aim of the dissertation is not to search for a straightforward answer to the question of whether China has established a capitalist economy or not as a consequence of its reforms. Rather than simply searching for the answer of this question, the dissertation focuses on discussing the transformations in the Chinese state-economy and state-society relations which have taken place during the transition period. In other words, the main aim is to discuss what kind of a social and economic transformation China has experienced in the last thirty years as a consequence of the reforms. While an attempt to achieve such a purpose would also take into consideration the global environment China has faced during the transition period, the dissertation mainly concentrates on the analysis of the internal factors and

especially there are no predictions of world hegemony for China within the dissertation. The dissertation is based on the view that concentrating on the role of the Chinese state in the reform period would provide a good explanation of the transition process and its consequences when compared to simply searching for the answers of the questions of whether China has established a capitalist economy or whether China will be the next hegemon of the world. An analysis of the Chinese state based on the discussions within the theories of state literature would provide an understanding of the reform period and its consequences in terms of the transformation of the state-society and the state-economy relations in China as well as the “economic development” of China which has been usually reflected only quantitatively.

The dissertation aims to focus on the Chinese state and its role in the reform period in order to have a better understanding of the reform process and its consequences. Although it is not possible to deny the role of any state in a reform period, the Chinese state has appeared to have a more specific role during China’s reform period when compared to other cases as also agreed by the different approaches within the literature. Most of the authors, who believe that China has already established a capitalist economy, emphasize that Chinese capitalism has been set up by the Chinese state contrary to the way that Western capitalism rose. On the other side, the authors who present the Chinese economic system as an alternative to capitalism mainly point out the continuing intervention and controls of the Chinese state in the economy as evidence to support their view, contrary to the ones who defend further liberalization because they strictly criticize the continuing controls of the Chinese state. By overviewing these discussions, the dissertation aims to explain the role of the Chinese state in the reform process of the last thirty years and to indicate the transforming state-economy and state-society relations in China as a consequence of this process, in order to have a better understanding and explanation of the reform period and its consequences.

Searching for the role of the Chinese state in the reform process would be seen important in at least three points. First, it would be one of the best ways to have a better understanding of the reform process and its consequences as the Chinese state has had a very specific role in this process as mentioned above. Second, China’s reform process would be seen to provide a good case study for an attempt to explain what state is, so that it would be possible to make a modest contribution to the

discussions within the theories of state. Finally, it would be possible to analyze the role of the state in a transition economy by concentrating on the role of the Chinese state in the reform period and this may open the way for a future study which is based on the comparison of China and other transition countries.

As a consequence of the analysis on the role of the Chinese state in the reform period, the main argument of the dissertation is that the Chinese state represents a capitalist transition state since the beginning of the reform period which serves for the establishment of the capitalist mode of production in China. In order to indicate the validity of this argument, China's reforms in the state-owned enterprise system are analyzed since the beginning of the reform period through focusing on the two strategic sectors, information technology (IT) and mining, since the end of the 1990s. These two sectors are selected not only because they are strategic sectors, mining being a traditional sector and information technology a new industry, but also it seems at first sight that the Chinese state implements opposite policies in these two sectors, which gives rise to a confusion about the character of this state.

The most important characteristics of the global environment China has faced as a consequence of its opening up has been the rise of neoliberalism on a global scale, bringing the question on whether China's reforms have been based on the premises of neoliberalism. In this regard, it is important to have an understanding of what neoliberalism is in order to have a better explanation of China's reform experience and its consequences. This task is difficult when it is taken into consideration that neoliberalism is not a mode of production and does not have one general definition. In the same manner, it is not possible to assess that the neoliberal state has one general set of characteristics. The distinction between the theoretical neoliberalism and the actually existing neoliberalism, specifically regarding the intervention of the state to the economy (cf. Munck, 2005: 60, 63) makes it easier to indicate what neoliberalism is not, rather than what it is.

One of the best attempts to define neoliberalism would be the one which views neoliberalism as a global political project which has been set up at the end of the 1970s and the beginning of the 1980s in order to ensure the continuity of capitalism in response to its cyclical crisis which indicated itself as the deficiencies of the Keynesian capital accumulation regime (Saad-Filho A. and Johnston D., 2005: 1). This definition is also presented as just an attempt; because the overview of the literature indicates that it is possible to put different definitions of neoliberalism;

most importantly because countries experience neoliberalism variably according to their historically-determined conditions, although there have been some basic commonalities (Saad-Filho A. and Johnston D., 2005: 1).

Neoliberalism would be seen as a phase or a stage of capitalism and a hegemonic project to sustain the dominance of capital through the systematic use of state power, and thus it would be meaningful to search for how to distinguish it from the other phases or stages in order to have a better understanding of it (Saad-Filho and Yalman, 2010: 1,3). Neoliberalism is a real political project which has gained “the commanding heights of global intellectual, political and economic power” in order to be used for the continuity of capitalism, while does not produce a development model “that is more adequate to the real world, but to make the real world more adequate to its model” (Clarke, 2005: 58).

Neoliberal development model is based not only on the neoclassical premise of efficient market versus inefficient state, but also on the emphasis on the necessity of foreign capital attraction, increasing foreign trade and promoting global competition as the policy choices that are served as the most important factors of economic growth of a country. Among these policies, specifically the promotion of the global competitiveness is an important part of the neoliberal project which is supported by the international organizations not only in the advanced capitalist countries but also in the developing countries, especially in the post-communist countries through making them choosing ‘appropriate’ policies in order to ensure their contributions to the reproduction of capitalism in the advanced capitalist countries (Cammack, 2006: 1-2, 13). This process is global which needs the national state for progressing and based on subjecting the labor, business and the civil society to the process (Cammack, 2006: 3-5). All these policies have been presented to the developing world under the principle of “there is no alternative” to neoliberalism.

Although its purpose has been presented to ensure the withdrawal of the state from the economy, neoliberalism assigns an important role to the state in the functioning of the market economy, rather than eliminating it (Saad-Filho and Johnston, 2005: 3). The neoliberal state continued to hold the important responsibility of making the economic, social and political spheres suitable for markets to function properly, which has also been accepted by the neoliberal rhetoric since the mid-1990s. Since it appeared at the end of the 1970s, the neoliberal state represents a form of capitalist state which is hardly identified by one set of

characteristics because of the divergent geographical and historical conditions it faces. This is how China has the ability to label its system as the socialist market economy, or some of the authors view it to be as “capitalism with Chinese characteristics”, or some of them insist on the continuing presence of the socialist system in China although it is certain that China has adopted neoliberal policies in most of its reform areas.

Searching for the role of the Chinese state in the reform process would not mean simply narrating the actions and decisions of the Chinese Communist Party (CCP), the other state apparatuses and state officials since the reform period began. Instead of such a descriptive study, it is important to locate the Chinese state and its role in the reform process within a theoretical framework. In order to achieve this purpose, concentration on the discussions in the literature on the theories of state is unavoidable. First, searching for the role of the Chinese state requires discussing how to identify the Chinese state, while it is obvious that such a purpose brings several questions. Is the Chinese state simply equivalent to the CCP as it seems to be at a glance because there is one-party rule or more than that? What kind of a transformation have the Chinese state and its relations with the economy and the society experienced as a consequence of the reforms? What is the impact of this transformation on the Chinese state on the one hand and on the performance of the reforms on the other hand? Second, discussing how to identify the Chinese state requires having the knowledge on the discussions on what the state is and hence focusing on the different theoretical approaches within the theories of state. As a consequence of the increasing interest on China’s reform experience, these different theoretical approaches also have words to say on this case. In other words, it is sufficient to overview the literature on the theories of state and identify the different theoretical approaches in order to decide how to approach the Chinese state before searching for its role in the reform process.

In order to have an opinion on how to identify the Chinese state, it is appropriate to overview mainly the statist-institutionalist, the new institutionalist and the Marxist state theories. These approaches are coincided within the literature on China’s reform period and the role of the Chinese state in this process. After having an understanding on the general framework of these theoretical approaches, it would be possible to present how each approach explains China’s reform and its consequences. The purpose of overviewing the characteristics of the Chinese state

during the transition period would be supported by the analysis of these theoretical approaches through taking into consideration the strengths and the failures of them.

In line with the general assumptions of the approach (cf. Skocpol, Evans and Rueschmeyer, 1985), the statist-institutionalist approach to China's reform experience views the Chinese state as the central actor of the reform process and neglects all the other factors having influence on the process. As a consequence, the statist-institutionalist approach concentrates mainly on the impact of the reforms on the autonomy and the capacity of the Chinese state, whereas there is a disagreement within the authors who adopt this approach regarding this impact. On the one hand, there is a view within this approach which interprets the progressing reforms, increasing liberalization and accelerated privatization especially in the second half of the 1990s, as rising state weakness in China (cf. Wang 2003, Bramall 2009). There is also an opposing view which strongly asserts that the capacity of the Chinese state has been preserved and even increased during the reform period (cf. Edin 2003, Chang 2004, Shambaugh 2008, Chu and So 2010).

The new institutionalists, with their analysis which mainly focuses on the Chinese economic institutions (cf. North 1981, North 1990, Hall and Taylor 1996), seem to be much more satisfied with the transformations occurred in China, specifically the transformation of the Chinese state and its relations with the economy, at least until the policy of the Chinese government on strengthening state ownership in the selected strategic sectors after the global financial crisis in 2008. On the other side, the new institutionalist approach generally has no or little tendency to explain the transforming state-society relations in China as a consequence of the reforms. Within their analysis of the state-economy relations, they mainly criticize the gradual character of the reforms before the mid-1990s and mention that the dual mechanisms which emerged as a consequence of the gradualist approach represent the efforts of protecting some of the vested interests in China. With this perspective, the new institutionalists generally conclude that the Chinese economic reforms should be furthered and must be followed by political reforms (cf. Naughton 1995, Laffont and Qian 1999, Gregor 2000, Naughton 2007, Gertken and Richmond 2011). On the other hand, it is important to mention that a new branch of the new institutionalist approach emerged as the *new new* institutionalist approach in parallel with the shift from the Washington Consensus to the Post-Washington Consensus, which views the Chinese growth model based on sustaining state intervention as a

good strategy for a latecomer to integrate the global economy (Nolan and Wang 1999, Yang 2008).

There are different explanations also within the Marxist approach to China's reform period. The Marxist approach dominantly views that China has already established a capitalist economy or at least on the way of it, instead of being an alternative to capitalism or neoliberalism. According to this approach, China will suffer from the destructive impact of capitalism, while Chinese workers and all the workers around the world have already been damaged by China's integration to the process of global capitalist accumulation. Within this perspective, especially the unbalanced character of China's economic growth is emphasized and the fragility of the Chinese economy to the cyclical crises of capitalism as a consequence of the reforms is pointed out. It is important to mention that the Marxist approach is distinct from the other two approaches by its class analysis, so that it has the ability to reflect the transforming state-society relations in China more accurately when compared to the other approaches (cf. Hart-Landsberg and Burkett 2005, Hart-Landsberg and Burkett 2006, Harvey 2007, Li 2008, Piovani and Li 2011).

On the other side, world-systems theorists who tend to place themselves within the Marxist tradition and are interested in China do not concentrate on the class analysis as they almost totally ignore all the internal conditions of China which prepared and influenced the reform period. Rather, they concentrate on the historical analysis of the increasing importance of China's position in the global order in detail and discuss on the possibility of China's world hegemony in the future as they also indicate by a historical analysis that the global power of the US has been weakening. They do not view the Chinese economic system as capitalist and China as imperialist and by emphasizing these characteristics they describe how the world would look like under China's hegemony (cf. Arrighi, 2009, Amin 2013).

Although it is possible to view all the attempts to explain China's reform experience and the role of the Chinese state in this process to be valuable in some aspects, the theoretical approaches presented above have some failures in explaining the case of China. The problem with the statist-institutionalist approach is explicit, since it views the Chinese state as the main actor shaping the reform process and puts overemphasis on the autonomy and the capacity of the Chinese state. This approach would be seen to be effective in explaining the role of the state in the reform process, while it cannot explain how this role has been formed. The statist-institutionalist

analysis on the capacity of the Chinese state ignores the analysis of even the social groups which have direct influence on this capacity. It is important to mention that the state autonomy and the state capacity are not determined by only the state itself. It is accepted that the Chinese state has a specific role in China's reform period and its economic success when compared to other cases; however it is not possible to analyze it by isolating it from the Chinese society that it is a part of.

The most important problem with the new institutionalist approach stems from its understanding of state which envisages the minimum intervention of the state theoretically, whereas expects state intervention in every area where the market fails. As mentioned above, the analysis of this approach on the institutions turns out to focus only on the economic institutions of China in a reductionist way, or better to say that on the liberalization of these economic institutions and the legal framework regulating them. As a consequence, the new institutionalist approach presents an insufficient analysis of the transforming state-economy relations in China and in general there is no or little emphasis of this approach on the transformation of the state-society relations as a consequence of the reforms. Because of the lack of the analysis on the transforming state-society relations, the new institutionalist emphasis on the need of political reforms and democratization in China turns out to be problematic.

As mentioned above, the Marxist approach has the merit when compared to the other approaches in explaining China's reform period, since it is based on the analysis of the transformation of the Chinese class structure as a consequence of the reforms and indicate the rise of the new capitalist class in China since the reform period began. Since the reforms began at the end of the 1970s, the capitalist relations have also begun to be established in China according to this approach. In this regard, the Marxist approach put the emphasis on the sufferings of the Chinese workers and all the workers around the world as a consequence of the integration of the Chinese economy to the global economy (cf. Hart-Landsberg and Burkett 2005, Hart-Landsberg 2006, Hart Landsberg and Burkett 2006, Harvey 2006, Li 2011). On the other hand, it is possible to state that the Marxist approach has not put much effort to analyze the Chinese state and its role in this process.

By taking into consideration the failures and the strengths of the three theoretical approaches in explaining China's reform experience, there are some points to be mentioned. First, a study on China's reform period and the role of the

Chinese state in this process should include the analysis of the newly emerging class structure in China in order to have an understanding of the transformation of the state-society relations as a consequence of the reforms. Second, the state-economy relations in China would be analyzed not only by concentrating on the intervention of the Chinese state in the economy, but also by remembering that it is important to reveal the reflections of the transformation of the state-economy relations on the state-society relations and vice versa. Third, the deserved appropriate weight to the Chinese state would be given as it has much more specific role in the progressing reform when compared to the other developing countries, especially other transition countries. On the other hand, paying more attention on the Chinese state would not mean, contrary to what the statist-institutionalist approach asserts, that the Chinese state would be seen as the central actor in the reform process. Rather, the most accurate explanation of the reform process and its consequences would be reached only by viewing the Chinese state as a social relation, rather than as a separate entity standing above the society and shaping the whole reform process.

The theoretical foundation of the dissertation based on the literature on the theories of state has to be supported by presenting the historical conditions of China. What China has achieved and not achieved in the last thirty years are consequences of not only the reform policies but also the Maoist policies which had been implemented between 1949 and 1978. In other words, it is important to take into consideration the factors which brought the reforms in order to have a better explanation of the reform period. Within the historical analysis, there is also a need to concentrate on China's reform period in the sense that whether it is possible to view it as a wholly continuous process or it is necessary to view it to be divided into sub-periods. The overview of the literature indicates that similar periodizations of China's reform period with approximately similar chronological boundaries are presented. The main difference among these periodizations stem from how each sub-period and the events taken place in these sub-periods have been explained. These different explanations of the sub-periods of the reform period would be viewed to reflect the different theoretical approaches within the theories of state. Presenting and comparing these different approaches on the periodization of China's reform period would enable to have a better view of which actors and reforms are highlighted by these approaches. Such an analysis would contribute to have a better explanation of the reform period and the role of the Chinese state in this process. This attempt

would also be seen to be valuable to have a better understanding of state and the different approaches within the theories of state by using the case of China in transition.

Except the authors who assert that China is an alternative to capitalism, it is generally agreed that China under transition have had a dual system combining the features of central planning and market economy until the mid-1990s, whereas market economy has been dominant since then. On the other hand, the explanations of the different theoretical approaches regarding the developments and the policies implemented in the sub-periods vary as mentioned above. If especially the second half of the 1990s is taken into consideration, one branch of the statist-institutionalist approach interprets the increasing liberalization and privatization policies in China as a dramatic decrease in the state autonomy and capacity, whereas the other branch strictly rejects this view. The new institutionalists are much more satisfied with the reforms implemented in this period when compared to their dissatisfaction with the gradual reforms implemented before the mid-1990s. Marxists point out the transformation of the class relations in China especially after the mid-1990s which resulted in the loss of the Chinese workers and the workers all around the world as a consequence of China's integration to the global capitalist accumulation. As a consequence of overweighing the explanations of these approaches on the stages of China's reform, it is possible to conclude that the Chinese state is the loser of the transition according to some of the statist-institutionalists, whereas workers are the losers according to the Marxists and it seems that new institutionalists are in the view that everybody has gained from China's reforms. By taking into consideration these discussions and the different attempts to periodize China's reform period as presented above briefly, the Chinese reform period would be divided into two main sub-periods, the first including the years between the beginning of the reform period and the mid-1990s and the second including the years onwards.

In addition to the emphasis on the implementation of the socialist market economy in the Fourteenth National Congress (1992), Deng's discourse during his famous Southern Tour in 1992 that the nature of the implemented policies as capitalist or socialist does not matter if they ensure the development, was a messenger of the developments which have taken place since the 1990s. Hence, it would be misleading to view the second sub-period of China's reform period as a radical break from the first sub-period which was marked by the gradual and cautious

character of the reforms. It is more appropriate to view the policies which have been implemented in the second sub-period as sharing the same nature with the policies of the previous period contrary to some of the authors who view that the policies after the mid-1990s present a different nature in the sense that the policies of the previous period were based only on liberalization, whereas strong neoliberal reform policies have dominated since the mid-1990s (cf. Bramall 2009, Naughton 2007).

It is true that the Chinese government privatized or closed all the small state-owned enterprises (SOEs) and township and village enterprises (TVEs) which did not have the desired performance according to the industrial policy of *zhuada fangxiao* (grasping the large and letting go the small) adopted in 1995 and accelerated the implementation of this policy especially after 1997. On the other hand, this policy would not be seen logically distinct from the initial liberalization policies and also from the policy of *guojin mintui* (state advances, private retreats) which has been implemented since the end of the 2000s and looks like at the opposite of *zhuada fangxiao*, because it is based on supporting the dominance of the state ownership in the strategic sectors. With this policy, the Chinese government purposed to transform the Chinese industry to be composed of large-scale SOEs which would become national champions and have increasing competitiveness in the global markets (Bramall, 2009: 476).

As a consequence of the privatizations and closures, the public employment decreased and the unemployment increased considerably in China. Also, corruption increased in a dramatic way as one of the most important problems of all developing countries. In addition to these, the Chinese state decreased its expenditures on health, education and social security in this process and together with the increasing unemployment, these policies were other factors which worsened the well-being of the Chinese people, especially the workers. As a consequence, the existing inequalities in China have deepened, while new kinds of inequalities have emerged. The emphasis on the importance of the private sector which were specified at the Fifteenth National Congress (1997) accelerated this process which also introduced market-oriented limits on the SOEs such as increasing the constraints on loans in order to eliminate the fragility of the banking sector (Naughton, 2007:103). These developments are interpreted in the sense that the first sub-period of the reform period was based on the understanding of the “reform without losers”, whereas the period after the mid-1990s would be viewed to be the “reform with losers” (cf.

Naughton, 2007:106-107). On the other hand, it is more appropriate to view that both of the sub-periods of the reform period have created some losers in line with the view that the two sub-periods would be seen as holding the similar neoliberal character.

It is important to mention that before the privatization policy which was adopted in the second half of the 1990s to strengthen the Chinese industry, the autonomy given to the SOE managers on their employment decisions, the abolishment of the work unit system and the removal of the constraints on labor mobility enabled the establishment of the labor market in China. Without a “free” labor market, the emergence of the Chinese capitalist class and the integration of the country to the global capitalist accumulation would not be possible. In this process, the Chinese state as a transition state has discharged its responsibilities for the establishment of capitalist mode of production in China.

### **1.1. Research Design**

China is seen as a secret box, especially because it did not have any relations with the rest of the world during the Maoist era. Because of this reason, the tools which are used to indicate the role of the Chinese state in the reform period and the transformation of the state-society and state-economy relations in China as a consequence of the reforms gains significance. The prime method of the dissertation is the critical overview of the literature, not only for analyzing the theories of state, but also for having an understanding of the developments in China since 1949; however it would be mentioned that it is possible to find some other tools. First of all, it is useful to overview the speeches and works of Mao Zedong and Deng Xiaoping which are published by the CCP under the title of “Selected Works”. Although these speeches mainly reflect the rhetorical nature of these politicians, they are valuable not only for having a better understanding of the policies implemented under the leadership of Mao and Deng, but also for comparing the Maoist era and the reform period in the sense of the motivations of the CCP policies. In the same manner, it is important to overview the official publications and websites of the CCP, although they also reflect the implemented policies only on an official discursive base. For instance, concentrating on the reports of the National Congresses of the CCP would enable to have a better understanding of the evolution of the reform policies. Through overviewing the official publications, it is also

possible to have an understanding of the transformation of the CCP during the reform period and the general approach within the CCP to the Maoist era.

Since the dissertation focuses on analyzing the role of the Chinese state in the reform process through concentrating on the SOE reform, specifically in the two strategic sectors of information technology and mining, an overview of a newspaper search is presented. Six Chinese online newspapers published in English (*People's Daily*, *China Daily*, *Caixin*, *Caijing*, *China Economic Review*, *China Digital Times*) are examined in detail for the developments in the two sectors since the end of the 1990s. As these newspapers mainly reflect the point of view of the Chinese government because they have no other choice, groups on the Internet and their forums, such as China Study Group which provides a network between the people who are interested in China, are followed with the hope of coinciding with different views and opinions. An overview of the Western newspapers and journals such as *The Economist* and *The Wall Street Journal* also turned out to be useful to realize the targets of the dissertation, provided that it is always remembered that they reflect the Western understanding of China's reform. Finally, it is important to mention that the dissertation is not based on the heavy presentation of statistical data; however some data on the Chinese industry such as the number of the SOEs through the reform years, their profits and employment levels, is provided when necessary.

## **1.2. Outline of the Dissertation**

With the purpose of presenting its own approach to China's reform experience and the role of the Chinese state in this process by making use of the weaknesses and strengths of the existing theoretical approaches, the dissertation includes seven chapters. After the introduction, Chapter 2 is based on the critical overview of the literature on the different theoretical approaches on the state and specifically on role of the Chinese state in the reform process. As mentioned above, concentration on the different theories of state approaches would bring a better understanding of the reform process in China and its consequences rather than simply putting the emphasis on the question whether China has established a capitalist economy or it has been an alternative to capitalism. Mainly, the statist-institutionalist, the new institutionalist and the Marxist approach are overviewed in the way of searching how to identify the state and then the Chinese state and its role

in the reform period. In sum, Chapter 2 purposes to indicate how these different approaches identify the Chinese state and explain China's reform period, after briefly presenting the basic assumptions and discussions of these approaches.

In order to analyze the developments which have prepared the transition, it is necessary to present an overview of the Maoist era in Chapter 3 before concentrating on the explanation of the reform period. Chapter 4 presents the developments in the reform period especially until the mid-1990s by concentrating on the transforming state-economy and state-society relations in China. The subsequent chapter, Chapter 5, aims to present how the SOE system in China has been reformed since the beginning of the reform period and to discuss the consequences of this reform as being one of the most important reform areas. Chapter 6 is based on the analysis of the two leading strategic industries, information technology and mining, which purposes to indicate how the SOE reform which is outlined in Chapter 5 within its general boundaries is implemented in these industries. This analysis which is based on a newspaper search since the end of the 1990s provides important hints regarding the role of the Chinese state in the reform process after three decades.

Finally, Chapter 7 is the conclusion chapter. The main conclusion of the dissertation is that the Chinese society has been faced with capitalist relations since the beginning of the reform period at the end of the 1970s and the view that the Chinese socialist market economy represents an alternative to capitalism is not valid. One of the immediate appearances of the capitalist relations has been the transformation of the class structure and increasing inequalities. Contrary to the efforts of eliminating class struggle during the Maoist era, the reform process has given rise to a capitalist class. The Chinese transition state which would be viewed to be a capitalist type of state has been one of the most important actors which functions for the completion of the transition to capitalism. The sustaining dominance of the state ownership in the Chinese industry which especially has been more apparent since the end of the 2000s would be seen as the strategy of the Chinese governments of the reform period to sustain domestic capitalist accumulation and the competitiveness in the global markets.

## CHAPTER 2

### CRITICAL OVERVIEW OF THE LITERATURE ON STATE THEORY

#### 2.1. Introduction

Both the developed and the developing parts of the world have been deeply interested in China's economic development since the reforms began in 1978. For the former part, China's rise has been significant since it has returned to play an important role in the global economic and political power relations and the latter part has been willing to take lessons from the Chinese experience of economic growth. As a consequence, the academic interest which was not high at the beginning of China's reform period also increased steadily and studies which concentrate on different aspects of China's last thirty years have emerged.

All these mean that how to study China's reform experience has turned out to be an important question. It is not possible to ignore the specific role played by states in the development process. On the other hand, even a brief overview of the studies on China's development experience since the end of the 1970s indicate that the Chinese state have had a more important and special role in the reform process, when compared to both the Western states, other developing countries and the post-communist states. In this sense, it is thought that searching for the role of the Chinese state in the economic development would bring a better insight to the whole Chinese reform process and enable to have an explanation of the Chinese reform experience and its consequences.

In order to have an understanding of the role of the Chinese state in the reform process, firstly it is important to reveal how the Chinese state would be identified, which is obviously an issue related to the discussions within the theories of state literature. In other words, it is unavoidable to have an opinion on how to view the state in general, before concentrating on the question of how the Chinese state would be viewed. Is it the CCP or more than that? What kind of a transformation has the Chinese state experienced as a consequence of the reforms which have been implemented in the last thirty years? What has been the impact of

this transformation on state-economy and state-society relations in China? What are the characteristics of the Chinese state as a transitional state during the transition from socialism to capitalism? In order to have answers to these questions, there is a need to pay attention first of all to the literature on the theories of state and the different theoretical approaches within it, which would contribute to have an insight on the role of the state in China's economic development in the last thirty years.

As a consequence of the increasing interest mentioned above, different theoretical approaches have presented different explanations to China's experience of economic growth, reform period and the role of the Chinese state in this process. At first sight, there is a sharp divide between the assessments about China's development path presented by the scholars regardless of their theoretical approaches. While some of the authors assert that China has not established a capitalist economy and does not implement neoliberal policies so that the Chinese system is an alternative to capitalism and neoliberalism (cf. Ramo 2004, Arrighi 2007, Lo and Zhang 2010), the others state that the Chinese economy has already become capitalist implementing the neoliberal policies (cf. Sezen 2009). The latter group of the scholars also includes two different tendencies, as the scholars who appreciate such a change in China (cf. Fairbank and Goldman 1998, Laffont and Qian 1999, Nolan and Wang 1999, Shambaugh 2000, Chen 2002, Naughton 2007, Shambaugh 2008, Amin 2013) and the scholars who strictly criticize it (cf. Hart-Landsberg and Burkett 2005, Li 2005, Harvey 2007, Bramall 2009).

The debate on whether China has established a capitalist economy or not, became more evident by the concept of the "Beijing Consensus" which was introduced to be standing at the opposite of the "Washington Consensus". In line with the arguments of Giovanni Arrighi in *Adam Smith in Beijing* (2007) which are discussed below, the Beijing Consensus is formed with the emphasis that China's rise changes the balance of forces in the world order and its peaceful development is important for other developing countries as much as it is for China itself, since these countries are also in an attempt to adapt to the conditions of the world order (Ramo, 2004: 2-3). In this sense, it is assessed that the Beijing Consensus challenges and replaces the Washington Consensus which has been collapsing. On the other side, strict criticisms of the Beijing Consensus have also emerged. According to these criticisms, there have been sub-periods within China's reform period, especially the beginning of the reform period, that Washington Consensus principles were

implemented and these were obviously more welfare enhancing periods (Huang, 2010: 45).

At first sight, it is seen that the literature on China's economic development in the last thirty years is full of the discussions presented above. It would be necessary to draw a theoretical framework around these discussions within a search which aims to explain China's reform process and the role of the Chinese state in this process. It is appropriate to examine the literature on China's reform period by concentrating on how the different theoretical approaches explain China's experience of reform and the role of the Chinese state in this process. Such an attempt would also enable to have a better understanding and interpretation of the discussions on whether China has established a capitalist economy or it has achieved to sustain an economic system which is an alternative to capitalism.

Another point to be mentioned regarding the literature on China's economic development in the last thirty years is that the studies mainly concentrate on describing what has happened since the end of the 1970s, while they would be seen to be weak in explaining what has happened. It is possible to state that this is the case partly because there have been still obscure points for the rest of the world regarding the Chinese social, political and economic systems, although China has been opening to the world since the reform period began. Because of this reason, any study on China would be seen to be valuable as it narrates and gives information about what has happened in China since the reform period began and what the preexisting conditions were at the beginning of the reform period. On the other hand, the need to explain what has happened in China both in the Maoist era and the reform period continues. It is important to search for the different theoretical approaches in the studies on China's reform experience, discuss them and propose a new one, if possible, by providing the strengths and failures of the existing ones. When the literature on China's reform period and the role of the Chinese state is examined with this perspective, it is seen that mainly statist-institutionalist, new institutionalist and Marxist approaches are present.

## **2.2. Statist-Institutionalist Approach**

*Bringing the State Back In* (1985) edited by Theda Skocpol, Dietrich Rueschemeyer and Peter B. Evans has been seen as the manifesto of the statist-institutionalist approach since it was published. In this book, Skocpol has two main

assertions that states are autonomous actors and they affect and shape political and social processes through their policies and their relationships with social groups. Within this framework, statist-institutionalists have mainly emphasized that there would have been a renewed interest in the state and its roles in economy and society, contrary to the society-centered theories.<sup>1</sup> Related to this, another important argument of the statist-institutionalist approach is that there is not a need for a grand theory of the state, because none of the existing grand theories are useful to explain the specific characteristics of states. Most general theories of the state have been reductionist that they reduce the state to the preexisting structures of society and deny the autonomous power of the state (Mann, 1985: 331). In this sense, it is important to concentrate on state autonomy and state capacity as a way of viewing the state as an important autonomous actor according to the statist-institutionalists. Within the discussions regarding state autonomy and state capacity, statist-institutionalists present comparisons of ‘weak’ versus ‘strong’ states by providing examples of case studies (cf. Skocpol, Evans and Rueschmeyer, 1985: 347-366).

How the statist-institutionalists have presented the origins of state autonomy is also a question to be considered. Mann (1985), who states that “the state is merely and essentially an arena, a place, and yet this is the very source of its autonomy”, presents the origins of the autonomous power of the state as *the necessity of the state*, *the multiplicity of its functions* and *its territorial centrality* (Mann, 1984: 333,339-344). With a liberal understanding of the state going back to the theories of Thomas Hobbes and John Locke, *the necessity of the state* is related to the necessity of the rules and laws enforced and implemented by the state, especially for the protection of life and property of the citizens. *The maintenance of internal order*, again with the emphasis on the protection of property rights, *military defence/aggression* against foreign threats, *the maintenance of communications infrastructures* and *economic redistribution* constitute the multiple functions of the state (Mann, 1984: 340). “Because most states are pursuing multiple functions, they can perform multiple

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<sup>1</sup> By opposing society-centered theories, statist-institutionalist approach is especially critical of Marxist understanding of the state. Skocpol states that any forms of autonomous state action are excluded from the class analysis and Marxism generalizes the features of all states within a mode of production and ignores the specific characteristics of states. On the other hand, there have been critiques of the statist-institutionalists which point out that they depend on Marxism although they have a considerable effort to distinct themselves from it and they especially miss the point that they cannot ignore ‘class’ if they are willing to challenge the Marxist analysis of the state (Cammack 1990: 154).

maneuvers” and “this maneuvering space is the birthplace of state power” (Mann, 1984: 341). Finally, *the territorial centrality of the state*, which is thought to be possessed only by the state, is presented as the most important prerequisite of state power by Mann (1985).

According to this analysis, some other social actors and groups may have a kind of power on the state; however none of these have the ability of performing the functions of the state. This fact ensures the autonomous power of the state and makes the nature of the power possessed by states and state elites an important matter of analysis. In line with this, Mann (1985) especially identifies two kinds of power which are *despotic power* and *infrastructural power*, the latter giving the state the ability to penetrate in the civil society and give shape to social relations as it happens in today’s capitalist societies (p.334). In this sense, Mann (1985) identifies the capitalist state as ‘despotically weak’ and ‘infrastructurally strong’.

It is certain that the literature based on the statist-institutionalist theory is wide and only the basic arguments of the approach are presented within the dissertation. On the other hand, the overview of the literature on China’s reform period and its consequences indicates that the statist-institutionalist analysis of China’s reform shares these basic arguments of the approach and mainly concentrates on the impact of the reforms on the autonomy and the capacity of the Chinese state.

#### *Statist-institutionalist Approach to China’s Economic Development*

The statist-institutionalist approach to China’s reform process and the role of the Chinese state in this process has some specific characteristics. First of all, it would be seen to be marked by the value assigned to the inheritance of the Maoist period as an important factor of the economic success which has been realized during the reform period. The Maoist inheritance which included well-developed irrigation and railway networks, educated workers and increasing industrial skills played a critical role in China’s economic growth in the 1980s and the 1990s (Bramall, 2009: 436). In other words, the market socialist development strategy would not be successful without the massive investment of the Maoist era on infrastructure and human capital (Bramall, 2009: 437).

In addition to the importance assigned to the Maoist era, another general tendency of the statist-institutionalist approach is that it views the Chinese state as the only important actor of the reform process and ignores the other factors. The

factors such as the external constraints, the power of the localities and the newly emergent class structure are mentioned only in relation to their influence on the state capacity (cf. Bramall, 2009, p.530). Indeed, the rise of these factors is presented to be causing state weakness in China, or explained as the factors which have no impact on the capacity of the Chinese state, rather than being the factors directly influencing the reform process. As a consequence, statist explanations on China's reform experience mainly concentrate on how the state autonomy and state capacity has been impacted by the reforms.

The problem of the sustainability of China's economic development and growth is also viewed to be related to the capacity of the state by the statist-institutionalist approach. In this regard, it is seen that the approach has two opposing branches. According to one branch, China has the potential to continue its economic growth; however the diminishing capacity of the Chinese state stands as an important obstacle to realizing this potential. Since the beginning of the reform period, the capacity of the Chinese state is thought to be diminished as a consequence of fiscal decentralization, reduction of tariffs, membership to the WTO, and increasing inequalities and relative poverty by this branch and the Chinese state is viewed to be 'captured' by the new capitalist class (Bramall, 2009:530-531). According to this perspective, it is ironical that the capacity of the Chinese state has been diminishing since the reform period began, despite the fact that the reforms have been implemented by the Chinese state itself (Bramall, 2009: 532). In other words, China has suffered from "capacity deficit" since the reforms began and the Chinese state is a weak state when the criteria of an effective state are considered (Wang, 2003: 38). This branch of the statist-institutionalist approach strongly proposes the retrieval of the capacity of the Chinese state in order to ensure the sustainability of the economic development. In other words, the Chinese state should be rebuilt by increasing its capacity rather than limiting its power, so that the challenges which are waiting on the agenda of China such as the well-being of the citizens and democratization would be overcome (Wang, 2003: 41).

In opposition to the statist-institutionalist explanation of the diminishing capacity of the Chinese state which is presented above, there is another statist-institutionalist explanation which strongly defend that the capacity of the Chinese state has increased during the reform period (cf. Edin 2003, Chang 2004, Shambaugh 2008, Chu and So 2010). Contrary to the assertions that the capacity of the Chinese

state has diminished since the reform period began, especially as a consequence of liberalization, privatization and decentralization policies, it is argued that “state capacity, defined here as the capacity to control and monitor lower-level agents has increased in China” and some of the failures in policy implementation do not stem from loss of state capacity, but are caused by the fact that there have been more important policy priorities in some cases (Edin, 2003: 36, 51). Thus, the Chinese central government still has the ability to use its bureaucratic apparatus effectively in line with its targets (Chang, 2004:30).

Within this perspective, how the CCP achieved to survive in an environment where all the other ruling communist parties in the world have lost their power, and despite the terrible experience of the Tiananmen events, has been one of the most important questions (Shambaugh, 2008:1). CCP has survived, because it has been successful in implementing the reforms with the intention of guaranteeing the survival of the regime by strengthening its ruling capacity as the single ruling party. Despite the socioeconomic problems of China, this strengthening capacity stems from the notion that most of the CCP leaders have been in the view that they can stay on power “through introspection, adaptation, and implementation of preemptive reforms and policies” (Shambaugh, 2008:2-3).<sup>2</sup>

Some party-states’ strategies and tactics are reactive and defensive, whereas others’ are proactive and offensive. The latter tend to offer better chances for survival than the former, but a combination is usually advisable. Doing nothing or simply strengthening the coercive powers of the state are insufficient. If they are wise, single ruling parties will constantly try to adapt themselves and their government to new circumstances-yet this is a treadmill and balancing act difficult to manage and maintain.<sup>3</sup>

This branch of the statist-institutionalist approach suggests that the CCP would consolidate its power further through continuing the implementation of the reforms on the one hand, since a ‘strong state’ is required in China; while it has to also sustain its ‘adaptable and flexible’ characteristic on the other hand. It is thought that the CCP has been in atrophy; however it has a great capability of adaptation in

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<sup>2</sup> It is important to point out that the power of the CCP to adapt to the changing conditions was mentioned before Shambaugh (2008) by Bruce Dickson in *Red Capitalists in China* (2003), while it is possible to view Dickson within the new institutionalist approach, since he presents the adaptability of the CCP as one of the obstacles to the completion of the transition to market economy and democratization.

<sup>3</sup> Shambaugh D., *China’s Communist Party, Atrophy and Adaptation*, Woodrow Wilson Center Press, Washington, 2008, p.5.

some specific areas (Shambaugh, 2008: 4-5). It is seen that CCP's adaptation capability enables it to deal with the challenges it faces and to sustain its legitimacy and power (Shambaugh, 2008: 9). If this capability of the CCP will ensure its survival in the future, this will mean the transformation of the CCP from a "Lennist party into a new kind of hybrid party" (Shambaugh, 2008: 6).

The political hybrid that the CCP is attempting to become today is born out of its study of the reasons that the Soviet and East European regimes collapsed but is also very much informed by its study of other modernizing and newly industrialized states, particularly in East Asia, Western Europe, and Latin America. In other words, the CCP is learning not only negative lessons from the former communist party-states but also positive lessons from noncommunist political systems. This is quite natural, because China is now reaching the stage of development that many Asian, European, and Latin countries have already entered, and there are numerous lessons to be learned.<sup>4</sup>

This kind of a statist-institutionalist approach accepts that neoliberal policies have been adopted in China since the mid-1990s; however it is pointed out that these policies are constructed and implemented directly by the Chinese state. Such an analysis is based on the assertion that China's capitalism experience is unique because it is not a spontaneous process, rather it is an "artifact" created by the Chinese state (cf. Chen, 2002: 405). Contrary to the experience of neoliberalism in the West, China has been experiencing 'state neoliberalism' as a consequence of its historical conditions (Chu and So, 2010: 49-50).

Whereas the capitalist class has been the dominant agent of neoliberalism in the West, the communist party-state had to take the driving seat to propel neoliberalism forward. Thus, we coined the term "state neoliberalism" to highlight the contrast between China's experience of neoliberalism, and that of the West. Obviously state neoliberalism is a highly contradictory term: while the party-state still claims to be communist and to stand on the side of workers and peasants, it has carried out all sorts of neoliberal policies to assault workers and peasants and undermine their interests. As such, it will be interesting to study how the contradiction of state neoliberalism has led to an oscillation between market-led and state-led development in China, and how the party-state has handled this contradiction over the past three decades, leading not only to the surprising continuation of the CCP-state, but also to the rise of China as a contending power in the capitalist world-system.<sup>5</sup>

Presenting state neoliberalism in contradiction with Western neoliberalism experience as presented above would be seen problematic because of at least two

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<sup>4</sup> *Ibid.*, p.6.

<sup>5</sup> Chu Y.W., So A.Y., "State Neoliberalism: The Chinese Road to Capitalism" in *Chinese Capitalisms, Historical Emergence and Political Implications* edited by Yin-wah Chu, Palgrave Macmillan, 2010, pp.49-50.

points. First, such comparisons on the social, economic and political issues between the West and the East without referring to the historically determined conditions would not be seen valuable. Second, neoliberalism would not be seen to be based on “the limited state” or “the minimal state” in line with its discourse. In the Introduction, it is indicated that neoliberalism systematically uses state power in order to realize its objectives. In other words, there is not a contradiction between the appearances of neoliberalism in different countries regarding its relation with the state, while how this relation is set and sustained would certainly vary.

This brief overview indicates that the statist-institutionalist approach to China’s reform experience in the last thirty years concentrates expectedly on the impact of the reforms on the capacity of the Chinese state. On the other hand, it is also seen that two different assertions are presented within the statist-institutionalist literature regarding the case of China. On the one side, it is assessed that the capacity of the Chinese state has been steadily diminishing since the reforms began and this process has accelerated especially since the mid-1990s. On the other side, it is argued that the autonomy and the capacity of the Chinese state has not been damaged by the reforms. The latter conclusion is especially based on the continuing administrative capacity of the Chinese state which enables it to have the ability to monitor and control the Chinese bureaucracy and the local governments, and use them for its targets.

In fact, the only problem within the statist-institutionalist approach to China’s reform process is not the fact that there is not an agreement on the impact of the reforms on state capacity. The main problem is that this approach views the Chinese state as the only vital actor of the reform period. The impact of the other factors on the performance of the reforms and on the social transformation experienced by China since the beginning of the reform period is ignored. In other words, statist-institutionalist approach does not put the necessary emphasis on state-society relations. In this regard, this approach does not discuss the impact of the reforms on the class relations in China, and in a looping manner the impact of the transformations in class relations on the Chinese state and the performance of the reforms. It would be mentioned again that state is an important actor in any reform process and the role of the Chinese state in China’s reform period would be viewed to be more special; however it is important to avoid ignoring the other factors having an impact on the process. Despite this criticism, it would be mentioned that the

statist-institutionalist approach would be valuable in analyzing the role of the Chinese state in the reform process, while it does not provide much on how this role is formed and shaped.

### **2.3. New Institutional Approach**

New institutionalism which focuses more specifically on explaining institutions, the impact of institutions on social and political consequences and institutional change puts more emphasis on the state-society relations when compared to statist-institutionalism. On the other hand, like the statist-institutionalist approach, it is difficult to view new institutionalism as having a fully developed and unified theoretical framework (Cammack 1990, Cammack 1992, Hall and Taylor 1996, Vandenberg 2002). As a consequence, different versions of new institutionalism are identified. Cammack (1992) identifies two versions of new institutionalism as “a *contractual or rational choice* version of new institutionalism” and “a *sociological or historical-structural* version emerging out of a reaction against both functionalist and rational-choice approaches” (Cammack, 1992: 403), whereas Hall and Taylor (1996) add a third version which is “historical institutionalism.”

The rational choice new institutionalism is mainly based on the principles of neoclassical paradigm, mainly the rationality of individuals, while it also emphasizes the need to supplement this paradigm as it is thought that this paradigm is not enough to explain institutions and institutional change (North, 1981: 8-12, North, 1990: 62). On the other hand, in line with the principles of the neoclassical paradigm, rational choice new institutionalism puts an emphasis on the preferences of rational individuals which would give rise to incremental or radical change over time in explaining the institutional change (Cammack, 1992, p.407). In examining its primary focuses, institutions and institutional change, rational choice new institutionalists also put emphasis on property rights, transaction costs and rent-seeking. It is possible to claim that they sometimes exaggerate this emphasis to the extent that they explain the existence of institutions as a consequence of the need to overcome the costs of the property rights. In the same manner, it seems that they assign value to the state because it specifies and enforces property rights (cf. North 1981, 1990). Also, how institutions originate is explained by reference to the value assigned by the actors to the functions of the institutions and it is stated that the

institutions which are viewed to provide more benefits survive (Hall and Taylor, 1996: 945).

Apart from their emphasis on these vital functions of the state in ensuring the functioning of the property rights system, the rational choice new institutionalists view the state in line with the neoclassical state theory, as “the source of man-made economic decline” (North, 1981: 20). The concept of “the predatory rule” of Levi (1988) is one of the examples of this kind of approach to the state as she views the rulers to be predatory in order to extract the maximum revenue from the population (Cammack 1992: 407). Such a presentation of the state represents a very reductionist approach to the state. It can even be claimed that the rational choice new institutionalist approach goes further when compared to the neoclassical state theory in the reductionist presentation of the state. As mentioned above, North (1981) and Levi (1988) identify the state as focusing on the maximization of its income like a firm, through its power of specifying and enforcing property rights. In addition to this, North presents the property rights to be causing a tension between the state and certain social groups with an evident ignorance of the tension among and within the groups caused by the property rights. In other words, rational choice new institutionalists present only a partial analysis of state-society relations. More important than these, they present a reductionist understanding of institutions, their primary focus, as they tend to view them from the only point of how they contribute to economic performance.

Thus, a firm’s organizational structure is explained by reference to the way in which it minimizes transaction, production or influence costs. The rules of the American Congress are explained by reference to the gains from exchange they provide to members of Congress. The constitutional provisions adopted by the English in the 1680s are explained by reference to the benefits they provide to property holders. Such examples could be multiplied...<sup>6</sup>

In addition to these, another important criticism on rational choice new institutionalism is that this approach categorizes some of the central concepts such as institutions and property rights with only their Western meanings. As a consequence, it is possible to understand why institutions are important by the help of North’s

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<sup>6</sup> Hall P. A., Taylor R.C.R., “Political Science and The Three New Institutionalisms”, *Political Studies*, XLIV, 1996, pp.936-957, available at <http://chenry.webhost.utexas.edu/core/Course%20Materials/Hall%26TaylorPolStuds/9705162186.pdf> p.946.

analysis, whereas it is not possible to understand why some societies have strong institutions and some do not (Vanderberg, 2002: 232).

The second version, sociological new institutionalism coming from the statist tradition with the supplementary purpose of challenging the premises of rational-choice theory focuses on the institutional persistence and assert that institutions persist even they become dysfunctional (Cammack, 1992, p.407). Although they are against the premises of rational choice theory, it is important to mention that sociological institutionalists do not claim that individuals are not rational; however they claim that 'rational action' is "socially constituted" (Hall and Taylor, 1996: 949). While rational choice new institutionalists explain how institutional practices originate and change by efficiency, sociological new institutionalists state that new institutional practices are adopted when they increase "the social legitimacy of the organization or its participants" (Hall and Taylor, 1996: 949). Hence, the sociological new institutionalism focuses on "long periods of stasis, or path-dependent change" while it fails to provide an understanding of the relationship between the institutional persistence and long-term social change (Cammack, 1992: 415)

As mentioned above, a third version of new institutionalism, that is historical new institutionalism, is also identified. Historical new institutionalism has a broad definition of institutions including both the formal and the informal rules and the procedures and puts an emphasis on the asymmetric power relations. This version also has a more deliberate focus on the state "as a complex of institutions capable of structuring the character and outcomes of group conflict" (Hall and Taylor, 1996: 938). Despite this emphasis, it must be mentioned that this version of new institutionalism also treats the state "as a freestanding structure, as an entity that can be isolated in inquiry" (Migdal, 1997: 221), similar to the other versions of the new institutionalist approach and the statist-institutionalist approach<sup>7</sup>.

It is seen that historical new institutionalism does not have a unified theoretical framework. One approach within historical new institutionalism points out the rationality of individuals and the strategic calculation which shapes their

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<sup>7</sup> Migdal's critical stand stems from his main criticism on the different approaches to state which view the state as an "ultimate authority, standing above society" and overstate the capabilities of state. Rather, he proposes an alternative approach that is "the limited state" which purposes to explain the state without putting a distance between state and society.

preferences and actions and mention that institutions provide individuals to some extent the certainty they need for the strategic calculation by giving them information (Hall and Taylor, 1996: 939). On the other hand, historical institutionalism also includes a 'cultural approach' which mentions that, although their rationality is not rejected, individuals do not always act according to strategic calculation because there is also a cultural impact which cannot be ignored. Within this perspective, the cultural approach asserts that it is not appropriate to view institutions as providing individuals only the information they need and it must be recognized that institutions also have a vital impact on their identities (Hall and Taylor, 1996: 939).

One of the most important emphases of historical new institutionalism is on the institutional persistence, and in this manner they view historical development to be 'path-dependent' in the sense that they strictly reject the idea that the same factors will give rise to the same consequences (Hall and Taylor, 1996: 941, Migdal, 1997: 218). In this regard, historical new institutionalists have spent much effort to analyze how institutions contribute to the process of the creation of these paths (Hall and Taylor, 1996: 941). The two approaches within historical new institutionalism which are mentioned above also provide different explanations of the institutional persistence. As expected, the defenders of strategic calculation explain the institutional persistence by again individual preferences as they assert that institutions persist as long as they are beneficial for the individuals (Hall and Taylor, 1996: 940). On the other side, the cultural approach which strictly rejects the idea that institutions may be shaped by individual choice, asserts that institutions persist because "they structure the very choices about reform that the individual is likely to make" (Hall and Taylor, 1996: 940).

#### *New Institutional Approach to China's Economic Development*

New institutionalist approach explains the sub-periods of China's reform differently from the statist-institutionalist approach. First of all, contrary to the statist-institutionalists, it is seen that especially rational choice new institutionalists present the Maoist period as full of failures with considerable negative effects on the Chinese economy which even sustain in the reform period.

In fact, Mao had failed to adequately invest in agriculture, sustain the extensive and intensive growth of heavy industry, or initiate and foster small and intermediate industries. He failed to plan and finance the collateral articulation of the nation's infrastructure. He failed to allow the market to generate a rational price structure for the system or influence resource allocation. The result was the

escalation of capital costs and the accumulation of multiple failures throughout the system. He closed China to the inflow of foreign capital and technology. He had, in almost every way impaired the growth and technological maturation of the nation's economy.<sup>8</sup>

In addition to the strict criticism of the Maoist era, new institutionalists have been in the tendency of appreciating the neoliberal developments which have taken place since the beginning of the reform period, especially since the mid-1990s (cf. Gregor 2000, Naughton 1995, 2007), while the statist-institutionalist approach which views the capacity of the Chinese state to be diminishing as a consequence of the reforms is strictly critical of these developments as presented above. Within this perspective, it is also seen that new institutionalists appreciate Deng's rule as he gave start to the reforms.

In opposition to the Maoists, Deng was to insist that the responsibility of China's revolutionaries was to foster and sustain the growth of the productive forces of the People's Republic, in accordance with what he called "objective and natural laws." In accordance with those "laws", Deng was to introduce a constellation of non-Maoist and fundamentally non-Marxist economic policies: the reintroduction of market modalities into what had been, for years, an essentially command economy; the restoration of qualified private property rights; the solicitation of joint venture investment from foreigners; and the creation of conditions that allowed an important sector of the domestic Chinese economy to be export oriented. True to apparently long-held convictions, Deng restored free markets for the exchange of a substantial proportion of producer and consumer goods and allowed the employment of property for personal profit. He opened the Chinese economy to capital and technology transfers from the advanced industrial economies.<sup>9</sup>

It is also possible to come up with new institutionalist attempts to explain China's reform period by institutional persistence. In this regard, it is seen that the reform period is viewed as a whole continuous process except some differences stemming from the specific characteristics of the leaders and the whole Chinese reform experience is explained by persistent institutions and policies (cf. Gertken and Richmond 2011).

In general, it is possible to state that new institutionalists explain China's reform experience through a neoliberal understanding and effort to adapt their explanations on the Chinese state to the neoclassical theory of the state. The new institutionalist approach tends to present China's transition experience to be unique

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<sup>8</sup> Gregor A. J., *A Place in the Sun, Marxism and Fascism in China's Long Revolution*, Westview Press, USA, 2000, p.130.

<sup>9</sup> *Ibid.*, p.134

by making emphasis on the difference between the Western capitalism and the Chinese capitalism, mainly because the latter is created by the Chinese state on an agreement with the statist-institutionalist approach. Transition to capitalism is not a spontaneous process in China, rather it is an “artifact” created by the Chinese state as it was understood that capitalism is more efficient than socialism in economic terms (Chen, 2002: 405). Within this perspective, it is also mentioned that the survival of the existing regime in China depends on the economic performance, however it is not possible for the Chinese leadership to give up the Marxist ideology fully at the moment, because it still ensures ‘organizational cohesion and ideological legitimacy’ (Chen, 2002: 405-406). This analysis of China’s reform experience would be seen to be correct up to this point; however there is a problem with how this approach uses this analysis. It is seen that there have been two different new institutionalist responses to the uniqueness of China’s transition experience. One response strictly criticizes this experience especially within the discussions on state capitalism. This *classical* new institutionalist analysis concludes that there is a need for furthering the neoliberal economic reforms in China by putting the emphasis especially on economic institutions. In this regard, the problems in the Chinese economy such as the dependency of the Chinese economic growth on high foreign investment, increasing inequality and environmental degradation are mentioned. On the other side, the other response which especially developed after the global financial crisis in 2008 views China’s experience as a good example of integration to the world capitalism and asserts that an important role should be assigned to the state in the development process.

As mentioned above, there is not an emphasis in general within the new institutionalist approach on state-society relations. On the other hand, it is also possible to come up rarely with new institutionalist analyses on China which focus on the transformation of the state-society relations as a consequence of the reforms. For instance, it is stated that China’s economic development and the irreversible capitalism are based on a corporatist strategy in order to deal with the requirements of the reform process and the conflicts which have risen within the Party as a consequence of these requirements. This strategy depends on the coalition between the Party bureaucrats, peasants, local governors and SOE directors since the beginning of the reform period. As the reforms progressed and the economy opened more and more, private entrepreneurs and foreign investors also took their part in this

coalition (cf. Huchet, 2006: 6). In line with this analysis, the dual-track character of the Chinese economy especially in the 1980s is seen as a way of protecting the vested interests in China, especially the interests of the bureaucrats (Laffont and Qian, 1999:1107). This explanation is correct whereas the problem is that it is not followed by an analysis on the causes and consequences of the protection of the vested interests in the sense of transforming state-society relations in China. Because of this reason, the new institutionalist emphasis on the need to accompany the economic reforms by the political reforms within Western standards, by especially pointing out the rising social unrest stemming from the problems of low consumption, inequalities and inflation which has become more apparent since the global economic crisis in 2008, turns out to be an empty promise (cf. Gertken and Richmond, 2011).

#### **2.4. Marxist Approach**

It is indicated above that there are disagreements within the two approaches to state giving rise to different versions. Similarly, it is not possible to claim that there is a unique established Marxist theory of state. Marx himself appears to have presented different understandings of the state in his different works. It would be mentioned that the Marxist scholars following Marx have made important contributions and enhanced the Marxist understanding of the state; however there are still ongoing debates on this issue. In general, it is misleadingly thought that the repressive state apparatuses have been the primary focus of the Marxist understanding of state. In order to concentrate on a search for the Marxist approach to the state, it would be appropriate to overview the contributions of Antonio Gramsci, Nicos Poulantzas and Bob Jessop.

Gramsci has a special standing in the Marxist understanding of state with his analysis on hegemony which he delicately related to the class structure of the society, and with especially the role he gave to the state in the class analysis, while he did not view the state to be consisting of only repressive state apparatuses.<sup>10</sup> The purpose of the dissertation is not presenting a detailed analysis of the concept of hegemony; however it is unavoidable that the Marxist discussions within the theories of state

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<sup>10</sup> For further reading of Gramsci: Gramsci A., *The Prison Notebooks (I-III)*, Columbia University Press, 2011  
Gramsci A., *Selections from the Prison Notebooks*, International Publishers, New York, 1971.

have coincided with this concept, especially since the contributions of Gramsci. Gramsci was not only a historical thinker but he was also spatial in the manner that he “was sensitive not only to the *historical specificity* of all social relations but also to their distinctive *location in place, space and scale*” (Jessop, 2008: 103-104). Within this perspective, the basic question of Gramsci is how the ruling classes ensure the consent of the subordinate classes on the one hand and how the subordinate classes can bring such an order into an end on the other hand. His way of answering these questions gave rise to his critical concepts of ideology, hegemony crisis, war of position in contrast to war of maneuver and also his emphasis on the role of intellectuals in these processes.

Following Gramsci, Poulantzas has gained an important position within the Marxist tradition on state, by emphasizing that the state is not only a repressive instrument but also an instrument of hegemony of the bourgeoisie. Like Gramsci, Poulantzas also mentions that the continuity of political domination is ensured by not only the use of physical repression but also requires the intervention of ideology. Poulantzas (1969) identifies the repressive state apparatuses as the nucleus of the state system, whereas he mentions that the ideological state apparatuses have a degree and form of relative autonomy both within each other and from the repressive state apparatuses. Making an analysis on state power means that state apparatuses and the different classes or fractions of classes having power in different state apparatuses have to be taken into consideration (Poulantzas, 1969). On the other hand, Poulantzas (1969) emphasizes that state power has a unity, meaning that it is in general controlled by the hegemonic class, although some of the non-hegemonic classes or fractions of classes may have some power in some of the branches. In addition to the repressive and ideological functions of the state, Poulantzas also identifies the *direct economic function* of the state “depending on the modes of production and their strategies and depending on the phases and periods of a social formation” (Jessop, 2008: 302).

One of the most important contributions of Poulantzas to the Marxist state theory is that he is not willing to provide the state as a totality of power or neglect it entirely as the existing approaches do (Jessop, 2008: 118). In this sense, Poulantzas presents the state as a social relation, with its role in reproducing class domination and relates the theory of state to the social division of labor and class struggle. Like Gramsci, Poulantzas did not view the state as a monolithic entity, rather as a strategic

field of intersecting power networks and state constitutes this balance rather than reflecting the balance among class forces according to Poulantzas (Jessop, 2008: 123).

In addition to these, Poulantzas (1973) presents that the Marxist political science has distinguished certain ‘types of state’ according to the different modes of production and also defined ‘forms of state’ and ‘forms of regime’. According to this analysis, the forms of state “are characterized by a specific modification of the relation between the political and the economic” and may appear in different forms of regime (Poulantzas, 1973: 150-151). The mode of production determines the type of the state whereas there are factors which differentiate forms of a type of state. Poulantzas is in particular interested in the capitalist type of the state and states that the factors of differentiating forms of the capitalist state are:

1. The forms and modalities of State intervention in the economic and in social relations in general, and the forms and modalities of the relative autonomy of the State from the dominant classes.
2. The role, forms and inter-relationship of the State apparatus proper and the ideological State apparatuses, corresponding to modifications in the law, which is precisely what governs them.
3. The general relationship of the branches of the repressive state apparatus itself, corresponding, for the capitalist State, to the general relationship between executive and legislative.
4. The general relationship between the ideological State apparatuses.<sup>11</sup>

Poulantzas also presents the factors of differentiating the forms of regime which “are the concrete methods of political class struggle in a determinate conjuncture” (Poulantzas, 1975: 311).

1. How far they display the general characteristics of a form of State;
2. The specific *form* taken by these characteristics; the concrete relationships between the various ideological State apparatuses, and the relations between the two when one is dominant. The political parties and class representation by party are particularly important for this.<sup>12</sup>

Poulantzas applied his analysis to the forms of the capitalist type of state which he called ‘the exceptional form’ of the capitalist type of state. The exceptional state has the distinguishing features of the capitalist type of the state, meaning that it is based on the relative separation of the economic from the political and it has a relative autonomy from the dominant classes and fractions. On the other hand, the

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<sup>11</sup> Poulantzas N., *Fascism and Dictatorship*, NLB, London, 1975, p.311.

<sup>12</sup> *Ibid.*, p.311-312, emphasis original.

relations between the repressive state apparatuses and the ideological state apparatuses of the exceptional state have changed as a consequence of a political crisis. A certain kind of relationship is established between them which are based on the dominance of the repressive state apparatuses on the ideological state apparatuses. Another distinguishing feature of the exceptional form of the state is that juridical system is modified by adding a political role to its current role and the electoral principle is suspended. Poulantzas provides the fascist state as an example of the exceptional form of the state (Poulantzas, 1974: 320-327).

Another important contribution of Poulantzas to the Marxist state theory is his criticism on the existing approaches to the state, especially the instrumentalist approach, in the manner that it treats state as having an independent power and utilizing dominant classes in various ways. He emphasizes that the institutional materiality of the state cannot be reduced to political domination and stresses that “the basis of the material framework of power and the state has to be sought in the relations of production and social division of labor” (Poulantzas, 2000: 14). Poulantzas views power as a relational system since the power of each class is limited by the power of the other classes, and the state as “the material condensation of such a relationship among classes and class fractions” (Poulantzas, 1973: 128). In other words, Poulantzas identifies the state as “the factor of cohesion of a social formation and the factor of reproduction of the conditions of production of a system that itself determines the domination of one class over the others” (Poulantzas, 1969: 73). Within this framework, Poulantzas also analyzes the concept of power bloc as another particular feature of the capitalist type of state, by building on how it is introduced by Marx and Engels as it “*indicates the particular contradictory unity of the politically dominant classes or fractions of classes as related to a particular form of the capitalist state*” (Poulantzas, 1973: 234).

According to Sassoon (2008), Gramsci’s concept of hegemony is an important “attempt to analyze the new relationship between state and society in the period of the dominance of finance capital” (Sassoon, 1982: 100). Buci-Glucksmann (2008) points out how Gramsci’s thought would still be viewed to be valuable by indicating that it is possible to relate current political debates such as the limits of liberal democracy to Gramsci’s thought. In the same manner, a kind of analysis built on the approaches of Gramsci and Poulantzas on China’s reform process, the role of

the Chinese state in this process and the transforming state-society relations in China would be an important contribution to the literature.

Building on Marx, Gramsci and Poulantzas, Jessop developed his *strategic-relational approach* to the state. The main emphasis of Jessop is that state is a complex phenomenon so that it is difficult to define it and put it in a single theoretical perspective. It is only possible to provide preliminary definitions to the state (Jessop, 2008: 9-12). In other words, a general theory of the state cannot be developed. It is not possible to equate the state to the government, law or bureaucracy and state cannot be explained without referring to the broader ensemble of social relations that it is a part of (Jessop, 2008: 1). Because of these reasons, there is a need of a strategic relational approach which is based on the commitment of Poulantzas that ‘state is a social relation’ according to Jessop.

In the way of explaining why there is a need of a strategic-relational approach, Jessop presents a dichotomy in the Marxist state theory between ‘capital-theoretical’ and ‘class-theoretical’ theorists and indicates that both approaches have some problems. On the one hand, the ‘capital-theoretical’ approach views *the capitalist state* as serving for the needs of capitalist accumulation and the domination of the capitalist class, whereas has the failure of assuming that the needs of capitalist accumulation are stable (Jessop, 2008: 32-33). On the other hand, the ‘class-theoretical’ approach which is based on the notion of *the state in a capitalist society*, asserts that the form and the functions of the capitalist state represent the balance of forces in class struggle, while this approach fails to present “the dialectical relation among these interests” (Jessop, 2008: 33).

Thus, we are confronted with a false dilemma. Either we emphasize the abstract logic of capital with its iron laws of motion, that is, its structurally-inscribed tendencies and counter-tendencies. Or we can concentrate on the concrete modalities of class struggle considered in a purely empiricist manner and have no way of explaining how this struggle tends to reproduce capitalism rather than produce a collapse into barbarism or a transition to socialism. Between the two approaches there is a little attempt at mediation. Yet the notion of strategy seems ideally suited to this purpose.<sup>13</sup>

Hence, Jessop states that the strategic-relational approach may provide a bridge between these two approaches by providing “the means to examine alternative *logics of capital*” and may indicate why class struggles does not end with

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<sup>13</sup> Jessop B., *State Power*, Polity Press, UK and USA, 2008, p.33.

“barbarism” (Jessop, 2008: 34, emphasis original). In this sense, there are two important concepts of the strategic-relational approach as Jessop presents. The first one is the ‘structurally inscribed strategic selectivities of the state’ and the second one is ‘the capacity of social forces to engage in strategic context and pursue strategies that are more or less well adapted to these selectivities’ (Jessop, 2008: 36).

It is also important to mention another Marxist approach which emerged during the 1970s especially as a consequence of the Conference of Socialist Economists (CSE) and has mainly concentrated on the relationship between state and economy and the analysis of contemporary capitalism. Situating itself at the opposite of ‘Closed Marxism’ which is seen to be raised as a consequence of especially the state ideology of Marxism-Leninism and also known as ‘structural Marxism’, ‘Open Marxism’ presents itself also as critical Marxism (Burnham, 1994: 224, Bieler and Morton, 2006: 157). Open Marxism has really been critical of many, especially of the international political economy (IPE) on the one hand and the neo-Gramscian approach on the other hand, especially the hegemony theory of Robert Cox. It is stated that the debate between the neo-Gramscians and the Open Marxists has indicated how two perspectives which have began from the same origin and have some theoretical and empirical similarities would reach different conclusions regarding contemporary capitalism, globalization and the changing relationship between state and economy (cf. Bieler, Bonefeld, Burnham, Morton, 2006: 1-2). On the other hand, it is seen that there have been more strict Open Marxist criticisms on neo-Gramscianism in the sense that neo-Gramscians have adopted bourgeois sociological theory of the state, while they try to make their theory Marxist through emphasizing relations of production (cf. Clarke, 1991: 73).

Open Marxists are especially critical of economic determinism and the ignorance of analyzing the relations of production under capitalism. In this sense, they especially point out the need to discuss on the separation of economic and political. On the other hand, it is mentioned that this separation does not imply the autonomisation of the state, meaning that the state would not be viewed as a “thing” standing apart from the others (Holloway and Picciotto, 1991: 112-114). Open Marxism purposes to further develop the discussions on the separation of the state and the economy in order to analyze the state as an institutional category as a form of social relations. The state is a form of capitalist relations based on the primary antagonism between capital and labor giving rise to class struggle and the state

would be seen as a class relation which constitutes global capitalist relations. Within this perspective, it is stated that the separation between economic and political in the way provided by the IPE distorts the relationship between state and globalization, giving rise to the explanation of authority loss of the state as a consequence of globalization (Bieler and Morton, 2006: 158-160).

As mentioned above, it is certain that Open Marxism and neo-Gramscianism share a number of assumptions and purposes. On the other hand, Open Marxism separates itself from neo-Gramscianism mainly by refusing to identify different forms of state determined by the capital relation and periodizing the capitalist mode of production (Bieler and Morton, 2006: 161-162). On the other hand, it is mentioned that the relationship between the state and capital is certainly important within the Open Marxist perspective, since the state plays a crucial role in the continuity and the reproduction of class domination (Holloway and Picciotto, 1991: 109). It is also important to point out that Open Marxists emphasize that state centrism is avoided in their analyses (Bonefeld, 2006: 176-177). Rather than concentrating on the assumption of “bringing the state back in”, it is stated that Open Marxism is based on “bringing the class struggle back in” order to have a proper Marxist approach to the state (Bonefeld, 2008: 64).

As mentioned above, there is not an established Marxist state theory and even Marx himself is thought to give different signals regarding the state to his readers in his different works. Hay (1999) criticizes the Marxist tradition by presenting a genealogy of the Marxist scholars who have established their own understanding of the state within the boundaries of Marxist principles, in the sense that it has not been able to present a unique Marxist state theory or give a Marxist definition of the state. Despite such efforts of searching for a unique Marxist state theory, even this brief overview of the Marxist works indicates that there cannot be a unique and grand Marxist theory of state and there cannot be one definition of it. In addition to the impossibility of providing one Marxist definition of state, it is indicated that the other two approaches, statist/institutionalism and new institutionalism, also have not been able to form a unified state theory. Within the Marxist perspective, any attempt to define the state, first of all, has to take into consideration the relations of production. This is why the Marxist scholars prefer to concentrate in the capitalist state reflecting capitalist production relations, capitalist class relations and the different forms of the

capitalist state in order to have an understanding of the contemporary states and explain their actions.

### *The Transition State*

Since the end of the 1970s, the Chinese state has represented the characteristics of a transition state which has appeared in the way of establishing capitalist mode of production through the reforms after the efforts of establishing socialism for three decades. It would be appropriate to take the help of the discussion in the state theory literature on the absolutist state as the transition state in order to have a better understanding of the Chinese transition state. Transition state presents a typical form under the conditions of two different modes of production, while one of these modes replaces the other (Poulantzas, 1973: 157). It would be possible to make use of the discussion on the absolutist state in understanding the characteristics of the Chinese state as a transition state since the end of the 1970s and its role in the reform period as a transition period.

At the end of the sixteenth century, the absolutist state emerged in the Western Europe as a consequence of the long crisis of feudalism. *Political Power and Social Classes* (1973) written by Nicos Poulantzas and *Lineages of the Absolutist State* (1974) written by Perry Anderson are two remarkable works discussing the characteristics of the absolutist state. Overviewing these two works indicates that the two authors agree that the absolutist state as a transition state held the characteristics of both feudal state and capitalist state (Anderson, 1974: 39, Poulantzas, 1973: 157). They also share the point that transition was a period in which the economic changes were not followed by immediate changes in the political structure (Anderson, 1974: 23), which was expressed by Poulantzas (1973) as “a non-correspondence between the political structure and the economic instance”, giving rise to “the chronological dislocation between the relation property and the relation of real appropriation”. Contrary to Anderson (1974) who presents the absolutist state as serving the interests of both the feudal nobility and the urban bourgeoisie, Poulantzas (1973) states that the transition was based on the contradiction between the nobility which was politically dominant and the bourgeoisie which was economically dominant while had not become politically dominant yet, rather than on their political alliance (Poulantzas, 1973: 157-159).

The main distinction between Anderson (1974) and Poulantzas (1973) is based on their understanding of the absolutist state in the manner of whether feudal

characteristics or capitalist characteristics dominate. Anderson (1974) builds his main argument on his criticism on the conception of the absolutist state put by Marx and Engels in their different works that it represents a balance between the old feudal nobility and the new urban bourgeoisie, while it has already become the instrument of the bourgeoisie (Anderson, 1974:15-16, Miliband, 1975: 314). Army, bureaucracy, taxation, law and the initial stages of a unified market were the capitalist characteristics of the absolutist state; whereas the absolutist state was a feudal state according to Anderson (1974), because rural relations of production were still feudal since labor did not become 'labor power' through being separated from land (Anderson, 1974: 17). Within this perspective, the absolutist state was established for ensuring the dominance of the feudal nobility under the conditions of the transition to capitalism (Anderson, 1974: 41-42).

What is at issue here is the very large question of the relationship of the Absolutist State to the West European bourgeoisie, and therefore the very nature and role of that form of state. What Anderson is saying is that the Absolutist State served the interests of a particular class-the class in question being the feudal nobility. This is one thing. But he is in fact saying a great deal more than that-not only that the Absolutist State was an instrument wielded for the feudal nobility; but that it was also for the most part wielded by the feudal nobility, and for the latter's own purposes. This is a very different thing; and taken as a general statement about the Absolutist State, a much more questionable one, which is in fact contradicted by many of Anderson's own formulations. The problem this raises has in recent years been much discussed in regard to the capitalist state, namely the "relative autonomy of the state"; but it is also of major importance in regard to the Absolutist State. I think that Anderson is right to argue that Marx and Engels greatly over-stated the autonomy of the Absolutist State, and that the notion of "equilibrium" is indeed a misleading one. But it also seems to me that in many of his formulations he himself greatly understates the "relative autonomy" of the Absolutist State-and the fact that he tends to use inconsistent formulations on this issue suggests a weakness of conceptualisation which is, for him, most unusual, and which has fairly far-reaching consequences.<sup>14</sup>

The appearance of the absolutist state was certainly not "a smooth evolutionary process"; because it was a consequence of the deep conflicts within the feudal aristocracy. According to Anderson (1974), the dominance of the feudal nobility remained under new forms of dependence and exploitation. On the other side, the aristocracy also had to get along with the urban bourgeoisie under the conditions of transition (Anderson, 1974: 20). Performing the functions of the state in the *primitive accumulation*, absolutist state served for the protection of the

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<sup>14</sup> Miliband R., "Political Forms and Historical Materialism", *The Socialist Register*, 1975, available at <http://www.marxists.org/archive/miliband/1975/xx/anderson.htm>, p.314.

property and privileges of the aristocracy, while at the same time ensured the realization of the basic interests of the bourgeoisie (Anderson, 1974: 40).

Thus when the Absolutist States were constituted in the West, their structure was fundamentally determined by the feudal regroupment against the peasantry, after the dissolution of serfdom; but it was secondarily *over-determined* by the rise of an urban bourgeoisie which after a series of technical and commercial advances was now developing into pre-industrial manufactures on a considerable scale. It was this secondary impact of the urban bourgeoisie on the forms of the Absolutist State which Marx and Engels sought to capture with the misleading notions of 'counter-poise' or 'cornerstone'.<sup>15</sup>

The absolutist state understanding of Anderson (1974) would be associated with the instrumentalist Marxist approach to the state in the sense that he views the cause of the emergence of the absolutist state as serving the interests of the nobility and the bourgeoisie. On the other side, Poulantzas (1973) states that the absolutist state has the specific autonomy of the capitalist state, although the dominance of the capitalist mode of production has not fully established and the separation of the producer from the means of production has not occurred yet. Contrary to Anderson (1974), the non-correspondence between the political and the economic in terms of Poulantzas (1973) implies that the absolutist state is not based on the political alliance between the politically dominant feudal nobility and the economically dominant bourgeoisie, rather the two present the principal contradiction of transition (Poulantzas, 1973: 157-159).

It is also possible to decipher this non-correspondence from the function of the transition state: this is the import of Marx's analyses of primary accumulation of capital, although they are intended to present a genealogy of elements rather than a theory of transition. The function of the absolutist *state is precisely not to operate within the limits fixed by an already given* mode of production, *but to produce not-yet-given relations* of production (i.e. capitalist relations) and to put an end to feudal relations of production: its function is to *transform* and to *fix* the limits of the mode of production. The function of this transition state during primary accumulation depends on the specific effectiveness of the political in the initial stage of transition. Thus the degrees and the forms of this intervention of the absolutist state depend chiefly on the concrete existence of the historical conditions of capitalism in the various social formations.<sup>16</sup>

The absolutist state, which presents a relative autonomy from the economic stemming from its capitalist character, is a strongly centralized state within a territory and having an authority over nation in order to perform its functions in the stage of

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<sup>15</sup> Anderson P., *Lineages of the Absolute State*, NLB, London, 1974, pp.22-23.

<sup>16</sup> Poulantzas N., *Political Power and Social Classes*, NLB, London, 1973, pp.160-161, emphasis original.

primary accumulation of capital. The functions of the absolutist state can only be performed by a capitalist state and are determined by its relation to the class struggle which is marked by the predominance of the feudal nobility (Poulantzas, 1973: 162-163, 166-167).

#### *Marxist Approach to China's Economic Development*

When the Marxist approach to China's reform process and the role of the Chinese state in this process is examined, it is seen that the main emphasis is put on the transformation of the class relations in China as a consequence of the reforms. Similar to the other authors who adopt different approaches, Marxists also generally view that neoliberal policies have become dominant in China especially since the mid-1990s. As a consequence, accelerating privatization policies and increasing measures to encourage FDI have been seen as causing a number of imbalances in the Chinese economy. Within this perspective, Marxists point out several economic and social problems of China which would signal an economic crisis and threaten the sustainability of China's model of economic growth. Large current account surpluses, high level of investment giving rise to high demand for energy and raw materials, low consumption level caused by low incomes and low government spending, increasing unemployment and inequalities are among these problems (cf. Li 2008, Piovani and Li 2011). Contrary to the new institutionalists, the solutions proposed by Marxists to these problems is not furthering the implementation of the neoliberal economic policies.

It is possible to state that there are two main Marxist explanations of China's reform experience. First, China is viewed to be in a transition to capitalism contrary to its commitment to the socialist values on discourse since the beginning of the reform period and the transforming class relations at the expense of the workers as a consequence of the reforms are strictly criticized. Second, China's reform policies are viewed as an alternative to neoliberal policies and it is thought that its commitment to socialism sustains. Within the former perspective, some kind of optimistic approach suggests that the CCP should understand that first of all some privileges have to be granted to the workers and the peasants, so that the low consumption problem of the Chinese economy would be solved. This suggestion is viewed to be vital for ensuring the sustainability of Chinese capitalism (cf. Li, 2008: 29-30).

Will the Chinese capitalist class be enlightened enough to undertake such an economic and social restructuring? Suppose the CCP's leadership is sufficiently farsighted to understand that for the sake of the long-term interest of Chinese capitalism, it is necessary to make some concessions to the Chinese workers and peasants. Will the Party have the necessary will and means to impose such a redistribution on the transnational corporations, on the wealthy Chinese capitalists (many of whom have intimate connections within the Party and the government), and on the provincial and local governments that have in recent years developed various alliances with the domestic and foreign capitalists? These are some difficult questions for the Chinese capitalist elites.<sup>17</sup>

Most of the Marxist scholars within the first perspective presented above identify China's reform experience in a more realistic manner as primitive accumulation. It is primitive accumulation of Marx that China renames as socialist market economy according to this perspective (cf. Hart-Landsberg and Burkett 2005, Harvey 2007). In this regard, the developmentalist approaches to China's reform process are criticized, which view China's development path as an alternative to neoliberalism mainly because it is based on the active intervention of the state. Within this framework, this Marxist approach not only mentions the impact of the reforms on the class relations in China, but also presents the relation between the capitalist developments in China and the global capitalist dynamics especially since the mid-1990s. In other words, this approach points out the impact of the Chinese reforms on the conditions of all the workers around the globe as well as the Chinese workers as China has integrated to the global capitalist accumulation process since the reform period began (cf. Hart-Landsberg and Burkett, 2006).

As world-systems theorists view themselves within Marxist tradition, it would also be appropriate to overview world-systems approach to China's reform experience. As it is known, world-systems theory is built on a historical analysis of the international division of labor, which describes the world to be divided into three camps as the core countries, semi-periphery countries and the periphery countries and also identifies a hegemon of the system.<sup>18</sup> Regarding the case of China, this approach mainly emphasizes that China's economic development since the end of the 1970s has changed the balances of the world order. Giovanni Arrighi's *Adam Smith*

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<sup>17</sup> Li M., "An Age of Transition: The United States, China, Peak Oil, and the Demise of Neoliberalism", *Monthly Review*, ol.59, Issue 11, 2008, p.30.

<sup>18</sup> For further reading on world-systems theory, the works of Immanuel Wallerstein and Giovanni Arrighi would be seen: Wallerstein I., *The Modern World System (I-IV)*, University of California Press, USA, 2011.

Wallerstein I., *World-Systems Analysis: An Introduction*, Duke University Press, USA, 2004

Arrighi G., *The Long Twentieth Century: Money, Power and the Origins of Our Times*, Verso, London and New York, 2002.

*in Beijing: Lineages of the Twenty-First Century* (2009) is one of the most significant works based on such an analysis of the international environment China has faced both before and during the reform period.

Arrighi has two main theses in *Adam Smith in Beijing*. First, he states that the Chinese economy has been a market economy rather than a capitalist economy. Second, he asserts that China has not had historically imperialist tendencies, so that the world would be peaceful if China which has a quiet different path of development from the West, becomes the next hegemon of the world. Arrighi delicately indicates that the possibility that China becomes the hegemon of the world after the US is high; because power of the US has been declining steadily in addition to the rise of China (Arrighi, 2007: 277-389). Arrighi's these theses mainly rest on the discussions of Fernand Braudel in his three-volume *Civilization and Capitalism, 15<sup>th</sup>-18<sup>th</sup> Century* (1992). It is seen that indicating the distinction between the market economy and capitalism is one of the most important purposes of Braudel in this book and by the help of his detailed historical analysis on capitalism; he presents China as the best example of a market economy opposing a capitalist economy (Braudel, 1992: 600).

Despite the merit of *Adam Smith in Beijing* of providing a detailed analysis on the international economic and political power relations and locating China in these relations as a consequence of the significance it has regained in these relations since the reform period began, there have been a number of criticisms on Arrighi's approach in this book. Most importantly, there is an agreement between the critiques that Arrighi makes no emphasis on China's internal conditions and the internal factors which have given China the chance of returning to take part again in world power relations. (cf. Chase-Dunn 2010, Panitch 2010, Christiansen 2010, Campling 2010, Pradella 2010 and Walker 2010). Although he idealizes Adam Smith, Arrighi misses Smith's emphasis on government intervention, as he did not include the analysis of the Chinese political system, its policies and how they contributed to the realization of the economic growth (Christiansen, 2010: 116). The characteristics of China's economy such as the high-quality of labor power reserves seem to serve only for the economy's position in global capitalism and did not have any significance in their own right for Arrighi (Christiansen, 2010: 114). It is paradoxical that Arrighi does not deal with the Chinese society and its mode of production and does not concentrate on the reforms in the sense that whether they formed a capitalist class or

not, or whether this class commands the economy which means that he fails to concentrate on the state and the relation between the state and the market (Pradella, 2010: 91-99).

It is possible to state that the Beijing Consensus also includes a kind of world-systems analysis when focusing on the new position of China in the global order, while the Consensus does not ignore the analysis of the internal conditions of China. According to the Beijing Consensus, the Chinese economic development is based on the innovations, since the beginning of the reform period, in the state sector, financial controls, state-owned enterprises and “equitable, peaceful high-quality growth, critically speaking, it turns traditional ideas like privatization and free trade on their heads” (Ramo, 2004: 4). It is stated that these characteristics of the Chinese economic development have sustained even after Deng. The problems brought by capitalism to China since the beginning of the reform period made the Chinese policy makers and planners move to a more “coordinated” economic development especially after the mid-1990s (Ramo, 2004: 4, 21). As a consequence, the problem of how to deal with China has emerged for the West as this approach states. The traditional solution of isolation is not applicable anymore, because China has been intensively embedded in the international order since the beginning of the reform period (Ramo, 2004: 55).

As this brief overview indicates, there is not an agreement among the Marxist scholars regarding China’s reform experience in the last thirty years and the role of the state in this process. The distinguishing feature of the Marxist approach is its focus on the transformation of the class relations and the state-society relations in China as a consequence of the transition from a centrally planned economy to a market economy. In this regard, it would be possible to relate the case of China to the discussions on hegemony within the Marxist approach to the state. Within this perspective, some of the Marxist scholars point out the problems of the Chinese capitalism since the beginning of the reform period, whereas some of them continue to view the Chinese system as an alternative to capitalism.

## **2.5. Conclusion**

Three theoretical approaches presented in this chapter have both strengths and failures in explaining China’s reform experience and the role of the Chinese state in this process. Statist-institutionalist analysis has the strength of explaining the specific

role of the Chinese state in the reform process; whereas appears to be weak in indicating how this specific role is formed and shaped. New institutionalist approach treats the Chinese state as serving for the implementation of the economic reforms and the Chinese state which is hardly identified in relation with the society and the social transformation in this process. Because of this reason, the new institutionalist emphasis on the need for political reforms to follow the economic reforms appears to be empty words.

It is important to analyze the state in relation with the society that it is a part of and it is indicated in this chapter that such an analysis ends with the assertion that the state would be seen as a social relation. This general rule would also be applied to the Chinese state, while the Chinese state would specifically be seen as a capitalist transition state under the conditions which represents two different modes of production, socialism and capitalism, and functions for the establishment of capitalist mode of production in China. Within this perspective, the impact of the transformation of the Chinese state on the state-society relations since the beginning of the reform period also gains significance.

## CHAPTER 3

### THE HISTORICAL BACKGROUND OF “THE CHINESE MIRACLE”: THE MAOIST ERA

#### 3.1. Introduction

There is a general agreement on the periodization of China’s reform period in the literature, while the three theoretical approaches presented in Chapter 2 have different explanations of the developments taken place during the periods and the sub-periods. With the exception of the political scientists who assert that Chinese economic system sustains to be socialist after the reforms, it is thought that the Chinese reform strategy was gradual until the mid-1990s which gave rise to the dominance of the dual character of the economy, whereas it gained a neoliberal character since then which accelerated the integration of the economy to the global capitalist accumulation. This chapter begins with presenting how the three theoretical approaches explain these two main periods of China’s reform period and continues with a brief overview of the Maoist era in China which is between the years of 1949 and 1978 with the main purpose of concentrating on the political, economic and social conditions which prepared the reform period.

In order to achieve this purpose, the Maoist era is presented under three main titles with the intention of highlighting the most important events of this period. First, the 1950s which were the first years of the CCP rule is overviewed. The Great Leap Forward (1958-1960) and the Cultural Revolution (1966-1976) and their consequences for the Chinese state, society and economy are presented under the second and the third titles respectively. Any attempt to explain the reform process and its consequences has to take the impact of the Maoist era into consideration, although the 1950s which are generally identified as the early Maoist era “were a creative period of reconstruction, growth and innovation”, whereas was followed by “two periods of disaster and great disorder among the people” (Fairbank and Goldman, 1999: 343). Despite, its failures, the social and political objectives of the Chinese state after the Revolution were historically significant (Wu, 2005). Most

importantly, an egalitarian social structure was achieved especially when compared to the reform period which has been marked by increasing inequalities. On the other hand, there are discussions that a classless society was not established during the Maoist era because the class struggle sustained at least between the ruling class and the ruled class in the sense that the working class was actually separated from the means of production (cf. Wu, 2005).

### **3.2. The Reform Period: A Whole Continuous Process?**

The chronological presentation of the events which have taken place in China during the Maoist era and since the reform period began, turns out to be important in order to have an explanation of these periods and the whole reform period. Each of the attempts to periodize China's reform period identifies different numbers of sub-periods with different, but approximate, beginning and end dates. Roughly, it is possible to state that there is a general tendency of contrasting the periods before and after the mid-1990s. The 1980s are presented as the years in which China implemented reforms gradually and as a consequence the dual-track character of the Chinese economy was dominant in these years. There is also agreement on the interruption of the reforms by the events of Tiananmen Square in 1989 until 1991. Whether it is approved or criticized, it is also agreed that the period since the mid-1990s would be seen as China's submission to the capitalist development, except the perspective which presents the economic, social and political systems in China as an alternative to capitalism.

In the case of China's reform, the main difference between the different periodization attempts is not how many sub-periods they identify and in which years, rather the main difference stems from how they explain each sub-period and how they identify the transformations experienced by the Chinese state and the relations of the Chinese state with the economy and the society in these sub-periods. In other words, analyzing these different attempts to periodize China's reform period by concentrating on how different theoretical approaches to the state view and explain the sub-periods, would be a more appropriate way of understanding the differences between these attempts, which would also contribute to have a better explanation of the reform process.

One of the main differences between the statist-institutionalist and new institutionalist approaches to China's development experience is their explanations

on the Maoist era. It is possible to observe these differences by comparing Bramall (2009) with Naughton (1995) and Naughton (2007). As mentioned above, the statist-institutionalist approach is marked by the significance it assigns to the Maoist era as constituting the base of the reforms and their success. Within this perspective, Bramall (2009) divides the Maoist era into two sub-periods as the early Maoist era (1950s) and the late Maoist era (early 1960s to 1978), and indicates that the Maoist inheritance is one of the most important factors of the economic success of the reform period. Like Bramall, Naughton also begins with the analysis of the socialist period of China; however unlike Bramall he presents this period as full of failures with considerable negative impact on the Chinese economy even continuing in the reform period.

When the reform period is taken into consideration, it is seen how Bramall and Naughton present similar or close time intervals for the sub-periods, whereas they explain the sub-periods differently. Bramall (2009) divides China's reform period into two sub-periods while the first sub-period (1978-1996) is again divided into three sub-periods of readjustment (1978-1982), combining socialism with market economy (1982-1991) and completion of the market socialist project (1991-1996). Naughton (2007) divides the reform period into two main sub-periods. The first sub-period (1978-1993) is marked by a gradualist dual-track system. In the second sub-period (1993 to present), China adopted market economy although it is still in transition and there are still things to do, especially in the Chinese financial system, in order to establish a fully developed market economy.

There is an agreement in the literature that the 1980s were marked by the gradual reform policies as mentioned above. Another distinction between the statist-institutionalist and the new institutionalist approaches is that the gradualist character of the reforms are appreciated by the statist-institutionalist approach. For instance, the sustaining state ownership is viewed to be preserving the capacity of the Chinese state. On the other side, the new institutionalists criticize strongly the gradualist character of the reforms giving rise to the dual-track mechanism in the economy and constituting the most important obstacle to China's further development.

The statist-institutionalist approach presents a two-fold explanation to the impact of the reforms on the capacity of the Chinese state especially since the mid-1990s as mentioned above. On the one hand, it is argued that the state capacity has been steadily diminishing since the beginning of the reform period, while state

weakness has turned out to be an important problem in China especially since the mid-1990s as a consequence of the accelerating liberalization, decentralization and privatization policies. It is seen that Bramall (2009) shares this view and strongly criticizes China because it has followed a capitalist path since the mid-1990s.

On the other side, the statist scholars who strongly criticize the view that the Chinese state has been losing its capacity because of the reforms assert that the capacity of the Chinese state has never diminished, even after the mid-1990s. Deepening the neoliberal policies has been the policy choice of the Chinese party-state itself in order to sustain its power (Chu and So, 2010: 52-53). Within this perspective, this statist explanation asserts that the Chinese state has increased especially its managerial and fiscal capacity since the mid-1990s, rather than becoming a weak state (cf. Chu and So, 2010: 57).

In the same manner, this approach also emphasizes that the Chinese state has played an active role in the economy during the whole reform period. In the 1980s, the reforms implemented by the Chinese state created the Chinese private sector (Chu and So, 2010: 58). Despite the acceleration of the neoliberal policies especially since the mid-1990s, the Chinese state still sustained its “ability to control the prices of strategic resources, served as the major shareholder of the restructured and most competitive state enterprises, and made tireless efforts to maintain macroeconomic stability, albeit using economic measures of adjustment and control” (Chu and So, 2010: 59). As it insists that there is not a state capacity loss in China as a consequence of the reforms, this statist approach is also based on the assertion that there has been no considerable transformation in the Chinese state-society relations even after the mid-1990s (cf. Chu and So, 2010: 64).

Contrary to the statist-institutionalist interest in China’s reform process, the new institutionalist approach does not put the emphasis on state capacity. New institutionalists have the tendency to appreciate the neoliberal developments in China, the acceleration of the liberalization and the privatization policies in the mid-1990s. They point out the need to further the neoliberal economic reforms which would be accompanied by political reforms and democratization in China. In other words, new institutionalists view the capacity of the Chinese state only as a means of implementing and furthering the economic reforms and they generally expect the transformation of the Chinese political regime for ensuring the sustainability of the

economic success, rather than viewing the state capacity as an end (cf. Naughton 2007, Gertken and Richmond 2011).

Within the new institutionalist perspective, it is mentioned that the emergent challenges to China and especially to Deng's development model will necessitate economic restructuring accompanied by political reforms. The global economic crisis of 2008 made China's problems of low consumption and inflation more apparent. As a consequence, the social unrest caused by the economic problems and the demands for political reforms threaten the legitimacy of the CCP according to this perspective (cf. Gertken and Richmond, 2011). In addition to the threat of social unrest to the legitimacy, it is important to mention again the contradiction represented by the way that the regime in China is legitimized. As mentioned above, the legitimacy of the existing regime in the country mainly depends on the economic performance, whereas the legitimacy concerns also causes the CCP to sustain its commitment to the Marxist ideology discursively. In other words, as the only point agreed by some of the new institutionalists and some of the Marxists, China's reform experience especially since the mid-1990s represents a contradiction in the sense that the neoliberal policies have been legitimized by a discourse on socialism.

As mentioned above, it is also possible to coincide with a kind of new institutionalist approach to China's reform process which attempts to explain the reform period by institutional persistence. In this regard, it is stated that there is no need to identify any sub-periods because there is no considerable difference between the policies implemented by the different Chinese leaders. The period of Deng and the periods of his successors Jiang Zemin followed by Hu Jintao are viewed to be not differing widely from each other. In other words, it is stated that both Jiang and Hu followed Deng's model, that is Chinese-style capitalism which is based on three pillars: economic pragmatism, foreign policy of cooperation and the primacy of the CCP (cf. Gertken and Richmond, 2011). Such an approach which is based on an assertion that China's reform period would be analyzed as a whole continuous process except some trivial differences among the successor leaders, which are stemmed from the varying internal and external factors, is one of the rare attempts to explain China's reform period as a whole process with persistent institutions and policies.

The Marxist approach also has a similar periodization of China's reform process, whereas provides different explanations of the sub-periods. Except the ones

who view the Chinese economic system as an alternative to capitalism, the Marxist scholars view China's reform period as a step-by-step approach to capitalism. Within this perspective, Hart-Landsberg and Burkett (2005) divide the reform period into three sub-periods. Although the CCP declared that markets and new economic actors brought by markets were to be allowed to function freely at the beginning of the reform period, the first period (1978-1983) was mainly characterized by the dominance of central planning. According to Hart-Landsberg and Burkett (2005), state enterprises kept their dominant position and central planning continued to direct most of the economic activities in this period. The second period (1984-1991) was marked by a policy which was based on giving more importance to the market forces and the private sector. As Hart-Landsberg and Burkett (2005) mention, the reforms implemented in line with this policy gave rise to a number of economic, political and social problems in China which brought the Tiananmen Square protests of 1989. Rather than reversing these policies, the CCP furthered them and totally gave up viewing the state enterprises as the main instruments of the Chinese economy since the beginning of the 1990s as Hart-Landsberg and Burkett (2005) state that. The period after the mid-1990s was marked by privatization and increasing measures to encourage FDI and especially beginning with this period China has fallen into the primitive accumulation process. As mentioned above, it is stated that primitive accumulation of Marx is renamed as socialist market economy by the Chinese leadership and the approaches viewing China as an alternative of capitalism and neoliberalism are strictly criticized (cf. Hart-Landsberg and Burkett 2005, 2006, Harvey 2007).

As mentioned above, there is also a Marxist explanation which views China as sustaining its socialist values in the reform period and hence states that China is an alternative to capitalism (cf. Arrighi 2007, Lo and Zhang 2010, Amin 2013). According to this approach, some neoliberal policies such as financial liberalization and enterprise downsizing gained importance in China at the beginning of the 1990s, which caused considerable economic problems such as rising unemployment, slowing down consumption expansion and stagnation in investment growth. The consequences were deflation and worsening financial performance of enterprises, which became more severe especially when combined with the impact of the Asian Crisis (Lo and Zhang, 2010: 171). The Chinese state responded these problems with a fundamental policy reversal with Keynesian fiscal packages, welfare policies,

improvement of the financial position of state-owned enterprises and reimplementation of the controls on capital account of the balance of payments (Lo and Zhang, 2010: 171). As a consequence, it is stated that China's achievements in the reform period cannot be reduced to the triumph of neoliberalism; because the Chinese state has intervened the economy as soon as the deficiencies of the neoliberal policies are observed. Rather, the reform experience of China would be viewed as a good alternative model of late development (Lo and Zhang, 2010: 174).<sup>19</sup>

Within the debate of the Beijing Consensus versus the Washington Consensus, Huang (2010) offers an alternative periodization of China's reform period. The analysis of Huang (2010) looks similar to the neoliberal explanations of China's success which were dominant in the 1980s and at the beginning of the 1990s. Contrary to the general assertion that China has accelerated the implementation of the neoliberal policies after the mid-1990s as presented above, Huang (2010) states that China had followed the principles of the Washington Consensus by assigning significance to the private entrepreneurship, financial reforms and even some political opening in the 1980s, whereas it moved to a model which is consistent with the Beijing Consensus in the 1990s. Huang (2010) also asserts that the economic performance of China was better in the 1980s under the policies consistent with the Washington Consensus and the economic problems experienced by China since the mid-1990s are caused because of the Beijing Consensus model.

### **3.3. The Maoist Era**

The Chinese Communist Revolution (1949) was not only a significant turning point in the Chinese history in terms of ending the civil war and enabling the CCP to gain power, but also it was one of the most important events in the world history. In China, the Revolution represented the beginning of the Maoist era which ended in 1978. There is no doubt that the Chinese economy and the society developed considerably during the Maoist era and this development has also contributed to the economic success during the reform period, whereas it would also be accepted that

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<sup>19</sup> As mentioned above, world-systems theorists take the analysis from this point without paying attention on what has happened in China and continue with concentrating on the new situation of China in the global power relations as a consequence of the success of the reforms (cf. Arrighi 2007, Amin 2013).

the Chinese society unfortunately collected bad memories in this era. Because of this reason, it is important to put efforts to explain the Maoist era neutrally. It is hoped that the reader would not expect that he or she will be able to find the answers to all the questions in mind regarding the Maoist era in this section; because this dissertation does not purpose to provide all the details regarding the Maoist era. It would be underlined that this chapter purposes to present the historical background of the reform period.

### **3.3.1. The Kuomintang Era**

There is no doubt that the causes and consequences of the Chinese Communist Revolution in 1949 would be explained by analyzing the historical conditions of China preparing the Revolution of 1911 and the developments during the Kuomintang era coming after the dynasty rule of thousands of years. Within the boundaries of the dissertation, a brief overview of the Kuomintang era is presented in order to have an understanding of the conditions preparing the Revolution of 1949.

The power of the Qing dynasty (1644-1912) had decreased since 1850 mainly because of the British invasions after the Opium Wars and the inability of the dynasty to modernize China.<sup>20</sup> As a consequence, the rebellions all over the country became widespread. Among these, the most important one was the Taiping Rebellion (1851-1864), a civil war against the Qing rule led by Hong Xiquan who had the claim of being the younger brother of Jesus (Fairbank, 2006: 206-207, 211). The Chinese Nationalists and the Communists tried to use the Rebellion to form an inspiration of anti-Manchu nationalism and social reform; however the result of the civil war which was suppressed by the dynasty by taking the help of the foreign powers was destructive for China (Fairbank, 2006: 209-211).

The gentry-elite also supported the dynasty in overcoming the Taiping Rebellion and the other rebellions. After the Taiping Rebellion, the gentry transformed itself into a class of landlords including the merchants, having an important role in the economic development and urbanization, the spread of Confucian education on the one hand and the foreign ideas on the other hand. As a consequence of the process of increasing power of the gentry-elite, the Chinese rural

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<sup>20</sup> Specifically, the flood and famine experienced between 1846 and 1848 played a role in the decrease of the power of the Qing dynasty in the second half of the nineteenth century (Fairbank, 2006: 206).

areas were militarized and a reformist urban elite emerged by the 1890s (Fairbank, 2006: 235-236, 238). This process also witnessed the rise of a new academic community and the Chinese bourgeoisie (Fairbank, 2006: 269).

The increasing control of the gentry on a local basis would be seen as the most important cause of the weakening power of the central government and also the obstacle to achieve national centralization until 1949 (Moore, 1966:185-186). The efforts of the Qing dynasty to restore power were not very effective, because they conservatively tried to implement reforms through old practices and adapt the Chinese institutions to the Western institutional structure, rather than dealing with the rising problems of China (Fairbank, 2006: 214, 217). On the other hand, it managed to survive until 1912, mainly because there was no other political regime to replace it (Fairbank, 2006: 235).

Through the Revolution of 1911, the Chinese political system which had been based on dynasty rule for thousands of years was replaced by republican rule. The Revolution of 1911 is mainly seen as the consequence of the weakened power of the dynasty and the rising social reaction to this weakness. The political party of the Republic of China, the Kuomintang, was established just after the Revolution by Song Jiaoren and Sun-Yat-sen.<sup>21</sup> Sun-Yat-sen was elected as the provisional president on December 1911; however did not rule for a long time and was replaced on March 1912 by Yuan Shikai who was a strong military leader during the Revolution. During the rule of Yuan, some economic and legal reforms were implemented; however the most important target of national centralization was not achieved and the local military leaders continued to put efforts to increase autonomy (Moore, 1966: 188).

In addition to the worldwide disturbance, China entered a period of chaos and in disorder in the years following the death of Yuan in 1916 until 1949. In response to this period of chaos, the May Fourth Movement occurred on May 1919, including student demonstrations against the Treaty of Versailles which was signed on 28<sup>th</sup> June, 1919 and the reaction of the Chinese government to the Treaty. Some of the May Fourth intellectuals turned out to be political activists forming the base of the Chinese Communist Party (Fairbank, 2006: 275).

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<sup>21</sup> Song Jiaoren was an active member of the Revolutionary League (*Tongmenghui*) and Sun-Yat-sen was the leader of the League. *Tongmenghui* was an underground resistance movement against the Qing rule which was founded in Tokyo in 1905.

Despite the emphasis of the Kuomintang on national centralization based on military power, the Kuomintang did not manage to have an impact on the power of the local elites mainly because of the fact that the economic policies, specifically the agricultural policies, were mainly based on *status quo* (Moore, 1966: 189-193). In 1925, the Kuomintang established a new government in the city of Guangzhou of Guangdong province and the new leader of Kuomintang, Chiang Kai-shek, managed to defeat the landlord forces through the supports of the Soviet Union and the Chinese Communists and established a unified central government in the city of Nanjing of Jiangsu province in 1928.

The failure of the Kuomintang regime, which was mainly based on military power and adopted capitalist principles in economic development giving rise to the dominance of foreign capitalists especially in the coastal areas, stemmed from the fact that it did not have a unified concern on the problems of the Chinese society (Moore, 1966: 200, Fairbank, 2006: 255, Gökten, 2012: 97) and could not manage to transform the traditional Chinese socioeconomic structure (Gökten, 2012: 99). The limited industrialization was not extended to the rural China. As a consequence, the Chinese economy represented a dual-character including feudal and capitalist characteristics during the Kuomintang rule. The interests of the landlords and local governors also served for sustaining the dual-character of the economy, while the Kuomintang regime turned out to be under threat because of the autonomy of these local powers (Gökten, 2012: 98-99).

The Chinese Communist Party which was founded in 1921 and the Kuomintang were sometimes in cooperation and sometimes in competition against warlordism and the imperial rule. On the other hand, a real struggle between the two began in 1927, especially after the removal of the Communists from the Kuomintang when the central government was established, and the civil war between the Kuomintang and the Chinese Communist Party continued until 1949, although it was interrupted by a kind of cooperation during the Japanese invasion in 1937 (Fairbank, 2006: 279). In addition to the conflicts and struggles within China, the imperialist Japan began to invade China in 1937 and occupied the coastal areas of China in a short period of time, while the Japanese invasion integrated with the Pacific War (1941-1945).

The disorder which was experienced in China during the Kuomintang era ended with the Chinese Communist Revolution in 1949. The Communists gained a

victory through not only overthrowing the Kuomintang and sending its leaders to Taiwan, but also fighting against the Japanese invasion. As a consequence, the Chinese Communist Party and its leader Mao Zedong also achieved to establish the national centralization of the country, industrialization of the economy and the cultural transformation of the Chinese society.

### **3.3.2. The Early Maoist Era: The First Half of the 1950s**

The Chinese Communist Revolution in 1949 meant that a new era began for China not only in political terms with the establishment of the People's Republic of China, but also in economic and social terms. CCP inherited from the previous regime a number of economic and social damages mainly caused by the wars, such as low economic growth, high inflation, high unemployment, high mortality and illiteracy rates. Most importantly, the problems of food shortage and high food prices had to be solved immediately in order to gain the support of the people and ensure social stability (Gabriel, 1998).

The new Chinese leadership was conscious of the fact that new and more important tasks have been waiting for the Party and the whole Chinese society. Although stating his pride regarding the victory of the CCP, Mao indicated this consciousness in his famous speech "On the People's Democratic Dictatorship" in 1949 and mentioned how much the following tasks of the CCP were important and difficult.

Twenty-eight years of our Party are a long period, in which we have accomplished only one thing -- we have won basic victory in the revolutionary war. This calls for celebration, because it is the people's victory, because it is a victory in a country as large as China. But we still have much work to do; to use the analogy of a journey, our past work is only the first step in a long march of ten thousand *li*. Remnants of the enemy have yet to be wiped out. The serious task of economic construction lies before us. We shall soon put aside some of the things we know well and be compelled to do things we don't know well. This means difficulties. The imperialists reckon that we will not be able to manage our economy; they are standing by and looking on, awaiting our failure.<sup>22</sup>

In this famous speech, Mao also emphasized that the development of China would be based on the principles of Marxism-Leninism, rather than learning from the West as it was practiced since the mid-nineteenth century. He also mentioned the

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<sup>22</sup> Mao Z., "On the People's Democratic Dictatorship: In Commemoration of the Twenty-eighth Anniversary of the Communist Party of China", in Selected Works of Mao Tse-tung, June 30, 1949, available at [http://www.marxists.org/reference/archive/mao/selected-works/volume-4/mswv4\\_65.htm](http://www.marxists.org/reference/archive/mao/selected-works/volume-4/mswv4_65.htm).

differences of the CCP from the political parties of the bourgeoisie. In addition to these, Mao also pointed out that both of the opposite assertions that development would be possible without international help or receiving British or the US help are compulsory to be successful in development are wrong. Regarding the latter assertion, he emphasized that imperialists cannot help a people's state led by the working class; however help could be received from the other countries that are also based on the Marxist-Leninist principles. It is seen that China preferred to take the help of the Soviet Union in the following years in line with this perspective. With the rest of the world, in other words with the capitalist part of the world, China turned out to be in a position of isolation, especially in terms of economic relations and the isolation meant that the country had to rely on only its own resources and the aids received from the Soviet Union in the form of loans in order to realize its target of economic development.

Given the internal and the external conditions, the most important task of the CCP in the way of achieving economic development was to determine the development strategy of China. It was normal that the CCP leadership preferred to make use of the Soviet experience although the conditions of the two countries differed. In the Soviet Union, the New Economic Policy (NEP) was put into action by Lenin in 1921, which was a gradualist transition policy permitting both the state and the private ownership. This gradualist strategy was abandoned after 1928 by Stalin and a more radical strategy was adopted which first of all focused on collectivization (Bramall, 2009: 83-84). As mentioned above, it is seen that China also followed a similar path.

The CCP decided to adopt the NEP implemented by the Soviet Union in the 1920s at the beginning and planned to pass rapidly to the command economy under Stalinist policies in order to overcome the challenges faced in the way of development, achieve economic modernization and the transformation of the forces of production, and ensure the transition to socialism (Bramall, 2009: 84).<sup>23</sup> The First Five Year Plan (1953-1957) was prepared and implemented with this perspective.

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<sup>23</sup> In a command economy, all the means of production are owned by the state and all the production targets are also set by the state. Agriculture is collectivized and the agricultural surplus is directed to industrialization. All the decisions regarding the economy are taken and implemented through the five year plans and commodities are distributed and their prices are set by the state according to these plans. This economic functioning is ensured by the single-party rule and its bureaucratic apparatus. In the case of China, it is also possible to state that these characteristics of command economy were adapted to the Maoist principles.

It is important to mention that it would be misleading to think that all the Party members agreed on the adoption of command economy. There was a separation among the Party members on some of the issues since the beginning of the Communist rule. While Mao drew the lines of the left-wing of the Party in his speech “On the People’s Democratic Dictatorship” which gave rise to the adoption of command economy, there were also members of the Party who turned out to represent the right-wing and have a more market-oriented approach with willingness to see the establishment of a mixed economy in China (Gabriel, 1998). The main argument of the right-wing was that China was not ready for such a rapid transition. The per capita national income of China when it adopted the Soviet model was lower than the per capita national income of Soviet Russia when it adopted these policies in 1928. In addition to this, the ratio of the population to resources in Soviet Russia was more favorable when it preferred to put the priority on heavy industry against agriculture and its industry was much more advanced at the beginning when compared to China (Fairbank and Goldman, 1999: 358-359).

As the initial step of its development strategy, the CCP concentrated first of all on land reform at the beginning of the 1950s. With the land reform, the CCP targeted to establish a small-scale farming system contrary to the existing system of the ownership of land by the landowners. The CCP had two main intentions in performing the land reform urgently. First, the land reform was seen compulsory to increase agricultural output. Second, the CCP purposed to prevent the exploitation of peasants in the countryside by ending the economic and political power of the landlords. This was also important for the CCP in increasing its legitimacy and gaining the support of the peasants who were seen to be among the most important actors of the Revolution in addition to the proletariat (Naughton, 2007: 64-65). With these intentions, the land reform was performed and completed successfully in 1952, which meant that China took an important step in eliminating the challenges of the feudal system and improving the economic well-being of the peasants in rural areas. In other words, beginning with the land reform was a correct strategy for the CCP, since the land reform formed the base of the economic, political and social developments taken place in China during the Maoist era and the reform period. At the beginning of the 1950s, the land reform most importantly played a significant role in decreasing inequalities, improving nutrition and reducing mortality rate in rural areas, especially when compared to the levels of the 1930s (Bramall, 2009: 105-

109). The elimination of the landlords who did no productive work and investment in rural areas, created a considerable amount of resources which could be channeled to social investment in the countryside and in turn increased the well-being of the rural residents (Gabriel, 1998).

As the next step, the CCP put the First Five Year Plan into action in 1953. As mentioned above, there were a number of economic and social tasks waiting for the CCP after the Revolution. With the consciousness of this fact, the First Five Year Plan was prepared most importantly with the intention of solving China's economic and social problems which were inherited from the previous regime in addition to the emphasis on the measures and the policies which would have to be taken in order to ensure economic development.

Among the most important economic problems, raising government revenue and controlling inflation were in the agenda of the Party. Whereas the Kuomintang rule preferred to print money in order to raise revenue, which had an impact of increasing inflation further, the CCP concentrated on decreasing the government expenditures and controlling corruption (Gabriel, 1998). Several other measures were taken in order to take the inflation under control such as taking the control of the whole banking system, controlling the prices of commodities and determining the salaries of the personnel not in money terms but in terms of basic commodities. In addition to these, the Three-Antis Campaign against the three obstacles to development that were corruption, waste, and bureaucratism was launched in 1951-1952.<sup>24</sup> As a consequence of these measures, the CCP managed to decrease the inflation by 15 percent a year (Fairbank and Goldman, 1999: 348-349).

The First Five Year Plan envisaged the development of the industry and the agriculture at the same time, since the command economy is based on the strategy of channeling the agricultural surplus to industrialization. In order to achieve this target, the next step of the CCP was the adoption of the agricultural collectivization in 1953. It would be mentioned that the opposition within the Party resisted against the policy of collectivization, because it was again thought that the Chinese economy was not ready for the implementation of collectivization (Fairbank and Goldman, 1999: 352). On the other hand, Mao was constant about this policy, mainly because he was aware of the stemming class struggles in rural areas (cf. Mao, 1955). As a consequence, the

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<sup>24</sup> In 1952, the Five Antis Campaign was launched which especially targeted the capitalists.

collectivization policy implemented and progressed throughout the second-half of the 1950s. At the end of 1954, only 2 percent of the total households in the countryside were contained by the collectives; while the ratio raised to 14 percent by 1955 and to 98 percent by the end of 1956 (Naughton, 2007: 67).

As a consequence of collectivization, the Chinese state turned out to be the grain monopoly deciding how much output will be produced and how it will be distributed. This consequence was obviously compulsory in order to ensure the transfer of the agricultural surplus to the industry; however it is also explained by some of the authors in the manner that the state turned out to be the new landlord. From this point of view, it is also pointed out that a new elite emerged from the local cadres who controlled this process as a consequence of collectivization (cf. Fairbank and Goldman, 1999: 353-354)

When the overall macroeconomic stance of China in the first half of the 1950s is analyzed, it is seen that the CCP policies had a good performance. GDP growth was much higher when compared to the record of economic growth under the previous regime (Bramall, 2009: 111). By the help of the tight control of the budget and money supply, inflation was controlled by the end of 1950s (Naughton, 2007: 64). As an indicator of economic development, especially in the Western sense, the share of the agriculture in GDP had fallen steadily. As a conclusion, the performance of the First Five Year Plan was admirable, especially when compared to the performance of the other developing countries in that period (Fairbank and Goldman, 1999: 358). In line with the Soviet model, the priority was assigned to heavy industry and the nationalization of private industrial enterprises. It is seen that the industrial output grew considerably as a consequence of this strategy; however prioritizing the heavy industry at the expense of agriculture and consumption turned out to give rise to serious economic and social problems in China in the late 1950s and the early 1960s.

Although the overall macroeconomic stance was good at the beginning of the Maoist era as mentioned above, the rural poverty continued to be an important problem. Low agricultural productivity was the main reason behind the inability of reducing the rural poverty (Bramall, 2009: 111). Undoubtedly, the most important cause of the low agricultural productivity was the overemphasis on heavy industry. Such an adverse relationship between agriculture and industry was not desired by Mao, since his development strategy was based on the interdependency of the two

sectors (Bramall, 2009: 98-99). Some other causes of low agricultural productivity in the early Maoist era are pointed out. First of all, it is mentioned that underreporting of the agricultural output was common in the early Maoist era with the purpose of avoiding some of the tax responsibilities. In addition to this, it is pointed out that the land reform had an egalitarian impact; whereas its impact on growth promotion would be questionable, especially in the case of China (Bramall, 2009: 97).

As the rural poverty sustained to be a serious problem, it is also difficult to claim that there was a considerable improvement in the human development indicators of China in the first half of the 1950s. It is pointed out that there was a reduction in the mortality rate, especially in the infant mortality rate and the Chinese educational system expanded considerably. On the other hand, it is also mentioned that an important part of the mortality reduction stemmed from the fact that China had just left a war and the expansion of the educational system was mainly based on the quantitative standards rather than qualitative and the illiteracy rate remained to be high (cf. Bramall, 2009: 104). It is misleading to view development to constitute only a good macroeconomic performance, meaning that human development indicators are significant in order to talk about a real economic development. On the other hand, it is important to remember that China was a country which just left the war and was at the beginning of its development process in that period, when this low performance on human development indicators are taken into consideration.

Some problems of China's industry in this period are also mentioned, despite the success of the country in industrial development and increasing its industrial output. Most importantly, it is pointed out that the unreasonable production quotas which had to be met by the state-owned enterprises gave rise to the production of outputs with inferior quality. As a consequence of their obligation to meet the production quotas, the managers of the state-owned enterprises turned out to concentrate on meeting the quotas and they had no motivation to increase the productivity or the quality of the outputs (Gabriel, 1998).

When the overall economic system of China at the beginning of the 1950s is overviewed, it is seen that it represented the characteristics of a mixed economy as it was envisaged in the NEP. Some of the private enterprises, especially the ones which were based on the production of light manufacturing, continued to operate within the control of the state (Gabriel, 1998). This was not seen to be a problem within the Party members who were known to be strict traditional Marxists, since they thought

that the capitalist economic relations had to be fully established before achieving the economic relations which are not exploitative (Gabriel, 1998). In “On the People’s Democratic Dictatorship” in 1949, Mao mentioned that Sun Yat-sen<sup>25</sup> failed, because he thought that petty bourgeoisie and the national bourgeoisie can lead China to a successful revolution. On the other hand, Mao also stated pragmatically that the bourgeoisie is also important for achieving China’s economic development.

The national bourgeoisie at the present stage is of great importance. Imperialism, a most ferocious enemy, is still standing alongside us. China’s modern industry still forms a very small proportion of the national economy. No reliable statistics are available, but it is estimated, on the basis of certain data, that before the War of Resistance Against Japan the value of output of modern industry constituted only about 10 percent of the total value of output of the national economy. To counter imperialist oppression and to raise her backward economy to a higher level, China must utilize all the factors of urban and rural capitalism that are beneficial and not harmful to the national economy and the people’s livelihood; and we must unite with the national bourgeoisie in common struggle. Our present policy is to regulate capitalism, not to destroy it.<sup>26</sup>

When all these problems in the Chinese economy in addition to the continuing class struggle in the mind of Mao were taken into consideration, it was decided that the gradualist approach had to be replaced by a more radical strategy in the mid-1950s in order to complete the transition to socialism (Bramall, 2009: 118). In the Eighth Congress of the Chinese Communist Party (1956) which was the first congress after the Party came to power in 1949, it was stated that the socialist system was basically established in China and it is important to concentrate on the productive forces, industrialization, the economic and the cultural needs of the people from that point of time in order to complete the transition. In line with this statement, the proposals for the Second Five Year Plan (1958-1962) were discussed in the Eighth Congress.<sup>27</sup>

The Eighth Congress also became the aspiration of a movement known as “Hundred Flowers”. The movement gave rise to the discussion and criticism of the economic policies, while it was even debated that the market would have had a role

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<sup>25</sup> Sun Yat-sen (1866-1925) was the revolutionary founding father of the Republic of China and played an important role in ending the power of the Qing Dynasty as a consequence of the Revolution of 1911.

<sup>26</sup> Mao Z., “On the People’s Democratic Dictatorship: In Commemoration of the Twenty-eighth Anniversary of the Communist Party of China”, in Selected Works of Mao Tse-tung, June 30, 1949, available at [http://www.marxists.org/reference/archive/mao/selected-works/volume-4/mswv4\\_65.htm](http://www.marxists.org/reference/archive/mao/selected-works/volume-4/mswv4_65.htm).

<sup>27</sup> <http://www.idcpc.org.cn/english/cpcbrief/8nc.htm>

in the economy, though a secondary role (Naughton, 2007: 68).<sup>28</sup> In other words, Hundred Flowers was a movement which was designed to give people the freedom to talk about the negatives of the First Five Year Plan and its consequences (Gabriel, 1998). It was thought that “a distinctive Chinese socialism, more moderate and market oriented than the Soviet model” (Naughton, 2007: 68) would have been achieved as a consequence of this movement. On the other hand, the consequence of the Hundred Flowers Movement turned out to be very different from this expectation.

Over the next few months some 800,000 intellectuals and others who had spoken out during the Hundred Flowers period were condemned, removed from their jobs, and, in many cases, sent to labor camps. The political atmosphere changed overnight. When economic-system reforms that decentralized power were finally readied in November 1957, they were implemented in a political atmosphere of renewed radicalism. Mao turned China in a new direction, shifted gears, and accelerated, straight into a brick wall.<sup>29</sup>

The reason that Hundred Flowers Movement ended with such a severe reaction was that it was thought that this movement gave rise to the direct criticism of Mao, rather than concentrating only on the Party members or the economic policies (Bramall, 2009: 125). In addition to the mentioned measures, the Anti-Rightist movement was launched in 1957. This movement was mainly directed to the artists, intellectuals, the other actors of the Hundred Flowers movement and the Party members who had relations with these actors. As a consequence of this movement, a great number of skilled people lost their jobs and blamed to be rightists (Fairbank and Goldman, 1999: 365). The Anti-Rightist movement did not only end the Hundred Flowers Movement, but also turned out to prepare the Great Leap Forward which was launched in 1958.

### **3.3.3. The Great Leap Forward (1958-1961)**

With the intention of supporting economic development during the transition to socialism, the period of the Great Leap Forward was marked by some specific policies. First, the emphasis on investment increased considerably, which meant that the process of directing the resources which would have to be used for consumption

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<sup>28</sup> Because of this reason, the Eighth Congress is thought to have an important influence on the reform policies implemented after 1978 (Naughton, 2007: 68).

<sup>29</sup> Naughton B., *The Chinese Economy: Transitions and Growth*, The MIT Press, Cambridge, 2007, p.69.

to investment gained more significance. Second, collectivization was accelerated and collective farms were established in order to increase rural production. In addition, people's communes were established in the second-half of 1958. People's communes were larger than the collectives and included canteens which provided food mainly free of charge and also distributed food according to the work done (Bramall, 2009: 125). In line with these policies, the Twelve Year Plan for Agriculture was adopted in 1956 which formed the base of Mao's rural development policy (Bramall, 2009: 119-122). In addition to these, the nationalization of the remaining private industrial companies was completed before 1958 (Bramall, 2009: 120). These policies were thought to serve for achieving the most important economic purpose of the Great Leap Forward which was increasing the industrial and the agricultural investment and output.

Contrary to the decline of the agricultural output, the industrial production which was boomed in the late 1950s did not fall dramatically during the Great Leap Forward, since the urban industry was not affected considerably by the policies of the Leap (Bramall, 2009: 135). On the other hand, China unfortunately experienced a great famine in the years between 1958 and 1961 as a consequence of the damages given to agriculture by these policies. Various data sources on this famine agree that there were 25-30 million extra deaths occurred only in 1961 because of the famine and hence it was the most severe famine of the twentieth century (Naughton, 2007: 72).

#### 3.3.3.1. The Great Famine

The main cause of the great famine was the inability of increasing agricultural output, which especially deteriorated as a consequence of the Great Leap Forward policies. The most important factor of the declining agricultural output was obviously the overemphasis on heavy industry, especially on the production of iron and steel. This overemphasis not only channeled the agricultural surplus to the industrial investment, but also caused the transfer of a considerable amount of labor from agriculture to industry (Bramall, 2009: 130). The transfer of the agricultural labor in the countryside to the industry in addition to the irrigation projects was a failure in noticing the importance of the agricultural production and this policy indirectly gave rise to food shortages (Meisner, 1999: 228). In addition to this, it is also pointed out that there was a general physical exhaustion of the working

population, because the working days were lengthened regularly in order to meet the production quotas which were usually not realistic (cf. Meisner, 1999: 228-229).

Within the discussions on the causes of the famine, it is also pointed out that the creation of people's communes and banning the removal from these communes arguably reduced the incentives of the farmers and decreased the agricultural productivity (cf. Bramall, 2009: 128-129). As mentioned above, underreporting of the agricultural output was common in the early years of the Maoist era in order to avoid tax responsibilities (Bramall, 2009: 97). On the other hand, there was a general tendency of overreporting the agricultural production levels by the cadres in the countryside during the Great Leap Forward, since the cadres did not want to be viewed as declaring the failure of the Leap (Bramall, 2009: 131). In addition to these, the poor weather conditions during that period which affected most regions of China were also thought to be an important factor giving rise to the low agricultural output and the disastrous famine (Bramall, 2009: 132). It is also discussed that the isolation of China from the rest of the world and the suppression of all the private markets also played a role in the famine. In addition to all these, some of the authors claim that Mao's ignorance of the severity of the famine would be seen as one of the factors of its deepening (Bramall, 2009:134).

The discussion on the ignorance of the famine by Mao in particular and the other Party leaders in general would be related to the deteriorating Sino-Soviet relations. In addition to all the mentioned factors causing this disastrous famine, China had another serious problem at the end of the 1950s that its relations with the Soviet Union began to deteriorate and turned out to be a kind of crisis.<sup>30</sup> It is mentioned that this crisis kept the Chinese leaders busy and prevented them to pay the deserved attention to the problems in the countryside (cf. Bramall, 2009: 133). One of the consequences of the Sino-Soviet split was that China decided to give up the implementation of the Soviet model of development. In this regard, it is possible to view the Great Leap Forward as a consequence of the fact that the Chinese leadership understood that the Soviet model is not suitable for China anymore

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<sup>30</sup> The Sino-Soviet split stemmed from the ideological break between the Communist Parties in China and the Soviet Union, or between Mao and Khrushchev, which became apparent especially at the end of the 1950s and rose in the 1960s. The ideological break between these two communist countries extended to other kinds of problems such as border conflicts and sustained during Brezhnev's rule. As a consequence of the deteriorating relations with the Soviet Union, it is seen that China became closer to the US at the beginning of the 1970s. The problems between China and the Soviet Union sustained even in the 1980s and their relations normalized only after the visit of Gorbachev to Beijing in 1989.

(Fairbank and Goldman, 1999: 369). Mao's speeches in the years of 1956 and 1957, especially "On the Ten Major Relationships" point out this break (Bramall, 2009: 124). In this speech, Mao emphasized that the CCP is determined in not following the faults of the Soviet Union. As a result of such an attitude of the CCP, the Soviet Union began to restrict the aids and training programs it provided to China in 1959 and it recalled all of its personnel in China in 1960 (Bramall, 2009: 133).

The famine not only damaged the Chinese society, but also destructed the political life of Mao. The impact on Mao appeared at the Lushan Conference which was held in July 1959. The agenda of this conference included the future of the communes and the Great Leap Forward, control of the People's Liberation Army and also Mao's political future (Meisner, 1999: 230). It is stated that Mao was also critical of his policies, especially the backyard steel production and insisting on the communization. As a consequence, he decided that the Great Leap Forward would be ended by the end of 1959 because of the unfavorable economic conditions. The consequence of this failure for Mao was that he left his activist role in the Party for some period of time, although he remained to be the Chairman (Meisner, 1999: 231-234). This means that Mao had lost some of his power in the first half of the 1960s. As a consequence, he preferred to wait for some period and confined himself to observing what happened in the Party during his absence. Some of the Party leaders who were known to be critical of the Great Leap Forward policies such as Deng Xiaoping, Liu Shaoqi and Zhou Enlai<sup>31</sup> attempted to put some policies into action, which were in opposition to the Maoist policies.

Thus control over the Party and its policies fell into the hands of cautious leaders, the "Thermidoreans" who were less interested in social change than in political order and economic efficiency. The most prominent of the Thermidoreans was Liu Shaoqi-the formal head of the state of the People's Republic, the senior Vice Chairman of the Party, Mao's informal heir apparent, and certainly the most orthodox Leninist among Chinese leaders. Another was Deng Xiaoping, who, as the General Secretary of the Party, wielded vast power over its organizational apparatus. The ascendancy of Liu and Deng was accompanied by the restoration of the authority of Party bureaucrats whose power had been eclipsed during the Great Leap era...<sup>32</sup>

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<sup>31</sup> These were important political figures that had important contributions during the Revolution. On the other hand, they turned out to be in an opposing position to some of the Maoist policies by the time.

<sup>32</sup> Meisner M., Mao's China and After, History of the People's Republic, The Free Press, New York, 1999, pp.253-254.

The terrible famine was ended by abolishing the Great Leap Forward in 1960 and in the years between 1960 and 1964 most of the policies of the Leap were reversed. In this period, Liu Shaoqi implemented policies in line with Lenin's NEP in order to deal with the damages of the famine and the other economic problems (Meisner, 1999: 261). The emphasis on the production of iron and steel in the rural areas was given up, so that it became possible to transfer the labor back to the agriculture sector. The communal canteens were abolished, procurement quotas were reduced considerably and some of the private markets were restored. The people's communes were not abolished entirely; however their size was reduced and they lost their power by the time (Meisner, 1999: 261). Even, the family farming was permitted in some parts of China. On the other hand, Mao ensured that it was not permitted to be spread to the whole China, and the collectivization of the Chinese agriculture continued in these years and was completed at the beginning of the 1970s (Bramall, 2009: 135). In addition to these, Liu's policies envisaged financial retrenchment, "return to village" and assigning more authority to the factories and enterprises (Meisner, 1999: 264).

These policies which would have been seen as market-oriented when compared to the Maoist policies ensured economic recovery to some extent after the failure of the Great Leap Forward. On the other hand, it is seen that they created new forms of social inequalities in China which damaged the egalitarian vision of Mao (Meisner, 1999: 266). The emergence of the rich peasants in the countryside and the privileged urban workers who lost their collective consciousness, the widening gap between the rural and the urban and most importantly the rise of a group within the Party bureaucracy which has capitalist and revisionist<sup>33</sup> elements were the appearance of these new forms of social inequalities (Meisner, 1999: 266-267).

### 3.3.3.2. Socialist Education Movement

Although Mao was not active, he still had a considerable influence within the Party in the first half of the 1960s. He observed the implementation of the policies in this period and he was annoyed by the consequences. By the help of his continuing

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<sup>33</sup> Mao defined revisionism "as an abandonment of the goals of the revolution and acceptance of the evils of special status and special accumulation of worldly goods, which could be called a restoration of capitalism (Fairbank and Goldman, 1999: 386).

influence and with the support of his wife Jiang Qing and Lin Biao<sup>34</sup>, he began to regain power again in 1965 and the Socialist Education Movement was one of the initial appearances of his power. At the Tenth Plenum of the Central Committee in September 1962, a call for a massive ideological education campaign was made with the emphasis on the continuing class struggle (Meisner, 1999: 257). This call signaled the Socialist Education Movement which was implemented between 1963 and 1966 with the purposes of revolutionizing the Party, increasing the consciousness of the masses and reversing the capitalist and the revisionist tendencies within the Party and the whole society (Meisner, 1999: 258). It was envisaged that this movement would have dealt with bureaucratization, reverse revisionist and capitalist socioeconomic policies, especially the ones which were implemented during the absence of Mao, and recreate the collectivist spirit within the Party and the whole society (Meisner, 1999: 273).

As expected, one of the initial steps of the CCP after the Revolution was the elimination of the Kuomintang bureaucracy. On the other hand, China again faced heavy bureaucratization as a consequence of the processes of national unification and rapid industrialization in the 1950s and the 1960s, and more importantly because of its historically determined conditions (Meisner, 1999: 245-246). As a consequence, a kind of social differentiation emerged between the rulers and the ruled. It is stated that this social differentiation indicated itself also in economic terms as a consequence of the elimination of the private property (cf. Meisner, 1999: 248).

Conditions in China at the time of the Communist victory provided even more fertile soil for the growth of bureaucracy than had been the case in Russia. China was a far more economically backward land, a more predominantly peasant society, and one with a far weaker social class structure. The Chinese proletariat was far smaller and less politically mature than its Russian counterpart; it had only the most tenuous link to the ruling Communist Party. Moreover, it was a country that lacked a democratic tradition and was burdened with a deeply-ingrained bureaucratic tradition. The revolution itself took place in profoundly nationalist environment, almost entirely lacking any internationalist dimension either in objective historical reality or in the mentality of its leaders. In short, China in 1949 suffered from the absence of most of the conditions that Marxists assumed would yield a society governed by the immediate producers rather than a new bureaucracy.<sup>35</sup>

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<sup>34</sup> Lin Biao was a military leader who played an active role during the civil war. He became a member of the Politburo in 1955 and in 1958 he joined the Politburo Standing Committee. He became one of the vice-Chairmen and finally the defense minister of the People's Republic of China.

<sup>35</sup> Meisner M., *Mao's China and After*, History of the People's Republic, The Free Press, New York, 1999, 247-248.

The Socialist Education Movement was mainly directed against corruption which became widespread among the urban and rural cadres. In addition to this, Mao's anxiety about the rebirth of some capitalist economic activities and relations such as private farming, business and commerce activities as a consequence of the policies implemented after the great famine played an important role in the adoption of this movement as mentioned above (Bramall, 2009: 158). With these purposes, the Socialist Education Movement prepared the conditions for the Cultural Revolution (1966-1976).

Precisely because the Socialist Education Movement focused on political change, it was very different from the campaigns of the 1950s, such as collectivization (1955–6) and the Great Leap Forward (1958), which had focused on changing the economic base. And the manner in which the SEM had evolved by 1965 meant that it was much more comparable in scope and scale to the Cultural Revolution which was to follow, and it therefore should be seen as part of the same programme of superstructural change – even though not part of the Cultural Revolution itself.<sup>36</sup>

In order to realize the targets of the Socialist Education Movement, the resolution of “First Ten Points” was issued in May 1963, which had two major concerns in addition to its emphasis on new education campaigns. First, communes and collective farming which was seen as the solution to the problem of the low agricultural productivity would have to be restored. Second, high bureaucratization and corruption would have to be overcome.<sup>37</sup> It is also important to mention that the resolution also required that the officials went to the countryside and worked in the fields with the intention to destroy the distinction between the leaders and the masses (Meisner, 1999: 274).

Although all the Party leaders and the members seemed to share Mao's views at that time, some of them thought that the policies which were mentioned again through the Socialist Education Movement were a threat to agricultural productivity. On the other hand, they were primarily concerned with their positions in the Party. As a consequence, some kind of bureaucratic resistance emerged against Mao and his resolution. With the intention of limiting Mao's original resolution “First Ten Points”, Deng, Liu and Peng Zhen who was the mayor of Beijing issued the “Later

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<sup>36</sup> Bramall C., *Chinese Economic Development*, Routledge, London and New York, 2009, p.158.

<sup>37</sup> The second concern also appeared as the Four Cleanups Movement under the slogan of cleaning the politics, economy, organization and ideology.

Ten Points” in September 1963 followed by Liu’s “Revised Later Ten Points” in June 1964.<sup>38</sup> In response, Mao issued “Twenty-Three Articles” in January 1965 in which he explained the Socialist Education Movement again through putting the emphasis on the fight against corruption and the relationship between the masses and the Party (Meisner, 1999: 275, Weatherley, 2006: 61-63). It is seen that the opposition could not respond with additional documents and China got closer to the Cultural Revolution.

### 3.3.3.3. Assessment of the Great Leap Forward

The Great Leap Forward was launched as an economic development strategy during the Maoist era which was mainly based on ensuring the development of industry and agriculture at the same time. On the other hand, the continuing overemphasis on heavy industry caused the fall of agricultural output, food shortages and as a consequence the greatest famine of the twentieth century. In addition to the millions of death, the appearance of the famine in the Chinese politics turned out to be Mao’s pullback from his active political life for some period. The Party leaders who opposed some of the Maoist policies found the chance of implementing adverse policies during his absence. When he returned back, he began to work hard in order to reverse these policies which he identified to be capitalist and revisionist. The Socialist Education Movement was one of the consequences of this effort and prepared the conditions of the Cultural Revolution. When the overall conditions of China just prior to the Cultural Revolution are taken into consideration, it is seen that the concentration on the fight against revisionism, political conflicts within the Party and the Sino-Soviet split marked the period (Macfarquhar and Schoenhals, 2006: 3).

Although the Great Leap Forward was closed with undesired consequences, it is possible to point out that it provided a few advantages to China. In this regard, at least two gains would be mentioned. First, there were important gains in terms of learning-by-doing in the rural industry. It is thought that the increased skills in the rural industry in this period played an important role in the development of the rural industry in the 1970s and also in the reform period after 1978 (Bramall, 2009: 139). In addition to this, it is thought that the Great Leap Forward had an important role in

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<sup>38</sup> These two later documents gave rise to “work teams” which were small groups selected by higher Party organs in order to be sent to the villages and the communes to control and monitor the local cadres and the masses (Meisner, 1999: 276).

the transformation of the Chinese gender roles. It is known that granting women greater freedom was an important element of the Communist ideology, partly because labor, male or female, was seen to be valuable for the national economy. In order to ensure the freedom of women, a number of laws were passed during the Leap. In addition to this, the role of the female cadre in the rural development also contributed this process. Hence, the Great Leap Forward has a special place with the attempts to increase the role of the Chinese women in the economy and the politics (Gabriel, 1998).

### **3.3.4. The Cultural Revolution (1966-1976)**

The Cultural Revolution, or the Great Proletarian Cultural Revolution, is a ten-year period beginning in 1966.<sup>39</sup> It was launched by Mao who saw this political and social movement as a class struggle against the “liberal bourgeoisie” and the “capitalist roaders” who were not eliminated. The Cultural Revolution had a number of supreme purposes at the beginning such as establishing popular democracy, war against bureaucratic privilege and oppression, attack on the “four olds”<sup>40</sup>, educating the youth as “revolutionary successors”, making the working class politically active, ending the exploitation of the countryside and providing the chance of leadership to the intellectuals in the Revolution (Meisner, 1999: 292-293). In order to achieve these purposes, decreasing the social inequality which was widened especially by Liu’s policies, raising the collectivist values and the class struggle against the bureaucratic class and the bourgeoisie were seen as the goals of the Cultural Revolution (Meisner, 1999: 300-303).<sup>41</sup>

But Mao’s purpose was not simply to achieve ascendancy in Beijing. The Maoist aim was to bring about the total reformation of the country’s political structure and the social life of the nation and, moreover, the spiritual transformation of the people. Indeed, the factors of revolutionary spirit and consciousness were

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<sup>39</sup> It should be mentioned that Cultural Revolution is also identified as a shorter period within the literature, that is between the years of 1966 and 1969 in which the political and social unrest was heightened (cf. Naughton, 2007: 75, Bramall, 2009: 158).

<sup>40</sup> The “four olds” referred to old customs, old culture, old habits and old ideas.

<sup>41</sup> When inequality is taken into consideration, the emphasis was on destroying the distinction between mental and manual labor, city and the countryside, and workers and peasants (Meisner, 1999: 300). “Sixteen Articles” was approved at the Party Central Committee in August 1966 as the program of the Cultural Revolution with the emphasis of destroying the capitalist roaders and the “four olds” since it was thought that the overthrown bourgeoisie used these as a tool to come back (Meisner, 1999: 319).

regarded as decisive in determining the eventual outcome of what was now being described as a “life-and-death struggle” between socialism and capitalism. The underlying Maoist assumption in the Cultural Revolution was that the existing state and Party apparatus was dominated by “bourgeois ideology” and thus was producing capitalist-type socioeconomic relationships in society at large. Only by raising the political consciousness of the masses, revitalizing the socialist spirit and ideals of the revolution, and refashioning a state structure guided by “proletarian ideology” could the danger of a regression to capitalism be forestalled. And by both Maoist preference and objective political necessity, those aims could be accomplished only by the mobilization of the people for Maoist-inspired revolutionary action. In the course of revolutionary struggle, it was believed, the people would spiritually transform themselves while transforming their objective social world. What Mao called for was no less than a “profound” evolution “that touches people to their very souls.” If Marx believed that social being determines consciousness, Mao seemed to believe that it was consciousness as such (mediated through political action and the state apparatus) that ultimately determines social being.<sup>42</sup>

Unfortunately, the supreme purposes of the Cultural Revolution could not be realized at the end. Between the years 1966 and 1968, an increasing violence was experienced in the country without the intention of Mao (Bramall, 2009: 161). The Party leaders who were blamed to be capitalist roaders, found themselves under great pressure, while even the intellectuals turned out to be the target of the Red Guards. The Chinese citizens who were young during the Cultural Revolution and were thought to be educated as loyal revolutionaries actually turned out to be full of the undesired memories of the Cultural Revolution. As a consequence, Deng achieved to take the support of the social groups who were injured from the Cultural Revolution such as the bureaucrats, local governors, some of the Party members and intellectuals, the Red Guards and a huge number of citizens who were tired of political oppression and economic deficiencies in addition to the army. The political, economic and social expectations of these groups played a considerable role in increasing the political power of Deng and the legitimacy of his policies (Meisner, 1986: 452). In other words, the reform process which began at the end of the 1970s and gave rise to a great economic and social transformation in China would be seen partly as a consequence of the political and social polarization and the economic deficiencies caused by the Maoist policies, especially the Cultural Revolution.

#### 3.3.4.1. The Red Guards Movement

The most important soldiers of the Cultural Revolution as a class struggle in addition to the support of the People’s Liberation Army were the Red Guards which

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<sup>42</sup> Meisner M., *Mao’s China and After*, History of the People’s Republic, The Free Press, New York, 1999, p.315.

were formed in 1966. The Red Guards were consisted of the students wearing uniforms and spreading throughout China in order to catch and destroy capitalists. Also, the media was used systematically by especially Jiang Qing in order to control the masses. In such an environment, most of the Party leaders, Deng and Liu being foremost targets, turned out to be under threat. It is important to mention that it was not only the political figures that were in danger. The violence of the Red Guards reached its peak towards the end of 1967 to the extent of killing thousands of people. In addition, the Red Guards began to arrest the administrative cadres and forced them to confess their crimes and even killed them or made them commit suicide (Meisner, 1999: 321-322). Hence, Cultural Revolution had considerable damages and turned out to destroy everything in China (Meisner, 1999: 321). This movement, contrary to its initial purposes, eliminated the independence of thought, restricted and attempted to destroy the existing art and culture and abolished the state bureaucracy in China. Universities and schools were closed down and many of the museums, monasteries and temples were demolished (Bramall, 2009: 160).

To be sure, as the situation got increasingly out of control and into violence, Mao made various efforts to rein it in, but seldom successfully. The Cultural Revolution, like the Hundred Flowers Campaign and the Great Leap Forward, turned out to be something he had not envisioned. Allowing for many variations, the purge rate among party officials was somewhere around 60 percent. It has been estimated that 400,000 people died as a result of maltreatment. In their eventual trial in 1977, the Gang of Four, consisting of Mao's wife Jiang Qing and three of her colleagues in the Central Cultural Revolution Group, were charged with having framed and persecuted more than 700,000 people, of whom some 35,000 were persecuted to death. Many more were physically and mentally crippled, and a great number committed suicide.<sup>43</sup>

By the end of 1967, Mao decided to suppress the Red Guard movement which was accused of ultra leftism and getting out of control by the help of the army. He was in the thought that the Cultural Revolution was successful in the sense that the capitalist roaders and the revisionists were weakened and China was ready to continue its way on socialism. As a consequence, the Red Guard movement was ended in 1968, while it did not immediately mean that order was restored (Bramall, 2009: 163).

Tragically, the dispersal of the Red Guards did not put an end to violence, but instead proved to be the prelude to an even wider-ranging campaign of terror

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<sup>43</sup> Fairbank J. K., Goldman M., China-A New History, The Belknap Press f Harvard University Press, USA, 1999, p.387.

during which even more people were tortured, maimed, driven mad, killed, or committed suicide. Among the suicides were Jiang Yongning, Rong Guotuan, and Fu Qifang, the table-tennis stars who had led China to international preeminence in that sport.<sup>44</sup>

As the Red Guards Movement was ended, revolutionary committees were created beginning in the early 1967 in order to carry out the Revolution (Macfarquhar and Schoenhals, 2006: 239). A new stage of the Revolution started in January 1967 which was marked by the removal of most of the officials from their offices and their replacement by inexperienced young officials (Fairbank and Goldman, 1999: 393).

#### 3.3.4.2. The Xiafang Program

The Cultural Revolution was also marked by “*shang-shan xiixiang* (‘up to the mountains and down to the countryside’), or *xiafang* (rustication) for short” which was a program implemented mainly in the late 1960s (Bramall, 2009: 163). This program began in the early 1960s on a voluntary basis with the purpose of decreasing the urban population, especially for reducing the negative impacts of the great famine. On the other hand, this time it was obligatory for the middle-school and university students on the one hand and the industrial cadres and technicians on the other hand to move to the countryside in order take role in the rural development (Bramall, 2009: 163-164).<sup>45</sup>

The *xiafang* program first of all served for the ideological purposes of the Cultural Revolution; however it is stated that the program also had some purposes other than the ideological ones, such as making the Chinese society forget the bad images created by the Red Guard movement, decreasing urban unemployment and the number of the students in urban schools, and promoting rural development (Bramall, 2009: 164). It is true that the countryside provided some benefits from this program; however it was not favorable for the ones who sent to the countryside involuntarily, especially when the discussions on the discrimination in determining who will be sent to the countryside are taken into consideration. Within these discussions, it is pointed out that especially the children of the middle-class or the

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<sup>44</sup> Macfarquhar R. and Schoenhals M., *Mao’s Last Revolution*, the Belknap Press of Harvard University Press, USA, 2006, p.252.

<sup>45</sup> The *xiafang* program was ended between the years 1977 and 1979 (Bramall, 2009: 164).

lower levels families were generally preferred to be sent to the countryside compulsorily within the *xiafang* program (Bramall, 2009: 165).

### 3.3.4.3. Relations within the Party

As well as it had significant impacts on the Chinese society, the Cultural Revolution also influenced the Chinese politicians and the power relations within the Party considerably. First of all, Deng was thrown from the Party since he was labeled as a capitalist roader and was forced to live in the countryside during the Cultural Revolution.<sup>46</sup> On the other hand, he was more fortunate than many other political figures. Liu Shaoqi was put in prison since he was identified as “China’s Khrushchev” and died there. Lin Biao also did not turn out to be fortunate. In the 9<sup>th</sup> Congress of the Chinese Communist Party which was held in 1969, Lin was determined to be the successor of Mao (Macfarquhar and Schoenhals, 2006: 278). On the other hand, he died in a plane crash in 1971, while he was trying to escape to the USSR with his wife as a consequence of his conflicts with Mao and especially because he was accused of to be in an attempt of a coup against Mao (Bramall, 2009: 166).

The Communist Party has consistently monopolized political power since 1949, so major policy issues have often played out as internal power struggles dividing the party. Winners in factional fighting have used policy advocacy to prevail over their opponents, and have imposed policies they favored once they won power.<sup>47</sup>

When the end of these Chinese political figures mentioned above and the power relations within the Party in the Maoist era are taken into consideration, it is possible to state that the Maoist era was marked by political instability and the relationship between Mao and the other notable figures in the Party played a significant role in this instability (cf. Naughton, 2007: 62-64). It is also possible to state that most of the undesired consequences of the late Maoist policies would have not been experienced, and the Party and its policies on China’s economic development would be more successful, if the struggles within the Party were eliminated in some manner.

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<sup>46</sup> Deng could not return until the Tenth Party Congress in 1973 where he was forgiven by the proposal of Mao and Zhou.

<sup>47</sup> Naughton B., *The Chinese Economy: Transitions and Growth*, The MIT Press, Cambridge, 2007, p.63.

#### 3.3.4.4. Economic Consequences

One of the merits of the Maoist policies were that they were directed to a superstructural change at the beginning of 1963, in addition to the concentration in the relations of production and the forces of production. It was thought that ensuring rural development and destroying the inequalities within the society would have been possible in this way (Bramall, 2009: 286-287).

Late Maoism broke with Stalinism in assuming that the superstructure – the system of law, government, cultural production and ideology – was a key determinant of the pace of modernization. It was not enough, Mao argued, to attempt to change the economic basis directly; that was mere economic determinism. Rather, it was necessary to change the superstructure as well.<sup>48</sup>

Despite the emphasis on the superstructural change, it is appropriate to overview briefly the developments in the Chinese economy during the Cultural Revolution. At the beginning of the Cultural Revolution, the performance in industrial and agricultural production was not good. In 1967, the production level in the two sectors recorded a decrease of 9.6 percent and the decrease in industrial output continued in 1968 more considerably. It is pointed out that the decrease in industrial production was higher, since the problems caused by the Cultural Revolution were felt more heavily in the cities when compared to the Great Leap Forward (Macfarquhar and Schoenhals, 2006: 268-269). On the other hand, the Cultural Revolution fortunately did not end with a famine as the Great Leap Forward.

From an economic standpoint, the Cultural Revolution (in the narrower definition) was, surprisingly, not a particularly important event. The Cultural Revolution produced a lot of dramatic new political imagery but had relatively little effect on the economy. This result clearly occurred because of the unusual coincidence between a phase of radical politics and a phase of economic retrenchment. In contrast to the GLF, the disruption of the Cultural Revolution was “managed” quite effectively: investment was curtailed in a relatively orderly fashion; agricultural production was only slightly affected; and while industrial production declined, the fall was moderate, and production of vital necessities and priority projects continued. The guiding economic policies before the Cultural Revolution were quickly reinstated after the worst disruption was over, beginning in 1969. As in 1965–1966, the focus of economic construction continued to be the Third Front. One difference was that by 1969 the threat from the United States in Southeast Asia was deemed to have decreased, while relations between China and the Soviet Union had continued to deteriorate and

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<sup>48</sup> Bramall C., *Chinese Economic Development*, Routledge, London and New York, 2009, p.152.

had reached the point of open military clashes at disputed points on the border and ominous Soviet saber rattling.<sup>49</sup>

At the beginning of the 1970s, the Chinese leadership was able to direct most of its efforts to the economic problems, since the international environment faced by China was quite friendly. The rapprochement between China and the US which was especially manifested by President Nixon's visit to Beijing in 1971 constituted the most important part.<sup>50</sup> As a consequence, a number of economic measures were introduced by Zhou Enlai. The significance assigned to the Third Front was diminished and some amount of investment was directed to the coastal regions. In this period, it is also seen that economic relations with the rest of the world were reestablished to some extent (Naughton, 2007: 77).

#### 3.3.4.5. Mao's Death

In the first half of the 1970s, Mao once more stayed away from his active political life because of partly the undesired consequences of the Cultural Revolution and partly his deteriorating health. During the absence of Mao, the Gang of Four put efforts, especially against Zhou and Deng, to gain power in case of Mao's death (Bramall, 2009: 166). Under these conditions giving rise to economic, political and social instabilities, a half million Chinese citizens gathered at the Tiananmen Square for the memory of Zhou Enlai in 1976 (Hart-Landsberg and Burkett, 2005: 36).<sup>51</sup>

Estimates of the severity of the post-Tiananmen crackdown in China as a whole vary tremendously. One almost certainly misleading claim by the Ministry of Public Security has it that "within forty days, some 1,662 persons had been detained and 390 arrested nationwide." A detailed German study cites Hong Kong estimates to the effect that "millions...were drawn in nationwide" and Taiwan intelligence sources claiming that "close to 10,000 lost their lives, nationwide"; the study points out that if figures like these are to be believed, this would have been "one of the biggest mass persecutions in the history of the PRC."...<sup>52</sup>

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<sup>49</sup> Naughton B., *The Chinese Economy: Transitions and Growth*, The MIT Press, Cambridge, 2007, p.75.

<sup>50</sup> The rapprochement between China and the US which was an extraordinary event for China's foreign relations policy, stemmed from different but similar reasons of the two countries. The new Nixon administration was in the intention of ensuring the security in Asia and preventing another Vietnam case according to the adopted "Guam doctrine". On the other side, the most important motivation of China was reducing the Soviet threat in its north (Macfarquhar and Schoenhals, 2006: pp.320-321).

<sup>51</sup> Zhou Enlai died of cancer in January 1976.

<sup>52</sup> Macfarquhar R. and Schoenhals M., *Mao's Last Revolution*, the Belknap Press of Harvard University Press, USA, 2006, p.431.

This event which was organized for the memory of Zhou is also known as the first Tiananmen Square events. The Gang of Four convinced Mao that Deng was responsible of this event. This meant that Deng was once again accused of being a capitalist roader, and this time he was also labeled as “China’s Second Khrushchev”. While his membership to the Party continued, Deng again lost his position in the Party.

There is much that we do not know about the relations between Mao and Deng. However, the very fact that Deng was allowed to survive despite Mao’s perception of him as an arch ‘capitalist roader’ is a testimony both to Mao’s pragmatism, and his low opinion of the other personalities competing for the succession.<sup>53</sup>

In the middle of these political struggles, Mao died in September 1976. Contrary to the plans and expectations of the Gang of Four, Hua Guafeng was chosen by Mao as his successor before he died.<sup>54</sup> The Gang of Four were arrested during the army coup in October 1976. In the 11<sup>th</sup> Party Congress which was held in 1977, the closure of the Cultural Revolution and the struggle against the Gang of Four were declared.

The Cultural Revolution ended as it began, with a coup against a gang of four. But the coups differed: in 1966, a political coup; in 1976, a military one. At the start of the Cultural Revolution, Mao was able to manipulate the party to ensure a procedurally correct condemnation of his enemies. By its end, the Chinese political system was so paralyzed by top-level factionalism that only the use of armed force could affect a change of leadership.<sup>55</sup>

Hua was not a very active and well-known political figure and served as a chairman for only two years, in the years between 1976 and 1978.<sup>56</sup> These two years

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<sup>53</sup> Bramall C., *Chinese Economic Development*, Routledge, London and New York, 2009, p.166

<sup>54</sup> Succession had been one of the critical issues of the Chinese politics during the Maoist era, because it was thought that the successor will determine the faith of communism. After the death of Lin Biao, Mao decided Wang Hongwen as his successor in 1964 who was young but experienced in most of the policy areas; however he was not accepted by the Party (Macfarquhar and Schoenhals, 2006: 356-358).

<sup>55</sup> Macfarquhar R. and Schoenhals M., *Mao’s Last Revolution*, the Belknap Press of Harvard University Press, USA, 2006, p.450.

<sup>56</sup> The earthquake which happened in China in 28 July, 1976 in Richter scale of 7.8 turned out to be an opportunity for Hua to indicate himself politically through the rescue operations and his refusal of the foreign aid. On the other side, the Gang of Four was discredited with their approach to the rescue operations as efforts to limit the campaign against Deng (Macfarquhar and Schoenhals, 2006: 435). On the other hand, this positive image did not protect Hua’s position for long time.

turned out to be the period that Deng found the effort and the chance of regaining power.

Once the Gang of Four had been arrested, Deng Xiaoping's rehabilitation was inevitable. Ironically, it was Mao's surge, recall, and second purge of Deng that made it so. His later recall showed that the Chairman himself had considered Deng the only man capable of matching Zhou Enlai. Deng's subsequent disgrace told everyone that he had defied Mao and the Gang of Four, and valiantly tried to restore sanity to PRC policy-making.<sup>57</sup>

The main appearance of Hua's political inactiveness was that he adopted the principle of "two whatevers" meaning that "we will resolutely defend whatever policy decisions Chairman Mao made and unswervingly follow whatever instructions Chairman Mao gave"<sup>58</sup>. This meant that Hua preferred to continue implementing the Maoist policies without questioning and as a consequence there was not a considerable change in general in the Chinese economic and social policies in the two years of Hua's leadership (Bramall, 2009: 167).

Thus, it is possible to state that these two years were not the years that Hua indicated himself as a leader, but they were the years that Deng regained his power as mentioned above. In 1977, the position of Deng in the Party who was the Vice Premier was still not very strong; because he was accused of not reading the Marxist-Leninist writings and he was critical of the Cultural Revolution. On the other hand, the political environment changed at the Third Plenum of the Eleventh National Congress which was held in December 1978. This change which was obviously not achieved through only this Congress but was a consequence of the political, economic and social conditions brought by the Maoist era, enabled Deng to regain power in the Party, while this time he became its leader.

The events that were to result in Deng's ascendancy and Hua's demise unfolded over a period of two years, and were carried out by Deng in a manner both sophisticated and ruthless, without provoking those "large-scale and turbulent" political and social struggles that he now so deplored.<sup>59</sup>

The leadership of Deng meant that a new political and economic era was beginning for China for the second time since the Revolution (Bramall, 2009: 168-

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<sup>57</sup> Macfarquhar R. and Schoenhals M., *Mao's Last Revolution*, the Belknap Press of Harvard University Press, USA, 2006, p.451.

<sup>58</sup> <http://www.idcpc.org.cn/english/cpcbrie/11nc.htm>

<sup>59</sup> Meisner M., *Mao's China and After*, History of the People's Republic, The Free Press, New York, 1999, p.431.

169, Naughton, 2007: 79). At this point, it is important to mention again that it would not be correct to explain Deng's success only by his charismatic personality. Deng achieved to regain power as the leader of the Party especially through taking the support of the party members and the other sections of the society who were injured by the Cultural Revolution (Meisner, 1986: 452). Hence, the return of Deng also meant the return of the other victims of the Cultural Revolution to the Party (Macfarquhar and Schoenhals, 2006: 453-454).

Deng Xiaoping, who had been criticized by Mao during the Cultural Revolution for being a “capitalist roader”, proved a wily political strategist. He was able to take advantage of the uncertainties of the immediate post-Mao period to quickly rehabilitate himself on the basis of his call for “unity and stability”. In late 1978, he succeeded Mao to become China's paramount leader.<sup>60</sup>

It is seen that there have been different explanations on how Deng achieved to be China's leader or on the performance of Deng as a leader as it is discussed in Chapter 4. On the other hand, there is no suspicion that the return of Deng as the leader of China pointed out the beginning of a new economic and social order in China. China has still not entered into a political reform process in the sense of democratization; however the economic and social transformation experienced by China as a consequence of the reform process which was given start by Deng turned out to be enormous.

### **3.3.5. Assessment of the Maoist Era: What were the conditions which prepared the reform period in China?**

Some of the authors, especially the new institutionalists, present the Maoist era to be full of only failures and they state that the negative impact of these failures have been continuing to be an obstacle even in the reform period as mentioned in Chapter 2. Such a negative approach to the Maoist era and Mao's personality is misleading and cannot contribute to have a proper explanation of this era and its continuing impact on the reform period. It is possible to state that the attitude within the Party towards Mao and his actions which also found expression in the “Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China” issued in 1981 was more realistic.

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<sup>60</sup> Hart-Landsberg M., Burkett P., China and Socialism, Monthly Review Press, New York, 2005, p. 36-37.

Mao Zedong's successors in Beijing, most of whom were among the political victims of Mao's last revolution, condemn the Cultural Revolution as a decade-long "catastrophe" (now officially dated as the period from May 1966 to October 1976), "responsible for the most severe setback and the heaviest losses suffered by the Party, the state and the people since the founding of the People's Republic," according to the official assessment. Although the most horrendous crimes of the era are blamed upon Mao's evil associates, especially Lin Biao and the "Gang of Four," the main responsibility for the movement as a whole resides with Mao himself who, it is said, "initiated and led" the movement on the basis of erroneous "leftist" ideas that were "inconsistent with the system of Mao Zedong Thought." But Mao's personal ideological and political errors are ultimately attributed to deeper historical forces inherited from the millennia, especially the persisting influences of China's long feudal past. A pernicious "petty-bourgeoisie ideology," deeply rooted in a two-thousand-year-long tradition of small-scale peasant production, produced the contemporary political phenomenon of "ultra-leftism," which, it is argued, first manifested itself in the utopianism of the Great Leap Forward campaign and then found its most disastrous political expression in the Cultural Revolution and its "feudal-fascist" results. It is acknowledged, however, that "it remains difficult to eliminate the evil ideological and political influences of centuries of feudal autocracy."<sup>61</sup>

As a conclusion, it is important to mention that any analysis of the Maoist era has to take into consideration the gains of China in this period in order to have an accurate understanding of the conditions which brought China to the reform period at the end of the 1970s and the reform period, rather than only concentrating on its failures. It is misleading to claim that there was no role of the Maoist inheritance in the economic success of the reform period. In other words, the statist-institutionalist approach is right to put emphasis on the contributions of the developments which were generated during the Maoist era in the economic success of the reform period. Any attempt to explain the Maoist era would view this period as a transition of a feudal society which had left wars to socialism. It is certain that this transition experienced some achievements on the one hand and had to pay the costs of being in such a transition on the other hand.

China under Mao followed a strategy for building socialism that emphasized heavy industry, centralized economic planning, state ownership of the means of production, and party control over political and cultural life. The Chinese revolution and resulting state policies succeeded in ending foreign domination of the country and feudal relations in the countryside and achieving full employment, basic social security, and generalized quality for Chinese working people.

However, these broad and significant achievements came at the great social cost. The upheavals associated with the Great Leap Forward (1958-61) and the Cultural Revolution (1966-76) involved considerable social instability and loss of life. Urban workers also became increasingly frustrated by the party's

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<sup>61</sup> Meisner M., *Mao's China and After, History of the People's Republic*, The Free Press, New York, 1999, pp.291-292.

resistance to industrial democracy, including its opposition to a greater role for workers in enterprise management. The sole legal union federation, the All-China Federation of Trade Unions, proved no help. Operating under tight party control, its main responsibility was to promote production and labor discipline. Strikes for higher wages and greater worker self-organization and independence took place in 1949-52, 1956-57, and 1966-67.<sup>62</sup>

There were a number of significant economic developments in China during the Maoist era, especially when the conditions of the previous regime are taken into consideration. First of all, industrialization in China was the achievement which was realized in the Maoist era. A considerable industrial growth was recorded without receiving great foreign aid in this period. In addition to this, China was among the few countries which entered the 1980s without foreign debt and this turned out to be an important factor of the economic success experienced at the beginning of the reform period. It would be accepted that the performance in agriculture was not good in the Maoist era, because of underinvestment in agriculture as a result of the overemphasis on heavy industry and the authoritarian commune system. On the other hand, it is pointed out that agricultural growth was higher than most of the other Third World countries during the Maoist era. In addition to this, it is also important to remember that the commune system ensured that the peasants were provided health, education, housing and social security services (Hart-Landsberg and Burkett, 2005: 37-38). Taking these developments into consideration does not mean that the failures of the Maoist policies as presented in this chapter would be neglected. At the end of the Maoist era, the general scene of the Chinese economy made the failures apparent.

Nonetheless, at the close of the Mao era, China's economy faced growing problems that could only be overcome through the adoption of new state policies. Economic planning had become overly centralized, and as the economy grew more complex, unable to effectively and efficiently respond to people's needs. There was overproduction of some goods and underproduction of others, inefficient transportation and distribution, and difficulties with poor product quality.<sup>63</sup>

It is possible to state that the economic consequences of the Maoist policies did not turn out to be pleasant, although they had substantial economic and social purposes at the beginning. There was obviously an important improvement in terms

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<sup>62</sup> Hart-Landsberg M., Burkett P., *China and Socialism*, Monthly Review Press, New York, 2005, p.35.

<sup>63</sup> *Ibid*, p.38.

of human development indicators, especially in decreasing mortality rate and illiteracy rate, however the increases in per capita output and consumption levels were not high and the gap between the rural and the urban widened despite the efforts in the Maoist era (Bramall, 2009: 314).<sup>64</sup>

The Chinese industry and agriculture also experienced some problems during the Maoist era. Rural industrialization was one of the most important targets of Mao. Rather than concentrating on increasing efficiency and productivity, the strategy in rural industrialization was based mainly on learning and gaining skills. This strategy provided not many benefits in the short-run and brought its advantages to the whole Chinese economy only in the long-run. In addition to this, there was also the problem that the skilled labor was mostly transferred to the Third Front<sup>65</sup> regions in the second half of the 1960s (Bramall, 2009: 283). The performance of the collective farming in increasing agricultural productivity was not disappointing; however there was not a miracle. First of all, the incentives of the peasants diminished, especially after the restrictions on migration as mentioned above, as an important factor of the fall in labor productivity. In addition to these, especially until the disappearance of all the international threats to China in the late 1970s, the priority of industry, especially defense industry, caused the prices of the agricultural products to be kept low which in turn meant that the wages in agriculture were also low. Despite the problems mentioned above, it must be mentioned that the collective farms had provided some important contributions to the Chinese agriculture. Most importantly, the irrigation system which was built in this period turned out to be an important infrastructural gain for the 1980s and the 1990s (Bramall, 2009: 255-256).

Although Mao declared in 1949 that the People's Republic of China was to be governed by the dictatorship of the proletariat and the peasants, the problems which are mentioned above turned out to hit mostly the workers and the peasants. The most

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<sup>64</sup> When there is an attempt to explain the Maoist era and its consequences, especially its economic performance, it would be mentioned that the unreliability of the data in this period must be taken into consideration (Bramall, 2009: 291-292).

<sup>65</sup> The Third Front was a program which was put into action in 1964 and envisaged the development of industry in the secure southern-western areas of China as a consequence of the fear of war in an international environment where China was isolated. In addition to the problems with the US, China's fear of war stemmed from especially the deteriorated relations with the Soviet Union. As a consequence, the Third Front program was seen as the first priority of the Third Five Year Plan (1966-1970) (Macfarquhar and Schoenhals, 2006: pp.308-309).

important problem of the peasants was the transfer of their surplus to industry. The priority of industry, especially heavy industry, kept the wages of peasants low and put them under the obligation of transferring their products to the state (Hart-Landsberg and Burkett, 2005: 38). In addition to this, the workers turned out to be employed in the factories for lifetime in usually unproductive activities and their wages were ceased at the level of 1956. More important than these, the CCP weakened the collective organization of the workers contrary to its socialist discourse. The suspension of the unions during the Cultural Revolution was one of the appearances of this act of the Party. Also, it is pointed out that the workers had no impact on the production conditions and they did not have the right to demand to change them (Hart-Landsberg and Burkett, 2005: 38-39).

As a consequence, it is correct to state that the failure of the Maoist policies gave rise to the most important economic, social and political factors preparing the reform period. On the other hand, it is important to remind once again that the contributions of Mao to China were vital. Mao himself fought for the national autonomy of China. Industrialization of the Chinese economy and the transformation of the Chinese society through building a relatively egalitarian character were achieved through the Maoist policies. Mao was an ambitious statesman who desired to see China as catching the capitalist West in order to manage to preserve his country safe. In this regard, Mao and the performance of his policies were restricted by a number of factors such as the historical and geographical conditions of the country, the relations within the CCP as a one-party getting more and more complex and the conditions of the international environment. Because of this reason, it is important to mention again that it is misleading to put all the blame on the personality of Mao, as it is done by Macfarquhar and Schoenhals (2006) as follows.

So accounts were settled and a line was drawn under the Cultural Revolution. In the succeeding quarter-century, Mao's worst revisionist nightmare has been realized, with only himself to blame. Deng will get historians' credit for the capitalist-style modernization of China ("reform"-*gaige*) and its incorporation into the wider world ("opening up"-*kaifang*), but it was Mao's disastrous enactment of his utopian fantasies that freed Deng's mind from Communist orthodoxies...<sup>66</sup>

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<sup>66</sup> Macfarquhar R. and Schoenhals M., *Mao's Last Revolution*, the Belknap Press of Harvard University Press, USA, 2006, p.459.

It is also correct that the failures of the Maoist policies in general and the violence of the Cultural Revolution in particular enabled Deng to regain power as China's new leader. In other words, the support of the different sections of the society who were damaged and injured by especially the Cultural Revolution played an important role in this process. In this regard, Deng achieved to take the support of mainly the Party leaders, the military leaders and the intellectuals (Meisner, 1999: 431).<sup>67</sup>

Deng Xiaoping's political ambitions thus rested on a powerful and articulate base of social and political support. But what gave dynamism to Deng's political coalition was the issue of the Cultural Revolution-and the burning desire of its surviving victims to seek justice and retribution. That Deng himself had been among the victims of the upheaval, indeed twice victimized, won him the sympathy and support of millions who had suffered during the previous decade. Drawn to him were Party cadres who had been attacked, humiliated, and "overthrown"; intellectuals who had been silenced and persecuted; disillusioned former Red Guards who had been betrayed by Mao's torturous political course and found themselves members of "the lost generation"; millions of urban youth who had been shipped off to the countryside; and millions more ordinary citizens who had suffered a variety of physical and psychological abuses. All looked to Deng bring about a "reversal of unjust verdicts."<sup>68</sup>

In this way, it is also argued that the Cultural Revolution would be seen to be beneficent in the sense that it was such a great disaster which gave the energy to achieve such an economic development through the reforms (Macfarquhar and Schoenhals, 2006: 3). This Western understanding of the Cultural Revolution was actually accompanied by the declaration of the Party in the "Resolution on Party History" which discredited the Cultural Revolution and pointed out Mao as the only one who was responsible from the Cultural Revolution.

The "cultural revolution," which lasted from May 1966 to October 1976, was responsible for the most severe setback and the heaviest losses suffered by the Party, the state and the people since the founding of the People's Republic. It was initiated and led by Comrade Mao Zedong.<sup>69</sup>

Cultural Revolution was not the outcome of only Mao's ambitions; rather it was also caused by China's main effort since the Opium War of 1839-1842, that was

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<sup>67</sup> Deng managed to take the support of the intellectuals especially through assigning them an important role and promising autonomy in his 1975 policy documents (Meisner, 1999:431).

<sup>68</sup> Meisner M., *Mao's China and After, History of the People's Republic*, The Free Press, New York, 1999, pp.431-432.

<sup>69</sup> *Resolution on CPC History (1949-1981)*, Foreign Languages Press, Beijing, 1981, p.32, quoted in Macfarquhar R. and Schoenhals M., *Mao's Last Revolution*, the Belknap Press of Harvard University Press, USA, 2006, p.3.

achieving modernization without losing the national autonomy and the unity of the country. It is pointed out that the principles of the command economy were adapted to the Chinese characteristics with this purpose. Similarly, the reform policies also represented to be the adaptation of the Chinese characteristics to the Western-style modernization which have been very different from each other. Within this perspective, it is especially emphasized that decreasing the dominance of the Chinese state in the economy would have been a difficult task for China (cf. Macfarquhar and Schoenhals, 2006: 459-460). This new institutionalist perspective is consistent within itself, since it is based on the thought that China would copy what it sees in the West in order to achieve development. On the other hand, it is seen that China has not had the intention of decreasing state intervention in the economy as presented in Chapter 5. It is also seen that the new institutionalist approach had to adapt its explanation on the case of China, rather than China has adapted itself to the West. What kind of a development and modernization strategy China has followed since the end of the 1970s is explained in the next chapter.

## CHAPTER 4

### “THE CHINESE MIRACLE”

#### 4.1. Introduction

Since the reform period began in 1978, China has recorded a yearly 10 percent growth of GDP on average. By 2010, it turned out to be the second largest economy of the world and enhanced its significance in the global political and economic relations further (World Bank, 2013: 80). In this regard, the Chinese experience has been a miracle from the point of view of the developed countries. They have known that the US doubled its per capita income in nearly fifty years in the nineteenth century; whereas China achieved the same thing in just a decade (Fairbank and Goldman, 1998: 406). It has been a miracle also for the developing countries which have been willing to take lessons from China’s economic development experience. Such a record of economic development in such a short period of time was certainly a miracle also for the Chinese leadership.

This success has surprised the public and exceeded the expectations of the government. Even the ‘designer of the reforms’ himself was surprised. In 1984, at a meeting of the central advisory committee, Deng, with an apparent sense of pride, described his reaction to the economic performance of the country during the previous few years. ‘Lately, I have been telling our foreign guests boldly that there is no doubt we will reach our goal of doubling GNP [by 2000],’ he said (Deng, 1993, p.88). ‘But, once, we were not so certain. We used to say only that, through the original goal of the reforms-to double GNP within 20 years- was realized in only about half that time, and now the economy has nearly tripled in size with respect to 1980.’<sup>70</sup>

This chapter aims to indicate what kind of a miracle China has experienced since the end of the 1970s, by giving a brief historical overview of the reform process and the transformation of state-society and state-economy relations in China until the mid-1990s. Same kind of an analysis is presented for the period after the mid-1990s within the discussions in one of the most significant specific reform areas in Chapter 5, which is the state-owned enterprise reform. The overview of the

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<sup>70</sup> Aiguo L., *China and the Global Economy since 1840*, St. Martin’s Press, Inc., USA, 2000, p.162.

literature on China's reform experience indicates that there is a catching up theory which explains the Chinese leaders' intentions and efforts directed to economic development. According to this theory, the goal of every Chinese leader turned out to "find means to restore the greatness and power of China" (Urio, 2010: 46) since the country lost its impact in the world at the end of the nineteenth century. Deng who also shared this destiny had two main challenges which were closely related to each other at the beginning of his rule. These challenges were economic development on the one hand and ensuring the continuity of the leadership of the CCP through increasing its legitimacy and also his own legitimacy in order to have the chance of implementing the reforms in his mind on the other (Urio, 2010: 46-47). In this regard, the reform period would be seen as a new stage of China's traditional target of catching up the West, which has been totally different from the previous stage of central planning despite the efforts of the Chinese leadership to present the reform period as "the primary stage of socialism" (Aiguo, 2000: 119-120).

Over the past century and a half China has passed through three distinct phases in its response to the challenges posed by the West. These phases have been marked by three separate 'packages' of development strategies: 'Westernization' (whether a formal 'movement' or otherwise), 'delinking and self-reliance' and 'reintegration'. These strategies have been as much the products of domestic and international circumstances as the subjective choices of the respective governments. They have to a large extent shaped domestic economic and social structures and, at the same time, owing to China's size and its historical importance in East Asia, contributed to an East Asian regional development pattern.<sup>71</sup>

From the perspective of the catching-up theory, the targets of the succeeding Chinese leaders in these three stages were the same: establishing and preserving national independence in the short-run, gaining the power to react to the core countries in the medium-run and overcoming the economic backwardness in the long-run (Aiguo, 2000: 172-173). There is no doubt that the reform policies were also been determined in line with these targets at the end of the 1970s. It is also pointed out that there was an additional motivation of China at the beginning of the reform period, which was related to the remarkable economic success of the East Asian newly industrializing countries (NICs).

The Chinese could live with the idea that the West was wealthier and more powerful than China, but they had difficulty accepting the fact that small

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<sup>71</sup> Aiguo L., *China and the Global Economy since 1840*, St. Martin's Press, Inc., USA, 2000, pp.172.

neighbors, most of which were the historical ‘peripheries’ of China had surpassed their country. The lesson drawn by Chinese policymakers from an ostensive comparison of economic performance was that market mechanisms and export orientation, which seemed to be the force behind the East Asian ‘miracle’, might also work in China.<sup>72</sup>

In addition to the reform policies, there have been a number of other factors which contributed to China’s economic success since the end of the 1970s. First of all, it is important to point out the role of the peaceful and favorable international environment which was not actually enjoyed in the Maoist era. In addition to this, the legacies of the Revolution and the Maoist heritage, the control over the military, the experienced Chinese bureaucrats and the impact of nationalism as a rising ideology would also be seen as the important factors behind this success (Macfarquhar, 2011: 1-5). In addition to these, the disciplined character of the Chinese workers and the lack of trade unions since the Maoist era also played an important role in the economic success of the reforms, especially in the first decade of the reform period (Meisner, 1999: 458).

#### **4.2. The Reforms and Their Consequences until the mid-1990s: The Transformation of the State-Economy and State-Society Relations**

The post-communist countries in the 1990s adopted the shock-therapy approach which is mainly based on the rapid economic and political transition, whereas China’s reform policies were based on a gradual path especially at the beginning of the reform period. At the beginning of the reform period, China’s strategy was to liberalize the economy gradually through permitting the emergence of the private sector and the entrance of foreign investment. Opening the Chinese economy to the rest of the world after three decades of the Maoist rule has been among the most important factors behind the high economic growth recorded by China. Although the Chinese state continued to be among the most important actors of the economy in this process, other actors have emerged as a consequence of the reforms. It is important to analyze the relations between the Chinese state and these new actors in order to have a better understanding of China’s reform process.

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<sup>72</sup> Aiguo L., *China and the Global Economy since 1840*, St. Martin’s Press, Inc., USA, 2000, pp.124-125.

### 4.2.1. Initiating the Reforms

As presented in Chapter 3, the political environment in China was highly sensitive after the Cultural Revolution; however there was an agreement within the CCP at least on the issue that the Mao's economic policies would be abandoned.<sup>73</sup> The new strategy turned out to be based on two main elements, which were reform and openness (*gaige* and *kaifang*) (Bramall, 2009: 327). The main task of the new economic strategy was mentioned to be eliminating the economic backwardness and improving the life standards of the Chinese people.

Being a large country, China should play a more important role in the world, but owing to its limited strength, it cannot play a greater role. In the final analysis, what we should do is try to promote China's development. It is not enough just to say we are poor, and actually, we are very poor. Such a status quo is far from being commensurate with the standing of a great nation such as ours. Therefore, starting last year, we shifted our focus onto economic development. We should unequivocally continue to do so. Developing the economy is a new endeavour for us, for which we must pay a price. We are exploring ways to develop the economy more rapidly and we have confidence that we can do so. We must emancipate our minds and we should do so even in answering the question as to what socialism is. If the economy remains stagnant and the people's living standards remain at a very low level for a long period of time, we cannot say that we are building socialism.<sup>74</sup>

In order to achieve the objective of economic development, the initial step was giving up the self-reliance principle and opening the Chinese economy to the rest of the world. It was a radical decision but also it was required by the new economic development strategy. It is possible to mention some factors which played role in this policy choice. First of all, it is pointed out that the secure international relations of China, especially with the US, convinced the Chinese leadership to implement such a policy. It is also stated that it was dominantly thought within the Party that the self-reliance policy of the Maoist era failed. On the other side, it is also mentioned by putting the emphasis on the significance of the Maoist inheritance that the self-confidence of China stemming from the development level it reached during the Maoist era played a role in the adoption of the openness policy (Aiguo, 2000: 121).

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<sup>73</sup> Deng Xiaoping, Chen Yun, Li Peng, Zhao Ziyang, Hu Yaobang, Zhu Rongji and Jiang Zemin came together for reversing the economic policies of Mao although they all had a number of disagreements (Bramall, 2009: 327).

<sup>74</sup> Deng X., "To Build Socialism We Must First Develop the Productive Forces", Selected Works of Deng Xiaoping, Vol.2., April-May 1980, available at <http://dengxiaopingworks.wordpress.com/2013/02/25/to-build-socialism-we-must-first-develop-the-productive-forces/>.

Leaving aside a discussion of the relative advantage of various trade policies (not so easy to determine abstractly in any case), the Chinese leadership had a measure of confidence in economic openness because of the socioeconomic foundations laid during the process of industrialization over the previous 30 years. China in the late 1970s was fundamentally different from what it had been before 1949. Now, the country had a strong government, a seat on the five-member UN Security Council, a large standing army with a nuclear capability, and a relatively well-established industrial base. None of this had existed before the World War II. Moreover, although the essential structure of the capitalist world economy had not changed fundamentally, political détente was a characteristic of the 1970s. Direct colonial rule had long ago ceased to appear desirable in the West. An outright threat to China's sovereignty seemed highly unlikely. On balance, joining the world market at this moment seemed a good option.<sup>75</sup>

It is pointed out that the ability of China to implement the reforms gradually, while the old practices existed in some manner also stemmed from the experience gained in the Maoist era (Aiguo, 2000: 145). There were still a group of conservatives, especially the generals of the People's Liberation Army (PLA) who were ready to criticize the reform policies, and Deng had to take them into consideration. The gradualist strategy also served for surpassing the fears and criticisms that China was subordinated to the West as a consequence of the reforms (Macfarquhar, 2011: 331-332). In addition to these, it is mentioned that the Chinese leadership also thought that the possible unfavorable consequences of the reforms would be lightened in this gradualist way. These considerations gave rise to the famous Chinese strategy of "letting go (*fang*) with one hand, instinctively tightening up (*shou*) with the other" (Baum, 2011: 338).

The Third Plenum of the Party's Eleventh Central Committee which was held between 18<sup>th</sup> and 22<sup>nd</sup> December, 1978 witnessed the triumph of Deng and he became the new paramount leader of China in the following two decades. The Third Plenum was also marked by an emphasis on the socialist modernization which had existed since 1949; however it was certain that it has gained a new definition since 1978. According to this new definition, it was accepted that the class struggle in China was over. On 1<sup>st</sup> April 1980, Deng stated that "Revolution means carrying out class struggle, but it does not merely mean that. The development of the productive forces is also a kind of revolution — a very important one. It is the most fundamental revolution from the viewpoint of historical development" (Deng, April-May 1980) when he was talking with some of the comrades of the Central Committee. In

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<sup>75</sup> Aiguo L., China and the Global Economy since 1840, St. Martin's Press, Inc., USA, 2000, pp.125-126.

addition, this new understanding of socialist modernization included that the “adjustment by the plan” would be combined with the “adjustment by the market” (Meisner, 1999: 435). In other words, the motivation on class struggle shifted to economic development (Fairbank and Goldman, 1998: 408).

Of course, we do not want capitalism, but neither do we want to be poor under socialism. What we want is socialism in which the productive forces are developed and the country is prosperous and powerful. We believe that socialism is superior to capitalism. This superiority should be demonstrated in that socialism provides more favourable conditions for expanding the productive forces than capitalism does. This superiority should have become evident, but owing to our differing understanding of it, the development of the productive forces has been delayed, especially during the past ten-year period up to 1976. In the early 1960s, China was behind the developed countries, but the gap was not as wide as it is now...<sup>76</sup>

The new understanding of socialist modernization by the CCP also meant that the emphasis of the Party shifted from ideological to pragmatic policies. In the following decades of the reform period this pragmatic understanding improved in the sense that the Western cat was tested in the SEZs and it was successful, and hence it would be allowed to catch the mice in the other parts of the country (Urio, 2010: 48). It is obvious that this pragmatic understanding also formed the basis for the Chinese leadership to legitimize the following capitalist reforms (Meisner, 1999: 435). This new understanding also indicated that Deng and his friends comprehended that the only way to ensure the continuity of the Chinese political regime based on one-party rule was the improvement of the life standards of the majority of the Chinese population (Fairbank and Goldman, 1998: 407-408). Deng’s emphasis on strengthening the position of the CCP in his speech made on 29<sup>th</sup> February 1980 also indicated this fact.

... The political life of the Party is more spirited now than it has been for many years. This session, at which everyone has spoken his mind freely, has given genuine expression to the collective wisdom and leadership of the Central Committee, and has set a good example for our inner-Party life which should be emulated in the Party’s leading organs at all other levels.

The issues resolved at this session are all significant ones, namely: the strengthening and improvement of the Party’s leadership, including leadership by the Standing Committee of the Political Bureau of the Central Committee; the re-establishment of the Secretariat of the Central Committee; the drafting of a revised Party Constitution, and the formulation of the “Guiding Principles for Inner-Party Political Life”. Ours is a party in power. It must be admitted that the

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<sup>76</sup> Deng X., “We Can Develop A Market Economy Under Socialism”, Selected Works of Deng Xiaoping, Vol.2., November 26, 1975, available at <http://dengxiaopingworks.wordpress.com/2013/02/25/we-can-develop-a-market-economy-under-socialism/>

Party's leadership has been impaired for a fairly long period. To restore the position and role of our Party among our own people of whatever nationality and on the international scene is a vital task for us. I think the decisions and documents adopted by the present session with a view to accomplishing this task are all correct...<sup>77</sup>

In line with the new understanding of development, the initial reforms represented a pragmatic move to allow some market mechanisms to the Chinese economy to increase efficiency of production and the quality of the products. The objective of establishing socialist market economy appeared after the gradual reforms created strong market forces (Aiguo, 2000: 126). Although these developments were contrary to the ideological principles of the CCP, Deng and his friends did not experience much difficulty to convince the other Party members by the help of their pragmatic approach and the undesired conditions caused by the Cultural Revolution. Despite the expectations of these party members on political reforms, Deng was mainly concentrated on the macroeconomic performance of China. Contrary to the official discourse, it is even possible to state that socialism was not the target, because true socialism was challenging both the legitimacy of the CCP and the reforms it was implementing and preparing to implement. On the other side, it is also discussed that it would be misleading to claim that Deng and his friends aimed and planned to establish a capitalist economy in China; rather it is thought that the expectation was that the use of the market economy elements would have pragmatically brought socialist ends (cf. Meisner, 1999: 449-452).<sup>78</sup> This point was also supported officially by the argument that China was at the “primary stage of socialism”.

Nevertheless, policy changed in many respects after 1978. For one thing, the post-1978 era was one in which economics, rather than politics, was in command. Deng's approach was thus much closer to the orthodox Marxian notion that the development of the forces of production should take priority, and that superstructural (political) change was subordinate to that goal. In concrete terms, this meant the repudiation of class struggle. However, and in a clear break with Marx, the working assumption was adopted that China was in the primary stage of socialism: ‘socialism’ because the bulk of industry was in public ownership and exploitation had been ended, ‘primary stage’ because the development of the productive forces was essential and therefore a range of

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<sup>77</sup> Deng X., “Adhere to the Party Line and Improve Methods of Work”, Selected Works of Deng Xiaoping, Vol.2., February 29, 1980, available at <http://dengxiaopingworks.wordpress.com/2013/02/25/adhere-to-the-party-line-and-improve-methods-of-work/>

<sup>78</sup> Within this perspective, it is also stated that the sustaining feudal socioeconomic relationships in China has made the establishment of socialism difficult (Meisner, 1999: 452).

material incentives (inequality) was functionally necessary to raise productivity. Whereas Marx had argued that capitalism had to precede socialism, the CCP took the view in the 1980s that a primary stage of socialism could serve as a substitute for capitalism.<sup>79</sup>

As a consequence, economic decentralization and the allowance of market mechanisms into the economy were preferred to be in the initial reform agenda, since it was thought that such policies would enable to overcome the two interdependent challenges of the Party that were promoting the economic growth and increasing the living standards of the Chinese people on the one hand, while keeping the political dominance of the Party on the other hand. Deng had no difficulty in explaining these policy choices; because they were based on the arguments that China would get rid of poverty and would reach the level of playing a significant economic and political role in the world order. In addition to this, Deng never gave up using the socialist discourse pragmatically as a way of enhancing the legitimacy of his rule and his policies through the emphasis on the importance of developing the productive forces in order to build socialism.

According to our experience, in order to build socialism we must first of all develop the productive forces, which is our main task. This is the only way to demonstrate the superiority of socialism. Whether the socialist economic policies we are pursuing are correct or not depends, in the final analysis, on whether the productive forces develop and people's incomes increase. This is the most important criterion. We cannot build socialism with just empty talk. The people will not believe it.<sup>80</sup>

Within this perspective, Deng also stated in 1985 that "Reform is China's Second Revolution". It is certainly a discussion point whether Deng's main political motivation was preserving his power and the existing political regime in China or he really believed that his reform policies would end with socialism. On the other hand, it is seen that the 8<sup>th</sup> National Congress of the CCP which was held in 1956 adopted the policies of Li Shaoqi which were implemented during the absence of Mao as presented in Chapter 3 as the principal ideology in order to carry out the reform policies during Deng's rule (Meisner, 1999: 453). It is true that these reform policies gave their fruits at the beginning in the sense that living standards of the people

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<sup>79</sup> Bramall C., *Chinese Economic Development*, Routledge, London and New York, 2009, p.326.

<sup>80</sup> Deng X., "To Build Socialism We Must First Develop the Productive Forces", *Selected Works of Deng Xiaoping*, Vol.2., April-May 1980, available at <http://dengxiaopingworks.wordpress.com/2013/02/25/to-build-socialism-we-must-first-develop-the-productive-forces/>

increased, especially as a consequence of the achievement of rural development through industrialization. On the other hand, it is also true that the initial reform policies have formed the base of the transformation of the Chinese society and its class structure, and unfortunately one of the deepest set of inequalities in the world which appeared in the following years in addition to the existing ones. These policies also represented the initial steps of the transformation of the Chinese state to the capitalist transition state at the beginning of the process of transition from socialism to capitalism, under the conditions in which the socialist mode of production dominated while the necessary amendments were provided by the Chinese state in order to introduce capitalist relations. In the first sub-period of the reform, this function of the Chinese state would be seen to be less clear; however the reform policies implemented in the second sub-period which have been built on the policies of the first sub-period makes this fact more clear.

#### **4.2.2. Opposition to the Reforms within the Party**

Similar to the process in which the command economy was adopted in the 1950s, it would be a mistake to think that there was an agreement on the reform policies within all the Party members. At the beginning of the reform period, there was a conservative opposition within the Party which was mainly based on the ideological concerns and the criticisms on the reform policies in the sense that they have put China on the road of capitalism. On the other hand, Deng managed to cope with this challenge as mentioned above and it would be appropriate to overview briefly how he did.

First of all, it is mentioned that Deng never declared that he was against socialism or he is willing to abandon it; rather he always stated pragmatically that the reform policies would have brought true socialism to China. In the Twelfth CCP Congress which was held in September 1982, Deng declared that the target was “socialist modernization, economic construction being at the core”. In response to the criticisms of the conservatives, he emphasized the need to build a “socialist spiritual civilization” in the same Congress (Baum, 2011: 342).

A final programmatic theme raised at the Twelfth Party Congress was the call to create a “socialist spiritual civilization” that would offer CCP members effective moral protection against the corrosive effects of “bourgeois liberalization” and other unwanted by-products of China’s structural reform and opening to the outside world. In his address to the Congress, General Secretary Hu Yaobang

asserted that the successful construction of a socialist material civilization in China ultimately depended on the prior attainment of a high level of spiritual civilization. In postulating such a causal relationship between spirit and matter, he tacitly reversed the priorities established at the time of the Third Plenum in December 1978, when the development of society's productive forces had been elevated to the position of *summum bonum*.

The reason for the reversal was clear: A wind of bourgeois liberalization had blown across China since the Third Plenum. In such a situation, Hu Yaobang asserted, "capitalist forces and other forces hostile to our socialist cause will seek to corrupt us and harm our country." Confronted with such challenge, he continued, "it will not be possible to prevent in all cases the degeneration of some members of our society and party or block the emergence of a few exploiting and hostile elements." To minimize the effects of such degeneration, CCP members were called upon to hold firmly to the Party's established ideals, moral values, and organizational discipline.<sup>81</sup>

In addition to this rhetorical approach which aimed to convince the conservatives, there were also some concrete strategies to suppress them. The Central Advisory Commission (CAC) was established by the 12<sup>th</sup> Party Congress with the intention of creating a kind of waiting room before full retirement for the Party members who had served for more than forty years. The Party members in CAC received all their rights, while they could not attend the main decision-making bodies of the Party anymore. As a consequence, it was ensured that the conservatives who were generally old were kept away and those cadres were consisted of younger and technically qualified members (Baum, 2011: 342-343). Following the creation of the CAC, the concentration of Deng's rule was on changing the top personnel in the Politburo and the Politburo Standing Committee and replacing the members of the Central Committee by younger and better-educated members. In the Thirteenth Party Congress which was held in 25 October-1 November, 1987, the size of the Central Committee was reduced from 385 to 285 members (Baum, 2011: 404-406).

In addition to these, the influence of the PLA which was thought to be consisted of ultra-leftist tendencies was decreased in the mid-1980s through some cutbacks in military budgets and the manpower of the army. Most of the military leaders who were in the main decision-making bodies such as Politburo were made to retire (Baum, 2011: 374-376). In the Twelfth Party Congress, an arrangement was made which aimed to prevent the concentration of all the power in the hands of one man as it was the case in the Maoist era. According to this, Central Party Secretariat became the top party leader, replacing both the chairman and vice-chairmen, and his

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<sup>81</sup> Baum R., "The Road to Tiananmen: Chinese Politics in the 1980s" in *The Politics of China-Sixty Years of The People's Republic of China* edited by Roderick Macfarquhar, Cambridge University Press, New York, 2011, p.345.

power was limited by the Constitution<sup>82</sup> (Baum, 2011: 344-345). These developments were the efforts of strengthening Deng's rule and providing a safe environment for the reforms; because it was the first time that the Chinese leadership faced an opposition in the Western sense. On the other hand, these efforts of the Chinese leadership did not turn out to be very successful and the Tiananmen events were experienced in 1989.

The Thirteenth Party Congress was marked by Zhao Ziyang's report regarding the reforms.<sup>83</sup> In this report, Zhao stated that the main target was economic development by preserving the four cardinal principles, continuing the reform policies and opening up to the world. He even stated that "whatever is detrimental to this growth goes against scientific socialism and is therefore not allowed to exist." In this report, the main argument of Zhao was that China was in "the primary stage of socialism" and he emphasized the need to pass this stage through eliminating the economic backwardness of China and catching up the developed capitalist countries. Zhao also included other issues regarding further liberalization in China in his report, whereas he had to reverse some of them later because of the pressures coming from the conservatives. On the other hand, it is seen that most of them turned out to be realized in the following years (Baum, 2011: 407-408).

In the realm of economic strategy, Zhao's report went well beyond the Party's cautious October 1984 "bigger birdcage" reform proposals, calling now for substantially stepped-up use of the free-market mechanism and for rapid expansion of the collective and privately owned sectors of the economy. Under the slogan "The state regulates the market; the market guides the enterprise." Zhao urged the creation of private markets for "essential factors... such as funds, labor services, technology, information, and real estate." In another break from Marxist tradition, Zhao further indicated that "in the future, buyers of bonds will earn interest, and shareholders' dividends; enterprise managers will receive additional income to compensate for bearing risks." New price reforms were also called for, to be introduced gradually and in conjunction with rising incomes, "so that actual living standards do not decline." The report further recommended the introduction of "new types of institutions for commodity circulation, foreign trade and banking, as well as networks of [autonomous] agencies to provide technology, information, and service." In an attempt to preempt conservative criticism that such radical economic innovations smacked strongly of capitalism,

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<sup>82</sup> A new Constitution of the People's Republic of China was approved in December, 1982 with the rejection of ultra-leftism of the Cultural Revolution and the emphasis on the legal order and the attempts to balance *fang* and *shou* (Baum, 2011: 346-347).

<sup>83</sup> Zhao Ziyang who was also one of the victims of the Cultural Revolution, was the Premier of China between 1980 and 1987 and the General Secretary of the CCP between 1987 and 1989.

Zhao tersely asserted that the measures called for in his report “are not peculiar to capitalism.”<sup>84</sup>

In addition to the economic reforms, Zhao’s report also included the official standpoint on the political reform. Zhao emphasized the need to reform bureaucracy and the feudal structure of the political system. In order to achieve these targets, separating the Party and the government and strengthening the legal system were on the agenda, whereas democracy was seen to be taken into consideration only gradually because of the conditions of China by avoiding the adoption of bourgeois democracy. It is possible to explain such an understanding of political reform as the emphasis on the preservation of Chinese “neauthoritarianism” through a strong, centralized and technocratic Chinese state (cf. Baum, 2011: 409-410). When this tendency is combined with his emphasis on the reform policies, it is possible to view Zhao as one of the Chinese political figures of the reform period, who believed that it is possible to combine the elements of a market economy with an authoritarian state.

In addition to the conservatives, there were also democratic activists who were in opposition to Deng and his policies mainly because Deng did not keep his promise of democratic socialism (Meisner, 1999: 435). The response of Deng was putting pressure on their activities through banning all the unofficial journals and organizations in the first half of 1979 and declaring the abolition of the “four great freedoms” (Meisner, 1999: 436).<sup>85</sup> To replace the “four great freedoms”, Deng introduced the “Four Cardinal Principles” consisting “upholding the socialist road, the dictatorship of the proletariat, the leadership of the Communist Party, and Marxism-Leninism-Mao Zedong Thought”, giving the priority to the leadership of the Party. In addition to these measures, the active members of this democracy movement were sent to labor camps or put into prison. As a consequence, “leftism” was redefined by the Party as not having the enthusiasm for the implementation of the reform policies (Meisner, 1999: 438). Through taking the necessary measures to surpass the opposition on the one hand and promising more chances of consumption on the other hand, the Deng regime achieved to make the Chinese people forget the democracy demands for some time (Meisner, 1999: 437).

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<sup>84</sup> Baum R., “The Road to Tiananmen: Chinese Politics in the 1980s” in *The Politics of China-Sixty Years of The People’s Republic of China* edited by Roderick Macfarquhar, Cambridge University Press, New York, 2011, p.408.

<sup>85</sup> “Four great freedoms” which were put in the constitution in 1975 by Mao, consisted to “speak out feely, air views freely, hold great debates, and write big-character posters” (Meisner, 1999: 437).

It is obviously expected that the beginning of the reform period would have been a politically difficult and painful process. There was a need to legitimize the abandonment of the Maoist policies in order to implement the reform policies, and also to help erasing the bad memories of the politicians and the intellectuals who managed to survive after the Cultural Revolution and honor the ones who could not. These were not easy tasks for the Chinese leadership, especially when it is taken into consideration that there was also the need to preserve Mao to some extent, again with the legitimacy concerns, as the leader of the Revolution and the founder of the new Chinese society (Meisner, 1999: 439).

Deng, with his calm attitude, preferred to look like following the Maoist discourse and put emphasis on the contributions of Mao on the one hand, while he acted in his own way of implementing the reforms which were mostly not in line with the Maoist policies (Meisner, 1999: 440). In line with this strategy, Deng distinguished Mao from the Gang of Four as he thought that there was a need of a figure for “both revolutionary and nationalistic legitimacy” in response to the efforts of the Gang of Four to put emphasis on the role of Mao and his orders in their actions during their trial which was held on 20<sup>th</sup> November, 1980 (Meisner, 1999: 443-444). On the other hand, “ultra-leftism” and the failures of the late Maoist era were criticized within the Party at every opportunity (Meisner, 1999: 441). “Resolution on Certain Questions in the History of Our Party Since the Founding of the People’s Republic of China” was written with these pragmatic intentions (Bramall, 2009: 326). The Resolution was based, as a consequence of Deng’s will, on the emphasis of Mao’s contributions especially at the beginning of the Communist rule, while criticized his errors in his late ruling period (Meisner, 1999: 444). In line with the purpose of preserving Mao as a political figure, the Resolution was ended with the statement that Mao’s “contributions to the Chinese revolution far outweigh his mistakes” (Meisner, 1999: 445).

In the years after the Resolution of 1981 had settled the Mao question, at least officially, the remaining artifacts of the cult of Mao were quietly removed from public display, although some were soon to make strange reappearances in popular culture and in unofficial political life. But in 1981, in official Communist Party ideology and political ritual, Mao was retained as a revolutionary, nationalist, and modernizing symbol. The purpose, of course, was to reinforce the legitimacy of the post-Mao regime by tying it to the Chinese Communist revolutionary tradition, a tradition in which Mao of course had played the largest and longest part. Consequently, Mao’s writings continued to be frequently quoted in official publications, albeit highly selectively, and the much de-radicalized image of the dead Chairman continued to be utilized and

sometimes celebrated over the most-Mao years, as political circumstances dictated.

Yet perhaps more important than the preservation of Mao Zedong as a political symbol was the simultaneous repudiation of the social and ideological radicalism of the last two decades of the Maoist era. That, together with the reduction of Mao from a demigod to a leader of humanly fallible proportions, capable of errors “comprehensive in magnitude”, provided a necessary ideological sanction for the abandonment of Maoist socioeconomic policies in favor of the market-oriented economic reforms that Deng Xiaoping and others were preparing.<sup>86</sup>

As mentioned above, it is difficult to claim that Deng totally managed to suppress the opposition through these strategies because of the Tiananmen events and had to use a more traditional strategy of violence. Regardless of his way and his intentions, he liberalized the Chinese economy throughout the 1980s and the first half of the 1990s and opened the way for furthering the reforms.

#### **4.2.3. Explaining the First Part of the Reform Period**

Before overviewing the reforms which were implemented until the mid-1990s, it would be appropriate to remember how the three different theoretical approaches have explained China’s reform experience in this sub-period. As presented in Chapter 2, statist-institutionalist, new institutionalist and Marxist approaches generally agree on the time boundaries of the sub-periods. In this regard, it is also possible to state that there is an agreement within the literature that the years between 1978 and the mid-1990s constitute the first part of the reform period. On the other hand, these approaches obviously differ on how they explain the reforms implemented in this sub-period and their consequences, although they agree on the general characteristics of the reforms such as gradualism.

It is possible to state that the statist-institutionalist explanations on the reform strategy of China in the first half of the reform period tend to be affirmative, especially when compared to the second half. The statist-institutionalists mention that the reforms which were implemented in the first half of the reform period brought good economic records to China, while they did not give rise to a serious state weakness problem as the reform policies implemented in the second half have caused. In this regard, they present the gradual character of the reforms, lack of privatization policy in the reform agenda and the sustaining dominance of the state ownership as the main sources of preserving the capacity of the Chinese state in this

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<sup>86</sup> Meisner M., *Mao’s China and After*, History of the People’s Republic, The Free Press, New York, 1999, p.446.

sub-period (cf. Bramall, 2009). On the other hand, it would be mentioned that there have also been statist-institutionalist explanations which claim that the capacity of the Chinese state had begun to fall since the beginning of the reform period and has to be rebuilt in order to ensure that the challenges faced by the state are overcome (cf. Wang, 2003). On the opposite side, there is also a statist-institutionalist emphasis which claims that the Chinese state has been strengthened since the beginning of the reform period, especially by pointing its bureaucratic and administrative functions (cf. Edin 2003, Chang 2004, Shambaugh 2008, Chu and So 2010, Chang 2004). In sum, although there is not an agreement, the statist-institutionalist approach which provides a good explanation of how the Chinese state functions focuses mainly on the capacity of the Chinese state in both of the sub-periods mainly because of its emphasis on the state as the only or most significant actor of the reform process. In other words, statist present the transforming state-economy relations in China in detail by putting the emphasis on how this transformation had an impact on the state capacity, while they do not present an elaborative analysis of how state-society relations impacted on the initial stages of the reforms period.

Contrary to the statist-institutionalist approach, new institutionalist analysis affirms the reform policies which have been implemented in the second half of the reform period, especially when compared to the first half. New institutionalists mainly criticize the dual-track character of the Chinese economy in the first half of the reform period, which stemmed from the gradualist approach and was one of the main causes of the economic and social problems of China (cf. Naughton 2007, Gregor 2000, Laffont and Qian 1999). From the point of view of this approach, especially in the first sub-period, China was successful as much as the Chinese economy released from the command economy and adopted the principles of market economy. Because of this reason, there were also encouraging new institutionalist explanations of the first sub-period that the transition period would naturally have problems; however they would be overcome through furthering the market-oriented reforms (cf. World Bank 1996, World Bank 1997, Harvie 1999).

The Marxist approach also puts the emphasis on the sustaining dominance of state ownership and other principles of command economy in the first half of the reform period. On the other hand, the concentration of the privatization policy especially in the second half of the 1990s was also pointed out and the reform period is identified as the primitive accumulation stage of China. The Marxist approach

focuses on the impact of all the reforms on the transformation of the class structure in China and the consequences of China's integration to the global capitalist accumulation process as mentioned in Chapter 2. This analysis points out the alliance of foreign capitalists and the newly emergent Chinese capitalists to exploit the workers all around the world as well as the Chinese workers and emphasize the other economic and social problems inherent to capitalism that China also faces step by step (cf. Hart-Landsberg and Burkett 2005, Harvey 2007, Li 2008, Piovani and Li 2011).

It is certainly not possible to state that China owed its high economic growth record in the first sub-period until the mid-1990s to the implementation of neoliberal policies as the initial neoliberal explanations claimed. The first sub-period would be viewed as the beginning of the transition from the command economy to the market economy and the transformation of the state-economy and state-society relations. Rather than comparing the two sub-periods of the reform period in terms of the impact of the reforms on the capacity of the Chinese state as the statist-institutionalist approach does or explaining the performance of the reform policies in terms of how they converge to neoliberal policies as the new institutionalist approach does, it would be better to view the Chinese reform period as a process of adopting neoliberal policies step by step, gradually until the mid-1990s and sometimes more rapidly and sometimes gradually on a selective base since the mid-1990s, by a one-party rule of the CCP in order to ensure economic development and preserve its legitimacy. The reforms implemented in the first half of the reform period had prepared the necessary conditions for the more market-oriented reforms which have taken place since the mid-1990s and the transformation of the Chinese state to a capitalist transition state which functioned for the establishment of capitalist mode of production in China became more evident.

#### **4.2.4. Rural Reforms**

Reasonably, Deng initially concentrated on the rural development and the 1980s were marked by the rural reforms. Mainly, increasing agricultural productivity and developing rural industrialization were on the agenda, through the introduction of some market economy elements. The agricultural reforms were mainly based on the reversal of the Maoist agricultural policies “under the slogans of *fangkuan zhengce* (‘relax government controls’) and *tiyang shengxi* (‘recuperate and

multiply')” (Bramall, 2009: 337). On the other hand, it is important to mention that the rural infrastructure created during the Maoist era had played an important role in the success of the rural reforms at the beginning of the reform period (Aiguo, 2000: 131).

In addition to the legitimacy concerns, the emphasis on the rural development under Deng’s rule had actually the same purpose with the Maoist era. There was certainly the need to extract capital from the rural areas to further the reforms in the urban areas. This strategy gave rise to the reduction of the agricultural productivity during the Maoist era as presented in Chapter 3. Being aware of this fact, increasing agricultural productivity was set as the basic target of the rural reforms and increasing agricultural prices was the first step of this process. On the other hand, abandonment of the Maoist institutions in the countryside was critical in order to achieve these purposes. As a consequence, communes were abolished and collective agriculture is replaced by family farming through the household responsibility system in the first half of the 1980s (Meisner, 1999: 460). On the other hand, it was rejected by the Chinese leadership that this policy was an ideological shift with the argument that land was still owned collectively and it was just rent to the families (Macfarquhar, 2011: 332).

#### 4.2.4.1. Reforms in Agriculture

In the autumn of 1980, household responsibility system was adopted, which was based on a contract between the households and the production teams for some portion of land and the return of the agreed share of the output by the households (Meisner, 1999: 461). The system was seen as the main policy tool for realizing the target of increasing the efficiency of agricultural production (Aiguo, 2000: 130). The household responsibility system was one of the examples indicating the gradualist and experimentalist nature of the reforms. It was initially reset in the provinces of Anhui and Sichuan and then was spread to the other provinces as its good performance was observed in these provinces (Fairbank and Goldman, 1998: 411). It is also seen that this system was initially voluntary; however it became obligatory in time and 98 percent of the households turned out to be included within the system at the end of 1983 (Meisner, 1999: 462). Also, the contracts were made for short-term periods by the beginning; however the periods were lengthened up to 15 years by a legal regulation in 1984 and then increased further.

The most important consequence of the abolition of collective farming and the establishment of the household responsibility system was the emergence of a free market of land in rural China in the first half of the 1980s (Meisner, 1999: 463). In addition to this, the abandonment of the commune system meant that the rural residents have lost the welfare services they received and also they faced the problem of unemployment (Aiguo, 2000: 169). Despite these disadvantages, the household responsibility system combined with the increase in agricultural prices pushed up the incentives of the peasants and gave rise to a considerable increase in agricultural production.<sup>87</sup> The increase in agricultural production was also accompanied by the rise of the light industry and service sectors in the rural areas (Fairbank and Goldman, 1998: 411).

As a consequence, the efficiency of the Chinese agricultural sector increased throughout the 1980s and the 1990s and contributed to the process of rural industrialization. On the other hand, new problems of the sector emerged as a consequence of the reforms. First, the use of chemical fertilizers increased, which would mean the decline of fertility and the increase of environmental damage in the future. Second, the irrigation system inherited from the Maoist era deteriorated as a consequence of the abolishment of the commune system. Third, small farm size caused by the decollectivization policy, gave rise to the economies of scale problem. Finally, there was still the problem of food security, since the Chinese politicians did not view importing food as a viable choice. At that time, there were two different ways for the Chinese leadership to deal with these problems, which were ensuring the functioning of the market mechanisms and introducing secure property rights in the agricultural sector on the one hand and increasing the role of the state on the other hand. (Bramall, 2009: 341-345). It is seen that China continued to follow its development path gradually.

#### 4.2.4.2. Rural Industrialization

In addition to the efforts in increasing agricultural productivity, the rural reforms also included the measures to achieve rural industrialization with an emphasis on the light industry. As presented in Chapter 3, it was known that the Chinese industry during the Maoist era had an efficiency problem, as a consequence

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<sup>87</sup> Low procurement prices which decreased the incentives of the peasants were seen as the main cause of the low level of agricultural output during the Maoist era (Bramall, 2009: 332).

of especially the overemphasis on heavy industry. The underdevelopment of the light industry meant that industry was not able to supply the producer goods which would be used in the production of consumer goods (Bramall, 2009: 394).<sup>88</sup> Deng had to solve this problem of the Chinese industry in order to be able to initiate the industrial policy in his mind, which would bring economic growth to China.

The first step was the development of rural industrialization. Privatization was not on the agenda until the mid-1990s; however it was decided by the Chinese leadership that some kind of a liberalization policy would have been implemented in order to tackle with the problem of inefficiency, in the sense that the restrictions on private enterprises, foreign firms and collectives would have been removed (Bramall, 2009: 404-405). This meant that the growth of a private sector was allowed in the first part of the reform period; while it is important to mention that this growth did not mean the retrenchment of the state sector. As a consequence of this liberalization policy, the number of private enterprises, joint ventures and collectives increased dramatically and they turned out to have a considerable share in the industrial production in the 1980s (Bramall, 2009: 411-412). It was thought that the liberalization policy and the price reform would increase the incentives of the SOE managers and workers, so that productivity and profitability of the SOEs would have been increased. Thus, it is important to mention again that liberalization was the word explaining the first half of the reform period, rather than privatization (Bramall, 2009: 332).

Increasing living standards in the rural areas in the first half of the reform period mainly stemmed from the accelerated rural industrialization which became the “dynamic force in the Chinese economy” through the Township and Village Enterprises (TVEs), rather than the increasing agricultural output (Meisner, 1999: 465). The emergence and the development of the TVEs, which were mostly collectives under the control of the local governments, were promoted by the Chinese state. The TVEs faced fewer amounts of taxes and administrative regulations in order to ensure their contributions to the process of rural industrialization (Fairbank and Goldman, 1998: 412). As a consequence of this favorable environment, it is seen that

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<sup>88</sup> In addition to the overemphasis on heavy industry and the problem of economies of scale, the inefficiency of industry during the Maoist era stemmed from the concentration of industrial enterprises in the West China which has been a geography that economically brought unproductive results. In addition to this, the intervention of the politicians in the management of factories was also a factor of inefficiency (Bramall, 2009: 403-404).

local governments, private capitalists and foreign investors invested in the TVEs, and hence sizes, output levels and employment levels of the TVEs increased considerably. Also the technology levels used in the TVEs improved notably (Meisner, 1999: 465). With these characteristics, the TVEs had had an important role in the high economic growth of China and the increasing Chinese exports in the first half of the reform period (Aiguo, 2000: 138).

In addition to the TVEs, private enterprises and collectives also emerged rapidly in China's countryside in the first half of the reform period as a consequence of the liberalization policy. As a result, it is seen that a kind of alliance emerged among the local governments and the TVEs, the private enterprises and the collectives which were owned mainly by the relatives of the local cadres or the cadres themselves (Fairbank and Goldman, 1998: 412). This alliance represented the emerging capitalist relations in China and indicated the fact that the social structure of China had already begun to change in the mid-1980s as a consequence of the reforms.

#### 4.2.4.3. Consequences of the Rural Reforms

Although they had a significant contribution to China's economic growth, there were a number of negative social consequences of the rural reforms. The continuity of China's economic growth and the realization of its target of catching up the West have depended whether China has managed to solve these problems (Aiguo, 2000: 169). First, education and health services deteriorated considerably when compared to the Maoist era since the commune system was abolished. Second, high population growth was observed in rural areas as a consequence of the return to family farming, since the rural people thought that they should have more sons in order to be able to cultivate their land. When combined with the deteriorated welfare services, this high population growth turned out to be an important social pressure and became the cause of the One Child Policy. Third, it turned out to be difficult to organize the peasants for the construction and irrigation works contrary to the Maoist era again as a consequence of the commune system. Fourth, the use of machines in agriculture became difficult as the land was divided into smaller parcels as a consequence of decollectivization. Fifth, the demise of the collectivist ideology gave rise to the spread of traditional beliefs and superstitions within the peasants (Meisner, 1999: 465-467). Finally, China began to experience environmental problems and the

problem of decreasing arable land which would create food security problems in the future (Meisner, 1999: 466, Aiguo, 2000: 169, Bramall, 2009: 341).

In addition to these, the most important social consequence of the rural reforms implemented in the 1980s was the transformation of the social structure and the emergence of the capitalist relations in China's countryside. The rural residents who had entrepreneurial skills and have some kind of relations with the political authorities, the political cadres themselves and their relatives who benefited from the reforms formed the new Chinese rural bourgeois class. The most important common characteristic of this class, while its members did not have a class consciousness yet in the sense of being organized for the protection of their interests, was that its interests were realized through exploitation of labor (Meisner, 1999: 467-468).

As another indicator of the emergence of the capitalist relations in the Chinese economy as a consequence of the rural reforms, the employment in the agricultural sector decreased considerably after the abandonment of the commune system and about half of the peasants who became redundant were transferred to the TVEs. The remaining workers became migrants traveling within China for temporary works, generally living in unfavorable conditions and facing intolerable behavior of the residents (Meisner, 1999: 468). The new social structure of the rural China which is described as follows caused the emergence of new types of inequalities.

...a bourgeois elite of de facto owners of various commercial and industrial enterprises, commercial farmers and landlords, local Party and government officials, and professional managers and technical personnel; a much reduced but sizeable peasantry engaged in family farming; a much expanded and rapidly growing class of wage laborers, primarily engaged in industrial work; and an underclass of migrant workers.<sup>89</sup>

As a conclusion, the appearance of the new social structure in rural China at the end of the 1980s was totally different from the scene at the end of the 1970s. As a consequence of the rural reforms, a new class structure began to emerge in rural China consisted of the newly emergent rural bourgeois class and the rural working class. The emergence of the capitalist relations in China also meant the rise of new inequalities based on class in rural areas in addition to the existing ones stemming from geographical disparities. When the rural reforms were accompanied by the urban reforms, these relations and inequalities also found new areas to spread, and

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<sup>89</sup> Meisner M., Mao's China and After, History of the People's Republic, The Free Press, New York, 1999, p.469.

hence played an important role in the transformation of the state-society relations in China.

#### **4.2.5. Urban Reforms**

Although rural reforms dominated the first decade of the reform period, it is seen that some steps were also taken to initiate the urban reforms which formed the basis of the reforms introduced in the 1990s. As an initial step, it was decided to increase the autonomy of the SOE managers and give them the right to take the decisions on hiring, wages, production and a degree of profit retention, so that it would have been possible to reduce the influence of the Party members in the factories. According to this regulation, the factory managers made their own production plans and decided the wages and the prices according to the market conditions and also they had the power of hiring and firing workers, which were powers that they did not possess under central planning. These efforts were put in order to ensure the management of the state enterprises by the “experts rather than the reds” and gained a more solid base by the introduction of the Factory Responsibility System in 1984. In addition to these, a kind of profit-sharing contract system was established in the first half the 1980s, which required a transfer of a fixed percentage of the profit to the central government with the purpose of increasing the incentives of maximizing profits of the SOE managers. The Chinese leadership hoped that such regulations would have increased the competitive environment in the Chinese economy (Bramall, 2009: 407-408, 412-414).

Such an enterprise system is strictly criticized within the neoclassical approach, because it is viewed to be hybrid and it is argued that there would not be any incentive on efficiency in an enterprise system which had no bankruptcy mechanism. In this regard, the main advice of this approach was obviously privatization of the SOEs in China immediately. In response, privatization did not appear on the reform agenda; however a bankruptcy law was set in 1986, which actually was not implemented in the remaining part of the 1980s (Bramall, 2009: 407-408, 412-414). On the other hand, the profit-sharing contract system was formalized through the establishment of the Contract Responsibility System in 1987 and the Enterprise Law was passed in 1988.

It is important to mention that this dual-track enterprise system gave more incentives to rent-seeking behavior and corruption in China. The relationship

between the Chinese state and the SOE managers turned out to be determined by contracts which indicated the responsibilities and the possible gains of the managers, depending on the bargaining power of the both parties. On the other hand, the managers had the tendency of maximizing the profits in their term, rather than concentrating on long-term gains and there were no viable mechanisms which would have forced them to have such a concentration, like the bankruptcy mechanism as mentioned above. (Guo, 2003: 556-557).

These regulations prepared the conditions for the more comprehensive market-oriented reforms which were introduced in the 1990s and the 2000s. Mainly, the adoption of the privatization policy in the second half of the 1990s is generally viewed to be an important shift of the reform strategy. The most important consequence of the SOE reform implemented in the 1980s was its contribution to the creation of the capitalist labor market in China as a preparatory to the following reforms (Meisner, 1999: 472). The new powers of the factory managers as mentioned above turned out to be one of the most important appearances of the cracked “iron rice bowl” of the Chinese workers, since they did not possess anymore most of the welfare rights they used to and most of them lost their jobs (Meisner, 1999: 470). The initial social consequence of these policies was the transformation of the class structure in the Chinese cities as it was experienced in the rural areas.

Alongside the burgeoning army of petit-bourgeois *getihu* (individual households engaged in small-scale domestic trade), a wholly new category upscale, quasi-private urban entrepreneurs now began to appear. These were the so-called *gaogan zidi*, children and other blood relatives of high-level cadres whose family connections gave them excellent financial and commercial contacts throughout the Party and state bureaucracies. Such people were strategically positioned to take full advantage of the government’s liberalized commercial policies and credit controls, enabling them to set up new trading companies, secure business loans, and establish supply and marketing networks. Within a matter of months, China’s over privileged *gaogan zidi* began to wheel and deal on a scale not seen since before the revolution.<sup>90</sup>

The new capitalist class of China has emerged as a consequence of the reforms through the close relations with the Party members since the beginning of the reform period. Such relations are certainly against the ideal principles of the market economy; however it is not possible to claim that they are also against the

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<sup>90</sup> Baum R., “The Road to Tiananmen: Chinese Politics in the 1980s” in *The Politics of China-Sixty Years of The People’s Republic of China* edited by Roderick Macfarquhar, Cambridge University Press, New York, 2011, pp.363-364.

functioning of neoliberalism. In this regard, it is possible to state that China's transition to neoliberalism and the transformation of the Chinese state towards the neoliberal state, which would be seen as a continuing process, have begun in the first half of the reform period.

#### **4.2.6. Price Reform**

Price reform which appeared as another important policy in the reform agenda of China especially in the mid-1980s was essential for furthering the market-oriented reforms. In line with the gradualist approach, the initial strategy was setting a dual-track price mechanism. This mechanism allowed the enterprises to sell their products at market prices, that is being minus and plus 20 percent of the prices set in the plan, after fulfilling their responsibilities stated in the plan. In addition to this allowance, it is pointed out that the number of the commodities that were under the control of the Chinese state was decreased steadily (Bramall, 2009: 350).

In 1984, the "Decision of the Central Committee of the CCP on Reform of the Economic Structure" was adopted and the restriction of minus and plus 20 percent of the plan price was removed, especially with the intention of increasing production incentives (Bramall, 2009: 350). On the other hand, the consequence was a three-tiered price structure. According to this price system, prices of some of the vital industrial products such as oil and steel were directly settled by the state, whereas the prices of the other industrial products were allowed to fluctuate within the limits which were set by the state. On the other side, the prices of most of the consumer goods and agricultural products were allowed to be determined freely through the market mechanisms (Meisner, 1999: 472-473). At the end of the 1980s, only 25 percent of the prices were controlled fully by the state as a consequence of these regulations (World Bank 1990: 59).

The immediate impact of the price reform in the Chinese economy was the rise of inflation. On the other hand, the Chinese government was decisive on changing the price system and ready to bear the disadvantageous consequences of inflation in order to achieve this target (Bramall, 2009: 349). A way was found to solve the problem of inflation at the beginning of the 1990s, even without sacrificing the high economic growth rate and this economic success of Deng's rule received the admiration of the whole world.

It is important to mention that the price reform was one of the most important initial reforms which opened the way of establishing a market economy in China. During the period in which the dual-track character of the price system was dominant, the system gave rise to undeserved gains of some of the privileged Chinese people as mentioned above. The price mechanism turned out to be one of the widely used tools for some to get rich before the others. In this regard, it is important to mention that the price reform has also been one of the important factors of the increasing inequalities in China.

#### **4.2.7. The Open-Door Policy**

It would be accepted that China would have not recorded such an economic success if it insisted to stay as a closed economy. The history of the open-door policy goes back to the late Maoist era. The reestablishment of the international relations was first introduced as a policy by Zhou Enlai in 1975 within the Four Modernizations and Hua's Ten Year Plan also envisaged increasing economic relations with the rest of the world as presented in Chapter 3 (Meisner, 1999: 456).

The initial action within the open-door policy was the establishment of four Special Economic Zones (SEZs) in Shenzhen, Shantou, Zhuhai in late 1979 and in Xiamen in October 1980. SEZs were designed and regulated to ensure that they attract foreign investment, encourage international trade and to transfer technology to China. In order to achieve these targets, tax benefits and exemptions from some regulations were provided to SEZs (Bramall, 2009: 332-333). As a consequence, the favorable conditions of the SEZs accompanied with cheap and disciplined Chinese labor attracted the foreign investors. In the following years, additional SEZs were established in the other Chinese coastal provinces and they have turned out to play an important role in the economic growth performance of China. On the other hand, there were also problems regarding the SEZs. First of all, the SEZs were certainly ideologically problematic, since their activities included the exploitation of the Chinese labor by foreign capitalists. In addition to this, SEZs turned out to be the centers of corruption by the time, since the local governments and their relatives used their power to make personal economic gains in these zones (Meisner, 1999: 457). Finally, SEZs were among the most important factors of the inequalities in China, specifically the increasing inequality between the coastal areas and the inland areas

(Aiguo, 2000: 133). Despite these problems, the foreign investments which were directed to the SEZs, especially investments from Hong Kong and the other overseas Chinese played an important role in China's economic growth in the first half of the reform period. Foreign investments contributed to China's economic transformation also through bringing technology, entrepreneurial and management skills (Fairbank and Goldman, 1998: 413-414).

Most of the foreign investors in China have been mainly the overseas Chinese investors who channeled through Hong Kong and also the investors from Taiwan increased considerably since the mid-1990s. It is pointed out that it was not only the cheap labor that made China attractive to these overseas Chinese investors. The cultural familiarity and common language turned out to be an important factor. It is mentioned that they were more patient to the difficulties they faced in investing in the mainland when compared to the Western or multinational investors. In response, they were granted more advantages and privileges by the Chinese government. Even the locations of the SEZs were chosen to be close to these districts. The first SEZ was established in Shenzhen on the border of Hong Kong, then in Zhuhai which is close to Macao, in Shantou and Xiamen which are on the Taiwan Straits and in Hainan which is on the South China Sea (Aiguo, 2000: 154-156). As a conclusion, China's open-door policy turned out to be a new source of wealth also for the overseas Chinese capitalists. The willingness of the Western and multinational capitalists to invest in China also increased as they observed these gains.

The emphasis of the Chinese leadership on encouraging exports stemmed from the willingness to increase foreign currency reserves which would be used for importing capital goods and technology for sustaining economic development (Aiguo, 2000: 133-135). In line with these purposes, a series of trade liberalization reforms were implemented in addition to the establishment of SEZs. First of all, local authorities and private enterprises were given autonomy to take part in trade activities. A foreign-earnings retention system was established in order to encourage exports, which allowed saving of a share of foreign exchange earnings (Wong, 1998). It is pointed out that some of the local authorities intended to limit the market activities of the rural residents and imposed some extraordinary taxes, since they thought that the market-oriented reforms damaged their power and interests (Macfarquahar, 2011: 357). On the other hand, the local authorities who were not satisfied with the reforms at the beginning, turned out to find ways of benefiting from

this process as they were also allowed to take part in the market activities and increase their economic benefits and political influence (Macfarquhar, 2011: 333).

As a consequence of the open-door policy, China recorded a considerably high volume of trade and FDI in the first half of the reform period. It has been a discussion point whether the most important factor of China's economic success has been its openness policy and its consequences (Bramall, 2009: 372-380). It is correct that China would have not been recorded such an economic performance without opening its economy; however it would be misleading to claim that exports and FDI were the only factors behind China's success and some discussion points would be provided regarding this issue.

First of all, the open-door policy has been an important factor of the widening gap between the coastal areas and the inland areas as mentioned above, because the coastal areas were preferred for the implementation of the openness policy. As a consequence, the technology and other kinds of knowledge brought by the foreign investors were mainly limited to coastal regions (Bramall, 2009: 389). Because of this reason, it is possible to state that rural industrialization was achieved by the help of geographical advantage and advanced human capital and the advantageous consequences of the open-door policy has played a role in China's success in rural reforms only with the combinations of these two factors (Bramall, 2009: 382-385).

...the development of rural industry, the Third Front programme of defence industrialization, the sending-down programmes of the late 1960s and the expansion of education all played important roles in developing human capital and hence underpinning productivity growth in the 1980s and 1990s. The China of the late 1970s was thus far better able to generate rapid industrialization than it had been in the late 1940s. The clearest indication of this is the extraordinarily rapid growth of rural industry, a development which owed remarkably little to exports or to foreign technology.<sup>91</sup>

It is also pointed out that the foreign enterprises did not have the tendency of transferring technology and selling their products in the Chinese markets.<sup>92</sup> Hence, it is also possible to state that the technological progress inherited from the Maoist era have played a more important role than the technology brought by the foreign investors in China's economic success in the first half of the reform period. Hence, the conditions of the domestic economy were more important and it is not possible to

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<sup>91</sup> Bramall C., *Chinese Economic Development*, Routledge, London and New York, 2009, p.385.

<sup>92</sup> Especially, it is mentioned that the investment of the US firms was limited which meant that the transfer of the best technology was also limited (Bramall, 2009: 384).

view the increasing exports and FDI as the motor of the Chinese economic growth at the beginning of the reform period (Bramall, 2009: 389,391). On the other hand, it is not correct to claim that the open-door policy had no contributions to the success of the Chinese economy as much as it is misleading to ignore the role of the Maoist inheritance. As a consequence of the considerable increase in the volume of trade and the FDI, foreign reserves of China also increased dramatically. The increase of the foreign reserves was desired by the Chinese leadership as mentioned above in order to finance the imports of the capital goods and technology; however it is important to mention that this increase also meant that foreign capital had become an important factor of China's economic growth (Aiguo, 2000: 133-135).

Yet, apart from the still controversial question of whether the special economic zones as such have proved their economic worth, which is to say, whether they have generated more capital than the Chinese state has invested in their construction, there can be little doubt that Deng's "open door" policies in general have yielded most of their anticipated economic benefits: the influx of foreign capital to finance industrial enterprises and various other modernization projects, the alleviation of chronic shortages of foreign exchange, greater access to the advanced scientific and industrial technology of Japan and the Western countries, and employment for Chinese workers who would otherwise be unemployed.<sup>93</sup>

On the other side, the open-door policy also gave rise to some problems. At the beginning of the opening process, China mostly experienced trade deficits; because its imports of capital goods needed for furthering the economic development exceeded its exports of raw materials and light industry products. In other words, the open-door policy caused some degree of dependence of China and its economic development on the international markets. In addition to this, it is also important to mention that the open-door policy transformed China from a debt free country to a debtor country. Because of these problems, it is pointed out that giving up the self-reliance principle gave rise to new forms of tensions in the Chinese society, since this decision has played an important role in the increasing inequalities (Meisner, 1999: 459).

The open-door policy was fruitful in transforming China to an exporter of manufactured goods in the first part of the reform period (Aiguo, 2000: 128). Obviously, the most important characteristic of these manufactured goods was that they were produced by labor-intensive methods in line with China's comparative

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<sup>93</sup> Meisner M., *Mao's China and After*, History of the People's Republic, The Free Press, New York, 1999, pp.457-458.

advantage. As a consequence, the Chinese labor market became dependent on the world division of labor and new relations between capital and labor emerged in China and these consequences became other sources of the existing and the new kinds of inequalities (Aiguo, 2000: 136-137).

### **4.3. The Flourishing Social and Economic Problems**

In the mid-1980s, the Chinese economy began to experience some social and economic problems as a consequence of the reforms. As the most important economic problem, the money supply increased considerably and as a consequence the inflation rate reached double-digits. As expected, the economic problem of high inflation turned out to be a source of social unrest. A Chinese housewife commented as follows: “My mother says that ten years ago China was in chaos, but Mao kept prices stable. She says now China is stable, but prices are in chaos”<sup>94</sup> (Baum, 2011: 364). On the other hand, the Chinese government was decisive on the price reform and ready to pay the costs of inflation as mentioned above. Undoubtedly, another source of the social unrest at the beginning of the reform period was the rising corruption which was mainly caused by the dual character of the Chinese economy standing between the market economy and the centrally-planned economy (Baum, 2011: 365).<sup>95</sup>

As a consequence of these problems, the debates appeared in the mass media, which were created by the conservatives on the emerging bourgeois liberalism in China as a consequence of the reforms and its deficiencies. Within this perspective, especially the open-door policy and the establishment of the SEZs were strictly criticized. They argued that the economy had been opened up to the dangerous impacts of global capitalism and the national sovereignty is sold to the foreigners (Baum, 2011: 373). As a response to these criticisms, Deng declared that “a little capitalism” would have not been harmful and there would have been tolerance to private enterprises in order to realize the target of catching up the developed

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<sup>94</sup> *Los Angeles Times*, 4 February 1985, cited in Baum R., “The Road to Tiananmen: Chinese Politics in the 1980s” in *The Politics of China-Sixty Years of The People’s Republic of China* edited by Roderick Macfarquhar, Cambridge University Press, New York, 2011, p.364.

<sup>95</sup> While corruption is seen as one of the most important problems of an economy, there has been a discussion on the point that some degree of corruption would have a positive impact at the beginning of a process of economic development. Similarly, it is also argued that corruption experienced by China at the beginning of the reform period played an important role in the Chinese capital accumulation process (Meisner, 1999: 458).

countries, while there would be no concerns regarding the state ownership since the basic sectors in the Chinese economy would stay in the hands of the state (Baum, 2011: 369). The overview of the SOE reform in Chapter 5 indicates that Deng was right regarding the sustaining state ownership in the Chinese economy.

Beside the ideological and political debates, the reforms had important social consequences. As mentioned above, the abandonment of the commune system and the establishment of the household responsibility system brought some important social consequences to China, which signaled the newly establishing social and economic structure in the countryside as a consequence of the reforms. Most importantly, the abolishment of the communes meant that the power of the local authorities increased in relations to not only local people, but also the central government. It is correct that the income levels in the rural areas increased as a consequence of the reforms; however local people were injured by the shift of the welfare services which were performed by the communes to private suppliers. These transformations formed the basis of the capitalist relations and the emergence of different social and economic groups in the countryside. One of the most important causes of this fragmentation was the fact that entrepreneurial activities gained more importance than farming in China's countryside. The ones who took part in entrepreneurial activities turned out to be the immediate candidates of being a member of the newly emerging rich rural bourgeois class in line with the statement of "some must get rich first" of Deng. On the other side stood the less skilled and less-entrepreneurial minded peasants and workers (Meisner, 1999: 462-463).

Deng's statement has turned out to be the basis of the "the official rationale for growing inequality" contrary to the view of the "relatively homogeneous, egalitarian, immobile and vertically organized" Chinese society of the Maoist era (Meisner, 1999:463). Building on this basis, "rural development and growth began to depend on diversification, specialization, the application of science and technology, greater inputs, and the creation of market niches" as the reform period progressed (Aiguo, 2000:131). In addition to the rural reforms, the urban reforms also played an important role in the social transformation of China as mentioned above. The initial steps of the SOE reform in the manner of granting autonomy to the factory managers meant that the workers faced the threat of declining wages and unemployment; because the factory managers mainly concentrated on increasing the profits since

they were afraid of going bankrupt which was experienced by a number of enterprises (Baum, 2011: 416-417).

As mentioned above, the migrant workers have also been one of the significant social problems of China which rose in the first decade of the reform period. The employment opportunities in rural areas decreased as the rural reforms progressed and labor migration to urban areas became widespread. The migrants have not gained a favorable social status in the cities. They were not welcome and they were even not able to find a permanent job. As a consequence, beggary and crime increased dramatically in the cities.

Perhaps of greatest popular salience is the number of peasants who migrate from the rural areas to the cities, which has now reached some 20 million a year. The spectacular growth of rural incomes that typified the early part of reform began to slow in the mid-1980s. As the terms of trade began to tilt increasingly in favor of the cities and as the impediments to migration began to disappear, an increasing number of peasants began seeking work, temporary or permanent, in the cities. In recent years, this flood of migrant workers has begun to overwhelm urban resources and to accelerate urban crime. The result has been intense urban hostility toward these newcomers, and demands that national and local authorities take measures to stem the tide.<sup>96</sup>

The social problems which emerged in China in the first half of the reform period would make the social scientists and the economists identify a very important point once again that the increasing records of the grand macroeconomic indicators such as the GDP growth and the increase of per capita income is not enough to talk about a development of a country. A developed country would share the benefits generated as a consequence of an economic growth to the majority of its population, rather than increasing the width and types of inequalities as in the case of China.

#### **4.3.1. Tiananmen Events (1989)**

The unrest among the different sections of the Chinese society rose in 1988 as a consequence of the economic and social problems. In the first half of this year, the students organized a number of protest demonstrations in different cities as they complained about high living and education costs. The urban residents also had similar problems, for instance the plans of the Chinese government to privatize housing meant that the urban residents had to pay higher amounts for rents in

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<sup>96</sup> Fewsmith J., "Reaction, resurgence, and succession: Chinese politics since Tiananmen" in *The Politics of China-Sixty Years of The People's Republic of China* edited by Roderick Macfarquhar, Cambridge University Press, New York, 2011, pp.524-525.

addition to the higher prices of foods. The problems of the workers which rose as a consequence of the initial steps of the SOE reform were mentioned above.

Deng might well have been concerned, for a new and potentially troublesome element was now being added to the equation of student protest: working class involvement. On 20 April, a newly formed (and somewhat obscure) “Beijing Workers’ Federation issued a public manifesto blaming “dictatorial bureaucrats” for social ills ranging from soaring inflation and sharp drop in urban living standards to “expropriating the minimal income of the people for their own use.” The manifesto further exhorted the citizens of Beijing, specifically including police and firemen, to “stand on the side of the people and justice” and not become “tools of the people’s enemies.” “We the working class of Beijing,” the manifesto concluded, “support the just struggle of the college students across the nation.”

Between 22 and 25 April, students in several Chinese cities, organizing themselves into autonomous unions, launched protest of various types. In Shanghai, Tianjin, Nanjing, and Wuhan, as well as in Beijing, citywide boycotts of classes were initiated. In Beijing, a Students’ Autonomous Federation (BSAF) was established on 26 April at a meeting attended by 2,000 students from ten universities.<sup>97</sup>

The social unrest continued to increase in 1989 and gave rise to the Tiananmen events followed by the Tiananmen massacre in the middle of the year. On 27<sup>th</sup> of April, the number of the people gathered to march to the Tiananmen Square reached 100,000 and the process of struggle and resistance of this mass continued until 4<sup>th</sup> of June (Baum, 2011: 438). The consequence was a kind of social and political disaster which unfortunately ended with the death of millions of people.

The students and the intellectuals gathered in the Tiananmen Square mainly because they demanded political reforms granting freedom of expression, freedom to the press and other democratic rights. Workers and ordinary citizens accompanied them in order to indicate their disturbance from the economic and social problems which emerged in China as a consequence of the reforms, most importantly inflation and corruption (Fairbank and Goldman, 1998: 425).

Although the military crackdown and subsequent persecution and imprisonment of the demonstration’s leaders revealed how little the leadership and the political structure had changed, the demonstrations that provoked the crackdown made clear how much Chinese society had changed. The loosening of political controls, opening to the outside world, greater freedom of thought and expression, and priority given to improving the standard of living of the majority of the population had led to demands, not just of intellectuals but of workers, entrepreneurs, and ordinary urban residents, to be treated as citizens rather than as obedient party comrades and passive subjects. Moreover, for the first time in the People’s Republic ordinary citizens participated with the students in joint

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<sup>97</sup> Baum R., “The Road to Tiananmen: Chinese Politics in the 1980s” in *The Politics of China-Sixty Years of The People’s Republic of China* edited by Roderick Macfarquhar, Cambridge University Press, New York, 2011, p.436-437.

protests, even though students initially tried to keep them out. Nevertheless, June 4, 1989, marked the end of public political dissidence. Though weakened, the Leninist structure still functioned and party leaders could suppress any direct challenge they saw as a political threat. Earlier, after each campaign in the 1980s, political dissidents had resumed publicly expressing their views, some even more strongly than before, after brief periods of silence. Because the party had restrained its power, victims were no longer afraid to speak out. After June 4, however, outspoken establishment dissidents as well as political activists were imprisoned, silenced, or exiled abroad.<sup>98</sup>

The consequences of the Tiananmen events have a continuing impact on China even today, while the problems which caused these events also remained to be unsolved. The response of the Chinese leadership to the Tiananmen events is critically explained as a return to the violence of the Maoist era. On the other hand, it is interesting to see that some of the authors, who point out the need to accompany the economic reforms by political reforms, do not view these events that much severe and attempt to compare its consequences with the consequences of the Cultural Revolution in order to assess that Tiananmen events did not cause a large-scale repression (cf. Fairbank and Goldman, 1998: 410).

The Chinese political environment after the Tiananmen events would be seen to be similar to the upheaval years of the Maoist era. Thousands of members were overthrown from the Party because of taking part in the events or helping democratic activists. Among these, Zhao was punished to a permanent house arrest; because he was found to be guilty of encouraging the events. Intellectuals lost the little autonomy that they gained in the 1980s and the newspapers again turned out to be the organs of the Party (Meisner, 1999: 515).

All great revolutions inspire millenarian visions; few ultimately deliver the goods. So it was with Mao's original revolution, which exhausted itself in the course of two grandiose, and ultimately hugely destructive, experiments in human social engineering: the Great Leap Forward and the Great Proletarian Cultural Revolution. Now, it seemed, Deng Xiaoping's "second Chinese revolution" had also reached a point of near-exhaustion, running out of fresh ideas and of people to implement them.<sup>99</sup>

The most important consequence of the Tiananmen events was that they brought all the political, economic and social problems of China and its transition to the

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<sup>98</sup> J. K. Fairbank, M. Goldman, *China A New History*, The Belknap Press of Harvard University Press, England, 1998, p.426.

<sup>99</sup> Baum R., "The Road to Tiananmen: Chinese Politics in the 1980s" in *The Politics of China-Sixty Years of The People's Republic of China* edited by Roderick Macfarquhar, Cambridge University Press, New York, 2011, p.467.

surface. These events mainly indicated that the Chinese society began to question the reforms, the social transformation caused by the reforms, and indirectly the leadership of Deng (Fewsmith, 2011: 468-469). This is exactly why the events faced such a severe reaction from the Chinese leadership.

#### **4.3.2. The Southern Tour**

Despite the economic, political and social problems, China entered the 1990s with great economic success and even became the second-largest recipient of FDI in the world after 1993. It was also seen that the market economy began to gain dominance over the command economy in the early 1990s, especially after Deng's Southern Tour in January 1992 (Fairbank and Goldman, 1998: 414). As experienced by the other developing countries, the market economy also brought its problems to the Chinese economy. The Chinese economy experienced a combination of inflation and recession in the second half of the 1980s as the market-oriented policies were adopted. A fall in the economic growth was also experienced which was mainly caused by the measure of fiscal and monetary contraction taken to deal with inflation. Expectedly, these economic problems turned out to be the source of social unrest and political problems, most importantly the Tiananmen events as presented above (Bramall, 2009: 352). On the other hand, it is seen that the Chinese leadership managed to solve the economic problems. Inflation was taken under control and the growth rate was recovered at the beginning of the 1990s. Higher growth rates were recorded in the years following Deng's Southern Tour in 1992 (Meisner, 1999: 515-516).

In the autumn of 1989, Deng gave up his official position and was replaced by Jiang Zemin. On the other hand, he remained to be the most important political figure in China, although there were opponents to his reforms and he continued to intervene the political matters as Mao did in the past. The reflections of his Southern Tour after three years that he left his official position would be seen as one of the best indicators of his continuing influence. It is generally accepted that this tour has transformed the nature of China's reform process. This transformation mainly stemmed from Deng's emphasis on the need to accelerate economic development and to continue market-oriented policies as he declared in the cities and the SEZs he visited during the tour. It is seen that this emphasis turned out to be the official policy after the tour.

It is pointed out that Deng was aware of securing the power and the legitimacy of the CCP in an international environment where the Soviet Union experienced dissolution and the US gained a victory in the First Gulf War (1990-1991) and this emphasis on furthering economic development through concentrating on the market-oriented reforms would have been caused by these concerns (cf. Bramall, 2009: 352). It would be correct that Deng was anxious about these international developments and it is also correct that his main intention was ensuring the legitimacy of himself and the CCP; however it is better explain his emphasis during the Southern Tour as the signal of the expected progress in the way of establishing market economy.

The efforts to open up the Chinese economy and speed up the market-oriented policies following the Southern Tour brought the WTO membership as a realistic option for China (Bramall, 2009: 331). There were a number of regulations and arrangements made in this direction. Foreign banks and investors were invited to China. The target was making especially Shanghai, the trade and finance center of East Asia (Mesiner, 1999: 516-517). Some of the state enterprises were allowed to issue stocks to be bought by institutions or individuals.<sup>100</sup> The state enterprises were also allowed to participate in foreign trade by their own decision. In addition to these liberalization policies, the introduction of labor mobility was an important step in the establishment of a free labor market in China in the period following the Southern Tour (Fairbank and Goldman, 1998: 414-416).

It is possible to view Deng's Southern Tour as the beginning of the acceleration of the capitalist development of China and hence it is also possible to view this tour as separating the two sub-periods of the reform period. The first official regulations in line with the emphasis of Deng during the tour were made in the Fourteenth Party Congress which was held in October 1992. The decisions taken in this Congress, which included most importantly the target of establishing socialist market economy, were the most liberal decisions that have ever taken by the CCP. This Congress has been viewed to be the personal political triumph of Deng whose policies and reforms had been criticized since the Tiananmen events. In line with this, the agenda of the Congress also included the cadre changes in the main decision-making bodies of

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<sup>100</sup> Two stock markets were established in Shanghai in 1990 and in Shenzhen in 1991, although these stock markets cannot be viewed in the manner of the Western stock markets, since most of the transactions in these stock markets have been manipulated and based on wrong information. It is known that the Chinese state used these stock markets to raise revenue for government spending (Bramall, 2009: 414-415).

China (Fewsmith 2011: 501-502). In this regard, it is pointed out that these important political cadres were replaced by young college graduate engineers who were loyal to Deng. This replacement also signaled the beginning of “the technocratic rationalization of bureaucratic rule” in China which marked the following years. The triumph of Deng was completed by the introduction of “Comrade Deng Xiaoping’s theory on building socialism with Chinese characteristics” at the beginning of the term of the Eighth National People’s Congress (1993-1998). Not surprisingly, these developments which did not include a political reform in the understanding of the West were not criticized by the Western commentators. The Western media which criticized Deng severely during the Tiananmen events celebrated him for opening the way of modern and capitalist development of China in the period after his Southern Tour (Meisner, 1999: 518-519).

The Third Plenary Session of the Fourteenth Central Committee which was held between the 11<sup>th</sup> and 14<sup>th</sup> November 1993 purposed to set a new reform program in order to ensure that the target of building socialist market economy would have been realized. This new reform program mainly included the SOEs, the banking system, the tax system and the foreign exchange system. With the tax reform, it was mainly targeted to increase the share of the tax revenues in the national income and also to increase the share of the tax revenues received by the central government compared to the local governments. It was also decided that the foreign exchange rates would have been unified and the regulations would be made in order to ensure the free convertibility of the foreign currencies to renminbi. These decisions taken at the Third Plenum, while the ones regarding the SOE reform are presented in Chapter 5, would be seen as the measures taken in order to redefine the role of the Chinese state through making the necessary adjustments in the economy which was in transition to a market economy (Fewsmith, 2011: 509-513).

The plenum adopted a sweeping fifty-point “Decision on Some Issues Concerning Establishment of a Socialist Market Economic Structure.” The decision called for “changing the operating mechanism of state-owned enterprises and establishing a modern enterprise system” through the authorization of diverse forms of state, corporate, collective, and private modes of ownership and operation. It also called for steps to alter the state’s traditional role in guiding the economy through direct bureaucratic command in favor of indirect fiscal and monetary levers, laying out complementary reforms in the banking, fiscal, and foreign trade systems, and it authorized compensatory steps

to create a social security system to replace the former social welfare functions of the state-owned enterprise system.<sup>101</sup>

As mentioned above, Deng received the admiration of the West with his market-oriented policies after the Southern Tour. On the other hand, these policies immediately brought the expected economic and social problems again. The inflation which fell at the beginning of the 1990s was recorded to be 24 percent in 1994 in addition to the increasing corruption. The austerity program implemented to decrease the inflation by Zhu Rongji who was the Head of the Central Bank was stopped by Deng as the program turned out to slow the economic growth rate. On the other hand, Zhu's strict fiscal policies turned out to give its fruits and the inflation rate decreased to 6 percent in 1996, while the growth rate remained around 10 percent. Zhu did not gain credits only in China as a consequence of this policy success, but he also received the admiration of the international banking community and the Western media (Meisner, 1999: 519-520). As a consequence, it is possible to state that the macroeconomic stance of China during Deng's rule was good, especially when compared to the previous periods.

For all that, the years of Dengist rule were an era of great stability when contrasted with the convulsions of the Great Famine and the Cultural Revolution, or when set against either the catastrophic events of 1937–45 or the warlordism of the 1920s and early 1930s. During 1989–90, for example, all that happened was that the growth rate slowed down. There was no collapse in output such as was experienced in (say) the West during the Great Depression of the 1930s, or across the former Soviet Union in the early 1990s. China's record was hardly ideal, but one would be hard to put to argue that it did not mark a substantial improvement.<sup>102</sup>

On the other side, it is seen that China's record in human development lacked behind its economic growth since 1978, although the indicators turned out to look like closer to those of a middle-income country by the mid-1990s (Bramall, 2009: 462). It is pointed out that the fall in the illiteracy rate was not remarkable, although the performance on mortality reduction was better. The performance in reducing the rural poverty was not good despite the rural industrialization, indicating that generally non-poor rural residents have benefited from the industrialization in the rural areas. It is mentioned that the main problem was that the Chinese state had

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<sup>101</sup> Miller A., "Dilemmas of Globalization and Governance" in *The Politics of China-Sixty years of The People's Republic of China* edited by Roderick Macfarquhar, Cambridge University Press, New York, 2011, p.535.

<sup>102</sup> Bramall C., *Chinese Economic Development*, Routledge, London and New York, 2009, p.441-442.

generally viewed poverty as a geographical problem, rather than as a problem of the transition process. It is also seen that China became acquainted with urban poverty as another problem of the transition process. As a consequence, it is unfortunately possible to claim that the worst performance of the Chinese leadership in the first sub-period was in decreasing the inequalities in income, consumption and access to education as a general characteristic of any transition to a market economy (Bramall, 2009: 442-461).

In sum, much of the praise lavished on the market socialist model as implemented by the Dengist regime is undeserved. The growth rate of GDP accelerated – but the favourable inheritance from the Maoist era and the benign international environment made such acceleration all but inevitable. The decline in absolute poverty looks spectacular – but only if we ignore trends in the urban sector and if we exaggerate (as the CCP has consistently done since Mao's death) the extent of rural poverty in the late 1970s. It simply does not make sense to suppose that the vast majority of the rural population could have been living below the absolute poverty line when average life expectancy stood in the mid-sixties. On the debit side of the ledger, the Dengist regime presided over an unparalleled increase in income inequality, and one which brought little demonstrable benefit in terms of more rapid growth. As for the regime's record on human development, the best that can be said is that it was patchy. With GDP growing rapidly, China's dismal record on education and mortality deserves to be castigated. It says much about the literature that it has focused so much on growth and so little on these wider failures.<sup>103</sup>

It is obvious that how development would be identified is a complex issue which has been discussed within a wide literature for a long time and it is not possible to present such a discussion within the dissertation. On the other hand, it is important to emphasize once more the understanding of development which is adopted here within the explanation of the “Chinese miracle”. To say that a country is developing, the progress in the macroeconomic conditions of a country would be accompanied by the improvement of the human development indicators and also decreasing inequalities in the society.

### **4.3.3. Chinese Capitalism**

The most popular debate regarding China's reform experience is whether China has established a capitalist economy or has represented an alternative to capitalism as mentioned above. It is possible to say a few words on this debate as a consequence of the reforms implemented in the first sub-period. The reforms of the first sub-period which are outlined briefly above have played an important role in the

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<sup>103</sup> Bramall C., *Chinese Economic Development*, Routledge, London and New York, 2009, p.464.

introduction of capitalist elements into the Chinese economy, the spreading capitalist relations, the emergence of a new capitalist class, and hence the transforming state-economy and state-society relations in China. In other words, capitalist relations have been established in China gradually in line with the gradual character of the reforms since the beginning of the reform period and secured its position towards the mid-1990s. The Chinese transition state took its responsibility of functioning for the establishment of capitalist mode of production in China. On the other hand, the official discourse of the Chinese leadership has never been based on the establishment of a capitalist system, even Deng's speeches during the Southern Tour. Before the reform period began, Deng pragmatically defended the upcoming reform policies with the Chinese characteristics as follows.

Who decides which of the classic international principles of communism are applicable to China? The Seventh National Congress of the Chinese Communist Party, held 11 years ago, laid down the following principle: we shall integrate the universal truth of Marxism and Leninism with the concrete practice of the Chinese revolution as a guide for our country's revolution and development. This principle, formulated by our Party and Comrade Mao Zedong on the basis of the experience of failure and success in revolution, was affirmed at the Seventh and Eighth Party Congresses. Naturally this is just a principle and many specific problems may still crop up when it is put into practice. A country has to confront many types of problems. Whether it be during times of revolution or economic development, integrating Marxism-Leninism with the specific conditions of the time is a question that requires a constant search for solution. This question should be discussed and solved at Party congresses. When the congress is not in session, it is up to the Party Central Committee to deliberate and decide on it. Once a decision has been made, we need Party members to carry out the decision in practice, so first of all, tens of hundreds or even hundreds of thousands of backbone members will need to have a good grasp of the principle before it can be implemented.<sup>104</sup>

It is not difficult to understand these efforts of Deng and the other Party leaders on explaining the reform process as passing through the primary stage of socialism, since they purposed to ensure the legitimacy of the Party and sustain its rule as mentioned above. On the other side, discourse is not enough to prevent the flourishing capitalist relations in China. Bruce Dickson is right to label the members of the new Chinese capitalist class as "red capitalists", because they have stemmed directly from the Party or have had close personal and political ties to its members. By the time, it is seen that the red capitalists also began to transform their economic

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<sup>104</sup> Deng X., "Integrate Marxism-Leninism with the Concrete Conditions of China", Selected Works of Deng Xiaoping, Vol.2., May 29, 1975, available at <http://dengxiaopingworks.wordpress.com/2013/02/22/integrate-marxism-leninism-with-the-concrete-conditions-of-china/>

power to political power (Dickson, 2003:4-5). As a consequence of the development of such relations, capitalism which has entered China gradually has become irreversible.

In the late 1980s the economy passed through a series of rather quick boom-and-bust cycles, and the urban population experienced the painful and unsettling vicissitudes typical of an early capitalist regime. Growth rates in industrial production remained high, but so did inflation and government budgetary deficits. By the end of the first decade of the Deng regime-even though “socialist market economy” was its official designation- few could seriously doubt that an essentially capitalist economy had been fashioned in the cities of China. A free market in labor had been created, and only a shrinking minority of workers clung to the “iron rice bowl”; administrative controls had been removed over the prices of many commodities, which now fluctuated in accordance with market conditions; and most economic units operated in accordance with the capitalist principle of enterprise profitability. All that was lacking was formal, legal private ownership of property. But if China had become essentially capitalist, it was a special kind of capitalism,...

This kind of capitalism is identified as bureaucratic capitalism which is common in the world among the developing countries. As a consequence of the strategic selectivity of the Chinese state under the conditions of transition, the state functioned in the emergence of the capitalist class from its bureaucracy in the reform period, since the Chinese bourgeois class was eliminated during the Maoist era. Many conservative Party members and bureaucrats were against the market-oriented reforms at the beginning of the reform period as mentioned above, partly because of ideological reasons, but most importantly they were afraid of losing their power and privileges. On the other hand, they saw that they also have the chance of receiving personal gains from the introduction of the market mechanisms into the Chinese economy as the reforms were performed and progressed (Meisner, 1999: 475). For instance, local cadres found themselves easily benefiting from the household responsibility system in the manner of reserving the best lands to the Party cadres, their children or other relatives. In the same manner, the local cadres also played such a role in the creation of private enterprises in the countryside and some of them even turned out to be the owners of the enterprises. Urban bureaucrats also benefited from the reform policies, especially from the dual-track price system which created a black market in the cities. In such an environment, the urban cadres had the chance of buying cheap at state prices and selling expensive at the prices determined by the

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<sup>105</sup> Meisner M., *Mao's China and After, History of the People's Republic*, The Free Press, New York, 1999, p.474.

market (Meisner, 1999: 476). It is also pointed out that similar gains were received by the cadres also through the trade liberalization policies. Hence, Party members, bureaucrats, their children and relatives received important benefits from the dual-track character of the Chinese economy created by the market-oriented reforms, especially in the first half of the reform period.

The lead was taken by the middle-aged sons and daughters of the highest leaders of the Communist Party, including the children of Deng Xiaoping and Premier Zhao Ziyang, who used their political influence to play lucrative comprador roles. Operating in the coastal cities and the special economic zones, they brought together foreign capital and the Chinese market, receiving handsome commissions for arranging deals between foreign firms and state trading organizations. Beginning as influence peddlers, they soon established their number evolved into international financiers and investment bankers, sometimes establishing ties with huge capitalist conglomerates in Hong Kong and elsewhere. Some of the wealth that they acquired by virtue of the political power and influence of their families no doubt went into luxury and overseas investments, but most of the capital they accumulated appears to have been profitably invested in China itself, helping to finance the extraordinary growth of the Chinese economy in the late 1980s and the 1990s. The “crown princes and princesses,” as the entrepreneurially-minded and avaricious sons and daughters of the Communist ruling elite were called, became the most prominent symbols of the official profiteering and corruption that overwhelmed the Communist bureaucracy in the late 1980s -and provoked the profound popular disgust with the Deng regime that found political expression in the Democracy Movement of 1989.<sup>106</sup>

These beneficiaries formed the basis of the new bureaucratic capitalist class in China. It is not possible to claim that this class had actually a class consciousness at the beginning within itself or in relation to the other lower classes. Although their investments played a crucial role in China’s economic growth, their undeserved gains and privileges represented another appearance of the deepening inequalities in China in a competition with the other capitalist centers in the world (Meisner, 1999: 477).

It is also pointed out that this newly emergent class in China has not been an independent bourgeois class as in the Western experience, since it is a class created by the Chinese state and consists of state bureaucrats and their relatives. This means that this class depends on the state and the interests of the state officials and this has been the cause of the fact that the emergence of this class has not brought the emergence of democracy in China (cf. Meisner, 1999: 478-479). Regarding this analysis, it is important to point out that this kind of a relationship between the

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<sup>106</sup> Meisner M., *Mao’s China and After, History of the People’s Republic*, The Free Press, New York, 1999, p.475-476.

capitalist class and the state is present in different forms of the capitalist state as presented in Chapter 2. It would be better to state that there is more interdependency between the state and the emerging capitalist class in the Chinese case, or better to say in the latecomers to the capitalist system. This relationship would be seen as a consequence of the efforts of the remaining ruling class after being filtered from the ones who were loyal to the Maoist principles strictly under Deng's rule to sustain its political dominance and to gain economic dominance under the conditions of transition.

As a consequence, the Chinese society has become “fragmented and fragmenting” in the words of Gordon White contrary to the egalitarian character of the society during the Maoist era (Fairbank and Goldman, 1998: 436). It is possible to claim that, this new social order based on the transforming state-society relations has damaged especially the Chinese workers who worked in the state sector, because of the deterioration of their life standards as a consequence of the decline in their wages and the loss of welfare services. In addition to the worsening conditions of the workers, widening urban-rural gap and the new gap between the inland and the coastal areas stood as significant social problems in China which stemmed and widened as a consequence of the establishing capitalist relations throughout the 1990s (Fairbank and Goldman, 1998: 434-436).

#### **4.4. Deng's Death**

Deng who was not able to meet public in his last three years because of his Parkinson disease, died on February 19, 1997. He was the last old revolutionary of China, whereas possibly he will mostly be remembered as the father of Chinese capitalism whether he had such an intention or not (Meisner, 1999: 520-521). He passed away with his military and Party connections, and with his specific role in the world history as well as in China's history. It was seen that Jiang lacked these properties and had to pay efforts to establish. Jiang Zemin and his successors did not possess the charisma and the historical significance of Mao and Deng (Fairbank and Goldman, 1998: 454).

China at the time of Deng's death looked very different from China he inherited from Mao. In this twenty years, China had been decollectivized, decentralized and became open to the rest of the world. Light industry gained priority and developed especially in rural areas. The state gave up controlling prices and let

them to be determined by the market. Despite this transformation, it is not possible to state that a full market economy was established in China at the beginning of the 1990s, since property rights were not securely identified, the tariffs on imports remained and the state ownership in the industrial sector continued. As a consequence, it is possible to view the system in China left by Deng as a hybrid system that is a socialist market economy in parallel to the official discourse of the Chinese government, combining the characteristics of a market economy and a planning economy (Bramall, 2009: 355).

On the other hand, Deng's death is generally presented as the beginning of a new era within China's reform period, and it is possible to view as the beginning of the second sub-period if it is not the Southern Tour. In this new era, the gradual character of the reforms was eliminated and the market-oriented reforms were accelerated (Bramall, 2009: 325). As mentioned in Chapter 2, one branch of the statist-institutionalist approach and the new institutionalist approach emphasize that the acceleration of the reforms in this way under the absence of the necessary institutional structure has caused state weakness in China.

...Without a Deng-like paramount leader or strong political institutions, the weakening capacities of the party-state and the accelerating shift of political power from the center to the regions and local areas continued to erode the center's authority, developing further the informal federalism that had emerged in the 1980s. Without the establishment of new political and civil institutions to tie the local areas to the center, this centrifugal trend was likely to accelerate. The paradox of the post-Mao era was that an expanding, dynamic economy undermined the authority of the political leaders and political structure that had made the economic reforms possible. With only limited political and legal reforms, there was an increasing dichotomy between China's economic growth and the increasingly fragile party-state, with outdated institutions and unheeded rhetoric about centralized control. As long as such contradictions persisted, China would continue to be haunted by the specter of political instability.<sup>107</sup>

Within the statist-institutionalist and the new-institutionalist perspectives, it is also pointed out that Deng's death was a factor of weakening the capacity of the Chinese state, specifically because the personal rule of Deng was not institutionalized (cf. Fairbank and Goldman, 1998: 426-427). Such an explanation is based on the expectation that the power would have been institutionalized in China as it has been in the West through a Western-style legal system and democratization.

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<sup>107</sup> J. K. Fairbank, M. Goldman, *China A New History*, The Belknap Press of Harvard University Press, England, 1998, p.431.

Thus, the question that remains as we assess Deng's legacy is whether he has created conditions that will allow the next generation of leaders to tackle the problems of China's political system that he himself did not resolve. From the vantage point of the present it appears that he has not. Deng accomplished many things in his eighteen years at the top of the political system; alas, institution building was not one of them.<sup>108</sup>

It is correct that such an expected institutionalization was not experienced in China; however it is questionable whether this fact gave rise to the weakness of the Chinese state. The Chinese state is still strong after three decades of the reform period when its relations with the economy and the society are taken into consideration. These explanations mainly stem from the expectations that China would follow the Western methods in its political and social restructuring as mentioned above. Although it is not the main point to be mentioned within the dissertation, it would be accepted that the Chinese state has been good at finding new methods, mostly non-Western methods, in order to reproduce its capacity.

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<sup>108</sup> Fewsmith J., "Reaction, resurgence, and succession: Chinese politics since Tiananmen" in *The Politics of China-Sixty years of The People's Republic of China* edited by Roderick Macfarquhar, Cambridge University Press, New York, 2011, p.527.

## CHAPTER 5

### SOE REFORM AND THE CAPITALIST CHINESE STATE

#### 5.1. Introduction

The contributions of Mao Zedong to China and the Chinese society were vital, most importantly the role he played in ensuring the independence and the national unity of China, industrialization of the country and building a new social order in China based on the principle of egalitarianism. Unfortunately these successes of the Maoist era brought some costs accompanied by a one-party regime which was getting more and more complex under the conditions of a country which was isolated from the rest of the world. It is important to view the failures of the Great Leap Forward and the Cultural Revolution within this perspective. On the other hand, it is also important to view that these failures had prepared the conditions for Deng Xiaoping, who had the seeds of the capitalist reforms in his mind, to take the power in 1978 through taking the support of the different sections of the society who were injured by the Cultural Revolution. In other words, the reform process which began in the late 1970s would be seen as a consequence of the political and social polarization and the economic deficiencies which emerged during the Maoist era. In this regard, the supporters of Deng had different expectations; however it is not possible to state that the reforms have satisfied them all. On the other hand, it is certain that there were very important reforms in the agenda which have played a role in the transformation of the economic and social appearance of China and reforming the Chinese state enterprise system.

Reforming the Chinese state enterprise system has been one of the most vital reform areas in China since the beginning of the reform period; because of its social, economic and political consequences and also its relation with the other reform areas. SOE reform has played a crucial role in the transformation of the state-economy and state-society relations in China and in the emergence of the new Chinese class structure, although the neoliberal community has concentrated on how the reforms

have contributed to the neoliberal transformation of the Chinese enterprise system, which in turn played a role in the other reform areas.

Enterprise reform is arguably the central problem in the entire transition process. State-owned industrial enterprises were the core of the old command economy, and today the creation of effective, flexible, and efficient corporations is the crucial prerequisite to moving to a higher level of market economy, more productive and open to international competition. Yet so far China has produced only a handful of firms that approach international best practice in corporate governance. The firms on everyone's short list include Lenovo, the computer company; a few telecommunications equipment firms, Huawei and ZTE; and a few producers of consumer durables, such as Haier. These firms are well above the norm in Chinese industry and have developed impressive capabilities in a remarkably short time. But they are also a tiny minority, quite unrepresentative of Chinese industry overall.<sup>109</sup>

China's experience of SOE reform is also important when compared to the experiences of the other countries which have reformed their enterprise systems. China has followed a distinct way as it did not prefer to implement a privatization policy based on the shock therapy strategy like the post-communist countries and some of the other developing countries (Jefferson and Rawski, 1994: 47, Zhang, 2009: 20). This preference of the Chinese leadership was strictly criticized at the beginning; however the Chinese SOE reform has attracted the attention of the international community more when the Chinese SOEs have become successful in the sense of gaining global competitiveness (Zhang, 2009: 21).

SOEs constituted the most important element of the "work unit" (*danwei*) system in urban China under central planning. *Danwei* which was established in the 1950s and turned out to be a very complex welfare system in the 1960s included the provision of pension, housing and free medical care to the SOE workers. Most importantly, the system was based on life-time employment and hence provided these welfare rights for the whole life time (Gu: 2001: 131). The *danwei* system was based on egalitarian social concerns rather than the economic motives of increasing efficiency and profitability. In this system which was represented by the "iron rice bowl", the SOEs had a critical role as they first of all employed and provided the workers welfare services through the resources they received from the central government. SOEs constituted the backbone of financing the system as they transferred their profits to the central government, which were allocated by the central government according to the plan (Gu: 2001: 133).

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<sup>109</sup> Naughton B., *The Chinese Economy: Transitions and Growth*, The MIT Press, Cambridge, 2007, p.325.

In urban China, unlike in the Soviet Union and other state socialist countries, individual work units rather than organizations such as trade unions and local governments became the major providers of welfare services after the formation of the danwei-based welfare system in the 1960s. A Chinese SOE functioned as a mini-welfare state or a so-called 'small society' (xiao shehui) in China, and thus assumed in a somewhat paternalistic way the full responsibility of taking care of all the socio-economic needs of its employees (Leung and Nann, 1995: 56-7).<sup>110</sup>

At the beginning of the reform period, the main target of the SOE reform was increasing the economic performance of the SOEs through a gradualist strategy in order to ensure their contribution to the industrial growth and economic development. The gradualist strategy was preferred by the Chinese leadership because of several economic and social reasons. First of all, SOE reform was a difficult task, since SOEs were very large and they employed a great population of workers meaning that the reforms would have affected many (Jefferson and Rawski, 1994: 50). In addition to this, the gradualist approach was more rational for the Chinese leadership in any reform area; because it was clear that there were a number of uncertainties in the Chinese economy both in the production side and the demand side at the beginning of the reform period (Jefferson and Rawski, 1994: 65-66).

In order to solve the problems of the Chinese industrial sector and initiate the reforms; the initial measure of the Chinese leadership was the abandonment of the Third Front Program which was one of the main causes of the inefficiency in the industrial sector (Bramall, 2009: 404). Then, as one of the most important developments in the Chinese industry and also in the enterprise system at the beginning of the reform period, TVEs appeared in the countryside, which not only made the rise of rural industrialization in China possible; but also played a crucial role in the overall economic development. With their collective ownership structure, the TVEs also represented the initial appearance of the transformation of the Chinese enterprise system. It is also pointed out that the TVEs played a role in the creation of a competitive environment in the economy which increased the incentives of the SOEs to improve performance (Naughton, 2007: 275).

After achieving the rural industrialization, the Chinese leadership targeted to increase the performance of the SOEs in order to improve the efficiency of the

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<sup>110</sup> Gu E. X., "Beyond the Property Rights Approach: Welfare Policy and the Reform of State-Owned Enterprises in China", *Development and Change*, Vol. 32, 2001, pp.129-150.

industry. The challenge standing in front of the Chinese leadership was how to manage this target without appealing to privatization policies (Bramall, 2009: 407). The concern of the CCP on avoiding privatization continued until the mid-1990s; however the second half of the 1990s is mainly identified with the dominance of privatization policies. On the other hand, the Chinese leadership has concentrated on strengthening the state ownership in the selected strategic sectors since the beginning of the 2000s and especially after the global financial crisis in 2008.

In order to have a better understanding of China's SOE reform process and its contribution to the whole reform process, it would be a good way to overview the SOE reform within stages. With the purpose of having an understanding of the initial conditions of the Chinese enterprise system, this chapter begins with providing some brief information on the work unit system, and then the stages of the SOE reform and their consequences from the end of the 1970s to the early 2010s are presented.

## **5.2. Work Unit (*danwei*) System**

The work unit system which was implemented in China between the beginning of the 1950s and the mid-1990s was a public system managed by the party cadres which united the working conditions and welfare rights of the urban workers. Within this system, all urban residents were employed under the guarantee of life-time permanent employment in their work unit. It was nearly impossible for the workers to move to another work unit. In the same manner, it was also very unusual that a worker was fired from his or her work unit (Andreas, 2011:2). Hence, labor was not seen as a commodity and there was no labor mobility under the work unit system.

Also, there was not a private ownership system under the system of work unit. The factories and all the other means of production were public property. Rather than having private properties, workers worked under the work unit system which was directed and controlled by the bureaucratic hierarchy of the CCP with the life-time guarantee of employment, consumption and welfare services. This was a centralized system in which first of all the Chinese state and then the work units were responsible of feeding the population and providing employment to the workers, rather than concentrating on the capitalist motive of profit maximization (Andreas, 2011:3). In addition to their wages, the workers also received most of their consumption needs and welfare services related to their nutrition, housing, and health

care, education of their children, technical education and cultural facilities in the work units. They received pension when they retired and usually continued to live in the same work unit during the retirement (Andreas, 2011:2).

There were also inequalities among and within the work units in addition to the increasing urban-rural gap in the Maoist era; however these inequalities stemmed from the decisions of the Chinese state, rather than determined by the market. It is certain that the larger work units were better endowed than the smaller work units. On the other hand, there is a disagreement in the literature on the point whether there was an inequality within the work units. Some of the members within a work unit were identified as cadres including the political leaders, administrative and technical personnel, while the other members constituted the workers (Andreas, 2011: 8). Cadres were seen important for the functioning of the Chinese state and the CCP. According to one view, the importance of the cadres did not mean that they received special treatment and they were seen to be superior to the workers (cf. Andreas, 2011).

During the Mao era, the party compelled cadres to participate regularly in manual labor and to “eat, live, and work” with the masses (tongchi tongzhu tonglaodong). Despite difference in status and power, workers and cadres generally wore the same clothes, lived in the same apartment complexes, ate in the same cafeterias, and shared the same health clinics and other facilities. The absence of private property in the means of production, low wage policies, and harshly ascetic communist ethics prevented cadres from accumulating or displaying wealth.<sup>111</sup>

The opposite view asserts that the class struggle was never abolished during the Maoist era, at least between the ruled and the ruler. The relationship between the cadres and the workers who were actually deprived of the means of production is presented as the evidence of this fact (cf. Wu 2005). It would be accepted that it was not possible to eliminate all the inequalities although egalitarian concerns were dominant during the Maoist era and they played an important role in the formation of the class structure during the reform period. It is possible to see the ruling class of the Maoist era as forming the base of the ruling class of the reform period, although it has been filtered at the beginning of the reform period. On the other hand, dissolving the work unit system in China has deepened and changed the nature of the existing social inequalities during the reform period (Andreas, 2011: 7-10).

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<sup>111</sup> Andreas J., “Expropriation of Workers and Capitalist Transformation in China”, *China Left Review*, Issue 4, 2011, p.9, available at <http://chianaletreview.org/?p=477>

During the reform period, the work units have been transformed to capitalist enterprises through the policy of corporatization. In order to realize the most important capitalist target of maximizing profit, the transformed SOEs and the newly emergent private enterprises have turned out to be in a search of giving up their welfare responsibilities and they have been supported by the SOE reform policies of the Chinese government, giving rise to the formation of a new class hierarchy and new kinds of social inequalities in China (Andreas, 2011: 4-6). There were also some inequalities within and among the work units during the Maoist era as pointed out in Chapter 3; however it is certain that the replacement of the work unit system by the market economy has not eliminated these inequalities in China. Rather, the new class structure introduced new kinds of severe inequalities, while the existing inequalities such as the urban-rural gap deepened during the reform period (Andreas, 2011: 10). An overview of the stages of the SOE reform would provide the chance of have a better understanding of such consequences of the reform.

### 5.3. Periodization of the SOE Reform

In order to have a better understanding of the transformation process of China's enterprise system, one way would be evaluating the SOE reform in some stages. In this regard, it is possible to present the Chinese SOE reform since the end of the 1970s under four main stages in line with the reforms and regulations undertaken in this reform area. Table 5.1 presents the main characteristics of these four stages of the reforms implemented in China's enterprise system.

Table 5.1. Stages of SOE Reform in China

Years	Characteristics	Main Method
1978-1984	Expansion of SOE autonomy to make the SOEs independent economic entities having their own interests	Experimenting and slight legal regulations
1984-1992	Separation of operational rights from ownership rights through legal regulations	Contract Responsibility System (CRS)
1992-2003	Establishing Modern Enterprise System	Legal Regulations
	<b>1992-1997</b> In line with the target of establishing socialist market economy, emphasis on increasing the competitiveness of the SOEs	Competition Law (1993) Company Law (1994)
	<b>1997-2003</b> Creating a SOE structure for competitive market environment	<i>zhuada fangxiao</i> (grasping the large, and letting the small go)
<b>2003-onwards</b>	The establishment of State-owned Assets Supervision and Administration Commission (SASAC) and the control of the Chinese state in the selected strategic sectors	<i>guo jin min tui</i> (state advances, private retreats)

Source: Yang (2008)

The main intention of the Chinese leadership in reforming the enterprise system has been increasing the performance of the industry and its contribution to the economic growth. It is important to mention that it would be better to view the stages of SOE reform as parts of a continuous process which liberalized the Chinese enterprise system gradually, rather than separate periods in which the Chinese government experimented different strategies and policies to improve the efficiency of the industry. The first stage of China's SOE reform between the years 1978 and 1984 witnessed the efforts of the Chinese leadership of granting autonomy to the SOEs in order to increase their incentives to improve their performance. Contract Responsibility System marked the second stage between 1984 and 1992, which targeted to formalize the autonomy of the SOEs granted in the first stage. In the third stage (1992-2003), SOE reform has coincided with the general efforts of the Chinese leadership to establish socialist market economy and the Chinese government concentrated on strengthening the enterprise system through a specific policy which was like a strategy set for preparing the Chinese enterprise system for the fourth stage. The fourth stage (2003-onwards) has experienced a process of consolidation of the state ownership in the selected strategic sectors through another specific policy.

### **5.3.1. Granting Autonomy: 1978-1984**

It is possible to state that the Chinese leadership was certain regarding at least one point at the beginning of the reform period. Economic development was compulsory not only for providing a better life to the Chinese people, but also for sustaining the power of the CCP and the one-party regime in China. In order to ensure economic development, improving the performance of the Chinese industry in the sense of profitability and productivity was vital. Because of this reason, reforming the Chinese enterprise system has gained significance since the beginning of the reform period.

Contrary to the post-communist countries which have privatized the state enterprises immediately under the shock therapy strategy, the SOE reform in China was not initiated with the target of privatization, rather it was based on a gradual liberalization of the enterprise system. As it is pointed out in Chapter 3 and Chapter 4, there were political figures within the CCP who were blamed to be capitalist roaders during the Maoist era. These people represented a tradition within the CCP since the early 1950s, which demanded that a liberalized version of the Maoist

policies would be implemented. These people found the chance of realizing this demand when they supported the leadership of Deng at the end of the 1970s. Although state ownership was seen as one of the sources of the problems in the Chinese industry at the beginning of the reform period, privatization was not a viable political option at that time, even for the ones who were blamed to be the capitalist roaders (Bramall, 2009: 404). State ownership was seen as one of the most important socialist values (Bramall, 2009: 332). The conservatives who were strictly faithful to the Maoist principles within the CCP had a role in the avoidance of a shock therapy privatization policy in China at the beginning of the reform period.

The liberalization of the Chinese enterprise system throughout the 1980s would be seen as the will of the Chinese government; because it is not possible to talk about a strong entrepreneurial class in those years, which would have demands of liberalization. The government's policy included initially the elimination of most of the restrictions on the emergence and operation of the private sector (Bramall, 2009: 332). Rather than privatizing them, the first step of the SOE reform at the end of the 1970s and at the beginning of the 1980s was taking the measures to increase the autonomy of the SOEs and their managers in order to enable them to function in the new economic environment which consisted of the gradually introduced market economy elements.

The third element in China's reform of industrial SOEs and COEs [Collectively Owned Enterprises] focused upon attempts to improve the governance of these enterprises. In essence, the strategy amounted to the transfer of decision-making power (including the use of profits) to factory directors. The principal-agent problem would be resolved by aligning the incentives of principals and agents. The central government wished to create profitable enterprises, and the best way to do that was to give its agents (the directors of SOEs and COEs) an incentive to make profits. That meant both allowing a substantial degree of profit retention and, as importantly, giving directors discretion over the use of such profits. In a sense, this was an attempt to apply the household responsibility system – the pseudonym for agricultural decollectivization – to industry. It would grant directors greater responsibility and power without going down the avenue of privatization.<sup>112</sup>

The main intention of the Chinese leadership at the beginning of the SOE reform was increasing the efficiency of industry and the contributions of the sector to the economic growth. Through increasing the autonomy of the SOEs, it was mainly aimed to increase the incentives of the SOEs to improve their performance,

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<sup>112</sup> Bramall C., *Chinese Economic Development*, Routledge, London and New York, 2009, p.412.

specifically productivity and profitability. In other words, the policy of the Chinese leadership to grant some operational autonomy to the SOEs would be seen as its own strategy to increase the industrial growth and output of China which has been the most important element of the overall economic growth. In addition to the Third Front Program, the fact that the SOEs faced too much intervention of the Party members in their operations was also one of the important factors giving rise to the inefficiency of the Chinese industry during the Maoist era. It was thought at the beginning of the reform period that the autonomy expansion of the SOE managers, who were also mostly Party members (Andreas, 2009:82), would have eliminated this problem which is also known as the problem of ‘too many mothers-in-law’ and played a role in decreasing the performance of the SOEs (Bramall, 2009:401-403).<sup>113</sup> In line with this purpose, after some experimental efforts in 1978, the regulation on “Several Rules to Expand State Operated Enterprises’ Operational Autonomy, Rules on Adopting Profit Retention in State Operated Enterprises” was issued in July 1979 (Yang, 2008: 27). According to this regulation, SOEs and their managers were granted the right to have control over their output after guaranteeing the level required by the plan and they were also given the right to keep some percentage of their profits. They were also allowed to sell their products which were in excess of the plan requirement at the market prices (Bramall, 2009: 332). These rights granted to the SOEs represented a great transformation when compared to the functioning of the SOE system under the central planning economy. At the beginning of the reform period, the SOE and their managers were obliged to act in line with the bureaucracy and they almost had no authority to take decisions on production, wages, employment, research and innovation (Komiya, 1987 cited by Jefferson and Rawski, 1994: 50). The first decade of the reform brought a significant transformation of the role of the SOEs in the economy.

Ten years of reform brought dramatic changes in the allocation of industrial products, the procurement of inputs, the character of incentives, and the degree of competition. By the end of the 1980s, enterprise managers had gained control

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<sup>113</sup> In addition to these, the Chinese industry had some problems which were peculiar to the transition economies at the beginning of the reform period. Most importantly, the industrial production was heavily concentrated in machine building and metallurgy and techniques of production were too capital intensive. Also, most of the enterprises were small. As a consequence, the industrial production was not able to supply consumer goods, rather it was based on supplying the further input needs of the industry (Bramall, 2009: 404).

of most business decisions. Even the largest state-owned enterprises were deeply enmeshed in markets driven by decentralized forces of demand and supply...<sup>114</sup>

In addition to the increasing autonomy of the SOEs, it is possible to state that the increasing competition in the Chinese economy which was developed with the efforts of the Chinese government as a consequence of the introduction of the reforms has complemented the SOE reform in China. The removal of barriers on international trade and foreign investment as a consequence of the open-door policy has played a role in increasing the incentives of the SOEs, especially in the southern China. The Chinese leadership has concentrated on encouraging the SOEs to compete in the international markets after certain stages of the reform period have passed (Jefferson and Rawski, 1994: 51-52). In addition, the growing competition faced by the SOEs as a consequence of the rise of the private sector and the TVEs also played a role in increasing their incentives to improve their performance (Bramall, 2009: 348).

In line with the expectations, these initial reforms in China's enterprise system played a role in the increase of output and productivity of the industry and contributed to the rise of exports of industrial products. Despite these developments, there were some criticisms on the reform process in the sense that a shock therapy strategy would be better, especially in reforming the enterprise system. The criticisms focused on the dual ownership structure in the Chinese industry as a consequence of the sustaining state ownership with all its dominance, though accompanied by the gradual emergence of the private sector. Granting autonomy to the SOEs as the initial strategy of reforming the enterprise system immediately brought the emergence of new relationships within the system, since there was some resistance because of the vested interests on the one hand, while new interests were also created on the other hand. It is pointed out that some state officials attempted to prevent the SOE managers to use their new rights in order to preserve their authority. As the steps were taken to establish a modern enterprise system, the political power of the CCP within the SOEs decreased as its social functions disappeared (Dickson, 2003: 43). Taking the advantage of this environment, the SOE managers were in the tendency of taking the advantage of profits, whereas they were willing to put the responsibility on the state agencies when losses occur. Some of the SOE managers

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<sup>114</sup> Jefferson G. H., Rawski T. G., "Enterprise Reform in Chinese Industry", *Journal of Economic Perspectives*, Vol.8, No.2, 1994, p.50.

even used their autonomy as a chance for corruption (Jefferson and Rawski, 1994: 50-52). Despite the transformation of the enterprise system giving such opportunities to the SOE managers, the influence of the CCP over the SOEs has not totally disappeared in the first decade of the reform period.

To make sure that the party continued to play an active and influential role in SOEs, most SOEs in Shanghai adopted internal regulations that half of the members of the party committee must also be members of the board of directors and that at least one-third of the members of the party committee be managers with the enterprise. In one survey of Shanghai SOEs, party secretaries also served as chairmen of the board in 49 of 59 firms, and deputy party secretaries served as chairmen in another 7.<sup>115</sup>

In addition to these efforts of the CCP members to control the management of the SOEs, it is also pointed out that one quarter of the technical personnel of the SOEs were CCP members through the end of the 1980s (Dickson, 2003: 34). The sustaining influence of the CCP over the SOEs is viewed as a problem of the gradual and the dual-track character of the reforms; however it would be better to explain these efforts as the initial appearance of the emerging capitalist relations in China as a consequence of the reforms. This part of the appearance indicated how the state-economy relations in China was transformed in the first decade of the reform period and also explains how and why the dominance of the state ownership in the industry even after the three decades of the reform is preserved. Also, it is seen how the emerging capitalist relations have played a role in the transformation of the CCP itself from a party of workers to the party of technocrats and capitalists.

The initial SOE reforms in the sense of granting autonomy became the base of the reforms in the Chinese enterprise system in the following stages. First of all, they played an important role in the decollectivization process of the Chinese industry, since they were the first step of transferring some important rights of deciding on the industrial production process to the SOEs. These reforms also had an important contribution in the creation of industrial markets in China (Jefferson and Rawski, 1994: 51). In other words, the first stage of the SOE reform has played an important role in the marketization of the Chinese economy on the one side, whereas the creation and the enlargement of the markets contributed to the furthering the SOE reform on the other side. In this process, the SOE reform has also played a crucial

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<sup>115</sup> Dickson B. J., *Red Capitalists in China-The Party, Private Entrepreneurs, and Prospects for Political Change*, Cambridge University Press, USA, 2003, p.43.

role since the beginning in the foundation of the Chinese labor market in addition to the markets of industrial products. SOEs also gained the right to take employment decisions according to the market conditions. As a consequence, the autonomy granted to the SOEs represented the first smash to the “iron rice bowl”.

### **5.3.2. Contract Responsibility System (CRS): 1984-1992**

Granting some operational autonomy to the SOEs in order to increase their incentives to improve performance would be seen as a pragmatic initial strategy of the Chinese leadership to begin reforming the enterprise system. On the other hand, there were obstacles which prevented the realization of this expectation stemming from the confrontation of the old vested interests and the newly emergent interests as mentioned above. There was a need to systemize and determine the boundaries of the autonomy granted to the SOEs in order to carry out the decollectivization process in the Chinese industry. As a consequence, the second stage of China’s SOE reform was marked by the Contract Responsibility System (CRS) which was implemented in the Chinese industry until the mid-1990s.

CRS was initially implemented in agriculture and experimented in the Sichuan province. Under this system, the peasants signed contracts to produce and sell certain amounts of their products at low official prices. They were free to sell the amount which exceeded the amount in the contract at market prices. CRS which was also implemented in some small industrial enterprises was extended to the medium and large industrial enterprises in 1981 (Koo, 1990: 797). Within the CRS, it was possible that a SOE would have had a contract with the Chinese state, which was formed for short-term periods, generally for three years. The contract was generally based on the transfer a fixed percentage or a certain amount of its profits by a SOE in return to have some level of operational autonomy. It was also possible that an internal contract system was established among the different SOEs (Hassard, Sheehan and Morris, 1999: 58, Jefferson and Rawski, 1994: 51). The system also formalized the hiring and firing of workers by the SOE management and waging them according to their work performance and technical competence (Koo, 1990: 809-810, 815). In other words, the Chinese leadership formalized the way of increasing the capitalist incentives of the SOE managers at the expense of the workers through the CRS.

CRS represented a policy tool of a transitional economy possessing the characteristics of both the plan and the market. Although it seemed to be functioning well at the beginning, some expected problems of the CRS emerged by the time. Most importantly, there was the sustaining problem of autonomy without responsibility as mentioned above. In other words, the CRS was not a solution to the problem that the state continued to be responsible of the losses of the SOEs. As a consequence, the state intervention in the SOEs also continued despite the autonomy granted to them, since most of the SOEs recorded losses. This means that the CRS turned out to be a subsidy system which was contrary to the target of creating self-sufficient SOEs (Ho and Young, 2013: 85). Hence, the CRS had some considerable limitations, specifically in separating management and ownership in China's SOE system. It is pointed out that the SOEs turned out to be under the control of two authorities under the CRS, which were the SOE managers and the CCP members who did not take their hands off from the SOEs despite the contracts (Koo, 1990: 814). In this regard, it is pointed out that contract would not be seen as an applicable tool for the Chinese enterprise system in which there was always the possibility of irrational state intervention and the lack of privatization policy, regulations on the protection of the property rights, the bankruptcy mechanism and hard budget constraints (cf. Hassard, Sheehan and Morris, 1999: 62-64, Bramall, 2009: 413).<sup>116</sup>

It is also pointed out that there was another problem which was related to the profitability performance of the SOEs under the CRS. The welfare services provided by the SOEs to its workers still constituted a considerable cost under the CRS which damaged the profitability targets of the SOEs (Hassard, Sheehan and Morris, 1999: 65). It is pointed out that the private enterprises had more advantages when compared to the SOEs in the sense of increasing profitability and productivity, since they did not have to focus on expenditures on welfare services. On the other hand, it is also pointed out that the SOEs had the advantage of soft budget constraints; whereas the private enterprises and collectives have generally operated under the bankruptcy threat (Jefferson and Rawski, 1994: 60-61). These discussions which purposed to move the Chinese economy one step further to the market economy were

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<sup>116</sup> According to Bramall (2009), such criticisms have been coming usually from the West, whereas there were also the advocates of privatization in China such as Dong Fureng and Hua Sheng (Bramall, 2009: 413).

unfortunately realized and put the greatest hit to the “iron rice bowl” to be smashed completely.

Despite its deficiencies, the CRS is viewed to be an important step within China’s process of the transition from the plan to the market (cf. Jefferson and Rawski, 1994: 51). It is pointed out that the SOEs which became successful under this system turned out to have a good performance in the following stages of the SOE reform (Nolan and Wang, 1999: 187). More important than the performance of the SOEs, the CRS played a crucial role in the establishment and formalization of capitalist relations in China and the transformation of the state-society relations in this manner in the second half of the 1980s and at the beginning of the 1990s. The capitalist incentives of the SOE managers were increased in this process and they have been prepared as the members of the newly emerging capitalist class. On the other side stood the Chinese workers who faced the threats of losing their jobs and welfare services which was a case that they were not accustomed. This scene also represented the beginning of the process that the CCP gave up to be the party of workers and became the party of the capitalists.

The two stages of China’s SOE reform witnessed a massive process of decollectivization of the Chinese industry. In addition to the sustaining dominance of the state ownership, the Chinese leadership managed to increase the incentives of the SOEs to improve their performance through decentralizing the decision making within the SOE system and formalizing this process through the CRS. In this regard, the operational authority granted to the SOEs for the retention and distribution of their profits turned out to be significant in formation of the new capitalist class in China, whereas the autonomy on the employment decisions played an important role in the establishment of the Chinese labor market. As a consequence, the functioning of the Chinese industry was transformed considerably when it is also taken into consideration that a diversified ownership structure emerged although the newly emergent private sector was weak and highly dependent on the Chinese government (Jefferson and Rawski, 1994: 60-61).

### **5.3.3. Modern Enterprise System in a Socialist Market Economy: 1992-2003**

Although the two stages represented an important progress in the Chinese SOE reform, there were problems regarding the CRS as mentioned above. As an example of the pragmatic nature of China’s reforms, the Chinese leadership put

efforts to introduce new reforms in order to solve the problems caused by the CRS similar to the process that the CRS was introduced as a consequence of the problems experienced by granting autonomy to the SOEs. As the first step, the CRS was gradually abandoned and the emphasis on establishing a modern enterprise system became dominant in China (Tong, 2009: 404). It is pointed out that a modern enterprise system would have been established only through furthering the market-oriented reforms after solving the significant problems of the Chinese industry. On the other hand, it is important to mention that the main intention of the Chinese government was the same. The capitalist path which was entered at the end of the 1970s gave rise to new problems in China. Most importantly, the egalitarian character of the Chinese society was eroded as a consequence of the reforms, SOE reform playing a crucial role in this process. As a consequence, the Chinese leadership had to put more efforts to preserve the legitimacy of one-party regime, and hence had to put more emphasis on economic growth and increasing the contributions of the Chinese industry to the economic growth. It was known that the Chinese economy had to increase its global competitive power in order to achieve this target and establishing a modern enterprise system was compulsory in order to make the Chinese enterprises globally competitive in line with the neoliberal emphasis on increasing global competitiveness (cf. Cammack, 2006: 1-5, 13).

As an obstacle to achieving these targets, the most serious problem which rose as a consequence of the two stages of reform was that most of the SOEs recorded losses and as a consequence created non-performing loans which had a negative impact on the banking sector and the whole Chinese economy. Because of the increasing non-performing loans, the state banks were under the threat of insolvency and also the Chinese economy faced the risk of a financial crisis (Ho and Young, 2003: 85).<sup>117</sup> It is pointed out that even the TVEs which were seen as the engine of China's economic growth experienced financial difficulties (OECD, 2000: 7). In this regard, the lack of financial regulations, specifically on lending and insolvent enterprises, suitable for market economy was seen as an important problem. The ownership structure in the Chinese industry which has been based on

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<sup>117</sup> Since 1985, the Chinese government does not transfer cash to the SOEs; rather they are provided loans by the state banks (Ho and Young, 2013: 85). In order to deal with the problem of the non-performing loans, the Chinese government put efforts to strengthen the Big Four state banks at the end of the 1990s. Four asset management companies were established for the banks to transfer the non-performing loans (Naughton, 2007: 462).

the dominance of the state ownership is certainly criticized as the source of these problems (OECD, 2000:19). These criticisms were based on the dual-track character of the Chinese economy and the ownership structure of the industry; however the problems experienced in the Chinese enterprise system which also affected the other reform areas adversely would be seen as a consequence of the introduction of capitalist elements to the Chinese economy.

Despite the criticisms, the diversified ownership structure of the Chinese industry with the dominance of the state ownership and employment sustained in the 2000s and the 2010s. It is pointed out that the Chinese state continued to hold shares even in the joint ventures with foreign firms at the beginning of the 1990s (cf. OECD, 2000:19). It is stated that there were four main ownership types in the Chinese industry: SOEs, collectives including the TVEs, foreign enterprises and private enterprises. Large SOEs were mainly under the control of the central government, while small and medium-sized SOEs were generally controlled by the local governments (OECD, 2000: 17). This appearance of the Chinese enterprise system was not strange for the neoliberal perspective throughout the 1990s, since the other transition countries and the developing countries had similar appearances of diversified ownership structure. On the other hand, the policy of the Chinese government to sustain the state ownership in the most important sectors of the economy since the early 2000s and especially the late 2000s made the neoliberal community astonished.

According to the classical neoliberal perspective, state ownership has been preserved in the Chinese industry despite the fact that a better performance has been recorded by the private sector in increasing employment and output (cf. OECD, 2000:19). This perspective accepts that the progress of the SOE reform until the beginning of the 1990s assured the increase of the profitability and productivity of the Chinese industry which had a significant contribution to the remarkable economic growth of China. On the other hand, it is asserted that such improvements would have been furthered, if China has managed to complete its ownership reform, rather than insisting to preserve the dual character of the ownership structure and the dominance of the state ownership in the industry (cf. Jefferson and Rawski, 1994: 63-64).

On the other side, it is seen that this “transitional orthodoxy” which views the TVEs and the private enterprises as the engine of China’s economic growth since the

beginning of the reform period and presents the SOEs as the fossils waiting to die is criticized (cf. Nolan and Wang, 1999: 169). According to this criticism, it has to be accepted that the enterprise system reform in China has been based on reforming the SOEs, rather than privatizing them, unlike the other post-communist countries and developing countries and this strategy has been successful in reintegrating China to the world economy (Nolan and Wang, 1999: 194). This is a neoliberal explanation in the sense that integration of China to the global capitalist accumulation process is viewed to be the final target; whereas it is based on the principles of Post-Washington Consensus in the sense that the active role of the Chinese state in this process is affirmed.

China has shown that a different path is possible: instead of allowing the destruction of large SOEs, it has attempted the long, slow path of institutional and technical reconstruction. Such a path means accepting that there must be a large role for bureaucrats: hence, improving the bureaucracy, rather than destroying it, becomes a central policy task. It involves accepting that the institutional solutions are often awkward, and muddy, specific to the country and sector concerned, rather than following an idealized universal form of business organization, which rarely existed anyway, except in the early days of capitalism.<sup>118</sup>

The Chinese government continued to follow its own way in the SOE reform. In order to strengthen the enterprise system, a regulation was issued in 1992 on “Transforming the Management Mechanisms of State Owned Industrial Enterprises” which aimed to formalize further the autonomy expansion of the SOEs and regulate their responsibilities, especially the financial responsibilities since financial difficulties were seen as the most substantial problem of the SOEs as mentioned above. The SOEs were endowed even with the right of “rejecting” or “refusing” mandatory plan directives according to this regulation. Most importantly, this regulation formalized the hiring and firing rights of the SOEs in order to diminish the number of the workers which were seen to be redundant, including the dismissal of even the managers, under the policy which was known as *xiagang*. It is pointed out that there were various causes of the policy such as the pressure of the hundred millions of young workers who came from the rural areas to the cities to find jobs or

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<sup>118</sup> Nolan P., Wang X., “Beyond Privatization: Institutional Innovation and Growth in China’s Large State-Owned Enterprises”, *World Development*, Vol.27, No.1, 1999, pp.194.

the efforts to attract FDI. The policy was seen as a way of balancing the effects of the lack of privatization in the reform agenda.<sup>119</sup>

Various estimates have suggested that surplus workers in SOE – in theory employees above the level a profit-maximising enterprise would employ if unconstrained – amounted to at least 20 million, and perhaps as many as 35 million, at the end of 1996. These figures represent between one-fifth and one-third of the total SOE workforce, and between 10 and 17 per cent of total urban employment. Nearly all SOE industry segments have substantial amounts of excess workers. Although figures for individual industries are not available, the incidence of surplus workers has been particularly great in textiles, machinery, and steel, which also have considerable excess productive capacity; and natural resource sectors such as coal and forestry products. The ability of SOE to shed excess labor is sharply circumscribed by the requirement that workers normally can be laid off only if alternative employment or other support can be found.<sup>120</sup>

As a consequence of the efforts to decrease the number of workers in the state sector, large layoffs began in most of the SOEs and the number of workers employed by the SOEs decreased considerably (Jefferson and Rawski, 1994: 62-63, Bramall, 2009: 421-422). Tens of millions of workers lost their jobs and the ones who continued to work never felt that their job was secure (Andreas, 2011: 4). In addition, it is pointed out that the policy of *xiagang* was implemented not only in the SOEs which were under the restructuring process, but also in the privatized enterprises (Bramall, 2009: 421-422). On the other hand, the general trend since the mid-1990s has been the gradual decrease of the number of state sector workers and the gradual increase of the number of workers in the private enterprises as indicated in Table 5.2.

As mentioned above, most of the other reform areas in China have been closely related to the SOE reform. It is seen that the social security reform has gained more importance in accordance with the increasing layoffs and diminishing welfare services provided by the SOEs especially since the mid-1990s. It is also important to point out that such regulations in the Chinese industry targeted, to reduce and eliminate the welfare services, pensions and health insurance which were provided by the SOEs to the remaining workers. Most importantly, lifetime employment was abolished through making a one-time payment to the workers. As a consequence, some of the workers continued to work by signing contracts, whereas many of them lost their jobs. Hence, it is possible to state that the second half of the 1990s was the

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<sup>119</sup> *Asian Labor Update*, April-June 2006.

<sup>120</sup> OECD, *Reforming China's Enterprises*, Paris, 2000, p.37.

period witnessing clearly the completion of cracking the “iron rice bowl” in China (Andreas, 2011: 4).

Table 5.2. Number of Urban Workers (10.000 persons)

	State-owned Units and State holding Corporations	Private Enterprises
1995	11578	485
1996	11607	620
1997	11512	750
1998	9468	973
1999	8992	1053
2000	8559	1268
2001	8123	1527
2002	7701	1999
2003	7468	2545
2004	7335	2994
2005	7187	3458
2006	7171	3954
2007	7212	4581
2008	7287	5124
2009	7376	5544
2010	7540	6071
2011	7887	6912
2012	8082	7557

Source: Chinese Statistical Yearbook, NBSC, 2013-2000, available at

<http://www.stats.gov.cn/english/Statisticaldata/AnnualData/>

Through the end of the 1990s, the Ministry of Labor and Social Security was formed and Re-employment Centers (REC) were established in order to take the burden of surplus workers who lost their jobs in the SOEs as a consequence of the policy of *xiagang* (Naughton, 2007: 186). The first of these RECs was established in Shanghai Textile Holding Company in 1996 and spread to the other cities and regions. RECs were designed to be like a waiting room until a new job was found for the unemployed worker, where a basic living allowance was provided to the worker for some time period (OECD, 2000: 95). If the worker waiting in the REC was not able to find a job within three years, he or she received an unemployment insurance payment for two years (Holz, 2003: 253). On the other hand, it seems that the workers were left to go to their own way after these two years passed as an appearance of the cracked “iron rice bowl”, increasing unemployment, poverty and inequalities in China.

The main intention of the Chinese leadership in establishing the RECs was to deal with the economic and social costs of the extra unemployment caused by laying off a great number of SOE workers. It is possible to state that it was purposed to

soften the possible reactions of the Chinese workers against their deteriorating conditions through the RECs. On the other hand, it is questionable to what extent the RECs have been successful in reducing the costs of the policy of *xiagang*. There is one example derived from the experience in Changchung Tractor Factory in Changchung city in Jilin province indicating that the REC established in this factory unfortunately has not provided great benefits to the laid off workers.

However, several workers at the Tractor Factory revealed the actual situation. One worker declared, “Yeah, we went to the center, but it wasn’t worth a damn! For a month you get a piddling of money for expenses. When we leave the center as older workers without skills, we can’t find any work. All we can do is stay at home all day.” Another recounted, “in 1998 I was laid off, in 2001 I went to the center, but no one there said anything to me about any kind of unemployment insurance. Anyhow, life these days is unbearable. Our work unit? It’s not going to subsidize our heating costs. This is truly immoral! Our work unit couldn’t deal with our issues, so now we’re marching and sitting in to force them to resolve our heating issues. This fee isn’t something we can afford to pay ourselves!”<sup>121</sup>

The SOE reforms implemented in the third stage, including the *xiagang*, stemmed from the Fourteenth Central Committee of the CCP (1992-1997) which was mainly marked by the emphasis on establishing socialist market economy (Wang, 2008: 136). The target of modernizing the Chinese enterprise system to be compatible with the newly introduced market conditions was presented as one of the most important elements of the socialist market economy (Wang, 2008: 138).<sup>122</sup>

Establishing a socialist market economy was an important economic, social and political decision and it had also important effects in the ongoing reform process in the enterprise system. The socialist market economy required the establishment of a modern enterprise system as mentioned above. In order to achieve this purpose, corporatization of large and medium-sized SOEs was targeted and some pilot SOEs were selected in order to give start to the process. In other words, it was purposed to establish a Western-like structure in these enterprises with board of directors and shareholders. Although the state ownership remained, it was purposed to decrease the

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<sup>121</sup> Chinese Workers Editorial Collective, “The Current and Future Condition of China’s Working Class”, *China Left Review*, Issue 4, 2011, p.5, available at <http://chinaleftreview.org/?p=471>

<sup>122</sup> This target was outlined in the “Decision on Issues Concerning the Establishment of a Socialist Market Structure” which was issued after the Third Plenary Session of the 14<sup>th</sup> Central Committee which was held in 1993 (Yang, 2008: 29). It is important to mention that the dissertation does not have the purpose of discussing whether “socialist market economy” is theoretically or practically feasible. Rather, the dissertation is concentrated on the impact of these efforts on the reform process, specifically on the SOE reform as one of the most important reform areas having a significant role in the transformation of the state-economy and state-society relations in China.

state intervention in these enterprises and making them less dependent on the CCP and the Chinese government. Hence, the Chinese government took into consideration the neoliberal advises that the implementation of international corporate governance principles are significant for strengthening the enterprise system and the banking sector which have been essential for the macroeconomic performance of China and also for attracting foreign capital (OECD, 2000:63). The main cause of paying attention to such advises has been the will of creating globally competitive large companies in order to sustain China's capitalist economic development as mentioned above.

In line with these efforts, the Competition Law and the Company Law were passed in the years 1993 and 1994 respectively. The Competition Law purposed to ensure fair competition in the Chinese industrial sector, since the dual character of the Chinese economy made it difficult. The Company Law provided the framework of corporatization in the Chinese enterprise system in order to make the enterprises competitive and suitable to operate in the market economy. The Company Law which formalized all the regulations since the beginning of the SOE reform and signaled the upcoming institutional changes also presented the regulatory rules of mixed-ownership (Naughton, 2007: 301). In addition to this, the Company Law organized the rules of offering shares by the SOEs to the public in the stock exchanges which were established in Shanghai and Shenzhen in the early 1990s (Ho and Young, 2013: 85). To complement these reforms which purposed to establish a modern enterprise system in China, the works on fiscal reform and foreign exchange reform also began at the beginning of the 1990s (Yang, 2008: 29). In other words, all the necessary legal regulations were on the agenda in order to transform the Chinese enterprise system into a modern enterprise system as one of the most important reform areas in the way of transition to a market economy.

These efforts to establish a modern enterprise system with the final target of ensuring political legitimacy have also been the source of significant economic and social problems in China. First of all, the debts run by the SOEs which amounted around 80 percent of their total asset value have been a significant problem of the Chinese economy. In addition to this, the layoffs which have occurred since the beginning of the SOE reform and accelerated in the second half of the 1990s constituted an important economic and social problem. It is pointed out that around 27 million workers have lost their jobs between the years 1998 and 2002 (Bramall,

2009: 422). In addition to the existing inequalities in China, the layoff policies and elimination of the welfare rights have begun to give rise to some resistance of the Chinese workers and hence turned out to be one of the most important sources of social unrest in China (Hassard, Sheehan and Morris, 1999: 73-74).<sup>123</sup> It is expected that these problems would increase the legitimacy concerns of the Chinese government and the CCP; because they were the appearances of the transformation of the state-economy and the state-society relations when compared to the Maoist era and the costs of this transformation.

It is also important to point out once more that the migrant workers have been among the most important social problems in China since the labor mobility was allowed. It is known that the Chinese migrant workers who generally have low levels of education have left their homes to find jobs in the other cities or provinces. In the places they moved, they have generally received a low wage, lived in unfavorable environments and worked under unsecure conditions (Chinese Workers Editorial Collective, 2011:7). It is possible to state that the migrant workers have been the mostly injured section of the Chinese society by the transition process of the economy.

From 1992-2004, the average monthly wage for Pearl River Delta migrant workers only increased. According to official statistics, in 2003, throughout China, the number of workers who experienced workplace injury or death was over 136,000, 80% of whom were migrant workers. The number of workers with occupational diseases exceeded 500,000, 50% of whom were migrant workers. In 2004, an investigative survey revealed that in the Pearl River Delta, yearly incidents of injured fingers reached at least 30,000, with at least 40,000 fingers were amputated. According to another 2004 survey conducted in Zhejiang, after experiencing workplace related illness, the majority of migrant workers buy some medicine to take care of it and leave it at that; only 24.4 percent go to a clinic. 14.9% work 8 hour shifts, 38.5% work 8-10 hour shifts, 29% work 10-12 hour shifts, and 15.5 % work over 12 hours daily. Only 6.7% have an actual 2 day weekend off from work, 22.3% get one day off a week, and 56.3% have no guarantee of a day-off.<sup>124</sup>

In addition to these, the most important problem regarding China's SOE reform process has been viewed to be its contributions to the preservation of the

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<sup>123</sup> It is pointed out that the Chinese workers did not possess class consciousness and hence were unorganized at the beginning of the reform period. On the other hand, it is mentioned that the consciousness of the Chinese workers as a class has increased considerably in the 2010s and they began to be interested in politics. It is possible to state that they put pressure on the Chinese state through protests, strikes and demonstrations (Haide, 2011: 9-10).

<sup>124</sup> Chinese Workers Editorial Collective, "The Current and Future Condition of China's Working Class", *China Left Review*, Issue 4, 2011, p.7, available at <http://chinaleftreview.org/?p=471>

vested interests which would be explained as the efforts of the Chinese ruling class which has sustained its political dominance through avoiding political reform, to establish an economic dominance. Despite the regulations, it is not possible to claim that the “old three committees” regarding the management of the SOEs that are “party, management and the official trade union” have been totally replaced by the “new three committees” that are “board of directors, board of supervisors and shareholders’ congress”. In other words, the CCP has simply found ways to sit in the board of directors of the SOEs or have a significant influence in some way (Hassard, Sheehan and Morris, 1999: 75-76). It is possible to claim that the CCP members never thought that they should have taken their hands off from the SOEs and it is a discussion whether this fact is a problem of China’s SOE reform process or the Chinese interpretation of neoliberalism and enterprise system under neoliberalism. Making use of the discussion on the absolutist state as a transition state presented in Chapter 2, the dual ownership system in the Chinese enterprise system would be explained as the efforts to preserve the predominance of the ruling class under the conditions of the transition from socialism and capitalism, especially through gaining economic dominance.<sup>125</sup> The Chinese ruling class during the transition represented both continuity with the ruling class of the Maoist era, whereas there was a distinction that the conservative members who were fully loyal to the principles of Mao were excluded during Deng’s rule as mentioned in Chapter 4. In line with these efforts, the ruling class managed to gain economic wealth through the introduction of capitalist policies. The Chinese leaders of the reform period, including Xi Jinping, the current President of the country, have come from wealthy families.<sup>126</sup>

As a consequence of the will to establish a modern enterprise system in line with the decision of establishing socialist market economy, a new policy within the SOE reform was initiated in the mid-1990s, which was based on the restructuring of the large and medium-sized SOEs which had good performance on the one hand and closing or privatizing the smaller SOEs and the TVEs which were unable to increase their profitability and productivity. The policy as a whole which was officially replacing the CRS “was a mixture of privatization, closure and restructuring” and

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<sup>125</sup> Ruling class also gained wealth, the family of Xi Jinping is also wealthy (*The Economist*, 3rd November 2012).

<sup>126</sup> *The Economist*, 3rd November 2012.

was put into action under the slogan of *zhuada fangxiao* (grasping the large, and letting the small go) in the Fifth Plenum of the Fourteenth Congress of the CCP in 1995 (Bramall, 2009: 420-421).

According to the second part of the policy, the Chinese leadership decided to sell, merge or let bankruptcy of the small and medium-sized SOEs which were thought to have bad performance; because it was also thought that the insolvency of these enterprises would have put the whole Chinese enterprise system and the economy in danger (Chen, 2013: 4). Although the word privatization was never used, this policy was viewed to be an important step of privatization in China (Hassard, Sheehan and Morris, 1999: 68-70). Such a privatization policy was practiced before the adoption of this strategy in some of the provinces and extended to the whole China through this strategy (Chen, 2013: 4). There is an interesting point regarding this privatization policy that the governments of the other countries who had implemented privatization policies preferred to sell the state enterprises which had good performance; whereas the Chinese government sold off the ones which had bad performance. On the other hand, this strategy of the Chinese government was not too much interesting; because it was signaling the strategy of the next stage that is based on consolidating the state ownership in the selected strategic sectors.

The policy of grasping the large targeted to support the large SOEs and establish new ones through merger and acquisitions in order to make them strong enough to become globally competitive. The Chinese leadership concentrated on the creation of 'national champions' similar to the South Korean *chaebols* and Japanese *keiretsu* (Bramall, 2009:420-421). In line with this strategy, enterprise groups have been established since the early 1990s in some selected industries and regions in order to ensure that the SOEs would have been able to increase their competitiveness domestically and internationally. The strategy of supporting the enterprise groups was strengthened in the Fifteenth National Congress which was held in 12-18 September, 1997, where the Chinese government decided to provide some advantages to the enterprise groups such as making credit access easy and supporting for technical upgrading and listing. Hence, the Chinese leadership has clearly indicated especially since the mid-1990s that it has been cognizant of the fact that there is a need to strengthen the Chinese economy and the Chinese enterprises in order to have a good position in the global markets. This has been compulsory for

China to have a favorable position also in the global political order and managing to sustain its economic growth and political regime.

Privatization under the policy of *zhuada fangxiao* was implemented through two stages. The first stage included converting the enterprises into shareholding corporations. In the second stage, the assets of the enterprises were transferred to the private hands, mostly to the managers of the SOEs. Only a few other employees had the chance of having a share of these transfers. On the other side, the non-productive assets of the SOEs such as hotels, hospitals, canteens and schools were transferred to the local governments (Bramall, 2009: 421). The contribution of this process to the formation of the new Chinese capitalist class is obvious. As mentioned above, the managers, other top officials of the SOEs and the relatives of the top leaders of the CCP and the people who have similar close relationships turned out to be the owners of these enterprises and their assets under this process of privatization (Bramall, 2009: 424). This process would be explained as the efforts of the politically dominant Chinese ruling class consisted of the CCP leaders and the members to become economically dominant under the conditions of the transition. In relation to this fact, the privatization policies in the second half of the 1990s have played a significant role in the emergence of the new social and economic inequalities in addition to deepening the existing ones.

Chinese inequality is still within acceptable bounds is nonsensical. Not only was measured inequality high..., but also the pattern of income differentials owed little to productivity and almost everything to the ability of economic actors to capture rents by virtue of their position and status. The asset stripping undertaken by the managers of SOEs during the process of insider privatization in the late 1990s is the obvious example. As a result, a capitalist class has emerged.<sup>127</sup>

China at the beginning of the 2000s was very different from China which was inherited by Deng from Mao at the end of the 1970s, although it was still impossible to claim that the transition from the socialist economy to the market economy was completed in an expected manner. This fact was also valid for the transformation of the Chinese industrial sector and the enterprise system after the implementation of the reforms for two decades. It is a question whether the Chinese economy and the ownership structure in the industry remained to have a dual-track character because

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<sup>127</sup> Bramall C., *Chinese Economic Development*, Routledge, London and New York, 2009, p.424.

of the difficulties of the transition process or because of the preference of the Chinese leadership.

China's SOE reform is gradual, unique, and partial. Although admirable progress has been made, the reform cannot go further without change of the deeper political and social institutions. Decades ago, it was fair to say that administrative reform was SOE reform. Now, the reversal is right: SOE reform is administrative reform because it requires relevant reforms in the fiscal system, the political system, the administrative agencies, and the society. This history of Chinese SOE reform illustrates that it is not enough to address only internal management issues, such as motivation, innovation, technology, and structure. The reform necessarily involves discontinuing the influence of the party-state on business operations. China's SOE evolution is part of a broader picture: readjusting the relation among politics, public administration, business, and civil society in an era of modernization and globalization.<sup>128</sup>

The main distinction of China's SOE reform is that it has not been based on the transfer of ownership from public to private as it has been the case in the post-communist countries and the developing countries. Rather than being eliminated, the role of the state ownership and hence the Chinese state in the enterprise system have been transformed. The reforms resulted with the rise of a diversified ownership structure in the Chinese industry, while the dominance of the state ownership has sustained, especially in the strategic sectors. It is important to mention that it is difficult to believe that the Chinese government's strategy on preserving the dominance of the state ownership in the industry has been based on socialist values as presented by some of the Marxist authors (cf. Lo and Zhang 2010, Amin 2013). Rather, this strategy reflects the transformed state-economy and state-society relations, the emergence of the new class structure and the new class interests in China under the transition which has included the conditions of the two modes of production. During this process, the Chinese transition state has been based on the contradiction between the predominant ruling class which was formed during the Maoist era and the newly emergent capitalist class as a consequence of the reforms which consisted of the private entrepreneurs and the bureaucratic capitalists coming from the CCP membership or having close relationships.

It is possible to view the policy of *zhuada fangxiao* as a new phase of China's SOE reform which is different from the previous stages because it is more market-oriented when compared to the previous policies. On the other hand, it would be

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<sup>128</sup> Yang K., "State Owned Enterprise Reform in Post-Mao China", *International Journal of Public Administration*, Vol.31, 2008, p. 48.

better to view the whole SOE reform process as a continuous step by step approach to the establishment of the necessary enterprise structure, industrial markets and the labor market in order to sustain the capitalist economic growth model of China. The Chinese leadership sustained its pragmatic concerns in this manner throughout the reform period. The accession to the World Trade Organization (WTO) was also based on the pragmatic concerns of the Chinese leadership in the sense that the membership to the WTO would have also contributed to the economic growth. It was expected that the Chinese SOEs would have concentrated more heavily on increasing their performance as competitiveness in the Chinese industry increased as a consequence of the WTO membership (Bramall, 2009: 369, Yusuf, Nabeshima and Perkins, 2006: 82-83).

China's decision to join the WTO, therefore, was a courageous attempt to force the pace of enterprise reform; and to some degree, that decision will have its intended impact. Nevertheless, foreign competition alone, whether through trade or FDI, will not by itself complete China's transition to a market economy where state industrial and financial enterprises compete on a level playing field with all other enterprise ownership forms.<sup>129</sup>

At the beginning of the 2000s, the number of the SOEs had decreased considerably as a consequence of the closures and the privatizations in the second half of the 1990s. On the other hand, the state ownership still dominated the Chinese industry especially in the strategic sectors as mentioned above and the SOEs have increased their profitability performance considerably since the mid-1990s as indicated in Table 5.3. This ownership structure in the Chinese industry after two decades of reform signaled the strategy of the Chinese leadership in the 2000s and the 2010s, which has focused on making the SOEs suitable for the dynamic domestic and international market conditions, rather than removing them from the economy as expected (Yang, 2008: 30).

This strategy has been strictly criticized as causing low productivity, preventing innovative and entrepreneurial abilities, distorting wealth distribution and damaging the image of the Chinese economy in the world (cf. Geng, Yang and Janus, 2009: 169-170). This *classical* new institutionalist perspective expects the Chinese enterprise system to look similar to its Western counterparts. Within this perspective, the Chinese SOE reform cannot be viewed to be completed, especially because of the

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<sup>129</sup> Yusuf S., Nabeshima K., Perkins, *Under New Ownership-Privitizing China's State-Owned Enterprises*, The World Bank and the Stanford University Press, Washington, 2006, p.86.

fact that its legal framework has not been established, which is contrary to the advice of the OECD Guidelines on Corporate Governance of SOEs (cf. Ho and Young, 2013: 86).<sup>130</sup> On the other side, the new interpretation which emerged within the new institutionalist approach as mentioned above is more realist in the sense of not expecting such developments in the Chinese enterprise system.

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<sup>130</sup> OECD Guidelines on Corporate Governance of SOEs which was published in 2005 presents the key principles of the state as an owner of an enterprise and good governance in the international context. OECD outlined these advises for the developed countries, while it is pointed out that they would also be used for the developing countries (Ho and Young, 2013: 84).

Table 5.3. Comparison of State-owned and State-holding Enterprises and Private Enterprises in China

	NUMBER OF ENTERPRISES		TOTAL ASSETS (100 million yuan)		TOTAL PROFIT (100 million yuan)		EMPLOYMENT (10,000 persons)	
	State-owned Enterprises	Private Enterprises	State-owned Enterprises	Private Enterprises	State-owned Enterprises	Private Enterprises	State-owned Enterprises	Private Enterprises
<b>1998</b>	64737	10667	74916,27	1486,98	525,14	67,25	9058	1710
<b>1999</b>	61301	14601	80471,69	2289,21	997,86	121,52	8572	2022
<b>2000</b>	53489	22128	84014,94	3873,83	2408,33	189,68	8102	2407
<b>2001</b>	46767	36218	87901,54	5901,98	2388,56	312,56	7640	2714
<b>2002</b>	41125	49176	89094,6	8759,62	2632,94	490,23	7163	3410
<b>2003</b>	34280	67607	94519,79	14525,29	3836,2	859,64	6876	4299
<b>2004</b>	35597	119357	109708,25	23724,8	5453,1	1429,74	6710	5017
<b>2005</b>	27477	123820	117629,61	30325,12	6519,75	2120,65	6488	5824
<b>2006</b>	24961	149736	135153,35	40514,83	8485,46	3191,05	6430	6586
<b>2007</b>	20680	177080	158187,87	53304,95	10795,19	5053,74	6424	7253
<b>2008</b>	21313	245850	188811,37	75879,59	9063,59	8302,06	6447	7904
<b>2009</b>	20510	256031	215742,01	91175,6	9287,03	9677,69	6420	8607
<b>2010</b>	20253	273259	247759,86	116867,83	14737,65	15102,5	6516	9418
<b>2011</b>	17052	180612	281673,87	127749,86	16457,57	18155,52	6704	10354
<b>2012</b>	17851	189289	312094,37	152548,13	15175,99	20191,9	6839	11296

Source: Chinese Statistical Yearbook, NBSC, 2013, available at <http://www.stats.gov.cn/tjsj/ndsj/2013/indexeh.htm>

#### **5.3.4. A New (Expected) Direction in the SOE Reform (2003-Onwards)**

A modern enterprise system and a modern ownership system are among the most important elements of contemporary market economies and the three stages of China's SOE reform had progressed considerably in the way of establishing a modern enterprise system, while it did not include any attempts to eliminate the dominance of the state ownership in the industry. This fact would be seen by overviewing Table 5.3 which compares the numbers and total assets of the Chinese state enterprises and the private enterprises. It has been expected since the beginning of the reform period that the ownership system in China would have been transformed from the single ownership of the Chinese state to a diversified ownership structure. Although this expectation has been realized gradually contrary to the post-communist countries, the diversified ownership structure which consists of state-owned, collective-owned, private enterprises and foreign enterprises and enterprises owned by overseas Chinese has been established in China as a consequence of two decades of the reform, especially in the second half of the 1990s. In the 2000s and the 2010s, the Chinese government preferred to consolidate state ownership in the selected strategic sectors and strengthening the SOEs rather than eliminating them.

It is pointed out that the concentration of the Chinese leadership on the neoliberal policies in the industry in the second half of the 1990s, specifically privatization, stemmed from the increasing foreign competition which rose as a consequence of the open-door policy. It is also stated that the most important cause of the privatization policy was the commitments of the WTO accession process, whereas the accelerated move to privatization was ended after the entry to the WTO (cf. Chen, 2013: 4).<sup>131</sup> On the other hand, it is possible to view the story of China's SOE reform since the mid-1990s differently. In the second half of the 1990s, the Chinese government preferred a policy which would strengthen the large SOEs with good performance on the one hand, while it got rid of the small ones with bad performance. It is clear that this was a preparation for the strategy of consolidating state ownership in the selected strategic sectors. The establishment of the State-Owned Assets Supervision and Administration Commission of the State Council

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<sup>131</sup> China gained the membership status in the WTO on 11 December 2001 after lengthy negotiations which goes back to the mid-1980s.

(SASAC) in 2003 was in line with this strategy although it was seen as a consequence of a policy turn (cf. Chen, 2013: 4).

Establishment of the SASAC was followed by the declaration that the Chinese state decided to increase its controls on the strategic sectors such as petroleum, coal, metallurgy, electricity, telecommunications, transport equipment and military industry (Naughton, 2007: 303, *The Economist*, June 23<sup>rd</sup> 2011). These sectors were not only strategic for the Chinese economy, but they were also significant for increasing the global competitiveness of the Chinese economy. The global financial crisis of 2008 strengthened this policy choice of the Chinese leadership, in an environment where the sustainability of free market was globally questioned and the discussions on the viability of the Chinese model or the Beijing Consensus have risen (Chen, 2013: 4).<sup>132</sup>

SASAC which has both a central and a local organization is the basic regulatory body which has been responsible of supervising and controlling the Chinese SOEs on behalf of the Chinese state (Naughton, 2007: 303). One of the most important duties of the SASAC has been consolidating state assets management of the SOEs, which was performed by eight different government departments before its establishment. It is difficult to claim that the SASAC is an institution which is fully suitable to a market economy. It holds a number of diverse functions at the same time, such as being the investor of the SOEs on the one hand and the regulator of them on the other hand. As the regulator, SASAC possesses the power of imposing punishments which is a right more than an ordinary investor would have. In order to ensure that the SASAC is able to perform these different functions, the Law on State-owned Assets of Enterprises (SOAE) was passed in 2008, which guaranteed that all the SOEs became under the control of the SASAC and determined

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<sup>132</sup> Promotion of the global competitiveness is a part of the neoliberal project which is supported by the international organizations not only in the advanced capitalist countries but also in the developing countries, especially in the post-communist countries through making them choosing ‘appropriate’ policies in order to ensure the reproduction of capitalism in the advanced capitalist countries (Cammack, 2006: 1-2, 13). This process is global which needs the national state for functioning and based on subjecting the labor, business and the civil society to the process (Cammack, 2006: 3-5). This is exactly reflected in the Post-Washington Consensus as presented in Chapter 2. In this regard, the main cause of the emphasis of the Chinese leadership on increasing the global competitiveness of the Chinese economy is that the country and its economy has been part of the neoliberal project as a consequence of the open-door policy since the beginning of the reform period. As a consequence, domestic politics, class relations and class struggle have become almost compulsorily to be related to promoting global competitiveness (Cammack, 2006: 13).

exactly the duties and the responsibilities of the Commission (Hu and Young, 2013: 86-87).

The key functions of SASAC are: i) to perform the responsibilities of investors; ii) to supervise and manage the assets of SOEs; and iii) to improve the management of the state-owned assets. Since SASAC is also required to ensure SOEs are generating profits and improving their productivity, SASAC designed a system of indexing and a set of assessment criteria as key performance indicators for all SOEs. These measurements are in turn used to produce annual statistical data to appraise the performance of SOEs against the key performance indicators. This government agency also develops policies on the remuneration of the SOEs executives to ensure management meets those performance indicators. Other control and supervisory duties of SASAC include overseeing SOEs' corporate governance and structure. SASAC is also conferred with the power to appoint and remove top executives of SOEs. Other powers SASAC have over the executives of SOEs include selection criteria, establishment of incentives structure, and restrictions of the power of executives. Controls over general staff and executives are employed to ensure staff complies with organisational goals approved by SASAC. This is actualized through incentive schemes and punitive actions. Another mechanism employed by SASAC is to dispatch supervisory panels in monitoring and auditing SOEs' performance. With respect to financial performance, SASAC also has powers to exert control on SOEs' operational capital and budget. Finally, SASAC is responsible for drafting related laws and regulations on production safety as well as the management and supervision of the state-owned assets. In combination, SASAC's powers, role and function far exceed those stipulated in the OECD Guidelines.<sup>133</sup>

It is seen that the SASAC has given an almost full authority regarding the SOEs when its functions are taken into consideration. In addition to its regulatory and supervisory functions, the top executives of the SOEs which are the most powerful industrial enterprises in China are appointed by the SASAC. The power assigned to the SASAC is viewed as the management of the industry in line with the political motives of the CCP, rather than through the expected rational economic motives (cf. Chen, 2013: 19). It is important to point out that this appearance of the Chinese industry does not simply represent only the intervention of the Chinese government in the economy which has been presented as an obstacle in front of completing the transition to the market economy in China by the neoliberal perspective. Rather, it is especially important to understand that the intervention of the Chinese government to the most leading industrial enterprises of China through the SASAC indicates the point reached by the state-capital relation in China after three decades of the reform period, which is based on a dual strategy of allowing the

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<sup>133</sup> Ho D., Young A., "China's Experience in Reforming Its State-Owned Enterprises: Something New, Something Old and Something Chinese?", *International Journal of Economy, Management and Social Sciences*, Vol.2. No.4, April 2013, p.86.

emergence of the private capital on the one side and sustaining the dominance of the state capital on the other side. More importantly, putting emphasis on this relation is one of the most significant elements of understanding how to identify the Chinese state at the beginning of the new millennium; because the capitalist Chinese state has become the main actor of the capitalist economic development in China through holding the ownership of the major share of industrial capital with the purposes of sustaining capitalist accumulation through the exploitation of the workers.

The sustained state ownership in the industry and the efforts to regulate the SOEs in the ongoing stage of the SOE reform were accompanied by the official slogan of “*zuoda, zuoqiang, zuoyou*” which means making the SOEs bigger, stronger and superior in order to increase their innovative capacity and promote their global competitiveness (Chen, 2013: 8). This slogan explains exactly the real intention of the Chinese government in reforming the enterprise system and putting the emphasis on strengthening the SOEs, especially since the mid-1990s. These efforts would be seen related to the fact that the Chinese understanding of the performance of an enterprise has been different from the Western understanding.

According to Hu An-gang, a Chinese expert on China’s so-called distinctiveness and an advocator of advancing SOEs, “bigness” is measured by gross revenue and total assets, “strength” by profitability and “superiority” by innovative capacity and power of resource allocation, which is mainly gauged by the overseas asset size of an SOE. Given China’s substantial and growing share in the world economy, the implication of a bigger, stronger and superior SOE sector in China’s economy as defined above is obviously well beyond the usual efficiency concern associated with the creation of Canadian Crown corporations.<sup>134</sup>

The story of China’s SOE reform would be seen as the step by step moving of neoliberalism inside the Chinese enterprise system. It is pointed in Chapter 2 that neoliberalism takes different shapes in line with the historical and geographical conditions of a country and hence it is usual that China’s confrontation with neoliberalism has some peculiarities. On the other hand, it is also certain that neoliberalism has some basic characteristics which are commonly observed in each country. In this regard, some of the characteristics of the Western capitalist states and the Chinese capitalist state have been overlapping at least since the end of the 1970s,

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<sup>134</sup> Chen D., “China’s State-Owned Enterprises: How much Do We Know? From CNOOC to its Siblings”, University of Calgary The School of Public Policy SPP Research Papers, Vol. 6, Issue.19, 2013, p.8.

which is mainly contributing to the domestic and global processes of accumulation of capital through exploitation of labor.

The direction of the Chinese SOE reform that has taken since the early 2000s as presented above and especially since the global financial crisis of 2008 has been identified by the Chinese phrase of “*guo jin min tui*” which is translated to English as “the state advances, while the private retreats”. In addition to the sustaining state ownership in the industry, the Chinese government provided high bank loans and subsidies to the SOEs under this policy. These kinds of supports of the Chinese government to the SOEs have been strictly criticized because of breaking the market rules, especially when it is taken into consideration that the private small and medium-sized firms were let to be closed. In addition, it is pointed out that private enterprises which had good performance have been forced to merge with the SOEs which are mostly loss-making (cf. Von Roda, 2010:1). This kind of a compulsory merging activity has also been interpreted as the renationalization of the Chinese industry. In other words, the policy of *guo jin min tui* is not simply viewed to be the expansion of the size of the state ownership in the Chinese industry, rather it is criticized because it is based on a logic increasing the control of the Chinese government not only in the Chinese economy but also in the global economy and distorting the free market principles. Hence, the policy gives rise to the misallocation of resources between the state and the private sector and damages the rules of global competition according to the neoliberal perspective (cf. *The Economist*, 23<sup>rd</sup> June 2011). This perspective actually misses the point that the misallocation between the state and the private has been just one of the numbers of misallocations in China which has risen as a consequence of the reforms.

Within this perspective, this latest policy of the Chinese government in the industry has been viewed as a retreat from the market oriented-reforms of the second half of the 1990s in China, because the Chinese state increases its power in the industry at the expense of the private sector. It is thought that the increase of the state power in the industry has been ironically observed despite the decrease of the size, production, employment and profitability of the SOEs (cf. Du, Liu and Zhou, 2013: 2). As Table 5.3 indicates, SOEs have not been unsuccessful in increasing profitability as pointed out by this perspective; however it is correct that it is difficult to talk about a free market in the Chinese industry; because the Chinese state organizes the rules of market access in order to ensure that the SOEs are favored. It is

also pointed out that the Chinese government supports the entry of the SOEs even to the nonstrategic sectors (cf. *The Economist*, June 23<sup>rd</sup>, 2011).

Has the state advanced and the private retreated? This is an important puzzle to unravel. One might take one step back by asking that if it would matter. As said in the famous quote of Deng Xiaoping, the second-generation leader of China, “it doesn't matter whether it's a white cat or a black one, a cat that catches mice is a good cat.” Indeed, what matters is not just the size expansion of the state ownership itself or an implicit halt of the on-going privatization, nor the relative proportion of the sectors in the economy. What matters is if this movement leads to economic development and growth of the country...<sup>135</sup>

It is interesting that the ones who admired Deng when he made the famous metaphor of white cat versus black cat in order to justify the introduction of the market-oriented reforms to the Chinese economy, turned out to strictly criticize the color of the cat when they thought that the policies are at the expense of the market economy without taking into consideration what is good for China's development. They put emphasis on the unfair competition faced by the private enterprises and the foreign enterprises in the Chinese industrial sector because of the extra advantageous environment provided to the SOEs by the Chinese government. In this regard, they point out that it has become usual that the private enterprises and the foreign enterprises have to exit the Chinese markets or even cannot enter (cf. Lin, 2013: 1-2, Von Roda, 2010:1, *The Economist*, 6<sup>th</sup> October 2012). Within this perspective, *guo jin min tui* is declared to be a corrupt, inefficient and market-distorting ideology (cf. Lin, 2013: 2). On the other hand, this perspective misses one more point that this corrupt policy has paved the way of the development of capitalism in China.

Despite these criticisms, it seems that the Chinese leadership will insist on this kind of policy in the industry which favors the SOEs on the one hand, and emphasizes discursively the significance of the development of the private sector on the other hand. In the Eighteenth National Congress which was held in November 2012, the President Hu Jintao emphasized the importance of strengthening the SOEs and the need to deepen the SOE reform, while he also mentioned the importance of the private sector for the Chinese economy. It is also interesting that Wang Yong, the Director of the SASAC, mentioned the need to learn market mechanisms from the

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<sup>135</sup> Du J., Liu X., Zhou Y., “State Advances and Private Retreats?-Evidence of Aggregate Productivity Decomposition in China”, Preliminary Draft, June 2013, p.3, available at <http://www.hhs.se/SCERI/SeminarsConferences/Documents/State%20Advances%20and%20Private%20Retreats.pdf>

multinational companies in order to ensure the international competitiveness of the Chinese SOEs in the same Congress. These statements indicate that the target of the Chinese government is making the SOEs suitable to the domestic and the global market economy conditions, rather than eliminating them as expected by the neoliberal perspective.

One year after the Eighteenth National Congress, one of the emphases of the Third Plenum of the 18<sup>th</sup> Central Committee which took place in 9-12 November, 2013 was also deepening the SOE reform and promoting the private sector.<sup>136</sup> Before the Third Plenum occurred, it is seen that there were great expectations regarding the SOE reform. Third Plenums have been the meetings where important decisions about economic issues have come about, such as the decision of establishing socialist market economy in the Third Plenary Session of Fourteenth Central Committee in 1993.<sup>137</sup> The concentration on the SOE reform is a part of the “383 plan” of China, as it is titled in the Chinese press, introduced before the Third Plenum. The plan purposes to regulate the relations between three actors including government, market and enterprises in eight areas through three policy packages, one of which being the SOE reform and especially ensuring the separation of administration and management.<sup>138</sup> It is seen that the 383 plan and the Third Plenum brought different reactions in China and abroad. There is an interpretation that these efforts indicate that the gradual approach of Deng is over through especially pointing out the commitment of the new Chinese leadership to the market reforms on the one hand.<sup>139</sup> On the other hand, it is also stated that such attempts represent only “a wish list, not a to-do list”.<sup>140</sup> It seems that the West which watches China closely credits the latter interpretation in general. In this regard, it is pointed out that no specific policies regarding the enterprise system and the ownership structure in the Chinese industry have appeared yet.<sup>141</sup>

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<sup>136</sup> *Caijing*, 1<sup>st</sup> November 2013, *China Daily*, 11<sup>th</sup> November 2013.

<sup>137</sup> *Caixin*, 8<sup>th</sup> November 2013.

<sup>138</sup> *Caixin*, 28<sup>th</sup> October 2013, *China Daily*, 31<sup>st</sup> October 2013.

<sup>139</sup> *China Daily*, 31<sup>st</sup> October 2013, *Xinhua*, 8<sup>th</sup> November 2013.

<sup>140</sup> *China Economic Review*, 30<sup>th</sup> October 2013.

<sup>141</sup> *The Economist*, 16<sup>th</sup> November 2013.

Overt SOE reform seems unlikely for two important reasons. The first is that they are making money today, unlike in the 1990s and contributing to a small but important extent to the fiscal health of the system. The second is ideological, because Party conservatives believe that a “socialist” state must own at least some of the “means of production.” Despite the oligopolistic character of many of the SOE’s and the distasteful fact that the “princeling” children of top leaders are disproportionately benefiting from them, the vested interests behind the SOE’s appear too strong to attack frontally at this time.<sup>142</sup>

It is possible that the new Chinese leadership which came to power in November 2012 would introduce some market-oriented policies regarding the enterprise system. On the other hand, such moves would be seen as pragmatic reform actions as experienced in the other reform areas since the beginning of the reform period.<sup>143</sup> It is seen that such pragmatic market-oriented reform actions has generally turned out to ironically strengthen the SOEs and hence their role in the Chinese economy, rather than eliminating them (Lin, 2013: 3). SOEs sustain as the most important elements of the Chinese economy after three decades of the reform, although (because) they have been transformed to capitalist enterprises by the succeeding Chinese governments.

...They were initially a child of the marriage of communist ideology, which is against private property rights, and Soviet-style central planning, which is against the operation of the free market. Around the period that China was entering into the WTO (from the late 1990s until 2003), there were high hopes that Chinese SOEs might be further reformed and integrated into the free market and join the global economy as rule-abiding citizens. Instead, they became the strong arm of the Chinese government in controlling the domestic economic structure (as defined by the ownership distribution across industries) and expanding its global economic power ruthlessly...<sup>144</sup>

The conclusion is that it really does not matter whether the cat is white or black. It does not really matter whether the leading industrial enterprises of China are

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<sup>142</sup> Paal D.H., “China’s Third Plenum: Limited Reform”, *China-US Focus*, 2013.11.01, available at <http://carnegieendowment.org/2013/11/01/china-s-third-plenum-limited-reform/gsh>

<sup>143</sup> In July 2014, it is reported that six big SOEs are selected by the Chinese government for the implementation of pilot reforms through the establishment of “state-owned asset investment companies” and more effective board of directors in order to increase management efficiency and the introduction of mixed ownership in order to diversify corporate ownership. Although these pilot reforms look like regular neoliberal reforms which would be applied to any enterprise system, their purpose which is mentioned as transforming the role of the Chinese government from a shareholder which deals with daily operations to a shareholder which concentrates on the investment returns is in line with the behavior of the previous Chinese government in the sense of preserving the dominance of the state ownership in the industry (cf. *Xinhua*, 15<sup>th</sup> July 2014, *Caixin*, 16<sup>th</sup> July 2014).

<sup>144</sup> Chen D., “China’s State-Owned Enterprises: How much Do We Know? From CNOOC to its Siblings”, University of Calgary The School of Public Policy SPP Research Papers, Vol. 6, Issue.19, 2013, p.8.

owned by the state or are in the private hands. It is not to say that the ownership structure in an economy does not have any impact on its development. It is just a claim that the Chinese case turned out to be an important example indicating that the ownership structure does not matter much, if the owner is in the intention of ensuring capitalist accumulation. In other words, the Chinese state, with the intention of preserving the state ownership over capital and the interests of the new capitalist class, has been acting like a private owner of an enterprise in order to ensure the performance of the SOEs in the sense of productivity, profitability and competitiveness through the exploitation of workers and fueling the deep inequalities in the Chinese society.

It is true that this is a development strategy, a development strategy based on the penetration of neoliberalism in the Chinese economic, social and political systems, which has been presented by the Chinese leadership with the targets of the promotion of economic development, increasing living standards of the Chinese people and the realization of the national interest since the beginning of the reform period. These targets are naturally significant for the legitimacy of a political system, especially a system based on one-party rule. It is also important to point out that the organic links existed between the CCP and the newly emergent capitalist class and the set of interests which have risen as a consequence of these links have also been part of this development strategy and played a significant role in the SOE reform process since the end of the 1970s. The efforts of the Chinese government and the CCP since the beginning of the reform period to increase economic growth have put the leadership in a loop which deepened the penetration of neoliberalism in the Chinese economic, social and political systems and caused the transformation of the legitimacy concerns which were mainly political at the beginning of the reform period to include legitimizing the transformed social and economic structures. In the following sections of this chapter, two strategic sectors of the Chinese industry are analyzed in order to indicate how this development strategy has been applied to these sectors and how the state-society relations have been transformed as a consequence of this strategy especially since the mid-1990s.

#### **5.4. Conclusion**

At the beginning of the reform period, the Chinese industry was mainly consisted of the SOEs which constituted the basis of the work unit system and hence were among the most important elements of the central planning system. The ownership structure of the Chinese industry had been transformed considerably since the beginning of the reform period. Even the first half of the reform period until the mid-1990s witnessed an important part of this transformation, although the dominance of the SOEs continued. First of all, the collective TVEs which played a significant role in China's rural industrialization and the overall economic growth emerged in the 1980s. In the same years, the emergence of the small-scale private enterprises was also encouraged by the Chinese government, although no regulations on the protection of the property rights appeared. In addition to these, the number of foreign enterprises in the Chinese economy increased in the 1990s as the open-door policy began to give its fruits. Thus, the ownership structure in the Chinese industry had become diversified until the mid-1990s. On the other hand, privatization of the SOEs was not on the reform agenda until the mid-1990s as a distinction of China's transition path with its gradualist strategy from the other post-communist countries. Although the Chinese government implemented a kind of privatization policy in the first half of the 1990s, the policies on the enterprise system especially since the end of the 2000s has indicated that the distinction of the Chinese SOE reform policies from the other transition countries does not only stem from its gradualist character. Rather, it would be seen as the consequence of the view that state intervention would play a crucial role in the processes of the transition to the market economy and its functioning in China (cf. Wang, 2003). As a consequence, the Chinese industry included mainly enterprises with three types of ownership in the middle of the reform period: SOEs, collectives which specifically included the TVEs, and the newly emerging Chinese and foreign private enterprises (Naughton, 2007: 300-301).

In the mid-1990s, the Chinese leadership decided to take further steps in the SOE reform. In line with this decision, the Company Law which was passed in 1994 provided the framework of corporatization of the SOEs. Building on this framework, a massive downsizing of the SOEs began in the mid-1990s. As a consequence, tens of thousands of SOEs were closed and almost 40 percent of the SOE labor was laid off (Naughton, 2007: 301). This SOE reform strategy was a mixture of restructuring, privatization and increasing competition and found its official expression in the

Fifteenth National Congress in 1997 under the slogan of “grasping the large, and letting the small go”. As a consequence, it is seen that the state ownership in the Chinese industry began to decrease though slowly, whereas it is seen that the share of the joint stock companies increased considerably, from 6.4 percent in 1998 to 42.1 percent in 2004 (Naughton, 2007: 303). On the other hand, it is also important to mention that the state was the shareholder of many of these companies. For instance, Petrochina and Sinopec are big joint stock oil companies listed in the Shanghai Stock Exchange which are controlled by the Chinese government. In addition to these, it is seen that the share of the collectives in the industry declined as they are mostly privatized, whereas the foreign firms continued to gain importance slowly in the Chinese industry in the second half of the 1990s (Naughton, 2007: 301-302).

At the beginning of the 2000s, the most important characteristic of the Chinese industry was that the small-scale sector declined and the industry was dominated by large firms controlled by the Chinese government. In addition to the controls and regulations of the Chinese government, this appearance of the Chinese industry would hardly be identified as a free market economy. In order to centralize the control of the SOEs, SASAC was established in 2003 as a consequence of the need of a regulatory body which exercises the ownership rights over the SOEs on behalf of the Chinese state, especially on the large ones (Naughton, 2007: 303-304). Contrary to the expectations, SASAC has not behaved like a private owner of the SOEs in the market. In addition to this, the Chinese government has strengthened the strategy it had adopted since the beginning of the 2000s after the global economic crisis in 2008 and preferred to increase the dominance of the state ownership and its controls in the selected strategic sectors. Hence, the policy which was implemented during the second half of the 1990s in the sense of privatizing the small and medium-sized SOEs which had bad performance would be seen as a preparatory to the target of creating a Chinese enterprise system consisted of big and strong SOEs which are globally competitive. Table 5.4 summarizes how the ownership structure of the Chinese industry has changed since the beginning of the reform period.

Table 5.4. Ownership Structure in the Chinese Industry since the Beginning of the Reform Period

	<b>Ownership Structure</b>	<b>Explanation</b>
<b>1978</b>	SOEs	work unit
<b>1978-1996</b>	SOEs + Collectives (TVEs) + private enterprises (domestic and foreign)	Industry was still dominated by the SOEs. The Company Law was passed in 1994.
<b>1996 -2008</b>	SOEs + Joint Stock Companies (state may be the shareholder) + private enterprises (domestic and foreign)	SASAC is established in 2003. In the following years, especially after the global crisis in 2008, the Chinese state adopted the selection of the strategic sectors.
<b>2008- present</b>	SOEs + Joint Stock Companies + private enterprises (domestic and foreign)	“State advances, private retreats” especially in the selected strategic sectors.

Source: Naughton (2007), pp. 299-304

It is possible to summarize the story about the transformation of the ownership structure in the Chinese industry since the beginning of the reform period. It is seen that China’s SOE reform began with gradual steps at the end of the 1970s with the efforts of increasing the incentives of the SOEs to improve their performance through granting them operational autonomy which they did not possess under central planning. At the beginning, the gradual character of the SOE reform was not found strange since it was the general character of China’s reforms. On the other hand, it was a surprise when China has preferred to consolidate its state sector at the expense of the private sector since the early 2000s, especially after taking important steps in the way of privatization in line with the commitments of the WTO accession in the second half of the 1990s. Hence, the logic of China’s SOE reform has been mainly based on the pragmatic concerns which guaranteed the preservation of the state ownership in the industry in order to ensure the competitiveness of the SOEs domestically and internationally, even during the reforms which looked very market-oriented. In other words, the Chinese government purposes to create large Chinese enterprise groups in the strategic sectors which would take good positions in the global competitive markets. The Chinese leaders of the reform period have been cognizant of the fact that the global competitive power of the Chinese economy, and hence the global political power of the country, would be increased in order to sustain China’s economic growth under the conditions of the global capitalist accumulation.

In sum, the Chinese SOE reform has not have the expected target of the elimination of the state ownership in the industry as in the post-communist countries and most of the developing countries which have been implementing neoliberal

policies since the early 1980s. Rather, the Chinese SOE reform is based on a pragmatic strategy of introducing some liberalization policies to the industry when it is thought to be necessary such as the need to improve technology or to fulfill WTO commitments. When these problems are solved, it is seen that the Chinese government preferred to consolidate the sectors which were strategic for sustaining the economic development. It is also seen that the regulations of the Chinese government since the end of the 2000s have varied among these strategic sectors and even sub-sectors, mainly because of the conditions which are specific to the sectors, although the final target has been the same as indicated in Chapter 6.

## CHAPTER 6

### THE CHINESE STATE IN TWO LEADING INDUSTRIES

#### 6.1. Introduction

As presented in Chapter 4 and Chapter 5, China's SOE reform was based on a liberalization policy without any emphasis on privatization until the mid-1990s and the privatization policy was introduced by selling off the small and medium sized SOEs which were thought to be having bad performance in the standards of a market economy in the second half of the 1990s. On the other hand, it is seen that the consolidation of the state ownership in the selected strategic sectors has gained significance gradually since the beginning of the 2000s and especially after the global financial crisis in 2008. As a consequence, it is seen that the dual character of the ownership structure in the Chinese industry has sustained even after the three decades of the reform period.

The progress of China's SOE reform gave rise to a variety of explanations. It is stated that the Chinese state continues to control most profitable industries, while the private capital is only let to some service sectors like restaurants and shops. Such an unrealistic *classical* new institutionalist explanation is mainly in the intention of emphasizing that China should provide equal chance of entering the markets to the private capital.<sup>145</sup> As mentioned above, state ownership is mainly concentrated in the selected strategic sectors and it does not have the purpose of totally preventing the emergence of the private sector. It is important to point out that this chapter purposes to indicate that China's SOE reform policies are not related to only the economic incentives of the Chinese governments of the reform period, but especially to their political incentives of sustaining the one-party regime.

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<sup>145</sup> cf. *China Daily*, 2<sup>nd</sup> January 2002.

It is stated that 1.5 trillion US Dollars have been invested by the Chinese state between the years 2005 and 2010 to the seven strategic industries of alternative energy, biotechnology, new-generation information technology, high-end equipment manufacturing, advanced materials, alternative-fuel cars and energy-saving and environmentally friendly technologies.<sup>146</sup> It is important to point out that there has been a discussion on the issue that the Chinese state has differentiated its behavior among the selected strategic sectors. Within this discussion, it is pointed out that the Chinese government prefers to increase consolidation in the traditional industries such as coal industry, while it has been intensely supporting the merger and acquisition activities in the information technology sector.<sup>147</sup>

In line with this discussion, this chapter concentrates on indicating the strategies of the Chinese government in the two strategic industries of information technology and mining. Through overviewing the extent of state intervention in these industries and its consequences, it would also be possible to have an idea on the transforming state-economy and state-society relations in China and the impact of the SOE reform on this transformation since the mid-1990s. Before presenting this overview, it would be appropriate to discuss briefly the overcapacity problem which has been experienced in mostly the traditional sectors of the Chinese industry and also threat the new ones, since this problem has been one of the important factors affecting government policies in these sectors.

## **6.2. Overcapacity Problem in the Chinese Industry**

Overcapacity in most of the traditional industrial sectors has been a significant problem of the Chinese economy; however it is seen that no serious measures have been taken by the Chinese government until the beginning of the 2010s. In 2011, it is decided that eight industries will be consolidated over the next 5 years in order to deal with this problem. These sectors were: automobile, steel, cement, electrolytic aluminum, rare earth mining, IT, equipment manufacturing and medical industries. Regarding this decision, Su Bo, the vice minister of the Ministry of Industry and Information Technology (MIIT), stated that consolidation which has

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<sup>146</sup> *China Daily*, 3<sup>rd</sup> December 2010.

<sup>147</sup> *Business Weekly*, 7<sup>th</sup> January 2008.

been slowed down by the local governments up to that time is essential for industrial development and the transformation of the Chinese economic growth.<sup>148</sup>

About two years after the decision of concentrating on the consolidation of eight industries, MIIT issued a list of companies which are provided with deadlines to overcome the overcapacity problem and take a step to deal with air pollution, otherwise to be closed. In this list, it is pointed out that 58 companies are ordered to cut their excess capacity. This kind of a strategy enforced by the Chinese state has given rise to criticisms. It is mainly argued that the Chinese state which has been responsible from the overcapacities through the promotion of the investment boom in the economy on the one side and the protections and subsidies provided to these sectors on the other side, puts efforts ironically to reduce the excess capacities through again intervening to these sectors. Within this perspective, it is expected that the market would be let functioning freely to cut the overcapacities.

In addition to the criticism on the government policy to deal with the overcapacity problem in the Chinese industry, Gary Liu, the executive director of CEIBS Lujiazui Institute of International Finance in Shanghai, points out that reforming the income distribution system in China is also necessary.<sup>149</sup> It is emphasized that a healthy economy may tolerate overcapacity; however this would not be the case for an investment-driven and government-led model like China. According to the Asian Development Bank economist Zhuang Jian, the Chinese government did not take all the necessary measures against the overcapacity problem in the first three decades of the reform period; because increasing production was viewed as a way of increasing the local GDP and creating employment. In this regard, Zhuang mentions that it would be better to reduce the role of the government, ensure functioning of market forces and identify an active role to the industrial associations in order to solve such problems.<sup>150</sup> In other words, it is expected perspective that such a problem of overcapacity would be eliminated through ensuring the functioning of the market economy, rather than the heavy government intervention and regulation which thought to be mostly ineffective.<sup>151</sup> In sum, the

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<sup>148</sup> *People's Daily*, 8<sup>th</sup> July 2011.

<sup>149</sup> *China Daily*, 3<sup>rd</sup> September 2013 and 18<sup>th</sup> September 2013.

<sup>150</sup> *People's Daily*, 17<sup>th</sup> August 2013.

<sup>151</sup> cf. *People's Daily*, 27<sup>th</sup> August 2013.

systematic intervention of the state in these sectors has been viewed to be the most important cause of the overcapacity problem in the Chinese industry, rather than a solution to it within this perspective.

China cannot view itself outside the global economic and political relations as a consequence of the open door policy, and hence efforts to take the necessary measures to have a good position. It is also possible to view the increasing efforts of eliminating the overcapacity problem especially since 2009 to be related to China's strategy of "go global". As mentioned above, the Chinese state has been willing to create large enterprise groups as national champions in the strategic sectors, which are globally competitive and have the power of controlling global markets since the mid-1990s and this will have taken a more concrete appearance since the beginning of the 2000s. President Jiang explained the need to take part in the global economic relations in his report presented to the Sixteenth National Congress of the CCP in November 2002 as follows.

In response to the new situation of economic globalization and China's entry into the WTO, we should take part in international economic and technological cooperation and competition on a broader scale, in more spheres and on a higher level, make the best use of both international and domestic markets, optimize the allocation of resources, expand the space for development and accelerate reform and development by opening up.

We should expand trade in goods and services. We should implement the strategy of market diversification, bring into play our comparative advantages, consolidate our existing markets and open new ones in an effort to increase exports. We should sharpen the competitive edge of our goods and services for export by ensuring good quality. We should optimize our import mix and focus on bringing in advanced technology and key equipment. We should deepen the reform of the system of trade and economic relations with other countries, encouraging more enterprises to engage in foreign trade and improving relevant taxation systems and the trade financing mechanism.<sup>152</sup>

President Hu also pointed out the need to deepen the opening up reform as a consequence of the volatile global environment and the fierce competition in his report to the Eighteenth National Congress of the CCP in November 2012. More recently, the Chinese Prime Minister Li Keqiang explained this fact as the inevitability of the conditions of 'a multi-polar world' and the impossibility of isolation anymore in a Summer Davos meeting in Dalian, China in September 2013.<sup>153</sup>

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<sup>152</sup> Jiang Z., Report to the Sixteenth National Congress of the Communist Party of China, 2002, available at <http://www.china.org.cn/english/features/49007.htm>

<sup>153</sup> *ZDnet*, 13<sup>th</sup> September 2013.

Since the beginning of the reform period, it is seen that opening the economy and participating the global markets have been seen to be one of the most important factors of ensuring economic growth by the Chinese leaders. The efforts put for WTO membership also stem from this view.<sup>154</sup> In addition to these, it is also pointed out that the “go global” strategy has not stemmed only from the economic and political incentives of the Chinese government, but also economic motivations of the Chinese firms played an important role. Chinese firms have been concentrated in taking part in the global markets in order to reach new markets and acquire advanced technology, established overseas brands and management skills. Most importantly, it is stated that the Chinese firms want to go global, since large companies have been generally in the tendency to go global in line with the experiences of Japanese and South Korean large corporate firms.<sup>155</sup> In other words, they have to go global, because they are capitalist. Zhao Zhongxiu, the vice president of the University of International Business and Economics in Beijing, pointed out that big Chinese SOEs concentrate on going global in order to acquire foreign resources and technologies, and small and medium-sized private firms are in the search for new markets. According to Wu Liang, Administrative Deputy Editor in Chief of the *Economy & Nation Weekly* magazine, going global has been inevitable for China, especially for following the developments in the information technology.<sup>156</sup>

The emphasis on the need to go global for furthering the economic development of China would be seen to reveal one of the capitalist concerns of the Chinese state which “aims to secure economic growth within its borders and/or to secure competitive advantages for capitals based in its borders, even where they operate abroad, by promoting the economic and extra-economic conditions that are currently deemed vital for success in competition with economic actors and spaces located in other states” (Jessop, 2002: 96).

### **6.3. Chinese Information Technology Industry**

At the beginning of the twenty first century, the significance of information technology (IT) for all the economies in the world is obvious. On the other hand, it is

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<sup>154</sup> See <http://www.china.org.cn/english/GS-e/19033.htm>

<sup>155</sup> *Forbes*, 11<sup>th</sup> December 2013.

<sup>156</sup> *Beijing Review*, 16<sup>th</sup> September 2013.

seen that China has identified some specific reasons for assigning importance to the development of its IT industry. It would be appropriate to overview these reasons, before concentrating on the role of the Chinese state in the development and functioning of the IT industry and the related telecommunications industry.

### **6.3.1. The Importance of the Information Technology**

The importance assigned to technology promotion in China goes back to the Maoist era and it would be misleading to claim that such an emphasis rose with the reform period. On the other hand, the IT industry has gained more importance especially since the beginning of the reform period and especially in the 1990s and the 2000s in line with the developments in the world.<sup>157</sup> China has the highest number of internet and mobile phone users in the world (EU SME Centre, 2011). Jiang Zemin, as the former President, mentioned the significance of information technology in an article dated 28 October 2008 as follows:

In modern society, the factors contributing to economic growth have expanded from capital, land and labor to include technology, knowledge and information. Information is a production factor available for limitless use, and it can produce incremental benefits, expand sources of growth and promote sustained economic growth. The development and use of information enables technology, knowledge, and other new production factors to fully play their role in economic development, and make an ever-increasing contribution to it. In developed countries, the contribution of technological advances based on information use generally accounts for about 70% of economic growth.<sup>158</sup>

As a consequence of this emphasis, it is seen that the IT sector turned out to be among the sectors receiving highest value of FDI in China, while it is seen that there have been increasing outward FDI flows and exports in this sector. As a consequence, China became the largest producer and trader of the IT and telecommunication products in the world. More importantly, it is seen that the development of the IT and the telecommunication sectors has played an important role in the transformation of the Chinese industry and the whole economy (Simon, 2012: 192, 200).

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<sup>157</sup> IT industry includes the software, hardware and IT services sectors. IT and the telecommunication sectors constitute information and communication technologies (ICT). The highest share in the Chinese ICT sector belongs to IT hardware sector followed by the telecommunication sector (EU SME Centre, 2011).

<sup>158</sup> Jiang Z., *On the Development of China's Information Technology Industry*, Elsevier, USA, 2010, p.7.

It is pointed out that the Chinese state has not been able to set a consistent policy in line with the market principles regarding the development of this sector until the end of the 1990s. The R&D activities in China were mainly performed by the SOEs which were supported as national champions especially in the second half of the 1990s, while some private enterprises also began to involve in these activities since the end of the 1990s (Naughton, 2003: 21-22). In 1999, the Chinese government announced its policy of assigning priority to the technological development and R&D activities (Naughton, 2003, 18). In line with this policy, the Tenth Five Year Plan (2001-2005) which included the implementation of government-supported IT projects all over the country and the establishment of the necessary modern infrastructure represents one of the initial official steps of developing the Chinese IT industry. This decision was supported by Zeng Peiyan, the minister of the State Development Planning Commission of the period, who stated that IT will be used in various areas in China such as finance, foreign trade, media, education, science and public service.<sup>159</sup> A few years later, it is seen that the news regarding the increasing contribution of the IT sector to the Chinese economic growth appeared in line with the statement of Zeng. In this regard, specifically the role of the developments in the telecommunication sector and the increasing competition in the PC market at the beginning of the 2000s were emphasized.<sup>160</sup>

According to Zhu Hongren, the chief engineer of MIIT, it is targeted that the IT industry would be the third largest industry in China after real estate and vehicles sectors.<sup>161</sup> Zhu mentions that both MIIT and the National Development and Reform Commission (NDRC) work together in order to develop and improve the infrastructure of the IT industry. Zhu also points out that the economic growth of China which has been based on external demand has been under pressure, so that it is inevitable to concentrate on increasing the domestic consumption.<sup>162</sup> In this regard, the efforts of developing and improving the IT industry are also provided to be in line with the target of increasing the consumption of IT products. Through increasing

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<sup>159</sup> *Business Weekly*, 24<sup>th</sup> April 2001.

<sup>160</sup> *Business Weekly*, 1<sup>st</sup> January 2002

Lenova had 32 percent share in the Chinese PC market in 2010 and was followed by the Japanese Toshiba and NEC and three firms from Taiwan (EU SME, 2011).

<sup>161</sup> *Xinhua*, 21<sup>st</sup> August 2013.

<sup>162</sup> *Caijing*, 24<sup>th</sup> July 2013.

the IT consumption, it is thought that the nature of the economic growth in China would have been transformed from an investment-driven to a consumption-based and from an external demand driven to a domestic demand driven model. The president Jiang Zemin also mentioned the importance of increasing the consumption of the IT products on 25<sup>th</sup> August 2001 as follows:

Materials, energy, and information are the three main resources of modern social development. The rapid development of IT makes information resources more important by the day. Economic development and social progress make the importance of information resources ever more apparent. The shortage of resources is an important issue that global economic development must face. In order to maintain sustained, sound, and rapid development of our country's economy, we must give an important strategic position to developing and utilizing information resources. If we vigorously develop and utilize them, we can effectively reduce the consumption of materials and energy per unit of gross national product (GNP). I once said that if we make full use of the multiplicative effect electronic information technology exercises on the economy, we can increase the efficiency of our national economy, decrease consumption, and use our already considerable steel, coal, electricity, and oil resources to better develop our economy. We should draw up a practical information resources strategy, adopt policies and measures, and promptly implement them.<sup>163</sup>

The main emphasis of the Chinese industrial policy had been the maximization of the industrial growth since the beginning of the reform period. On the other hand, new emphasis of the Chinese industrial policy emerged especially since the beginning of the 2010s, in the sense of increasing the quality and profitability of industrial production. It is pointed out that the IT industry would be improved and applied in the traditional industries so that the overall industrial efficiency would be increased.<sup>164</sup> In other words, IT industry has been viewed to be one of the important tools of increasing the efficiency of the Chinese industry and the competitiveness of the Chinese economy.<sup>165</sup> Thus, IT industry has turned to be a strategic milestone for the modernization of China and ensuring long-term economic growth through creating new industrial patterns and increasing consumption. It is obviously not strange that the Chinese leadership has viewed the development of information technology as one of the most important factors of the modernization of

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<sup>163</sup> Jiang Z., *On the Development of China's Information Technology Industry*, Elsevier, USA, 2010, p.267.

<sup>164</sup> *China Daily*, 16<sup>th</sup> November 2010. As expected, an importance is assigned to the development of the IT sector for its application in the defense industry (Xinhua, 8<sup>th</sup> November 2012).

<sup>165</sup> *China Daily*, 16<sup>th</sup> August 2013.

China; since it is the case for all the countries in the world in the twenty first century, mostly for the developing ones.<sup>166</sup>

The importance of the information technology and its integration with the other industrial sectors found official expression in both the Sixteenth National Congress (November 8-14, 2002) and the Seventeenth National Congress (October 15-21, 2007). Shang Bing, the vice minister of MIIT, stated that the information technology has become the new engine of the Chinese economy.<sup>167</sup> The development of information technology is viewed to be one of the ways of evolving from a “big industrial nation” to a “strong industrial nation”.<sup>168</sup> Because of these reasons, it is seen that the Chinese state has provided different kinds of supports to the industry, especially through MIIT, in order to achieve the target of developing the IT industry. It is seen that these supports have played a role in the creation of young billionaires in China, although real estate is still the most popular sector in this sense.<sup>169</sup> In other words, it is seen that the emphasis of the Chinese state on the development of the IT industry has also had social consequences, especially in terms of adding new members to the new Chinese capitalist class.

It is also important to mention that the IT sector is also seen significant within the efforts to “go global” as mentioned above. It is accepted that the Chinese IT firms are latecomers to the international market, which means that they have to put more efforts on acquiring skills, building relationships and developing a new talent in this area.<sup>170</sup> The efforts of the Chinese state to support the Chinese enterprises in this industry partly stem from these weaknesses. For instance, it is announced by Zhou Zixue, the chief economist of the MIIT, that it is planned to provide both regulatory and financial support to the local cloud computing providers, since cloud computing which has been seen as the major driver of the Chinese IT industry is thought to be weak.<sup>171</sup>

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<sup>166</sup> As the famous professor of economics Jeffrey D. Sachs stated, both the rich and the poor parts of the world will benefit from the development of information technology (Caijing, 25<sup>th</sup> November 2011). Although it is not an issue to be discussed within this dissertation, it is a question whether these benefits will be evenly distributed.

<sup>167</sup> *Xinhua*, 13<sup>th</sup> August 2013.

<sup>168</sup> *People's Daily*, 12<sup>th</sup> August 2013.

<sup>169</sup> *People's Daily*, 28<sup>th</sup> August 2013.

<sup>170</sup> *Caixin*, 6<sup>th</sup> August 2013.

<sup>171</sup> *China Daily*, 16<sup>th</sup> August 2013.

According to MIIT, the development of the IT industry gained more significance in the second half of the year 2013, specifically because the growth of the traditional industrial sectors has experienced a slowdown. In this regard, it is mentioned again that the measures have to be taken in order to boost the demand to the IT products, so that it would be possible to transform the Chinese economic growth from an investment-led model to a consumption-based model. In addition to this, it is pointed out that overcapacity in the IT sector would be avoided.<sup>172</sup> According to the MIIT, it is important to point out that increasing the consumption of IT products depends on changing the consumption habits in China.<sup>173</sup> As the first step, it is expected that the use of information technology would give rise to new trends and change consumer behavior. It is possible to state that this process has already begun. For instance, it is pointed out that the increasing role of e-commerce in the Chinese economy has put pressure on traditional retail shops. It is stated that online sales turned out to be 6 percent of the total retail sales in 2012, surpassing the US which recorded 5.2 percent.<sup>174</sup> On the other side, it is also mentioned that there is still no Internet access in some parts of China, such as Guzhou which is in the southwest of China, and the telecommunication companies have not been interested in building the necessary infrastructure in such areas because of high costs. In this regard, NDRC put the emphasis on the need to close such gaps between the West and China in order to ensure the development of IT industry and set the year 2020 as the deadline to realize this target.<sup>175</sup>

The next step came from the State Council in the middle of 2013, which declared a target of more than 20 percent annual growth of the consumption of IT products through 2015.<sup>176</sup> It is again pointed out that achieving this target is significant for economic restructuring in China.<sup>177</sup> In line with this target, 103 “smart cities” have been built in order to work on IT development and its application to

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According to MIIT, the Chinese IT industry mainly consists of cloud computing, Internet and e-commerce (*China Daily*, 15th August 2013).

<sup>172</sup> *China Daily*, 25<sup>th</sup> July 2013.

<sup>173</sup> *People's Daily*, 19<sup>th</sup> August 2013.

<sup>174</sup> *Caijing*, 9<sup>th</sup> April 2013.

<sup>175</sup> *China Daily*, 2<sup>nd</sup> September 2013.

<sup>176</sup> *China Daily*, 25<sup>th</sup> July 2013.

<sup>177</sup> *Xinhua*, 13<sup>th</sup> August 2013.

other industries. Also, local governments have been allowed to increase their expenditures on IT-related infrastructure.<sup>178</sup> As a consequence of these efforts, it is seen that records of IT consumption have not been disappointing. MIIT announced that China's consumption of IT products and services reached 1.38 trillion yuan (223.3 billion US dollars) in the first five months of 2013.<sup>179</sup>

It is seen that the local governments have also been supporting the development of the IT industry, since they have also understood that the future of the economic growth and their well-being depend on this industry. For instance, Jiang Guangzhi, the director of the Software and IT Services Department at the Beijing Municipal Commission of Information and Technology, stated that the central government would provide more financial support to the IT firms and make them enjoy a more market-oriented environment.<sup>180</sup> As the general tendency in all the reform areas, this statement regarding the demands from the Chinese state is contradictory. It is expected that the IT sector will be more market-oriented on the one hand, while it is also expected that the Chinese government would provide more and more financial and regulatory supports in order to ensure the development of the sector.

Contrary to the market-oriented expectations, it is seen that the intervention of the Chinese state to the IT sector is not limited to its financial supports to the IT firms, but its policies turn out to function as entry barriers to the market for specifically the foreign firms. It is also seen that the trade barriers and restrictions have been applied without feeling guilty to the WTO in order to protect the Chinese IT firms in the global market. China has complained that most of the demands of the WTO within the negotiations on amending the Information Technology Agreement were intolerable; since Chinese technological level still lacks behind the advanced countries and hence has to be protected by the Chinese government. In this regard, it would be mentioned that the overall size of the Chinese IT and the telecommunication markets is still small when compared to countries like Japan, Germany and the US. For instance, it is pointed out that the Chinese ICT expenditure corresponds to only one over twentieth of the German expenditure (Simon, 2012:

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<sup>178</sup> *China Daily*, 9<sup>th</sup> August 2013.

<sup>179</sup> *Xinhua*, 5<sup>th</sup> July 2013.

<sup>180</sup> *China Daily*, 23<sup>rd</sup> November 2012.

193). China declared that it would not be correct for China to commit something that it cannot as a country being watched closely by the international community, especially by the other developing countries.<sup>181</sup> In this context, it is also pointed out that there have been complaints regarding the discrimination against the Chinese IT firms in the foreign markets.<sup>182</sup> On the other side, the US and the European IT enterprises has also complained about the regulatory requirements of the Chinese government which keep them out of the Chinese IT market.<sup>183</sup> The rise of such international discussions indicates that the policies of China to develop and support the IT industry begun to influence the global IT market. It is also important to overview the role of the Chinese state in the development of the Chinese telecommunications industry as one of the most significant sectors of the Chinese industry and as being closely related to the IT industry.

### **6.3.2. Chinese Telecommunications Sector**

Although it is a new sector, telecommunications sector has become significant for China. The total number of subscribers including fixed, mobile and Internet was more than 1.14 billion by 2010, putting China in the first at the world rank (Simon, 2012: 195). As it is the case in all the reform areas, the reforms in the Chinese telecommunications sector have also followed some phases (Hsueh, 2011). It is seen that Ministry of Post and Telecommunications (MPT) constituted the monopoly in the sector until 1994. In 1994, China Unicom was established by the Ministry of Electronic Industry (MEI), operating under the control of the State Economics and Trade Commission (SETC) (Hsueh, 2011: 63). In other words, the Chinese telecommunication sector was surrounded by the control of a number of different bureaucratic institutions at the beginning of the reform period.

The Chinese state decided to introduce competition to the telecommunications sector at the beginning of the 1990s in order to ensure the technological development in the sector and the establishment of the necessary modern network infrastructure. It is also pointed out that the Chinese state purposed to discipline the domestic telecommunications firms through the liberalization of the

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<sup>181</sup> *China Daily*, 24<sup>th</sup> July 2013.

<sup>182</sup> *China Daily*, 1<sup>st</sup> August 2013.

<sup>183</sup> *China Economic Review*, 24<sup>th</sup> February 2010.

sector. In order to achieve these targets, also to guarantee technology transfer, the Chinese government let the formation of the joint ventures by the state-owned Chinese firms and the foreign investors (Hsueh, 2011: 61-62).

As a consequence of the government's support to the joint ventures, a kind of a competitive environment emerged in the Chinese telecommunications sector during the 1990s with the operation of China Unicom, Jitong, China Netcom, China Railcom and China Telecom.<sup>184</sup> On the other hand, the Chinese government indicated that it is not willing to establish full competition in the sector through the end of the 1990s and began to intervene the sector in 1998 through breaking-up the joint ventures. In addition to this, new market entry barriers were identified and regulatory provincial branches of the MPT were established. This revised strategy of the Chinese state has been interpreted as the reregulation of the telecommunications sector in order to gain the monopoly on the whole infrastructure built within the sector and on the direction of the network development (Hsueh, 2011: 61-63). As a consequence, the competition in the telecommunication sector was replaced by an oligopolistic structure at the beginning of the 2000s formed by the "Big Three" consisted of China Telecom, China Unicom and China Mobile which had a total of almost 80 percent market share.<sup>185</sup> At the beginning of the 2010s, China DBSAT entered the market as another state-run telecommunication firm (EU SME, 2011). Hence, it is possible to state that the Chinese state seemed to be developing competition in the telecommunication sector until the necessary infrastructure is built and technology transfer is ensured, and then has used these developments for establishing the dominance of the SOEs in the domestic and the global markets. It is also pointed out that the behavior of the Chinese government has varied among the subsectors of telecommunication services and equipment (cf. Hsueh, 2011).

The sector of the telecommunications services witnessed a liberalization phase between the years of 1993 and 1997 (Hsueh, 2011: 64). In this process, it is seen that joint ventures with China-China-Foreign (CCF) structure were allowed to be established, which played an important role in the development of the sector and the establishment of the necessary infrastructure. For that period, it is possible to

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<sup>184</sup> China Telecom was divided into four separate companies in 1999.

<sup>185</sup> *Business Weekly*, 17<sup>th</sup> April 2001.

state that the firms in the telecommunications services sector found themselves in a fierce price war in order to ensure their market share (Hsueh, 2011: 66).

When it was thought that the desired infrastructural and technological development level in the telecommunications services sector was achieved, a phase of reregulation was started in 1998 until 2000 in the telecommunications services sector. The first step was the unification of the different bureaucratic apparatuses which were all seen to be responsible of the development process of the sector and were also in some kind of a competition with each other for authority. In order to give an end to this bureaucratic disorder, the State Council merged the MPT, MEI and the Radio Regulatory Commission to create the Ministry of Information Industry (MII) in March 1998 (Hsueh, 2011: 66-67).

As the second step of the reregulation strategy of the telecommunications services sector, the State Council and the State Development and Planning Commission (SDPC) issued a notice purposing to question the legality of the CCFs. This was an important action in the way of limiting and controlling the FDI liberalization which was implemented in the sector since the beginning of the 1990s. As a consequence, it was declared in February 1999, as one of the initial acts of the new Ministry, that the CCF contracts would be ended by September 1999 (Hsueh, 2011: 67). As a consequence, it is possible to state that the Chinese government liberalized the telecommunications services sector as the WTO accession process began and preferred to reregulate it when the country became the member. In addition to the reregulation policies mentioned above, it is seen that the Chinese government began to intervene the telecommunications services sector through a variety of policies such as discretionary licensing, personnel rotation, corporate and industry restructuring contrary to its general commitments of liberalization to the WTO (Hsueh, 2011: 93).

On the side of the telecommunications equipment sector, it is possible to state that the control and regulations of the Chinese government has been less when compared to the sector of telecommunications services, although this does not mean that there was no control in this sector (Hsueh, 2011: 78-79). It is pointed out that the equipment maker firms enjoyed a relatively free market which was seen partly as a consequence of the agreements with the WTO, although the Chinese state increased its controls in this sector between the years 1998 and 2001. In this regard, it is thought that the dynamism of the Chinese electronics industry in general has been

formed by both the government policies and the market forces (cf. Naughton, 2003: 3).

At the beginning of the 2000s, China's telecommunications equipment industry continued to develop to have an important position in the global market (Naughton, 2003: 18). Contrary to the expectations, more China-specific regulations regarding the sector have emerged in the global market, especially after the membership to the WTO (Hsueh, 2011: 84). For instance, the Chinese government preferred to impose some China specific definitions and reinterpretations of the WTO commitments, rather than signing the WTO Basic Telecommunications Agreement expectedly as a consequence of the membership. Also, it is seen that the Chinese government has put pressure on FDI inflows to the telecommunications equipment sector as it has in the service sector (Hsueh, 2011: 88-89). Hence, it is possible to state that the Chinese government has managed to take the control in the two sub-sectors of the telecommunications industry as one of the strategic industries, although it did not follow exactly the same strategy. The main strategy of the government was ensuring the establishment of the necessary infrastructure and technology development in the sector through liberalization.

It is also seen that the Chinese telecommunications sector did not witness any liberalizing efforts since the beginning of the 2000s. It is stated that SASAC has not been willing to see competition in such sectors. Rather, it has preferred the formation of mergers, since the existence of large firms would bring more revenue to the government (Hsueh, 2011: 94). In addition to this, the restrictions in this sector also found expression in the concerns of avoidance of political reforms in China. For instance, the protests via Internet against the Japanese, the industrial pollution and the political corruption in 2004 and 2005 caused the enforcement of new licensing rules by the Ministry of Industry and Information Technology (MIIT).<sup>186</sup> In this regard, it is possible to state that the sector turned out to have a political and national significance in addition to its economic value (Hsueh, 2011: 97). In response to the new licensing rules, Joerg Wuttke, president of the EU Chamber of Commerce in China, mentioned that the general perception is that the Chinese government desires to control every piece of information in the country. The discussion on the behavior

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<sup>186</sup> The Ministry of Information Industry (MII) was transformed to the Ministry of Industry and Information Technology on March 2008.

of the Chinese government on the foreign firms operating in the IT sector found expression in the complaints of Google.<sup>187</sup> It is also known that there have been similar restrictions of the Chinese government with similar intentions on the TV cable networks which were built at the beginning of the 1990s. Only local governments and the state-owned factories supervised by the local Ministry of Broadcasting, Radio and Film branches were permitted to build cable networks, meaning that there was no permission for the private firms. The strategy followed by the Chinese government in the telecommunication sector since the end of the 1990s made the sector have a dual character as in the other sectors and other reform areas (Simon, 2012: 198).

The controls and the restrictions in the telecommunications and the IT sectors were declared officially by the Chinese government especially after 2008 and these two significant sectors were selected to be among the strategic sectors. It is important to point out that the government control over these sectors eased the technical control over the whole industry as expected, which reminds the control of the developmental states over the industry (Hsueh, 2011: 117). On the other hand, it is mentioned that the strategy of the Chinese state in the telecommunications sector has been totally different from the strategy implemented by the developmental states of Japan, South Korea and Taiwan; because China has combined the introduction of competition with the administrative and corporate restructuring in order to ensure the state control over the sector. On the other hand, developmental states have preferred managed competition, bureaucratic bargains and interaction with the private firms. Especially in the telecommunications services sector, the developmental states established a privatized monopoly, while they protected the basic services through regulations. On the contrary, China gave rise to a deep competition in the sector through FDI liberalization as the initial strategy and then preferred reregulation. In the equipment sector, the developmental states have regulated the FDI and initiated R&D in the sector, whereas China again preferred to develop the technology in the sector through initially liberalizing it and then adopting reregulation policy. Through such a strategy in the domestic market, China also managed the formation of Chinese technology standards to be enforced in the global market by especially its large SOE groups (Hsueh, 2011: 119).

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<sup>187</sup> *Financial Times*, 21<sup>st</sup> February 2010

<http://www.ft.com/intl/cms/s/0/17f8a6a2-1f10-11df-9584-00144feab49a.html#axzz2phxnMAZ1>

A particularly interesting development has been the emergence of government supported efforts to define Chinese technology standards—in opposition to global technology standards—in order to give Chinese firms a competitive advantage. There are two dimensions to these efforts: by defining technical standards that have some “Chinese characteristics,” the Chinese government imposes modest delays on foreign technology holders: given their technological prowess, they can easily master the Chinese standards, but their product development is delayed by several months. This gives a breathing space to Chinese firms. The other dimension is pecuniary. Promotion of Chinese standards gives Chinese firms bargaining power with foreign suppliers over technology licensing rates. Chinese firms can resist paying—claiming their standards are different—and they can suggest swaps in which each side gains permission to use the other’s technologies.<sup>188</sup>

It is certain that non-Chinese firms have not been satisfied with facing the Chinese technology standards, since these standards function as entry barriers to not only the Chinese IT and telecommunications markets, but also put these firms in difficulty in the global markets. The US and the EU firms demand the cancellation or relaxation of compulsory certification of most of the technology products imposed by China; because such regulatory measures of the Chinese government make it difficult for these firms to sustain in these markets. John Neuffer, vice-president for global policy at the Information Technology Industry Council, stated that the non-Chinese companies have to create two costly product lines, for the Chinese standards on the one hand and for the world standards on the other hand.<sup>189</sup>

EU industry is concerned with the overall complexity and lack of transparency of China’s regulatory and conformity assessment practices in the information and communication technology (ICT) sector, which contribute to an increasingly unpredictable business environment and serious market access problems. The combined effect of these practices is to severely hamper market access to foreign and foreign-invested companies in China.<sup>190</sup>

Despite these discussions, it is seen that foreign firms dominate the overall Chinese IT and telecommunication sectors. At the beginning of 2012, it is stated that the foreign firms constituted the 51 percent of the total number of firms in the sector, when compared to 27 percent and 22 percent shares of private Chinese firms and

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<sup>188</sup> Naughton B., “The Information Technology Industry and Economic Interactions between China and Taiwan”, Revision of a paper presented to the conference on “New Information Technologies and the Reshaping of Power Relations: An Approach to Greater China’s Political Economy,” CERI, Paris, December 16-17, 2002, 2003, pp.24-25

<sup>189</sup> *China Economic Review*, 24<sup>th</sup> February 2010.

<sup>190</sup> [http://madb.europa.eu/madb/barriers\\_details.htm?barrier\\_id=085196&version=2](http://madb.europa.eu/madb/barriers_details.htm?barrier_id=085196&version=2)

state-owned companies respectively (Simon, 2012: 193). Top 20 IT and telecommunication firms in China in 2006 would be seen in Table 6.1. It is also stated that the foreign firms were dominated by the Asian firms in number, while technological development is mainly provided by the firms from the EU and the US. It is stated that the Chinese firms produce low quality products as they lack the necessary technology, but they contribute to the sector through employment. On the other hand, it is also pointed out that there have been exceptions within the Chinese firms such as Huawei, Lenovo and ZTE which have improved their technological level considerably and their competitiveness in the global market (cf. Simon, 2012: 194-195).

As large enterprise groups have more chance of surviving in the global markets, the Chinese government preferred the strategy of increasing the competitiveness of large Chinese SOE groups in the global markets. In order to achieve the target creating national champions, more emphasis has been put on R&D activities in China. On the other hand, it is thought that the Chinese investment on R&D is not enough, making especially the Chinese IT and telecommunication firms weak to be global (cf. Simon, 2012: 200-201). It is seen that the Chinese leadership has also been aware of this fact, especially lacking behind the developed countries in R&D investments, and takes this weakness into consideration while forming its strategy in these sectors. Hence, there is no reason to think that China will never be able to solve such problems. In addition to this, it is important to point out that there have been factors other than low R&D investment, which make it difficult for China to realize its strategy of “go global”.

Table 6.1. Top 20 IT and Telecommunication Firms in China in 2006 (Ranked by Revenue)

Company	Location	Nationality	Ownership Status	Products
ChinaMobile Communications Corporation	Beijing	PRC	State holding	Telecom
China Telecom Corporation Ltd.	Beijing	PRC	State holding	Telecom
Hongfujin Precision Industry (Shenzhen) Co., Ltd.	Shenzhen Guangdong	Taiwan, China	Solely owned	Computer peripheral equipment
China Unicom Ltd.	Beijing	PRC	State holding	Telecom
Motorola (China) Electronics Ltd.	Tianjin	USA	Solely owned	Mobile phones, walkie talkie, wireless communication equipment
Nokia (China) Investment Co., Ltd.	Beijing	Finland	Solely owned	Mobile phones, digital Program-controlled switchboards
Huawei Technology Co., Ltd.	Shenzhen Guangdong	PRC	Private owned	Program - controlled switchboards, software
Fu Tai Hong Precision Industry Co., Ltd.	Shenzhen Guangdong	Taiwan, China	Solely owned	Mobile handset accessories
Inventec Technology Co., Ltd.	Shanghai	Taiwan, China	Solely owned	Notebooks, enterprise servers, storage products, wireless communications , network applications, consumer mobile devices and wireless solutions
Hisense Group Co. Ltd.	Qingdao, Shandong	PRC	State holding	Color TV, cell phone
Shanghai Dafeng Computer Co., Ltd.	Shanghai	Taiwan, China	Solely owned	Notebook computers, servers, mobile phones, LCD monitors, LCD TVs and other IT products
Shanghai Dagong Computer Co., Ltd.	Shanghai	Taiwan, China	Solely owned	Computer and notebooks
Lenova Information Products (Shenzhen) Co. Ltd.	Shenzhen Guangdong	USA	Solely owned	Commercial desktop computers, multimedia computers, notebook computers
Shanghai Daye Computer Co., Ltd.	Shanghai	Taiwan, China	Solely owned	GSM mobile phone and accessories, micro computer and accessories
Lenova Information Products (Beijing) Co. Ltd.	Beijing	USA	Solely owned	Electronic computer and components, computer peripherals, software information systems and networking products, electronic information products
Flextronics Industrial (Zhuhai) Co., Ltd.	Zhuhai Guangdong	USA	Solely owned	PCBA(PCBA= Printed Circuit Board plus Assembly)
Panda Electronics Co., Ltd.	Nanjing, Jiangsu	PRC	State holding	Wireless base stations, program controlled switches, colour TC, cell phone
Qun Kang Science and Technology (Shenzhen) Co., Ltd.	Shenzhen Guangdong	Taiwan, China	Solely owned	Display production, electronic components, semiconductors and components product-specific materials
Beijing Sony Ericsson Putian Mobile Communications Co. Ltd.	Beijing	Sweden/ Japan	Joint venture	Mobile
LG Philip LCD (Nanjing) Co., Ltd.	Nanjing, Jiangsu	Korea	Solely owned	LCD Monitor

Source: Simon (2012), pp.196-197

First of all, it is stated that the Chinese firms are not prepared to go global. The firms are not conscious enough and their staff cannot easily integrate with different cultures and have the ability to learn different languages as stated by Ma Weihua, chairman of Wing Lung Bank. On the other side, there have also been factors other than stemming from China. It is seen that the US manipulates the operation of the Chinese firms in the global markets in general as well as its IT firms. For instance, it is stated that a report from the US House of Representatives on October 2012 included excluding the Chinese telecommunication equipment firms, specifically Huawei and ZTE, from all the mergers and acquisitions in the country. Such a report obviously gave rise to a kind of conflict between China and the US, although Francisco J. Sanchez, the US undersecretary of commerce for international trade, explained that the Chinese investment is welcomed and such review processes stemming from the national security concerns are not unique to China.<sup>191</sup> In addition to this, it is stated that a wind farm project by Sany Group which is China's largest machinery maker was restrained again with the statement of national security concerns by the US President Barack Obama in the same year. Carolyn Ervin, OECD Director for Financial and Enterprise Affairs, mentions that there has been a general skepticism towards the investment of all state-backed companies, not only the Chinese ones because of the relationship between these companies and the governments giving rise to unfair advantages to these companies.<sup>192</sup>

Contrary to the IT market which is dominated by foreign firms, the telecommunication sector is an oligopoly dominated by the state ownership as mentioned above. State controls in the sector have continued in addition to the sustaining dominance of the state ownership and especially licenses have been among the most important tools of the state control in the sector. For instance, the licenses which have been issued for the entrance of 3G and 4G networks representing the strong control of the Chinese government on the telecommunications sector, have attracted a great interest. The interest mainly stems from the fact that such licenses have an important impact on the position and power of a firm in such sectors.<sup>193</sup>

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<sup>191</sup> *ZDnet*, 13<sup>th</sup> September 2013.

<sup>192</sup> *Beijing Review*, 16<sup>th</sup> September 2013.

<sup>193</sup> *Caijing*, 26<sup>th</sup> December 2012 and 10<sup>th</sup> August 2013.

As mentioned above, it is regularly declared by the Chinese government that the necessary measures will be taken in order to break up the monopoly of the state ownership in the telecommunications sector.<sup>194</sup> On June 2012, MIIT issued a document regarding the encouragement of the entry of private capital to the telecommunications industry. On the other hand, it is generally thought that the existing big telecommunication firms and their CEOs prefer to “protect the existing overall environment”.<sup>195</sup> It is not difficult to understand this preference of *status quo*, since it is simply the consequence of the willingness of the new Chinese bureaucratic capitalist class to protect its interests. It is certain that the Chinese government has also contributed this process in line with its interests. On the other hand, such a preference is also observed in the resistance of the three big telecom companies against NDRC and MIIT which want to reduce telecom charges since 2011.<sup>196</sup> It is possible to explain this resistance that the interests of this new capitalist class have become apparent to the extent that it began to resist some of the expectations of the Chinese government and bureaucracy despite their close links.

It is possible to state that the organic link between the state and the new capitalist class has been transformed to be similar to the state-capital relation in other countries implementing neoliberal policies. For instance, the management teams of the Chinese big telecom firms have been determined in this manner. In May 2011, it is stated that the vice minister of MIIT would become the chairman of China Mobile, while the vice chairman of China Telecom would become the vice minister. Also, it is stated that China Telecom general manager would become the governor of Yunnan province, while the general manager of China Unicom would become the general manager of China Telecom.<sup>197</sup> This kind of politics-business relations and corruption which increases as a consequence of these relations would be seen as the appearance of the capitalist relations in China.

It is pointed out that “the Chinese government has no intention to take a ‘hands off’ attitude toward technological development” (cf. Naughton, 2003: 23). On the other hand, it is seen that there have been a number of advocates of liberalization

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<sup>194</sup> cf. *People’s Daily*, 10<sup>th</sup> January 2013.

<sup>195</sup> *Caijing*, 26<sup>th</sup> December 2012.

<sup>196</sup> *Caijing*, 27<sup>th</sup> August 2013.

<sup>197</sup> *Caijing*, 31<sup>st</sup> May 2011.

in the Chinese telecommunications sector. For instance, Xiang Ligang, the secretary general of the 3G Innovative Applications Forum which is an official contest forum, states that state monopoly has been the most important problem standing in front of the Chinese telecommunications industry. Within this perspective, Xiang emphasizes that the firms would put all their potential efforts in order to improve themselves, if there was a fair competition in the sector.<sup>198</sup> In addition to this point of view, the monopolistic nature of the telecommunications sector in China has bothered many because of allowing corruptions. For instance, it is seen that China Telecom, “a government-backed telecommunication giant”, appeared on the news of a corruption case related to the MIIT in 2011.<sup>199</sup> Although it is stated that China Telecom denied such a link, it is known that such news creates a kind of reaction. One year later, it is seen that China Mobile was also seen on the news to be related to a similar corruption case.<sup>200</sup>

### **6.3.3. Concluding Comments Regarding the IT Industry**

Although the information technology is significant for all the economies of the twenty first century, its development has been attributed some specific significance in China in the manner of having an important role in transforming the investment-based economic growth model to a consumption-based model. The Chinese policymakers also expect that the development of the IT industry and the increase of the consumption of the IT products would help increasing the efficiency of the whole Chinese industry. The policies of the Chinese government on the IT and the telecommunication sectors have been in the efforts of realizing these expectations since the beginning of the 2000s.

The ownership structure is diversified in the Chinese IT industry including foreign enterprises, while the telecommunication sector has an oligopolistic structure dominated by the state ownership. The Chinese leadership has understood especially since the mid-1990s that having a global competitiveness is one of the golden rules of sustaining the capitalist economic development in the era of globalization. In this regard, China has put efforts in order to establish large company groups operating in

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<sup>198</sup> *People's Daily*, 15<sup>th</sup> April 2013.

<sup>199</sup> *Caijing*, 29<sup>th</sup> March 2011.

<sup>200</sup> *Caijing*, 13<sup>th</sup> March 2012.

the IT and telecommunications sectors which are competitive in the global markets and are able to control these markets if possible. The allowance of the foreign firms to the IT industry would be explained by the need of improving the technology in order to achieve this target. Table 6.2 would be seen for the list of the foreign enterprises operating in the Chinese IT and telecommunication industries. On the other side, it is also important to mention that the Chinese government has used every chance to have a China specific influence in the global IT and telecommunications markets, and to preserve the global competitiveness of its companies.

Table 6.2. Foreign Enterprises in the Chinese IT and Telecommunication Sectors

<b>Network infrastructure suppliers</b>	Alcatel Nortel Networks Motorola Ericsson Cisco Nokia Siemens
<b>Network operators and service providers</b>	AT&T Verizon Vodafone
<b>Suppliers of computer/mobile hardware and software</b>	IBM HP Dell Apple Samsung Microsoft Oracle SAP, Cisco CDC Software
<b>Media, content providers, e-commerce platforms</b>	Google Amazon Eachnet (ebay) Groupon
<b>ICT consultants and systems integrators</b>	IBM HP
<b>Web/app/game developers and design/marketing agencies</b>	OlgivyOne UbiSoft Electronic Arts Rovio
<b>Distributors</b>	Ingram Micro

Source: EU SME Centre, 2013, available at [http://www.ccilc.pt/sites/default/files/eu\\_sme\\_centre\\_report\\_the\\_ict\\_market\\_in\\_china\\_en.pdf](http://www.ccilc.pt/sites/default/files/eu_sme_centre_report_the_ict_market_in_china_en.pdf)

The willingness of the Chinese government to increase the competitiveness of the Chinese IT and telecommunication enterprises in the global markets has given rise to the tendency of the concentration of capital in the hands of large enterprises. This fact is specifically true for the telecommunication industry; however has been

expected to occur also in the IT industry in time as a consequence of market entry barriers and through mergers and acquisitions (EU SME, 2011).

#### **6.4. Chinese Mining Industries**

Consolidation policy has become widespread to solve the problems of the mining industries in many countries. China has also adopted a consolidation policy in the mining industry as a significant strategic sector since the mid-2000s. The Chinese leadership has mainly pointed out the problems in different mining industries as the cause of the consolidation policy, especially overcapacity, mining accidents each giving rise to a considerable number of deaths, illegal mining, smuggling and environmental degradation. On the other hand, it is also important to point out the willingness of China to have an impact on the global markets of the natural resources and especially on their prices. In other words, the consolidation policy in the mining industries would also be seen as a part of the efforts of China to stand in the global markets and take a more active part in the global distribution of resources.<sup>201</sup>

Consolidation policy in the mining industries has been a global trend as mentioned above, since it is thought by the governments that big and strong companies would be more successful in the mining industries, specifically in exploration, research and development, and generating higher profits.<sup>202</sup> Hence, it is not difficult to understand such concerns of China. In addition to this, it is also important to mention that there is resource scarcity in China in the sense that China has a low natural resource to population ratio, with the exception of coal. The Chinese growth model has increased the resource scarcity problem and the other environmental problems.<sup>203</sup> It seems difficult to state that China developed a great awareness of the need of environmental protection; however it is certain that the Chinese leadership has reached an understanding that taking steps on environment and resource protection is necessary for the sustainability of economic growth. The emphasis on the consolidation policy in the mining industries would be seen partly as a consequence of this understanding.

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<sup>201</sup> *People's Daily*, 6<sup>th</sup> January 2010, *China Digital Times*, 2<sup>nd</sup> July 2010.

<sup>202</sup> *Mining Weekly*, 4<sup>th</sup> March 2008.

<sup>203</sup> *China Digital Times*, 7<sup>th</sup> October 2013

It is possible to visit <http://english.caixin.com/2013-08-01/100564239.html> to see examples of resource scarcity in China.

It is possible to view the mining industries more strategic for China when compared to the IT industry; because the constituents of the mining industry are all important and scarce raw materials used in the whole industry. Coal is the main source of power generation in China, while rare earths are significant not only for China but also for most of the developed countries; since they are used in IT and other high technology products. In other words, it is possible to view the mining industry as more important for the sustainability of China's economic growth. China which is still in the process of industrialization and urbanization must first of all ensure its self-sufficiency in the mining industry.<sup>204</sup> On the other hand, China is also willing to be an important actor in the global competition on the natural resources as mentioned above. China especially wants to be the price setter or at least have an impact on the prices of the natural resources which it exports. In order to have a control on the global natural resources, it is seen that China has also introduced a strategy of "going overseas", meaning that the Chinese mining companies would acquire the reserves of natural resources all around the world. Although this dissertation does not purpose to discuss this strategy deeply, it is important to point out that this strategy also stems from the self-sufficiency and competitiveness concerns of China. The consolidation policy is also seen related to the realization of acquiring the natural resources around the world, since only big companies or groups can achieve such a target.<sup>205</sup> It is thought that such concerns of China, especially taking a good position in the global markets, are usual for the country which has put efforts to become an open economy since the beginning of the reform period.

An overview of the consolidation process in the Chinese mining industries indicates that coal, iron and steel, nonferrous metals and rare earths have been the most striking cases. Because of this reason, it is purposed to present the consolidation processes in these industries and the consequences of this policy briefly specifically in the sense of what kind of an attitude the Chinese state has presented in such strategic sectors. It is mainly aimed to have an idea on the transforming state-economy and state-society relations in China by analyzing the regulations of the Chinese state in the mining industries as it is purposed in overviewing the regulations in the IT and telecommunications sectors and comparing these sectors in this regard.

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<sup>204</sup> *Caixin*, 1<sup>st</sup> November 2013.

<sup>205</sup> *China Daily*, 6<sup>th</sup> March 2013.

### 6.4.1. Consolidation in the Chinese Coal Industry

Coal is one of the most significant natural resources for China since it is used for the three quarters of power generation in the country and it is estimated that this will not change even in the long term. China has the largest coal industry in the world; however it is also the most fragmented industry.<sup>206</sup> Hence, it is not difficult to understand why the Chinese government puts the coal industry within the strategic sectors and intervenes the industry, specifically through the consolidation policy. The history of the consolidation policy in the Chinese coal industry goes back to the first half of the 2000s. In 2004, NDRC announced the plans to consolidate the coal industry through forming 13 large-scale groups in Shanxi, Shaanxi and Inner Mongolia. Although NDRC did not provide a timetable for the consolidation policy at that time, it announced that the policy aimed to deal with the problems in the coal industry.<sup>207</sup>

There were two main reasons of China to prefer a consolidation policy in the coal industry. The first cause was the unsafe working conditions in the coal mines giving rise to the deadly mine accidents. The second cause was the concern on the depletion of coal reserves and environmental degradation. The coal consolidation policy was put into action in April 2009 to be implemented initially in the Shanxi province which provides about one-fourth of China's total coal need and has been spread to the neighbor provinces.<sup>208</sup> In this regard, NDRC ordered that the small mines in Inner Mongolia, Henan and Shaanxi would have been closed. In addition to the closures, it is decided that merger and acquisition activities in the coal mining industry would be accelerated in Heilongjiang, Hunan, Sichuan, Guizhou and Yunnan, especially in the 12<sup>th</sup> Five Year Plan.<sup>209</sup> These efforts purposed to realize the revised plans to create 20 large coal mining groups with annual output of 10-40 million tons by 2015. It is also targeted that the mines with 50 million tones of production capacity would at least constitute the 65 percent of the total capacity of the coal industry.<sup>210</sup>

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<sup>206</sup> *China Daily*, 17<sup>th</sup> November 2010.

<sup>207</sup> *China Economic Review*, 3<sup>rd</sup> December 2004, 1<sup>st</sup> January 2005, 1<sup>st</sup> September 2007, 22<sup>nd</sup> October 2010.

<sup>208</sup> *China Daily*, 17<sup>th</sup> April 2009.

<sup>209</sup> *People's Daily*, 21<sup>st</sup> October 2010.

<sup>210</sup> *People's Daily*, 21<sup>st</sup> October 2010.

The consolidation policy is based on closing the small coal mines which are thought to be having unsafe working conditions and replacing them by state-owned coal giants. Despite the efforts of the Chinese government, the coal mines remain to be the most dangerous and unsafe places for the workers. In 2007, it is stated that just 35 percent of the coal mines had safety equipment and 42 percent were mechanized.<sup>211</sup> It is pointed out that about 2,000 workers died in coal mine accidents in 2011.<sup>212</sup> As a consequence, China's State Administration of Work Safety (SAWS) decided to close 625 small coal mines in 2012 because of their safety deficiencies.<sup>213</sup> In the worst accident of the recent years, 45 people died in 29<sup>th</sup> August 2012 near the city of Panzhihua in Sichuan province. It is pointed out that the unsafe coal industry has turned out to be one of the issues challenging the legitimacy of the CCP rule; since it gave rise to the demands of the Chinese people on work safety and the protection of environment which are totally different from the expectations on economic growth being the legitimacy ground of the CCP.<sup>214</sup> It is mentioned that the unsafe conditions mainly remain in the small mines which still dominate the industry despite the efforts of consolidation. The Chinese leadership thought that the consolidation policy would improve the safety conditions of the coal mines; since the large coal firms would have more ability of improving the safety standards of the coal mines through using technology.<sup>215</sup>

Datong Coal which is a state-owned coal company in the Datong city of Shanxi was one of the good examples of consolidation in the coal industry. The company acquired 23 coal mines in the three cities of Shanxi before 2008. In 2008, it gained the control of 129 square kilometers of coal fields and since 2009 formed 31 larger and mechanized mines through mergers in the six cities of Shanxi. According to Wu Yongping who was the party secretary and chairman of Datong Coal during the process, the company will be bigger and stronger as a consequence of these consolidation strategies and this will also benefit the whole country and the Chinese

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<sup>211</sup> *China Economic Review*, 1<sup>st</sup> September 2007.

<sup>212</sup> *China Digital Times*, 25<sup>th</sup> November 2012.

<sup>213</sup> *China Digital Times*, 4<sup>th</sup> September 2012.

<sup>214</sup> *Wall Street Journal*, 3<sup>rd</sup> September 2012.

<sup>215</sup> *China Digital Times*, 25<sup>th</sup> November 2012.

people.<sup>216</sup> In addition to this, Datong Coal is pointed out as an example of increasing safety standards as a consequence of consolidation. The company trained 170 production safety managers and 1,500 technicians and sent them to the different mines in order to apply the standards in 2009 and 2010.<sup>217</sup>

Despite the successful examples, it is not possible to claim that everyone was satisfied with the consolidation process in the coal industry. It is asserted in the newspapers that many coal companies have been sold at lower prices than market prices. In this regard, it is mentioned that consolidation would obviously improve technology and management in the coal industry, while the merging activity would follow the market principles supervised by the government, rather than performed by the government.<sup>218</sup> Within this perspective, it is stated that the consolidation process in Shanxi would be explained by *guojin mintui* (state advances, private retreats)<sup>219</sup> and it is criticized that the coal industry is divided into two parts as “*planned coal*” and “*market coal*”, meaning that a “*double-track system*” emerged in the sector as a consequence of the consolidation process.<sup>220</sup>

Twenty years of reform in China’s coal industry has demonstrated that marketization intensifies when there is severe excess of coal supply, causing coal prices to slump and mining companies to suffer greatly. If demand exceeds supply, causing coal prices to skyrocket, marketization is replaced by administrative control. The government’s practice -- embracing marketization when there is no chance to cash in while executing administrative control when there is profit to gain -- has hindered the reform of China’s coal industry.<sup>221</sup>

The immediate consequence of the consolidation policy in the Chinese coal industry was the decrease in the number of coal mining firms as expected. There

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<sup>216</sup> SOE Party secretary is a position formed during the Maoist era which is responsible for all the activities within the SOE. During the reform period, most of them have lost their authority as a consequence of the rise of the power of the chairman (Shen, 2000: 140, Cai, 2006: 64). On the other hand, it is important to note that some of the party secretaries have close relationship with the higher Party authorities. Sometimes the same person serves as the chairman and party secretary of a SOE like Wu Yongping (cf. Cai, 2006: 73).

<sup>217</sup> *China Daily*, 17<sup>th</sup> November 2010.

<sup>218</sup> cf. *China Daily*, 19<sup>th</sup> August 2013.

<sup>219</sup> *Caijing*, 21<sup>st</sup> February 2010.

<sup>220</sup> *Caijing*, 30<sup>th</sup> August 2011, emphasis original. In the same article, *Caijing* also emphasizes the railway system and the electricity industry would be reformed in order to achieve reforming the coal industry, while it seems difficult because of various reasons, most importantly different interest groups in these sectors.

<sup>221</sup> *Caijing*, 30<sup>th</sup> August 2011.

were more than 75,000 small mines in 2003, which fell to 25,000 in 2004.<sup>222</sup> It is also stated that the number decreased from 2200 to 130 by the end of the year 2009. The consolidation policy also meant the decrease of the number of the private coal mines in the industry.<sup>223</sup> In this regard, the consolidation process has also been interpreted as the renationalization of the Chinese mining industries. In response to such interpretations, the Chinese leadership has continued its discourse on the importance assigned to the private capital and its expansion.<sup>224</sup>

The decrease in the number of coal mines also meant the fall of coal production, and hence China turned out to be an importer of coal since 2008. It is also pointed out that shortage of coal occurred in some power plants. For instance, in Taiyuan, which is the capital of Shanxi province, more than 40 factories were closed; because the local governments could not guarantee that the residents would have enough power if the factories continued to operate. The hard winter conditions of the year also increased the coal shortage and deteriorated the conditions under shortage.<sup>225</sup> The consolidation policy would not be seen that much successful in increasing the safe working conditions in the coal mines; because there have been evidences that the mine bosses and the relatives of the victims have been in the tendency of hiding the new accidents as demanded by the coal company. In other words, there have been accidents and deaths in the coal mines which have not been reported to the provincial safety supervisors. For instance, Wang Jianhua who was a miner working for the Linfen-based Hongyuan Coal Group and died in an accident at the age of 26 in August 2011 was buried secretly by his family; because the employer paid 690,000 yuan to his family for their silence.<sup>226</sup> Fan Xingwu, who was the owner of a coal mine with a production over two million tons, mentioned that the private owners of the coal mines are more careful about the safety conditions of their mines, since they know that a big accident would be the end of their business, while the responsibility is on the government rather than the executives in the SOEs in case of an accident (Ma, 2009).

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<sup>222</sup> *China Economic Review*, 1<sup>st</sup> September 2007.

<sup>223</sup> *People's Daily*, 6<sup>th</sup> January 2010, *Financial Times*, 28<sup>th</sup> April 2011.

<sup>224</sup> cf. *People's Daily*, 18<sup>th</sup> May 2010.

<sup>225</sup> *Caixin*, 12<sup>th</sup> January 2010.

<sup>226</sup> *Caixin*, 17<sup>th</sup> November 2011.

It is stated that there were five similar accidents during the same period and it is seen that none of them were reported. Only one accident giving rise to 11 deaths was reported. It is pointed out that hiding the accidents became easier after the consolidation, since big companies have more power to convince the families. More importantly, any big SOE group is generally more powerful than local safety supervision authorities. These facts are among the best appearances of the transforming state-society relations in China since the beginning of the reform period and the process in which the capital gains predominance in these relations, whether it is private or state. It is also mentioned that this is the case in other provinces, such as Heilongjiang, Yunan and Gansu. In general, mine company officials prefer to keep their silence, because they are concerned of preserving their jobs and careers. In addition, fines are set if it is decided that the accident happened as a consequence of negligence of a worker or a manager. Hence, consolidation improved the safety conditions in the Chinese coal mines; however it is not possible to claim that the policy fully guaranteed safety.<sup>227</sup>

In 2009, NDRC declared that 1600 coal mines in 2009 and 2600 coal mines in 2010 would be consolidated through mergers and acquisitions and also stated that the local governments would control the process. NDRC also identified a limit to the minimum production capacity of the coal mining firms that each mining company would produce at least 3 million tons each year and each mine would produce at least 900,000 tons. As a consequence, the owner of a coal mine in Shanxi province turned out to be a shareholder of a large coal company after the implementation of the consolidation policy. On the other side, some of the mine owners preferred to shift their business to the sectors other than mining, mostly to tourism. It is pointed out that about 500 coal mining firms shifted their operating areas to tourism until the end of 2009.<sup>228</sup> It is also seen that there were other attracting sectors such as agriculture, construction, property and service sectors. For instance, Wang Xiaoping who was the owner of a small coal mine in Shaanxi province and sold it to a SOE when the consolidation program in the province was intensified, also thought that it would be better to shift to a more suitable sector.<sup>229</sup> Also, Liu Yuxue left the mining sector in

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<sup>227</sup> *Caixin*, 17<sup>th</sup> November 2011.

<sup>228</sup> *People's Daily*, 4<sup>th</sup> November 2009.

<sup>229</sup> *China Daily*, 6<sup>th</sup> July 2012.

2007 and began to build roads and bridges in his hometown. The shift of the coal mining firms to the other sectors has been interpreted as the transformation of the coal mining industry through forcing the local coal barons out of the industry.<sup>230</sup> On the other hand, the process would be explained in the sense that the consolidation policy is based on the transfer of the resources from the private small mines, or from the possible petty bourgeoisie, to the state-owned giants. In other words, it is possible to explain this transformation in the Chinese coal industry as the increasing dominance of the newly emergent Chinese bureaucratic capitalist class forcing the private capital to the sectors which the Chinese state and the new capitalist class are not interested in.<sup>231</sup>

In addition, it is a question whether the consolidation has solved the problems of coal industry in China. It seems that the answer is actually no. When the year 2013 is reached, it is seen that the price falls and the weak demand has put the firms in the industry under the pressure of falling profits and the danger of bankruptcy. The vice-president of China Coal Association states that the coal mining has faced a weak demand in the seven months of 2013.<sup>232</sup> In addition to this, it is known that the buyers are generally in the tendency of not paying the invoices on time.<sup>233</sup> As a consequence, another considerable problem of the coal industry turned out to be the accumulation of non-performing loans of the coal companies to the banks. For instance, it is pointed out that Lanyue Energy Development which is a large private coal company in Guangdong province recorded unpaid loans amounted to 9 billion yuan to the local banks.<sup>234</sup> These financial problems have caused the coal companies seeking for the strategies to reduce the costs in order to deal with these problems. For instance, Yankuang Group performs the strategy of cutting the wages of its personnel or laying them off in order to lower its costs.<sup>235</sup> Hence, the consolidation policy has

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<sup>230</sup> *People's Daily*, 20<sup>th</sup> December 2012.

<sup>231</sup> It would be mentioned that there have been contrary examples. Some of the private owners of the old coal mines benefited from the consolidation process in the sense of receiving more than its value (Ma, 2009).

<sup>232</sup> *China Daily*, 21<sup>st</sup> August 2013.

<sup>233</sup> *China Daily*, 28<sup>th</sup> August 2013.

<sup>234</sup> *Caixin*, 15<sup>th</sup> August 2013.

<sup>235</sup> *People's Daily*, 22<sup>nd</sup> May 2013.

mainly served for the capitalist development in the Chinese coal industry, rather than being a cure to its longstanding and new problems.

As mentioned above, the central government intends to take the help of the local governments in the implementation of the coal consolidation policy. It is not actually known whether to be in line with this intention or because of concerning its future tax revenues, it is seen that the Shanxi provincial government has introduced a number of measures including cuts of some taxes and administrative charges in 2013 in order to deal with the weaknesses of the coal industry. The provincial governments in the Inner Mongolia autonomous region, Shandong and Henan put similar efforts even before Shanxi province. According to Liu Jianzhong who is the chairman of Shanxi Coal Transportation and Sales Group Co Ltd in Taiyuan, the coal mining companies have been experiencing difficulties in paying their transportation, operation and labor costs. Because of this reason, the provincial governments have also played a role in directing the coal companies to the financial institutions for debt management. On the other hand, Li Xuegang who is an industrial analyst at the Qinhuangdao Coal Trading Center in Hebei province, states that all these measures would not be enough to solve the problems of the weak Chinese coal industry. Li mentions that the use of new resources is essential; especially the use of renewable energy and gas would grow as soon as possible.<sup>236</sup>

It is also important to point out that the central government has also put efforts to increase the transparency of the coal industry in order to deal with its problems. In this regard, it is stated that the Chinese government punished 906 officials in the coal mining sector in Shanxi between January and November 2010 because of corruption, including the vice-mayor and the former public security chief of the Datong city with the accusation of bribe taking.<sup>237</sup>

#### **6.4.2. Consolidation in the Chinese Iron and Steel Industries**

The decision to open the economy at the beginning of the reform period made the Chinese economy fragile to the conditions of global markets mainly shaped by the US, Japan and the European Union. In this regard, China has had to take actions in response to the impact of globalization in the mining sectors and the steel and iron

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<sup>236</sup> *China Daily*, 1<sup>st</sup> August 2013.

<sup>237</sup> *China Economic Review*, 24<sup>th</sup> December 2010.

industry has been among these. In order to guarantee the resource supply in this industry, it is seen that China has implemented a globally active strategy for resource research.

Although steel is not used in power generation as much as coal, it is certain that steel and its raw material iron ore have been important for China as an industrializing country. Consequently, it is pointed out that China is the world's top importer of the iron ore.<sup>238</sup> Deng pointed out in 1975 the need to regulate the iron and steel industries through introducing rules in order to increase the discipline and improve the organization in these industries.<sup>239</sup> It is vital for China to have an impact on the international prices of iron ore and steel, while it is actually difficult to claim that the country has such an influence. The price of iron ore is determined by large foreign enterprises, meaning that the Chinese steel industry is also under the control of this pricing power. Because of this reason, China wants to be the price setter of these resources or at least have an impact on the prices, whereas it seems that it is not possible under these conditions as pointed out by a researcher at the Ministry of Commerce. China Iron and Steel Association have worked to form the China Iron Ore Price Index in order to enable China at least to say a word in the international pricing system of iron ore.<sup>240</sup> Through this system, China purposes to set a unified fixed-price to the iron ore from the beginning of the year to its end, which would fluctuate only in the long-term. In addition to this, it is thought that controlling imports through some requirements would prevent price increases.<sup>241</sup> The other strategy of the Chinese leadership to have a control on the prices of iron and steel has been encouraging the Chinese companies to expand overseas and merge with foreign enterprises.<sup>242</sup> These efforts would most importantly be related to the fact that China has been concentrated in the self-sufficiency of iron ore reserves and steel production as it has concentrated in many other natural resources.

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<sup>238</sup> *China Daily*, 19<sup>th</sup> October 2013. It is recorded that China imported the 65 percent of the world's total steel exports in 2009 (*People's Daily*, 4<sup>th</sup> August 2011).

<sup>239</sup> See Deng X., "Some Problems Outstanding in the Iron and Steel Industry", Selected Works of Deng Xiaoping, Vol.1., November 17, 1956, available at <http://dengxiaopingworks.wordpress.com/2013/02/25/some-problems-outstanding-in-the-iron-and-steel-industry/>

<sup>240</sup> *People's Daily*, 4<sup>th</sup> August 2011.

<sup>241</sup> *Caijing*, 28<sup>th</sup> October 2009.

<sup>242</sup> *Caijing*, 28<sup>th</sup> October 2009, *China Daily*, 22<sup>nd</sup> February 2013.

It is important to mention that there have been some serious problems of the steel industry. Because of this reason, the State Council declared that the Chinese government would encourage the restructuring of the steel sector in 2009. The main target has been the formation of globally competitive steel groups of which each has the production capacity of 50 million tons per year. It was expected that top five steel groups would constitute at least the 45 percent of the total Chinese steel production capacity. Baosteel, Angang Steel and Wuhan Iron and Steel Group which were the major state-owned steelmakers were thought to lead this consolidation process.<sup>243</sup> This kind of a consolidation policy purposed not only ensuring self-sufficiency, but also increasing global competitiveness of China in the global steel market.

The consolidation process in the Chinese steel industry began before this declaration of the State Council in 2009. In 2007, the Chinese government indicated that it encourages consolidation in the steel industry in order to eliminate inefficient steel companies. As a consequence, the state-owned Wuhan Iron and Steel announced that it will buy 48.41 percent share of the privately owned Kunming Iron and Steel in the same year.<sup>244</sup> The picture is clear that the consolidation policy has served for the transfer of the resources of the small private firms to the SOEs. On the other hand, it is important to point out that the consolidation policy has not included only the takeover of the private companies in the industry by the state-owned ones. In 2007, the state-owned Sinosteel Corp which was China's leading raw materials and service provider and the state-owned Baosteel which was the largest steelmaker in China were consolidated.<sup>245</sup> In 2008, state-owned Tangshan Iron and Steel in Hebei province merged with the state-owned Chengde Xinxin Vanadium and Titanium Co and the state-owned Handan Iron and Steel Co which were two smaller steel makers in the province to form Hebei Iron and Steel Group being one of China's biggest steel mills.<sup>246</sup> In 2009, it is seen that the plans appeared on the takeover of the state-owned Baotou Steel by the state-owned Baosteel Group and also merger of the state-owned Anshan (Anben) Iron and Steel Group (Angang) and the state-owned Panzhihua Iron and Steel Group (Pangang) in order to form China's largest steel mill

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<sup>243</sup> *People's Daily*, 20<sup>th</sup> February 2009.

<sup>244</sup> *China Economic Review*, 3<sup>rd</sup> August 2007.

<sup>245</sup> *People's Daily*, 6<sup>th</sup> December 2007.

<sup>246</sup> *China Daily*, 30<sup>th</sup> December 2008.

which would even surpass the production capacity of Baosteel and Hebei Steel Group.<sup>247</sup>

Industry insiders believe that the merger will effectively mobilize the two companies' advantages. Liaoning-based Angang will gain broader entry to the market in southwestern China through Pangang, while analysts say the latter's advantages in special steel products complements Pangang's development strategy by focusing on high value-added products.

Angang's resources in capital, technology and management will help Pangang, which has been struggling to expand its market and improve operations. Meanwhile, the rich mining resources in western Panzhihua, where Pangang is based, will also support continued growth.<sup>248</sup>

In 2009, the Tianjin government announced its plans to merge four state-owned steel mills, with the hope of copying the success of the Hebei Iron and Steel Group formation.<sup>249</sup> On the other side, it is also stated that there have been incomplete mergers during the process. This fact partly stems from the efforts of the companies which start merger process to be looking as supporting the government's consolidation policy; because it is hoped that they would be free of closing if they looked as becoming bigger and they would receive bank loans and equipment more easily. It is also stated that some of the mergers were completed; however they did not operate.<sup>250</sup>

Sometimes mergers have been completed but haven't worked out. Anshan Iron and Steel's takeover of Benxi Iron and Steel was a classic case of a central government-owned steel company being encouraged to absorb one of its smaller counterparts - in this instance, a steelmaker owned by the Liaoning provincial government. Although both firms were based in the same province, there were still conflicting allegiances to Beijing and Liaoning authorities. Anshan and Benxi formed a new company, Anben Group, but they continued to operate independently.<sup>251</sup>

As a consequence, it is pointed out that successful mergers were formed by mainly the parties including the same level of government.<sup>252</sup> There have been certainly exceptions of this fact. In 2010, Wang Yifang who was the chairman of Hebei Iron and Steel Group announced that his company would have acquired or

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<sup>247</sup> *China Economic Review*, 24<sup>th</sup> March 2009, *Caixin*, 26<sup>th</sup> May 2010.

<sup>248</sup> *Caixin*, 26<sup>th</sup> May 2010.

<sup>249</sup> *China Economic Review*, 14<sup>th</sup> April 2009.

<sup>250</sup> *China Economic Review*, 1<sup>st</sup> October 2009.

<sup>251</sup> *China Economic Review*, 1<sup>st</sup> October 2009.

<sup>252</sup> *China Economic Review*, 1<sup>st</sup> October 2009.

merged with a private enterprise, preferably Yongyang Steel. While Yongyang Steel declared that it has no such an intention, it is actually seen that the wish of Wang was realized. It is stated that the consolidation policy of the government has turned its face especially to the private enterprises since 2008. It seems that there has been only the way of increasing production capacity for the Chinese private steel companies to continue operating; otherwise they are shut down or are acquired by the SOEs. On the other hand, Kong Ping, deputy general manager of Hebei Steel, stated that Hebei Steel provides management expertise to the private companies in the province, rather than searching to buy them. In addition to this, it is pointed out regarding the case of Yongyang Steel that it would be easier for this company to reach raw materials as a consequence of the mentioned consolidation.<sup>253</sup>

The consolidation policy and the increasing state ownership in the Chinese industry have been explained as the acts of the Chinese state against the market principles and/or the continuing socialist system in China, whether approved or not. The cases presented above regarding the implementation of the consolidation policy in the Chinese steel industry indicate that the Chinese leadership has mainly been in the effort of ensuring the sustainability of the industrial growth and hence the contribution of the industry to the economic growth through strengthening the SOEs, rather than intending to renationalize the companies and mills in the steel industry. In line with this effort, it is seen that the merger of two or more state-owned steel companies have been common as presented above, in addition to the acquisition of the private companies by the state-owned ones.

As mentioned above, the Chinese steel industry has some serious problems. Overcapacity in the steel industry, one of the most important problems of most of the Chinese industries as mentioned above, goes back to the end of the 1990s and could have not be solved even in the 2010s. In August 2009, the State Council declared that it will strictly control steel investment and the MIIT announced that new steel projects will not be approved in the following three years in order to deal with the overcapacity problem. In addition to this, the NDRC put limits to the steel output in 2009 and 2010 as 460 million tons and 500 million tons respectively.<sup>254</sup> In the middle of the year 2013, the MIIT issued a new list of 1400 companies, actually not only

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<sup>253</sup> *Caixin*, 21<sup>st</sup> September 2010.

<sup>254</sup> *China Economic Review*, 24<sup>th</sup> March 2009.

steel companies, but also companies from 19 other sectors, to cut excess capacity.<sup>255</sup> In addition to these mentioned measures, some of the companies such as Baoshan Iron and Steel Co. Ltd decided to concentrate on overseas sales and finding foreign partners in order to deal with the overcapacity problem.<sup>256</sup>

Despite the variety of measures, consolidation is seen to be the most efficient policy by the Chinese government to deal with overcapacity problem in most of the Chinese industries; because it is thought that it would be easier to control smaller number of companies in the industries.<sup>257</sup> On the other hand, no one would think that the consolidation in any sector would be an easy process. First of all, it is important to mention that the local authorities have to be convinced in order to close a steel mill, while they usually have little incentive for such an action. They do not want to lose the tax revenues they received and the employment provided by the mill. In addition to the unwillingness of the local governments, the workers would be ready to protest against losing their jobs.<sup>258</sup> In order to solve these problems and make the consolidation policy in line with the purpose of building a harmonious society, the MIIT declared that it wants to create the world's largest steel company through consolidation and would offer some kind of compensation for the losses of the local governments (and the workers), such as making transfer payments from the central government and finding new jobs for the workers who lost their jobs.<sup>259</sup>

At the beginning of the year 2011, the MIIT announced the renewal of the efforts of consolidation of the Chinese steel industry.<sup>260</sup> The target of the policy was exactly stated in 2013 as establishing 10 large steel mills controlling about 60 percent of the total steel capacity in China by 2015.<sup>261</sup> Despite these efforts, it is difficult to state that there has been a considerable progress in the consolidation of the steel industry. According to Mike Elliot from Ernst and Young, the vested interests in the SOEs have been the most important obstacles standing in front of the progress of this

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<sup>255</sup> *Xinhua*, 17<sup>th</sup> August 2013.

<sup>256</sup> *People's Daily*, 19<sup>th</sup> March 2013.

<sup>257</sup> cf. *People's Daily*, 8<sup>th</sup> July 2011.

<sup>258</sup> *China Economic Review*, 1<sup>st</sup> October 2009.

<sup>259</sup> *China Economic Review*, 30<sup>th</sup> November 2009.

<sup>260</sup> *China Economic Review*, 28<sup>th</sup> January 2011.

<sup>261</sup> *China Economic Review*, 23<sup>rd</sup> January 2013.

policy, while he also states that these interests cannot resist this policy forever.<sup>262</sup> Indeed, it is difficult to state that the prolonged problems of the steel industry were solved. At the beginning of the year 2013, it is pointed out that most of the Chinese steel companies reported profit declines or even losses because of the falling demand and the increase of the raw material costs in addition to the continuing overcapacity problem.<sup>263</sup> It seems that the measures taken turned out to be successful; because it is recorded briefly by NDRC that iron and steel industry earnings increased by 7.8 percent in the seven months of 2013.<sup>264</sup>

#### **6.4.3. Consolidation in the Industries of Nonferrous Metals**

Nonferrous metals, especially copper and aluminum are also essential for the sustainability of the Chinese industrialization and economic growth. On the other hand, it is pointed out that the industries of nonferrous metals have turned out to be based mainly on imports, rather than taking the necessary measures for increasing domestic production. It is known that China has already become an importer of copper. The country is an exporter of aluminum; while there has been an overcapacity problem in this sector as in the sectors of many other natural resources.<sup>265</sup> Thus, it is seen that China experiences two problems in nonferrous metals industries. First, the dangers of overcapacity in the industry despite the efforts of the central government are also pointed out by China Nonferrous Metals Industry Association. The Association also mentioned the role of the hesitations of the local governments to encourage the firms to cut production as it is the case in other industries.<sup>266</sup> As a consequence, a detailed three-year plan was set in May 2009 for restructuring nonferrous metals industries in order to solve the overcapacity and the other related problems of these industries.<sup>267</sup>

Second, it is pointed out by the Chinese Academy of Geological Sciences (CAGS) that the nonferrous metal reserves would not be enough to meet the future

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<sup>262</sup> *China Economic Review*, 15<sup>th</sup> March 2013.

<sup>263</sup> *China Daily*, 22<sup>nd</sup> February 2013.

<sup>264</sup> *China Daily*, 27<sup>th</sup> September 2013.

<sup>265</sup> *China Economic Review*, 1<sup>st</sup> March 2003.

<sup>266</sup> *Caijing*, 29<sup>th</sup> June 2009.

<sup>267</sup> *Caijing*, 12<sup>th</sup> August 2009.

demand of China and even they may not last 20 years.<sup>268</sup> Because of this reason, there have been attempts to form a reserve system of nonferrous metals both by the central government and by the local governments. For instance, the Yunnan Province decided to form such a reserve at the end of 2008.<sup>269</sup> On the other side, establishment of a national reserve system of nonferrous metals is more important, since it would encourage exports, have a control on the increase of production and enable technology upgrading.<sup>270</sup> On the other hand, it is seen that some criticisms of the process have emerged. It is pointed out that such attempts would be in line with the market conditions, rather than giving more advantages to the SOEs by an analyst in State Council. Also, Xiao Jing, an analyst in Capital Futures Co., mentions that it would be better if the process is based on “public tender”, rather than “public order”.<sup>271</sup>

In addition to these two problems, it is known that one of the most significant problems in the nonferrous metals industry is the lack of capital which put the companies in these industries in difficulty in financing their activities. It is known that giving a start to mining activities is based on high costs and they are usually long-term projects meaning that they have no short-term returns. It is also important to mention that the restrictions of the central government on foreign participation in such industries make upgrading the technology and expertise difficult.<sup>272</sup>

China has put efforts to ensure its self-sufficiency in nonferrous metals through supporting both domestic exploration and overseas acquisition especially since the Twelfth Five Year Plan (2011-2015) period.<sup>273</sup> In addition to increasing the self-sufficiency, it is also purposed that China would have a leading position in the international markets of nonferrous industries as also stated by Jiang Mingxing, the vice-chairman and secretary-general of the CNMIA. As it is for the other resources,

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<sup>268</sup> *China Economic Review*, 1<sup>st</sup> March 2003.

<sup>269</sup> *Caijing*, 24<sup>th</sup> January 2009.

<sup>270</sup> *Caijing*, 27<sup>th</sup> February 2009.

<sup>271</sup> *Caijing*, 24<sup>th</sup> January 2009.

<sup>272</sup> *China Economic Review*, 1<sup>st</sup> March 2003.

<sup>273</sup> In terms of overseas acquisition, the most important example is that the state-owned Chinalco acquired 9 percent of Rio Tinto, the Australian mining company, as being the largest overseas investment of China in 2008 and made an agreement for the other 18 percent in 2009 which was actually cancelled by Rio Tinto (*Caijing*, 12 August 2009 a).

it is important for China to have a control on the global prices of these metals, whereas the country has not gained such a power yet. For instance, the copper prices are still dominantly determined by the foreign companies according to the chairman of Jiangxi Copper Corp, Li Baomin.<sup>274</sup>

In order to have a good position in the global markets, the Chinese government has been willing to see the nonferrous metals industries of aluminum, copper, lead and zinc to be dominated by big enterprises and groups.<sup>275</sup> It is seen that the Chinese nonferrous metals companies have also been willing to have a dominant role in the global markets of these metals and become big conglomerates in order to achieve this target in line with this strategy of the Chinese government.<sup>276</sup> Daye Nonferrous Metals which mainly engages in exploration, mining and trading of non-ferrous metals constitutes a good example.

Daye Nonferrous Metals Corporation Holdings Limited ("Daye Nonferrous Metals") was founded by the State-owned Assets Supervision and Administration Commission of Hubei Provincial People's Government and China Nonferrous Metal Mining (Group) Co., Ltd. After several years of development, it evolved into a leading state-owned integrated copper enterprise with a value chain encompassing exploration, mining, smelting, chemicals, rolling processing, waste heat power generation, waste recycling, research and design, geological survey, shaft engineering, construction and installation, machinery repair and manufacturing and transportation. In 2010, it was selected as a major enterprise promoted by the government in the demonstration zone for the materials industry and newly industrialized enterprises in the central China. Daye Nonferrous Metals has a global business network that is spread around the world. It currently has over 20 wholly owned subsidiaries, associates and holding companies in southeastern Hubei, the Yangtze River Delta, the Pearl River Delta, Hunan, Xinjiang, Hong Kong, Kyrgyzstan and Mongolia.<sup>277</sup>

The emphasis of the Chinese government on the dominance of the nonferrous metals industries by big enterprise groups indicates that consolidation has been seen as the best policy in order to deal with the problems in these industries as it is the case in many other industries. As a consequence, it is seen that there have been a number of mergers and acquisitions in these industries since the beginning of the 2000s. For instance, seven companies merged into China Aluminium Corporation (Chinalco) in 2001 and formed the largest aluminum company in the world. In 2003,

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<sup>274</sup> *People's Daily*, 15<sup>th</sup> March 2013.

<sup>275</sup> *China Economic Review*, 1<sup>st</sup> March 2003.

<sup>276</sup> *People's Daily*, 5<sup>th</sup> August 2013.

<sup>277</sup> *China Economic Review*, 3<sup>rd</sup> September 2012.

nine copper companies, including China's largest producer, Jiangxi Copper Industrial Corporation and China Non Ferrous Metals Corporation (CNFC), joined with the purpose of going abroad.<sup>278</sup> In 2009, the State Council approved the merger of the state-owned Changsha Research Institute of Mining and Metallurgy in Hunan Province and the state-owned Luzhang Mining Industry in Shandong province to China Minmetals Corp. which is the country's leading producer and trader of metals and minerals.<sup>279</sup>

It is also important to mention that there have been some companies which operate in the nonferrous metals industry and search for the ways of investing in the other mining industries. For instance, the state-owned Jiangxi Copper Corp which is China's largest and world's second largest copper producer is seeking for investment in rare earths in order to be among the largest top five mining groups in the world in 10 to 15 years. In order to realize this target, the company bought the second-largest rare earth mine in Mianning in the Sichuan province in 2008 and as a consequence Jiangxi Copper Corp became one of the major players also in the rare earths industry along with Baogang Group in the Inner Mongolia autonomous region.<sup>280</sup>

As a conclusion, it is seen that the companies in the nonferrous metals industries, mostly the state-owned ones are taken into consideration, act in line with the policies of the central government. In addition to the willingness of forming large conglomerates, it is seen that the interventions of the central government to these industries have been welcomed by the insiders of these industries. For instance, the chairman of Jiangxi Copper Corp, Li Baomin points out the problem that the copper prices are still dominantly determined by the foreign companies as mentioned above. It is interesting that Li suggests that such problems would be solved with the help of the central government, rather than functioning of the market.<sup>281</sup> It is thought that such a demand of Li indicates that the intervention of the central government is not criticized by the industry insiders and inversely viewed to be necessary in order to solve the problems. This kind of a demand provides one of the appearances of the

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<sup>278</sup> *China Economic Review*, 1<sup>st</sup> March 2003.

<sup>279</sup> *Caijing*, 27<sup>th</sup> October 2009.

<sup>280</sup> *People's Daily*, 15<sup>th</sup> March 2013.

<sup>281</sup> *People's Daily*, 15<sup>th</sup> March 2013.

relationship between the Chinese state and business which mainly consists of the management teams of the SOEs, rather than the private capitalists.

#### **6.4.4. Consolidation in the Industries of Rare Earths**

Rare earths are another group of natural resources constituting 17 metals which are also significant for the sustainability of China's economic growth. It is stated that rare earths are "a 21<sup>st</sup> century weapon" for China as steel, iron and aluminum were fifty years ago; because rare earths are significant in the formation of high-technological products. Although they are titled as rare, this does not mean that they are found rarely, rather this means that mining these resources is a hard process and causes an excessive pollution which first of all impacts the workers.<sup>282</sup> It is stated that the regulations in the rare earths industry have been viewed by the industry insiders to be a transition from the production based on high capacity and its adverse consequences to a scientific production and a sustainable development of the industry.<sup>283</sup>

China views any natural resource as a kind of weapon under the global economic conditions. Whether to use rare earths as a kind of weapon or whether it intends to protect the environment and its rare earth reserves, China has introduced some restrictions in these industries and the first round of export quotas appeared in 2011. These export restrictions obviously increased the complaints of the Western countries which have been exporters of China's rare earths and they began to fear that China would even totally ban exporting of some of the rare earths.<sup>284</sup> Consequently, the EU, Japan and the US presented their complaints to the WTO regarding China's restrictions on rare earth exports.<sup>285</sup> Within this perspective, the US states that China tries to increase the prices of rare earths.<sup>286</sup> On the other side, China declared that it targets to protect the environment, not only for the sake of China's development but for the future of the development of the world and hence

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<sup>282</sup> *China Daily*, 7<sup>th</sup> September 2009, *China Economic Review*, 20<sup>th</sup> March 2012.

<sup>283</sup> *China Daily*, 7<sup>th</sup> September 2009.

<sup>284</sup> *People's Daily*, 11<sup>th</sup> September 2009. Because of this reason, it is stated that Japan constructed three robots which search for rare earths in deep sea.

<sup>285</sup> *China Economic Review*, 20<sup>th</sup> March 2012, 22<sup>nd</sup> March 2012.

<sup>286</sup> *China Digital Times*, 24<sup>th</sup> July 2012.

does not violate the WTO rules.<sup>287</sup> In addition to this, it is pointed out that overmining and the competition among small rare earth mines caused the decrease of the reserves sharply.<sup>288</sup> In other words, export restrictions were also served to be necessary for the sustainability of Chinese rare earths exports.

As a consequence of the complaints, WTO accused China of illegally imposing export quotas on raw materials. On the other hand, China has insisted that such restrictions have been implemented for the sake of environment protection, especially supported by the report of the Ministry of Environmental Protection report indicating the dangers of not regulating the rare earths industry and the mining activities.<sup>289</sup> The MIIT Minister Miao Wei also stated that the regulations have been concentrated on environment protection. The Minister emphasized that the rare earth production after the quotas have been in line with the WTO rules and the fall in the export quantities have been due to the fall in foreign demand.<sup>290</sup> In addition to this explanation of the Minister, the deputy minister Su Bo introduced a white paper on the issue and pointed out that these restrictions are necessary in order to prevent the intolerable environmental damage, ensure the sustainability of the mining activities and the economic growth. Su also mentioned that the decrease in the Chinese exports of rare earths stemmed from the fall in the global demand because of the global economic conditions and pointed out that the prices of other natural resources rose as well as the prices of rare earths.<sup>291</sup> Gao Yunhu, the deputy director of the rare earths office under the MIIT, stated that they had been cooperating with the WTO regarding the complaints on rare earths export quotas in order to be able to protect the interests of the Chinese companies in addition to the target of environment protection.<sup>292</sup>

Ma Tianjie, a Beijing-based campaigner with Greenpeace, said, 'We believe there are legitimate environmental concerns in the issue of rare earth mining and many actions taken on the Chinese side, like shutting down rogue mines, are

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<sup>287</sup> *China Daily*, 29<sup>th</sup> December 2010, *People's Daily*, 16<sup>th</sup> June 2011.

<sup>288</sup> *China Daily*, 7<sup>th</sup> September 2009.

<sup>289</sup> *China Daily*, 16 July 2011. It is also important to mention that the adverse impacts of rare earth mining vary throughout China. Chen Zhanheng, director of the Academic Department at the Chinese Society of Rare Earths, pointed out that the environmental damage caused by rare earth mining has been more severe in the south where illegal mining has been more widespread than in the north (*China Economic Review*, 9th July 2012).

<sup>290</sup> *China Daily*, 12<sup>th</sup> March 2012.

<sup>291</sup> *China Economic Review*, 22<sup>nd</sup> March 2012, *People's Daily*, 21<sup>st</sup> June 2012.

<sup>292</sup> *People's Daily*, 21<sup>st</sup> June 2012.

based on such concerns. Big consumers of rare earths such as the United States, the EU and Japan should see this as a shared responsibility and should refrain from just pointing fingers at China.<sup>293</sup>

Zhu Hongren, the chief engineer of the MIIT, also stated that the measures taken to regulate China's rare earth industry including production limits, export quotas and tighter environmental standards are all in line with the WTO rules, since they purpose to prevent environmental damage which has been caused by rare earth mining activities. Zhu also mentioned that China would cooperate with foreign companies in the rare earths industry which is also mentioned in the foreign press that China has invited foreign companies many times to work in China-based rare earth joint ventures in order to improve the technology in the industry so that it would be possible to soften the export restrictions.<sup>294</sup> It is thought that this invitation is a good example that China has adopted a kind of policy which would be titled as "yes foreign, no private".

On the other hand, it would not be correct to claim that China has had no intentions of having an impact on the global markets of rare earths as it has in the markets of the other natural resources. It is known that China produces more than 95 percent of the world's rare earths, while it has just 36 percent of the world reserves. It is stated that the global demand to the rare earths has tripled, whereas their prices increased by only 20 percent since the beginning of the reform period. It is hoped that the new policy of limiting the Chinese supply will increase the prices.<sup>295</sup> As mentioned above, rare earths are significant in the production of high-tech products; however mining of rare earths causes a considerable damage to the environment.<sup>296</sup> This is why the other countries such as the US, Canada and Australia which use rare earths in production intensively gave up production and mining of these resources in the 1990s and since then have formed their reserves by buying cheap from China.<sup>297</sup> Shen Dingli from Fudan University mentions that China has been dominant in the rare earth reserves, while it did not manage to protect them. Shen emphasizes that

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<sup>293</sup> *China Economic Review*, 20<sup>th</sup> March 2012.

<sup>294</sup> *China Digital Times*, 25<sup>th</sup> April 2012, *Wall Street Journal*, 25<sup>th</sup> April 2012, *Businessweek*, 8<sup>th</sup> August 2012.

<sup>295</sup> *China Economic Review*, 3<sup>rd</sup> June 2010, *Caijing*, 3<sup>rd</sup> November 2010, *Caijing*, 17<sup>th</sup> February 2011.

<sup>296</sup> *China Daily*, 20<sup>th</sup> May 2011, *People's Daily*, 16<sup>th</sup> June 2011.

<sup>297</sup> *China Daily*, 22<sup>nd</sup> June 2011, *People's Daily*, 21<sup>st</sup> June 2012.

regulations should be brought to protect these natural resources.<sup>298</sup> Hence, the regulations in the rare earths industry stem from the need to protect the environment and the rare earth reserves; however it is also true that China has been willing to have a bargaining power in the global market of rare earths.<sup>299</sup> It seems that China has taken some steps in order to have a global impact in the rare earths industry through the export restrictions which gave rise to the idea of reopening rare earth mines in California, Canada, India and Russia.<sup>300</sup> In this regard, it is thought that reopening of these mines would challenge China's competitiveness in the industry; however such a change would obviously take time since China continues to have the low cost advantage.<sup>301</sup>

In addition to the export restrictions, the Chinese government decided that the rare earths would only be mined by the SOEs, while the private enterprises can only be shareholders. It is declared that this policy was based on the concerns to prevent resource exploitation. According to this system, the Ministry of Land and Resources is assigned to issue licenses to the firms approved by the State Council. It is obviously possible to view this policy as a kind of consolidation policy implementing in the rare earths industry.<sup>302</sup>

It is seen that there have been reasons to think that the consolidation policy has taken steps in the rare earths industry. It is known that Jiangxi Copper Corporation and China Nonferrous Metal Industry's Foreign Engineering and Construction Co took the necessary steps to control the reserves in Sichuan and Guangdong provinces respectively. Also, Baotou Steel Rare-Earth High-Tech Co in Inner Mongolia autonomous region tends to monopolize the reserves of light rare earths in the region. On the other side, China Minmetals Co and Aluminum Corporation of China are likely to control the major reserves of middle and heavy rare earths in Jiangxi province.<sup>303</sup> It is also stated that China Minmetals Co planned

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<sup>298</sup> *China Daily*, 11<sup>th</sup> September 2009.

<sup>299</sup> *China Daily*, 22<sup>nd</sup> June 2011.

<sup>300</sup> *Businessweek*, 8<sup>th</sup> August 2012.

<sup>301</sup> *Xinhua*, 8<sup>th</sup> August 2013.

<sup>302</sup> *China Daily*, 2<sup>nd</sup> June 2010, *China Economic Review*, 3<sup>rd</sup> June 2010.

<sup>303</sup> *China Daily*, 2<sup>nd</sup> June 2010. It is known that the light rare earths are dominated by Baotou Steel Rare-Earth Hi-tech Co Ltd in the Inner Mongolia autonomous region. On the other hand, heavy rare earths are spread across a number of provinces and generally mined by large companies in addition to

to invest one billion yuan in rare earth in Ganzhou city in Jiangxi province and competed with Chinalco for these resources in this region.<sup>304</sup> In 2011, mayor of Ganzhou city, Wang Ping stated that Ganzhou Rare Earth Mineral Industry Co. has been in a restructuring process to get larger and become a group.<sup>305</sup> More recently, at the end of 2012, Inner Mongolia Baotou Steel Rare-Earth (Group) Hi-Tech Co. (REHT) which is China's top rare earths producer made the necessary agreements and contracts in order to gain the control of 12 other rare earth firms in Inner Mongolia. This further consolidation is seen as a move of forming a “megacompany” which puts together the light rare earth resources in the northern region. In this regard, the firms transferred 51 percent of their shares to the REHT, while REHT will provide the firms support in technology, funding and management. It is also hoped that this consolidation move would have good impacts on the efforts of environment protection. It is also stated that the rare earth producers in Gansu, Sichuan and Shandong provinces will be brought together to form China North Rare Earth (Group) Hi-Tech Co. if this initial step of consolidation turns out to be successful.<sup>306</sup>

As a consequence of getting bigger through the consolidation policy, it is also seen that there have been attempts of the industry insiders to have a control in the industry, for instance on the prices. As an example, China Minmetals called the whole industry to limit the production in order to have an impact on the declining prices in 2011. On the other hand, it is stated that the other rare earth producers did not like this idea much. General manager of Inner Mongolia Baotou Steel Rare-Earth Co., Zhang Zhong stated that they had no idea of this call and added that they produce in line with the guiding plan of the central government.<sup>307</sup>

As another policy tool in the rare earths industry, it is also pointed out that the number of licenses of rare earths has been decreased. The government stopped issuing new licenses for the rare earth mines since 2006 and also declared that the

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some local small miners. It is known that Jiangxi, Fujian, Guangdong, Hunan provinces, and the Guangxi Zhuang autonomous region are the areas in the southern China which have rich reserves of medium and heavy rare earths (Xinhua, 16<sup>th</sup> June 2011).

<sup>304</sup> *China Daily*, 4<sup>th</sup> August 2011.

<sup>305</sup> *China Daily*, 4<sup>th</sup> August 2011.

<sup>306</sup> *People's Daily*, 28<sup>th</sup> December 2012.

<sup>307</sup> *Caijing*, 2<sup>nd</sup> August 2011.

number of mines will be cut from 90 to 20 by 2015 through mergers and acquisitions. For instance, the licenses in the Jiangxi province decreased from 88 to 42 in 2010. It is mentioned that the target is gathering all the licenses under one. The important point regarding this policy is that consolidation accompanied by one license means that a new group of companies, state-owned companies, will hold the whole power in the industry.<sup>308</sup> There was also a minimum limit set by the government for the production level of 8,000 tons. In addition to these, the government had plans to implement tax on rare earths as implemented in oil and gas which would be determined according to the local conditions. In addition to these, a rare earth trade association is formed under the supervision of the MIIT with the membership of nearly 100 rare earth makers.<sup>309</sup> In addition to this, there have been plans to establish a rare earth reserve system in which the companies would be required to purchase and reserve when prices fall and sell when prices are up and a trading platform as targeted in the industries of the other natural resources.<sup>310</sup> The first national trading platform, the Baotou Rare Earth Products Exchange consisting 12 companies holding 88 percent of mines is established in order to have a better tool to regulate the industry and strengthen the pricing power of China.<sup>311</sup> Also, it is stated that China began to buy rare earth reserves worth billions of yuan in order to achieve the target of establishing a reserve.<sup>312</sup>

It is also decided to tighten the environmental measures such as emission standard of rare earth mines in order to prevent resource exploitation and environmental degradation. According to Zhang Zhong, the general manager of Inner Mongolia Baotou Steel Rare Earth (Group) Hi-Tech Co Ltd., these new standards would increase both the costs and prices in the industry and cause the small mines which cannot afford such costs exit the industry which is also in line with the desired consequence of the consolidation policy. In addition to this, Yang Wanxi, a

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<sup>308</sup> *China Daily*, 4<sup>th</sup> August 2011.

<sup>309</sup> *People's Daily*, 8<sup>th</sup> November 2010, *China Daily*, 29<sup>th</sup> December 2010, *Caijing*, 29<sup>th</sup> December 2010.

<sup>310</sup> *China Economic Review*, 4<sup>th</sup> June 2012.

<sup>311</sup> *Xinhua*, 9<sup>th</sup> August 2013.

<sup>312</sup> *People's Daily*, 16<sup>th</sup> July 2012.

government adviser, pointed out that these new standards would enable technology upgrading in the industry.<sup>313</sup>

At the beginning of 2011, China still satisfied around 90 percent of the world demand to rare earths and the problems of the industry sustained. The State Council headed by the Premier Wen Jiabao decided to take more strict measures in order to regulate the rare earths industry. In this regard, it is mainly targeted to prevent illegal production in the industry on the one hand and promoting market integration and technical progress on the other hand. It is also planned to sustain export quotas and to put further entry barriers to the new entrants.<sup>314</sup> These measures were obviously necessary; however it is also pointed out that smuggling has increased partly as a consequence of tightening export restrictions.<sup>315</sup>

According to the State Council, centralizing the control of these resources will ensure the sustainable development of the industry; prevent the environmental damage and illegal mining as noted by Xinhua. It is thought that such measures would regulate industrial access and exports, improve management and ensure the formation of relevant laws and regulations.<sup>316</sup> In sum, the State Council issued a national guideline for the healthy development of rare earth industry in order to protect these resources against illegal mining, smuggling, overexploitation, to prevent environmental damage and disorder in exports, and ensure technological innovation in the industry. In order to achieve these purposes, consolidation policy and encouraging mergers and acquisitions were mentioned again as the main strategy. The State Council aims to make the three biggest companies to control the 80 percent of the total rare earth resources.<sup>317</sup> As in the industries of other natural resources, it is desired that large companies would dominate the industry. In order to achieve this target, the Ministry of Land and Resources announced at the beginning of 2011 that 11 state-managed rare earth mining zones would be established in Ganzhou, Jiangxi province.<sup>318</sup> In the mid-2011, the Ministry investigated through

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<sup>313</sup> *People's Daily*, 8<sup>th</sup> November 2010, *China Daily*, 29<sup>th</sup> December 2010, *Caijing*, 29<sup>th</sup> December 2010.

<sup>314</sup> *Caijing*, 17<sup>th</sup> February 2011.

<sup>315</sup> *People's Daily*, 16<sup>th</sup> June 2011.

<sup>316</sup> *China Digital Times*, 19<sup>th</sup> May 2011.

<sup>317</sup> *Xinhua*, 16<sup>th</sup> June 2011.

<sup>318</sup> *China Daily*, 20<sup>th</sup> May 2011, *People's Daily*, 16<sup>th</sup> July 2012.

sending teams the implementation of the consolidation policy and the prevention of illegal exploitation in Hunan, Jianxi, Fujian, Guangdong and Guangxi.<sup>319</sup> In the same year, it is also seen that China Minmetals Corp. began to explore heavy rare earth in order to be among the top three heavy rare earth companies in the south China in line with the expectations of the central government.<sup>320</sup>

In 2012, China remained to be the largest rare-earth exporter in the world despite the regulations. It was still the target to dominate the industry by two or three large rare earth enterprises. As the MIIT Minister Miao Wei stated, the first large rare earth conglomerate is created by consolidating 14 companies in Inner Mongolia autonomous region under the leadership of Baotou Steel Rare-Earth Hi-Tech Co. For the formation of the other groups, Miao did not provide a timetable but it is known that the government targets to regulate the sector in five years.<sup>321</sup> In the mid-2012, the MIIT announced a 20 percent cut in the production capacity of rare earth companies.<sup>322</sup> It is also stated that it is targeted to form top three conglomerates in Ganzhou, Jiangxi province controlling more than 80 percent of the region's resources and it is stated that similar consolidation policies would be implemented in the provinces of Guangdong and Fujian which are also known to be rich of rare earths.<sup>323</sup> In order to ensure the dominance of the big companies in the industry, it is also declared that companies which have annual revenue of at least 1 billion yuan would be seen as qualified.<sup>324</sup> It is also important to point that China could not still manage to solve the problems of illegal mining and smuggling in the rare earths industry despite the efforts. It is recorded that the volume of illegal exports was 20 percent higher than the legal export volume in 2011 according to a white paper issued by the State Council in June 2012. It is also mentioned that the increasing illegal exports also increases the environmental damages.<sup>325</sup>

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<sup>319</sup> *China Daily*, 1<sup>st</sup> June 2011.

<sup>320</sup> *Xinhua*, 16<sup>th</sup> June 2011.

<sup>321</sup> *China Daily*, 12<sup>th</sup> March 2012.

<sup>322</sup> *China Economic Review*, 7<sup>th</sup> August 2012.

<sup>323</sup> *China Daily*, 3<sup>rd</sup> July 2012.

<sup>324</sup> *People's Daily*, 17<sup>th</sup> July 2012.

<sup>325</sup> *People's Daily*, 17<sup>th</sup> July 2012.

Since the mid-2012, China has experienced another problem regarding the rare earths industry. The prices of rare earths fell sharply, since market demand decreased as a consequence of economic slowdown, while there was overcapacity in the industry. Inner Mongolia Baotou Steel Rare-earth Hi-tech Co. which is China's largest rare earths producer limited some production in order to control falling prices as the firm worried because of its sharply decreasing sales and profits.<sup>326</sup> It is seen that Baotou was followed by other leading rare earth enterprise groups in halting production and such a strategy was also approved by the local governments. It is reported that Baogang Rare Earth under Baogang Group and China Minmetals Rare Earth Co Ltd and Aluminum Corp of China (Chinaclo) were among these rare earth groups which cut production levels until the increase of the prices.<sup>327</sup> It is pointed out that the immediate effect of the production cuts was 20 percent price increase, while it was not clear whether they would again fall when the production increased.<sup>328</sup> On the other hand, it is clear that the rare earth market was manipulated by the big SOEs which dominate the industry in this case, although it was not intervened by the government.

As a consequence of the production halts of many companies because of low prices, a special fund was raised by the central government to support restructuring the rare earths industry. It is envisaged that the money will be used by the local governments to prevent illegal mining, upgrading environmental standards, promoting research and development of the industry. It is stated that the rare earth mines which satisfy the specific environment standards will receive money.<sup>329</sup> The special fund was accompanied by new consolidation policies, entry barriers and environmental standards.<sup>330</sup>

In 2013, it is seen that the problems of the Chinese rare earths industry remained: illegal mining, overcapacity, low proportion of high-end products, smuggling and pollution.<sup>331</sup> As a consequence, it is recorded that MIIT once more

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<sup>326</sup> *People's Daily*, 25<sup>th</sup> October 2012, *China Daily*, 30<sup>th</sup> October 2012.

<sup>327</sup> *China Daily*, 8<sup>th</sup> November 2012.

<sup>328</sup> *China Daily*, 13<sup>th</sup> November 2012.

<sup>329</sup> *China Daily*, 21<sup>st</sup> November 2012.

<sup>330</sup> *China Daily*, 13<sup>th</sup> November 2012.

<sup>331</sup> *Xinhua*, 8<sup>th</sup> August 2013.

decided to implement a new consolidation program in the rare earths industry in a close-door meeting on May 13 with the attendance of officials and company representatives. The main emphasis was again on the prevention of illegal mining. It is known that the measures taken against illegal mining especially since 2010 included implementing resource tax, imposing mandatory mining plans and export controls. While these measures have played some role in the prevention of illegal mining, it is also pointed out that it is only the legal firms which face these regulations, meaning that the illegal firms turn out to be luckier.<sup>332</sup> On the other hand, MIIT is decisive to press on illegal mining. It is stated that 14 unauthorized mines are closed and 14 smuggling cases were investigated in 2011 and 2012.<sup>333</sup> In only Xunhu county, three illegal mines are closed and four suspects related to them were arrested in June 2013 as an indicator of the fact that MIIT decided to take stricter measures against illegal mining.<sup>334</sup> The central government also assigned a role to the local governments in preventing illegal mining in the rare earths industry especially through a three month campaign from August 15 to November 15. It is pointed out that eight authoritative bodies joined the campaign including MIIT, and the Ministry of Land and Resources, the Ministry of Environmental Protection, the Ministry of Public Security, General Administration of Customs, State Administration of Taxation, State Administration of Work Safety and State Administration for Industry and Commerce.<sup>335</sup>

In addition to these measures, it is seen that the central government assists the Chinese rare earth companies in order to preserve their global competitiveness as stated by Gao Yunhu, the MIIT chief of the Rare Earth Office. For instance, MIIT announced that the Chinese government will support the three Chinese rare earth companies which got in conflict with Japan Hitachi Metals which is dominant in the rare earths industry and holds a number of patent licenses of rare earths. It is stated that one of the patent rights of Hitachi expired in 2003 and the other expires in 2014.

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<sup>332</sup> wantchinatimes.com, 9<sup>th</sup> June 2013.

<sup>333</sup> *People's Daily*, 8th August 2013.

<sup>334</sup> *Caijing*, 9<sup>th</sup> April 2012, *Xinhua*, 26<sup>th</sup> June 2013.

<sup>335</sup> *People's Daily*, 8<sup>th</sup> August 2013.

On the other hand, Hitachi extended the right to 2029 which affects the Chinese companies adversely and is thought to be invalid.<sup>336</sup>

#### 6.4.5. Concluding Comments Regarding the Mining Industries

It is certain that the reason behind the determination of the mining industry among the strategic sectors by the Chinese government is first of all related to the significance of the natural resources for the sustainability of the Chinese economic development, especially when it is taken into consideration that the natural resources have been under the threat of depletion mainly because of China's growth model. Because of this reason, it would be expected that the emphasis on sustaining the state ownership would be strong in these traditional industries and consolidation has been an important policy implemented to achieve this target. In line with this expectation, it is seen that private enterprises have been banned from entering some of the mining sectors, such as rare earths industry. Foreign firms have only been allowed to the mining industries with the purpose of technological upgrading under strict controls and only with the partnership of Chinese enterprises.

Table 6.3. The Comparison of the Number of State-owned/State-holding Enterprises and the Private Enterprises and Their Total Assets in the Mining Industries

SECTOR	NUMBER OF ENTERPRISES		TOTAL ASSETS (100 million yuan)	
	State-owned and State-holding Enterprises	Private Enterprises	State-owned and State-holding Enterprises	Private Enterprises
Coal industry	976	4472	31443,48	4695,24
Ferrous Metals Industry	159	2493	3963,42	2555,14
Non-Ferrous Metals Industry	269	1038	1818,16	976,75
Non-Metals Industry	186	2136	834,92	930,33

Source: China Statistical Yearbook, NBSC, 2013, available at <http://www.stats.gov.cn/english/Statisticaldata/AnnualData/>

Table 6.3 indicates the effect of the consolidation policy in the sense of gathering the resources and the assets in the Chinese mining industries in the hands of large SOEs, specifically in the coal industry. It is seen that the number of the

<sup>336</sup> *People's Daily*, 13 August 2013.

private enterprises are higher than the number of the state-owned and state-holding enterprises in the mining industries; however the value of total assets of the state enterprises are higher, with the exception of the non-metals industry. By looking at the Table 6.3, it is possible to state that the Chinese leadership has been successful in creating large SOEs in the coal industry when it is taken into consideration that the state enterprises that are almost one-fourth of the private enterprises in number hold nearly six times of total assets that are hold by the private enterprises.

The main target of the Chinese state regarding the mining industry has been ensuring the self-sufficiency of the country in the natural resources which have been vital for the sustainability of the economic growth as mentioned above. In order to achieve this target, the Chinese state has implemented two main strategies. First, the emphasis has been put on increasing the efficiency of the processes of exploration and mining. On the one side, the Chinese mining industry has suffered from overcapacity, illegal mining and smuggling which increase the threat of resource depletion and environmental degradation. Related to these problems, unsafe working conditions and accidents causing significant numbers of deaths have not only been the troubles of the mining industry, but also viewed to be challenging the legitimacy of the CCP. The consolidation policy has been seen to solve these problems of the Chinese mining industries.

Second, the Chinese government has encouraged the Chinese mining companies to acquire reserves of natural resources overseas. The two targets have been closely related to each other in the sense of the will of the Chinese government to establish large enterprise groups which are able to solve the problems of the Chinese mining industries and compete in the global markets. In addition to this, the Chinese government takes the necessary measures to have an impact on the global prices of these natural resources, and even control them if possible. In other words, the Chinese government targets to ensure that the Chinese mining firms have been strengthened in order to become global.

The economic consequences of these policies are important; however it is also important to discuss the impact of these policies on the transformation of the state-society relations in China and it is appropriate to mention two points regarding this impact. First, the mining firms have faced losses during the consolidation process and put the banking system under risk through the non-performing loans despite the regulations of the Chinese government. In order to decrease their costs,

the mining firms decided to reduce the number of workers they employ as mentioned above. In other words, the capitalist will of the Chinese government to become more active in the global distribution of natural resources has caused the unemployment of some of the Chinese workers.

Second, the consolidation policy of the Chinese government in the mining industries has caused the transfer of the resources from the small private mines and mining firms to the large SOEs and SOE groups, although there have also been merger activities among the SOEs. As a consequence of the policy, small private mining firms had to merge with the SOEs or shift to another business area. This process of capital handover has been executed by the Chinese central government, the CCP and the local governments and played a crucial role in the establishment of economic dominance of these politically dominant actors under the conditions of transition.

The consolidation policy would be seen closely related to the “go global” strategy of the Chinese government as mentioned above; because the main intention of the consolidation policy would be seen to be the understanding of the Chinese government that only large SOE groups would have the chance of competing in the global markets. In other words, the selected strategic sectors are not only strategic for the Chinese economy and sustainability of its growth, but also they are strategic for China’s global competitiveness. Although it is not mentioned, the Chinese leadership knows that the capitalist economic development cannot be sustained without taking an active position in the global competition. Because of this reason, the Chinese government has systematically intervened the strategic sectors and preserved the state ownership in these sectors, though at different levels depending on the conditions of the sectors. In this regard, contrary to Arrighi, it is not possible to claim that there is a free market economy in China, while the transition to capitalism has been progressing.

## **6.5. Conclusion**

The overview of the developments in the Chinese IT industry and the mining industries as being among the most important strategic industries indicates both the general characteristics of the SOE reform and the differentiated policies of the Chinese government among the sectors. According to this overview, it is seen that the IT industry is mainly dominated by foreign firms especially at the beginning, since they were allowed to the sector by the Chinese government which was

cognizant of the fact that technology transfer was compulsory for the development of the Chinese IT industry. In this regard, joint ventures were encouraged in the sector at the beginning of the reform period, while the Chinese government began to put more emphasis on the development of the Chinese firms in the industry through mergers and acquisitions as the development of the industry is ensured. It is certain that the foreign firms have operated in the industry under the control of the Chinese government and they faced China specific rules, while the Chinese government has also afforded to impose its own standards in the global market and even have been in the tendency of neglecting the world standards. The overview also indicates that the appearance in the telecommunications sector which is in close relation with the IT sector is actually different with the dominance of four large Chinese SOEs which compete each other not only in the Chinese market, but also in the global market.

The situation in the mining industry is different because of several reasons. First of all, natural resources of China are scarce and under the threat of depletion, especially because of the economic growth model of China. Second, the mining industries have experienced more serious and longstanding problems when compared to the IT and telecommunication sectors as a consequence of being traditional industries, such as the accidents which cause a number of deaths. These problems turn out to challenge not only the development of the mining industry, but also the overall economic growth of China and even the political legitimacy of the CCP. As a consequence, the Chinese government has adopted the policy of consolidation in the mining industry especially since the end of the 2000s, because it has been thought that large companies and company groups would solve the problems of the industry. In line with the targets of establishing a socialist market economy, the Chinese mining industry turned out to be composed of large and powerful state-owned enterprises and enterprise groups which act in a capitalist manner both in the domestic and the global markets. In other words, the consolidation of the state ownership in the mining industries point out the capitalist character of the Chinese state, rather than sustaining socialism in China because of sustaining dominance of the state ownership.

As a conclusion, the overview of the developments in these leading strategic sectors of the Chinese economy, IT and the closely related telecommunication industries and the mining industries, since the end of the 1990s indicates that the Chinese transition state, which has a capitalist character, has selectively determined

different strategies in the different sectors of the economy depending on the conditions of these sectors in order ensure capitalist accumulation in China (cf. Poulantzas 1973, Jessop 2008).

## CHAPTER 7

### CONCLUSION

The dissertation has indicated that the issues of both how to identify the state and how to explain China's reform experience have caused extensive discussions. In this regard, explaining the role of the Chinese state in the reform process is not an easy task. In order to complete this attempt, an overview of the explanations of the three theoretical approaches to the state on China's SOE reform and its consequences is presented in the conclusion chapter. This overview is followed by putting forward the explanations of the dissertation which is formed through a critical assessment of the three approaches.

#### **7.1. The Overview of the Theoretical Approaches to China's SOE Reform**

In Chapter 2, statist-institutionalist, new institutionalist and Marxist approaches to the state are overviewed in order to have an understanding of what state is and the chapter also presented briefly how the three approaches explain the role of the Chinese state in the reform process. According to this overview, the statist-institutionalist approach concentrates on the impact of the reforms on the capacity and the autonomy of the Chinese state and is divided into two camps regarding this impact. Although they criticize the dual-track character of the reforms, the new-institutionalists have been mostly satisfied with the economic reforms and put the emphasis on the introduction of political reforms. It is sometimes possible to encounter a kind of a critical new institutionalist analysis of state-society relations in China in the reform period; however mainly the Marxist approach presents an analysis of the transforming state-society relations in China as a consequence of the reforms.

The statist-institutionalist approach has both strengths and failures like the other two approaches. It would be accepted that this approach presents a good explanation to the role of the Chinese state in the reform period as its main focus is the state. On the other hand, it misses the issue of how this role has been formed and

shaped because of focusing the Chinese state as the most important actor of the reform process, shaping and controlling the reform process and the other actors of the process. Within this perspective, another problem of the statist-institutionalist approach is its evaluation of the consequences of the reforms mainly in relation with their effects on the capacity and the autonomy of the Chinese state. Given this general perspective, two opposite explanations emerged from the statist-institutionalist approach regarding the impact of the reforms on the capacity of the Chinese state.

Building on the general arguments of the statist-institutionalist approach, the first branch of this approach asserts that the SOE reform, especially in the second half of the 1990s, has contributed to the rising state weakness in China (cf. Wang 2003, Bramall 2009). Evaluating the consequences of the reforms, or the SOE reform in particular, from this narrow perspective of their impact on the capacity of the Chinese state turns out to be problematic; because the reforms have had further effects in the transformation of the Chinese state through the transformation of the state-economy and the state-society relations.

The second branch of the statist-institutionalist approach strongly disagrees with the assertion that the reform period has caused state weakness in China. Within this perspective, it has been emphasized that the Chinese state, the CCP and the bureaucratic apparatus in China remain to be strong and continue their functions of monitoring and controlling the Chinese society and economy properly (cf. Edin 2003, Chang 2004, Shambaugh 2008, Chu and So 2010). This branch puts the emphasis on the fact that the neoliberal policies have been implemented by the hands of the Chinese governments since the beginning of the reform period, missing the point that it is the case in all of the other countries which follow neoliberal policies. The problem of this approach is its distinction between neoliberalism and “state neoliberalism” under the unrealistic neoliberal assumption of minimum state intervention.

Within this statist-institutionalist explanation, it is asserted that the most important indicator of the continuing and even strengthening capacity of the Chinese state is the fact that the regime and the CCP survive despite the problems of the reform period. It is also asserted that they will sustain despite the furtherance of the reforms, if the CCP continues to be adaptable and flexible to the changing conditions (cf. Shambaugh 2008). In this manner, this branch of the statist-institutionalist

approach has not been too much critical on the *zhang fangxiao* policy which marked the second half of the 1990s and which has been strictly criticized by the other branch of the statist-institutionalist approach because of giving rise to state weakness. Rather, David Shambaugh, in his recently published book *China Goes Global* (2013), states that China's SOE reform has been one of the most important factors enabling China to go global, rather than only ensuring the increasing capacity of the Chinese state. In this regard, especially the efforts of the Chinese state to create "national champions" in the strategic sectors in the 2000s and the 2010s are pointed out (Shambaugh, 2013:140-141).

In line with its significance, the new institutionalist approach has also been deeply interested in China's SOE reform. It is possible to state that the new institutionalists have been in an agreement on their explanation of the SOE reform and its consequences until the early 2000s in the sense of appreciating any reform which moved China away from the central planning system. Since the beginning of the 2000s, this approach has provided two different explanations regarding the SOE reform. It is generally thought that the reform strategy has been reversed from the privatization policy implemented in the second half of the 1990s to increasing the emphasis on continuing and strengthening the state ownership in the selected strategic industries in various ways especially after the global economic crisis in 2008 and two different new institutionalist responses emerged in response to this reversal. It is important to mention that both of these explanations would be viewed to be within the new institutionalist approach, because they share the emphasis on the establishment of market economy in China and the integration of the Chinese economy to the global capitalist accumulation process as the final targets.

The first branch of the new institutionalist approach to China's SOE reform in the 2000s and the 2010s represents the continuity of the original expectations of this approach since the beginning of the reform period. As it has been the emphasis of the new institutionalist approach throughout the whole reform process, the sustaining problems of the Chinese enterprise system in the 2000s and the 2010s should be solved to ensure that the markets function properly. The dual-track character of the economy and the diversified ownership structure of the industry have been the most important problems to be mentioned in this regard according to this branch of the new institutionalist approach. In other words, this branch emphasizes that there are still a number of important things to do in the agenda of the SOE reform of China in

order to talk about the presence of a Chinese modern enterprise system which is suitable to a market economy (cf. Naughton 2007, Geng, Yang and Janus 2009, Ho and Young, 2013, Chen 2013).

Within this perspective, it is accepted that the creation of the dual-track character of the Chinese economy is an important step in the transition process and has had contributions to the increasing incentives of the SOE managers and making them engage in market-oriented activities. On the other hand, it is also pointed out that the dual-track mechanisms in the Chinese economy have enabled the SOE managers to have undeserved gains through using the variations between the plan and the market and gave rise to increasing corruption in China when combined with the policy of autonomy expansion of the SOEs. This criticism of the *classical* new institutionalist approach is fully correct; however this approach does not further the analysis and pay attention on the role of this process in the emergence of the new capitalist class in China.

The strategy of “picking the winners” by the Chinese state since the early 2000s and especially after 2008 has been strictly criticized by the *classical* new institutionalist approach, while it was expected that the privatization policy of the second half of the 1990s would have continued (Naughton, 2007: 365). This approach views the policy of *guo jin min tui* as a new direction of the SOE reform and label it as a regression of the development recorded by China in the way of the establishment of market economy. In this regard, the *classical* new institutionalist approach emphasizes that the Chinese reforms are partial and have to be furthered; especially privatization would have the priority (cf. Naughton 2007, Geng, Yang and Janus 2009, Ho and Young, 2013).

Within this perspective, the SOE reform strategy of the Chinese state in the 2000s and 2010s is viewed as “*liberalization two-step*”<sup>337</sup>, meaning that the Chinese state has been pursuing controls in the selected sectors which are strategic for the national security and the technological development in China. This strategy is also labeled as a “*bifurcated strategy*”<sup>338</sup> which is based on the intervention and control of the Chinese state on micro issues of the economy through deciding which sectors are strategic and which are not (Hsueh, 2011: 3). It is mentioned that the process of

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<sup>337</sup> Emphasis original.

<sup>338</sup> Emphasis original.

the selection of the strategic sectors is a political process rather than being managed by some rational economic motives, since the strategic value of any sector has been determined by the central government. The Chinese state maintains its authority in the strategic sectors and the entry of foreign investment to some of these sectors which are less competitive are allowed, but only under the strict control of the Chinese state (Hsueh, 2011: 254-255). On the other side, the Chinese state let the other sectors to be liberalized by encouraging the private sector and the foreign investment and allowed the decentralization of the decision-making in these sectors so that the local authorities have gained the decision-making power in these sectors. Hence, the dual character of the Chinese industry continues after three decades of the reforms, with the state controlling the strategic sectors on the one hand and the non-strategic sectors having market conditions on the other hand. Within this perspective, the “*bifurcated strategy*” is seen as a method of the Chinese state to increase its capacity through economic regulation. The Chinese state has targeted to have a political control and a regulatory capacity in the economy, while it has been cognizant of the fact that it has to modernize its economic system in order to achieve this target through introducing the elements of market economy and ensuring integration to the world economy (Hsueh, 2011: 3-10). This target has been related to the efforts of the Chinese state to centralize its power under the new conditions brought by the open-door policy and the WTO membership (Hsueh, 2011: 14-16).

While the analysis presented above is related to the capacity of the Chinese state, the increase of the regulatory capacity of the Chinese state is criticized in the sense of sabotaging the market-oriented reforms by this approach, rather than being appreciated as the statist-institutionalist approach does. It is thought that there is no evidence that such a strategy would bring efficient economic results and China’s integration to the global economy does not mean that the Chinese state will give up the strategy of combining market and non-market mechanisms in order to achieve its targets and adopt fully a liberal strategy (cf. Hsueh, 2011: 263-264). Within this perspective, the Chinese state is generally presented as an authoritarian state which preserves its autonomy through sustaining its dual-track reforms against all sections of the society. In addition to the control of the Chinese state over the economy, its control over the society is also strictly criticized (cf. Hsueh, 2011: 5). In other words, the *classical* new institutionalist approach criticizes China’s reform process which is consisted of an incomplete economic reform and no political reform.

A new explanation emerged within the new institutionalist approach corresponding to the shift from the assumptions of the Washington Consensus to the assumptions of the Post-Washington Consensus, especially in response to China's SOE reform policies implemented since the beginning of the 2000s, which has given up the traditional new institutionalist emphasis on the need of converging all of the systems in China, especially the enterprise system, to the Western systems. Within this perspective, it is stated that there has been a "transitional orthodoxy" regarding China's reform experience which views the TVEs and the private enterprises as the engine of China's economic development and the SOEs as the fossils waiting to die since the beginning of the reform period (cf. Nolan and Wang, 1999: 169). Contrary to this view, this approach mentions that China has indicated that there is a way of reforming the enterprise system other than privatization which is heavily implemented in the post-communist countries and developing countries (Nolan and Wang, 1999: 194).

According to this perspective, the target of the Chinese state has been to ensure that the SOEs, especially the large ones, become appropriate to the conditions of the market economy so that they also become domestically and internationally competitive, rather than eliminating or privatizing them (cf. Yang, 2008: 30). Because of this reason, the SOE reform has turned out to be one of the most important reform areas that enabled the Chinese state to sustain its key role in the whole reform process (Yang, 2008: 32). On the other hand, it is also mentioned that the SOEs should be released from their welfare functions in order to be able to compete with the private enterprises which do not have such responsibilities. Since this is a new kind of enterprise system which is peculiar to China, there is a need of a new set of legal regulatory framework for the SOEs, especially for the separation of the management of the SOEs from the CCP according to this *new* new institutionalist approach (Yang, 2008: 44, 48). In other words, this new branch of the new institutionalist approach accepts the continuity of the state ownership in the Chinese industry as a suitable strategy for China's integration to the global markets; however expects that the Chinese state behaves like a private owner and the SOEs are organized as private enterprises.

There are also two branches within the Marxist approach regarding China's reform period and its consequences. The first branch of the Marxist approach on China's reform experience mainly states that the reform policies have caused the

emergence of capitalist relations in China and started the transition of the Chinese economy to a capitalist economy. According to this approach, SOE reform has played a significant role in this process not only through the layoff policy and the privatization policy which especially intensified in the second half of the 1990s, but especially through its role it played in the transformation of the Chinese state and the class relations in China. Within this perspective, China's SOE reform is seen as both a natural consequence of primitive accumulation process and also as one of the most important factors accelerating this process. Privatization is one of the main elements of this process, in which the state has a significant role in the transfer of the public assets to the private (Harvey, 2006:153). In other countries, privatization policy has turned out to be the initial step of the states which have once adopted neoliberal practices. Although privatization policy has not been adopted officially in China, the Chinese state has also played a role in the transfer of the state assets to "a small elite" since the beginning of the reform period (Harvey, 2006: 155).

According to this perspective, the reform process reached a new stage with the target of establishing a socialist market economy with Chinese characteristics which was declared in the Fourteenth Congress of the CCP in 1992. (Hart-Landsberg and Burkett, 2006: 52, Li, 2008: 26, Piovani and Li, 2011: 80). This decision gave rise to the transformation of the Chinese enterprise system in the sense of restructuring and strengthening the SOEs through increasing their market-oriented incentives and making them subject to the market principles, while sustaining interventions on the enterprise system. This approach concludes that there has been a significant policy reversal of the CCP since the beginning of the reform period, although the Party leaders have insisted that the Chinese development has been based on a socialist character (Hart-Landsberg and Burkett, 2006: 52-53).

The first branch of the Marxist approach also makes emphasis on the fall of the employment level in the state sector and the deteriorating welfare rights of the workers. It is pointed out that the employment in the state sector was only the 15 percent of the total employment at the beginning of the 2000s (Hart-Landsberg and Burkett, 2006: 53). The privatization policy and worker layoff policy which reached to 30 million workers between the years of 1998 and 2004 have given rise to serious social, economic and political problems in China (Hart-Landsberg and Burkett, 2006a: 14). While the increasing inequalities and unemployment turned out to be the most important socioeconomic problem of China, deepened by the reduction of the

welfare services provided by the SOEs, the central government also found itself under pressure because of the declining taxes it received from the SOEs bringing a growing budget deficit. It is also pointed out that the financial deterioration of the SOE system also damaged the banking sector considerably (Hart-Landsberg and Burkett, 2006: 78-80).

Within this perspective, this Marxist approach states that China has almost established a capitalist economy and strictly rejects the view that it is not capitalist because the Chinese state continues to intervene the economy (Hart-Landsberg and Burkett, 2006: 86-87). This is obviously not related to only China's SOE reform which created both state-owned national champions and private enterprises with the capitalist motivation of profit in the industry. This approach identifies the Chinese economy as a capitalist economy mainly because of the transformed social relations accompanying the reforms which are especially indicated in the deteriorated living conditions of the majority of the working people in China (Hart-Landsberg and Burkett, 2006: 65). Because of this reason, the transformation of the SOE system in China, not only the privatization policy which was especially implemented in the second half of the 1990s, has been seen as one of the most important reform areas in the transition process by this approach, specifically through its emphasis on the class struggle.

As a conclusion, the first branch of the Marxist approach states that China's reforms in general and its SOE reform in particular has been in line with the dynamism of global capitalism. China's SOE reform since its beginning, from the layoff policy to whole process of smashing the "iron rice bowl", has been at the expense of not only the Chinese workers but also all the workers around the globe. As a consequence of its reforms which have been implemented for three decades, China turned out to have an important role in the transnational capitalist accumulation process (Hart-Landsberg and Burkett, 2006b: 39). This approach is criticized in the sense that it is not able to present an alternative to the Chinese model (cf. Lippit, 2005). It would be necessary but not sufficient to provide an alternative to a criticized social phenomenon, while it is possible to criticize this approach in terms of its ignorance of the role of the Chinese state in the reform process, although it presents a good explanation of the adverse economic, social and political consequences of China's reforms.

Through a historical analysis, since it is important to understand that market-oriented policies would be seen to be adopted in response to some of the difficulties experienced in the socialist system, it is also possible to reach a Marxist perspective which asserts that the Maoist era also had a class-divided character in the sense of the ruler class and the ruled class, through identifying the actual separation of the working class from the means of production. (Wu, 2005: 46-48). Focusing on the characteristics of the Chinese socialism is important to have an understanding of the historical limitations of China during the transition period. In other words, the class relations which were established in the Maoist era between the ruler and the ruled classes would also be taken into consideration in explaining the consequences of the market-oriented reforms which have been implemented in China for three decades (Wu, 2005: 48, 60).

Within this perspective, China's reform period would be seen as the latest stage of the continuing process of the ruling class formation in China (Wu, 2005: 51). The Chinese ruling class which was formed during the Maoist era was updated at the beginning of the reform period through excluding the conservative members and the old elites who were strictly loyal to the Maoist principles and turned out to be dominated by technocrats and newly emergent capitalists (cf. Andreas, 2009: 233-237). According to this analysis, market-oriented reforms have been introduced by the ruling class in order to strengthen its monopoly on power. The ruling elite strengthened its economic power in the reform process through transforming the public assets into their private assets in addition to preserving the political power (Wu, 2005: 56-57). It is also possible to relate this perspective to the discussions on absolutist state as a transition state presented in Chapter 2 and state that the Chinese transition period is based on the efforts of the politically dominant ruling class to have economic dominance as well.

The origin of the second branch of the Marxist approach on China's reform experience goes back to Giovanni Arrighi and his book *Adam Smith in Beijing*, although Arrighi himself makes no analysis of the reforms as mentioned in Chapter 2. The followers of Arrighi within the world-systems theory such as Samir Amin have not replicated what Arrighi did in the sense of ignoring the internal conditions of China (cf. Amin, 2013); however the main emphasis of this perspective regarding China, which is built on Arrighi's approach based on the main arguments of Fernand Braudel, remains to be focused on the position of China in the global power

relations. According to this perspective, China has not historically preferred a capitalist path of development and has not traditionally had imperialist tendencies and has turned out to be an emerging strategic global power at the end of the twentieth century with these characteristics, which is also supported by the global conjecture.

According to Amin (2013), China is a specific example in the era of contemporary global capitalism, because it has followed an anti-capitalist path since the beginning of the 1950s and there was no change in its attitude to capitalist policies since the beginning of the reform period. Within this perspective, it is possible to view it as a matter of coincidence that the global rise of neoliberalism also corresponded to the moment that China's reform period began (cf. Amin, 2013). China's economic development is achieved "through a process of 'governing the market' by a set of structural-institutional factors that are China-specific, but can be of general importance for late developing countries" (Lo and Zhang, 2010: 166-167).<sup>339</sup>

Within this perspective, the rising capitalist relations in China since the reform period began are viewed as a stage going to socialism in line with the official discourse of the Chinese leadership. It is emphasized that, although China's reforms have been based on opening the economy and some extent of privatization, large SOEs have not been privatized and the financial system is not liberalized. The banking and financial systems remain to be national and yuan has not been subject to flexible exchange. In other words, it is asserted that China has overcome the negative impacts of the coincidence of its reform period and the global rise of neoliberalism through its policy of "socialism *of* the market" or better to say "socialism *with* the market" (Amin, 2013: 21, 23-24).<sup>340</sup>

Within this perspective, it is accepted that the Chinese workers have faced capitalist exploitation since the reform period began, even extremely for instance in the coal mines: "This is scandalous for a country that claims to want to move forward on the road to socialism" (Amin, 2013: 20); however it is also asserted that the Chinese state put increasing efforts on improving the labor rights and the position of

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<sup>339</sup> It is important to mention that Lo and Zhang (2010) do not present an analysis within the world-systems theory; however they share the view that the Chinese system represents an alternative to neoliberalism.

<sup>340</sup> Emphasis original.

the Chinese workers in the global economy (Lo and Zhang, 2010: 171-172). These problems are seen to be partly caused by the fact that the Chinese government has been concentrated on the integration to the global economy through the opening policy. The integration to the global economy is viewed as a partial and controlled process, and it is pointed out that there has been no dominance of foreign capital in the Chinese economy during the reform process and China's good macroeconomic performance cannot be attributed to the contributions of the foreign capital. (Amin, 2013: 19-21).

The strategic importance that China has gained since the beginning of the reform period in the global power relations is explicit; however there are a number of problems to be mentioned regarding the perspective which views the Chinese socialist market economy as an alternative to capitalism and neoliberalism as its final appearance. First of all, this perspective, although it has been improved to include the internal conditions of China in the analysis, does not concentrate on the rising capitalist relations and the transforming class structure since the reform period began and hence does not put emphasis on the class struggle and the increasing inequalities in China. As a consequence, it turns out to be difficult to claim that there has been a considerable improvement within the perspective; because it presents only a partial analysis of the internal conditions of China. Such an approach serves for the legitimation of not only the neoliberal policies implemented in China, but also of the inequalities which have risen as a consequence of these policies. It is important to mention that it is impossible to reach a correct analysis of the existing and future position of China in the global power relations without concentrating on its social, economic and political characteristics.

## **7.2. Concluding Remarks**

The overview of the literature on the theories of state indicates that providing a definition of the state is not an easy task. Within this perspective, explaining the characteristics of the Chinese state and its role in the transition period is also difficult. As the Chinese state has had a specific role in this process, the dissertation focuses on the Chinese state in order to have a better understanding of the reform period and elaborates this focus through concentrating on the SOE reform as one of the most significant reform areas.

In line with the focus, Chapter 2 is devoted to the overview of the literature on the theories of state to have an idea on the discussions on what state is, before concentrating on the Chinese state and its role in the transition. Chapter 3 and Chapter 4 present briefly the developments during the rule of Mao Zedong and Deng Xiaoping respectively in order to provide the historical background and the initial stage of China's transition, while Chapter 5 overviews China's SOE reform and its stages. In Chapter 6, the developments in the two leading strategic Chinese industries, IT and the mining industries, are analyzed through a newspaper search since the end of the 1990s in order to have a better understanding of the SOE reform and its consequences, specifically its last stage.

The dissertation mainly argues that China's transition from socialism to capitalism also caused the transformation of the Chinese state. Similar to the absolutist state which appeared in the Western Europe in the sixteenth century as a transition state during the long transition period from feudalism to capitalism, the Chinese state represents a transition state since the reform period began at the end of the 1970s. It would be useful to search for some corresponding characteristics of the Chinese state to the absolutist state in order to have a better understanding of the role of the Chinese state in the transition. Through overviewing the contributions of Poulantzas (1973), Anderson (1974) and Miliband (1975) to the discussion on the absolutist state as a transition state, the general characteristics of the absolutist state are presented in Chapter 2 and it is indicated that the absolutist state has three main characteristics agreed by these three authors. According to this brief overview, the absolutist state:

- i. existed under the conditions of two modes of production,
- ii. based on the predominance of the existing ruling class,
- iii. based on a divergence between the political and the economic.

Making use of the analysis on the characteristics of the absolutist state to have a better understanding of the Chinese transition state turns out to be fruitful. The Chinese state since the end of the 1970s has appeared as a transition state under the conditions of two modes of production, while capitalism has been replacing socialism. In this regard, the Chinese transition state is a capitalist state not only as it has the specific relative autonomy from the economic instance (cf. Poulantzas, 1973), but also because the collectively-owned means of production are practically

separated from the workers, specifically through the abolishment of the work unit system, throughout the reform period. In other words, the assertion that the Chinese transition state is a socialist state, which is based on the lack of the legal base for the private property and the dominance of the state ownership in the industry, would be questioned. In relation to the second characteristic of the absolutist state which is presented above, the Chinese transition state is also based on sustaining the predominance of the ruling class which was formed during the Maoist era, but was filtered from the proponents of the Maoist policies during Deng's rule. On the other hand, the Chinese transition state would not be viewed to be serving only for the protection of the privileges of the ruling class in the given mode of production as Anderson (1974) presents, rather the Chinese transition state has functioned for ensuring the conditions necessary for the establishment of the capitalist mode of production in line with the understanding of Poulantzas (1973).

As presented in Chapter 2, Poulantzas (1973) and Anderson (1974) agree on the divergence between the political structure and the economic instance under transition; however they disagree on the issue of the relationship between the politically dominant feudal nobility and the economically dominant bourgeoisie. Anderson (1974) asserts that the absolutist state served for the interests of both the nobility and the bourgeoisie and hence was based on their political alliance under the dominance of the nobility; whereas Poulantzas (1973) states that the absolutist state had a relative autonomy which is specific to the capitalist state and was based on the contradiction between the nobility and the bourgeoisie. The Chinese transition state would also be viewed to be based on the contradiction between the politically dominant ruling class and the newly emergent capitalist class under the conditions of the transition. The politically dominant ruling class has been cognizant of this contradiction and efforts to establish and sustain its economic dominance in order to preserve its hegemony. The sustaining dominance of the state ownership in the Chinese industry after three decades of reform would be explained by these efforts of the Chinese ruling class.

The willingness of the private sector to keep political *status quo* in China (cf. Dickson, 2003) does not indicate the existence of an alliance between the newly emergent private entrepreneurs and the ruling class, rather it is possible to explain this behavior of the Chinese private capitalists by their recognition that they are not politically dominant and even they have not been economically dominant yet.

Similarly, the decision of the CCP to accept the private capitalists as members would be seen as a consequence of being aware of the contradiction, rather than the alliance between the two classes. As the focus of the dissertation, the sustaining state ownership in the Chinese industry after three decades of the reform would be seen as the consequence of this awareness of the contradiction and the efforts of the ruling class to preserve its hegemony through holding the economic dominance. In this process, the injection of the capitalist relations to the SOEs through the reforms to establish a modern enterprise system to ensure capitalist accumulation has been one of the indicators of the fact that the Chinese transition state has served for the establishment of capitalist mode of production since the end of the 1970s.

The overview of the SOE reform indicates that state ownership has always been a significant element of the Chinese economic development model during the reform period, even in the second half of the 1990s. As the final stage, the Chinese leadership has preferred to strengthen the state ownership in the selected strategic sectors in order to sustain China's economic growth especially after the global economic crisis in 2008 as presented in Chapter 5 and Chapter 6. Although it has been expected that the new Chinese leadership which came to power in November 2012 would have a neoliberal approach regarding the SOE reform, especially before the Third Plenum of the 18<sup>th</sup> Central Committee, the neoliberal criticisms on the process have been right in the sense that China has not taken concrete liberalizing steps in this reform area yet. On the other hand, the *new* new institutionalist perspective views the reform strategy of China in managing the SOEs as they are private enterprises and encouraging them to increase their global competitiveness to be successful. Within this perspective, this strategy is seen to be an appropriate way of integration to the global markets for China as a latecomer. It is actually not possible to deny the correctness of this claim. Sustaining the dominance of the state ownership in the Chinese industry has been significant for sustaining the capitalist economic growth of China and its integration to the global capitalist accumulation which are all essential for sustaining the existing political regime in China.

Within these discussions, the important question is whether it matters who owns the enterprises in the industry, if the owner acts like a private agent in the market and operates with the intention of ensuring capital accumulation through the exploitation of workers. The overview of the developments in the strategic sectors of IT, telecommunication and mining sectors since the end of the 1990s indicates how

the Chinese government intervenes these sectors and/or strengthens state ownership and that the sustaining ownership does not mean that these sectors do not operate under the capitalist logic.

Even in firms that remain state-owned, leading cadres have grown accustomed to treating the enterprise as a means to line their own pockets. This was not possible during the Mao era, when cadres operated under harsh scrutiny and no one was permitted to accumulate private wealth. Things began to change in a big way in the late 1980s after the state started to contract out (*chengbao*) public enterprises (and divisions within enterprises) to individual cadres, who were expected to turn over a set amount of profit and could keep the rest. A new mentality developed, in which leadership cadres—from factory directors down to workshop directors and even shift leaders—began to look at the machinery and workers under their supervision as resources for private accumulation, generating an environment increasingly permeated with corruption and enmity.<sup>341</sup>

As the answer to the question presented above regarding the ownership of the industrial enterprises which operate in a capitalist manner, China's SOE reform experience indicates that there is not a difference between a state-run enterprise which targets to maximize its capitalist surplus through the exploitation of workers and a private enterprise, and hence it is possible to conclude that capitalist mode of production can be applied under the sustaining dominance of the state ownership during the transition period. China's transition period, which presented the conditions of the two modes of production, has witnessed the efforts of the Chinese ruling class to preserve its political dominance by adaptation to the new economic conditions, while sustaining the dominance of the state ownership in the industry has been among these efforts. These efforts were supported by ensuring that the Chinese labor has become a flexible input in the capitalist production process through the establishment of wage relation, labor mobility and labor market (Andreas, 2011: 10). The new Chinese class structure and the role played by the Chinese capitalist state in the formation of this structure are among the most visible appearances of the fact that China has been in a transition towards the capitalist mode of production since the end of the 1970s.

In other respects, of course, the Chinese system is less in line with the ideal-typical capitalist model. As market fundamentalists are keen to point out, the Chinese state continues to play a major role in regulating and guiding the economy and state-owned enterprises continue to dominate key sectors of the economy. These features, however, are not incompatible with capitalism. In the real world, as opposed to abstract models, capitalism has proved to be highly

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<sup>341</sup> Andreas J., "Expropriation of Workers and Capitalist Transformation in China", *China Left Review*, Issue 4, 2011, p.6, available at <http://chianaletreview.org/?p=477>

flexible, and the links between capital and the state have always been complex and often quite intimate. In my estimation, the present-day Chinese system, despite its peculiarities, should be counted among the many varieties of capitalism. Its fundamental qualification is the system of capitalist-style employment relations that now underpins the operations of virtually all Chinese enterprises, private or public.<sup>342</sup>

The loss of the egalitarian character of the Chinese society when compared to the Maoist era as a consequence of the reforms is the most important consequence of the social transformation and the emergence of the new class structure. The SOE reform in China has resulted in the expropriation of the means of production from the workers, and also from the potential petit bourgeoisie as in the mining industries under the consolidation policy, and made the workers bounded by the contract through replacing the mutual obligations under the work unit system.

...All corporations were required to operate on a profit basis, and tens of millions of workers were dismissed, losing their right to social securities, and in many cases even their housing. In their place, peasant migrants -- now numbering some 130 million -- were drawn into the cities, to labor under often brutal working conditions in construction or export factories. These policies laid the basis for an explosive expansion of the Chinese economy, which became "factory to the world." But in the process, China was transformed from one of the most egalitarian countries in the world, into among the most polarized. Today, a growing number of billionaires live in extreme luxury, while a "new middle class" resemble their peers in rich nations. For workers and peasants there have been certain general gains -- a wider variety of food and clothing, and greater access to consumer goods, if they can afford them. But the cost has been exceedingly high, in the loss of jobs and social securities, and tens of millions now form an impoverished "reserve army of labor." After initially narrowing, the urban/rural gap is widening, and class polarization growing, reviving the prerevolutionary alliance of rich farmers, urban capitalists, and compradors.<sup>343</sup>

The deteriorating conditions of the Chinese workers have been among the most important appearances of the transforming Chinese society and the rising capitalist relations as a consequence of the reforms. From the beginning of the 1990s to 2005, the share of labor income in GDP has fallen from 50 percent to 37 percent (Li, 2011: 39). In addition to the decreasing wage and employment level, it is also important to take into consideration that the Chinese peasants and the workers have lost their welfare rights step by step as a consequence of the decollectivization process and the SOE reform. The introduction of labor mobility in the way of the

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<sup>342</sup> Andreas J., "Expropriation of Workers and Capitalist Transformation in China", *China Left Review*, Issue 4, 2011, p11, available at <http://chianaletreview.org/?p=477>

<sup>343</sup> Weil R., "What Difference Does a Revolution Make? A Preliminary Contrast of India and China", *The India Economic Review*, Vol. 6, May 2009, available at <http://mrzine.monthlyreview.org/2010/weil180710.html>, p.162.

establishment of the labor market also gave rise to the exploitation of the migrant workers in addition to the exploitation of the whole Chinese labor more systematically. The SOE reform which has mainly purposed to establish a modern enterprise system has played a crucial role in this process. First of all, granting autonomy to the SOE managers to increase their incentives to improve the profitability and productivity performance of the SOEs included the authority over the decisions on wage and employment as mentioned in Chapter 5. As a consequence of the reforms, specifically the SOE reform, hundred millions of Chinese workers found themselves in a position that they have to work for long hours under unfavorable and unsecure conditions and a considerable number of others have become unemployed, especially during the privatization wave in the second half of the 1990s. Hence, there is no doubt that the Chinese workers have paid the costs of the “economic miracle”.

In these conditions, some of the private entrepreneurs who managed to be successful, SOE managers, local cadres, bureaucrats, Party members, their relatives and others who have close relations with the Party members and found ways to take the advantage of the dual character of the Chinese economy have formed the new Chinese capitalist class. Hence, a new capitalist class has emerged from the CCP and the Chinese bureaucracy since the beginning of the reform period on the other side of the working class facing deteriorating conditions. Although it is a discussion whether the members of this class have gained class consciousness, it is certain that they accumulated great amount of wealth by the help of their connections and relationships with the CCP members and by taking the advantage of the economic, social and political conditions of the transition process. It is estimated that state and collective assets which valued around 30 trillion yuan have been transferred to the capitalist hands which have some kinds of connections to the Chinese government as a consequence of the privatization wave in the second half of the 1990s and the other market-oriented policies since the beginning of the reform period (Li, 2011: 42). In this regard, the increasing corruption has also turned out to be one of the most serious problems of China’s transition process.

Wen Jiabao, China’s Prime Minister, is said to be one of the richest prime ministers in the world. His son is the owner of China’s largest private equity firm. His wife is in charge of China’s jewelry industry. Wen’s family is estimated to have accumulated a wealth of 30 billion yuan (about 4.3 billion U.S. dollars). Jiang Zemin (the former President and Party General Secretary) is

estimated to have a wealth of 7 billion yuan, and Zhu Rongji (the former Prime Minister) is estimated to have 5 billion yuan.<sup>344</sup>

As a consequence of this process, CCP and the Chinese bureaucracy have also been transformed. Contrary to the criteria of ideological commitment during the Maoist era, the Party and the Chinese bureaucracy have been filled with technocrats having academic degree on economics or technical disciplines since the beginning of the reform period. This was a strategy developed during Deng's rule in order to deal with the conservatives within the Party who were loyal to the Maoist policies as presented in Chapter 4 and would be seen within the process of the ruling class formation which would have served for the progressing transition. As a consequence, CCP has been transformed from a political party of the workers, peasants and the intellectuals and has turned out to be the party of the newly emergent capitalists, which is a fact that has been apparent especially since the beginning of the 1990s (Kotz, 2007: 59). Obviously, the interests of the CCP and the new capitalist class which has been created by the CCP intersect in some aspects of the transition process. On the other hand, it is not possible to view the intersection of interests as giving rise to a political alliance between the two, because their relation rests on a contradiction based on gaining political and economic dominance under the capitalist mode of production. In addition to this contradiction, the CCP would also be aware of the political costs of the high economic growth which has excluded to benefit the majority of the Chinese society since the beginning of the reform period. The increasing inequalities in China since the reform period began especially when compared to the egalitarian character of the Maoist rule (cf. Bramall 2009, Weil 2010) have been the most significant challengers of the sustaining hegemony of the Chinese ruling class under the conditions of transition.

Within the boundaries of the dissertation, it is indicated that China's reform process which began at the end of the 1970s has put the Chinese state and society in a transition from socialism to capitalism and the main conclusion is that the Chinese state has already become a capitalist state. Having a proper answer to the question whether China has become a capitalist country would be kept for the following

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<sup>344</sup> Li M., "The Rise of the Working Class and the Future of the Chinese Revolution", *Monthly Review*, Vol.63, No.2, 2011, available at <http://monthlyreview.org/2011/06/01/the-rise-of-the-working-class-and-the-future-of-the-chinese-revolution>, p.42.

studies, since it is based on concentrating on another major question of what capitalism is.

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## APPENDIX A

### TURKISH SUMMARY

1970'lerin sonlarında başlamış olan Çin'in reform dönemi ve bu döneme girildiğinden beri kaydettiği yüksek ekonomik büyüme oranları ile bütün dünyanın ilgisini çekmektedir. Gelişmekte olan ülkeler Çin kalkınma modelini kendi ülkelerinde kullanmak istemekteyken, gelişmiş ülkeler Çin'in kaydettiği yüksek ekonomik büyüme sayesinde küresel güç ilişkilerinde yeniden stratejik bir güç olması nedeniyle Çin'i yakın takibe almışlardır. Bunların sonucunda, reform döneminin başında sadece Çin'in merkezi planlama ilkelerinden ne kadar uzaklaştığı üzerine odaklanan ve bu uzaklaşmanın ekonomik başarısının tek kaynağı olduğu vurgusunu yapan akademik ilgi de genişlemiştir ve çeşitlenmiştir.

Çin'in reform tecrübesine duyulan ilginin sonuçlarından biri Çin'in reformların sonucunda kapitalist bir ülke haline geldiği argümanın karşısında Çin'in kapitalizme ve kapitalizmin son görünümü olan neoliberalizme alternatif olduğu argümanı üzerine kurulmuş olan tartışma olarak ortaya çıkmıştır. Şüphesiz ki Çin'in kapitalist bir ülke olup olmadığı sorusuna doğrudan bir yanıt vermek kolay değildir. Bu tür bir soruya yanıt vermek için reform dönemini, reform politikalarını ve sonuçlarını belirli bir noktadan ele alıp belirli bir teorik çerçevede incelemek gerekmektedir. Reform döneminde, özellikle diğer geçiş ülkeleriyle karşılaştırıldığında, çok daha özel bir role sahip olduğu düşünülen Çin devleti üzerine odaklanmanın Çin'in reform sürecini anlamakta uygun yollardan biri olduğu düşünülmektedir. Bu tezde, reform dönemini hazırlayan tarihsel koşullar gözden geçirildikten sonra Çin devletinin reform sürecindeki rolünü açıklayabilmek için otuz yıllık reform uygulamalarına rağmen Çin endüstrisinde devam eden devlet mülkiyeti hâkimiyeti, özellikle iki stratejik sektör olan bilişim teknolojisi ve maden sektörlerinde 1990'ların sonlarından itibaren uygulanan devlet politikaları incelenmiştir.

Çin Qing Hanedanlığı'nın (1644-1912) gücü, 19. yüzyılın ikinci yarısından sonra gitgide zayıflamaya başlamıştır. Bu zayıflamanın temel nedeni olarak bir yanda

Çin'in dünya ticaretine eklenmemiş olması nedeniyle İngiltere ve sonra da Fransa'nın Çin'i işgal etmeleri üzerine çıkan Afyon Savaşlarından (1839-1842, 1856-1860) sonra hanedanlığın işgallere karşı kayıtsız kalması, bir yanda da hanedanlığın Çin'in modernleşmesini sağlayamaması gösterilmektedir. Sonuç olarak, en önemlilerinden biri Taiping Ayaklanması (1851-1864) olmak üzere Çin'in dört bir yanında ayaklanmalar çıkmıştır. Taiping Ayaklanması, Çin Milliyetçileri ve Komünistleri tarafından toplumda milliyetçi ve toplumsal reformdan yana duyguların uyanması için kullanılmak istense de ayaklanma Qing Hanedanlığı tarafından yabancı güçlerin de yardımı alınarak bastırılmıştır. Taiping Ayaklanmasının bastırılmasında eşraf seçkinlerinin (gentry elite) de hanedanlığı desteklemesinin rolü büyük olmuştur. Ayaklanmadan sonra eşraf, toprak ağaları ve tüccarları kapsayan bir toplumsal sınıf olarak örgütlenmiş ve Çin'in kentleşmesinde ve ekonomik kalkınmasında önemli rol oynamaya başlamıştır. Bu sınıf, Çin'de bir yanda Konfüçyüs'ün eğitim ilkelerinin yayılmasını sağlarken, bir yanda da yabancı düşüncelerin Çin'e girmesini sağlamıştır. Eşraf seçkinlerinin bu şekilde güçlerinin artması sonucu, kentlerde reform yanlısı seçkin bir sınıf ortaya çıkarken kırsal alanlar askerleştirilmiştir. Eşraf sınıfının özellikle kırsal alanlarda yükselen hakimiyeti, Qing hanedanlığının gücünün zayıflamasında ve 1949 yılında gerçekleşen Çin Komünist Devrimi'ne kadar Çin'de ulusal birlik kurulamamasında önemli rol oynamıştır. 1912 yılına kadar, kendisi yerine geçecek başka bir rejim olmadığı için iktidarda kalmayı başaran Qing hanedanlığı (Fairbank, 2006: 235), eski politika yöntemleri ve Batı tarzı uygulamalarını Çin kurumlarına uyarlamayı içeren reformlar yapmaya çalışsa da gücünü yeniden kurmayı başaramamıştır. Bunu sonucunda, Çin'de binlerce yıldır süren hanedanlık rejimi 1911 Devrimi ile ortadan kaldırılmıştır. Hanedanlığı sona erdirerek cumhuriyet rejiminin kurulmasını sağlayan 1911 Devrimi, Çin Komünist Devrimini (1949) hazırlayıcı nitelikteki en önemli olaylardan biridir.

1911 Devrimi'nden hemen sonra, devrimde önemli rol oynayan bir yeraltı örgütü olan Devrimci İttifak (*Tongmenghui*) başkanı olan Sun Yat-sen ve aynı örgütün aktif üyelerinden Song Jioaren tarafından Cumhuriyet döneminin siyasi partisi olan Kuomintang kurulmuştur. 1911 yılının sonunda cumhurbaşkanı seçilen Sun Yat-sen görevine fazla devam etmemiştir ve 1912 yılında devrim sırasında güçlü bir askeri lider olan Yuan Shikai cumhurbaşkanı olmuştur. 1916 yılında ölene kadar bu görevi sürdüren Yuan döneminde bazı ekonomik ve yasal reformlar uygulanmaya

çalışılmış; ancak en önemli hedef olan ulusal birlik kurulamamıştır ve eşraf sınıfının güç kazanmasıyla ortaya çıkmış olan yerel askeri liderler özerkliklerini arttırmaya devam etmişlerdir. Yuan'ın ölümünden sonra, bu duruma dünya çapındaki karışıklık ve savaş durumu da eklenince, Çin 1949 yılına kadar düzensizlik ve kaos dönemi yaşamıştır. Bu dönemde yaşanan toplumsal hareketlerin en önemlilerinden biri, temelde 28 Haziran 1919 tarihinde imzalanacak olan Versay Anlaşması ve bu anlaşmaya karşı Çin hükümetinin gösterdiği tepkinin onaylanmaması sonucu 1919 yılının Mayıs ayında gerçekleşen Dört Mayıs Hareketi'dir. Bu hareketin önemi, özellikle bu harekette rol alan bazı entelektüellerin birkaç yıl sonra Çin Komünist Partisi'nin kuruluşunda rol almış olmalarından kaynaklanmaktadır.

Kuomintang'ın ulusal birliğin kurulması üzerinde önemle durmasına rağmen, ekonomi politikalarını, özellikle de tarım politikalarını, mevcut düzeni değiştirecek şekilde düzenlememesi nedeniyle yerel seçkinlerin ve yerel askeri güçlerin özerkliklerini azaltmadığı görülmektedir. 1928 yılında, Sovyetler Birliği'nin ve Çin Komünistlerinin desteğini alan Kuomintang lideri Chiang Kai-shek yerel askeri güçleri yenilgiye uğratarak Nanjing kentinde merkezi hükümet kurmayı başarmıştır; ancak bu Çin'de karışıklıkların sona ermesi anlamına gelmemiştir. 1921 yılında kurulan Çin Komünist Partisi ile Kuomintang arasındaki ilişki kimi zaman işbirliği kimi zaman da rekabet şeklinde sürerken, 1927 yılında zorlu bir iç savaşa dönüşmüş ve 1937 yılında gerçekleşen Japon istilası sırasında geçici bir işbirliği dönemi yaşansa da 1949 yılına kadar devam etmiştir. 1949 yılında, Komünistler sadece Kuomintang rejimini iktidardan indirmekle kalmamış, aynı zamanda ülkeyi emperyalist Japon istilasından da kurtarmışlardır. Çin Komünist Devrimi sonrasında Çin Komünist Partisi ve lideri Mao Zedong ulusal birliği sağlamaya, ülkenin endüstrileşmesine ve toplumun kültürel dönüşümüne yönelik önemli adımlar atmaya muvaffak olmuşlardır. Bu anlamda, toplumsal ve ekonomik yapıyı değiştiremediği için başarısız olan Kuomintang rejimine kıyasla, Çin'de çok önemli siyasi, toplumsal ve ekonomik dönüşüme imza atarak gerçek bir devrim gerçekleştirmişlerdir.

Şüphesiz ki 1949 yılında başlamış olan ve fiilen 1978 yılında bitmiş olan Mao dönemini özetlemek hiç kolay değildir. Öncelikle, Mao döneminin hem olumlu hem de olumsuz gelişmeleriyle reform dönemini hazırlayıcı nitelikte olduğunu belirtmekte fayda vardır. Bir yanda, Mao döneminde kaydedilen endüstriyel ilerleme ve oluşturulan alt yapı olmadan reform dönemi 'ekonomik mucizesi'nin gerçekleşmesinin mümkün olmadığı açıktır. Öte yandan, Mao döneminde, özellikle

geç Mao dönemi denilebilecek 1960'ların başlarından itibaren toplumsal ve ekonomik ilerleme açısından faydalı olacağı düşünülerek iyi niyetlerle ortaya konulmuş bazı politikaların olumsuz sonuçları nedeniyle Çin'in 1970'lerin sonunda farklı bir yola saparak reform dönemine girdiğini iddia etmek mümkündür.

Mao döneminin başında, Çin uzun yıllar süren savaşlar ve yabancı istilalar yüzünden harap olmuş durumdaydı ve Çin halkı da özellikle de kırsalda yaşayanlar, bitkin ve yoksul düşmüştü. Mao'nun devrimden sonra yaptığı konuşmalar incelendiğinde, Çin Komünist Partisi'nin kazandığı zaferin sarhoşluğuna kapılmaması gerektiğinin ve yapacak çok işinin olduğunun bilincinde olduğu anlaşılmaktadır. İlk birkaç yıl karma ekonomi politikalarının uygulandığı aşamalı bir strateji izlendikten sonra, 1953 yılından itibaren planlı ekonomi ilkeleri benimsenmiştir. Öncelikle, ülkedeki feodal izleri ortadan kaldırmak amacıyla 1950'lerin başında tarım reformuyla işe başlanarak 1950'lerin ikinci yarısından itibaren aşamalı olarak tarımın ve endüstrinin kolektifleştirilmesi sağlanmıştır. Bu politikalar sonucu, kentlerdeki devlet işletmelerindeki işçilerin eğitim ve sağlık gibi refah hizmetlerine ücretsiz ulaşabilmelerini sağlayan bir sistem (*danwei*) kurulurken, kırsal halkın ölüm oranı ve okuryazarlık oranı gibi insani gelişmişlik göstergelerinde bugünün standartlarında olmasa da Kuomintang dönemiyle karşılaştırıldığında ilerleme kaydedildiği görülmektedir.

Bu gelişmelerin gerçekleşmesini sağlayan politikalar uygulanırken, Çin Komünist Partisi içinde siyasi fikir ayrılıklarının baş gösterdiğini belirtmek gerekmektedir. Parti içinde planlı ekonomiye geçiş tartışmaları ilk yapıldığından beri, Çin'in bu tür bir uygulamaya geçiş için henüz hazır olmadığını ve karma politikaların devam ettirilmesi gerektiğini düşünen bir kanat oluşmuştur. Bunlar, 'kapitalist yolcu' olarak nitelendirilip Parti'den ihraç edilmek ya da başka bedeller ödemek zorunda kalmamak için çok uygun olan zamanlar dışında çok aktif olmamışlardır. Mao döneminin 1950'lerin sonundan itibaren başlayan bölümünde ve Mao'nun geriye kalan siyasi hayatında Parti içindeki bu fikir ayrılığı önemli rol oynamıştır.

Ekonomik kalkınmayı desteklemek amacıyla yürürlüğe konan Büyük İleri Atılım (1958-1961) döneminde yukarıda sözü edilen planlı ekonomi politikalarının uygulanması hızlandırılmıştır. Öte yandan, ağır sanayiye ve yatırıma yapılan aşırı vurgu, komün sisteminin köylülerin verimliliklerinin düşmesine neden olması ve hava koşullarının uygun olmaması gibi sıralanan nedenlerden dolayı tarımsal çıktının

çok düşmesi sonucu, 1961 yılında 20. yüzyılın en acımasız kıtlıklarından biri yaşanmıştır (bknz. Naughton 2007, Bramall 2009). Milyonlarca insanın ölümüne yol açan bu kıtlık, Büyük İleri Atılım politikasının sonlandırılmasına neden olmuştur. Bunun sonucunda, Mao'nun bir süre aktif siyaset hayatından çekilmesi üzerine içlerinde Deng Xiaoping'in de bulunduğu bazı Parti üyeleri Mao'nun politikalarına görece liberal olan politikaları uygulamaya koymaya başlamışlardır. Buna karşılık, hem bürokratlaşmaya karşı hem de kapitalist politikaların önünü kesmek için ve Mao'nun tekrar güç kazandığının göstergesi olarak 1962 yılında Kültür Devrimi'ne (1966-1976) temel oluşturan Sosyalist Eğitim Hareketi başlatılmıştır.

Kültür Devrimi, demokrasinin kurulması, bürokratik ayrıcalıklara karşı savaş, geleneksel düşüncelerin ve alışkanlıkların ortadan kaldırılması ve gençlerin bilinçli devrimci bireyler olarak yetiştirilmesi gibi yüce hedefler doğrultusunda yürürlüğe konmuştur. Öte yandan, Çin'in toplumsal ilerlemesine başlarda büyük katkılar yapan Kültür Devrimi, kısa zaman içinde özellikle Dörtlü Çete'nin yönlendirmesiyle ve Kızıl Muhafızlar eliyle yürütülen 'kapitalist yolcu' avına dönüşmüştür. Bu nedenle, 'kapitalist yolcu' olarak nitelendirilen Parti üyeleri, bürokratlar, entelektüeller ve hatta zamanla sıradan vatandaşlar siyasi baskıya ve zaman zaman da şiddete maruz kalmışlardır. Gençleri bilinçli birer devrimci olarak yetiştirmek amacıyla, 1960'ların başlarında gönüllük esasına göre uygulanmaya başlanan ancak Kültür Devrimi çerçevesinde zorunlu hale getirilen Köylüleşme (rustication- *xiafang*) programına göre kentlerde yaşayan öğrencileri ve endüstri çalışanları kırsal kalkınmaya katkıda bulunmaları amacıyla kırsal bölgelere gönderilmiştir. Bu programın kırsal kalkınmaya katkı sağladığı şüphesizdir; ancak bu program çerçevesinde zorunlu olarak gönderilenlerin daha çok alt ve orta sınıfların çocukları olduğu şeklinde tartışmalar yapılmaktadır (Bramall, 2009: 165). Sonuç olarak, reform dönemini hazırlayan koşulların Kültür Devrimi'nin beklenenden farklı seyrederek istenmeyen bazı sonuçlar doğurduğunu ve bu sonuçlardan zarar gören kesimlerin 1978'de iktidara gelen ve Çin'in ekonomik ve toplumsal düzeninde yeni bir sayfa açan Deng yönetimini desteklediğini söylemek mümkündür (bknz. Meisner, 1986: 452).

Mao'nun 1976 yılında ölümünden sonra, kendisi tarafından varis olarak seçilmiş olan Hua Guafeng Parti'nin ve devletin başına geçmiştir. Hua, iki yıllık görev süresince, aktif olmayan ve temelde Mao'nun ilkelerine sıkı sıkıya bir siyaset izlemiştir ve bu durum Deng'e Parti içinde güçlenmek için zaman tanımıştır. Sonuç olarak, Deng 1978 yılında kendisi resmi olarak Parti'nin başına geçmesi de gücünü

iktidara taşımıştır ve Çin reform dönemi başlamıştır. Reform politikalarının uygulanmaya başlanmasıyla birlikte, Çin ekonomisinin yılda ortalama yüzde 10 büyüdüğü ve Çin'in reform tecrübesinin 'Çin mucizesi' olarak anıldığı döneme girilmiştir.

Başlangıçta, temkinli olarak ve pragmatik mantıkla uygulamaya konulan reformların temelini ekonomik ademi merkezileştirme, planlı ekonominin ilkelerinin aşamalı olarak kaldırılması ve piyasa mekanizmalarının ekonomiye girişine izin verilmesi oluşturmuştur. Öncelik kırsal kalkınmaya verilmiştir. Kırsal tarım politikasına kolektif tarımın kaldırılması ve köylünün belli bir toprak parçası karşılığında ürününden ya da gelirinden belli bir payı devlete vermeyi taahhüt etmesi üzerine kurulu olan Hanehalkı Sorumluluk Sistemi ve kırsal endüstrileşme politikasına ise kolektif mülkiyet olarak oluşturulan ve kırsal endüstrileşmede önemli rol oynamış olan Köy ve Kasaba İşletmeleri (Township and Village Enterprises-TVEs) damgasını vurmuştur. Deng döneminde uygulanan ve özelleştirme amacı taşımadan liberalizasyon mantığı üzerine kurulu olan bu politikalar, her iki sektörde de ilerleme ve verimlilik artışı ile sonuçlanmıştır. Bu dönemde, kentlerde bulunan devlet işletmelerinde de devlet işletmeleri reformu incelenirken daha ayrıntılı ele alındığı üzere bu işletmelerin kârlılık ve verimlilik performanslarının iyileşmesini sağlamak için devlet işletmelerinin ve müdürlerinin özerkliklerinin arttırılması politikası izlenmiştir.

Deng döneminin en önemli reform politikalarından biri de hem Çin'in ekonomik büyümesine katkısı hem de Çin'in küresel düzende yeni bir stratejik konum kazanması açısından kendine yeterlilik ilkesinden vazgeçilmesi ve Çin ekonomisini dünyaya açma politikasıdır. Bu politika çerçevesinde, dış ticareti hareketlendirmek ve yabancı yatırımları çekmek amacıyla özellikle kıyı bölgelerinde 1990'ların ortasından itibaren Özel Ekonomik Bölgeler (Special Economic Zones-SEZs) kurulmaya başlanmıştır. Dışa açılma politikası sonucunda, Çin dış ticaret hacmini ve aldığı doğrudan yabancı yatırımları yüksek düzeylere çıkarmıştır ve bu sonuçlarıyla politika Çin'in endüstriyel dönüşümüne de katkıda bulunmuştur. Öte yandan, bu politikanın kıyı bölgelere yoğunlaşması nedeniyle iç ve kıyı bölgeler arasındaki eşitsizliklerin artması şeklindeki olumsuz sonucunu gözden kaçırmamak gerekmektedir.

Makroekonomik göstergeler açısından iyi sonuçlar ortaya çıkaran reformlar toplumsal, ekonomik ve siyasi sorunlar ortaya çıkarmıştır. Toplumsal sorunların

başında, serbest işçi piyasası kurulmasına ilişkin önlemler sonucunda ‘demir pirinç çanağın’ reform politikaları sonucu kırılmasıyla Mao dönemindeki görece eşitlikçi toplumsal yapının ortadan kalkmaya ve yeni bir sınıfsal yapının oluşmaya başlaması yer almaktadır. Bunların sonucunda, Çin’deki eşitsizler hem büyümüş hem de çeşitlenmiştir. Refah hizmetleri haklarını kaybeden ve yavaş yavaş sömürülmeye başlanan işçi sınıfının karşısında ekonominin ikili yapısından faydalanarak sermayeye ulaşan Parti üyeleri, yakınları ve bürokratlardan oluşan yeni bir kapitalist sınıf doğmaya başlamıştır. Yüksek büyüme oranlarının bir maliyeti olarak ortaya çıkan para arzı fazlası ve yüksek enflasyon ile devlet işletmelerinin yüksek borçluluk oranı yüzünden bankacılık sektörünü tehlikeye sokması gibi konular da reformların uygulanması sonucunda 1980’li yıllarda ve 1990’ların ilk yarısında yaşanan ekonomik sorunlardır. Reformların ortaya çıkardığı siyasi sorunlara gelince, başlarda Parti içinde reformlara karşı olan Mao ilkelerine sıkı sıkıya bağlı muhafazakar bir kanadın olduğunu belirtmek gerekmektedir. Deng yönetimi, bu muhafazakarların bir kısmını tasfiye yoluyla bir kısmını da emekliye ayrılımlarını gerekli kılacak düzenlemeler yoluyla Parti’den ve bürokratik görevlerinden uzaklaştırmıştır. Bu süreci, Mao döneminde oluşturulmuş yönetici sınıfın yeni politikalar çerçevesinde süzgeçten geçirilerek reform dönemi yönetici sınıfının oluşturulması olarak değerlendirmek mümkündür.

Reformların uygulanmasıyla ortaya çıkan toplumsal, ekonomik ve siyasi sorunların toplumsal yansıması olarak 1989 yılında Tiananmen Olayları yaşanmıştır ve bu olayların bastırılması için kullanılan baskı ve şiddet Kültür Devrimi için ifade edilen baskı ve şiddeti aratmamıştır. Olayların sonucunda, reformlara birkaç yıl ara verilmiş; ancak Deng’in 1992 yılında gerçekleştirdiği Güney Turu ile dışa açılma ve liberalizasyon politikaları yeniden hız kazanmıştır. Reform döneminin birinci alt dönemi olarak nitelendirilebilecek olan Deng dönemi yavaş ve temkinli liberalizasyon politikalarını içeren ve özelleştirmenin sözünün bile edilmediği bir dönem olmasına rağmen kapitalist politikaların uygulanmasının hızlandığı 1990’ların ortasında itibaren başlayıp günümüze kadar gelen ikinci alt dönem için hazırlayıcı bir nitelik taşımaktadır. İkinci alt dönemde gerçekleşen gelişmelere devlet işletmeleri reformu kapsamında aşağıda değinilmektedir.

Tarihsel arka planı kısaca verilen reform dönemini ve ortaya çıkardığı toplumsal, siyasi ve ekonomik sonuçları anlayabilmek ve açıklayabilmek adına, yukarıda belirtildiği gibi Çin devleti üzerine odaklanmak faydalı olmaktadır. Bu odak

noktası, öncelikle devletin ne olduğu sorusu üzerine yoğunlaşmayı gerektirmektedir. Bu soru üzerine elbette ki çok tartışılmıştır ve bu tartışmalar geniş bir devlet teorileri literatürünün oluşmasını sağlamıştır. Bu literatür içindeki üç temel teorik yaklaşımı öncelikle devletin ne olduğunu ve sonra da Çin devletinin ne olduğunu ve reform döneminde nasıl bir rol oynadığını açıklamak için kullanmak mümkündür. Bu üç yaklaşım, devletçi-kurumcu yaklaşım, yeni-kurumcu yaklaşım ve Marksist yaklaşımdır.

1985 yılında yayımlanan ve editörlüğünü Theda Skocpol, Dietrich Rueschemeyer ve Peter B. Evans'ın yaptığı *Devleti Geri Getirmek (Bringing the State Back In)* başlıklı kitap devletçi-kurumcu yaklaşımın manifestosunu oluşturmaktadır. Bu yaklaşımın temel vurgusu, devletin siyasi ve toplumsal süreçleri etkileyen, şekillendiren ve kontrol eden otonom aktörler olduğudur. Bu nedenle, toplum merkezli teorilerin karşısında, devlet merkezli bir bakış açısının gelişmesi gerektiği ifade edilmektedir. Bu bağlamda, devletçi-kurumcu yaklaşım, 'devletin özerkliği' ve 'devletin kapasitesi' gibi kavramlara odaklanmakta ve 'zayıf' devlet karşısında 'güçlü' devlet gibi karşılaştırmalar yapmaktadır (Skocpol, Rueschemeyer, Evans 1985, Mann 1985).

Devleti toplumsal, siyasi ve ekonomik süreçleri inceleme açısından odak noktası olarak alan devletçi-kurumcu yaklaşımın Çin reform dönemine yaklaşımı da genel olarak reformların Çin devletinin özerkliği ve kapasitesi üzerindeki etkisine odaklanmak şeklinde olmuştur. Bu etki üzerine yapılan tartışmalar incelendiğinde, devletçi-kurumcu yaklaşımın ikiye ayrıldığı görülmektedir. Bazı devletçi-kurumcu yazarlar Çin'de uygulanan reformlar sonucu, özellikle 1990'ların ortasından itibaren Çin devletinin zayıfladığını savunurken (bkz. Wang 2003, Bramall 2009), diğerleri Çin devletinin kapasitesini kaybetmediğini reformları kendi eliyle ve kendi gücüyle uyguladığını ifade etmektedirler (bkz. Edin 2003, Chang 2004, Shambaugh 2008, Chu and So 2010).

Belli bir teorik çerçevesi olmayan ve bu nedenle pek çok farklı versiyonu olan yeni kurumcu yaklaşım, devleti temelde, mülkiyet haklarını koruması dışında, ekonomi açısından rasyonel olmayan bir aktör olarak görmektedir ( bkz. North 1981, Levi 1988). Bu nedenle genel olarak neoklasik devlet teorisinin 'minimum devlet' varsayımını paylaşır. Bu yaklaşım, Çin 1970'lerin sonundan itibaren merkezi planlama ilkelerinden uzaklaşmaya başladığında ve 'ekonomik göstergeleri' olumlu olmaya başladığında Çin'in reform politikalarını tasvip etmiştir. Bu tepki,

sosyalizmden kapitalizme geçişin diğer geçiş ülkelerinde olduğu gibi Çin’de de hızlı bir şekilde gerçekleştirileceği beklentisini içeriyordu. Çin ‘şok terapi’ yerine yavaş ve aşamalı bir geçiş stratejisini benimseyince, bu yaklaşımdan eleştiriler gelmeye başlamıştır. Temel olarak, Çin ekonomisinin ikili yapısı ve bu yapının ortaya çıkardığı rant ve yolsuzluk ve bunların piyasaları etkinsizleştirilmesi eleştirilmektedir ve ek olarak ekonomik reformun siyasi reform ile tamamlanması gerektiği ifade edilmektedir. 1990’lı yılların ortasında uygulanmış olan özelleştirme politikalarının devam etmesi gerektiği savunulurken 2000’li yılların sonuna doğru Çin endüstrisinde devlet mülkiyetinin güçlendirilmesi politikaları *klasik* olarak nitelendirilebileceğimiz yeni kurumcu yaklaşımın eleştirilerini arttırmıştır (bknz. Naughton 1995, Laffont and Qian 1999, Gregor 2000, Gertken and Richmond 2011, Naughton 2007). Bu yaklaşım, özellikle Çin devletinin artık sadece kendi piyasalarına değil, dünya piyasalarına da müdahale eder hale gelmesini eleştirmektedir.

*Klasik* yeni-kurumcu yaklaşımın Çin reformlarının seyrine yönelik eleştirilerine karşılık, özellikle Washington Uzlaşması’ndan Post-Washington Uzlaşmasına geçişe denk gelen bir dönemde, Çin’in reform politikalarına ilişkin yeni bir yeni kurumcu yaklaşım ortaya çıktı. *Yeni* yeni kurumcu yaklaşım, Çin devletinin endüstride devlet mülkiyetini korumasını ve devlet işletmelerini küresel ekonomide rekabet edebilmelerini sağlamak için desteklemesini Çin gibi küresel ekonomiye geç katılmış bir ülke için doğru bir entegrasyon politikası olduğunu savunmaktadır. Bu yaklaşıma göre, piyasanın tek itici gücünün özel işletmeler olduğunu ve devlet işletmelerinin ölmek üzere olduklarını düşünmek yanlıştır. Öte yandan, bu yaklaşımın temel amacı da Çin’de piyasa ekonomisinin kurulması ve işlemesi olduğu için devlet işletmelerinin özel işletmelerle olan rekabetinin zedelenmemesi için çalışanlarına sağladıkları refah hizmetlerinden kurtarılmaları gerektiğini ve devletin tıpkı özel bir piyasa ajanı gibi davranması gerektiği vurgulanmaktadır (bknz. Nolan and Wang 1999, Yang 2008).

Marksist yaklaşımın tek bir devlet teorisine ulaşmış olduğunu söylemek zordur. Marx’ın kendisi de farklı eserlerinde farklı devlet anlayışları sergilemektedir; ancak ilerleyen zamanda Antonio Gramsci, Nicos Poulantzas ve Bob Jessop gibi Marksist yazarların devlet teorisine önemli katkılar yaptıklarını belirtmek gerekmektedir. Bu bağlamda, Gramsci devlet tartışmasına yönetici sınıfların yönetilen sınıfların rızasını nasıl aldıklarını açıklamak üzere hegemonya kavramını kazandırırken Poulantzas devlet biçimleri ve özellikle de kapitalist devlet biçiminin

özellikleri üzerine yoğunlaşmıştır. Jessop ise bu mirası devralarak stratejik-ilişkisel yaklaşımı oluşturmuştur. Bu yaklaşıma göre, devlet toplumsal ilişkilerin bütünüdür ve toplumsal güçlere göre adapte ettiği 'stratejik seçiciliği' vardır. Bir yanda da kapitalist üretim biçiminin dönemselleştirilmesine ve farklı devlet biçimlerinin belirlenmesine karşı olan Açık Marksistler bulunmaktadır.

Marxist devlet tartışmaları dahilinde bulunan mutlakıyetçi devlet üzerine yapılan tartışmalar Çin devletini ve reform dönemindeki rolünü anlamak ve açıklamak konusunda faydalı olmaktadır. Mutlakıyetçi devlet, feodalizmin uzun süren krizi sonucunda 16. yüzyıl sonlarında Batı Avrupa'da ortaya çıkmıştır. Poulantzas, Ralph Miliband ve Perry Anderson'ın üzerine tartıştığı mutlakıyetçi devlet hem feodal özellikleri hem de kapitalist özellikleri taşıyan geçiş devleti olarak nitelendirilmiştir (bkz. Poulantzas 1973, Anderson 1974, Miliband 1975). Bu tartışmalarda, geçiş devletinde ekonomik alandaki değişikliklerin doğrudan siyasi yapıya yansımadağı hususunda anlaşmaya varılmıştır; ancak Anderson geçiş devletinin feodal soylular ile kentli burjuvazi arasındaki ittifaka dayandığını iddia ederken, Poulantzas geçiş devletini hâlâ siyasi olarak hakim durumda olan feodal soylular ile ekonomik olarak hakim olan ancak siyasi olarak bu duruma ulaşamamış olan kentli burjuvazinin arasındaki çelişkiye dayandırmaktadır. Buna bağlı olarak, Anderson mutlakıyetçi devletin temel amacının geçiş dönemi koşullarında feodal soyluların siyasi hakimiyetinin korunması olduğunu savunurken Poulantzas mutlakıyetçi devletin kapitalist devlete özgü 'görece özerkliğe' sahip olduğunu ve temel olarak kapitalist üretim biçiminin kurulmasında işlev gördüğünü iddia etmektedir. 16. yüzyılın sonunda, feodalizmden kapitalizme geçiş sürecinde ortaya çıkmış olan mutlakıyetçi devlet üzerine yapılan tartışmaları reform döneminin başlamasıyla sosyalizmden kapitalizme geçiş sürecine girmiş olan Çin devletine uyarlamak mümkündür.

Marksist yaklaşımın da Çin'in reform sürecine ilişkin iki farklı görüş geliştirdiği görülmektedir. Çin'in uygulanan reformlar sonucu kapitalist bir ülke haline geldiğini savunan birinci görüşe göre, Çin 1980'lerin başından itibaren yükselen küresel neoliberalizmin bir parçası olmuştur ve dolayısıyla kapitalizmin krizlerine karşı da savunmasız bir konumdadır (bkz. Li 2008, Piovani ve Li 2011). Çin'in ilkel birikim süreci içinde olduğunu ifade eden yazarlar (bkz. Harvey 2007) olduğu gibi, Çin'de kapitalist ekonominin kurulduğunu ve Çin'in küresel kapitalist birikim sürecine dahil olarak hem Çinli işçilerin hem de dünyadaki tüm işçilerin

sömürülmesine neden olduğunu vurgulayan yazarlar vardır (bkz. Hart-Landsberg and Burkett 2005, Hart-Landsberg and Burkett 2006).

Çin'in reform tecrübesine ilişkin ikinci Marksist görüş, birincisinin tam aksine, Çin'in ekonomik ve toplumsal düzeninin, tam da Çin'in resmi söylemiyle uyumlu olarak kapitalizme ve kapitalizmin son görünümü olan neoliberalizme alternatif olduğu şeklindedir. İlham kaynağını temel olarak Giovanni Arrighi'nin 2007 yılında yayımlanan *Adam Smith Pekin'de* başlıklı kitabından alan bu yaklaşım, Dünya Sistemi Teorisi çerçevesinde dünya konjonktürünün değişimi ve bir yanda tarihsel olarak kapitalist ve emperyalist olmayan ve diğer yanda da son durumda ekonomik ve askeri güç kazanmış olan Çin'in bu değişim sonucu küresel güç ilişkilerinde çok daha stratejik bir konuma erişeceğini iddia etmektedir. Arrighi, kitabında bu analizi yaparken Çin'in küresel düzendeki yerine odaklanmış olup ülkenin toplumsal, siyasi ve ekonomik özelliklerine değinmemiştir. Arrighi'yi izleyen Samir Amin aynı hatayı yinelememiş; ancak Çin'de genel olarak kapitalist politikaların uygulanmadığını, uygulananların ise gerçek sosyalizme ulaşmak adına yürürlüğe konduğunu ifade etmektedir (bkz. Amin, 2013). Çin'in kapitalizme alternatif bir sistem ortaya koyduğu konusunda ısrarlı olan bu yaklaşım, Çin'de işçi sömürüsü olduğunu kabul etse de 1990'ların sonlarından itibaren işçilerin durumunu düzeltmek için çeşitli politikaların uygulandığını iddia etmektedir (bkz. Lo and Zhang 2010).

Devletin ne olduğuna ilişkin ve reform sürecindeki Çin devletine ne şekilde yaklaşılabileceği üzerine bu teorik tartışmalar ışığında, Çin devletinin reform sürecindeki rolüne daha spesifik olarak belirlemek adına en önemli reform alanlarından biri olan devlet işletmeleri reformunu incelemek yerinde olacaktır. Bu reform alanının incelenmesi otuz yıllık reform uygulamalarına rağmen Çin endüstrisinde devam etmekte olan devlet mülkiyeti hakimiyetini açıklamakta faydalı olmaktadır. 1970'lerin sonundan itibaren devlet işletmeleri reformunun evreleri incelendikten sonra, bu reformun eriştiği son noktayı daha iyi görebilmek amacıyla iki stratejik sektör olan bilişim teknolojisi ve maden sektörlerinde 1990'ların sonlarından itibaren yaşanan gelişmelere daha yakından bakılmaktadır.

Çin'in devlet işletmeleri reformunu temel olarak dört evrede incelemek mümkündür. Bu evrelerden ilk ikisinde Çin reformlarının genelinde görüldüğü gibi yavaş ve temkinli adımlar atılmış 1990'ların ortalarından itibaren daha keskin politikalar uygulanmaya başlanmıştır. Birinci evrede (1978-1984), belirli devlet

işletmelerinde deneme yapılarak başlayan devlet işletmelerinin ve müdürlerinin fiyat belirleme ve kârdan pay alma gibi konularda özerkliklerinin oluşturulması politikası uygulanmıştır. İkinci evrede (1984-1992) de uygulaması devam eden bu politika ile devlet işletmelerinin Çin Komünist Partisi'nin ve üyelerinin etkisinden kurtularak birer bağımsız ekonomik birim haline gelmeleri ve böylece kârlılıklarının ve verimliliklerinin artması amaçlanmıştır. Bu politikaya ek olarak modern bir işletme sisteminin kurulması yolunda gerekli olan diğer yasal düzenlemeler birinci ve ikinci evrede yürürlüğe konmuştur. İkinci evreye, özellikle genel olarak belirli bir özerklik karşısında devlet işletmesinin Çin devletine kârının belirli bir yüzdesini devretmesi olarak açıklanabilecek Sözleşme Sorumluluğu Sistemi (Contract Responsibility System) damgasını vurmuştur. Bu sistem, Çin'in reform döneminin başladığı 1978 yılından 1990'ların başına kadar Çin ekonomisinin plan ve piyasa arasında kalmış olmasının en iyi göstergelerinden biridir.

12-18 Ekim 1992 tarihlerinde gerçekleştirilmiş olan 14. Çin Komünist Partisi Ulusal Kongresi, Çin'de 'sosyalist piyasa ekonomisi'nin kurulmasının hedeflendiği açıklamasıyla Çin'de o andan itibaren uygulanacak tüm politikalar açısından önemli bir yere sahiptir. Bu karar devlet işletmeleri reform politikaları üzerinde de önemli etkilere sahip oldu. Üçüncü evrede (1992-2003), sosyalist piyasa ekonomisi kurulması hedefiyle uygun olarak modern işletme sisteminin oluşturulması konusu da daha önemli hale geldi. 12-18 Eylül 1997 tarihlerinde gerçekleştirilen 15. Çin Komünist Partisi Ulusal Kongresi'nde devlet işletmelerinin piyasa ekonomisine uygun hale gelmesi gerekliliği vurgulandı. Devlet işletmelerinin piyasa rekabeti içinde modern ve kârını maksimize eden işletmeler olması gerektiği düşüncesi belirginleşti ve bunun için gerekli yasal düzenlemeler yapılmaya başlandı. Devlet işletmelerinin müdürlerine plan dışında karar alma ve hareket etme yetkisi verildi ve özerklikleri işe alma ve işten çıkarma konularında genişletildi. Bunun sonucunda, işçi sayılarını azaltmak isteyen devlet işletmeleri, gereksiz olduklarını düşündükleri yüksek sayılardaki işçileri işten çıkarmaya başladılar. Böylece, yüksek borç oranlarıyla ekonomi için sorun teşkil eden devlet işletmeleri işsizliğin artması ve işgücünün serbest dolaşımına izin verilmiş olmasının sonucu olarak da göçmen işçiler gibi sosyoekonomik sorunlara da neden olmuş oldular.

Yukarıda belirtilen politikaları, 1995 yılında gerçekleştirilen 14. Çin Komünist Partisi Ulusal Kongresi Üçüncü Oturumu'nda belirlenen 'büyük olan kalsın, küçük olanı bırak gitsin' (grasping the large, letting the small go- *zhuada*

*fangxiao*) politikası izlemiştir. Özelleştirme ve yeniden yapılandırma karışımına dayalı olan bu politika ile kârlılık ve verimlilik açısından performansı iyi olmayan küçük ve orta ölçekli devlet işletmelerinin özelleştirilmesi ve büyük devlet işletmelerinde devlet mülkiyetinin sürdürülerek performanslarını arttırıcı önlemlerin alınması amaçlanmaktaydı. Bu politikanın öncesindeki temel olarak liberalizasyona dayanan devlet işletmeleri reform politikalarından, özellikle de özelleştirme içermesi nedeniyle farklı olduğunu ve reform döneminde yeni bir sayfa açtığını söylemek mümkündür. Öte yandan, tıpkı ‘büyük olan kalsın, küçük olanı bırak gitsin’ politikası kendisinden sonra uygulanan politikalara taban oluşturduğu gibi yavaş ve temkinli de olsalar önceki politikaların da bu politikayı hazırladığını iddia etmek daha doğru olmaktadır. Bir başka deyişle, Çin’in devlet işletmeleri reformunu, incelemeyi kolaylaştırmak için evrelere ayırmış olsak da bu reform alanını belirli bir amaç doğrultusunda ilerlemiş bir bütün olarak görmek yerinde olmaktadır. Bu politikanın sonuçlarına gelince, Çin endüstrisindeki devlet işletmelerinin sayısının azaldığını ve kârlılıklarının arttığını belirtmek gerekmektedir. Öte yandan, reform döneminin başından beri uygulanan reformlar sonucu devlet işletmelerinin sağladığı refah hizmetlerinin aşama aşama kaldırılması ve devlet işletmelerindeki istihdamı düşürme politikası sonucu işsizliğin artmasına ek olarak Çin işçi sınıfı özelleştirmeler sonucu bir kere daha hızla artan işsizlik sorunuyla karşı karşıya kalmıştır. Bu politikalar, dünyadaki neoliberal çevreler tarafından, büyük devlet işletmelerindeki devlet mülkiyetinin korunması nedeniyle özellikle bu işletmeler üzerinden gelişmiş olan çıkarların korunuyor olması işaret edilerek eleştirilmiş olsa da Çin’de özelleştirme politikasının uygulanmaya başlaması açısından sevinçle karşılanmıştır ve özelleştirmelerin devam edeceği beklentisini oluşturmuştur.

Çin’in devlet işletmeleri reformunun dördüncü evresinde (2003- ), özelleştirmelerin devam etmesi beklentisi gerçekleşmediği gibi, Çin devleti belirlediği stratejik sektörlerde devlet mülkiyetini sürdürme ve hatta güçlendirme yolunda bir politika izlemektedir. Bu amaçla, serbest piyasa ilkelerine aykırı olarak öncelikle yüksek yetkilerle donatılmış bir düzenleyici kurul oluşturularak tüm devlet işletmelerini kontrol yetkisi bu kurula verilmiştir. Bunun yanında ve yine serbest piyasa ekonomisi ilkelerine aykırı olarak, Çin devleti devlet işletmelerine hem doğrudan finansal destekte bulunmakta hem de bankalardan kolay kredi almaları konusunda yardım etmektedir. 2000’li yılların başlarından itibaren görülen ve özellikle de 2008 küresel ekonomik krizinden sonra yoğunlaşan Çin devletinin bu

politikası ‘devlet ilerliyor, özel geriliyor’ (state advances, private retrats- *guo jin min tui*) olarak bilinmektedir. Beklenildiği üzere, bu politika serbest piyasa ilkelerine aykırı olduğu ve Çin’de özel sektörün gelişmesine engel olduğu için, özellikle de zaman zaman kârlılık ve verimlilik performansları iyi olan özel işletmelerin bu politika çerçevesinde birleşmeye zorlanmaları tartışmaları üzerinden çok eleştirilmektedir. Bu politikanın eleştirilme nedenlerinden biri de Çin devletinin desteğini alarak küresel piyasalarda yer alan büyük devlet işletmelerinin küresel rekabet ilkelerini ihlal ediyor olmalarıdır. 2012 yılının Kasım ayında Çin Hükümetinin değişmesi sonucunda ve özellikle 9-12 Kasım 2013 tarihlerinde gerçekleştirilen 18. Merkezi Komite Üçüncü Oturumu öncesinde devlet işletmeleri reformunun liberalleşme ve özelleştirme yoluna döneceğine ilişkin beklentiler oluşmuştur. Öte yandan, Oturumda bu yönde vurgular yapılmış olsa da ve Çin hükümeti söylemsel olarak devlet işletmeleri sisteminin liberalizasyonuna ve özel sektörün gelişmesine önem verildiği şeklinde açıklamalar yapsa da bu konuda somut bir adım atılmamıştır.

Otuz yıllık bir dönemi kapsayan Çin devlet işletmeleri reformunun bugün geldiği noktaya bakıldığında, temel olarak Çin endüstrisinde büyüyen özel sektöre karşılık devlet mülkiyeti baskınlığının devam ettiği görülmektedir. Deng Xiaoping’in kapitalist politikaların reform döneminin başında yavaş yavaş uygulanmaya başlamasıyla dile getirdiği ünlü benzetmesi “Kedinin beyaz ya da siyah olması önemli değildir. Önemli olan fareyi yakalamasıdır.” ifadesi politikaların kapitalist olmasının önemli olmadığı önemli olanın ekonomik kalkınmayı sağlaması anlamına gelmektedir. Bu mantık ironik bir şekilde Çin devlet işletmelerinin bugün geldiği durum için de kullanılabilir. Hem Çinli işçilerin hem de dünyadaki tüm işçilerin sömürülmesine dayanan, kapitalist mantıkla işleyen ve örgütlenen, en önemli amaçları kârlılığı ve küresel rekabet edebilirliği arttırmak olan Çin devlet işletmelerinin sahibinin kim olduğu aslında çok da önemli değildir. Çin devleti, bu işletmelerin sahibi olarak tam da bir özel piyasa ajanı olarak davranmaktadır. Bu açıdan bakıldığında yukarıda sözü edilen *yeni yeni* kurumcu yaklaşımın Çin’in bu strateji sayesinde küresel piyasalara entegre olabildiği şeklindeki iddiası doğrudur. Öte yandan, bu yaklaşımın aksine devlet işletmelerinin piyasa koşullarında daha rahat rekabet edebilmeleri için işçilere sağladıkları refah hizmetlerinden tamamen kurtarılmaları gerektiği değil, Çin devletinin Çin endüstrisinde devlet mülkiyeti hakimiyetini devam ettirerek sosyalist politikalar izlediği iddiasına karşılık kapitalist

bir devlet olarak ortaya çıkmasının Çin'in sınıfsal yapısında yarattığı dönüşüm ve hem çeşitlenen hem de büyüyen toplumsal eşitsizlikler üzerine vurgu yapmak gerekmektedir.

Çin devlet işletmeleri reformunun son durumunu daha iyi anlayabilmek amacıyla iki stratejik sektör olan bilişim teknolojisi ve maden sektörlerinde 1990'ların sonlarından itibaren Çin devletinin uyguladığı politikaların incelenmesinde fayda vardır. Bu iki sektörün seçilmiş olmasının nedeni, Çin devletinin bu iki sektörde ilk bakışta birbirine zıt politikalar uyguluyor gibi görünmesidir. Öte yandan, İngilizce olarak yayımlanan altı Çin gazetesinin bu sektörlerle ilişkin 1990'ların sonlarından itibaren haberlerinin incelenmesinden sonra ulaşılan sonuç, Çin devletinin her iki sektörde de kapitalist devlet gibi davrandığı ve iki sektördeki farklılıkların Çin devletinin 'stratejik seçiciliği'nden kaynaklandığı sonucuna ulaşılmıştır.

Bilişim teknolojisi sektörü dünyada kazandığı öneme paralel olarak Çin'de önem kazanmış ve Çin devletinin belirlediği stratejik sektörler arasında yer almıştır. Reform döneminin başında, bu alana ilişkin teknolojiye dair bilgi eksiklerini kapatmak amacıyla sektöre doğrudan yabancı yatırım girişine izin verilmiş ve kısa süre içinde bilişim teknolojisi sektörü en fazla doğrudan yabancı yatırım alan sektörlerden biri haline gelmiştir. Bununla birlikte sektördeki özel işletmelerin sayısı da artmaya başlamıştır. Bunun sonucu olarak, bilişim teknolojisi sektörü, Çin ekonomisindeki en büyük sektörlerden biri olmuştur ve Çin bilişim teknolojisi ürünlerinin dünyadaki en büyük üreticisi haline gelmiştir. Sonuç olarak, 1990'ların sonlarından itibaren Çin devletinin bilişim teknolojisinin önemine vurgusu artmış ve özellikle araştırma ve geliştirme çalışmalarına ilişkin düzenlemeler yoğunluk kazanmıştır. Bilişim teknolojisi endüstrisinin gelişmesi genel olarak Çin endüstrisinin verimliliğini ve rekabet gücünü arttıracak bir yol olarak görülmüştür. Bilişim sektörünün gelişmesi, Çin devletinin hem devlet hem de özel işletmelerin küresel piyasalarda rekabet edebilir olma politikası açısından da önem kazanmıştır.

Reform döneminin başında serbest piyasa ilkelerine göre işliyor gibi görünen Çin bilişim teknolojisi sektöründe, sektörün işlemesi için yeterli teknolojik bilgiye erişildikten sonra bazı düzenlemeler yapıldığı ve Çin devletinin sektöre müdahale etmeye başladığı görülmektedir. Bu müdahale, sektördeki işletmelere doğrudan finansal yardım yapılması şeklinde olsa da zamanla Dünya Ticaret Örgütü üyeliğine rağmen yabancı şirketlere piyasa engelleri konulması şeklinde de ortaya çıkmıştır.

Bütün bu politikalar, Çin işletmelerinin küresel piyasalardaki rekabet gücünü arttırmayı amaçlamaları noktasında Çin devletinin kapitalist politikaları arasında görmek mümkündür.

Bilişim teknolojisi sektörü ile yakından ilişkili olan telekomünikasyon sektöründe de öncelikle yeterli teknoloji seviyesine ulaşabilmek amacıyla piyasa serbest bırakılmış ve özellikle yabancı ortakların da bulunduğu ortak girişimlerin kurulmasına izin verilmiştir. Öte yandan, 1990'ların sonlarından itibaren, devlet mülkiyetinin hakim olduğu dört büyük şirketten oluşan telekomünikasyon hizmet sektöründe düzenlemeler yapılmaya başlanmış ve sektöre yapılan doğrudan yabancı yatırımlara kısıtlamalar getirilmiştir. Telekomünikasyon cihaz sektörü, her ne kadar hiçbir kontrolün olmadığı söylenemese de hizmet sektörüne kıyasla serbest piyasa koşullarına sahip olmaya devam etmekteydi. Öte yandan, 2000'li yılların başından itibaren cihaz sektöründe de doğrudan yabancı yatırım kısıtlamaları ve küresel piyasalarda Çin'e özgü düzenlemeler başlamıştır. Çin devletinin bilişim sektöründe ve telekomünikasyon sektöründe kendi işletmelerini güçlendirmek amacıyla izlediği bu politikalara rağmen her iki sektöre de hâlâ yabancı şirketlerin hakim olduğu görülmektedir. Öte yandan, bu sektörlerdeki belirli Çin şirketlerinin istenilen şekilde küresel ekonomide rekabet edebilir hale geldiği ve bunun gerçekleşmesi için izlenen politikaların Çin'de sermayenin büyük işletmeler elinde yoğunlaşmasına neden olduğu görülmektedir.

2000'li yılların ortasında stratejik sektörler arasına alınan maden sektörü, Çin'in hem ekonomik kalkınmasının sürdürülebilirliği ve kendine yeterliliği açısından önemlidir hem de geleneksel bir sektör olması nedeniyle biriktirdiği sorunlar yüzünden özellikle 1990'ların sonlarından itibaren Çin devletinin özel ilgisini gerektirmektedir. Bu sorunların içinde en önemlileri farklı madenler dikkate alınarak az üretim, fazla üretim, kaçak üretim, çevre sorunları, kazalar ve kazalar sonucu gerçekleşen ölümler olarak sayılabilir. Çin'de bu sorunlara karşı uygulanan temel politika, pek çok diğer ülke de benzer sorunlar karşısında uygulanmış olan konsolidasyon politikasıdır. Sorunları çözmek için sektörde bulunan küçük işletmeleri ve maden ocaklarını bir araya getirerek devlet mülkiyetinde büyük işletmeler ve işletme grupları kurulmasını amaçlayan konsolidasyon politikası aynı zamanda Çin devletinin işletmelerin küresel piyasalardaki rekabet gücünü artırma politikası ile uyumlu olmakla birlikte tüm dünyadan doğal kaynak edinilmesi politikasının gerçekleşmesine de hizmet etmektedir. Bu nedenlerle, konsolidasyon

politikası kömür, demir-çelik, demir dışı metaller ve nadir toprak elementleri gibi maden sektörlerinde 2000’li yılların başından itibaren uygulamaya konmuştur. Bu politikanın sonucunda, maden sektöründe yaşanan sorunların bir kısmına çözüm getirilmiş olmakla beraber küçük maden ocakları ve işletmeleri kapatılmış ya da devlet işletmeleriyle birleştirilmiştir. Bu durum, maden sektöründe de sermayenin kapitalist mantıkla işleyen ve küresel rekabetçiliğini arttırmayı amaç edinmiş büyük devlet işletmelerinde ve işletme gruplarında yoğunlaşması anlamına gelmektedir.

Çin reformlarının en önemli alanlarından biri olan devlet işletmeleri reformu ve iki stratejik sektördeki 1990’ların sonlarından itibaren yapılan uygulamalarının incelenmesinden sonra ulaşılan temel sonuç, Çin endüstrisinde devam eden devlet mülkiyeti hakimiyetine rağmen Çin devletinin kapitalist devlet haline geldiğidir. Mutlakiyetçi devlet üzerinden geliştirilen geçiş devleti tartışmalarının, sosyalizmden kapitalizme geçiş döneminde bulunan Çin devleti için kullanılmasının da uygun olduğu düşünülmektedir. Bu tartışmaların ortak noktalarından biri olan eski yönetici sınıfın siyasi hakimiyetini sürdürmesi durumu reform dönemi Çin devleti için de geçerlidir. Mao döneminde oluşmuş olan yönetici sınıf, Deng döneminde muhafazakâr Mao ilkelerine sıkı sıkıya bağlı olan üyelerinden arındırılarak siyasi hakimiyetini sürdürmeye devam etmiştir. Bu yönetici sınıfın yeni ortaya çıkan kapitalist sınıf ile ilişkisinin ise Anderson’ın feodal soylular ile kentli burjuvazi arasındaki ilişkiye dair iddia ettiği şekilde ittifak değil, Poulantzas’ın ifade ettiği gibi çelişki üzerine kurulduğunu ve Çin devletinin kapitalist devlete özgü olan ekonomik alandan ‘görece özerk’ olma özelliğine sahip olduğunu söylemek daha doğru görünmektedir. Sonuç olarak, Çin devleti endüstrideki devlet mülkiyetini devam ettirmekte ancak kendisi kapitalist bir ajan gibi davranmaktadır ve bu duruma uygun olarak serbest işçi piyasasının işlemesi için gerekli düzenlemeleri de yapmaktadır. Bu durumda, Çin devletinin Çin’de kapitalist üretim biçiminin kurulması için işlev gören kapitalist geçiş devleti olduğu sonucuna kesin olarak ulaşılrken, Çin’in kapitalist bir ülke haline gelip gelmediği şeklindeki popüler soruya doğru bir yanıt vermek için kapitalizmin ne olduğu şeklindeki başka bir temel soru üzerine odaklanmak gerekmektedir.

## APPENDIX B

### CURRICULUM VITAE

#### PERSONAL INFORMATION

Surname, Name: Ataçay, Meryem Nergis  
Nationality: Turkish (TC)  
Date and Place of Birth: 21 June 1978, Edirne  
Marital Status: Married  
Phone: +90 532 455 39 37  
email: nergisatacay@hotmail.com

#### EDUCATION

Degree	Institution	Year of Graduation
MS	METU Political Science and Public Administration	2006
BS	Bilkent University Economics	2001
High School	Gazi Anadolu High School, Ankara	1996

#### WORK EXPERIENCE

Year	Place	Enrollment
2011- Present	YÖK	Specialist
2002-2011	ÖSYM	Specialist

#### FOREIGN LANGUAGES

Advanced English

#### PRESENTATION

Ataçay, M. N. (2013) “Mao-Sonrası Dönemde Çin’de Devlet-Ekonomi İlişkileri: Neoliberalizm Tartışması ”, *13<sup>th</sup> National Social Science Congress*, Middle East Technical University, Ankara, December 4-6, 2013

## APPENDIX C

### TEZ FOTOKOPİSİ İZİN FORMU

#### ENSTİTÜ

Fen Bilimleri Enstitüsü	<input type="checkbox"/>
Sosyal Bilimler Enstitüsü	<input checked="" type="checkbox"/>
Uygulamalı Matematik Enstitüsü	<input type="checkbox"/>
Enformatik Enstitüsü	<input type="checkbox"/>
Deniz Bilimleri Enstitüsü	<input type="checkbox"/>

#### YAZARIN

Soyadı : Ataçay  
Adı : Meryem Nergis  
Bölümü : Siyaset Bilimi ve Kamu Yönetimi

**TEZİN ADI** (İngilizce): THE TRANSFORMATION OF THE CHINESE STATE  
AND ITS ROLE IN THE ECONOMY DURING THE REFORM PERIOD: THE  
SUSTAINING STATE OWNERSHIP

**TEZİN TÜRÜ** : Yüksek Lisans  Doktora

1. Tezimin tamamından kaynak gösterilmek şartıyla fotokopi alınabilir.
2. Tezimin içindekiler sayfası, özet, indeks sayfalarından ve/veya bir bölümünden kaynak gösterilmek şartıyla fotokopi alınabilir.
3. Tezimden bir (1) yıl süreyle fotokopi alınmaz.

**TEZİN KÜTÜPHANEYE TESLİM TARİHİ:**