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# The Modernisation of the Chinese Economy:
## New trends in state owned enterprise reform

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***China stands on the brink of greatness C on the edge of a resumption of its rightful place in the world, of achieving in three decades (1978-2008) what it took the industrialised world 150 years to achieve, on the edge of economic, military and political superpower status C or on the brink of an abyss. The restructuring of the SOEs and the turning around of the state banks are must-win battles. They cannot afford to be lost, for if China's economy were to fall into the kind of slump that is currently affecting most of Asia and a growing part of other emerging and emerged countries, the results could be devastating, not just in the economic sense and not just for China.***

Callum Henderson : <u>China on the Brink</u>, McGraw Hill, New York, 1999, p. 230.

# INTRODUCTION - CHINA'S ECONOMIC REFORM*

At the 15th Chinese Communist Party Congress in mid-September 1999 President Jiang Zemin outmanoeuvred his opposition led by Qiao Shi and confirmed his leadership of the party and the country. As undisputed leader, he was able to announce a bold plan for state-owned enterprise (SOE) restructuring as part of the ongoing general reform of the Chinese economy initiated originally by Deng Xiaoping in the early 1980s. Since the start of Deng's economic restructuring economic growth in China has witnessed an impressive annual average of almost 10 percent, along with a manageable inflation rate and a continuous and significant improvement in the standard of living. The Chinese economy is now one of the largest in the world, with the potential to become the world's biggest single market by the middle of this century. China's economic reform programme has been driven by specific phased objectives since the early 1980s. The first objective was to remedy shortages in food and clothing, the second was to achieve a "relatively comfortable life for the people". The third and current phase of economic reform aims to raise per capita GNP to that of an intermediate level developed nation with a "fairly well-off life for the people". [1] China's economic reform has been both cautious and pragmatic. Wishing to avoid the unsuccessful rapid

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* This paper is based on a research visit the authors made to China in September 2000. We are grateful to the Chinese Association for International Understanding for making the visit possible.

economic reform approach adopted by Russia, Beijing has been guided by Deng's belief that economic restructuring should be likened to "feeling the rocks to cross the river."[2] The pragmatism of economic reform is encapsulated in Deng's most famous quote : "It doesn't matter if the cat is black, or white, as long as it catches the mouse". This approach has led to economic reform in response to market demand based on free market principles, while retaining the facade of Chinese style socialism.[3]

Deng's black or white cat approach to economic reform has led to a spectacular growth in China's GDP, along with improved standards of living and the potential for future widespread prosperity (see Table 1). [4] Outputs of both the agricultural and industrial sector have shown significant increases, laying the foundation for the development of an economic superpower. [5] Deng's economic reforms began along China's east coast, but in recent years a slow down in economic activity among coastal cities has led to a search for new markets in the western regions of the country. Chinese Premier Zhu Rongji has identified economic development in western China as an urgent government priority, the so called great western strategy (*xibu da kaifa).* Economic development strategies are expected initially to target the major western cites such as Chengdu, Xi'aon, Chongqing and Lanzhou. The first step would be to improve the region's infrastructure through the building of more roads and rail links. Regional governors are anxious to see the success of economic development in the east spread to the west of China. [6]

At the 2000 State Council Western Development Conference, the Chinese government decided to push ahead with the development of western China via highway construction, the laying of new railways, airport construction and natural gas pipelines. Construction of power grids, telecommunications , radio and television networks and water conservation were also identified for further development. President Jiang Zemin has stressed that "without development in the western area" it will not be possible to "modernise the entire country" and become an "economic power." [7] The western regions of China have many natural resources (oil, natural gas and coal) and an industrial foundation (petrochemicals, textiles, iron and steel). Jiang gave an undertaking to narrow the gap of development between east and west, and ultimately provide for the co-ordinated development of the whole of China. Developing the western regions has been prioritised along with maintaining the pace of economic growth in the east with the long-term objective of raising per capita GNP to the level of intermediately developed countries by the middle of the 21st century. [8]

**Table 1**
**China's economic and financial indicators 1994-99**

| | 1994 | 1994 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|
| Gross Domestic Product (GDP) | 4,675.9 | 5,874.8 | 6,788.5 | 7,477.5 | 7,955.3 | 8,205.4 |
| Real GDP Growth (%) | 12.6 | 10.5 | 9.6 | 8.8 | 7.8 | 7.1 |
| Urban Per Capita Income (yuan) | 3,496.2 | 4,283.0 | 4,838.9 | 5,160.3 | 5,350.0 | 5,854.0 |
| Rural Per Capita Income (yuan) | 1,221.0 | 1,577.7 | 1,926.0 | 2,090.1 | 2,160.0 | 2,210.0 |
| Urban Unemployment Rate (%) | 2.8 | 2.9 | 3.0 | 3.1 | 3.1 | 3.5 |
| Foreign Exchange Reserves | 51.6 | 73.6 | 105.0 | 139.9 | 145.0 | 154.7 |
| Foreign Debt (US$ billion) | 93.0 | 106.0 | 116.0 | 131.0 | 146.0 | 160.0 |

Cited in Chu-yuan Cheng, "China's Economy: Recent Developments and Long-term Prospects", *Issues and Studies* Vol.36(5), Sept-Oct 2000, p.132.

The extensive land area and abundance of natural resources makes western China an attractive development area. [9] Despite this obvious potential, the region has been neglected for many years because of poor transportation and telecommunication links. The main thrust of the initiative is aimed at developing the poorer areas of the country, specifically enhancing the development of minority groups and linking the western provinces more tightly to the wealthier eastern region. The plan is expected to be driven by "market opening economic theories" similar to those successfully implemented in the east. The eastern provinces will largely fund the development of western China, in accordance with the concept of developing the head of the dragon (east coast mouth of the Yangtse River) to be followed by the body and the tail (along the Yangtse inland to western China).[10]

However, the development of western China, indeed the entire next phase of economic growth for the whole country, depends to a large extent on the successful reform of SOEs.[11] Premier Zhu Rongji has repeatedly emphasised that the top priority for economic reform is to turn around most of the large and medium-sized SOEs presently operating at a loss. China's official publications list the following short-term objectives for SOEs :

$ moving the majority of large and medium-sized SOEs out of the red through an emphasis on increased efficiency;

$ establishing a modern enterprise system in most of the large and medium-sized SOEs through changes to management procedures; and

$ increasing quality and productivity with the objective of increasing profits (this will require significant restructuring and the closure of non-profit enterprises with an inevitable increase in retrenchments.)[12]

Government policy broadly proposes increased flexibility for SOEs, the use of improved technology, the consistent improvement of products, higher productivity and the closure, or merger of less successful enterprises. Beijing's SOE reform policy over the next few years is expected to follow an eight point programme including the following : reduction of excessive output; promotion of exports; closing of bankrupt SOEs; the introduction of new technologies; expansion of market-orientated operations; improvement of management; promotion of small and medium-sized enterprises and the promotion of economic competition.[13]

## BACKGROUND - SOE REFORM

China's overall objective in reforming state-owned enterprises (SOEs) is to increase social productivity and enhance the functioning of the national economy so that its citizens' livelihood and standard of life can be improved. The state-owned economy has been the backbone of China, establishing both the economy's structure and direction. As the historic basis of China's level of development and productivity since 1949, it is the central focus of the reform process and opening up to the outside world. The success of reforms is what will propel China into the globalized world economy and strengthen its competitiveness. Previously China had a planned economy wherein SOEs could be brought into existence but in line with commandist logic, could never close down. These enterprises continued to receive government support and patronage regardless of their success or failure. Social and economic resources were not distributed optimally or used effectively and this increased the state burden of keeping them afloat. A new reform ethos now prescribes that through fiscal efficiency, economic and human resources should be channelled to the most effective enterprises and reorganisation of SOEs should be aimed at achieving optimal distribution.[14]

From 1949 until the start of the reform and opening up process, China's economy was transformed into a public one and continued to develop into a fully-fledged publicly-owned economy. By 1978 this economy accounted for 98 percent of China's GDP and nearly 100 percent of the total value of industrial output. Of that 77,6 percent was created by industries owned by the state (representing the people) and 22,4 was produced by urban and rural collectives and co-operatives. At the end of the 1970s, tentative 'market readjustments' were introduced. Although mandatory planning still controlled prices, materials, investment, labour and wages, this marked the first crack in unitary centralisation of planning by granting farmers some freedom of operation. As a result agricultural and more consumer goods became tradable commodities and some means of production were allowed to enter the market.

Around 1978 experimentation began with operational autonomy for certain enterprises. This permitted the implementation of various types of profit retention and productivity incentives for workers, supervisors and managers. In October 1984 the ‘Decision of the Central Committee of the Communist Party Concerning Reform of the Economic System’ declared that China must Astrengthen the vitality of enterprises, especially that of large-scale enterprises owned by the whole people@. It further proposed C according to the principle of separating ownership and operating rights C that SOEs should be granted rights in production, supply and marketing, retention of capital, employment, bonuses and price setting.

In April, 1988 the First Meeting of the Seventh National People’s Congress adopted the State-Owned Industrial Enterprise Law. As the first law of its kind, it clearly defines the nature of rights and duties of SOEs in a systematic way. From the 1984 resolution to the promulgation of the Enterprise Law, the nature and status of SOEs were given clearer definition, thus establishing the legal basis for their reform.

Since 1990, China’s economic planners and theorists have come to realise that reform of SOEs must be market-guided. In particular, Deng Xiaoping advanced the idea that neither does a planned economy equal socialism nor does a market economy equal capitalism. This has certainly helped to emancipate what became a calcified socialist ideology. And so in 1992, the 14th National Congress of the Central Committee of the Communist Party could (without fear of contradiction) declare that the final objective of the economic system was to evolve a socialist market economy. It took a full decade to make the ideological leap from a planned to a market economy.[15]

SOE reform is the central link in the entire chain of reforming the urban-based economic system. Since their advent and through the reform mechanisms, enterprises have grown in their vitality and quality of output, equipment has been modernised and the development of strategic sectors such as communications, energy, infrastructure and basic raw and processed materials have improved tremendously. This has had positive downstream effects on the rural and non-state economy and inspired a more robust market generally.

SOEs have made great contributions to China's economic progress and its embrace of the global economy.

After nearly 20 years of enterprise reform, the economy has been released from the tight fetters of socialist planning and SOEs have passed from the protected fold of the state to confront the vagaries of the market.[16] At present it can be said that SOE reform has entered its second phase of becoming a fully constituted modern enterprise system. However, China is not only a socialist country but also a developing one, albeit one that is developing unevenly. These three characteristics define the nature and pace of reform. It is evident that China will not indiscriminately emulate the western model of industrial and enterprise development. It is alive to the differences of historical experiences in the west driven by capitalist expansion and its approach will be creatively eclectic. It is essential to differentiate (as the Chinese do) between the corporate system of public and private ownership. Under private ownership, the owners of capital entrust their agents, managing directors and CEOs, to handle their capital investment to ensure a return. In the public economy, the owners of capital are themselves the agents. This differs from private enterprise where investors entrust ownership to corporations or firms which are the agents responsible for managing business operations and exercising the property rights of the corporation or firm. The public economy is therefore an 'agent economy' which calls for even stronger and more stringent checks and balances and a more prudent division of power and responsibility.[17]

Reform of SOEs is not only aimed at improving their viability but at breathing new life into the entire state-owned economic sector (the historical poor performance record of SOEs is reflected in Table 2). It will emphasise large and medium SOEs, innovation in the enterprise system and changes in its organisational structure. This is intended to promote the circulation and reorganisation of state assets in order to adjust and optimise the product mix and rationalise the industrial and enterprise structure. This will help ensure that products are marketable, efficiency is improved, and costs are lowered. Enterprise reorganisation refers mainly to changes in the principles of property rights. More concretely, it aims to re-establish and recast SOEs through alliances, mergers, sales, bankruptcies, contracting and leasing. After reorganisation (or so the theory goes), a SOE should be a more powerful entity or a group of merged entities with more specialised production lines linked to market and consumer demand, with improved internal systems of management, increased capital funds, and lowered liabilities and production costs. As a result, such a reformed SOE should improve its adaptability to the market as well as its competitiveness.[18]

**Table 2**
**Financial performance indicators of State-owned industrial enterprises with independent accounting systems, 1980-96**

| Year | Proportion of Loss-Making Enterprises[a](%) | Total Losses of Loss-Making Enterprises (Billion *yuan*) | Profit Rate[b] (%) | Loss-Profit Ratio[c] (%) | State-Sector Contribution to Government Revenue (%) |
|---|---|---|---|---|---|
| 1980 | 19.2 | 3.4 | 24.9 | 3.8 | 86.8 |
| 1981 | 22.9 | 4.6 | 23.8 | 5.0 | 86.5 |
| 1982 | 20.8 | 4.8 | 23.5 | 4.9 | 85.2 |
| 1983 | 12.8 | 3.2 | 23.2 | 3.1 | 83.9 |
| 1984 | 10.2 | 2.7 | 24.2 | 2.3 | 82.8 |
| 1985 | 9.6 | 3.2 | 23.5 | 2.4 | 77.6 |
| 1986 | 13.1 | 5.5 | 20.7 | 4.0 | 78.3 |
| 1987 | 13.0 | 6.1 | 20.3 | 4.0 | 73.7 |
| 1988 | 10.9 | 8.2 | 20.6 | 4.6 | 71.61 |
| 1989 | 16.0 | 18.0 | 17.2 | 10.2 | 70.44 |
| 1990 | 27.6 | 34.9 | 12.4 | 23.2 | 71.3 |
| 1991 | 25.8 | 36.7 | 11.8 | 22.1 | 71.3 |
| 1992 | 23.4 | 36.9 | 9.7 | 19.0 | 71.3 |
| 1993 | 28.8 | 45.3 | 9.7 | 18.4 | 71.6 |
| 1994 | 33.0 | 48.3 | 9.8 | 16.8 | 71.4 |
| 1995 | 33.5 | 64.0 | 8.0 | 22.2 | 71.1 |
| 1996 | 37.7 | 79.1 | 6.5 | 28.9 | n.a. |

Cited in Russell Smyth, "Toward the Modern Corporation: Recent Developments in the Institutional Reform of State-owned Enterprises in Mainland China" . *Issues and Studies*, Vol.34(8), August 1998, p.106.

**Notes:**
[a]Number of loss-making enterprises/total number of enterprises.
[b](Taxes + profits)/(net value of fixed assets + working capital).
[c]Total losses of loss-making enterprises/pre-tax profits of all enterprises.

The role of government and its institutions are critical to the reform process. In the course of interviews it is possible to synthesise these as follows:

$ to formulate principles for the reform and reorganisation of SOEs and to develop specific rules for ensuring their adjustment to market practices within a reasonable time period;

$ to make industrial policies and rules for the development of key and strategic industries ('backbone industries') and to use economic instruments to guide the necessary changes to the structure of SOEs and the circulation and reorganisation of state assets;

$ since China is a vast country with varying regional conditions, governments at provincial level should have the power to participate in SOE reform; and

$ to fully involve SOEs and inspire the enthusiasm of their managers and workers in their own internal reform process and restructuring.[19]

## SOEs: CURRENT DILEMMAS AND OUTLOOK

Reform of SOEs has been an important element of China's overall economic reform strategy. Such reform is a major and important element of China's shift from a planned (command) economy to one that is market-driven. There are four aspects to the importance of SOEs in China. First, they still make up a considerable part of the economy C as a proportion of GNP they represent 35-40 percent. Second, a large proportion of industry consists of SOEs. The number of SOEs constitutes nearly 50 percent of all enterprises. Township or local enterprises take up about 30 percent and enterprises with foreign investment (Chinese-foreign joint ventures, Chinese foreign cooperatives and wholly owned foreign enterprises); with those which are individually or privately operated making up about 10 percent each. Third, the nucleus of the Chinese economy, such as infrastructure, energy, transportation, public utilities and other back-bone industries are all state owned. Non-SOEs in these sectors are few and therefore the development of township-level enterprises, industries, and indeed the entire economy, would be impossible without the dominant role of SOEs. Fourth, SOEs provide more than 60 percent of all state revenue, making them the state's main source of income.

There are many outstanding problems with SOEs, some of which have become a major encumbrance to economic growth and social development. This is evident primarily in the poor financial returns shown and the large debts incurred by SOEs. According to one informant, economics professor at Zhongshan University, Wang Jun, nearly 40 percent of all SOEs were unprofitable and operating in the red. He also pointed out that the input-output ratio of SOEs is very low. Over 70 percent of 1996's fixed assets and capital loans went to SOEs but the proportion held by SOEs in the growth sector of the national economy was only 20 percent, that is, the main engine of economic growth is *non-SOEs*. In 1994 the economy grew at a rate of 11,8 percent but the growth of SOEs was only 2-3 percent. In the 15 years since the initiation of reform and liberalisation of the Chinese economy, only 12,2 percent of net output value of SOEs was a result of increased financial returns while 8,7 percent was due to increased investment. In other words, SOEs basically rely on investment.[20]

**Table 3**
**Employment**
(official estimates, '000 persons at 31 December)

| | 1995 | 1996 | 1997 |
|---|---|---|---|
| Agriculture, forestry and fishing | 330,180 | 329,100 | 330,950 |
| Mining | 9,320 | 9,020 | 8,680 |
| Manufacturing | 98,030 | 97,630 | 96,120 |
| Electricity, gas and water | 2,580 | 2,730 | 2,830 |
| Construction | 33,220 | 34,080 | 34,490 |
| Transport, storage and communications | 19,420 | 20,130 | 20,620 |
| Wholesale and retail trade and catering | 42,920 | 45,110 | 47,950 |
| Banking and insurance | 2,760 | 2,920 | 3,080 |
| Social services | 7,030 | 7,470 | 8,100 |
| Health care, sports and social welfare | 4,440 | 4,580 | 4,710 |
| Education, culture, art, radio, film and television broadcasting | 14,760 | 15,130 | 15,570 |
| Government agencies, etc. | 10,420 | 10,930 | 10,930 |
| Others | 48,810 | 49,590 | 52,640 |
| **Total** | **623,880** | **628,400** | **636,670** |

Source: *The Europa World Yearbook* 1999, Vol.1. (Europa Publications 1999), p.934.

The Chinese economy experiences fundamental problems in five areas. First, inflation remains high at about 21,7 percent although a resolution passed by the National People's Congress set a target of below a double-digit figure (or below 10 percent). Second, there is the problem of employment. Urban unemployment estimates for 1998 do not exceed 5 percent, which is relatively low in a labour force of about 720m. But this hides two important facts: a) urban SOEs currently have some 20-30m latently unemployed workers; and b) in the countryside, a surplus of nearly 100 million need work. The surge of peasants who stream into the cities each year after the Spring Festival is therefore very worrisome and problematic. Third, there is a tense relationship between urban and rural areas (see Table 3 for an employment profile). While development and standards of living have improved in both areas, towns and cities have prospered at a faster pace. The urban-rural divide has thus broadened in recent years. Fourth, in China's economic structure, the development of processing industries has outpaced relatively backward energy sources, transportation and infrastructure. This places major constraints on fast-tracking the development of the national economy. Fifth, SOEs are inefficient. They are burdened by large debts and capital shortages and represent a 'cardiac problem for the Chinese economy'. Out of about 1350 large and medium SOEs in Liaoniong Province, only 10,5 percent can be said to be operating productively and at a profit, although they were not without their own problems. Relatively successful enterprises accounted for 22 percent; enterprises with major difficulties and with large gaps between assets and liabilities (yet which could be saved but will certainly slide towards bankruptcy) made up 50 percent. Those able to be saved accounted for close to 18 percent and the numbe nearing complete bankruptcy was estimated at over 10 percent. If these problems are not consistently and coherently addressed, China's ambitious economic reform policies will not result in sustained prosperity and stability.[21]

China's attempt to establish a market-driven economic system is made up of a reformist agenda consisting of three levels: enterprises, the market, the national economy. They exist in a dialectical relationship: interacting with each other, constraining each other but ultimately needing each other. Since the beginning of the reform process and opening up of the economy, market reform has been relatively quick and successful. However, enterprise and macro-economic reforms have lagged behind somewhat. Since 1994 reform of financial administration, taxation, and the merger of two foreign exchange rates has been completed but progress in reform of the finance and investment sectors has been sluggish. For example, the operation of specialised banks and introduction of market-related interest rates has not proceeded smoothly. This is mainly due to the fact that SOE reform has not been as robust as and has not kept pace with other financial reforms. This dysrhythmic interaction means that market and macro-economic reform thus have to make all kinds of compromises and accommodations with SOE reform. This may not only imperil whatever advances and progress have already been registered but may seriously delay the full-scale implementation of the entire economic reform programme. Lack of expeditious and carefully calibrated SOE reform has thus become a major albatross to systemic economic change in China.[22]

SOEs face deep contradictions. There are serious strains between the introduction of market mechanisms and the dead-weight of central socialist planning and public ownership. More than a decade of market-oriented reform has firmly established capitalist principles of economic planning and organisation while gradually phasing out mandatory planning and essentially freeing the price structure. This has caused enterprises C SOEs and others C to turn to the market and face competition imperatives for the first time. However, the traditional administrative and management systems have not kept pace with these changes neither have they been entirely abandoned. Enterprises still find themselves, by and large, subordinate to government and bureaucratic dictates. Moreover, property rights and relations have not been rationalised and the status of enterprises as legal entities has not been clearly defined. SOEs come up against distinct disadvantages and handicaps when competing with non-SOEs. The acceleration of marketisation and subjecting the Chinese economy to World Trade Organisation (WTO) disciplines will force SOEs to face a Darwinian future in a competitive environment where only the most productive and profitable enterprises will survive.[23]

## PROBLEMS OF INNOVATION WITHIN THE CHINESE ENTERPRISE SYSTEM

The modernisation of the Chinese system of enterprises is a daunting task and a complex project. Systematic innovation becomes difficult in the face of practical operational problems and structural and institutional inertia. There are several important dimensions to the challenge of changing and renovating SOEs.[24]

***How to distribute SOE interests:***
Innovation will certainly involve ways of managing and distributing large portions of state-owned assets. An aspect of the problem is the distribution of benefits between central and local governments and among local governments themselves. Although order has been imposed on the system, state owned assets belong to the central government while local governments exercise supervision and custodianship. The complexity of the Chinese system lies in the fact that a significant number of enterprises are local SOEs. They were initially funded and set up by provinces, counties, districts, cities, towns and villages. Were ownership to be centrally unified, local governments would be deprived of their important management functions and prerogatives.

***How to represent and manage the functions of state-owned assets:*** In view of the vast mass of assets throughout the country and their multifarious forms of operation, the formulation of transfer regulations and their implementation becomes hugely problematic. Many SOEs are scattered throughout central and local industries and sectors as well as administrative departments. They all have powers of representation and management supervision and control. This means that unification of SOEs and their separation is a logical *non sequitur*, making for a disorderly web which will need judicious disentanglement. Another problem is how state-owned assets will be represented. If direct management is adopted, with no consideration of who is doing the representing, then this will amount to administrative fiat C no different from the old way of running SOEs. If direct management is not adopted, the problem remains of how the representatives of direct investors will be determined as well as the corresponding rights and duties of enterprises. This will require major bureaucratic restructuring and a whole new jurisprudence to government enterprise management and control.

***How to separate government and enterprises:***
Enterprises have always been under the jurisdiction of government administrators. This was accomplished mainly through their control and operation of state assets and by appointing enterprise managers from the ranks of government officials. As long as this system persisted, the life line and *raison d'etre* of the enterprise depended on the whim of administrators. Administrative and enterprise personnel owed their allegiance to an administrative arm of government. They often proved to be inefficient, poorly qualified and even incompetent managers which was a major cause of declining productivity levels in SOEs. In the current reform milieu, SOEs therefore have to professionalise enterprise management according to corporate principles and internationally recognised standards. This demands a rigid separation of the enterprise from government control.

***How to standardise corporate property rights:***
A modern enterprise system is underpinned by corporate property rights. Under the planned economy, the SOE system closely resembled that of a traditional enterprise C the investor maintaining direct operational control over the enterprise and assuming overall authority. The only difference is that property rights reside with the government instead of with a private individual. Hence and strictly speaking, the traditional SOE system was not corporate. China is now trying to mould a new (western) corporate system out of the old model and the standardisation and legal independence of corporate property rights is still proving difficult to be realised.

***How to manage the broken social contract:***

Many SOEs have suffered egregious losses for a long time. Many will not be able to meet their debts and face imminent closure. There is a certain social cost that will come with their demise as SOEs typically have a great number of surplus employees. In addition they have to support many retired workers and staff. This will add to the difficulties of reforming SOEs, especially since a comprehensive system of social insurance is not yet in place. There is an expectation that the socialist largesse of the 'iron rice bowl' will last forever and when the contrary reality becomes more widespread, it is bound to leave a large segment of dislocated Chinese workers in a state of disillusionment, if not alienation.

***How to manage the conflicts between workers, enterprises and the state:*** Under the traditional planned economy, the state used a highly centralised form of management over workers' earnings and benefits. The interests of the enterprise staff and workers were represented by the state, with the workers relying on enterprises and enterprises relying on the state. Meanwhile the allocation of factors of production (including labour) relied mainly on administrative means. Distribution was handled according to an extreme egalitarianism which masked conflict between disparate interests. As such, it was impossible to develop methods for managing the property rights entitlements of the state, enterprises and workers. The quest for more effective use of state assets and maximum profit and the quest of workers for maximum personal benefits are now both necessary components of a market strategy. With the smashing of the 'iron rice bowl', workers will seek those jobs that benefit them the most. A variety of current restrictions make for a fluid labour force. At the same time, its skill levels are increasing, the mobility of trained artisans and technicians is growing and some highly skilled technical and professional people are moving into general management positions and managing labour-intensive enterprises. Resolving the problem of property rights for labour will entail a long-term corporatist-type unification of the interests of labour, enterprises and the state and the development of appropriate bodies of interest representation. Some enterprises already transfer a portion of profits to worker income based on productivity formulae. Others allow employees to become stockholders thus closely tying workers' income to the enterprises' profits and losses and thereby changing the formerly rigid wage system. Management and workers take a great interest in the welfare of the enterprise, strengthening their participation in management and policy formulation. This will certainly help to unify the interest of parties and promote increased economic efficiency.

# SOE REFORM IN LIAONING PROVINCE

Liaoning province is widely regarded as the powerhouse of heavy industry in China consisting of 26 000 industrial enterprises, including 1 500 large and medium companies, accounting for approximately 10 percent of the PRC's total. Steel production in the province accounts for nearly 20 percent of the country's output, while the petrochemical, metallurgical, telecommunication and machinery industries play an important role in overall national production. The province has more than 1 100 metallurgical industrial enterprises, which manufacture a range of products such as moulds, plates, strip steel, rolled stock and specialised steel products. The machine industry consists of over 1 000 enterprises capable of producing over 138 categories of products, including heavy mining equipment, transformers, cutting machines, tools, ships, diesel locomotives and fighter aircraft.[25] Structural adjustments in Liaoning, as part of China's overall economic reform programme have focussed on SOE reform where 68 percent of industry belongs to the state and 5,6 million of its 9,1 million workers are employed by SOEs. (Liaoning is the only Chinese province where the urban population represents more than 50 percent of the population.) Liaoning is one of China's major industrial zones and successful SOE reform in the province is considered crucial for the overall development of the Chinese economy.[26]

According to Wen Shizhen, Provincial Party Secretary, the central objective of the provincial government is to reform SOEs through "progressively adapting to the market economy and instilling a modern system of management in the enterprises". The long-term aim of the reform process is to "lift people out of poverty".[27] Wen identifies "outdated technology" and "surplus workers" as two of the key problems in SOE reform. Related problems include the need for capital to purchase modern technology, and new employment opportunities for retrenched workers. Approximately 49 percent of the province's SOEs are in the red, but the medium term plan is to reduce this to under 20 percent (see Table 4 for bankruptcy trends). Part of Liaoning's development plan includes increased co-operation with other countries, especially South Korea in order to attract new capital and technology. US investors are also being encouraged to establish joint ventures with restructured SOEs.[28]

**Table 4**
**Number of SOE Bankruptcies in China**

| Year | Number of Firms |
|---|---|
| 1990 | 32 |
| 1991 | 117 |
| 1992 | 428 |
| 1993 | 710 |
| 1994 | 1,625 |
| 1995 | 2,200 |
| 1996 | 6,332 |

Source: Cited in Smyth, *op.cit.*, p.121.

SOE reform in Liaoning has progressed through three basic phases. During the period 1978-84 SOEs were granted more freedom in developing marketing plans, while remaining under firm state control. Gradually, many SOEs were given full control over marketing. The second phase followed over the period 1984-92 with the introduction of a "responsibility contract system" which included the gradual separation of ownership from management and increased independence in dealing with taxation issues. Since 1992 SOEs have concentrated on transforming production, marketing and management in accordance with modern international practice. According to Yu Yan, Division Chief of the Enterprise Reform Division in Shenyang, reforms are being carried out in accordance with a market economy which implies the separation of owner and manager.[29] The longer term objective is to enable SOEs to compete in the market place.[30]

Over 430 SOEs in Shenyang are presently undergoing major reforms which will result in the establishment of corporate legal entities, completely separated from state control. The new legal entities will be able to seek foreign investment and be run by private individuals. A key feature of the reform drive is to improve efficiency in SOEs, which will inevitably result in the closure of the weaker enterprises. Provincial authorities are anxious to close bankrupt companies and reduce losses which are placing a major strain on state budgets. In the third quarter of 2000, seven companies were closed in Shenyang leading to a loss of more than 100 000 jobs. Other closures are expected over the next year leading to further job losses. However, local authorities suggest that 40 percent of those who have lost jobs as a consequence of SOE restructuring have found new jobs within a relatively short space of time. Re-employment programmes are a priority, while a social security system is being developed to assist laid off workers. The social security system provides a "basic living wage" for three years and thereafter an unemployed person can receive social security benefits for a further 2 years. Retraining and re-employment centres have been established to assist redundant workers.[31] Besides closing bankrupt enterprises, the provincial government has initiated a plan to restructure over 12 000 SOEs which could include the establishment of conglomerates, management reorganisation, technical transformation, increased research and development or the provision of capital.[32] With the exception of important defence industries, a number of SOEs are in the process of "commercialisation" rather than privatisation. The "commercialisation" process involves selling the company to management, employees or another company which may be locally or internationally owned.

In Shenyang a large percentage of SOEs are far advanced along the road of commercialisation, consequently much of the management and labour regulations mirror those found in the West. For example, workers receive incentive bonuses, in the form of shares or cash; higher skilled workers are paid more than the lower skilled employees; new labour laws regulate hours of work and overtime; medical aid schemes are used by employees with employer contributions; bank loans are widely available for home purchases and a flexible taxation system is used to encourage high tech production. Liaoning province as a whole has seen a significant increase in industrial production over the last year, following more than four years of poor performance. Sales revenue on average has increased by almost 30 percent and profit and tax payments by 72 percent. The Minister responsible for the State Economic and Trade Commission, Sheng Huaren, confirmed that the success of SOE reform in Liaoning served as an inspiration for further restructuring in other provinces. However, despite the impressive turnaround, Chinese officials admit that the deep-seated weaknesses of SOEs will take time to remedy.[33] Liaoning Province's five year SOE reform programme emphasises speeding up the reorganisation of SOEs and expanding reorganisation for the majority of SOEs, while maintaining the status quo for strategic industries. The state will continue to support electricity supply, roads, mining, defence and telecommunications industries, while a range of different ownership schemes will be applied to the other restructured SOEs. The various ownership schemes under consideration include employee shareholding, "mixed ownership", mergers, public offerings, or foreign investment. Bankrupt SOEs will be closed and state funds diverted to assist restructuring in other sectors. Managers will be encouraged to share company risk through ownership schemes, and management systems will be modernised, mainly through incentive bonuses, while a higher degree of labour flexibility is being introduced.[34]

A visit to two restructured SOEs in Shenyang revealed the extent of "commercialisation" at the Jinbei Passenger Vehicle Manufacturing Company (formerly the SOE Shenyang Automobile Assembly Plant) and the Shenyang Transformer Company. Characteristics of the restructured Jinbei factory include :

$ a 49 percent foreign holding, Hong Kong registered enterprise (the operation was originally modernised through a US$72 million investment from Chinese business interests in the USA during 1989);

$ imported vehicle assembly equipment from Germany, Italy and Japan;

$ imported vehicle parts from Japan (mainly vehicle engines);

$ a management restructuring during 1996 which saw the introduction of Western style scientific management (senior management was hired by foreign investors);

$ the introduction of Japanese style motor vehicle production techniques through co-operation with Toyota Motor Corporation and a resultant surge in production output (now producing one car every four minutes with an annual output of 65 000 units);

$ 370 vehicle sales outlets throughout China with after sales service and quality guarantees ;

$ worker motivation via bonuses and an incentive scheme (the availability of home loans and ownership has been a major positive factor);

$ a comprehensive quality control system.[35]

The Shenyang Transformer Company (formerly Shenyang Transformer Works, established in 1938) presently produces 40 percent of all the transformers used in the PRC and exports to African and Latin American countries. The company was nationalised in 1949 and for many years operated as a standard Chinese style SOE. After undergoing major reform, the key characteristics of the company now are :

$ a shift from concentration on production to marketing, with a resulting significant increase in sales;

$ the offering of shares on both the Shenzen and Hong Kong Stock Exchanges;

$ an emphasis on the recruitment of managers with advanced university education;

$ a restructured salary system paying more to those with higher qualifications and more complex jobs along with performance based rewards (according to company management, the performance based salary system was the central objective of SOE reform and has proved to be the key factor in promoting both better quality and improved output);

$ an emphasis on US style MBAs in management positions;

$ 49 percent share ownership held privately and many by management and the factory workers themselves (the state retains a 51 percent holding, but long term plans envisage only a 35 percent share for the state).

Despite the extensive "commercialisation" at the Shenyang Transformer Company, the Chinese Communist Party (CCP) retains direct participation in top management to "ensure the implementation of party decisions".[36] At the same time, the CCP is *not* the final decision maker with regard to company management, marketing and production. SOE reform retains a voice for the party, but the market determines company policy and decisions.

## CHINA AND THE WORLD TRADE ORGANISATION

China's admission to the World Trade Organisation (WTO) both in symbolic and practical terms would mark the epitome of its formal integration into the world economy.[37] It is after all the world's most populous country, its seventh largest economy and ninth biggest exporter (see Table 5 and Figure 1). China will in all likelihood gain accession in 2001 after almost 14 years of tortuous negotiation. Relief about China's admission only presages what is bound to be a challenging odyssey. Membership will, of course, confer on China an enhanced international stature not disproportionate to the size of its economy. Trade is a very important element of China's economic modernisation drive. It has risen from about 3 percent of GDP in the late 1970s to nearly 22 percent of

GDP currently. As a consequence, foreign trade in China is twice as important as it is to Japan or the US.

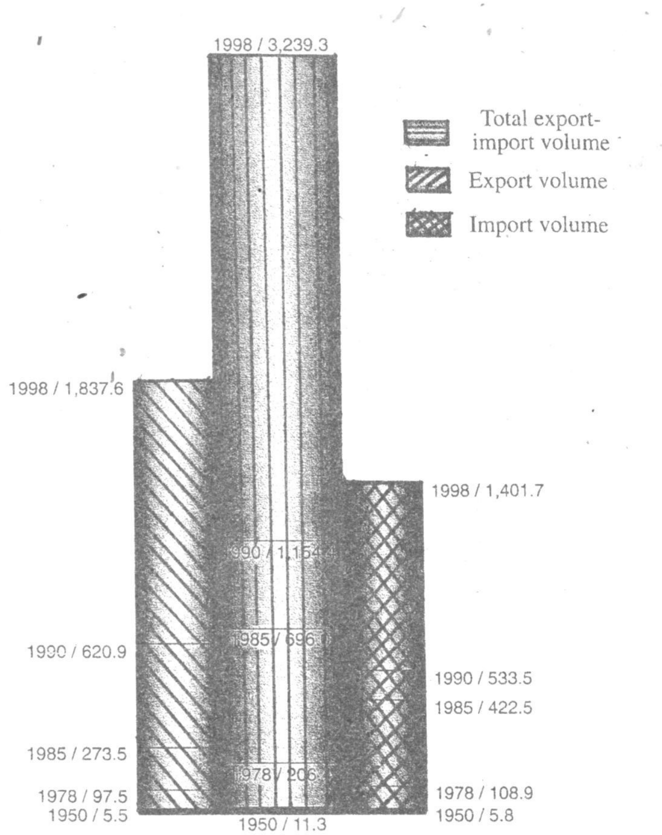
**Table 5**
**China's top trading partners in 1999 (US$ million)**

| | | |
|---|---|---|
| 1 | Japan | 66,167.3 |
| 2 | United States | 61,425.7 |
| 3 | Hong Kong | 43,783.0 |
| 4 | South Korea | 25,035.6 |
| 5 | Taiwan | 23,478.6 |
| 6 | Germany | 16,114.2 |
| 7 | Singapore | 8,563.3 |
| 8 | United Kingdom | 7,874.1 |
| 9 | France | 6,705.5 |
| 10 | Netherlands | 6,422.9 |

Source: Glinzler, M.: "China and the WTO", *SA Yearbook of International Affairs, 2000/01*, SAIIA, Johannesburg, 2001.

Equally drastic is China's share of world trade: its exports grew two and a half times as fast as world trade in the 1980s and four times as fast in the 1990s (see also Figure 1). Illustrative of this, in the first eight months of 2000, according to Shi Guangsheng, Minister of Foreign Trade and Economic Cooperation, "...China's imports and exports totalled US$301.7 billion, an increase of 36.7 percent. Of these, exports totalled US$159.3 billion C an increase of 34.6 percent, and imports totalled US$142.4 billion C an increase of 39.2 per cent."[38]

**Figure 1:**
**Growth of Total Volume of Imports and Exports**
(100 million US$)




Source: *China* (New Star Publishers, 1999) p.178.

It is also worth noting the changed position of China in the global economy. It can now be viewed as an export 'threat' to many countries. Chinese exports are now equivalent to 60 percent of exports from the UK, 50 percent of Japanese exports, three times the level of Brazilian exports and four times the level of Indian exports. Since exports from Japan, Brazil and India are already regarded in a number of developed countries, but especially those of the European Union, as direct threats to the domestic industries, the size of China's exports suggest that it will confront increasing non-tariff barriers in the future. On the other hand, China has significant competitive advantages as a prime destination for exports of other countries. The value of Chinese imports is now half that of France or the UK, two and a half times that of Brazil and substantially more than all the Middle East and North African economies combined (see Table 6). The bargaining leverage that this gives China in international negotiations cannot be underestimated. Lastly, adding to its global economic arsenal, China attracts a major share of international investment. According to the UNCTAD World Investment Report, starting in 1996, China has maintained robust investment levels well above US$40 billion per year (compare this to US$10 billion for the entire African continent in 1999).[39] Direct foreign investment in China is now equivalent to one quarter of *all* direct foreign investment in all middle-income developing countries. In short then, in a relatively short time-span of two decades, China has emerged as a major player in the global economy and its formal presence in the WTO is bound to shape (and reshape) the contours of global economic interaction dramatically.

**Table 6**
**Levels of world performance and potential, 217 countries (1995 and 2015)**

| | 1995 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Per Capita GDP | Population | GDP | Per Capita GDP | Population | GDP |
| China | 2,653 | 1,204.9 | 3,196 | 6,398 | 1,470.2 | 9,406 |
| 7 Dynamic Asia | 6,236 | 350.1 | 2,183 | 12,408 | 444.4 | 5,514 |
| India | 1,568 | 916.5 | 1,437 | 3,120 | 1,210.3 | 3,776 |
| 31 Other Asia | 1,445 | 543.7 | 786 | 2,147 | 776.8 | 1,668 |
| Japan | 19,720 | 125.6 | 2,476 | 25,533 | 130.7 | 3,337 |
| United States | 23,388 | 263.1 | 6,150 | 30,268 | 308.5 | 9,338 |
| 32 Advanced Capitalist | 16,810 | 436.6 | 7,339 | 22,199 | 463.6 | 10,291 |
| 44 Latin America | 5,031 | 489.0 | 2,460 | 6,776 | 645.7 | 4,375 |
| 15 Former USSR | 3,590 | 290.9 | 1,044 | 5,882 | 296.7 | 1,745 |
| 12 Eastern Europe | 5,145 | 116.8 | 601 | 9,292 | 116.8 | 1,085 |
| 16 Middle East | 4,138 | 211.9 | 877 | 5,049 | 333.8 | 1,686 |
| 56 Africa | 1,220 | 715.2 | 873 | 1,489 | 1,172.0 | 1,745 |
| 217 World | 5,194 | 5,664.0 | 29,421 | 7,323 | 7,369.4 | 53,966 |

Cited in Cheng, *op. cit.*, p.148.

However, China's admission to the WTO will also impose demanding disciplines that come with sweeping economic liberalisation and binding multilateral rules. In essence, China needs the WTO as much as the WTO needs China. There is a school of thought that has long argued that the WTO could not lay claim to being a world body without China. As a counterpoint, the former US trade representative, Charlene Barshefsky asserted that "China must be inside the tent, playing by the rules, with a direct interest in the multilateral trading system".[40] While its entry will indeed test the WTO's arcane procedures in a very profound and palpable way, China will be subject to obligations and challenges which are bound to try its leaderships' resolve in dealing with a capricious global environment.

Firstly, continued restructuring of the Chinese economy requires continued rapid economic growth and *vice versa*. The reform of state-owned enterprises forms a key element of the restructuring exercise and growth imperative, especially in view of the relative decline of the agricultural sector. The impulse for rapid growth *with* job creation will therefore have to come from other sectors of the economy, which in turn will necessitate expanded investment and exponential increases in output in those sectors but especially in manufacturing and capital equipment. An inherent danger is that if major enterprises or sectors of the economy are 'protected' against foreign competition, they will absorb resources from the rest of the economy which might otherwise be usefully deployed in, for example, improved infrastructure development. Resources which might also be needed to increase production and improve international competitiveness might be diverted to subsidise the less efficient or anaemic sectors.[41] China's modernisers will have to come to terms with the necessary decline of some sectors and the resultant hardship, especially as this will affect problems of unemployment and the displacement of employees. However, the increased access to world markets for China's exports will give it the opportunity for innovation and continued rapid growth of new economic sectors. This, of course, will require meeting the thresholds of onerous WTO disciplines which increasingly impinge on domestic legal regimes and macro-economic planning. The concerns for the Chinese not only relate to tariffs but now must also include deep domestic regulatory and structural adjustments to accommodate intellectual property rights, environmental and labour standards, competition policy, food safety rules and the regulation of banking, commerce and communications.[42] China's legal and institutional weaknesses will have to be urgently addressed.

Secondly, reciprocity in trade relations must be managed carefully in order to both minimise conflict with other countries and maximise the opportunities and benefits that come with free trade. The highly politicised 'trade wars' between Japan and the US and between Europe and the US over the last two and three decades are part of a painful legacy of the politically turbulent dimension of trade relations. China will have to accept a very steep learning curve in negotiating its way around ponderous WTO dispute settlement mechanisms and will need to take the long view on the benefits of greater trade.

Thirdly, a major challenge to the Chinese authorities will be to adopt and maintain macro-economic and exchange rate policies that will sustain growth in the face of the increased opening of the economy to foreign competition. For example, a decrease in the level of tariff protection (or of protection *via* import controls) will result in substantial increases in imports. It is likely, therefore, that one element of a liberalisation programme might be a planned depreciation in the currency. Continual monitoring and adjustment of both fiscal and monetary policies and exchange rate policies is an essential element of the policy package necessary to accommodate opening up to the global economy and entry into the WTO.[43]

Besides the difficult domestic policy changes that are needed, China will also have to confront a range of problematic tensions in the international environment. There are still potent forces C as exemplified by an emergent 'global civil society' C whose idealism and ideology make a heady cocktail of opposition to liberalising international trade and investment. Among developed countries activists, especially, the WTO is seen as the institutional custodian of profit-driven multinational corporate interests which are not sensitive to environmental concerns or the exploitation of workers in low-wage economies. The ideological convictions of those in opposition to free trade saw the collapse of the Seattle round and there is no reason to suspect an attenuation of such resistance in the coming decades.

There are also special interests which China will need to manage judiciously. For example, organised labour in the US, while expressing putative concern for low-paid workers in developing countries, has as its major concern the protection of high-wage US jobs in those sectors threatened by increased foreign imports. The agricultural sector in the European Union is another invidious case of a special, highly-subsidised interest that will make its voice heard in opposition to free trade. To complicate matters further, China will have to manage its own growing domestic constituency that is opposed to liberalised trade because it threatens their economic viability. Finally, China's integration into global markets and its potential for growth is inextricably interwoven with mercurial world economic conditions and looming turbulence in the major developed economies of the world, particularly those of the G8.[44] In addition, increasing strains and tensions with the US do not bode well since the Bush administration's perceptible change in attitude towards China. (This was significantly exacerbated by the interception of a US EP-3E navy surveillance plane over the South China Sea in March 2001). According to one view: "It now seems clear that the new US administration will regard China as less central to its Asian policies than its predecessors, and devote more attention to Japan. Washington now regards China less as a constructive partner in the region and more as a threat or competitor".[45]

China will need visionary leadership over the next generations if it is to take advantage of those considerable economic strengths that will position it as an eminent global economic player. The first set of challenges will come with China's admission to the WTO.

## CONCLUSION

China's drive towards economic modernisation must do battle with the communist regime's ideological commitment to retain the essential underpinnings of its political system. There are inherent tensions in the liberalisation of China's economy and governing through institutions which are anachronisms and which make central planning increasingly untenable. China has already registered great strides towards the decentralisation of power, with the consequent erosion of the absolute hegemony of the Chinese Communist Party and authority of the central government. Ongoing economic reforms may require deeper political reforms with some degree of pluralism being eventually introduced. This will have serious implications for Chinese culture and society since "...communist ideology can no longer provide a basis for unity". [46] The Chinese leadership have relied increasingly on appeals of patriotism and nationalism to protect the basic anatomy of the political system, to secure their position and safeguard their integrity. Patriotism and nationalism have, of course, become depreciated currencies in the post-Cold War context and are subject to the corrosive influences of a globalising world.

The reform of SOEs is integrally linked to China's quest to become a modern country, with a sustained economic growth rate that will guarantee a better life for its growing (and sometimes restive) citizenry. As is evident from the foregoing considerations, the SOE reform process is proving to be an enormously complex and challenging undertaking which strikes at the heart of China's prolonged history of modernisation since the nineteenth century. Meeting the great structural challenges of reforming the state-owned sector will be a determining element of the extent to which China can fully participate in the global economy. A compelling irony is that China's accelerating integration into the global economy will provide added impetus toward reform of systems and modes of national governance. This is especially the case with accession to the WTO. There are a range of domestic institutional changes which China will have to introduce as part of the required trade and investment liberalisation regime and which WTO rules prescribe for imparting greater coherence, clarity and credibility to national trade policies. Whether modern regulatory instruments can co-exist with outdated institutions and an inefficient bureaucracy remains to be seen.

Interestingly, China's military power is no longer the primary pillar on which its aspirations to super-power status rests. While it remains very conscious of security concerns and survival imperatives, especially insofar as Chinese elites perceive a new belligerence in the Bush administration, China is mindful of the salutary effects which economic progress will have on it becoming even more of a key actor in regional and global affairs. The confluence of domestic and external factors is bound, therefore, to shape China's future in ways that are more profound that in the past. A fundamental challenge for China is "how to maintain the power of the communist party in the face of increased penetration by market forces and a range of influences resulting from closer engagement with a globalising world". (47)

# Notes

1. *China - 1998*, New Star Publishers, Beijing, 1998, p. 66. See A. Cotterell, *East Asia - From Chinese Predominance to the Rise of the Pacific Rim*, Oxford University Press, Oxford, 1993, pp. 249-270. See also J. Gittings, *Real China*, Pocket Books, London, 1997, pp. 250 - 283. Gittings argues that China's future depends on satisfying popular expectations, or at least "maintaining the promise of better things to come".

2. Quoted in Sun Shangqing : "A Market Economy and the Development of Productive Forces," *Social Sciences in China*, Vol. 27, No. 2, 1997, p. 68. Beijing has specifically rejected the "big bang" approach in order to avoid the sudden dramatic increase in inflation, or a currency collapse.

3. See for example : New Star Publishers, *Socialism With Chinese Characteristics*, Beijing 1993 and New Star Publishers, *Market Economy, the Chinese Way*, Beijing, 1993. According to official explanations, a socialist market economy is an economy "which is no longer the exclusive domain of public ownership, but the combination of public ownership, which serves as the mainstay, with individual, private and foreign-invested sectors." According to Jiang Zemin, "a socialist economy with Chinese characteristics requires adherence to socialist public ownership of the means of production as the main form of ownership and allow and encourage the appropriate development of other economic sectors... We should not abandon the leading position of the public economy and practice privatisation." See also J.B. Starr, *Understanding China*, Profile Books, London, 1999, pp. 78 - 96. Starr predicts that no matter the problems in China's economic reform, Beijing is unlikely to return to purely socialist solutions.

4. According to John Fairbank, Deng's most important economic policy change was the "opening" to foreign trade, technology and investment. Since the early 1800, Beijing's economic policy had been essentially isolationist. Even after 1949 Mao's anti-imperialist approach was based on closed industrial development and rejected links with the rest of the world, except other socialist countries. See J.K. Fairbank, *China, A New History*, Belknap, London, 1992, pp. 406-427.

5. See W. Overholt, *China - The Next Economic Superpower,* Weidenfield & Nicolson, London, 1993. According to Overholt, China's economic reform model is similar to that of the East Asian Tigers (South Korea, Taiwan,

Hong Kong and Singapore) and has met with similar spectacular results.

6. For further details of the initiative, see www.chinabusinessreview.com

7. Quoted in Li Xia: "Developing Western China", *China Today*, Vol. 49, No. 7, 2000, p. 9.

8. See "President Jiang Urges Faster Development of Central and Western Regions", *China News and Report*, No. 15, August 1, 1999, p. 2. All government departments and CCP cadres have been called on to contribute to the development of the western regions of China, in accordance with Deng Xiaoping's stated approach of achieving co-ordinated development of all regional economies.

9. See Wang Ping : "Zhoukou - Bridging Eastern and Western China", *China Today*, Vol. 49, No. 8, 2000, pp. 39 - 41. Zhoukou has established an "investment inviting" administrative agency and will grant investors preferential treatment. See also Fu Xiapong and Jing Yi : "Hubei's Role in Western Development," *China Today*, Vol. 49, No.8, pp. 72- 78. Hubei province is emphasising the development of highways, water control, construction, iron and steel, machinery and food processing. The provincial government is seeking significant foreign investments to promote a number of major infrastructural projects. See also Zheng Geping : "Ningxia's Overall Vision for Implementation of the Strategy of Developing Western China," *International Understanding*, Chinese Association for International Understanding, No. 4, 2000, pp. 16 - 18. The People's Government of Ningxia Hui Autonomous Region intend to boost infrastructural development as an incentive to new investment.

10. See T.L. Sims and T.J. Schiff, "The Great Western Development Strategy", *China Business Review*, Vol. 26, No. 6, 2000, p. 13. For details on the development of the east coast of China see for example Rui Bo : "Ten Years of Development in Pudong," *China Today*, Vol. 49, No. 4, 2000, pp. 6 -19, see also Li Ye : "Tanjin Economic-Technological Development Area", *China Today*, Vol. 49, No. 11, 2000, pp. 16-27. The western development initiative is expected to include 56 percent of China's total land area and 23 percent of the population. The average GDP per capita for the region is only 60 percent of the national average.

11. China's leadership has confirmed that SOE reform is a priority for economic development. See *China News and Report*, January 15, 200, p.

1.

12. See *New Star Publishers* "China : Facts & Figures 2000," Beijing, 2000, pp. 138-142.

13. "Focal Points of the Work in 2000 to Lift SOEs Out of Difficulties", *China News and Report*, January 15, 2000, pp. 3-4.

14. See Mark Selden, *The Political Economy of Chinese Development*. (New York: Praeger, 1993).

15. *Ibid.*, p. 179.

16. See for example Ou Lu : "Triple Nine Paves the Way for State Owned Enterprises," *China Today*, Vol. 49, No. 2, 2000, pp. 30 - 33. The Triple Nine corporation is widely regarded as a model for SOE reform. The company grew from a single product-based enterprise into a large industrial group with over 11 billion yuan in assets. The company's innovative and effective marketing strategy has been partly responsible for their success. The company was the first to set up a Chinese billboard on Times Square in New York City.

17. See Nicholas R. Lardy, *China in the World Economy*, Washington, DC, 1994.

18. Interview with Yu Yan, Division Chief: Division of Enterprise Reform, Beijing, September 2000.

19. Interview with Prof. Wang Jun and Haiqing Zhang: Zhongshan University, Guangzhou, September 2000.

20. *Ibid.*

21. Interviews with David Zhao and Xihaui Yang, Liaoning Economic and Trade Commission, Shenyang, September 2000.

22. Selden, *op.cit.*, p. 185-190.

23. Interview with Prof. Wang Jun.

24. This section synthesises information form interviews cited, but also

includes interviews with: Guan Wei Liu, Director of General Manager's Office, Jinbei Passenger Vehicle Manufacturing Co (Shenyang, September 2000); Huang Tai-he, Institute of Economic Systems and Management: State Commercial Office for Restructuring the Economic System (Beijing, September 2000); Qu Lin, Senior Economist, Shenyang Transformer Co. (Shenyang, September 2000); and Zhuo Yi, Director, Foreign Affairs Commission Guangdong Province (Guangzhou, September 2000).

25. Liaoning, China, *Information Office of the Liaoning Provincial People's Government*, Information Office, Liaoning Provincial People's Government, 2000, pp. 26 - 30.

26. Interview with Mr Xihuai Yang, Director, Liaoning Economic and Trade Commission (LETC), Shenyang, September 2000.

27. See L. Cadieux, "Liaoning in Transition of Reform," *China Today*, Vol. 67, No.11, 1999, p. 11.

28. Interview with Yuan Gui Zhu and Cui Desheng, Deputy Division Chief and Deputy Director, respectively, The Foreign Affairs Office, Liaoning Provincial People's Government, Shenyang, September 2000.

29. Interview with Yu Yan, Division Chief, Enterprise Reform Division, Liaoning Provincial People's Government, Shenyang, 4 September 2000.

30. Increasing competitiveness has been a central feature of SOE reform throughout China. See for example Fu Xiaoping, "A Competitive State-Owned Enterprise in China," *China Today*, Vol. 49, No. 7, 2000, pp. 42-43. Successful reform of the Shenzhou Coal-Electric Coking Share Company resulted in the issuing of 15 million shares on the Shenzhen Stock Exchange. The efficiency of the company has attracted wide investor interest.

31. The loss of jobs associated with SOE reform remains a major concern for central and local authorities in China. According to the State Statistics Bureau (SSB), China's present population is 1 248 100 000, while the adult working population is 714,07 million, with an employed population of 699,57 million. China's urban registered unemployment totalled 13-15 million in 1998 with a rate of 7-8 percent. However, unemployment in the rural areas added another 5-8 million to the unemployed category resulting in a total of over 20 million without work. The continued reform

and downsizing of SOEs is expected to expand the total of unemployed workers with possible serious consequences for social stability in some parts of the country. See Jingjing Yang "The Chinese Volcano: A Crisis of Employment", *East Asian Institute*, April 2001.

32. Some observers suggest that a large proportion of SOEs are effectively bankrupt and require state subsidies to continue operations. See J.B. Starr, *Understanding China*, Profile Books, London, 1999, p. 81.

33. Li Rongxia : "Major Turning Point in SOE Reform and Difficulty Relief", *Beijing Review*, August 2000, p. 17.

34. A comprehensive marketing drive is part of the overall process of economic reform in Shenyang. Dozens of trade exhibitions and fairs are held in the city annually to display new products and promote sales. See "Shenyang Activities Guide 2000", *Shenyang Municipal People's Government*, 2000.

35. Interview with Guan Wei Lin, Director of General Manager Office, Jinbei Passenger Vehicle Manufacturing Co., Shenyang, September 2000.

36. Interview with Qu Lin, Senior Economist and Secretary of the Party Committee, Shenyang Transformer Co., Shenyang, September 2000.

37. Shaun Breslin, "Implications of China's Admission to the WTO", *Global Dialogue,* Vol.5.1, May 2000, pp.27-29.

38. Shi Guansheng, "China and the WTO: Marching Toward a New Epoch", *China Today,* Vol. 49.12, October 2000, pp.6-7.

39. United Nations Conference on Trade and Development, *World Investment Report: 2000.* United Nations: New York and Geneva, 2000, pp.8-9.

40. Cited in Guy de Jonguieres, "China's Entry Into the WTO Will Require Painful Adjustments", *Business Day*, 30 May, 2000.

41. Interview with Prof. Wang Jun.

42. Yi Ren, "WTO to Lead the Chinese Economy Into a New Era", *China Today,* Vol. 50.2, February 2001, pp.6-11.

43. Interview with Prof Wang Jun.

44. See Rex Li, "China in Transition: Nationalism, Regionalism and Transnationalism", *Contemporary Politics,* Vol, 3.4, 1997, pp. 370-73.

46. John McKay, "China-United States relations and the new Bush administration", *Global Dialogue*, Vol. 6.1,July 2001, p.23.

47. Li, *op. cit.*, p.376.

48. McKay, *op.cit.*, p.24.

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