



**PRIVATE BUSINESS AND ECONOMIC
REFORM IN CHINA IN THE 1980s**

by

Susan Young

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**Centre for Asian Studies
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SUMMARY

This thesis is a history of the growth of the private industrial and commercial sector (primarily the enterprises known as *getihu* and *siying qiye*) in China after 1978 and its role in the post-Mao reforms. It focuses on the interaction between private sector policy and other reforms and examines the implications of this for China's political economy.

The Chinese leadership justified its revival of the 'individual economy' on the grounds that it was economically appropriate and that it would be easily constrained by government regulation and by its dependence on the socialist economy. These arguments are discussed, and the story of the early years of private sector development does indeed show that it was limited in a variety of ways. However, reforms which decentralised economic power and increased the role of the profit motive, plus the continued importance of the private sector for job creation and the satisfaction of consumer demands, progressively weakened such limits. Local officials began increasingly to encourage private business, often well in excess of central policy and regulations, and goods were diverted from the state sector to be sold on the market. While the private sector thus remained dependent on personal goodwill and informal relationships, it also developed rapidly and became a significant feature of the economy; one that was often largely under local rather than central control.

The relaxation of restraints on private business meant that the private sector soon included large private enterprises employing wage labour, which provoked a new debate on the role of private enterprise under socialism. This was intimately related to the much wider debate that developed as theoreticians began to focus on the issue of the role of ownership in China's economic reforms and the need to move away from traditional state ownership. This debate was suspended by the conservative crackdown of 1989, but as the case of the private sector shows, by this time many elements of the reform program had become so entrenched that they were extremely difficult for central leaders to revoke. The reforms had given rise to new interest networks, with which the private sector was intimately involved, which fought to preserve the

benefits they had obtained from the reforms and to bend central policies to their own ends.

STATEMENT

This thesis contains no material which has been accepted for the award of any other degree or diploma in any University. To the best of my knowledge and belief, it contains no material previously published or written by another person, except where due reference is made in the thesis. The author consents to this thesis being made available for photocopying and loan.

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ABBREVIATIONS

1. Organisations

- CCP Chinese Communist Party
 ICB Bureau of Industry and Commerce [*gongshang xingzheng guanli ju*]

2. Sources cited in footnotes and bibliography

- BR *Beijing Review* (formerly *Peking Review*)
 CQ *The China Quarterly*
 FBZ, F51 Zhongguo renmin daxue shubao ziliao zhongxin, eds., *Fuyin baokan ziliao, F51, shangye jingji, shangye qiye guanli* [Reprinted materials from newspapers and periodicals, F51, Commercial economy and commercial enterprise administration]
 FBZ, F22 Zhongguo renmin daxue shubao ziliao zhongxin, eds., *Fuyin baokan ziliao, F22, nongcun qiye guanli* [Reprinted materials from newspapers and periodicals, F22, Rural enterprise administration]
 GMRB *Guangming ribao* [Enlightenment Daily]
 HEBRB *Ha'erbin ribao* [Ha'erbin Daily]
 JJCK *Jingji cankao* [Economic Information]
 JJRB *Jingji ribao* [Economic Daily]
 JJXWZ *Jingjixue wenzhai* [Abstracts of Economics]
 NYJJWT *Nongye jingji wenti* [Problems of Agricultural Economy]
 RMRB *Renmin ribao* [People's Daily]
 SWB *BBC Summary of World Broadcasts: Part 3 - The Far East*
 XHWZ *Xinhua wenzhai* [New China Digest]
 ZGGSB *Zhongguo gongshang bao* [China Industry and Commerce News]
 ZGTJNJ *Zhongguo tongji nianjian* [Statistical Yearbook of China]
 ZGXQNJ *Zhongguo xiangzhen qiye nianjian* [China Township Enterprises Yearbook]

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CHAPTER ONE: INTRODUCTION

After 30 years of 'building socialism', China's leaders decided after the death of Mao Zedong that they had been building it the wrong way. Those who took over after the end of the Cultural Revolution were disenchanted with the existing cumbersome economic structure and volatile system of leadership, and embarked on a course of reform aimed at revitalising the economy, raising productivity, and delivering a rise in living standards which would prove the superiority of socialism. In spite of some disagreement among China's leaders over the extent to which the central planning system should be modified, the reforms have taken the course of increasing individual and local initiative, and the power to act upon it, by transferring some economic functions from the bureaucracy to market forces and increasing the role of the profit motive in economic decision-making. This has been a gradual process of experimentation, rather than a sudden switch to a complete new plan, but one reform has led to another until the result has moved far beyond the limited horizons of 1978.

A central aspect of the reforms which clearly demonstrates how the process has evolved is the revival and development of private businesses. Greatly reduced after collectivisation in the mid-1950s and virtually eradicated during the Cultural Revolution, private business was revived as a quick, easy and cheap way of alleviating some of the problems of the day: a sluggish economy with inadequate circulation of goods, failure to provide sufficient consumer goods and services to the public, and unemployment. Active encouragement of private business was a major policy shift for the Chinese Communist Party (CCP), which had formerly seen it as a remnant of capitalist society with the potential to engender

capitalism of itself. It was something which should be rapidly phased out under socialism. Clearly some sections of the leadership still had grave doubts about the suitability of private business for socialist development, and the reformists took pains to assure them that under China's now firmly-established system of public ownership, a small private economy would not lead to exploitation, inequality and capitalism because it would be limited by the dominant publicly-owned economy and government regulation.

Yet the revival of private business did not take place in isolation: it was part of a complex range of reforms which began to alter profoundly the very economic and administrative structure which was supposed to limit it. The major reasons for the government's initial support of private business - the need to improve supplies of consumer goods, and to provide jobs for people returning from the countryside after the Cultural Revolution, for new school leavers, and for peasants released from agriculture by rural reforms - became, if anything, more pressing as reforms took effect. This spurred reformists to overcome opposition and persist in encouraging private business. Meanwhile, as the rural economy was opened up, and as market forces and the profit motive began to play an increasing role in the cities too, opportunities for private business increased and its position became more secure. Above all, the reformist ideology stressed economic performance - in terms of increased output and profitability, increasing employment, and rising standards of living - as the main criterion of administrative or managerial success. In this atmosphere, many obstacles to the growth of private business gave way.

Growth and scope of the private sector

This study concerns itself not with all forms of private economic activity in China, but with the sector of privately-owned, profit-seeking full-time businesses known as *geti gongshanghu* or *getihu* [individual businesses] or the larger *siying qiye* [private enterprises]. *Getihu* are officially defined as individually-owned businesses employing up to eight people, including the owner but often discounting family members. *Siying qiye* are businesses with eight or more employees, owned by individuals, partners, or groups of up to 30 shareholders. Both kinds of business are predominantly engaged in retailing, catering, services, repairs, construction, transport, and light manufacturing. Agriculture is not included in this study nor, in general, is the rural sideline economy, although the distinctions between specialised rural households [*zhuanyehu*], joint enterprises or partnerships [*lianheti*], and *getihu* or *siying qiye* are often blurred and the categories overlap.

As a result of the opportunities generated by reform policies, private business in China has grown beyond the limits of the marginal, stop-gap role outlined for it in 1978-81. It has grown both in share of economic activity, and in the size of enterprises. In 1978, there were only about 150,000 private businesses registered in the whole of China, as they had been a key target for attack during the Cultural Revolution. By the end of 1988 the number had grown to 15 million, employing 22 million people. With the conservative swing in Chinese politics in 1989, private business came under attack, and the number of registered businesses declined by over 14 per cent, but during 1990 it began to recover. Table 1.1 shows the growth in private business numbers after 1978. This table, however, only shows those private businesses registered as *getihu* with the Bureau of Industry and Commerce (ICB). As will be discussed in later chapters, an

uncertain number of larger businesses, the *siying qiye*, were registered during this time in other ownership categories. The earliest available official estimate of the number of *siying qiye* gives the figure of 115,000 enterprises, employing 1.8 million people, at the end of 1987.¹ In 1988 the figure given was 225,000 enterprises employing 3.6 million people and producing 1 per cent of gross industrial output value.² This included 115,000 registered as *getihu*, 60,000 registered as co-operatives, and 50,000 registered as collectives.³ Then in early 1991 it was announced that there were 98,000 *siying qiye* at the end of 1990.⁴ This probably does not represent the actual decline, if any, in the number of larger private enterprises in 1989-90, but is rather the number actually registered as *siying qiye*. In addition to the many larger private enterprises not listed as such, as many as 50 per cent of small private businesses also went unrecorded for a variety of reasons: many operators purposely avoided registration, or were ineligible for licenses, but operated businesses anyway; an uncertain number of temporary or itinerant businesses, mainly in retailing or repairs, were not obliged to register with the ICB; nor were most medical or educational businesses.⁵ The statistics in the following tables therefore provide an idea of general trends in private sector development, rather than an accurate record of its real size.⁶

¹JJCK, 12 March 1988, p. 1

²Bureau of Industry and Commerce director Ren Zhonglin, in *RMRB*, 24 June 1988, p. 1.

³Zhang Houyi and Qin Shaoxiang, 'Siyong jingji zai dangdai Zhongguo de shijian' [The practice of the private economy in contemporary China], *JJCK*, 14 November 1988, p. 4.

⁴SWB, 20 March 1991, FE/W0171 A/1.

⁵Wang Zhan'ao, 'Shi lun wo guo geti jingji de fazhan yu guanli' [A tentative discussion of the development and administration of China's individual economy], *Caijing yanjiu* [Financial and Economic Research], no. 7, 1988, p. 32.

⁶For a useful discussion of the shortcomings of Chinese statistics on private enterprise, see Ole Odgaard, 'Inadequate and Inaccurate Chinese Statistics: The Case of Private Rural Enterprise', *China Information*, vol. 5, no. 3, (Winter 1990-1991), pp. 29-38.

Table 1.1: Registered Individual Businesses (Getihu), 1979-1990

| | Urban | | Rural | | Total | |
|------|------------|-----------|------------|------------|------------|------------|
| | businesses | personnel | businesses | personnel | businesses | personnel |
| 1979 | | | | | 115 000 | 115 000 |
| 1980 | 473 306 | 551 525 | | | 473 306 | 551 525 |
| 1981 | 870 603 | 1 058 954 | 957 983 | 1 215 993 | 1 828 586 | 2 274 947 |
| 1982 | 1 132 453 | 1 358 677 | 1 504 360 | 1 840 016 | 2 636 813 | 3 198 693 |
| 1983 | 1 706 170 | 2 086 191 | 4 194 686 | 5 378 351 | 5 900 856 | 7 464 542 |
| 1984 | 2 222 075 | 2 911 315 | 7 082 059 | 10 120 062 | 9 304 134 | 13 031 377 |
| 1985 | 2 798 711 | 3 839 405 | 8 915 640 | 13 822 900 | 11 714 351 | 17 662 305 |
| 1986 | 2 910 387 | 4 075 988 | 9 201 076 | 14 382 735 | 12 111 463 | 18 458 723 |
| 1987 | | 5 688 000 | | 15 895 259 | 13 725 255 | 21 583 259 |
| 1988 | | 6 593 000 | | 16 456 000 | 14 527 000 | 23 049 000 |
| 1989 | | 6 482 000 | | 12 932 000 | 12 471 000 | 19 414 000 |
| 1990 | | | | | 13 290 000 | 20 240 000 |

Sources: 1980-86, Guojia gongshang guanli ju geti jingji si, Geti gongshangye jiben qingkuang tongji ziliao xuanbian, 1949-1986 [Selected statistics on basic conditions in individual industry and commerce, 1949-1986], (Internal departmental publication), p. 3.

1987 figures provided by the ICB at an interview.

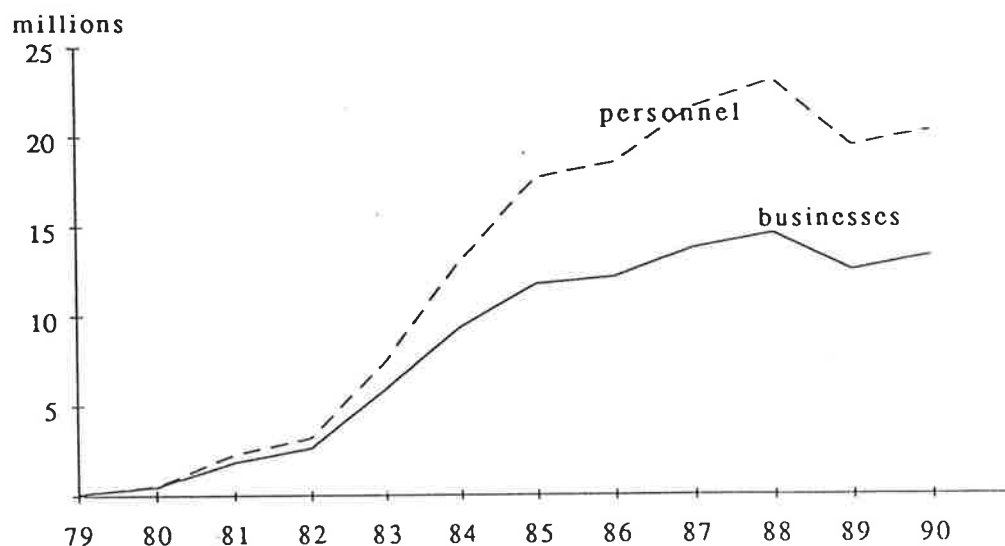
Urban personnel, 1988-9, ZGTJNJ, 1990, p. 126.

Total, 1988-89, ZGTJNJ, 1990, p. 17.

1990: SWB, 20 March 1991, FE/W0171 A/1.

The growth pattern shown in this table is represented in the chart below:

Figure 1.1: Registered Individual Businesses (Getihu), 1979-1990



Private businesses are shown in State Statistical Bureau figures as being responsible for less than 5 per cent of gross industrial output value, and

around 18 per cent of retail sales by 1989.⁷ Table 1.2 shows the rapid growth in the private portion of retail sales after 1978.

Table 1.2: Value of Public and Private Retail Sales, 1978-1989

| Year | State-run and collective | | Individual | | Peasants to non-agricultural Residents | |
|------|--------------------------|------------|------------|------------|--|------------|
| | RMB 100m | % of total | RMB 100m | % of total | RMB 100m | % of total |
| 1978 | 1,525.4 | 97.9 | 2.1 | 0.1 | 31.1 | 1.9 |
| 1979 | 1,748.2 | 97.1 | 4.3 | 0.2 | 47.5 | 2.6 |
| 1980 | 2,055.6 | 96.0 | 15.0 | 0.7 | 69.0 | 3.2 |
| 1981 | 2,222.1 | 94.5 | 37.4 | 1.6 | 89.4 | 3.8 |
| 1982 | 2,383.0 | 92.7 | 74.6 | 2.9 | 110.8 | 4.3 |
| 1983 | 2,528.3 | 88.6 | 184.5 | 6.5 | 133.0 | 4.7 |
| 1984 | 2,875.1 | 85.1 | 323.7 | 9.6 | 170.0 | 5.0 |
| 1985 | 3,340.3 | 77.6 | 661.0 | 15.3 | 291.0 | 6.8 |
| 1986 | 3,755.0 | 75.8 | 804.8 | 16.3 | 375.0 | 7.6 |
| 1987 | 4,328.6 | 74.3 | 1011.6 | 17.4 | 461.0 | 7.9 |
| 1988 | 5,493.8 | 73.8 | 1324.0 | 17.8 | 595.0 | 8.0 |
| 1989 | 5,857.5 | 72.3 | 1509.6 | 18.6 | 698.0 | 8.6 |

Source: ZGTJNJ, 1990, p. 623.

Note: A small amount of retail sales by joint enterprises (jointly run by families, joint state-collective-private, and Sino-foreign joint ventures), has been excluded.

Again, it must be emphasised that these figures are inevitably (perhaps even intentionally, as China's leaders were by no means anxious to reveal a really significant private sector) vastly understated. It is widely recognised that a great amount of private business activity in China goes unreported. Private businesses are difficult to regulate and tend to under-report any earnings, and there is much unlicensed activity which never gets into the statistics at all. Even the official figures, however, are impressive for a sector with only 4 per cent of the total labour force in 1990.⁸ Private businesses also tend to be engaged in trades which are very visible and involve daily contact with the public (see Table 1.3). Although the proportion of private businesses engaged in repairs, catering, and services has declined from the predominance of the early 1980s, private

⁷ZGTJNJ, 1990, p. 416.

⁸SWB, 20 March 1991, FE/W0171 A/1.

retail, service and catering businesses make up over 80 per cent of outlets in these trades,⁹ hence their impact on public life, and public opinion, is considerable.

The Urban - Rural Division

The figures cited above all come either from the State Statistical Bureau or the ICB, and are for both rural and urban businesses. These present the registered private sector as fairly small, because the huge urban state sector is included in the comparison. I have presented these figures at some length because they are the ones which are used in most official reports and policy discussions on the private sector. When we look at the situation in rural areas, however, the numbers are quite different. In 1988, the latest year for which I have been able to obtain information, the Ministry of Agriculture's Township Enterprise Bureau recorded over 16 million private businesses among township enterprises [*xiangzhen qiye*], when, it will be recalled, the State Statistical Bureau and the ICB reported only 15 million businesses nationwide.¹⁰ Private businesses were recorded as earning 27.57 per cent of gross income and 24.2 per cent of gross output value in rural township enterprises.¹¹ The trade distribution of rural private businesses also differs from the national picture. Whereas by far the majority of urban private businesses are involved in small retail, service and catering businesses, the proportions for private township enterprises in 1988 were as follows:

⁹ZGTJNJ, 1990, p. 602.

¹⁰ZGXQNJ, 1989, p. 85.

¹¹ZGXQNJ, 1989, pp. 91-95 (income), p. 77 (output value).

| Sector | Percentage |
|---|------------|
| Industry (probably including handicrafts) | 37.56 |
| Construction | 3.55 |
| Transport | 21.83 |
| Commerce | 19.93 |
| Catering | 4.64 |
| Services | 6.99 |
| Other | 4.48 % |

As noted above, even the rural figures on private businesses are unreliable, because of an unknown number of unregistered or wrongly registered businesses. It is clear, however, that there are marked differences between the urban and rural private economies, and that the rural private sector is much more significant than the national statistics suggest. Furthermore, the discussion here restricts itself to businesses which are officially acknowledged as privately-owned, because, having faced up to their private nature, the leadership must adjust its outlook to accommodate them within its concept of socialism. In their organisation and activities, a large number of specialised households and 'joint' enterprises (run by several families) are actually indistinguishable from private enterprises. If these were also included, the rural private sector would be larger still.

The importance of the private business sector in China is in fact only partially related to its size. A major concern has, of course, been the ideological impact of a thriving private sector whose growth rate has far outpaced that of the socialist sectors. China's economic reforms have handed an increasing share of economic decision-making to those at lower

Table 1.3: Trade distribution of Individual Businesses (per cent)*

| Year** | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| Industry & Handcrafts | 10.7 | 11.2 | 10.9 | 10.5 | 12.6 | 12.9 | 12.7 | 13.0 | 12.7 | 12.3 |
| Transport | 1.2 | 1.0 | 1.0 | 2.0 | 6.2 | 8.4 | 8.4 | 9.4 | 10.1 | 9.2 |
| Construction | | 0.5 | 0.4 | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.2 |
| Commerce | 40.2 | 44.8 | 48.0 | 58.3 | 54.9 | 53.1 | 53.1 | 53.0 | 53.1 | 55.0 |
| Catering | 23.6 | 19.1 | 17.9 | 12.2 | 10.3 | 10.1 | 10.3 | 10.0 | 10.0 | 10.1 |
| Service | 13.2 | 11.4 | 10.6 | 7.4 | 6.2 | 5.9 | 6.0 | 5.4 | 5.5 | 5.7 |
| Repairs | 11.0 | 10.2 | 9.8 | 7.7 | 7.4 | 7.0 | 7.2 | 7.0 | 7.0 | 6.6 |
| Other*** | | 1.8 | 1.3 | 1.4 | 2.0 | 1.2 | 1.9 | 1.4 | 1.3 | 1.0 |

* Source: Guojia Gongshang xingzheng guanli ju geti jingji si, (1987), pp. 8, 16, 26, 36, 46, 56, 66.

Figures for 1987 provided by the ICB at an interview.

1988,1989: ZGTJNJ, 1990, p. 17.

** Figures for 1980 include urban businesses only; in following years figures are for urban and rural businesses

*** Includes artistic and cultural enterprises and consultancy services

levels - managers or local government owners of state and collective enterprises, and local-level government departments - who have often responded to market pressures by co-operating with private enterprise. Thus the private sector has become increasingly intertwined with other ownership sectors and with local government, in ways which have then further influenced the direction of economic change in China. Some of the most important aspects of this integration resulted from reforms to the organisation of state and collective enterprises, such as contracting or leasing to individuals, joint-stock ownership of enterprises, and increased links among enterprises, which continued to open up more opportunities for the development of private enterprise. The new power relationships emerging from this situation, particularly in rural areas, were important not only for the future of private enterprise in China, but also for the kind of society and economy to develop from the reforms.

Many of the opportunities for growth in the private sector arose from the way in which new policies were introduced. The method of reform used after 1978 was a hands-on approach in which new practices were tried out first, and confirmed in official policy later. The detailed formulation of new regulations and administrative procedures to match new practices came last of all, only after the new practices had proved themselves and gained some degree of support. This was advantageous in that official policies and regulations could be made on the basis of some knowledge of real conditions, and in that it enabled reformers to push changes through without first completing the long process of establishing their ideological credentials. But it also created administrative problems. To begin with, it left local authorities with wide discretionary powers. One of the aims of decentralisation was to encourage local initiative by decreasing central interference, but under such conditions local authorities could choose

either to promote reform, or to stifle it. Even when they chose to promote it, they manipulated it in ways which did not always accord with central policies. Furthermore, such a reform process made it difficult to keep track of changes in the structure of economic organisation and regulate them efficiently: administrators were placed in the difficult position of trying to fit a wide range of situations into a limited and outdated range of categories. Finally, reliance on the discretion of those in authority made private entrepreneurs extremely dependent on personal connections. Coupled with the hybrid market-plan economy created by the reforms, this made the private sector a fertile breeding-ground for corruption.

On another level, this pattern of reform also created a wide gap between ideology and practice, putting the leadership in an ultimately untenable position. As a result the 1980s were marked by major debates concerning issues such as the optimal combination of plan and market, how to stimulate initiative without losing control of the economy, inequality and exploitation under socialism, and the nature and proper distribution of ownership. The rapid growth of the private business sector was closely related to all of these issues, not least because it presented a fundamental challenge to orthodox CCP ideology. The more radical protagonists in the debate claimed that it was precisely those reforms in the state sector which came closest to privatisation, such as leasing and contracting, which had shown the best economic results. Yet China was still led by a communist party, which saw public ownership of the means of production and government direction of the economy as key determinants of socialism.

As a Chinese scholar remarked as early as 1980, a train running along two such divergent paths was bound to be derailed sooner or later.¹² The conservative revival marked by the repression of the protest movement in June 1989 appeared at first to be just such a derailing of the reforms. In particular it brought a halt to the ownership debate and a new determination to limit the private sector. Yet almost as soon as the attack on private business was launched, concern at unemployment and the depressed market caused central leaders to reconsider. This sequence of events showed the complex interplay of factors, some dating from before 1978, others arising from the reform era, which worked to re-establish the private sector as a significant part of the Chinese economy.

This study is a history of this reemergence of private enterprise in China, and seeks to explain it in terms of the economic and political processes set in train by the reforms of the 1980s. The next four chapters are a roughly chronological account of the revival of private business, while the last three relate this revival to some of the major issues in China's reforms. It is based primarily on the Chinese popular and academic press, supplemented by interviews undertaken on a 10-week visit to China in 1988 and a visit on other business in January 1991. These interviews helped illuminate and clarify a number of issues raised by the reading. I visited Beijing, the Sichuan cities of Chengdu and Zigong and county of Mingshan, and Guangzhou. Interviewees included scholars, officials from relevant departments, and some 50 private entrepreneurs. Some were introduced by the Chinese Academy of Social Sciences, others privately by friends in Chengdu.

¹² Li Honglin, former president of the Fujian Academy of Social Sciences, quoted in *Shanghai shijie bao*, 11 April 1988. See *SWB*, 30 April 1988, FE/0139 B2/2-3.

This thesis will argue that the private sector in China has, because of the unusual opportunities arising from the reform process, become so entrenched that it is difficult and costly to repress. Yet at the same time the means by which it attained such a position are such that it remains vulnerable and politically suspect. Above all, its development remains in direct contradiction to the basic ideology of the Communist Party and its concept of socialism. In fact the private sector, being independent of government agencies, entrepreneurial, market-led, competitive, unstable, and inegalitarian, epitomises everything conservatives most distrust about the reforms as a whole; and yet they admit it is useful. It is also relatively easily influenced by local-level officials and staff in publicly-owned enterprises which act as its suppliers. Their actions not only make it more difficult to exert central control, but also influence the way private business evolves. A study of the private sector, therefore, provides a way of looking at the process of reform, and how this process has affected the outcome, not only for private business, but for the course of development in China.

CHAPTER TWO: SOCIALISM AND PRIVATE ENTERPRISE 1949 - 1978

The death of Mao Zedong in 1976 was followed by a reassessment of China's development policies and a series of leadership changes culminating in the ascendancy of the reformists under Deng Xiaoping. The reformist leaders were dissatisfied not only with the politics of the Cultural Revolution era, but with the underlying economic system China had built up since 1949. Despite Mao's attempts to modify it, it remained basically a Soviet-style centrally-planned economy. It was predicated on the concept of socialism as the replacement of the anarchy of private ownership and free trade by the unified direction of public ownership to achieve social and political goals. However, like other command economies, the Chinese economy was not achieving these goals as well as might be hoped, and was exhibiting the bureaucratism, distribution problems and inefficiency to which such systems are prone. Mao, in the Great Leap Forward and the Cultural Revolution, had sought a way to escape the rigidities of the Soviet model without recourse to capitalist-style free markets. The more conservative alternatives, supported by leaders such as Liu Shaoqi, Bo Yibo, Chen Yun and Deng Xiaoping, had been seen most clearly in the early 1960s, when the resurrected planning system was supplemented by a limited amount of private enterprise and free market activity. The post-Mao reforms were also couched in these terms, but tended towards a much greater degree of decentralisation and reliance on market forces. This meant that concepts formerly accepted as intrinsic to socialism, such as state planning and control, the superiority of large units over small, public ownership, and the role of all of these in eradicating exploitation and inequality, were brought into sharp focus. These are perennial, fundamental issues, which have constantly informed the CCP's approach to socialist development. This chapter will examine how these

issues influenced the CCP's previous policies towards the private sector, in order to provide a background to the discussion of the growth of private business after 1978.

Establishing state control

In 1949 the CCP began to set up a new social order, based on the Marxist-Leninist tradition in which socialism was by definition opposed to free markets and private ownership. This tradition also included the notion of central planning; Lenin, for example, idealised socialist society as 'a single office and a single factory, with equality of labour and equality of pay',¹ in which the means of production were owned by the people through their representative, the state, and production and distribution were regulated by the state rather than the market. Of course, such a complete transformation could not be achieved overnight. Initially the CCP saw socialist transformation as a gradual process. Even the Communist Manifesto, based on conditions of advanced capitalism, had recommended nationalisation of key industries at first. China, being far less industrialised than even Russia had been, could expect a long period of economic development before full socialism could be realised. The CCP therefore promoted the concept of 'new democracy', first formulated by Mao Zedong in 1939. Instead of a bourgeois-democratic revolution, China would have a new democratic revolution culminating in a 'united front' of the national bourgeoisie, the petty bourgeoisie, the workers and the peasants, cooperating to achieve the common goal of stability and economic development.²

1V.I. Lenin, *The State and Revolution*, (1918) in *VI Lenin, Selected Works*, 3 volume edition, vol. 2, (Moscow, Progress Publishers, 1963), pp. 283-376, p. 361.

²See Mao Zedong, 'The Chinese revolution and the Chinese Communist Party' and 'On New Democracy', in *Selected Works of Mao Tse-tung*, vol. 2, (Beijing, Foreign Languages Press, 1964), pp. 305-334 and pp. 339-388.

The economic policies of New Democracy were policies of moderation and cooperation with private enterprise, reminiscent of the Soviet New Economic Policy of the 1920s.³ The CCP concentrated on nationalising major industries and large capitalist enterprises at first; indeed this was made easier by the fact that many major enterprises were already nationalised before the CCP came to power, or owned by a fairly small number of capitalists aligned with the Guomindang.⁴ Still other capitalist enterprises, without close links with the defeated Guomindang government, were in general not taken over outright but 'encouraged' - with increasing pressure in ensuing years - to become joint state-private enterprises under state direction. Initially, the CCP was anxious to promote economic recovery and realised the benefits of encouraging private industry, commerce and agriculture - and retaining the skills of private entrepreneurs - while the state apparatus was yet incapable of replacing their functions.⁵

This gradualist position was, however, subject to a number of tensions, stemming both from differing views among the leadership as to how China's development should proceed, and from the actual conditions which unfolded. Naturally, the CCP's eventual aim was to eradicate

³ For an outline of the NEP, see Alec Nove, *An Economic History of the USSR*, (Harmondsworth, Penguin, 1969), Chapter 5.

⁴ As early as 1949, 34.7 per cent of gross industrial output was produced by state industry. See Hsueh Mu-ch'iao (Xue Muqiao), 'The Two-Line Struggle in the Economic Field During the Transition Period', in four parts, *Peking Review*, nos. 49 -52, December 2, 9, 16 and 26, 1977.

⁵ The New Democracy position was not based solely on expediency, but also had a theoretical basis in a simplified Marxist-determinist view of development as an inevitable progression through the stages of feudalism, capitalism, socialism, and communism, the respective relations of production of which would not disappear until they became a constraint on the development of the forces of production. As will be discussed later, this view was very much revived in the 1980s as the justification for the continued existence and even promotion of the private sector.

private ownership of the means of production, and there were clearly strong pressures on China's leadership to achieve this sooner rather than later. This applied even to small-scale private enterprise. Although Mao supported the gradualist approach on several occasions, he argued in 1949 that

The scattered individual rural economy and handicraft economy, which makes up 90 per cent of the national economy, can and must be cautiously and gradually as well as actively guided towards modernisation and collectivisation; the idea that it should be left alone is wrong.⁶

Furthermore, conditions after 1949 were conducive to increasing government control. The need to stabilise the economy and control the runaway inflation inherited from the Guomindang demanded government intervention. The government banned the circulation of gold, silver, and foreign currencies, and reduced the amount of cash in circulation by issuing government bonds and by requiring all government organs and enterprises to deposit large cash holdings in the People's Bank of China. State trading companies aggressively pursued market dominance in basic food supplies and raw materials, and kept prices low by releasing reserves of these goods at strategic moments.⁷ The CCP's rapid moves towards state control of finance and state dominance of wholesale trade had a huge impact on private enterprise, forcing much of the private banking and commercial sector to close down.⁸ In commercial Shanghai in 1950, unemployment rose by 50,000 in March-April alone.⁹

⁶Mao Zedong, Report to the 2nd Plenum of the 7th Central Committee, 5 March 1949, in Guojia gongshang xingzheng guanli ju geti si, eds., *Geti gongshangye zhengce fagui huibian* [Collected laws and regulations on policy towards individual industry and commerce], vol. 1, (1948-1956), (Beijing, Jingji kexue chubanshe, 1987), pp. 2-6, p. 5.

⁷Xue Muqiao (1977), part 1, pp. 6-7.

⁸Carl Riskin, *China's Political Economy - The Quest for Development Since 1949*, (Oxford University Press, 1987), p. 45.

⁹Liu Suinian and Wu Qungan, eds., *China's Socialist Economy - An Outline History 1949-1984*, (Beijing, Beijing Review Press, 1986), pp. 39-40. It is not clear whether this figure is

Price control was not, of course, the sole aim of these measures. The key to creating a socialist society was state control over production and distribution so that they could be made to serve social goals rather than the mindless dictates of the market. To Lenin, for example, socialism was 'inconceivable without planned state organisation which subjects tens of millions of people to the strictest observance of a single standard in production and distribution.'¹⁰ Implicit in this concept was a prejudice against small-scale economic units: such a centralised economy obviously would not lend itself to small-scale production and distribution, and it was expected, following Marx, that further economic development would inevitably tend towards larger units; hence the association of large-scale organisation with a more advanced, more socialist level of human development. In this respect ownership, too, was both a political and an administrative issue, since different types of ownership were linked to different degrees of government control. 'We must destroy capitalist ownership, and change it into socialist ownership by the whole people. We must destroy individual ownership, and change it into socialist collective ownership.'¹¹ This statement of Mao Zedong's shows the hierarchy of ownership levels - state, collective, individual - which consistently informed CCP attitudes and policies towards private business, and in time came to influence social attitudes in general.

the number of jobs lost or the number of people looking for jobs, e.g., people moving to Shanghai from rural areas.

¹⁰Lenin, 'The Tax in Kind', *VI Lenin, Selected Works*, 2 volume edition, (London, Lawrence & Wishart, 1947), pp. 701-728, p. 705.

¹¹Mao Zedong, 'Jianding de xiangxin qunzhong de da duo shu' [Resolutely trust the great majority of the masses] quoted in *Zhongguo shehui kexueyuan jingji yanjiu suo*, eds., *Zhongguo zibenzhuyi shangye de shehuizhuyi gaizao* [The socialist transformation of China's capitalist economy], (Beijing, Renmin chubanshe, 1978), p. 1.

The tension between gradualist policies and the pressures for greater government control could be seen at work in CCP policy towards the private sector. Throughout the early 1950s it vacillated between extermination and conditional support, but inexorably tended towards the former. The negative impact of the state's price control measures on private industry and commerce was at first deplored: in 1950, for example, the CCP was far from ready to squeeze out private business, and a report to the Central Committee from the North China Administrative Bureau expressed concern that over-zealous state competition was causing a decline in private businesses.¹² Mao, at the Third Plenum of the Seventh Central Committee in June 1950, emphasised that the remaining private sector was necessary and should be encouraged.¹³ By 1952, however, the Korean War and the embargo placed on China by the West made the CCP anxious to place the economy on what added up to a war footing, with state control used to direct resources to strategic ends.

As a result, the CCP was beginning to approve of state organisations applying the kind of pressure against private business which had been criticised in the North China report mentioned above, including cornering the market for certain goods, paying low rates for commission sales by private traders, using their greater market share to keep prices too

¹²Huabei ju guanyu tiaozheng gongshangye he gaishan gongsi guanxi de zhengce wenti xiang Mao zhuxi bing zhongyang de baogao' [North China Bureau report to Chairman Mao and the Central Committee on policy questions concerning readjusting industry and commerce and improving public-private relations], 31 May 1950, in Guojia gongshang xingzheng guanli ju geti si, (1987a), pp. 10-16. Although private speculators were attacked and blamed for inflation, the government wished to retain a healthy private industrial and commercial sector to maintain supplies of goods and provide employment. Too precipitous a decline could only exacerbate the problems of inflation and unemployment. See Liu and Wu, (1986), p. 40, and Kenneth Lieberthal, 'Mao versus Liu? Policy Towards Industry and Commerce, 1946-49', CQ, no. 47 (July-Sept. 1971), pp. 494-520; p. 511.

¹³Liu and Wu, (1986), p. 40.

low, and discriminating against private businesses applying for loans.¹⁴ State trading companies used their superior size to make it difficult for private businesses to make a profit or obtain supplies, while at the same time private businesses were offered contracts to produce to order or sell on commission for state units. In this way many private businesses were persuaded to attach themselves to the state-run economy rather than try to compete with it on unequal terms.¹⁵

At the same time, overt pressure was applied to private entrepreneurs through the *sanfan* (three anti) and *wufan* (five anti) campaigns. *Sanfan* was directed at bureaucratic corruption, but given the close links between government and private enterprise formed both before and after 1949, and the distribution of more and more supplies through bureaucratic channels, the movement also directly affected private business.¹⁶ *Wufan* was aimed directly at the capitalists, who were accused, using techniques of mass accusation and struggle sessions developed in attacks on landlords, of the 'five evils' of bribery, tax evasion, fraud, theft of government property, and theft of state secrets.¹⁷ Some of the accused were imprisoned, but most were fined; this not only increased state revenue but also further weakened the private sector and made it easier to subordinate

¹⁴Not all Chinese leaders agreed with the campaign against the private sector; Liu Shaoqi and Bo Yibo, in particular, appear to have advocated continued private sector growth. During the Cultural Revolution their position was described as a 'counter-revolutionary revisionist line'. See Xue Muqiao, (1977).

¹⁵Dorothy Solinger, *Chinese Business Under Socialism*, (Berkeley, University of California Press, 1984), p. 52; Xu Dixin, 'Transformation of China's Economy', in Xu Dixin at al, *China's Search for Economic Growth* (Beijing, New World Press, 1982), p. 7. For an interesting personal account of this period, see Tang Diyin, *The Pen and I: Autobiography of a Shanghai Businesswoman*, (Beijing, New World Press, 1985).

¹⁶Riskin, (1987), p. 46.

¹⁷*Ibid.*; Barry M. Richman, *Industrial Society in Communist China*, (New York and Toronto, Random House, 1969), p. 896.

to the state-run or state-influenced economy.¹⁸ Table 2.1 shows the impact of these measures on industry and trade.

Table 2.1: Socialist Transformation of Industry and Trade, 1949-1952

| Year | 1949 | 1950 | 1952 |
|---|------|------|------|
| <i>Industry: % of GVIO produced by:</i> | | | |
| State-owned enterprises | 34.7 | 45.3 | 56.0 |
| Joint state-private enterprises and private enterprises receiving orders from the state for processing and manufacturing goods or selling their products to the state | 9.5 | 17.8 | 26.9 |
| Private enterprises producing and selling their own products | 55.8 | 36.9 | 17.1 |
| <i>Trade: Proportion of sales by state-owned stores and supply and marketing co-operatives in</i> | | | |
| Wholesale trade | -- | 23.9 | 63.7 |
| Retail trade | -- | 14.9 | 42.6 |

Source: Riskin, (1987), p. 47, based on Xue Muqiao (1977), part 2, p. 15.

The centrally-planned economy

By 1953, the immediate task of restoring economic order had been accomplished, and in such a way that a large part of the economy was already state-controlled. The CCP now began to work towards further socialisation. With the First Five-year Plan, officially commencing in 1953, China's leaders committed themselves to Soviet-style central planning, the logic of which inevitably tended towards further amalgamation and the subordination of individual enterprises to state direction. In the collectivisation campaign of 1955-56, small private businesses and individual craftspeople and traders, many of whom were already closely linked to the state system through the kind of production

¹⁸See John Gardner, 'The "Wu-fan" Campaign in Shanghai: A Study in the Consolidation of Urban Control', in A. Doak Barnett, ed., *Chinese Communist Politics in Action*, (Seattle and London, University of Washington Press, 1969), pp. 477-539.

and sales arrangements instituted in 1950-52, were formally organised into co-operatives and collectives. By the end of 1956 over 90 per cent of individual handicrafts were absorbed in this way.¹⁹ One result of this, which was to have a lasting impact on consumers, was that many small workshops and outlets were amalgamated.²⁰ The amalgamation of many of these businesses was partly because of the perception that this represented a step along the path of economic and social evolution, and partly because it was easier to direct the activities of a smaller number of larger units. There is some evidence, however, that detailed direction was beyond the capabilities of the administration at the time, and in many cases the private shops united into co-operatives or collectives continued to operate as separate entities.²¹

By the mid-1950s, China had basically set up the state-controlled economic system it aimed for (See Table 2.2). Industrial production was very much patterned on the Soviet example, which was not surprising since much of China's heavy industry was developed with Soviet help. Although free markets continued to operate for goods produced by peasants on their private plots and for goods and services (mainly repairs) provided by the limited number of individual businesspeople remaining, the bulk of distribution was handled by state organs or the supply and marketing co-operatives which were also effectively state-controlled.²² The CCP's aim was eventually to replace market distribution entirely, regulating the

¹⁹He Jianzhang, 'Jiji fuchi, shidang fazhan chengzhen geti jingji' [Actively support and appropriately develop the urban individual economy], *Hong qi* [Red Flag], no. 24, 1981, pp. 13-16; p. 13.

²⁰Audrey Donnithorne, *China's Economic System*, (London, George Allen and Unwin, 1967), p. 224.

²¹Lynn T White III, 'Low Power: Small Enterprises in Shanghai, 1949-67', *CQ*, no. 73, (March, 1978), pp. 45-76; p. 57; Wenzhou shi lianhe diaocha zu, 'Wenzhou shi qu geti gongshangyehu qingkuang diaocha' [A survey of conditions in individual businesses in the Wenzhou municipal area], *Zhejiang xuekan* [Zhejiang Studies], no. 1, 1980, pp. 41-43.

²²Xue Muqiao (1977), part 2, p. 13.

economy with a state planning system which balanced input and output targets and directed enterprises to produce according to them. No sooner had the system been installed, however, than Chinese leaders became concerned at its shortcomings, particularly those resulting from over-centralisation and bureaucratic management.

Table 2.2: Percentage of National Income by Form of Ownership

| Year | 1952 | 1953 | 1954 | 1955 | 1956 | 1957 |
|--|------|------|------|------|------|------|
| State-run | 19.1 | 23.9 | 26.8 | 28.0 | 32.2 | 33.2 |
| Co-operative | 1.5 | 2.5 | 4.8 | 14.1 | 53.4 | 56.4 |
| Joint State-Private | 0.7 | 0.9 | 2.1 | 2.8 | 7.3 | 7.6 |
| Capitalist | 6.9 | 7.9 | 5.3 | 3.5 | --- | --- |
| Individual (petty commerce & handicrafts) | 71.8 | 64.8 | 61.0 | 51.6 | 7.1 | 2.8 |

Source: State Statistical Bureau, *Ten Great Years*, (Beijing, Foreign Languages Press, 1960), p. 42.

Disenchantment with the command economy

In the centrally-planned, state-directed economy, enterprises acted as branches of the state bureaucracy. This was useful for a government committed to directing the economy towards achieving predetermined social and economic goals, but was also proving to have serious disadvantages. Many of these were connected with the bureaucratic nature of economic management at all levels. At upper levels, the centralisation of economic power made planning very complicated and difficult to perform quickly or well, given the size of the task and the inadequate communications and information technology at the planners' disposal. Lenin, in 1917, had confidently predicted that this would be easy because capitalist developments such as large-scale production and modern communications had reduced macroeconomic management to

'extraordinarily simple operations - which any literate person can perform',²³ but in practice the detailed direction of a large economy proved to be too complicated: the planning process was slow and demanding and plans frequently contained imbalances. In China the task was made even more difficult by the sheer size and variety of the country and the underdeveloped state of its economy and communications.²⁴ The resulting irrationalities in state plans meant that localities and enterprises were in fact forced to rely on unofficial channels to obtain the supplies necessary to fulfil their plan targets. Indeed, some scholars have argued that the informal economy of the black market and deals between enterprises is a vital lubricant in any command economy, since it is the only way in which discrepancies in the planning system can be remedied.²⁵ Equally applicable to China is Joseph Berliner's work on the role of personal relationships and unofficial deals between enterprises in overcoming the failings of the central planning system in the Soviet Union.²⁶

At lower levels, the bureaucratisation of economic management led to a lack of incentives for improving efficiency or for change and development. 'We used to think that once the socialist public ownership system was established, the labour enthusiasm of the millions of masses would erupt like a volcano,' remarked a newspaper years later, 'but this

²³Lenin, *The State and Revolution*, (see note 1 above), p. 361.

²⁴The major Chinese criticisms of the Soviet model were summed up at the CCP's Eighth National Congress in September 1956. See *Eighth National Congress of the Communist Party of China*, Vol. II: *Speeches*, (Beijing, Foreign Languages Press, 1956), especially the speeches by Chen Yun and Li Fuchun.

²⁵Jean-Charles Asselain, *Planning and Profit in Socialist Economies*, (London, Routledge and Kegan Paul, 1981), p. 42; Alec Nove, *The Economics of Feasible Socialism*, (London, George Allen and Unwin, 1983), p. 78; Dennis O'Hearn, 'The Consumer Second Economy: Size and Effects', *Soviet Studies*, vol. 32, no. 2, (April 1980), pp. 218-234.

²⁶Joseph Berliner, *Factory and Manager in the USSR*, (Cambridge, Mass, Harvard University Press, 1957).

miracle has not occurred.²⁷ There were few direct benefits for enterprises or their staff for good performance, as the bulk of enterprise profits were handed to the state, which then allocated funds as it saw fit. At the same time sanctions for poor performance were lacking as a result of what János Kornai has called the 'soft budget constraint'.²⁸ State-owned enterprises had no incentive to cut costs or make their products more saleable for, as Kornai put it in a recent article on Hungary, 'they are creations of the state, and the state cannot let them down.'²⁹ Rather than allow enterprises to close or lay off workers, the state would subsidise their continued operation. General staff were secure in the knowledge that the state would support them regardless of their performance; they could 'eat from the one big pot'.

In fact, the planning mechanism was such that its performance incentives often actually militated against technical development or product changes. Enterprise managers were concerned, above all, with meeting the targets handed down to them from above. Any innovation in response to local opportunities was rendered difficult by the necessity of obtaining approval and funds from upper levels of the bureaucracy. Innovation might also take longer to produce results than the end of the current annual plan and affect an enterprise's ability to meet targets. The most important targets were generally in terms of gross output; as a result enterprises would emphasise quantity at the expense of quality and efficient use of resources. Other than plan targets there was no mechanism for measuring an enterprise's success: the complexities of planning left little room for

²⁷JJRB, 5 December 1987, p. 2.

²⁸See János Kornai, *Economics of Shortage*, (Amsterdam, North-Holland, 1980).

²⁹Kornai, 'The Hungarian Reform Process: Visions, Hopes, and Reality', in Victor Nee and David Stark, eds., *Remaking the Economic Institutions of Socialism*, (Stanford University Press, 1989), pp. 32-94; p. 45.

variety. Given limited choice consumers, whether they were enterprises or individuals, were not able to communicate their preferences to any great extent.³⁰

An entrenched feature of Soviet-style economies, including China's, has been the emphasis on investment in heavy industry, seen as the quickest way of modernising the economy and the most easily directed by the government.³¹ In China, this emphasis had been taken for granted as a result of the Soviet example and Soviet aid in the form of entire industrial plants and technology.³² By the mid-1950s, however, the Chinese could see that the relative neglect of light industry and agriculture was a barrier to further development. The growing industrial workforce had to be fed and clothed, and industrial investment would have to be funded by agriculture, but heavy industry as developed in the Soviet model tended to 'render service first to itself',³³ producing more heavy industry inputs rather than inputs for developing agriculture and light industry.³⁴ In his April, 1956 speech on 'The Ten Great Relationships', which opened his critique of the Soviet model, Mao also rejected the notion that direct development of heavy industry was the best route to modernisation, arguing that promotion of light industry would, because of its quicker returns, in fact provide the capital for further development of heavy industry.³⁵ From that time onwards, the CCP frequently discussed the need to pay more attention to agriculture and light industry, but the heavy

³⁰Nove, (1983), pp. 73-79; Włodzimierz Brus, *The Market in a Socialist Economy*, (London, Routledge and Kegan Paul, 1972), (Polish edition 1964), pp. 87-88.

³¹For discussion of the bias towards heavy industry, see Riskin, (1987), pp. 55-59; Yang Jianbai and Li Xuezheng, 'The Relations Between Agriculture, Light Industry and Heavy Industry in China', *Social Sciences in China*, vol. 1, no. 2, (June 1980), pp. 182-212.

³²Riskin, (1987), pp. 59-60.

³³Yang and Li, (1980), p. 202.

³⁴Riskin, (1987), p. 271; Donnithorne, (1967), pp. 15-16.

³⁵Mao Zedong, 'On the Ten Great Relationships', in Stuart R. Schram, ed., *Mao Tse-tung Unrehearsed*, (Harmondsworth, Penguin, 1974), pp. 61-83.

industry bias was institutionalised and hard to overcome.³⁶ In fact by the late 1970s many Chinese observers argued that despite the Great Leap Forward and the Cultural Revolution, little had changed in this respect.³⁷

Another outstanding feature of centrally-planned economies, related to both the degree of bureaucratic control and to investment priorities, has been the failure to satisfy demand for everyday consumer goods or to provide a sufficient rise in living standards. Of particular importance to consumers was the decline in small private businesses. Without improved communications, storage and transport facilities there was no improvement in efficiency to be gained from centralisation of the many atomised, varied services provided by these businesses. In fact the reverse was true. Chen Yun, then Minister of Commerce, criticised the First Five-Year Plan's neglect of consumer goods production and distribution, noting at the Eighth National Party Congress in September 1956 that the result of the collectivisation drive was inconvenience to consumers and a decline in variety.³⁸ The services formerly provided by private businesses were not adequately replaced by collectives both because their larger administrative units were less suited to variety and localised outlets, and because they were then subject to state-directed priorities for investment and further development, which as mentioned above were biased towards producer goods industries.

³⁶Riskin, (1987), p. 272.

³⁷For example Yang and Li, (1980); Liang Wensen, 'Balanced Development of Industry and Agriculture', in Xu Dixin and Others, (1982), pp. 52-78.

³⁸Chen Yun, 'New Issues Since the Basic Completion of the Socialist Transformation', translated in Nicholas Lardy and Kenneth Lieberthal, eds., *Chen Yun's Strategy for China's Economic Development*, (Armonk, New York, M.E. Sharpe, 1983), pp. 11-15.

The Maoist alternative to Stalinism

By 1956 there was considerable dissatisfaction in China with the central planning system, and there began the long debate, which still continues today, about how to change it. This has been a complex debate with several contending 'lines' which have themselves shifted position in the light of experience and political developments. Its central themes, however, have been fairly constant, concerning investment priorities, the role and mechanisms of central planning, whether its faults should be cured by improving the planning structure or by augmenting it with market forces, and the role of ideology. Parallel to the debate on planning, and intimately linked with it, was the question of ownership and the proper degree and pace of socialisation. The lack of agreement on these matters was reflected in the many fluctuations in policy in the ensuing years, during which a number of approaches to improving China's economic system were put forward. The most radical and comprehensive of these was that developed by Mao Zedong, which he attempted to implement in the Great Leap Forward and the Cultural Revolution.

Mao's main objections to the Soviet-style system centred on the top-down command hierarchy and its tendency to create a bureaucratic-managerial elite which devalued the contribution of ordinary workers and peasants and, as he came to believe in the 1960s, gave rise to the regeneration of the bourgeoisie. To Mao, the Soviet system placed too pedestrian an emphasis on the methodical development of the productive forces before further transformation of society could be achieved, and used organisational methods which in fact created new barriers to socialism. Mao believed that the human initiative of ordinary people, released by collective organisation under correct ideological leadership, could produce far greater and faster results: a revolution in the relations of production

could in fact bring about a revolution in the productive forces.³⁹ Furthermore, the direct participation of the masses in this economic revolution involved an accompanying social revolution in the direction of greater equality and spiritual emancipation.⁴⁰ 'There are two lines for building socialism: is it better to go about it coldly and deliberately, or boldly and joyfully?', he asked in 1958.⁴¹

Mao sought to attack bureaucratism by a combination of decentralising administrative power so that people at the grass-roots would have a direct say in decisions, and using ideological campaigns to maintain a correct revolutionary outlook. Franz Schurmann has argued that there are two basic choices for decentralisation.⁴² One strategy, Schurmann's 'Decentralisation I', is to hand economic power to the production units themselves, which if it is to be genuine requires that central planning give way to market forces to some extent so that enterprises may act as free agents. To Mao, reviving the market would have been a step backwards, leading to the recovery and regeneration of the bourgeoisie. Mao therefore chose to decentralise to local levels of administration. At the height of the commune movement this was described in terms of Decentralisation I, handing power to the people themselves, but the size of the communes, plus the powerful role of the CCP and central ideological direction, meant that in fact it added up to what Schurmann has called Decentralisation II: decentralisation *within* the administrative system to

³⁹See the discussion in Jack Gray, 'The Two Roads: Alternative Strategies of Social Change and Economic Growth in China', in Stuart R. Schram, ed., *Authority, Participation, and Cultural Change in China*, (Cambridge University Press, 1973), pp. 113-117.

⁴⁰See John Gurley, *China's Economy and the Maoist Strategy*, (New York, Monthly Review Press, 1976).

⁴¹Talk at the Chengdu Conference, 20 March 1958, in Stuart Schram, ed., *Mao Tse-tung Unrehearsed*, (Harmondsworth, Penguin, 1974), p. 105.

⁴²Franz Schurmann, *Ideology and Organization in Communist China*, (enlarged edition, Berkeley, University of California Press, 1968).

local levels. Local authorities could be expected to be more closely in tune with local needs and conditions, thus less prone to the bureaucratism of the centralised planning hierarchy. Local units would be small enough to show a clear relation between effort and reward, and yet large enough to provide social welfare and avoid the competitive individualism of the market system. Collective organisation was also a vital channel for Party control and the ideological exhortation necessary to mobilise the people to greater productivity and provide overall direction to productive effort.

For private businesses, the Great Leap Forward was felt as a renewed push for the collectivisation which Mao saw as an essential base for the higher form of social organisation which would overcome China's backward economic conditions. There was no room in advanced social relations for private enterprise. Nearly all of the remaining private operators were absorbed into state and collective units or formed into new co-operatives, although as mentioned above, in some cases this was in name only and they continued to do business independently.⁴³ The number of urban craftspeople and pedlars officially operating independently, for example, fell from 1,040,000 in 1957 to 330,000 by late 1959.⁴⁴ In rural areas, individual operators were incorporated into the communes. Remaining individual business households, usually in isolated areas, made up less than one percent of all rural households. Although small-scale production was encouraged under the Great Leap Forward it was organised on a large scale, by communes or street committees.⁴⁵ Remaining private capitalists and handicraft businesses were discriminated against economically, and co-operative handicraft and

⁴³Wenzhou shi lianhe diaocha zu, (1980).

⁴⁴Liu Long, ed., *Zhongguo xian jieduan geti jingji yanjiu* [A study of the individual economy in China's current stage], (Beijing, Renmin chubanshe, 1986), pp. 16-17.

⁴⁵Donnithorne, (1967), p. 224.

commercial enterprises were often made to change their production to fit in with the renewed emphasis on producer goods and the famous 'backyard furnaces'.⁴⁶ In spite of Mao's concern about the imbalanced development arising from the Soviet model, Maoist policies tended to put an even greater emphasis on increasing output of industrial and agricultural goods, and consumer industries and circulation were neglected.⁴⁷

The Great Leap Forward ended in an economic crisis which forced Maoism into temporary retreat. The pressing need for economic recovery brought about a renewal of central planning and control of industry so that resources could be effectively redirected, and a revival of the individual economy and free markets for some agricultural produce and handicrafts to improve supplies of consumer goods and services. The policies effected at this time were very much along the lines proposed by Chen Yun in 1956. Chen, while supporting central planning and direct administrative control of major industries, saw free markets in consumer goods as a necessary supplement (to borrow a phrase from the 1980s debate) to the planned economy.⁴⁸ The revival of the private sector in the early 1960s was not, however, a major policy shift towards supporting private business, but simply a matter of seeking any port in a storm.⁴⁹ In fact the recovery mostly consisted of businesses which had been merged

⁴⁶Donnithorne, (1967), p. 235; Riskin, (1987), p. 140; Dong Fureng, 'The Relationship Between Accumulation and Consumption', in Xu Dixin and Others, (1982), pp. 79-101, esp. p. 90ff. Agriculture was given more emphasis in the Great Leap, but the drive to develop local industry and agricultural infrastructure led to a shortage of labour for everyday agricultural tasks. See Riskin, (1987), p. 271.

⁴⁷Yang and Li, (1980), p. 189; Riskin, (1987), pp. 141-142.

⁴⁸For a discussion of Chen Yun's approach to economic development, see the Introduction to Lardy and Lieberthal, (1983).

⁴⁹Falling back on the private sector when the plan goes wrong was a common recourse among Eastern European countries also. See Anders Åslund, *Private Enterprise in Eastern Europe*, (London and Basingstoke, Macmillan, 1985).

into state and collective enterprises during the Leap being allowed to operate privately again. They were still closely controlled by local authorities and by organisational links with state and collective units.⁵⁰ The number of registered individual businesses rose from 1 million in 1961 to 1.32 million in 1962 and 2.31 million in 1963.⁵¹

The unusual economic situation of the early 1960s encouraged a relatively open atmosphere in the realm of economic theory, and economists debated alternative methods of economic organisation, including combinations of central planning and market mechanisms. At the centre of the debate was the issue of the operation of the law of value under socialism, first raised by Sun Yefang in 1956-8. Sun advocated a Langean model in which profit would be the main criterion of enterprise success, and prices would reflect supply and demand.⁵² As Lange's critics have noted, such a model only seeks to establish prices that would reward efficient production of wanted goods, but it fails to solve the problems of the soft budget constraint and the interventionist bureaucracy.⁵³ Underlying these problems is the issue of ownership, for if the state were to own enterprises, but refrain from intervening either to save them from bankruptcy or to direct their activities to accord with subjective political and social goals, why bother having state ownership at all? Conversely, attempts to introduce profit criteria or market competition are ineffective if direct bureaucratic intervention is not drastically reduced. The

⁵⁰Linda Hershkovitz, 'The Fruits of Ambivalence: China's Urban Individual Economy', *Pacific Affairs*, vol. 58, no. 3, pp. 427-450, p. 432; Chen Yun, 'A Letter to Comrades in the Central Finance and Economics Small Group', (April, 1959) in Lardy and Lieberthal, (1983), pp. 112-116.

⁵¹Liu Long, ed., (1986), pp. 16 -18.

⁵²For a discussion of the economic debates of the early 1960s and their part in the development of economic theory and policy in China, see Cyril Chiren Lin, (Cyril Zhiren Lin), 'The Reinstatement of Economics in China Today', *CQ*, no. 85, (March 1981) pp. 1-48.

⁵³See for example Kornai, (1989).

ownership implications of marketisation were apparently clear to Mao. Although he had been forced into retreat by the failure of his economic policies, he continued to campaign against both the inegalitarian bureaucracy of central planning, and the capitalist-tainted individualism of market solutions. Measures taken to improve the functioning of the system during the early 1960s, such as increasing the emphasis on managerial and technical expertise rather than ideology, increased reliance on material incentives, and the entrenchment of a stratified command system, were increasingly alarming to Mao.⁵⁴

Mao's concern at the way China was developing culminated in the launching of the Cultural Revolution in 1966. Like the Great Leap Forward, the Cultural Revolution attempted to attack the bureaucratic elite developing under the Soviet-style system, again through decentralisation and ideological mobilisation. This time, however, the ideology and politicisation were much more intense, as Mao was no longer content to work within the system, and mobilised the students to attack bastions of privilege in the Party itself. The basic ideological concerns behind the movement also became the weapons in a prolonged and bitter power struggle at the top levels of Party leadership. In this atmosphere, private enterprise virtually disappeared, associated as it was with bourgeois ideology, exploitation and capitalism. Employment of one individual by another was out of the question, and even individuals could only persist in business if they were of impeccable class background or had special circumstances such as a disability.⁵⁵ By 1978 there were only 150,000 registered individual businesses in the whole of China. Private

⁵⁴Hong Yung Lee, 'Mao's Strategy for Revolutionary Change: A Case Study of the Cultural Revolution', *CQ*, no. 77, (March 1977), pp. 50-73.

⁵⁵Marcia Yudkin, *Making Good - Private Business in Socialist China*, (Beijing, Foreign Languages Press, 1986).

businesspeople were persecuted and vilified as remnants of capitalism. In fact, many did not entirely give up their business activities, as the lack of any alternative source of income forced them to carry on in secret. In Shanghai, for example, authorities estimate that there were about 20,000 unlicensed individual operators, and another 20,000 peasants coming into the city to sell produce every day.⁵⁶ An old pen repairer in Beijing recalled:

Once the 'Cultural Revolution' came along, people like me became 'capitalist tails' and had to go to study classes every day and criticise ourselves . . . wrong or not, the family had to go on living. I couldn't find casual work, so I had no choice but to go on secretly repairing pens. Later, talking with the study class, I found out everybody was doing the same thing - criticising 'capitalism' in the morning and doing 'capitalism' in the afternoon.⁵⁷

Thus underground private business activity and unofficial free markets were able to continue in a very limited way because there was a demand for their services which was not adequately catered for by the state and collective sectors. As Anders Åslund has argued in his study of the private sector in Poland and East Germany, this inadequacy in the publicly-owned sector means that socialist governments are actually faced, not with the choice of whether or not to have a private sector, but whether it will be legal or illegal.⁵⁸

The Cultural Revolution was Mao's last attempt to sustain the revolutionary spirit and prevent the revolution from solidifying into a bureaucratic system from which no new socialist society could be expected to emerge. Yet the need to restore order after the initial Red Guard

⁵⁶Guowuyuan bangongting diaoyan shi, eds., *Geti jingji diaocha yu yanjiu* [Surveys and research on the individual economy], (Beijing, Jingji kexue chubanshe, 1986), p. 19.

⁵⁷JJR, 10 January 1988, p. 3.

⁵⁸Åslund, (1985), pp. 217-218.

campaigns meant that the Cultural Revolution years in fact did little to replace autocratic command with new social forms, while the degradation of technicians, intellectuals and managers hampered the efficiency of the economy. As in the Great Leap Forward, the politicisation of economic decision-making in fact encouraged the irrationality, imbalances and bureaucratism it was supposed to work against. The ideological emphasis on egalitarianism and working for the good of socialism rather than for material gain was not able to arouse sustainable enthusiasm among the majority of people, and the neglect of consumer industries again caused inconvenience.

By the end of the Cultural Revolution, then, China had tried variations on two basic approaches to socialist development. While they differed on the optimum forms of organisation and the role of ideology in society, they basically agreed on private business: it had to go. Although China under the Stalinist system was willing to go slowly on the eradication of private enterprise, in contrast to the Maoists' virulent attacks upon it, in the final analysis private enterprise was antithetical to the goal of centrally-controlled state ownership. When the state-run system was clearly unable to cope, as in the aftermath of the Great Leap Forward, private businesses and free markets were encouraged to step into the breach, but only as an expedient measure to alleviate temporary difficulties. Although some Chinese economists looked with interest at Eastern European reforms, and did propose greater long-term use of markets in the early sixties, the ideology of the CCP under Mao made these proposals unacceptable. It was only after Mao died and Cultural Revolution ideology was discredited that a serious look at market-socialist alternatives became possible.

Back to the drawing board: the post-Mao reforms

The post-Mao reformers looked back over the past three decades, and rejected both the traditional Stalinist system and the Maoist approach. Their alternative was, in effect, to go back and rebuild the Chinese socio-economic system from a standpoint the CCP had abandoned in 1953: that of the United Front. They argued that China was not yet sufficiently developed to achieve full socialisation of the economy, and that the quickest way to achieve socialism was to use whatever methods were appropriate to developing advanced productive forces.

The first theoretical steps in justifying this utilitarian approach were made in a discussion of the role of Mao Zedong Thought which began in 1977 and reached a new level with the article 'Practice is the Sole Criterion for Testing Truth' published in May 1978.⁵⁹ This article declared that 'only social practice can test whether a theory correctly reflects objective reality and is true.' This attitude of 'seeking truth from facts' [*shishi qiushi*] became a key Dengist slogan and, although it was first used in the context of the application of theory, it is also another way of putting Deng's famous 1961 statement that it doesn't matter whether a cat is black or white, so long as it catches mice.⁶⁰

From one point of view the reforms were a return to a more orthodox, Marxist approach to socialist development than that of Mao: whereas Mao believed in a 'great leap' to advanced socialist society without going through slow developmental stages, the reformist leaders reverted to the notion that a certain level of economic development is a necessary

⁵⁹GMRB, 11 May 1978, p. 1.

⁶⁰Quoted in Gardner, *Chinese Politics and the Succession to Mao*, (London and Basingstoke, Macmillan, 1982), p. 64.

foundation for a fully socialist society. Thus the only way to develop socialism is by first concentrating on economic development, even if this involves making use of 'backward' or 'capitalist' tools such as material incentives, markets, individualism, commodities and so on. 'The state of development of the productive forces determines the nature of the relations of production and their magnitude while the changes in the relations of production are the outcome of the development of the productive forces - such is the very basic law of the development of human society'⁶¹ According to this doctrine, whatever serves the development of the productive forces, serves the development of socialism. In practice, of course, the evaluation and development of the reform program has not been so simple, as it is in many respects in direct conflict with long-held concepts of Chinese socialist and Marxist-Leninist tradition, and demands new approaches to questions of state control, economic organisation, and ownership.

The reformists believe that past experience indicates the inability of state planning to handle adequately the complex task of coordinating all production and all distribution. They have therefore advocated reliance on market mechanisms to help regulate the economy, coupled with indirect economic levers such as taxation and finance policy to provide macroeconomic direction. Their aim has not been to do without central planning altogether, but to combine market and plan in some optimal compromise between planned order and market dynamism. The question of what degree of marketisation is best is of course a contentious and subjective one, and difficult to settle.

⁶¹BR, no. 45, (November 10, 1980), p. 21.

The earlier attempts at increasing efficiency and incentives by decentralising economic power from the late 1950s onwards showed that, from the point of view of enterprises, it made little difference whether directives came from central, provincial or local levels. The reform program seeks to improve incentives by decentralising many decisions right down to enterprise level. But if the state is to give up direct power over economic management (and although state enterprises are far from reaching this point, this is the implication of reform policies) this demands a reassessment of the nature of state ownership and how it is to be manifested. Another aspect of this question is the rejection, in theory if not quite in practice, of the notion that bigger is better and of the ranking of state, collective and individual ownership in a hierarchy of socialist virtue. Reform policies have placed great emphasis on encouraging smaller collective and individual enterprises, both because they require less state expenditure and because large, state-run units are in many ways inappropriate to the level of resources available. The reformers' emphasis on market forces and the delegation of economic authority tends to diminish the role of state ownership and, by implication, question its superiority. As later chapters will show, this issue has become increasingly important as the reform program has progressed.

Reform policies, therefore, are conducive to the development of private enterprise not only because of their specific support of a limited private sector, but because of the changed attitudes towards the whole organisational structure of the Chinese economy. The initial promotion of private business was on a small scale, and aimed at alleviating specific and immediate problems, but given the basic aims and justifications of the reform program, became part of a significant move away from established concepts of socialism.

CHAPTER THREE: REVIVING PRIVATE INDUSTRY AND COMMERCE

The revival of the private business sector was an integral part of the reforms, yet it was important to reformists to present it as peripheral. As will be discussed below, the private sector was integral to the reforms because of its role in stimulating commodity exchange, in facilitating the rural-urban marketing which was a necessary adjunct to the rural responsibility system, in improving supplies of consumer goods and services, and in providing new employment opportunities in both the cities and the countryside. It was presented as peripheral because, of all the reform measures, it was one of the least acceptable politically. For almost thirty years after taking power, the CCP had worked to reduce the role of private enterprise in the Chinese economy, with the aim of eventually eradicating it. To turn around and promote it, therefore, was a major change which conflicted sharply with past ideology. Accordingly, the promotion of private business was first introduced discreetly and without fanfare, and gradually worked into the framework of official policy as reformists and reformist ideas gained strength in the Party leadership. The theoretical debate which accompanied these developments followed a similar course, presenting itself less as an academic search for truth than as a political search for justification. As following chapters will show, this reformist sleight-of-hand was to prove a two-edged sword. While it facilitated the introduction of controversial measures, it meant that important administrative and political issues remained unsolved. In time this led to serious discrepancies in theory, policy, and practice which themselves became barriers to further reform. In 1978, though, the main task for reformers was to get the first policy changes off the ground. This chapter will examine how they did this for private business.

The new policy of promoting private business

As with most of the reforms, the Third Plenum of the CCP's Eleventh Central Committee in December 1978 is seen as marking the beginning of the official revival of private business. In fact the beginnings of the policy can be traced back to the loosening of market restrictions which followed Zhou Enlai's four modernisations proposal of 1975, the details of which were worked out by Deng Xiaoping.¹ Even as early as 1976, some areas began to allow new private businesses. In Tianjin, for example, the number of private businesses rose by over two thousand during 1976-78, largely as a means of providing jobs for people returning to the city from the countryside.² At the time, the legal position of private business, as set down in the Constitution of 1975 and also in 1978, was that of a marginal sector to be tolerated temporarily and tightly controlled:

The state may allow non-agricultural individual labour involving no exploitation of others, within the limits prescribed by law and under unified arrangement by neighbourhood organisations in cities and towns or by production teams in rural people's communes. At the same time, these individual labourers should be guided onto the road of socialist collectivisation step by step.³

The Third Plenum itself made no specific announcements concerning private business, but it signified the official adoption of economic modernisation and growth as the paramount concern of the CCP and of the view that the way to achieve such development was not ideological education but economic incentive and technological improvements.

¹The policy documents which summed up the Zhou - Deng call for political stability and renewed emphasis on economic growth and technology-led modernisation were promptly denounced by the Left as 'three poisonous weeds' and Deng was ousted for the second time in April 1976. But provincial support for Deng's policies remained strong, causing a liberalisation of local policies. See the discussion in Gardner, (1982), Chapter 3.

²Yudkin, (1986), p. 22; Solinger, (1984), p. 201.

³The words 'involving no exploitation of others' and the provision that individual labourers should be guided towards collectivisation were dropped from the constitution in 1982. See Jill Barrett, 'What's New in China's New Constitution?', *Review of Socialist Law*, vol. 9, no. 4, pp. 305-345, p. 313.

Significantly, Chen Yun was made a member of the Political Bureau and a vice-chairman of the Central Committee. Although he was on the conservative side of reform, and came to be seen as an arch-conservative planophile by 1989, he had never had anything against a limited amount of free enterprise and had been in the camp which revived it in the early 1960s. The emphasis on economic development and individualistic incentives gave impetus to the revival of private business. Once this had occurred, local governments began to formulate policies for the administration of the individual economy which was already developing by this time. In early 1979 the State Council ratified the growth of free markets by issuing Document No. 102 on improving administration in urban and rural markets, and the licensing of individual pedlars was one response to this document.⁴ An official in the Sichuan ICB told me that the Bureau's first move was in fact to go around issuing licences to those people who had already been operating private businesses for some time. At this early stage, individual businesses were still heavily restricted. In general only those without other options, such as former *getihu* who had been put out of business in the Cultural Revolution, were eligible for licensing; although one of the reasons for promoting the individual economy was to increase employment opportunities, local governments preferred to channel young job-seekers into collective or co-operative employment.⁵ *Getihu* were also restricted, at least in theory, to very simple handicraft, hawking and repair businesses, as it was felt that they should not be allowed to compete with the state and collective sectors.

⁴For a meticulous account of the development of official policy towards the individual economy in 1978-83, based on a collection of key provincial and central documents, see Susan Muth, *Private Business Under Socialism: An Examination of the Urban Individual Economic Sector in China*, (Ph.D. Dissertation, George Washington University, 1987), Chapter 3.

⁵*Ibid.*, p. 80; Chao Yü-shen, 'Expansion of Individual Economy in Mainland China', *Issues and Studies*, vol. 16, no. 9, pp. 7-10, p. 8.

These restrictions, however, were progressively removed. In particular a national work conference on employment sponsored by the Central Committee in August 1980 gave new impetus to the growth of the private sector and was followed by other central initiatives such as provision for bank loans to *getihu* and lowering *getihu* taxes.⁶ With these developments, the growth of private business became widespread and was no longer confined to a few experimental areas, and provincial governments issued a series of regulations on the administration of the individual economy at this time.⁷ Yet the individual economy still had an experimental flavour, and was only confirmed by a set of State Council regulations on the urban, non-agricultural individual economy in July 1981.⁸

This sequence of unspoken experimentation, followed by a generalistic 'in principle' approval, then by ratification and specific regulations only after the reform in question is well established, crops up time and time again in the development of the private sector in China. The 1981 regulations in effect gave the stamp of approval to the already flourishing private sector, and as we shall see, subsequent regulations also followed this pattern, approving new developments in private business after they had already occurred. This common pattern for the introduction of controversial reforms is useful to reformists because it enables them to bypass the formal ideological debate required for official sanction of a reform and, in turn, use the successful results of the reform as ammunition in the debate.

⁶Muth, (1987), pp. 81-82.

⁷Ibid., pp. 85-86.

⁸Guowuyuan guanyu chengzhen fei nongye geti jingji ruogan zhengcexing guiding' [Certain policy regulations of the State Council on the urban non-agricultural individual economy], 7 July 1981, (see Appendix).

The 1981 regulations allowed the non-agricultural individual economy - *geti jingji* - as a supplement to the state and collective sectors. Individuals were allowed to engage in 'all kinds of small-scale handicrafts, retail commerce, catering, services, repairs, non-mechanised transport and building renovation' which were beneficial to the national economy and did not involve the exploitation of others. The regulations promised that the state would protect the rights and interests of private operators, but also imposed certain limits on their size and fields of operation. Only unemployed youths or retirees with certain skills to pass on were allowed by the regulations to engage in individual business; this new focus was the result of the employment initiatives since the August 1980 employment conference. Individual businesses were allowed to employ others, but were limited to up to two assistants and no more than five apprentices, and were only allowed to use non-mechanised tools and vehicles. In fact individual businesses had already developed beyond these limits (for example, by exceeding the employment limits, or by obtaining supplies from other than official channels) by the time the regulations were released.⁹ The limits were there more for political purposes, to signal the official role of the individual economy as a limited sector of small businesses, well under the control of the socialist state and therefore unlikely to develop any capitalist tendencies.

The 1981 regulations dealt specifically only with urban businesses, but were to apply in principle to rural ventures also. Private businesses (some already beyond the *getihu* employment limit) were also developing in rural areas, and the 1982 Constitution acknowledged the urban and rural individual economy. It was not until February 1984, however, that a set of

⁹JJCK, 5 November 1987 p. 4; Yudkin (1986), p. 29.

regulations for rural individual enterprises was passed.¹⁰ The development of policy towards the rural private sector is another example of the underhand pattern of development of reform measures, one with important implications for the way in which rural reform was represented and perceived. Until the rural economy became more commercialised, the course of rural reform meant that there was no need for specific procedures governing the administration of individual enterprises; indeed the diversity of rural reforms meant that unified national regulations would have been inappropriate. Under the rural reforms, production teams contracted land and specific tasks in a variety of forms of 'contract responsibility system'. This evolved into a virtual privatisation of agriculture in which economic management devolved to households. Some households then specialised in non-agricultural activities and became the 'specialised households' [*zhuanyehu*], many of which were, in effect, private non-agricultural businesses. Hence private businesses were often able to develop in rural areas without the need for a policy or regulations specifically dealing with them as such. The justification for this lay in the nature of rural organisation, based upon the commune system. Until the collapse of the communes, peasants running *zhuanyehu* were still considered part of this system, one in which the basic means of production - the land - was still collectively owned. The origin of the *zhuanyehu* within the collective agricultural economy thus made their private nature almost clandestine, in that they were dealt with as 'a management level within the co-operative economy',¹¹ rather than as an independent private sector. It was only the urban private businesses,

¹⁰Guowuyuan guanyu nongcun geti gongshangye de ruogan guiding' [Certain Regulations of the State Council on Rural Individual Industry and Commerce], 27 February 1984, (See Appendix).

¹¹Li Chengxun and Zhou Zhixiang, eds., *Zhuanyehu jingji guanli shouce* [Handbook of specialised household management and administration], (Beijing, Beijing chubanshe, 1987), p. 298.

and those in rural areas which became undeniably separated from the collective as the rural economy became more diverse and commercialised - whose operators, for example, were no longer involved in agriculture at all - which had to be acknowledged as private businesses. Furthermore, the fact that the ICB has statistics for rural individual businesses [*getihu*] from 1981 demonstrates that this process began early in the reforms.¹²

Here again there developed a wide gap between the official version of events and actual practice. Where necessary, administrative practices acknowledged the similarity between *getihu* and *zhuanyehu*; and many manuals on business administration dealt with both categories together.¹³ Regulations concerning questions such as supplies to individuals, private transport of goods, and market prices usually applied to the activities themselves and did not distinguish between *getihu*, *zhuanyehu* or indeed co-operative enterprises. *Zhuanyehu* were not, however, generally registered as *getihu*. This meant that they did not have to be included in policy debates on the degree of development of private enterprise. The exclusion of *zhuanyehu* from statistics on the individual economy also enabled many discussions of rural private industry and commerce to present it as much smaller than would otherwise have been possible.

The origin of the *zhuanyehu* within the collective system meant that they could be seen as socialist in nature and therefore not a problem ideologically. The same was even more true of agriculture, as peasants did

¹²See Guojia gongshang xingzheng guanli ju geti si, (1987).

¹³For example, Tang Congyao and Xu Yaoyi, eds., *Zhuanyehu getihu falü zixun shouce* [Handbook of legal advice for specialised households and individual businesses], (Tianjin, Zhongguo caizheng jingji chubanshe, 1985), and Ma Zheng, Zhou Wei, and Song Heping, eds., *Zhuanyehu, getihu zhengce falü guwen* [Advice on policy and law for specialised households and individual businesses], (Shenyang, Liaoning daxue chubanshe, 1987), are full of examples in which administrative practice treats the two equally, according to their activities rather than their type.

still have strong contractual links with the collective. Partnerships or enterprises run by several families, the *lianheti*, could also be seen as co-operative rather than private. The acknowledged private sector of *getihu* and, later, *siying qiye*, however, presented much more of a problem politically as it had to be accommodated within Party policy and ideology. Thus a study of the development of the acknowledged private sector uniquely illuminates the development of Party policy and the process of reform, by highlighting the way in which the Party had to confront the issues involved directly. Therefore it is the policy of encouraging the recognised private economy, its implementation, and the debates surrounding it, which are the focus of this thesis. The reader should bear in mind, however, that parallel to the growth of the urban and rural 'individual economy' were an increasingly complex range of reforms in agriculture and rural industry and commerce, many of which also had strong private enterprise features.

The debate on private business: 1978 - 1983

The case in favour of reviving the individual economy rested on the reformist argument that the main task for China 'in the current stage' was to promote the development of the productive forces. (In time, this argument was to be refined into the theory of the 'initial stage of socialism' officially expounded by Zhao Ziyang at the Thirteenth Party Congress in 1987.)¹⁴ It therefore followed that the development of the individual economy was justified at least until such time as the productive forces were developed enough to make it easily replaceable.

¹⁴The phrase 'initial stage of socialism' [*shehuizhuyi de chuji jieduan*] was used in the individual economy debate as early as 1982, in a collection of papers which arose from an April, 1981 conference on ownership held by the Chinese Academy of Social Sciences in Chengdu. See *Zhongguo xian jieduan geti jingji yanjiu* [Studies of the individual economy in China's current stage], *Jingji wenti tansuo* [Inquiry into Economic Problems], Supplementary Issue no. 1, March 1982

This really boiled down to saying that the individual economy should be developed as long as it was economically beneficial.

The relations of production in any society are determined by the level of the productive forces. The uneven economic development in China requires a corresponding multilevel economic structure ranging from the state sector to the private sector.¹⁵

This theme in the debate was not intended as a slur on socialism, but emphasised the role of objective economic factors, such as the lack of mechanisation and inadequate transport and storage, in determining the appropriateness or otherwise of a form of organisation. 'Our productive forces are low, transportation is inconvenient, and our production tools and transport facilities are backward,' lamented *Renmin ribao*, apropos of advocating more individual businesses.¹⁶ Many functions in the economy, particularly in China where production, distribution and storage are not highly developed, are best performed on a small scale. In such circumstances there are no greater efficiencies to be gained from large-scale collective organisation and centralised direction. The reformist position was that the virtual elimination of the individual economy and the reduced independence of collective enterprises (the idea being that state ownership was best, collective ownership a stepping-stone to state ownership, and individual ownership a remnant of the capitalist past) had been a mistake. Larger organisations simply had not provided an adequate replacement. What had often happened was that a number of small businesses were amalgamated into one big one. In Beijing, for example, while the population increased 300 per cent from 1953 to 1978, the number

¹⁵He Jianzhang and Zhang Wenmin, 'The System of Ownership: A Tendency Toward Multiplicity', in Lin Wei and Arnold Chao, eds., *China's Economic Reforms*, (Philadelphia, University of Pennsylvania Press, 1982), pp. 186-204, p. 201. The same point is made by Fang Sheng, 'The Revival of Individual Economy in Certain Areas', pp. 172-185 in the same volume, p.175.

¹⁶RMRB, 20 June 1980, p. 5, quoted in Solinger, (1984), p. 201.

of retail, catering and service outlets fell by over 80 per cent.¹⁷ Many traditional products and services were simply no longer offered, as the central planning system was not well suited to diversity or catering for small markets. These arguments were not new, of course; they owed much to the economic debates of 1956-58 and the early 1960s. The critique of consumer services echoed Chen Yun's speeches of 1956 and 1961-62, and the leading proponents of reviving the individual economy in 1979-81 included Dong Fureng and He Jianzhang, who had been active in the 1960s search for an alternative model of socialist economics.¹⁸ Of all the protagonists, Dong Fureng took the issue of collective *versus* private the furthest:

Under certain circumstances, the sector of private ownership should be preserved and even developed within certain limits, for in many respects, its functions *cannot be replaced* by either the ownership of the whole people or by collective ownership. For instance, repair shops, services, petty trades, and handicrafts can be run better by individuals than by the collective.¹⁹

The implication of most arguments made in favour of promoting the individual economy, however, was still that once the productive forces became more developed, large-scale, socialist organisation would be more efficient and would replace the individual economy.²⁰ This was a very

¹⁷He, (1981), p. 14.

¹⁸On their role in earlier debates, see Cyril Lin, (1981), pp. 26-34.

¹⁹Dong Fureng, 'Chinese Economy in the Process of Great Transformation', in George C. Wang, ed., *Economic Reform in the PRC*, (London, George Allen and Unwin, 1982), p.128. (emphasis added). Dong also went further than most to address the implications for ownership of the attempt to introduce real market reforms, in a line of enquiry (see Chapter Seven) which was not actively pursued in public debate until 1985. See Dong Fureng, 'Guanyu wo guo shehuizhuyi suoyouzhi xingzhi wenti' [On the problem of the form of socialist ownership in China], *Jingji yanjiu* [Economic Research], no. 1, 1979. See also the discussion in Cyril Zhiren Lin, 'Open-ended Economic Reform in China', in Victor Nee and David Stark, eds., *Remaking the Economic Institutions of Socialism*, (Stanford University Press, 1989), pp. 95-136, p. 104.

²⁰See for example He, (1981), p. 14; *Zhongguo xian jieduan geti jingji yanjiu*, (1982), p. 71. After the privatisation debate was brought to a halt in June, 1989, an attempt was made to revive this line: see Chen Xin, 'Lun siying jingji de fazhan jieduan' [The stages of

hard argument for those who opposed the individual economy as a source of capitalist regeneration to refute, as it accepted the assertion that socialised large-scale production was *a)* the inevitable trend as the productive forces became more developed, and *b)* bound to be superior to the individual economy. As the productive forces became more developed, socialist enterprises would simply out-compete individual businesses, which would disappear entirely with the arrival of communism.

As discussed in Chapter Two, inadequate provision of consumer goods and services is a problem endemic to centrally-planned economies, stemming both from investment priorities at the central level and from the incompatibility of numerous, varied, atomised goods and services with large-scale bureaucratic organisation in conditions of limited storage, transport and communications facilities. One of the goals of the post-Mao era has been to reverse this situation and improve consumer supplies. This was part of a switch in development strategy away from the concentration on heavy industry which had prevailed in spite of Mao's attempts to change it, towards light industries which were cheaper and quicker to develop.²¹

An emphasis on light industry and improving supplies to consumers does not, in itself, demand the promotion of private businesses. In the context of socialist development it is possible to imagine small co-operatives or collectives which might have the same advantages of independence,

development of the private economy], *Jingji yanjiu* [Economic Research], no. 9, 1989, pp. 73-78.

²¹For some figures on the post-1978 shift to light industry and consumption, see Stephen Feuchtwang and Athar Hussain, eds., *The Chinese Economic Reforms* (London, Croom Helm, 1983), pp. 27-28.

adaptability and incentives for good service, and yet be more ideologically acceptable than individual ownership. Indeed in the case of China small-scale co-operatives in light manufacturing, handicrafts and retail, service and catering ventures were actively encouraged in the late 1970s, particularly as a way of providing jobs for urban youth. Many were started up under the ægis of street committees, following a pattern already well-established in the Cultural Revolution. Rural township governments were also seeking to encourage collective enterprises both to generate employment and to develop their local economies. Collective and co-operative enterprises, however, could not be so independent of bureaucracy as were individually-owned businesses. They required organisation and administration by street committees, state units, and the Bureau of Industry and Commerce, and needed more start-up capital than an individually-run business.²²

Closely related to the issue of increasing the emphasis on light industry and consumer supplies was the reformists' desire to increase the 'commoditisation' of the economy; i.e., to increase the proportion of goods distributed through market transactions rather than by bureaucratic allocation. It was argued that individual businesses would help to stimulate market activity and the circulation of commodities, both through their own efforts and by providing competition to stir state and collective units out of their notorious indifference to customers and sales

²²More recently, the development of private businesses gave rise to spontaneous 'co-operatives' of individual investors, but these evolved more in the direction of capitalist shareholding as private employers combined their resources in order to expand. See Wang Taixi, 'Xi'an shi geti jingji de lishi he xianzhuang' [The history and current situation of Xi'an's individual economy], *Xi'an daxue xuebao* [Xi'an University Journal], no. 4, 1984, pp. 22-29; He Jianzhang and Zhu Qingfang, 'Geti jingji de fazhan qishi ji duice - Shenyang shi diaocha de baogao' [Development trends of the individual economy and proposals for dealing with it - Shenyang survey report], unpublished draft, 1986, provided by the authors; see also *RMRB*, 10 September 1985, p. 2, 1 March 1986, p. 2, 19 August 1986, p. 1, and 16 June 1988, p. 1.

figures. Like the suggestion that the low level of development of the productive forces demanded continued reliance on the individual economy in some spheres, this argument also rested partly on the underdeveloped state of China's transport and communications. Whereas large state and collective units dealt in bulk, which would require further investment before transport could be improved, private individuals would, if allowed to, carry small loads of goods from one place to another wherever there was a market for them. This was of particular importance in relation to rural reforms: as peasants were allowed to sell more of their produce on the free market, the amount being transported into the cities would rise and supplies to urban consumers would improve. Conversely, private hawkers were prepared to take small loads of manufactured goods - clothes, for example, or small everyday items - and travel around rural markets giving peasants something to buy with their rising incomes. The individual economy, therefore, would be extremely important to the success of the first major step in the reforms, the rural responsibility system.

Perhaps the most important economic rationale for promoting the individual economy (and, unofficially, larger private enterprises as well), was the need to increase employment opportunities. After the death of Mao Zedong and the fall of the 'Gang of Four' faction in late 1976, many of the 17 million or so 'educated youth' who had been sent to rural areas began to return to the cities and towns.²³ In addition, population growth in past years meant that jobs had to be found for some three to five million school leavers each year who were neither continuing their

²³Michel Bonnin and Michel Cartier, 'Urban Employment in Post-Mao China', in Stephan Feuchtwang *et al*, eds., *Transforming China's Economy in the Eighties - Vol. 1: The Rural Sector, Welfare and Employment* (Boulder, Colorado, Westview Press, 1988).

education nor entering the army.²⁴ There was also a residue of young people who had evaded being sent to the countryside, but who had no jobs. By 1982, 7 million people were joining the job waiting lists per year.²⁵ At the same time, the rural reforms were bound to release some of the huge reservoir of surplus labour which had been tied to agriculture under the commune system. Yet this was a time when economic growth had been slow and state enterprises were quite incapable of absorbing such large numbers of new employees. Many were in fact already overstaffed as a result of the CCP's previous commitment to full employment. Rural townships, too, often lacked the resources to develop enough collective industry to employ this surplus. Given the circumstances, there were strong incentives for governments at all levels to pursue any and all available employment alternatives.

The relative difficulty, speed and cost of setting up individual businesses as opposed to government-sponsored employment was of great importance here. It was calculated in 1983 that the average cost of creating one job was over 10,000 yuan in state heavy industry, over 6,000 yuan in state light industry, and around 3,000 yuan in a collective unit. By contrast an individual business could be set up for a few hundred yuan, and of course the few hundred yuan would normally come not from the state but from private savings.²⁶ At a time when state resources were strained, and likely to become more so as budget reforms reduced the role of the central budget, this was a strong argument for promoting the individual economy. Individual businesses were also an easy solution in that they required no complicated infrastructure and were therefore quick to set up,

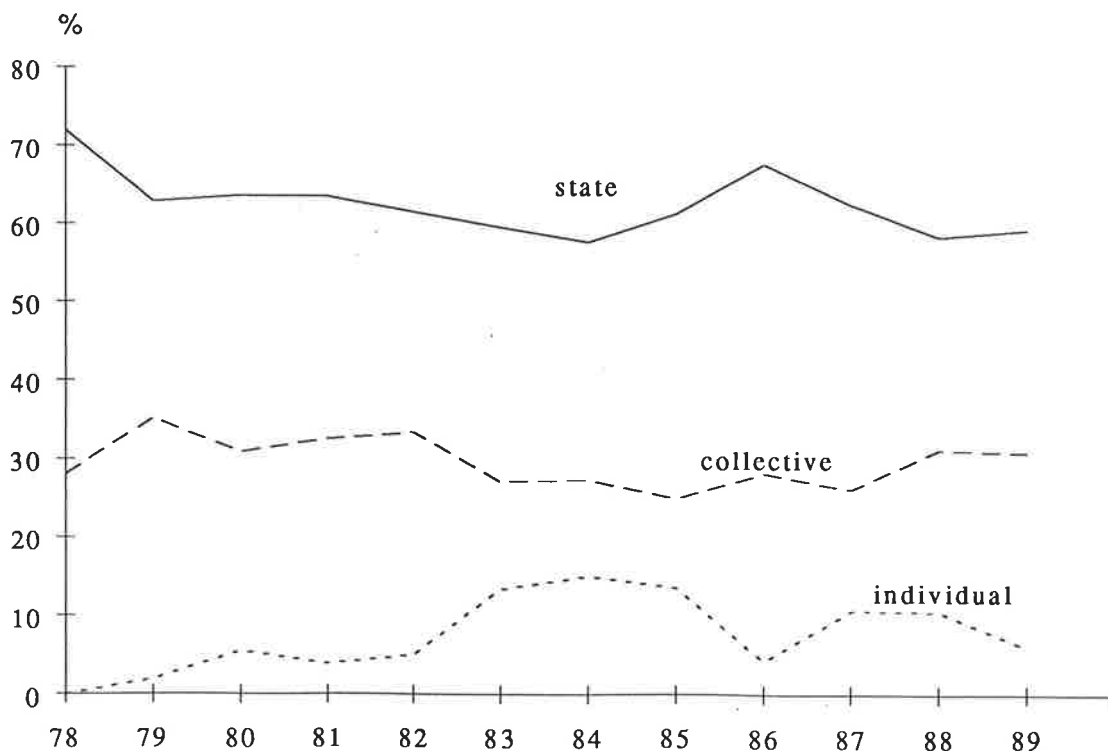
²⁴Much of this paragraph is based on Riskin, (1987), p. 267.

²⁵Fang, (1982), p. 180.

²⁶Chen Rengxing, 'Shilun wo guo xian jieduan de geti jingji' [A tentative discussion of the individual economy in China's current stage], *XHWZ*, no. 4, 1983, pp. 60-61, p. 60.

and unlike collectives and many co-operatives they needed no umbrella organisation to get them going. All that was required was for restrictions to be removed: individual incentive would do the rest. Accordingly, the national conference on labour and employment in August 1980 resolved that individually-run businesses should be actively encouraged in order to increase employment opportunities. This provided further impetus to the early growth of the individual economy.²⁷ As shown Figure 3.1, the individual economy was an important provider of new jobs in the reform decade, while the role of the state sector declined.

Figure 3.1: Persons Entering State, Collective and Private Employment 1978-1989.



²⁷Feng Lanrui and Zhao Lükuan, 'Urban Unemployment in China', *Social Sciences in China*, vol. 3, no. 1, 1982, pp. 123-139, p. 136; Yuko Akiyoshi Nihei, 'Unemployment in China: Policies, Problems and Proposals', *JETRO China Newsletter*, no. 38, (May-June) 1982, pp. 14-20, p. 15.

Establishing political credentials

Having set out the economic arguments for reviving the individual economy, its supporters also had to make it acceptable politically, without challenging established parameters of socialism and the superiority of public ownership. They set about doing so with impressive mental agility, concentrating on laying to rest any fears that reviving the individual economy was a backward step which would lead to exploitation, inequality and the restoration of capitalism.

The foundation of the pro-private business case was of course the productive forces argument, which served both to deny any denigration of the ultimate superiority of public ownership, and to argue that the individual economy was not only harmless but actually beneficial to socialist development. If the achievement of full socialism was prevented by a lack of economic development, then it followed that socialism was best served by whatever promoted such development. If private ownership was shown to do this better than collective or state ownership in some trades or areas, then it should be allowed to continue. The CCP's June 1981 assessment of its history since 1949 rejected the past emphasis on the political or economic superiority of public ownership when it declared, 'The reform and improvement of the socialist relations of production must be in accordance with the state of the forces of production, and be conducive to the development of production'.²⁸

The early debate, like early policy, was entirely in terms of the 'individual economy', the *geti jingji*, involving, in accordance with the Constitution,

²⁸CCP, 'Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China', 27 June 1981, in *CCP Resolution on Party History*, (Beijing, Foreign Languages Press, 1981), p. 78.

no exploitation. At this stage participants on all sides of the debate were in agreement that larger businesses, in which those who owned the means of production employed those who did not, were unacceptable under socialism. Indeed, many of the arguments in favour of the individual economy rested on smallness: both the small size of individual businesses and the smallness of the sector as a whole in relation to the publicly-owned economy.²⁹ The individual economy was to act as a 'supplement' to the state and collective sectors, 'filling up the gaps' they left in the economy, particularly in the distribution of consumer goods and services and in employment. At first, even small private businesses were often mentioned in the same breath as collectives, apparently in an effort to slide them in unnoticed. 'People who . . . feel that the collective economy is "unsafe" and the individual economy is dangerous, are completely mistaken. You cannot put developing collective and individual economy on the same level as capitalism.'³⁰ It was not at first proposed that individual businesses should be established in areas traditionally considered economically important; the individual economy was seen as appropriate only for sectors such as retailing, catering, consumer services and handicrafts: 'the trades the state and collective economies don't do or don't do enough'.³¹

Thus just as the early reform program as a whole sought to create a system in which market forces would be used to enliven the economy, without challenging the supremacy of central planning, the individual economy

²⁹See for example the arguments in Xue Mou, 'Zenyang zhengque renshi shehuizhuyi gaizao jiben wancheng yihou de xiao shengchan?' [How should we see small production after the basic completion of socialist transformation?], *Hong qi* [Red Flag], no. 21, 1981, pp. 41-43, p. 42; Liu Long, (1986), p. 2, *Zhongguo xian jieduan geti jingji yanjiu*, (1982), p. 6, Dong, (1982a) p. 128, and Chen Rengxing, (1983), p. 61.

³⁰Qian Fenyong, 'Fangshou fazhan chengzhen jiti geti jingji' [Boldly develop the urban collective and individual economy], *Shijian* [Practice], no. 4, 1983, pp. 2-4, p. 3.

³¹He, (1981), p. 15.

was proposed as a kind of economic Polyfilla, which would fill up a few holes in the economy without changing its basic form. As later chapters will show, the private economy very quickly began to exceed the limits prescribed for it, injecting a certain unreality into the debate. Nevertheless, political constraints demanded that the fiction of the smallness and subordination of the private economy be maintained.

A key issue in the debate was whether or not the individual economy was capitalist in nature or would lead to capitalism. Its supporters argued that it was not capitalist as it involved little or no exploitation. Although individual businesspeople were allowed to employ two assistants and up to five apprentices, they also participated in labour themselves, and the relationship between the assistants or apprentices and their employers was one of mutual assistance rather than exploitation. Under socialist conditions, these employees were also owners of the means of production through the system of public ownership, and this, in some unexplained manner, would prevent them from being exploited.³² (The limit of 7 employees as the dividing line between an individual operator and a capitalist, adopted in the 1981 regulations on the urban individual economy, is based on passages in *Capital* where Marx discusses the need for a certain number of people to be employed before the employer can accumulate capital. Marx gives one purely hypothetical example in which the employer has to employ eight people in order to extract enough surplus-value to make twice the income of his employees, plus the same again to use as capital.)³³

³²Liu Long, (1986), p. 5; Sun Ping, 'Individual Economy Under Socialism', *BR*, no. 33, (13 August 1984), pp. 25-30, p.18.

³³Karl Marx, *Capital*, (Moscow, Progress Publishers, 1954), Vol. 1, pp. 291-292.

Notably, the argument very quickly shifted from the 'no exploitation' of the Constitution and early regulations, to allowing for some exploitation, so long as the employer also participated in labour. A cadre in the State ICB went so far as to say that since the employer's income was 'only' two or three times the employees', this could not be called exploitation.³⁴ Once this step was made, it was only a matter of time before the employer's management decisions were counted as labour, in a line of argument which owed more to Smith than to Marx.³⁵ This type of argument was seldom seen in the early years, however, and became more common only after around 1985, in response to the developments such as individual leasing and private ownership of large enterprises. This was really a new stage in the debate concerning private enterprise and ownership reform, and will be discussed separately in Chapter Six.

The case for the harmlessness of the individual economy rested not only on the internal relations of businesses, but on their external environment. It was consistently argued that the individual economy could not lead to capitalism because socialism had been established in China and therefore the objective conditions for the development of capitalism - private ownership of the means of production, labour power as a commodity, and the opportunity to turn money into capital - did not exist.

An adjunct to this assertion was the argument that the individual economy could never dominate or significantly alter an economy, but had always, throughout history, been subordinate:

³⁴See Yudkin, (1986), p. 89.

³⁵See for example *RMRB*, 12 April 1988, p. 2; Liu Guoguang, 'Socialism is not Egalitarianism', *BR*, no. 39, (28 September 1987), pp. 16-18; Lin Zili, 'Wenzhou shangpin jingji de "chengfen" wenti' [The problem of the 'class status' of Wenzhou's commodity economy], *RMRB*, 21 November 1986, reprinted *XHWZ*, no. 2, 1987, pp. 36-41.

The individual economy is a relatively ancient economic form. It began in the final stages of primitive society, passed through the different stages of social development of slave, feudal and capitalist society, and still exists in socialist society. But in each different society, the individual economy has not and cannot have a dominant position. It can only be subordinate to the dominant economic component of each society, and be influenced and restricted by it in development and role. The individual economy was subordinate to the slave economy in slave society, to the feudal economy in feudal society, to the capitalist economy in capitalist society, and therefore in today's socialist society, subordinate to the socialist publicly-owned economy.³⁶

This subordination, it was argued, found concrete expression in the control of the economy by government regulation and through the individual economy's dependence on the public sector for supplies.

The small amount of individual economy which remains after socialist transformation is different from the individual economy before socialist transformation. . . . After the socialist transformation of the means of production, the individual economy is only a very small proportion of the national economy, and furthermore no longer has links with capitalist industry and commerce. . . . Under conditions in which the socialist publicly-owned economy has overwhelming dominance, the individual economy is controlled by the socialist publicly-owned economy . . . and becomes a supplement to the socialist publicly-owned economy. At the same time the individual economy relies on the socialist economy for supplies, loans, and marketing its products.³⁷

This approach had the added advantage of being able to promote the individual economy for economic reasons, while not seriously criticising the CCP's policy of socialist transformation in the 1950s, for it was precisely this transformation which had established a secure socialist state.

³⁶Chen Rengxing, (1983), p. 61; see also *HEBRB*, 15 April 1983, p. 3; Liu Long, (1986), p. 65. Here the insistence that China only allowed the small-scale 'individual economy' stood reformist economists in good stead.

³⁷Xue Mou, (1981), pp. 42-43; see also *BR*, no. 33, (18 August 1980), p. 4; *Zhongguo xian jieduan geti jingji yanjiu*, (1982), p. 53; Chen Rengxing, (1983), p. 61. As the following chapters will show, this argument, like the one about size, was progressively weakened by the very success of the reforms in increasing the role of free markets in commodities and finance.

Whereas in the past the individual economy may have tended to give rise to capitalism, conditions were now quite different.³⁸ 'As long as socialist state ownership plays a dominant role in the economy, the existence and development of a sector of private ownership is not likely to breed capitalism.'³⁹ Some of the more idealistic supporters of the individual economy even argued that after 30 years of socialist education, people themselves were more socialistic. Those who engaged in individual business did so not in order to develop capitalism, become unduly rich or exploit others, but to make a contribution to their country and help the four modernisations.⁴⁰

Conclusion

Until around 1984, the debate concerning the individual economy rested very much on the small size, simple technology, and limited scope of individual business. The way reformists continued doggedly along this theme, in the face of mounting evidence to the contrary, indicates continued opposition on the grounds that the individual economy would involve exploitation and inequality, be difficult to control, and even lead to a regeneration of capitalism. This opposition was rarely seen in the public debate, except in the continued reiteration of the pro-private business argument and statements that 'some comrades' said that the individual economy was capitalist in nature. Meanwhile, the implementation of this reform and others was the responsibility of

³⁸Examples of this argument include He, (1981), Chen Rengxing, (1983), Liu Long, (1986), p. 2.

³⁹Dong Fureng (1982a) p. 128.

⁴⁰For example Qian, (1983), p. 3.

administrators at lower levels. It is here in the practice of reform that opposition to private businesses, and their precarious position in a system arranged around collective organisations, was most clearly manifested.

CHAPTER FOUR: RESPONSES TO THE PRIVATE SECTOR REVIVAL

The way attitudes towards private business evolved, particularly among administrators, was an important constraint on the private sector. Although the individual economy developed rapidly after 1978, its path was by no means free of obstacles. Opposition to the policy of promoting private business, only indirectly reflected in the debates surrounding it, was more overtly felt in the course of its actual implementation. Among consumers, attitudes to private business were ambivalent. Private businesspeople made life much more convenient, but they were also seen as low-class, untrustworthy, and the possessors of an excessive and undeserved amount of wealth. Of key importance were the attitudes of those with power and influence over private businesspeople: the cadres in administrative departments, and staff in state units with which private businesses had dealings. In the early stages of the reforms there was some direct opposition to private business among cadres, and this persisted to some extent, but in time it generally gave way to a much more accommodating approach in response to policy pressures and the economic forces arising from the reforms. This chapter will examine the administrative constraints on private business and how they were combatted by reformists. The next chapter will then go on to how changes in the business environment helped overcome logistical constraints on the private sector.

Negative perceptions of private business

Despite the general trend of official support from the central government, private entrepreneurs, particularly those in urban areas, had to contend with considerable opposition and social prejudice. This was particularly noticeable in the early years after 1978, when the private sector had yet to

become well-established. The political campaigns of the preceding thirty years, especially the Cultural Revolution, had inculcated the general concept of 'state first, collective second, and private nowhere', and that the bigger and 'more public' an enterprise was, the better and more socialist. A 1983 *Renmin ribao* article described the attitude towards individual business as 'If individual business isn't capitalism, it's a tail of capitalism. Anyway it's not socialism.'¹ A much-publicised letter to the Beijing Daily in August 1980 expressed horror at the revival of small private businesses, arguing (prophetically, as it turned out) that:

A small-time premise today may well expand into a big one tomorrow. While capitalists of the old days are still living, new ones will before long come on the scene, with so many people intent on money-grubbing and so many small shops and roadside stalls cluttering the streets.²

This kind of prejudice appears to have been more typical of urban areas than of the countryside, where the impact of rural reforms meant that private enterprise became more integrated into the economy than in the cities. In urban areas, the majority of acknowledged private businesses were *getihu* engaged in pure commerce, seen as non-productive and of dubious ethical standing, or in service trades such as catering or repairs - menial tasks for which many people maintained a strong disdain. Most *getihu* were involved in businesses of this type because they were easy and cheap to set up, often required no special knowledge or skill, and were in high demand.

It was these businesses, of course, which were the most visible, and which interacted directly with the public; mostly by taking their money. Not

¹ *RMRB*, 27 February 1983, p. 5.

² *Beijing ribao* [Beijing Daily], 18 August 1980, quoted in *BR*, no. 45, (10 November 1980), p. 20.

surprisingly their high incomes then engendered a certain amount of resentment. This was exacerbated by the common and not entirely unfounded perception that most private operators cheated customers, charged overly high prices, obtained goods through illegal channels, and in general devoted themselves to taking as much as they could from society without contributing to it.

The low regard in which the private sector, and the fields in which it was concentrated, were held compared to the state and collective sectors in urban areas is most clearly seen in the marked resistance among urban youth to entering private employment. The State ICB argued in the mid-1980s that this resistance had declined: the proportion of young people in private businesses registered as *getihu* increased from less than 10 per cent initially to over 25 per cent after 1985.³ This was held to be a sign of improvement in the status of private business among urban youth, but it may have been largely the result of the influx of rural youth into cities and towns. Two sisters who did start a hairdresser's in 1980 said, 'We were worried because we did not feel that it was proper for young people to be self-employed',⁴ and a young man doing business in 1983 told how

When I applied to do individual business, my friends and classmates were amazed. They said doing individual business had no political future, no security of livelihood, no social position, and even finding a girlfriend would be difficult.⁵

In fact this reluctance to enter private employment stemmed both from its lack of prestige, and from practical considerations: state employment has

³ Ren Zhonglin, 'Guanyu geti jingji wenti' [On the question of the individual economy], speech at the central Party school, 7 April 1987, in Guojia jiaowei gaoji chubanshe and guojia jiaowei makesizhuyi lilun jiaoyu zhongxin, eds., *Makesi zhuyi lilun jiaoyu cankao ziliao* [Reference materials for Marxist theoretical education], no. 5, 1987, pp 18-23, p. 19.

⁴ BR, no. 44, November 1981, p. 27.

⁵ GMRB, 3 April 1983, p. 3.

been seen until very recently as an 'iron rice bowl' offering security for life, while both state and collective employment are seen as far more secure politically. *Renmin ribao* commented in 1986 that

For a long time, some people have had fixed in their minds the idea that 'state is first, collective second, and individual is looked down on'; they all want an 'iron rice bowl'. This has led to a contradiction as on one hand there are many people with nothing to do, and on the other many things with no-one doing them.⁶

Not least among the drawbacks of private business was that the private operator had to forgo the benefits obtained through a state or collective unit. Depending on the size and wealth of the unit, these included anything from housing, access to child care and education, health care and retirement pensions to the occasional load of cheap oranges or a free movie on National Day. And in a society constructed on the premise that all individuals would eventually be part of some collective organisation, alternative channels for the provision of such benefits could be difficult to find even if one was willing to pay. When possible, people who wished to go into business kept a foot in both camps by maintaining links with a state unit. Many of the private entrepreneurs I interviewed in 1988 obtained housing and some other benefits through spouses or parents with state-unit jobs. Without such arrangements private business looked less attractive, and some young school-leavers preferred to remain unemployed rather than take up private business, fearing that to do so would influence their chances of a 'proper job' with a state or collective unit. To get around this problem labour bureaus generally continued to count them as '*daiye qingnian*' [youth awaiting employment] even after they were running a viable, full-time private business: 'Their income is generally enough to keep 2 or 3 people, and yet they are still seen as "job-

⁶ *RMRB*, 7 January 1986, p. 2.

waiting personnel" and also see themselves in this way.⁷ Economic problems in the late 1980s meant that the publicly-owned sector continued to be quite incapable of providing jobs for all school-leavers, but many still remained unemployed for years at a stretch, with no hope of a state job, rather than go into business.⁸

Probably the major factor in the unwillingness of urban youth to engage in private business was its political insecurity. As well as economic risks, which may be exacerbated by discrimination or opposition, the private entrepreneur takes a political risk. The rise of the private sector is entirely the result of the reforms instituted since 1978, and former sudden changes in policy have not been forgotten. By 1988 the passing of time and the continued growth of private business had allayed fears of a change to some extent, but caution remained. When I asked a young woman in Chengdu if she would consider leaving her collective job to make three times as much money with her businesswoman sister, she said she wouldn't, because 'You can't rely on state policy'.⁹ The conservative swing which accompanied the repression of the protest movement in 1989 no doubt confirmed her in this opinion.

Private business, therefore, appealed primarily to people who had little to lose by it - at least in the early years of the reforms. Many people starting private businesses in the late seventies and early eighties were the older

⁷ Lin Zili, ed., *Shehuizhuyi jingji lun* [The Socialist Economy], Vol. 1, (Beijing, Shehui kexue chubanshe, 1985), p. 161.

⁸ Of course, by this time it was more difficult to start a private business: competition was fierce, premises expensive and hard to obtain, and it was commonly held that both bribes and good connections were necessary to obtain supplies. For an interesting report on the attitudes of young unemployed people and business operators in Chengdu in the late 1980s, see Ole Bruun, *Business and Bureaucracy in a Chinese Street: The Ethnography of Individual Business Households in Contemporary China* (Ph.D. dissertation, University of Copenhagen, 1989), Chapter VIII.

⁹ Interview, Chengdu, September 1988.

unemployed, the miscellaneous 'idle personnel' of the statistics who had been unable to find a permanent niche in the collective system.¹⁰ An estimated 10 per cent of individual businesses were run by ex-criminals who found it almost impossible to get a job in a state or collective unit.¹¹ As well as people who had almost no hope of a 'better' job, private business appealed to retired people who found their pensions inadequate. People who actually left a state job to go into business for themselves or to be employed by a *siying qiye* nearly always sought to keep their options open by paying the unit to maintain benefits and to keep the job open [*ting xin liu zhi*] in case policies changed. In Chengdu in 1988, the going rate seemed to be around 50 per cent of the person's former salary.

The fact that so many of the ordinary *getihu* were of low-status backgrounds tended to reinforce adverse perceptions of all private entrepreneurs, especially the unspectacular *getihu*: the view was that if they were decent people and had any standards, they'd be doing something else. School teachers claimed that the children of individual businesspeople were less intelligent and more disobedient than other children, and remarked that this was because their parents were too busy making money to look after them properly.¹² A newspaper article reporting a rise in crimes committed by the offspring of *getihu* attributed this partly to the example set by their parents' 'bad background' and illicit business activities.¹³ Such assumptions may have been true in some cases; but whether true or not, discussions such as these both illustrate and

¹⁰ In the mid-1980s 50-60 percent of registered private businesspeople came under this category, with variations in different localities. See Guowuyuan bangongting diaoyanshi, eds, (1986), for figures on Zhejiang, Guangdong, Shanghai, Nanjing, and Wuhan.

¹¹ *RMRB*, 17 May 1987, p. 2.

¹² *Zhongguo funü bao* [Chinese Women], 23 November 1987, p. 1; *JJR*, 26 November 1987, p. 1.

¹³ *RMRB*, 13 November 1988, p. 8.

reinforce negative attitudes towards private businesspeople.¹⁴ The idea that private business was inferior persisted in spite of the rapid development of the private sector: for example in 1988 a young woman I know in Chengdu would not sell eggs in the thriving market at the college near her home, but went elsewhere because her boyfriend lived at the college. 'I couldn't! Imagine what people would say . . . Xiao Liu's girlfriend selling eggs!' At the time, she was spending some of the proceeds of her egg sales on 'presents' so that she could get a job in a collective factory.

In rural areas, the situation was somewhat different. Although the countryside was as sensible of political insecurity as the cities, the opportunity cost of going into private business was much lower. Rural residents, too, were people who had little to lose by going into business. They were not giving up the chance of security and welfare benefits by doing so: on the contrary, the income so gained would enhance their future security, and if private business were to be repressed again they would at worst be in the same position as before, only richer. They might even be better off in other ways too: private enterprise in rural areas was not associated with low status. It was in rural towns that the majority of the larger private enterprises, the *siying qiye*, developed, and as will be discussed in Chapter Six, in terms of activities, management, wealth, and impact on the local economy these were quite a different matter to the urban image of a *getihu*. Studies show that rural private enterprise, particularly the larger concerns, became closely integrated with the rural

¹⁴For a further discussion of media presentation of *getihu*, see Thomas Gold, 'Guerilla Interviewing Among the Getihu', in Perry Link, ed., *Unofficial China - Popular Culture and thought in the People's Republic* (Boulder, Colorado: Westview Press, 1989), pp. 175-192, p. 190.

elite.¹⁵ Reports of local cadres pressuring private entrepreneurs to give jobs to their relatives indicate that in the rural setting, private employment could be seen as not only acceptable, but even desirable.¹⁶ In some areas the development of private enterprise led to a drain of skilled labour away from collective enterprises as people left to start up on their own or work for a private employer.¹⁷ Private enterprise could also be a way of improving one's political position: the owners of larger, very successful private enterprises which were changed to collective status could then become government cadres, or in some cases private entrepreneurs were being voted into local government, because they were seen as having the right skills to lead the community in their footsteps to greater wealth.¹⁸

This difference between urban and rural perceptions of private business sheds interesting light on the real barriers to its development and how they were overcome. As we shall see below, the official approach to the problem of cadres blocking or harassing private business generally put it down to prejudice and disagreement with reform policies, but the fact that both rural and urban businesses were plagued by similar problems suggests that there were also other reasons. Attacks on the private sector were in fact often motivated, not by antagonism to the reforms, but by competition for the benefits of those reforms between the collective and private sectors, with cadres using all the non-market, bureaucratic powers given to them in the pre-reform era to fight in the marketplace. One of

¹⁵ See Chapter Six.

¹⁶ *NMRB*, 16 December 1988, p. 2.

¹⁷ See for example the case of Wuxi county, Jiangsu, as described by Luo Xiaopeng in William A. Byrd and Lin Qingsong, *China's Rural Industry*, (New York, Oxford University Press for the World Bank, 1990), p. 150.

¹⁸ *Ibid.*, p. 163, 199; Ole Odgaard, 'The Success of Rural Enterprises in China: Some Notes on its Social and Economic Effects', *China Information*, vol. 3, no. 2, (Autumn 1988), pp. 63-76, p. 69.

the main strategies of reformists in the central leadership, therefore, has been to erode these pre-reform powers and replace them with 'the rule of law' and central regulations.

Reformists' promotion of private business

During the 1980s, the media and certain government agencies conducted a series of campaigns to improve the image of private business. The aims were threefold: to encourage people to take up private business, to reassure those who had done so that they would not later be attacked, and to cultivate public acceptance of this aspect of reform policies. The media campaign began by tackling political opposition to private business, stressing the importance of private business to China's economic development, and associating its opponents with the unpopular Cultural Revolution by accusing them of incorrect 'Left' ideas.

By the time private business had become extensive from 1983 onwards, a walk down almost any Chinese street was all that was needed to show how much private businesses had improved consumer services. The proliferation of private stalls and shops had brought goods closer to people's homes, provided a choice of outlets, and widened the range of goods and services available: many private operators revived traditional handicrafts and speciality foods which were disappearing under the previous system. The increased variety was also the result of the mobility of individual operators, who did well by taking their local speciality to another city where it was a novelty. The benefits of promoting private business were highlighted by articles pointing out how much more convenient life was now that private shops were offering repairs, haircuts, fresh fruit and innumerable small goods and services which were formerly provided inadequately or not at all by state enterprises. *Renmin*

ribao and other newspapers published stories highlighting the contrast between surly or inconvenient state-run services and the private alternative. In one typical article, the author had taken his watch to a number of repair shops, all of which said it could not be repaired. Finally he took the watch to a young private repairer, who not only repaired the watch, but later wrote asking if the repair had been satisfactory.¹⁹ A private restaurateur in Sichuan was pictured with an award received for her services to consumers; the caption pointed out that she stuck to a policy of a small profit-margin and high turnover, and made life much more convenient for peasants going into the city to sell produce.²⁰ A great deal of emphasis was placed on the role of private businesses in simply providing *more* goods and services, as well as better service than state shops. Ha'erbin's daily newspaper reported in 1983 that the three-fold increase in retail and service outlets since 1978 was the result of the policy of 'state, collective and individual advancing together' [*guoying, jiti, geti yiqi shang*]. Collective outlets had more than tripled, while individual outlets had increased more than tenfold, providing jobs for 71,000 job-waiting youths.²¹ In 1987, *Renmin ribao* noted that the same policy had improved rural health services. Since the state alone had been unable to provide adequate health care, especially in rural areas, various collective, individually-contracted, or privately established medical services were a good way of making up the shortfall. According to the paper, the state had already approved over 133,000 private medical personnel who, because they had no 'iron rice bowl', gave excellent service.²² At other times a

¹⁹ *RMRB*, 19 February 1983, p. 2.

²⁰ *RMRB*, 29 March 1983, p. 1.

²¹ *HEBRB*, 4 January 1983, p. 1.

²² *RMRB*, 6 September 1987, p. 3. This argument was promoted by reformists, not so much to promote private enterprise, as to deflect criticisms that the dismantling of collective agriculture had undone much of the progress China had made in providing basic health care to the rural population. According to *JJRB*, 23 December 1987, 30 per cent of rural medical clinics were privately owned by that time.

number of articles and readers' letters also appeared in the Chinese press casting doubts upon this last assertion, saying that private doctors often had little or no training,²³ but those campaigning in favour of private businesses tended to gloss over its less savoury side, and emphasised the connection between the operator's good reputation and his or her income.

The private economy was also advanced as a way of enlivening the economy in outlying, less developed areas, and of increasing exchange between country and city. By 1985, over 2,000 individual traders from other provinces were operating in Tibet, bringing foods from Sichuan and Qinghai, daily necessities from Gansu, cloth and clothing from Guangzhou, electrical goods from Shanghai, and thus 'enlivening the backward economy'.²⁴ The Tibetan minority autonomous region of Yushu in Qinghai was reported to have benefited from opening its doors to individual traders from other provinces, most of whom were itinerant pedlars who traveled the grasslands to the great convenience of the isolated people there.²⁵ A 1989 article in *Jingji cankao* [Economic Information] again extolled the benefits which tailors from Zhejiang had brought to Lhasa: it was now possible for reporters from Beijing to have a pair of trousers made in a few hours.²⁶

Another aspect of the campaign attempted to counteract the poor image of private operators by reporting on 'model' businesspeople who, having 'got rich first', paid their taxes, went out of their way to serve people well, make donations to charity, and were generally nice to have about. These articles were designed both to improve the image of private

²³ e.g. *RMRB*, 20 July 1985, p. 5; *RMRB*, 9 November 1988, p. 5; *JJRB*, 26 August 1987.

²⁴ *RMRB*, 19 June 1985, p. 2.

²⁵ *RMRB*, 27 July 1985, p. 2.

²⁶ *JJCK*, 4 February 1989, p. 1.

businesspeople and to give them models to emulate. The most serious attempt at a 'model' campaign was that surrounding Xing Fuqiang, who was basically Lei Feng reincarnated as a private glazier, complete with an untimely death from cancer and a diary full of thoughts like 'wholeheartedly serving the people is the greatest honour in my life'.²⁷ In contrast to the popular image of the private operator who had eyes only for profits, Xing seriously wanted to make a contribution to society and would go to great lengths to help people, like walking many miles to repair a window for an old lady free of charge. Xing Fuqiang's case was unusual in that he was held up not only as a model for other private operators, but for Youth League and Party members to study as well.²⁸

Outstanding private businesspeople were also honoured at meetings. The most notable of these was in August 1983, when the then Party General Secretary Hu Yaobang and other leaders received 609 advanced collective and individual representatives. Their speeches emphasised the role of collective and private business in providing jobs and reiterated that private employment was perfectly respectable.²⁹ A similar public relations exercise surrounded the establishment of the national-level Individual Labourers' Association in December 1986.³⁰ National newspapers ran numerous articles on the importance of private business and the propriety of private employment, including a front-page photograph in the *Renmin ribao* of Zhao Ziyang, then Premier, shaking hands with a private entrepreneur.³¹

²⁷ *RMRB*, 19 July 1985, p. 4.

²⁸ See also *RMRB*, 4 June 1985, p. 4 and 16 August 1985, p. 2.

²⁹ *GMRB*, 31 August 1983, p. 1.

³⁰ The Individual Labourers' Association [*Geti laodongzhe xiehui*] is the means by which the government seeks to control private operators. It is a 'mass organisation', functioning in similar ways to the Women's Federation and the Federation of Labour Unions. Its role will be discussed further in Chapter Seven.

³¹ *RMRB*, 5 December 1986, p. 1.

Opposition to private business

In the early years there were constant complaints that cadres were discriminating against private businesses and seeking to hinder their growth. There were a number of reasons for this, which will be discussed in greater detail below. One set of reasons did stem from the general attitudes to private business described above: political antipathy to private enterprise could give rise to direct attacks upon it, or the less antagonistic position of simply looking down on private operators could lead administrators to ignore their interests. But there were also other reasons. Some 'discrimination' appears to have resulted merely from bureaucratism and the relatively powerless position of the private entrepreneur. The usually small-scale, always independent private businesses were often inconvenient for the established system to deal with; bureaucrats, accustomed to working within a top-down, state-controlled system, were sometimes slow to adapt to the diversity of new conditions. In the early years they were often not sure that it was wise to do so: if policies changed again, would they be criticised for encouraging capitalism? This question of policy was a major reason for bureaucratic obstruction of private business, and downturns in private sector growth can be linked directly to fluctuations in policy at the central level.

Private businesses are licensed and controlled by the ICB, a national organisation under the State Council. Naturally they also come into contact with a variety of other bureaucracies in charge of taxation, health, public order, town planning, marketing and so on. The relationships among these organisations, as they jostled for position in the changing reform environment, were complex, and their respective responsibilities were often unclear or overlapping. This situation provided a fertile

environment for personal or departmental empire-building by cadres, and gave them wide scope to act according to interests which might not coincide with central policies. In the decade after the policy of promoting private business was officially adopted, private businesses both suffered and benefited from this situation. Cadre attitudes towards private business were neither unified nor unchanging, but in general terms a change may be noted from around 1984, when the Central Committee's Document No. 1 on deepening rural reform in January, and the Decision on Reforming the Economic Structure in October, gave new impetus to the reforms. Before that time the private sector grew rapidly, but opposition to it was widespread and could be clearly seen in action. After 1984, although some overt opposition continued to appear, a number of factors combined to increase the willingness of bureaucracies to promote or cooperate with private business. The following discussion will look at how cadre opposition was expressed, and then go on to examine the impact of central reform initiatives. For ease of discussion I have divided cadre behaviour, rather arbitrarily, into outright harassment of private operators, the more subtle and pervasive use of bureaucratic red tape to place excessive limits on private business, and finally the exploitation of the private sector as a source of local revenue.

Harassment

Direct opposition to private business was most clearly expressed in harassment of private operators, including forcing private operators to move to less favourable sites, unauthorised confiscation of licences, closing businesses for investigation, levying excessive and punitive fines and charges, and ransacking of premises and confiscation of goods. Isolated cases of such harassment can be found at any time, but during the 1980s there were also several concentrated waves of anti-private activity,

stimulated by changes in the central balance of power between the more radical reformers and those who were more concerned about stability and order. Central calls to slow down the reforms, cool down the economy or 'rectify the market' were reflected in a reduced rate of growth in the private economy. Unfortunately it is not possible to show these fluctuations statistically, as the strong incentives to promote the private sector meant that attacks upon it were quickly discontinued, and thus the year-end figures show no substantial fall. The impact of these political fluctuations also varied from place to place, reflecting the regional power-bases of leaders with varied attitudes to market reform. Thus the main evidence showing the attacks on private business is anecdotal and locally-specific, gained from newspaper reports: the fact that most reports were highly critical of the attacks shows the rapidity of the reformist resurgence after each setback.

The variability in central politics naturally made it difficult for local cadres to know how to approach the politically sensitive private sector. As an editorial in the reformist paper *Shichang* [The Market] put it in 1981,

Some leading departments treat the individual economy, not according to policy, but according to the way the wind blows. They think the policy of allowing the individual economy is merely an expedient measure, so when there is an opportunity, they change tack.³²

The first of these changes in the wind occurred in late 1980. State cadres argued that the market was becoming chaotic because of too much freedom, and on the pretext of 'rectifying the market' and 'attacking speculation' began to crack down on private traders. Not only commercial departments, but departments of health, city appearance, urban

³² *Shichang* [The Market] editorial, quoted in *RMRB*, 28 March 1981, p. 2.

construction, public security, and taxation, all began to impinge upon private traders, and often confiscated licences.³³ In some places the number of registered individual business dropped by as much as 50 per cent in the first half of 1981.³⁴ This was apparently a reflection of the debate in progress at the central level over the extent of marketisation and decentralisation; there was a feeling among the more conservative leaders, such as Chen Yun, that reforms were running out of control, and that the reduction in central control was leading to over-investment in capital construction and consequently exacerbating sectoral imbalances and inflationary pressures.³⁵

In 1983, the drive against spiritual pollution was also reflected in attacks on private business. While the trend of central policy was towards further liberalisation, the government was anxious that this should not lead to economic and social disorder. Therefore while some restrictions were removed, efforts were made to clamp down on cheating, high prices, tax evasion and the like. In 1983 a series of central and local regulations on the licensing and control of individual businesses, taxation, product quality and hygiene, and free markets were introduced, and were followed by inspection drives. Here again, there was the problem of cadres acting 'not according to policy but according to how the wind blows', and market rectification drives became an opportunity to attack private business, as when Wuhan police closed down over 500 private stalls, accusing them of causing environmental and traffic problems.³⁶ Marcia Yudkin's book on the individual economy tells how in Shandong, the growth of the private

³³ Solinger, (1984) and 'Commerce: The Petty Private Sector and the Three Lines in the Early 1980s', in Dorothy Solinger, ed., *Three Visions of Chinese Socialism*, (Boulder, Colorado, Westview Press, 1984), pp. 73-111, deals with this period in detail.

³⁴ *RMRB*, 28 March 1981, p. 2.

³⁵ See Cyril Lin, (1981), pp. 43-47.

³⁶ See *GMRB*, 30 December 1983, p. 1, 4 January 1984, p. 1, and 9 January 1984, p. 1.

sector caused some cadres and state enterprises to argue that it had developed too much, and some of the more Left-leaning cadres started to revoke licences.³⁷ Beijing's clean-up drive reportedly caused over 7,000 *getihu* to close down.³⁸ This interpretation of the drive to improve control of commercial activity probably reflected the political atmosphere of the time: the effort to slow down economic growth and the campaign against spiritual pollution were interpreted by some as a setback, and potential reversal, in the process of reform.³⁹

One issue clearly related to the anti-spiritual pollution campaign was that of *getihu* running businesses associated with leisure and entertainment. Here the 'Dao Shizhuang' teahouse was something of a test case, reported in the national press in May 1984.⁴⁰ According to the reports Su Daoshan, a young unemployed man in Beijing, applied to run a teahouse in May 1983, but was told that he could only deal in cakes, wine, cigarettes and so on, not tea. Su then appealed to the Beijing ICB, which approved the teahouse. In October, however, the mayor of Beijing announced a rectification drive (part of the national drive described above) aimed at the city's *getihu*, and the district ICB closed down the teahouse on the grounds that tea and cakes were two separate lines of business (not then allowed), and that teahouses were socially unnecessary. Citing Lao She's *Teahouse* as evidence, they added that the teahouse attracted undesirable customers and was the thin end of the wedge in the line from teahouse to bar to 'nightclub'. Eventually, however, the reformists' refusal to allow the anti-

³⁷Yudkin, (1986), p. 29.

³⁸RMRB, 20 May 1984, p. 3.

³⁹ Meanwhile, reformists were quick to attack this interpretation, as illustrated by the August meeting referred to earlier, at which Hu Yaobang and other leaders received model *getihu* and emphasised in their speeches that individual business was both an honourable pursuit and good for the economy.

⁴⁰JJRB, 9 May 1984, p. 1; RMRB, 20 May 1984, p. 3.

spiritual pollution campaign to impinge upon economic growth was reflected in the teahouse question. Su Daoshan's teahouse reopened, and in August, 1984, no less than the central Ministries of Commerce, Environmental Protection and Urban and Rural Construction, and Labour, combined with the ICB to publish a notice on actively encouraging and even organising *getihu* to run teahouses.⁴¹

Sometimes incidents reported in the press as harassment of private business could also be interpreted as officials merely following the letter of the law, and illustrate the difficulties faced by officials in administering private business under changing conditions. *Renmin ribao* in January 1983 criticised civilian defence personnel and sanitation inspectors in a case involving a retired woman and her daughter who were selling fruit and tobacco from a cart. The officials said that the cart was an eyesore, was in a street barred to private traders, and that the girl's licence was for her alone, not her mother. The two refused to hand over the cart, and were 'beaten up' by the officials.⁴² While beating up the women sounds excessive, the officials may well have been right about the pair's violation of regulations. In another case, a private tailor was able to buy cloth without coupons from her husband, a deputy director of a supply and marketing co-op branch. When this illegal arrangement was discovered, the relevant departments investigated and took the case to court. The husband was jailed for one year, and their profits, meticulously detailed in the newspaper as consisting of 1,855 yuan, a 12-inch black-and-white television, a wristwatch, and 77 unsold pieces of clothing, were

⁴¹'Guanyu fangshou fadong, zuzhi getihu jingying chaguan, chatan de tongzhi' [Notice on boldly encouraging and organising individual operators to run teahouses and tea stalls], in *Siying he geti jingji shiyong fagui daquan* [Complete laws and regulations for the private and individual economy], (Beijing, Renmin chubanshe, 1988), pp. 154-155. See also *JRB*, 22 August 1984, p. 1.

⁴² *RMRB*, 27 January 1983, p. 4.

confiscated.⁴³ The interesting thing about this case is that it was reported, not as an example of a back-door dealer coming to a sticky end, but as a case of 'red-eye disease' or jealousy on the part of the prosecuting officials. Both of these stories illustrate that officials *do* have to act 'not according to policy, but according to the way the wind blows.' In the rapidly changing conditions of reform, regulations were quickly out of date, and central policy documents tended to be vague and open to interpretation. Bureaucrats were expected to apply regulations with a certain amount of discretion, and it was their interpretation of the political climate which encouraged them to lean to left or right, to encourage private business, or restrict it.

The rate of growth of the private economy was not solely a reflection of political fluctuations, but also of economic conditions, the more so as the private sector grew and became more integrated with other ownership sectors. This appears to have been the case with the downturn in private sector growth rates which was reported in the first half of 1986. At this time, the amount of credit available to both *getihu* and state and collective enterprises had been curtailed, and there were renewed efforts to improve tax collection and market administration. Again, the economic conditions also had a political dimension, since any such tightening of economic policies was interpreted by some administrators, and by many private entrepreneurs, as a sign of a more general leftward policy shift. Furthermore, in the economic downturn officials tended to support state and collective enterprises and see the private economy as a threat to them.⁴⁴ In that period, according to one source, the number of registered

⁴³ RMRB, 27 February 1983, p. 5.

⁴⁴ He and Zhu, (1986); Louise de Rosario, 'The Private Dilemma', *Far Eastern Economic Review*, 20 November 1986, pp. 68-9.

individual businesses fell by 2.6 per cent nationally, by 9.4 per cent in Liaoning, and by 9.3 per cent in its capital, Shenyang.⁴⁵ Similar falls in numbers of both *getihu* and *siying qiye* were reported in various other locations, including Shanghai, Shanxi, Jiangxi, and Inner Mongolia.⁴⁶ State Statistical Bureau figures do not show a drop in registered *getihu* numbers, but they do show a huge decline in the number of people entering private employment in urban areas, from 1.1 million in 1985 to 330,000 in 1986 (see Figure 3.1). This time, the decline in the private sector was blamed partly on attacks by cadres, but more often on excessive fees and fines. There was also a new element in the explanations, as some newspaper reports, as well as ICB cadres I interviewed in Zigong in 1988, sought to give the impression that there had in fact been no real decline in growth rates, or if there was, it had been the result of market forces in action: after the rapid growth of 1984-5, there were too many *getihu* in certain trades, and some had naturally gone out of business.⁴⁷ However, there was also a tendency on the part of administrators to decide for themselves that there were too many *getihu* in a particular trade or area, and refuse to grant any more licences except for businesses they saw as beneficial.⁴⁸

The major setback in private sector growth which occurred in 1989 was also the result of a combination of political and economic (albeit partly

⁴⁵ He and Zhu, (1986).

⁴⁶ e.g. *RMRB*, 1 August 1986 p. 2, 10 August 1986, p. 2, 24 September 1986, p. 2, and 27 September 1986, p. 2; *JJRB*, 11 November 1986, p. 1, 22 November 1986, p. 2; Huang Zhongming, 'Geti gongshanghu guanli zhong de falü wenti' [Legal problems in the administration of individual businesses], *Caijing kexue* [The Science of Finance and Economics], no. 4, 1987, pp. 79-82; Ch'en Te-sheng, ' "Individual Economy" in Mainland China', *Issues and Studies*, vol. 23, no. 1, 1987, pp. 8-10, p.10.

⁴⁷ See for example *RMRB*, 23 August 1986, p. 2; *JJRB*, 11 November 1986, p. 2.

⁴⁸ Yudkin (1986), p. 83, *RMRB*, 29 June 1983, p. 1. The same tendency could be seen in 1989, when authorities in Shanghai decided to reduce the number of private taxis and not to allow any more wine bars, discos, coffee shops, etc. See *JJCK*, 16 March 1990, p. 2.

politically-induced) factors. The attack on private business actually began well before June 1989, as concern mounted about economic disorder, confused administration, inflation, and corruption. Private businesses first suffered from the drive to improve control over market activity and clean up business administration launched in the autumn of 1988. In late 1988 the ICB began to pressure private businesses which had managed to register as collectives (of which there were many) to register as private, and in the first half of 1989 it conducted a nationwide drive to inspect and relicense all private businesses.⁴⁹ In the tense political climate of the time, these moves were seen by some private business operators as a sign of imminent policy changes, and by some cadres as a signal to go hard on the private sector.⁵⁰ The June crackdown, of course, confirmed this trend, and private businesses were made a clear target for attack. They were accused of large-scale tax evasion and blamed for much of the corruption in the economy and for high prices as well.⁵¹ The new austerity program affected private entrepreneurs, who could no longer get loans, found it harder to find customers, and in some cases were not even allowed to withdraw their money from banks.⁵² As a result of these combined factors, the private sector showed significant falls in 1989, with the number of registered private businesses falling by over 14 per cent (see Table 2.1).⁵³

Limitation

The impact of cadres' interpretation of the political climate can be seen in many reports of cadres placing excessive limits on private businesses.

⁴⁹*Xinwen bao* [News], 10 March 1990, p. 1.

⁵⁰*Xinwen bao*, 10 March 1990, p. 1; *JJCK*, 5 February 1990, p. 2.

⁵¹For example *RMRB*, 2 November 1989, p. 2; *JJRB*, 2 August 1989, p. 1.

⁵²*SWB*, 25 October 1989, FE/0596 B2/8.

⁵³This figure is certainly unreliable as an indicator of the true situation. Some business operators handed in their licenses (or had them revoked), but still stayed in business; others managed to obtain the political protection of a collective licence. Nevertheless, there was clearly a drop in private business operation in 1989.

Cadres often took advantage of local discretionary powers to block the growth of the individual economy wherever possible. In the early years of reform the central policy of 'appropriate development' of the individual economy was sometimes interpreted to mean very little development indeed: one county in Hebei considered that an appropriate number of individual businesses, for its more than 400,000 residents, was just 7, although 100 more had also applied.⁵⁴ A classic way of blocking individual businesses was to make them seek approval from numerous different departments before a licence could be granted, thus greatly increasing the opportunities for bureaucratic delay. The 1981 regulations on the individual economy stated that individuals must have the approval of their local street committee and obtain the licence from their local ICB branch, although those engaging in businesses relating to education, culture, and health were subject to separate regulation by the relevant departments. In rural areas, individuals required the approval of local governments at both township and county level before obtaining a licence from the ICB.⁵⁵ Yet in practice agreements were made between the various departments so that the ICB issued a licence only after approval was given by departments responsible for city planning, hygiene, public security, energy or raw material supplies if applicable, public security, and so on. Not only was approval from various departments required, but this in turn had to pass through various levels of these organisations. The owner of a private take-away stall in Nanjing, for example, had to make over 20 trips to gain permission to switch to photo-processing.⁵⁶ These requirements differed from place to place, trade to trade, and time to time, the trend being to simplify procedures in later years.

⁵⁴ *RMRB*, 29 June 1983, p. 1.

⁵⁵ I am grateful to Ole Odgaard for this information.

⁵⁶ Song Fangmin and Tan Lansheng, 'Lai zi chengshi getihu de tiaozhan' [The challenge of the urban individual businesses], *XHWZ*, no. 7, 1985, pp. 56-8; p. 57.

In some places limits were imposed not so much on the number of private businesses, but on their activities. In Tianjin there was at first a regulation that individuals using cycle carts had to stay within one district or be fined - most inconvenient for private transporters.⁵⁷ (Admittedly, it is difficult to determine whether this rule was designed to limit private businesses, or to make money from them.) A letter to the *Renmin ribao* in 1986 complained that although private barbers were a great convenience to the public, the one the writer patronised was hard to find because it was tucked away in a lane and not allowed to put a sign on the street.⁵⁸ Private businesspeople often claimed that they were discriminated against in this way; that they were accused of obstructing traffic, disturbing the peace or ruining the city's appearance, when similar shops run by state or collective units were not.

One reason for discrimination against private entrepreneurs was that they were seen as competitors with the (ideologically and morally superior) public sector and thus, by extension, as potential saboteurs of socialism. This led to obstruction and discrimination against private business, not only by enterprises which felt themselves to be directly threatened, but by a wide range of administrators and staff members who saw their interests as being aligned with the state-run system. The community of interests between state enterprises and state administrative departments led them to form a coalition against private business, acting defensively against an erosion of their security:

The system of government and enterprises being united makes some people in charge of economic matters consider and deal with problems from the point of view of state

⁵⁷ Liu Long, (1986), p. 114.

shops, and see individual businesses as a fearsome competitive force against state commerce, so they consciously or unconsciously squeeze it out.⁵⁹

As noted above, many of the early arguments in favour of the individual economy emphasised its subordinate, supplementary nature and suggested that individual businesses would generally engage in trades in which the state sector had no interest. However there was another, important stream in the pro-individual economy case which argued that competition from an independent private sector was necessary to stimulate sluggish state enterprises to better service and greater efficiency. State enterprises were notorious for their lack of responsiveness to customer demands, particularly in the area of consumer goods and services, at which the promotion of private business was particularly aimed. Given a lack of alternatives, it was in fact difficult for consumers to communicate their demands effectively to state enterprises in the first place. The reformist goal of increased efficiency required incentives, and incentives could only be effective in conditions in which consumers could choose between good products or good service, and bad, so that an enterprise's performance could have immediate and measurable consequences. A number of critics of Soviet-style socialism have suggested that this element of choice, an independent alternative to the state system, is necessary as a measure and a stimulant of state-sector performance.⁶⁰

In the Chinese context, there were several factors - in particular the relative size of the private sector in terms of output value or turnover, the immense demand for the products and services in which it specialised, the

⁵⁸ *RMRB*, 1 February 1986, p. 2; see also *RMRB*, 9 January 1982, p. 1; *RMRB*, 28 December 1986, p. 2.

⁵⁹ *RMRB*, 27 February 1983, p. 5.

⁶⁰ See the discussion of this question in Nove, (1983), pp. 42-5.

continued soft budget constraint in state enterprises, and the preferential treatment given to state and collective enterprises - which lessened the impact of private competition on the public sector, although these factors were weakened as the reform process continued. It is nevertheless clear that both state and collective enterprises were aware of private businesses as a threat. There was both a political and an economic dimension to their perceptions of the issue. Many cases have been reported of responses by state and collective enterprises which saw private businesses as an economic threat to themselves. Their tactics ranged from direct physical assault, to lobbying local officials, to - apparently as a last resort - reforming their own practices in order to cope with the competition economically.

On an enterprise to enterprise level, private businesses proved capable of providing real competition to public enterprises. To counter the state units' advantages of size and connections, private businesses generally had lower overheads and, because their operators were directly dependent on the businesses for their income, strong incentives to operate profitably. One Chinese study gives the example of a Shanghai manufacturer of brassieres and collars. Using offcuts bought cheaply from a shirt factory, the operator made brassieres at a total cost of 31 fen each, and sold them wholesale for 40 fen. The authors compare this with a state factory which, using good bolt cloth, made them at a *cost* per item of 58 fen.⁶¹

In some cases, staff of state enterprises threatened by private businesses responded by attacking and harassing the offending business. The staff of

⁶¹ Hu Guohua, Liu Jinghui, and Chen Min, *Duo sediao de Zhongguo geti jingyingzhe* [The many colours of China's individual business operators], (Beijing, Beijing jingji xueyuan chubanshe, 1988), p. 12. The comparison is rather unfair, as a significant part of the costs in the state enterprise would be the benefits in housing, health care, pensions, etc., provided to the workforce.

rival restaurants seem to have been particularly prone to smashing up each other's food bowls: in 1980 'angry personnel of a state-operated restaurant vented their wrath by smashing the dishes of nearby food stalls,'⁶² and in 1984 one Wu Taoying had a similar problem. Having been rash enough to set up a take-away food stall next door to a state-run restaurant, she proceeded to outshine the restaurant with her low prices and cheerful service. Rather than improving their own standards, restaurant staff overturned her stall and forced her out of business.⁶³

The alliance between state and collective enterprises and administrative cadres is illustrated by press reports detailing cases in which enterprises of these types used their superior political and economic connections to respond to private competition. In July 1984, for example, *Renmin ribao* published an account of the tribulations of Qin Yujie, a peasant in Liaoning who, 'in order to solve the local transport problem,' started a private bus service. His state-run competitor used its influence to persuade bus station officials to impound his bus. When this action was overturned by higher authorities, the state company added four more buses to the route in question. These buses not only took most of the customers, but attempted to run the private bus off the road. Since the state company could afford to run the route at a loss and repair damaged buses much better than the private operator could, it was a very unequal battle.⁶⁴ In another case, a county supply and marketing co-operative blamed its falling turnover on private business, and persuaded local authorities to revoke 900 licences at one sweep. (The newspaper article criticising this action smugly reported that the co-operative's turnover

⁶² Chao Yü-shen, (1980), p. 9.

⁶³ *JJRB*, 30 July 1984, p. 4.

⁶⁴ *RMRB*, 10 July 1984, p. 2.

failed to improve.)⁶⁵ The competition between private and collective enterprises in rural areas was in fact much more direct than that between the urban public and private sectors, and rural local governments acted to defend collective interests in a variety of ways, for example by appropriating successful private enterprises or by forcing them out of business and replacing them with a collective enterprise of the same kind.⁶⁶

The central response to such problems was a campaign to criticise enterprises and cadres who attempted to block private enterprise, and to point out the advantages of 'healthy competition'. Some press reports did this by detailing cases of successful cooperation between state and private enterprise, such as the Hunan Motor Transport Corporation, which initially feared competition from private transporters, and sought to hinder them. In August 1984, however, the company saw the error of its ways, and began to see private transporters as an opportunity instead, using its superior resources to offer them services such as loading stations, mechanical repairs, and training, with the result that its own profits rose rather than fell.⁶⁷ A similar response, of moving into a different market, was reported in Shenyang. State restaurants, greatly outnumbered by collective and private operations, used their better facilities and connections to specialise in the up-market banquet trade, leaving everyday off-the-street custom to their competitors. A similar phenomenon occurred in photo-processing: when colour photos first came on the scene, it was the state shops which were able to import the equipment, while the

⁶⁵ *RMRB*, 27 February 1983, p. 5.

⁶⁶ See Ole Odgaard, 'Collective Control of Income Distribution: A Case Study of Private Enterprises in Sichuan Province', in Jørgen Delman, Clemens Østergaard, and Flemming Christiansen, eds., *Remaking Peasant China*, (Aarhus, Denmark, Aarhus University Press, 1990), pp. 106-121, p. 117.

⁶⁷ *RMRB*, 7 July 1985, p. 2.

black-and-white trade was left to private operators.⁶⁸ This advantage could only have been short-term, however, as private colour photo shops soon appeared in Chinese streets, often cooperating with a state unit which did the actual processing. However, as the case of the bus company cited above illustrates, the advantages of state-run enterprises with respect to funds, premises, and connections are considerable, should they elect to use them. One private businessperson pointed out, if the state enterprises want to compete, their advantages are many. 'To tell the truth, the state shops' wealth and influence, their wide connections, are something we individuals have no way of competing with.'⁶⁹ This sentiment was echoed by the manager of a collective bank in Chengdu, whose clientele included some of Chengdu's largest and most successful private enterprises, when I interviewed him in 1988. 'The success of the private economy is based on the shortcomings of state enterprises. If the state enterprises really start to compete, private enterprise had better watch out.' The state enterprises' dislike of competition stemmed not from their fear of losing the fight, but from the fact that winning it required hard work, longer hours, better service, and changes in organisation. These changes did begin to occur as reforms to make state enterprises more profit-oriented began to take effect after 1984, but the whole point of the 'iron rice bowl' is that it is hard to crack.

Exploiting the Private Sector

Most administrators attempted not so much to stifle private businesses, as to make money from them, and there were constant complaints that private businesses were seen as 'fat meat to be arbitrarily cut up'.

⁶⁸ *RMRB*, 9 September 1984, p. 2.

⁶⁹ Situ Shuqiang, 'Geti jingying yu guoying shangdian jingzheng zhi wo jian' [My view of the competition between individually-run and state-run shops], *Guangzhou yanjiu* [Guangzhou studies], no. 2, 1985, p. 23.

Departments, or their staff acting as individuals, had many opportunities to impose charges or fines at will. Private businesses, being very dependent on the personal goodwill of people in charge of the goods, energy and raw materials, and administrative approvals they needed, were very easy targets for personal extortion by these people. Individual staff members of administrative or supply departments often used this situation to extort 'gifts' or free services from private businesses before a permit was issued or fuel, water, electricity or raw materials supplied.

A typical illustration of this is the story of Chu Ruitang, as told in the *Renmin ribao* in 1987. Chu leased a restaurant in 1986 and, in order to open for business, needed a hygiene inspection certificate and a business licence. Chu was repeatedly told that the relevant departments were 'too busy' to inspect the restaurant, although they didn't look very busy to him. Only when a friend explained that 'presents' were necessary to get things done, did Chu make any progress. He got his hygiene certificate for a case of wine, and his licence for the cost of a banquet. But after opening, his problems continued, as price inspectors, the local coal supply station, the police, the local bank branch director, and the water company all required him to supply them with free meals (the coal station demanded *jiaozi* for forty people at short notice), wine and cigarettes.⁷⁰ The newspaper's commentary on the case observed:

Some people just need to get a little bit of power and be in charge of something, for example water, electricity, coal, household registration, loans, licensing, hygiene certificates, and so on, and then they use every opportunity to wantonly use this power to their own advantage, and furthermore feel justified in doing so. This has become a public menace.⁷¹

⁷⁰ *RMRB*, 27 June 1987, p. 1, 30 June 1987, p. 1, 11 July 1987, p. 2.

⁷¹ *RMRB*, 27 June 1987, p. 1.

Restaurants appear to have been particularly popular targets for this sort of extortion - perhaps because an official with whom the restaurateur needed to be on good terms could then wine and dine other officials with whom he or she needed to be on good terms, and all for free. This could sometimes make heavy demands on a business - for example one individual who invested 1800 yuan to start up his business had, over a period of about eight months, supplied free services to the value of 1300 yuan.⁷² In the much-publicised case of Tianmen county, Hubei, cadres had extracted a total of 42,000 yuan from individual businesses and specialised households.⁷³

More important than individual extortion was the charging of various fees and levies by local administrative and supply departments and local governments. A private food-stall owner at the Suizhou railway station in Hubei found he had to pay a 20 yuan monthly 'road occupation fee' to the city construction office, and then the department of public roads also charged a 5 yuan 'road occupation fee'. State units were not asked to pay these fees.⁷⁴ The stamps of departmental approval required before a licence could be issued were likely to cost at least a couple of yuan each: this is another area where the practice of requiring approval from numerous departments came into its own. In one Hubei county individual businesses had to pay traffic regulation, city appearance, and health fees of 4.50 yuan per month each, plus a land-use tax of 8 fen per day per square metre. In one case, this added up to 45.50 yuan per month.⁷⁵ In Chengdu in 1988, individual businesses could end up paying

⁷² *RMRB*, 9 June 1984, p. 2, 20 June 1984, p.2. For similar examples see *HEBRB*, 28 March 1983, p. 1; *RMRB* 24 January 1985, p. 1; *RMRB*, 27 July 1987, p. 2.

⁷³ *RMRB* 9 June 1984, p.2, 20 June 1984, p. 2; *FBIS*, 2 August 1984, p. 3.

⁷⁴ *JJRB*, 30 July 1984, p. 4.

⁷⁵ *RMRB*, 27 February 1983, p. 5.

as many as 29 different fees of this kind, some on a regular basis and some imposed only occasionally as part of government 'drives' for children's health, city beautification and the like.⁷⁶

Right from the early stages of reform, there was concern that these local fees would place too heavy a burden on private businesses. The State Council's 1981 regulations on urban individual businesses stated clearly that no department was entitled to charge fees apart from those designated under local government and taxation department regulations. A number of other notices, such as the joint notice on supplies to individual businesses in June 1981 and two ICB notices in June and August 1983, reiterated that random charges should not be imposed and prescribed the amount of approved ICB administration fees as from 0.5 per cent to 3 per cent of turnover.⁷⁷ The ICB also stated that it would support individuals who chose to make a complaint against excessive or unjustified charges. Officials in the Sichuan industrial city of Zigong told me of a case where ICB support enabled an individual operator to have unjust charges refunded, but it was important to private businesspeople to maintain good relations with all local officials, so they usually just paid up. The ICB tends to see other administrative departments both as obstacles in the way of business development and as trespassers on its own turf, against whom

⁷⁶Interview, Sichuan ICB cadre, August 1988.

⁷⁷Guojia gongshang xingzheng guanli ju, shangye bu, liangshi bu, gongxiao hezuoshe, guojia wuzi zongju, and guojia laodong zongju, 'Guanyu dui chengzhen geti gongshangyehu huoyuan gongying deng wenti de tongzhi' [Notice on supplies to urban individual businesses and related problems], 22 June 1981, in Guojia gongshang xingzheng guanli ju geti jingji si and *Beijing ribao lilun bu*, eds., *Geti laodongzhe shouce* [Individual Labourers' Handbook], (Beijing, Beijing ribao chubanshe and Gongshang chubanshe, 1984) pp. 42-43; Guojia gongshang xingzheng guanli ju and caizheng bu, 'Guanyu geti gongshangyehu guanli fei shouzhi de zanxing guiding' [Provisional regulations on the charging of administration fees to individual businesses], 25 June 1983, in *ibid.*, pp. 50-52; Guojia gongshang xingzheng guanli ju, 'Guanyu gongshang xingzheng guanli bumen xiang geti gongshangyehu shou fei wenti de tongzhi' [Notice on the question of charges to individual businesses by departments of Industrial and Commercial Administration], 12 August 1983, in *ibid.*, p. 53-54.

it is keen to do bureaucratic battle, but the individuals who must actually bear the consequences are less enthusiastic.

Most of the private businesses I interviewed in 1988 complained of excessive fees and fines, but wrote them off as part of their regular overheads. One woman running a small delicatessen had settled down to quite an amicable arrangement with the local traffic and commercial inspectors, who regularly fined her about 20 yuan for illegally selling foreign cigarettes, and 10 yuan for stacking cases of soft drink on the footpath. Occasionally they would even confiscate the foreign cigarettes, but then business would go on as usual. The only charges she really minded were the random collections for city good works campaigns such as the 'Children's Sport Festival' going on at the time of the interview, for which she had been asked to donate 50 yuan. She felt that since she paid her taxes, she had already made sufficient contribution to government coffers.

In fact the real importance of these local fees and levies lies precisely in that they were a source of *local* revenue, almost immune to central control. In particular, local governments in rural areas saw private businesses as a legitimate source of extra local revenue, most of which came from locally-decided fees and levies. Ole Odgaard, in his 1988 study of villages in Renshou county, Sichuan, found that the income village governments obtained from private businesses was at least as much again as payments of centrally-regulated taxes, and that a large proportion of such income was never recorded at the county level.⁷⁸ Of course, state and collective enterprises were also subject to local fees and levies, and as state

⁷⁸Odgaard, (1990a), p. 112.

enterprises were given more stake in their own profits they, too, began to complain.⁷⁹ Private businesses, however, were particularly vulnerable to such charges because they had no back-up government department behind them and, because of their uncertain political position and the prevalence of policies designed to discriminate against them, were especially dependent on bureaucratic goodwill for their survival. Furthermore, it is clear from interviews in China that many officials and members of the public saw it as only proper that private entrepreneurs, whom everybody saw as being wealthy, should make a contribution to social welfare. This idea was even promoted by the central government when, in newspapers like *Renmin ribao* and *Jingji ribao*, it publicised successful entrepreneurs who used their wealth to 'serve the people'.⁸⁰

The local imposition of fees, fines and special-purpose collections was seen as a problem, not only by its victims, but also by the central government. The funds so collected were not part of regular revenue but were easily collected and used as local government departments, or individuals within them, saw fit. They therefore represented a potential threat to central control over both local government and private business. As part of the 1989 attempt to reassert central control over the economy, the central government made yet another stand against random charges, and in October the State Council released a document ordering government departments at all levels to cut down on collection-funded projects and reexamine and streamline fee and fine collection. It abolished the right of

⁷⁹For example, *JJRB*, 12 August 1987, p. 3, *JJRB*, 29 August 1987, p. 1.

⁸⁰For examples of such entrepreneurs and their good deeds, ranging from donations to worthy causes, to a tree-planting program in the entrepreneur's home village, to giving electric pianos to a school, see *RMRB*, 2 July 1984, p. 2, *JJRB*, 17 May 1985, p. 1, *RMRB*, 2 June 1987, p. 3, *RMRB*, 13 February 1988, p. 2, *JJRB*, 22 May 1989, p. 2. Reading these stories one cannot help but be struck by the similarity between these benevolent entrepreneurs and the ideal Confucian gentry, but this is not a parallel the writers have chosen to highlight!

local departments to retain a portion of fines collected, and proposed a system of licensing for the right to collect fees and fines.⁸¹ With respect to private businesses, however, this was somewhat contradicted by the anti-private enterprise tone of many other central pronouncements. Reports in 1990 and 1991 indicate that random collection of fees and fines from private businesses continued apace, and in January 1991, the ICB put out yet another notice on eradicating such charges.⁸²

Overcoming constraints: the momentum of continued reform

As discussed in Chapter Three, advocates of promoting the individual economy in the early 1980s claimed that it would be easily dominated and controlled through its dependence on the state sector for inputs and on the state administration for approvals. The discussion above shows that the attitude of officials in the state sector was indeed of the greatest importance to private operators, and dependency has been a feature of the remaining private sector in socialist economies, limiting its potential for growth.⁸³ The thesis argued here, however, is that in China the impact of reforms changed the relationship between the centre, the bureaucracy and private business and progressively weakened the central government's ability to control the private sector by administrative means.

A major reason for the successful growth of private business was the central government's promotion of economic development as the main goal of the initial stage of socialism, and the sustained reiteration of the role of private business in that development. This led to a steady loosening of the limits imposed on private business in central policies and

⁸¹See SWB, FE/0897 B2/3-6.

⁸²ZGGSB, 10 January 1991, p. 1.

⁸³See A. Hegedüs and M. Markus, 'The Small Entrepreneur and Socialism', *Acta Oeconomica*, vol. 22, nos. 3-4, 1979, pp. 267-289; Åslund, (1985).

regulations. The individual economy had first been proposed, and continued to be presented, as a peripheral, supplementary sector of small individual or family businesses, posing no real threat to the socialist system. In practice, however, there soon developed a contradiction between the economic goals of the reforms, and the measures proposed for the control and limitation of private business. In a climate of continued pressure for economic growth and reform, the economic goals tended to be given precedence.

The State Council's 1981 regulations on the urban individual economy imposed strict limits on the scale and type of private businesses, but these were soon found to be impractical and either removed or ignored. The rules limiting individual businesses to non-mechanised tools and vehicles was impractical even for very small businesses. If private businesses were to help develop the commodity economy and supplement limited state investment capability, there was not much point in keeping them at an artificially backward level and encouraging operators to fritter their incomes away on consumption. If they were to 'fill up the gaps' left by the state and collective sectors in, say, transport, they could hardly be expected to do so with shoulder-poles alone. Nor could such a restricted private sector realistically be expected to provide enough competition to help stimulate state and collective units to greater efficiency. Since the reformists measured their success by economic indicators, and the whole thrust of their program was to encourage decision-making based on economic factors, the private sector was allowed to grow in order to achieve economic goals.

As a result, and usually as a recognition of established practice rather than as an innovation, many restrictive regulations came to be removed, at city

and provincial level in 1982 and centrally in 1983. In 1982, for example, Shanghai issued a set of regulations on the individual economy which removed restrictions on the age of people who could undertake private business, and the limit of one line of business per operator.⁸⁴ In November 1982, a national work conference on commerce loosened marketing restrictions on a variety of non-essential goods, and allowed traders as well as peasant producers to engage in long-distance wholesale and retail trade.⁸⁵ In June 1983 the State Council issued a set of supplementary regulations to the 1981 regulations on the urban individual economy, which permitted individual businesses to use mechanised tools and vehicles, and to engage in long-distance and wholesale trade. The State Council's March 1983 guidelines on promoting the retail and service industries also sought to encourage private business in these activities by removing restrictions on sources of supply. Whereas individual businesses had previously been officially restricted to buying from approved state supply organs and in fact bought a portion of their supplies from other channels, they were now officially allowed to buy direct from factory surpluses and from other provinces.⁸⁶ The June supplementary regulations on the individual economy reiterated the widening of supply channels, although they also took care to emphasise that this only applied to goods outside or surplus to state plans. The danger, which proved to be very real, was that producers would prefer the

⁸⁴ 'Shanghai shi gongshangju guanyu fuchi chengzhen geti jingji ruogan wenti de buchong guiding' [Supplementary regulations of the Shanghai Bureau of Industry and Commerce on certain questions in supporting the urban individual economy], in *Zhongguo shehui kexue yanjiusuo*, eds., *Zhonghua Renmin Gongheguo jingji fagui xuanbian*, 1982 [Selected economic laws and regulations of the People's Republic of China, 1982], pp. 458-62.

⁸⁵ Solinger, (1984a), p. 79.

⁸⁶ 'Zhonggong zhongyang, guowuyuan guanyu fazhan chengxiang lingshou shangye, fuwuye de zhibiao' [Central committee and state council guidelines on developing urban and rural retail and service industries], 5 March 1983, in *Shangyebu bangongting*, eds., *Shangye zhengce fagui huibian 1983* [Collected laws and regulations on commercial policy, 1983], (Beijing, Jingji kexue chubanshe, 1984), pp. 3-10, p. 6.

higher prices paid by private businesses, and divert goods earmarked for the state plan to private buyers instead. This of course was a major factor in the nature and development of private business, which will be discussed further in later chapters.

At the level of implementation, there were strong forces encouraging cadres to ignore restrictions in order to develop their local economy, and these worked to counteract the opposition and prejudice described earlier. Of key importance was the introduction of budget contracting, whereby township and county level administrations were able to keep surplus revenue above an agreed amount to be handed to higher levels. Introduced experimentally at provincial level from 1977, this had become widespread by 1985.⁸⁷ This gave local governments strong incentives to develop the private economy in excess of official policy and regulations.⁸⁸ For example, the regulations on the individual economy retained the limit on the number of people an individual could employ, and yet private businesses with over seven employees appeared as early as 1981, while officials 'studied the question'.⁸⁹ In this case, the goal of increasing employment was of paramount importance, but larger businesses also meant more investment, more spending, and a more vigorous local economy. Under a reformist government, this meant more credit to the

⁸⁷Christopher Findlay and Andrew Watson, 'Risk and Efficiency: Contracting in the Chinese Countryside', mimeo, University of Adelaide, February 1989, p. 16. Also Andrew Watson, 'Investment Issues in the Chinese Countryside', *The Australian Journal of Chinese Affairs*, no. 22, (July 1989), pp. 85-126; pp. 98-99.

⁸⁸Unless their local economies appeared to be better served by restricting private sector development and promoting collective industry instead, viz. the case of of Wuxi county in Byrd and Lin, (1990); see also Li Jianjin, Chu Mingqiang, and Du Yi, 'Dui Tianjin shi siying qiye qingkuang de fenxi' [An analysis of private enterprises in Tianjin municipality], in Guojia 'qi-wu' qijian Zhongguo siying jingji yanjiu keti zu, eds., *Zhongguo de siying jingji - xianzhuang, wenti, qianjing* [China's private economy - conditions, problems, prospects], (Beijing, Zhongguo shehui kexue chubanshe, 1989), pp. 57-64, p. 61.

⁸⁹Yudkin, (1986), p. 29.

leaders of that economy, as well as increased local revenue. Therefore individual businesses were given 'temporary' permits to employ over seven people or were registered as collectives, or the problem was just ignored. This issue of the number of people an individual may employ was an important and contentious one in the development of private business, and it was not until 1988 that the Party officially came to grips with it.

Whereas the stimulus of further liberalisation of policy in 1983 was tempered by the strong emphasis on increasing market order and the political spin-off from the anti-spiritual pollution campaign, 1984 was a different matter. The campaign against spiritual pollution was discarded, and the central leadership was once again pushing for further reform. The Central Committee's Document No. 1 opened the year by taking rural reforms even further, urging increased commoditisation of the rural economy.⁹⁰ It also acknowledged and approved rural private enterprises, including those in which individuals employed large numbers of people. This was followed in February by the State Council's Regulations on Rural Individual Industry and Commerce, the first national regulations acknowledging rural private business.⁹¹ These regulations noted that the rural individual economy was important to 'promoting the rural commodity economy, enlivening urban-rural circulation, and utilising rural surplus labour' and are similar to the 1983 regulations on urban individual business although more specific concerning legitimate sources of supply.

⁹⁰ 'Zhonggong zhongyang guanyu yi jiu ba si nian nongcun gongzuo de tongzhi' [Notice of the Central Committee concerning rural work in 1984], 1 January 1984, in *Guojia gongshang xingzheng guanli ju geti jingji si* and *Beijing ribao lilun bu*, (1984), pp. 188-201.

⁹¹ See Appendix.

Although Document No. 1 concerned itself solely with rural reform - improving the production responsibility system and encouraging peasants to invest in commodity production - it had a major impact on attitudes towards private business of all kinds, not only in the countryside and small towns, but in cities as well. For if peasants were to be encouraged to engage in more sideline commodity production and invest in industry, (i.e., in private businesses of their own), businesses such as the transport of passengers and goods, resale of rural produce, and buying urban consumer goods for resale in rural areas, would all need to expand as well.

After the release of Document No. 1, city and county-level administrative departments were clearly directed to take concrete steps to promote the individual economy. In Linxi county in Hebei, for example, the ICB held meetings on how to improve services to individual businesses, and from April 1984 actually began to go out doorknocking to try and issue more licences, whereas individuals had previously had to come to them. ICB personnel now took a photographer along with them and issued licences on the spot, in marked contrast to the earlier laborious licensing process. As a result, by July the number of individual business licences in the county had increased by 160 per cent over 1983.⁹² The newspapers of 1984 are scattered with reports of similar licensing drives throughout China, and these drives were usually accompanied by other measures to make it easier to do private business. The ICB in the city of Wuzhong in Ningxia, for example, removed the previous rule that a private operator could only engage in one line of business at a time, set up new market places and stalls using ICB funds, built a hostel for peasants and transporters who came to do business, sent teams out to issue licences in outlying towns,

⁹² *RMRB*, 26 July 1984, p. 2.

and used bulletin boards and broadcasts to provide market information to private traders.⁹³ In December 1984, the Liaoning provincial government put out a notice on protecting the legal rights of individual businesses, which included the stipulation that licensing procedures should be simplified and that the relevant departments should process applications in no longer than 5 days, or 10 in the case of the city construction department.⁹⁴

These all-out drives to promote private business were obviously a response to directives from above. Similar directives had been issued before and ignored, but for 1984 they were part of a much wider push for further market-oriented development. Many local cadres again saw the way the wind blew, and acted accordingly. ICB cadres were responsible for private business development in their region and often identified with private operators and championed their cause, while increased local control over revenue acted as an incentive for other cadres to support private business also. Although the growth rate of the individual economy was to drop again in response to the economic retrenchment of 1986, 1984 began a trend of much more comprehensive support of private business by the ICB. It not only simplified licensing procedures, but also became actively involved in solving other problems of private businesses. In 1988 cadres in Ling County, Shandong, had a quota of new individual business licences to issue, with a bonus if they filled it:⁹⁵ the behaviour of cadres elsewhere suggests that similar incentives were used in many places from 1984 onwards.

⁹³ *RMRB*, 19 October 1984, p. 2.

⁹⁴ *RMRB*, 12 December 1984, p. 2.

⁹⁵ Information provided by Andrew Watson.

In general, then, the relationship between private businesses and administrators improved as continued reforms took effect. Overt opposition and attacks on private business became less common, and the typical obstacles facing private businesses changed from the dead-ends of limitation and blocking, to the expensive, but not insurmountable, problems of extortion and pay-offs. Although it has been argued here that there was a significant change from 1984, the widening of private business opportunities was not by any means a simple and discrete chronological progression. The dramatic, if temporary, drop in private business growth in 1986, and the fall in absolute numbers in 1989, are sufficient to illustrate that private business continued to be extremely vulnerable to policy fluctuations after 1984, in spite of the overall economic pressures for continued growth. Despite their continued political vulnerability, however, private businesses benefited from the economic pressures generated by reforms. This chapter has discussed the changes these pressures brought about in administrative attitudes to, and treatment of, private businesses. The next chapter continues this story with a discussion of the similar changes which took place in the activities of private businesspeople, as they dealt with the practical problems of running their businesses and obtaining supplies, premises, and funding.

CHAPTER FIVE: OVERCOMING MATERIAL CONSTRAINTS

The daily operations of private businesses were, of course, intimately affected by attitudes among officials, suppliers and the community in general. The prejudices described earlier tended to aggravate the practical difficulties faced in an environment of high administrative involvement in business and limited resources. In many cases private operators suffered because they were small players in the new market economy created by the reforms, working within a framework set up for the planned economy. To this extent, the reformists' argument that the individual economy would be constrained and dominated by the state-run economy held true. Yet continuing reforms also changed relationships within the state-run economy and between it and private business, widening the opportunities open to private operators and making state bureaucrats and state enterprises more willing to deal with them. This chapter will examine how these changes affected some of the major practical problems private businesses encountered.

Supplies

In the supply of goods, there is also a lot of unfairness towards individual businesses. Not only are the channels of supply few, but also what is assigned to individual businesses in the plan is often blocked off. Besides this, the tendency to supply only one's contacts is also quite serious in supplies.¹

The main reason business has been bad for state shops is that they cannot compete with private enterprises in paying commissions. Individual businesses and private enterprises rely on bribes to buy goods in short supply, rely on giving presents to get out of paying taxes, and use policy loopholes to engage in profiteering.²

¹*RMRB*, 28 December 1988, p. 2.

²State shop manager, *RMRB*, 4 April 1988, p. 2

These quotations show two sides of the question of inputs for private businesses: one is the private operators' perennial complaint that obtaining supplies was even more difficult for them than for others, and the other gives the opposing view that the corruption rife in the Chinese economy made it all too easy for private operators to buy up goods and engage in profiteering. There is truth in both points of view. Obtaining supplies from state production or distribution units through official channels was often very difficult, even impossible, for private operators in the early years after 1978, and remained so for some commodities, especially raw materials. These problems were ameliorated by the effect of reforms, which made official channels easier and opened up many alternative sources of supply. Such was the nature of this supply system, however, with its uneasy mesh of planned and market distribution, inadequate distribution arrangements and pressing demand, that the opportunities for corruption were immense. To private businesses this did mean that high-demand goods *could* be obtained - but at a price.

Obtaining inputs of raw materials, goods for resale, equipment, and energy was a constant problem for many private businesses. In June 1981 the ICB, Ministry of Commerce, Ministry of Food, the Supply and Marketing Cooperatives and the Bureaus of Materials and Labour put out a joint notice on providing adequate supplies for individual businesses.³ The notice expressed concern that, because of insufficient recognition of 'the objective necessity of developing the urban individual economy', individual businesses were encountering problems in supplies, taxation and excessive charges. The notice stipulated that, politically and economically, individual businesses should be treated as equal to state or

³See Chapter Four, note 77.

collective units and given the wholehearted support of all departments. Local supply departments were to 'actively supply' individual businesses, at the same wholesale prices enjoyed by state units. Yet the experiences of private operators differed greatly from this ideal.

Until the Chinese economy became more diversified as a result of reforms, private operators depended on state supply organs for the bulk of their goods or raw materials. The state wholesalers often discriminated against private buyers. This was attributed in state reports to the state units' inadequate grasp of the importance of the private economy or lingering leftist attitudes, i.e., to opposition to the policy of encouraging private business, and to feelings of solidarity with state retailers threatened by private competition. The methods used against private businesses also indicate that in some cases state wholesalers discouraged individual buyers simply because their small orders were less convenient to handle than those of the larger state and collective buyers. These methods include charging private buyers the retail instead of the wholesale rate, refusing to sell in the small quantities private businesses wanted, selling high-quality goods only if accompanied by a consignment of poor-quality, hard-to-sell goods, or simply refusing to sell to private businesses at all.⁴ When commodities were in short supply, private businesses were the first to lose out: the response quoted in one press report of *getihu* supply problems was, 'If we give everything to individual businesses, what will state workers eat? The wind?'⁵ Private operators with only temporary

⁴For examples see *RMRB*, 5 July 1981, p. 5; *RMRB*, 9 January 1983, p. 1; *Zhongguo nongmin bao* [Chinese Peasant], 4 September 1983; *RMRB*, 7 February 1985, p. 7. Solinger, (1984a), p. 93, describes this kind of problem in detail. The same problems have been noted by students of the private economy in Eastern Europe; see for example Anders Åslund, 'The functioning of private enterprise in Poland', *Soviet Studies*, vol. 36, no. 3, (July 1984), pp. 427-444, p. 32.

⁵*RMRB*, 3 May 1984, p. 7.

licences, such as those run by non-local residents, were not issued with tickets to buy supplies from wholesale departments.⁶ In spite of government exhortations, state wholesalers often had neither the inclination to cater to private businesses, nor any real incentive to do so.

The extreme difficulty of obtaining supplies has been noted as a feature common to the marginal private sectors of socialist economies. In China in the 1980s, however, a series of reforms in marketing worked to reduce the importance of state distribution agencies and to widen the supply avenues open to private business. For example in Hubei in 1983, over 95 per cent of the goods sold by private retailers were bought from state commercial outlets and supply and marketing cooperatives. By 1987 this had fallen to 48.5 per cent.⁷ Private operators continued to be disadvantaged in many ways when obtaining supplies, but the nature of the problems they complained of changed. Up to around 1984, private operators usually complained of outright refusal to sell them popular goods. In later years such complaints continued to appear, but they began to be far outnumbered by complaints that wholesalers took advantage of a seller's market by charging high prices and demanding bribes and favours. In these circumstances obtaining supplies might be difficult and would be expensive, but it could be done.

⁶Zhang Caiqing, 'Guoying shangye yingdang zhichi geti shangye de shidang fazhan - Jiangsu sheng Wujiang xian geti shangye diaocha' [State-run commerce should support the appropriate development of individual commerce - an investigation into individual commerce in Wujiang county, Jiangsu province], *Caimao jingji* [Finance and Trade Economics], no. 1, 1984, p. 60.

⁷Huang Chengxi, 'Guoying shangye zhudao zuoyong jiantui de yuanyin ji duice' [Causes of the decline in the leading role of state commerce and measures for dealing with it], *Shangye lilun yu shijian* [Commercial Theory and Practice], no. 3, 1988, pp. 37-40, reprinted in *FBZ*, F51, no. 10, 1988, pp. 13-16, pp. 14-15.

Free markets

A major development in supply sources open to private businesses was the growth of the free markets, at first dealing in surplus and sideline agricultural produce and later expanding to include trading in a wide variety of commodities. The free markets began as an adjunct to the initial rural reforms, providing an outlet for peasants' surplus produce, but soon generated pressure for further developments such as long-distance trade and trade in non-agricultural products. Central Committee Document No. 1, 1983, on deepening rural reforms, advocated a greater role for free markets, and the State Council followed up with regulations on free markets in February which loosened restrictions on their operation, allowing state units, collectives and individuals to trade in unified and assigned purchase goods surplus to plan requirements.⁸ The June 1983 regulations on the urban individual economy allowed individual businesses to engage in long-distance and wholesale trade and use mechanised vehicles. This central recognition and ratification of the role of free markets in turn gave further impetus to their growth.⁹

The free markets became important to private businesses, both as a source of supplies and as a venue for doing business. As the free market system developed, markets appeared dealing not only in agricultural and sideline products but in some of the raw materials needed by small private industry, such as scrap metal, waste products from state enterprises, and cloth.¹⁰ Naturally, given the higher prices to be commanded at the free markets, some of the commodities supposed to be purchased under state

⁸State Council, 'Chengxiang jishi maoyi guanli banfa' [Procedures for the administration of trade in free markets], 5 February 1983, in *HEBRB*, 24 February 1983, p. 4.

⁹See Andrew Watson, 'The Reform of Agricultural Marketing in China since 1978', *CQ*, no. 113, (March 1988), pp. 1-28.

¹⁰*Ibid.*

plans were diverted to free markets instead. As specialised production and private business developed, there appeared wholesale markets devoted to particular commodities, and patronised mainly by private traders buying goods either for resale or for their own manufacturing needs, although state and collective units of various kinds also participated.

One such market is the Beizhan market near the Chengdu railway station, administered by the district ICB branch. When I visited it in September 1988, 3000-odd private stalls dealt here in clothing, knitting wool and cloth, and spices and Chinese medicines. The stallholders bought the clothes mainly from yet other wholesale markets in Shanghai and Guangzhou, and they were sold at this market to individual traders who resold them at rural markets. The nearby Hehuachi market, which deals in industrial products and second-hand vehicles as well as the above commodities, had over 5,000 traders in 1990. In one day over 600 private traders and 16 state or collective units came from all over China to buy from the Chinese medicine section.¹¹ A market such as this is not only a source of supplies for many private businesses, but also provides new opportunities for private business to develop. It is an ideal start for would-be entrepreneurs with no capital, as they may begin by either simply working in a stall for good wages while the owner is off on buying trips, or running their own stall by selling on commission for larger traders, who specialise as middlemen in wholesale trade and long-distance transport.

¹¹Interview, January 1991.

Changes in state unit attitudes

At the same time as free markets were developing as an alternative source of supply, state units were being made more responsible for their profits. As a result their attitude to private operators often changed and they were more likely to see them as potential sources of profit rather than merely as economic or ideological competitors. This resulted in wholesale departments becoming more willing to sell to individuals, and expanding their services to set up branches aimed specifically at private businesses. The Xizang Trading Corporation, for example, realised in 1983 that Lhasa's more than 1800 individual businesses were a market not to be sneezed at, and began in February to sell to them at wholesale prices.¹² The participation of state units in the wholesale markets also showed a far greater interest in private custom, and the competition of the markets could sometimes lead to lower prices than individuals were formerly able to obtain. In 1987, a *Jingji cankao* reporter visited a Hangzhou market where 53 state and township enterprises and over 100 individual traders sold silk products. Individual businesspeople interviewed told how they had formerly had to go all over Hangzhou visiting separate factories, and it was hard to be sure of getting the best price. They were now able to compare goods and prices on the spot, and bought more cheaply and more conveniently.¹³

Probably more important than the greater willingness of state suppliers to trade with private buyers through official channels was their willingness to trade unofficially. Goods which were in high demand were still hard for individuals to obtain officially, as the quota for individual businesses provided for in plans would be small or non-existent, since they still came

¹²*RMRB*, 11 February 1983, p. 2.

¹³*JJCK*, 18 December 1987, p. 1.

last in the traditional hierarchy of state, collective and individual. Unofficially, however, the interest in profit-making created by the reforms meant that state production or distribution units might be willing to divert some of the materials they had obtained under state plans to individuals at high prices. In this way, for example, a tinsmith I interviewed in Chengdu was able to buy imported sheet metal from Japan, which he could not otherwise have obtained. At times state units' preference for profitable sales to private buyers became so blatant that it left state and collective buyers unable to obtain goods. In Ha'erbin in mid-1983, there was a dearth of bottled beer in state shops and restaurants. It turned out that the beer factory was selling some of its output outside the city, some direct to individual retailers, and some to selected state shops which, instead of retailing it to consumers, were reselling it to private restaurateurs, who resold it at 8 to 13 fen higher than the normal price.¹⁴ In Changchun in the same year, the Changchun Fruit Products Corporation decided that, since a certain shipment of melons from Hainan was only small, none of these melons would be sold to private traders. But its supply station manager and Party secretary had other ideas, and sold the melons to private traders and their own staff.¹⁵ Such deals were sometimes more complicated, with one commodity being bartered for another. For example the Hangzhong district tobacco company in Jiangxi reportedly sold 15,000 cartons of cigarettes at wholesale price to two private traders, who then resold them to individual retailers; in return for this generosity the traders sold the company Phoenix-brand bicycles at a low price.¹⁶

¹⁴HEBRB, 14 June 1983, p. 2; 24 June 1983, p. 2; 17 July 1983 p. 2.

¹⁵HEBRB, 29 June 1983, p. 4.

¹⁶NMRB, 1 January 1988, p. 3.

In some cases the state unit or staff member would profit by selling, not the commodities themselves, but the state-unit status which facilitates buying. Many of the cases of illegal trading reported in the media involved individual businesspeople using cheques, identification or letters of introduction from state or collective units.¹⁷ These were sometimes forged, but they could also be obtained with the collaboration of cadres in the unit concerned, in return for a cut of the proceeds.

Illegal sales could be made by the management of state units, or by staff members lower down. Cigarettes, for example, were often sold in small quantities by individuals on their own account. In either case, it was necessary for private traders to have good connections with the people concerned. Private businesspeople I interviewed in 1988 consistently listed good connections as one of the main prerequisites for success in business, particularly in obtaining supplies. Those in trades where supplies might be expected to be a problem, such as a tinsmith, a signmaker using plastics, and a battery chicken-farmer requiring large amounts of feed, were run by former state employees or their relatives, and obtained their materials from their former work units or from connections made when working there. The problem for most private businesses is that if they did not happen to have these connections, they had to be bought. (One private operator I spoke to in 1988, however, commented that these days even if you did have connections, they still expected to be paid.) High demand for some goods provided ample opportunity for cadres and enterprise staff who had power over those goods to profit from their position. 'If you want to get some goods through a state unit, you have to give big presents. A few years ago it was

¹⁷For examples see *HEBRB*, 17 September 1983, p. 2; *RMRB*, 13 February 1984, p. 1; *JJRB*, 10 March 1987, p. 3.

no problem for us to get some clothes wholesale from the Foreign Trade Bureau wholesale department, but now unless you give presents, you won't get one piece,' complained the operator of a clothing stall in 1984.¹⁸

Thus although the channels for obtaining supplies increased, such goods were expensive, and, for many businesses, still by no means easy to get. Good connections were particularly important to the larger enterprises, since they tended to need greater quantities of a wider variety of inputs. Of 54 rural private enterprises in a survey in Shanxi in 1988, 53 per cent bought their raw materials in free markets easily, but complained at the price; 20 per cent got supplies through connections, and still at high prices; and 5.8 per cent said they often had trouble obtaining materials, to the point of having to suspend production due to lack of inputs.¹⁹ The enterprises, whose average gross profit was around 80,000 yuan, found that they had to spend an average of 10,000 yuan on cultivating connections; some spent as much as 30,000 yuan.²⁰ One entrepreneur commented that every road had many 'wealth gods', to whom offerings had to be made if doors were to be opened and business continued.²¹

One consequence of the difficulty of obtaining supplies and the importance of connections is the rise of a new group of private traders who operate specifically as brokers, using their market knowledge and connections to obtain goods for which enterprises, both private and otherwise, will pay high prices. They are a freelance version of the buyers used by state enterprises both before the reforms, to overcome shortfalls in the planning system, and after the reforms to represent their enterprise in

¹⁸*RMRB*, 4 April 1984, p. 2.

¹⁹*NMRB*, 16 December 1988, p. 2; *RMRB*, 25 December 1988, p. 8.

²⁰*Ibid.* See also Hu Guohua et al, (1988), p. 161.

²¹*NMRB*, 16 December 1988, p. 2.

the marketplace. They may both cooperate and compete with their counterparts in state units. In Wenzhou, with its thriving private enterprise, these brokers are called 'worker bees' [*gongfeng*] and are an important link in the operation of the economy. Such people may buy and sell goods on their own behalf, or act as brokers for a commission.²² By 1988 the latter arrangement was also a common part-time money-raiser for virtually anyone in Chinese society who happened to know the right people at the right time. At the shadier end of this kind of dealing were the illegal traders known as '*daoye*', who used connections to buy up goods such as famous-brand wines and cigarettes, grain, fertiliser, televisions, even special-issue postage stamps, for resale at high prices.²³ By 1988 the illicit trade in some items had become quite regular and open. In Chengdu, for example, there was a regular cigarette market on the banks of the Jinjiang river, where private vendors could buy top-brand cigarettes at about twice the state retail price. In August 1987 this market was reported as handling 2,000 to 3,000 cartons each day; one year later it was still going strong, and several private vendors I spoke to said they always got their top-brand cigarettes there.²⁴ In the latter half of 1987 the issue of '*daoye*' was canvassed extensively in the national press as a campaign against speculation and profiteering was launched. The ICB was anxious to make a clear distinction between '*daoye*' and law-abiding, licensed private traders.²⁵ However, the difficulty of obtaining supplies of some commodities through legitimate channels meant that there was

²²See Tao Youzhi, 'Luelun geti jingji de zhengdun yu fazhan' [A brief discussion on the consolidation and development of the individual economy], *Jingji wenti tansuo* [Inquiry into Economic Problems], no. 5, 1987, pp. 22-24, p. 23; Li Fan, Zhang Xiuwen, Yu Maofa and Shi Mingzhi, 'Shanghai xiao shangpin shichang geti shangfan jingying qingquan yu jiaqiang guanli de yijian' [Operating conditions of individual pedlars in Shanghai's small commodity markets and opinions on improving administration], *Shehui kexue* [Social Science], no. 9, 1983, pp. 78-80, p. 78.

²³*RMRB*, 16 August 1987, p. 2; *JJRB*, 14 August 1987, p. 1; *JJRB*, 7 September 1987, p. 1.

²⁴See *RMRB*, 26 August 1987, p. 1.

²⁵*RMRB*, 16 August 1987, p. 2; *JJRB*, 26 August 1987, p. 1.

often an unbroken, if convoluted, line of mutual dependence connecting the state supply station cadre, one or more licensed or unlicensed go-betweens, and the private retailer. This is one of the reasons why the private sector was seen by some in China as a major - even *the* major - cause of increasing corruption, as it was the outlet for illegally-obtained goods and its operation provided myriad opportunities for bribery and extortion.²⁶

Space for business premises

A more severe constraint on the growth of private businesses in China than the problem of supplies was that of finding business premises. Here again, private businesspeople were disadvantaged because of their political insecurity and low status, and their lack of institutional backing. In an effort to make private businesses more manageable, ICB departments would often not issue a licence unless fixed premises had been arranged. In Shanghai in mid-1986, over 2,000 applicants were unable to obtain their licences for this reason, and lack of premises was commonly cited by both administrators and private operators as one of the major impediments to further development of the private economy.²⁷ One way in which state units have been known to attack private businesses is to hold an 'environment beautification campaign' and demand that private stalls near their premises be removed for aesthetic reasons.²⁸ It has been noted that this concern for appearances is purely discriminatory and reserved for

²⁶Gregory Grossman describes a similar network of connections between the private economy, officialdom, and organised crime in the Soviet Union in 'Sub-Rosa Privatization and Marketization in the USSR', *Annals of the American Academy of Political and Social Science*, vol. 507, (January 1990), pp. 44-52; p. 50.

²⁷See the reports by municipal and provincial authorities in Guowuyuan bangongting diaoyan shi, eds., (1986), esp. p. 36 regarding Shanghai.

²⁸Tong Haosheng and Xu Gang, 'You zheyang yihuo nianqing ren' [There is a group of young people like this], *Shijian*, [Practice], no. 14, 1984, pp. 20-22, p. 21.

the ugliness of private stalls, vehicles or signs alone.²⁹ Although central government departments took steps to have space for private businesses included in city planning as early as May 1981,³⁰ local departments often saw private businesses as unsightly, disruptive of public order, and an impediment to traffic.

Some cities have specific regulations forbidding individual stalls from busy streets, and the sites opened up for trading markets are always in remote places, where there is no business to be done. Because many districts have not included the question of premises for individual businesses in city construction plans, individual businesses are often moved from one place to another.³¹

In 1984, a group of private stallholders wrote to the *Renmin ribao* complaining of just such a problem.³² In March 1983, their market place had been burned down in a fire started in a nearby apartment building. They expected to move into the replacement building nine months later, but were then told that the market was a fire hazard and would be banned. In March 1984, public security personnel broke up the market and removed the stalls. The newspaper followed up a month after the letter with an article saying that cadres should 'give the green light' to collective and private business in order to provide jobs, and held up an example from Lanzhou, where stalls and market-places had been built especially for private traders.³³

²⁹RMRB, 9 January 1982; RMRB, 9 November 1985, p. 5; RMRB, 3 April 1986, p. 7.

³⁰On 6 May 1981, the State Labour Bureau, State Bureau of Urban Construction, the Bureau of Public Security and the Bureau of Industry and Commerce put out a 'Notice on solving the problem of space for the urban collective economy and individual economy', reproduced in Guojia gongshang xingzheng guanli ju geti jingji si and *Beijing ribao* lilun bu, eds., (1984), pp. 44 -45.

³¹RMRB, 28 December 1986, p. 2.

³²RMRB, 14 July 1984, p. 5.

³³RMRB, 11 August 1984, p. 5.

Lanzhou was not alone in this. As ICB departments, responding to policy directives, began to look for ways to promote private business, they began to see the advantages of setting up such market-places. The first noticeable result of this was the appearance in Chinese streets of rows of more permanent stalls, usually in green fibreglass roofing sheets, tin, or wood, which could often be locked at night. These often developed from a spontaneous gathering of private stalls, and were usually set up by the ICB after consultation with departments such as traffic and city planning, and then rented out to individual businesspeople. In this way the businesspeople got more permanent, weatherproof premises, and the ICB got both the rent and the administrative advantage of having regular stallholders in one spot. This often resulted in the development of very successful markets. The many underground air-raid shelters in China's cities were also used in this way. In the Sichuan industrial city of Zigong, the ICB used administration fees collected from individual businesses to turn an air-raid tunnel into the Nongchang Market in 1984. In September 1988 the market had 349 businesses, mainly private, each paying 30-50 yuan rent per month per stall (some businesses had more than one stall), plus another 30-40 yuan in fees and electricity charges. The stalls were in high demand: if a stallholder left, he or she could charge up to 3000 yuan for handing the stall over to another operator.³⁴ A thriving night market I visited in Guangzhou was set up in a similar way: stallholders arrived each evening to set up stalls on numbered spaces on the road. They had bought their own stall-building materials to ICB specifications; the ICB had only to pay for the spaces to be painted and electrical wiring to be installed for lighting. The demand for these stalls was far from being met, and

³⁴Interview, Zigong, September 1988.

there was an unofficial market in stall-spaces which were sold or sub-let for large sums.

These organised markets had both advantages and disadvantages from the point of view of private business. Permanent, weatherproof stalls, especially the type with a small, lockable storage space at the back, were an advantage to stallholders, and the concentration of stalls attracted customers. On the other hand, such markets were sometimes another manifestation of the government desire to collect private businesses in one place, where market control officials and tax collectors could keep an eye on them and where they would be off the streets.³⁵

Stall-space, while by no means easy, was not too difficult to find, as stalls are small and cheap to set up. One could always begin by just setting up at the side of the road, keeping a wary eye out for ICB officials. Larger, more permanent premises were more of a problem, especially in crowded cities. In Chengdu, anyone who happened to own one of the old, 2-storey timber houses fronting a busy street need never work again. He or she could simply rent out the ground floor of one or two rooms. A small shop of some 8 square metres could be rented for 50 to 200 yuan per month in 1988, depending on its location. Lease agreements were often intentionally informal or unclear, if landlords wished to mislead taxation or other officials. For example a shop rented from the state at a low rent of 2 yuan per square metre might be sub-let officially at the low rate, with the remainder of the market rate paid separately. Extra rent was sometimes further disguised by listing the landlord or a relative as an employee

³⁵Dorothy Solinger, (1984a, pp. 86-87) gives a good example of this from two 1982 press reports: in Lanzhou, the concentration of private stalls in controlled areas was praised, whereas the same phenomenon in Ha'erbin was criticised as obviating the benefits to consumers of scattered, flexible private shops.

receiving 'wages'.³⁶ In Chengdu, rents had risen rapidly in the years preceding 1988, so that landlords were often unwilling to give long leases, and had been known to break leases in order to move in a new tenant at higher rent. This made even those private operators who had obtained rented premises insecure, as landlords might wish to raise the rent beyond their tenants' means, or, alternatively, take up business themselves. Entrepreneurs who owned, or had relatives who owned suitable premises had of course no problem, and some operators managed to buy premises. A two-storey, two or three-roomed older-style house in Chengdu sold for around 10,000 yuan in 1986, and for at least twice as much in 1988.

In Beijing, prices were much higher. A clothing retailer whom I interviewed in Wangfujing street had rented his shop of about 24 square metres from the struggling state hairdressers' in 1985, for 2,500 yuan per month. By 1988 the rent was 3,600 yuan. In 1984 the owners of a thriving restaurant behind the Beijing Hotel paid 3,000 yuan per month for their restaurant of three good-sized rooms and a sleeping room upstairs. When their restaurant proved successful, the state unit owning the shop asked for a fifty-fifty split of the profits instead. Of course both of these examples, being in Beijing's main commercial street, must have been paying among the highest rents in town. Other parts of Beijing were probably cheaper.

Productive enterprises, needing larger workshops or factories and access to transport, and energy supplies, had more difficulty finding premises than shops and restaurants. During the 1980s city planning authorities were often unwilling to allow further industrial development in heavily-populated areas; the thrust of planning policies was to promote new

³⁶See *JJRB*, 2 August 1987, p. 2.

industry in outlying small towns, where it could simultaneously promote economic development in rural areas, and absorb some of the surplus labour and capital released by rural reforms. In rural areas and smaller towns, premises could usually be arranged, although township and village-level cadres sometimes used their power over land-use decisions to demand a share in the profits or other benefits, in addition to rent, in return for providing space.³⁷ Even without such considerations, however, the reforms to local government budgeting created strong incentives for local cadres to encourage private enterprises in order to increase local revenue and employment. This meant that a private investor whose enterprise showed promise of succeeding was likely to find local cadres quite accommodating when it came to leasing or buying space for the enterprise. Thus the Sichuan chicken producer mentioned earlier was able to lease a total of around 50 mu of land from the village-level administration on a 20-year lease at around 540 yuan per mu per year.³⁸ On the other hand, many observers have noted that the process of gaining the required approvals remained very complicated and bureaucratic. An alternative was to use one's own private plot, the use of which was left more to a family's own discretion.³⁹

Long-term leases were approved in the changes made to the rural land contracting system in Central Committee Document No. 1 of 1984, as the former 3-year contracts were found to discourage investment in and proper use of the land. A more permanent way of obtaining land was to *zheng di*, i.e. to buy the right to use the land.⁴⁰ In such arrangements the use of the land was transferred, more or less permanently in many cases,

³⁷NMRB, 16 December 1988, p. 2.

³⁸Interview, September 1988.

³⁹Ole Odgaard, personal communication.

⁴⁰I am grateful to Li Qingzeng for answering a number of questions on this subject for me.

in return for a once-only lump sum payment. In this way private enterprises were able to obtain land by making deals with the collective or, more rarely, state-unit 'owners' of the land, sometimes even in urban areas. One enterprise I visited in a county on the outskirts of Chengdu had obtained a total of five factory sites, either by leasing from the county administration or by simply buying existing buildings outright. In Sichuan, prices seemed surprisingly low: one private enterprise had been renting a well-appointed 2-storey factory and offices in Chengdu itself from the city construction department for 20,000 yuan per year, but was about to move to a new, less central site for a one-off payment of around 30,000 yuan.⁴¹ A 1988 Chinese article reports one-off land-use fees of 5,000 to 10,000 yuan per mu in Changle county in Fujian.⁴² Aiguo Lu and Mark Selden, in a 1987 article on land ownership, found much higher prices elsewhere, particularly for urban and suburban land.⁴³ The transferral of use-rights, notionally different from ownership rights, was legalised in the revisions made to the Constitution by the Seventh People's Congress in April 1988, but such transferrals appear to have been common well before this. Unfortunately, documentation of specific arrangements is difficult to find, as they were often private deals of mutual benefit between the entrepreneur and the unit in charge of the land, kept fairly quiet because of their dubious legal standing.

Although premises remained expensive and difficult to obtain in urban areas, as might be expected in a country as crowded as China, the economic

⁴¹Interview, September 1988.

⁴²Chen Jianhua, 'Cong wuxu dao youxu - Fujian sheng Changle xian siying qiye fazhan de diaocha' [From disorder to order - an investigation into the development of private enterprises in Changle county, Fujian province], *Zhongguo jingji wenti* [Chinese Economic Problems], no. 5, 1988, pp. 51-56, reprinted in *FBZ*, F22, no. 11, 1988, pp. 41-46.

⁴³Aiguo Lu and Mark Selden, 'The Reform of Land Ownership and the Political Economy of Contemporary China', *Peasant Studies*, vol. 14, no. 4 (Summer 1987), pp. 229-249; pp. 240, 243.

changes brought about by reforms helped ease the situation here too. Urban authorities were aware that the economic advantages of promoting private enterprise, such as increased revenue, increased employment, and better services to consumers, could not be obtained unless the logistical problems of private businesses were solved. As a result, some city planning departments, in conjunction with the ICB and the Labour Bureau, did begin to provide space for private business. It was reported that by 1986 Jinan had provided premises for over 4,800 businesses, and loans totaling 14 million yuan, in order to increase employment opportunities.⁴⁴ The ICB's sponsorship of market-places for private stalls, described above, was also part of this change, as it could not take place without the collaboration of city planning and local government authorities.

Private businesses installed in older buildings were often the casualties of the massive reconstruction going on in Chinese cities in the 1980s. If a private operator was compensated and provided with alternative premises, this could be an advantage, as in these circumstances rents were usually low. Zhang Guangyi, a 'model' individual pen repairer in Beijing, used to own premises which were knocked down to make way for new construction. In 1988, as a result, he was renting a shop from the state for a laughable 10 yuan per month.⁴⁵ Other private operators, however, sometimes complained that they were moved out without alternative provisions or adequate compensation, especially if their premises were in a good location.⁴⁶ Given the potential for rental income of any privately-

⁴⁴*RMRB*, 7 January 1986, p. 2.

⁴⁵Interview, August 1988. No doubt his rent was influenced by his 'model' status and the fact that repair shops such as his were seen as highly desirable by the authorities.

⁴⁶*RMRB*, 28 December 1986, p. 2; He and Zhu, (1986), p. 8; Ole Bruun, 'The Reappearance of the Family as an Economic Unit: A Sample Survey of Individual Households in Workshop Production and Crafts, Chengdu, Sichuan Province, China', Copenhagen

owned building in a busy area, compensation for the change from proprietor to tenant would have to be high indeed to be truly adequate.

The economic reforms also encouraged the building of new commercial premises, however. In many cases the older-style wooden buildings, admirably suited to small private commercial businesses as operators could both live and work in them, were replaced by large multi-storey apartment blocks. But the organisations building these blocks were generally not blind to the economic advantages of renting out commercial premises, and the ground floor of newer buildings is very often divided into shops which private businesses can rent.⁴⁷

The pressure on state and collective units to be responsible for their own profits and losses was also of benefit to private business in this way, as unsuccessful units sometimes found it easier simply to rent out their premises, or a part of them, to private businesses, as did the state hairdressers' on Wangfujing street which was mentioned earlier. State department stores began to lease out individual counters to private operators, often for higher rents than their former sales income; for example a department store on Yinchuan city, Ningxia, rented out 12 counters for a total of over 12,000 yuan per month, roughly equivalent to the profit on 19 counters it operated.⁴⁸ One private clothes-seller interviewed at the store said that although the rent was high, conditions were much better than in the outdoor market and his clothes did not get damaged by the weather. Some of his colleagues said that the rent of 1,000

Discussion Papers no. 1, (Copenhagen, University of Copenhagen Center for East and Southeast Asian Studies, 1988), p. 125.

⁴⁷Ole Bruun, (1989, p. 6), suggests that space in these new buildings was too expensive for private operators, but on my own visits to Chengdu in 1988 and 1991, I observed that a great many shops in these buildings were in fact private businesses.

⁴⁸RMRB, 23 February 1988, p. 1.

to 1,500 yuan a month was too high, and they would move out once winter was over. In existing stores local authorities often limited the number of counters allowed to be rented out, but in Chengdu, new buildings appeared after 1985 which were built with renting specifically in mind. A new building in the outer-city shopping area of Shahe, for example, devoted its ground floor to small counters, each of which was rented to individual traders for 250 to 300 yuan per month in 1988.⁴⁹

Housing

As well as business premises, private operators naturally need somewhere to live. The majority of private businesspeople I interviewed in 1988 either came from families who owned housing from before 1949 or the early 1950s, or lived in state-owned flats obtained in various ways. Some had obtained this housing when they were working for a state or collective unit, and retained it by paying the unit a monthly fee, usually half of their former wage, to keep their position as a unit employee open. Others had a spouse or parent working in a state or collective unit and thus providing the family with housing. As well as the traditional wooden shops in which operators can work by day and sleep by night, a small amount of housing could be rented from families who, by one means or another, had been allocated more housing than they actually needed, and rented out the surplus for a profit.⁵⁰ Reforms introduced from 1986 onwards to commercialise housing were of course of great interest to private

⁴⁹Interview, September 1988. In 1989 a number of articles were published which criticised the leasing of counters by state enterprises on the grounds that there was little or no control of the private operators' business practices and that consumers, lulled into a false sense of security because they were shopping in a state store, were being cheated. In Shenyang, state shops were banned from leasing counters to private operators. See *JJCK*, 1 March 1989, p. 2 and 3 July 1989, p. 2; Liu Guanglu, 'Guoying, jiti shangye chuzu guitai qingquang de diaocha' [An investigation of conditions in the renting out of counters by state-run and collective commercial units], *Liaoning shangye jingji* [Liaoning Commercial Economy], no. 4, 1989, pp. 20-21; reprinted in *FBZ*, F51, no. 8, 1989, pp. 113-114.

⁵⁰*JJRB*, 2 August 1987, p. 2.

businesspeople, but remained of limited impact up to the early 1990s. Private businesspeople were among those most likely to be able to afford to buy housing, and did bid for the flats which became available on the open market.⁵¹ Many of the new apartment blocks being built for sale in 1988-9, however, were still built and owned by state units, and were intended for sale to the units' employees only. A possible solution would be for private businesspeople to form housing co-operatives to build new housing, as was tried in Wuhan in 1987, but this appears to have been an unusual case.⁵² In the period under discussion private businesspeople were rarely united enough for such an action and would have experienced difficulties obtaining a suitable site in urban areas. What sites did become available to private development were more likely to be used for commercial or productive investments which offered quicker and higher returns than housing.

Finance

From the early stages of the policy of promoting private business, certain attempts were made at a government level to provide private entrepreneurs with financial assistance. The People's Bank began in 1980 to give loans to individual businesses having sufficient collateral or a guarantor. Initially, loans were limited to under 1,000 yuan, but local branches gradually increased the limit.⁵³ Article 10 of the State Council's 1981 regulations on the urban individual economy stated that local governments and relevant departments such as the ICB and the Labour Bureau could make arrangements to provide financial assistance to individual businesses whose funds were insufficient; in addition it

⁵¹ *Jiefang ribao* [Liberation Daily], 1 March 1988; *SWB*, 11 January 1989, FE/W0059 A/2.

⁵² *JJCK*, 28 December 1987, p. 1.

⁵³ Hu Guohua et al, (1988), p. 7.

confirmed that individual businesses could also apply for bank loans. Obtaining such loans appears to have been a little easier in rural areas, especially after 1984. The Agricultural Bank announced in July 1984 that it would give loans to private operators more easily, and the lending guidelines it circulated in December allowed borrowing by a wide range of business types.⁵⁴ The Industrial and Commercial Bank followed suit, making loans available for the first time to the more mobile transport, tourism, and household repair businesses, and allowing loans for the purchase of vehicles.⁵⁵ Such official sources of funding remained extremely limited, however, and often ill-suited to the circumstances and requirements of individual businesses.⁵⁶ Bank loans were short-term, usually for three to six months, and the guarantor generally had to be a state or collective unit of reasonable standing. It was often impossible, particularly in the early years after 1978 when suspicion of and opposition to private business was widespread, for an individual operator to obtain such a guarantor. Banks, too, remained much less helpful to private businesses than central-level documents might suggest; some branches would not even let individual businesses open accounts.⁵⁷ If they did, to open an account as an economic entity required extensive checks and perhaps a larger, state or collective umbrella unit, while a normal individual savings account did not offer services such as credit transfers. Interviewees in China suggested that the state-run banks, used to dealing within the planned, collective economy, often saw private businesses,

⁵⁴Zhongguo nongye yinhang nongcun geti gongshangye daikuan shixing banfa' [Agricultural Bank of China trial procedures for loans to individual industrial and commercial households], Zhongguo jinrong xiehui, eds., *Zhongguo jinrong nianjian* [Financial Yearbook of China], 1986, (Beijing, Jinrong chubanshe, 1986), p. 58.

⁵⁵JJRB, 29 January 1985, p. 2

⁵⁶Much of the information in the following discussion was obtained from interviews with private businesspeople and academics in Beijing and Chengdu in 1988. I am particularly indebted to Wang Shihua of the Sichuan Academy of Social Sciences and Yuan Yong of the Huitong Urban Co-operative Bank.

⁵⁷Solinger, (1984), p. 203.

with their unreliable accounting and small transactions, as more trouble than they were worth.

In fact, although press reports appeared criticising the unhelpful attitude of banks towards private businesses, the antipathy was often mutual. The majority of private entrepreneurs preferred to keep at least some, if not all of their funds in cash, for several reasons. A major motive was of course to keep one's true financial position secret from government officials, both to avoid taxes and in case of a reversal of policies supporting private business. Another important reason was that banks, in the tradition of dealing with state units whose funds belonged to the state, tended to refuse to allow large cash withdrawals; it was, private businesspeople said, much easier to get money into the bank than to get it out again.⁵⁸ Cash transactions were also preferred over cheques or credit transfers for tax reasons, because goods could be bought cheaper for cash, and because bank transactions were often too slow or inadequate for the needs of private businesses. For example cheques do not appear to have become available to private businesses until 1986, involved fairly complicated identification procedures, and were normally for use only within one municipality and therefore useless to a large number of private traders dealing across long distances.⁵⁹ As a result, private businesspeople were accustomed to carrying huge amounts of cash, sometimes tens of thousands, when on buying trips, thus providing a growing source of income for that other thriving post-reform industry, transit robbery. In the Hehuachi wholesale market in Chengdu, 90 per cent of the 1988 turnover was reported to have

⁵⁸Information from interviews, 1988. See *JJCK*, 28 May 1989, p. 2; *SWB*, 25 October 1989, FE/0596 B2/8.

⁵⁹*RMRB*, 19 April 1986, p. 4; *RMRB*, 10 August 1986, p. 2.

been in cash transactions, and 13 private traders investigated at the market averaged over 150,000 yuan in cash holdings at the end of 1988.⁶⁰

Although funds from official sources remained limited, alternative finance became increasingly available as reforms opened up the economy. The majority of smaller businesses were started with personal or family savings or loans from relatives and friends, and the high profitability of private business meant that large amounts of capital could be built up from small beginnings. Loans also became available from new collective banks and credit societies set up by a variety of units, and at high interest from unofficial credit societies and private individuals.

Many private businesses, such as repairs or roadside stalls, needed very little starting capital. The few tens or hundreds of yuan needed for licence fees (if a licence was obtained), tools, a shelter, and the first consignments of goods were well within the reach of the average family. But larger businesses, too, could be developed from similarly small beginnings. The proprietor of a cake shop whom I interviewed in Chengdu in 1988, was originally a worker in a collective unit on a salary of some 40 yuan per month. His family had been in business before 1949 and he was quick to see the opportunities offered by reform policies. In 1984 he applied to leave his job, but his unit would not release him. He left anyway, and, being unable to obtain a licence without his unit's release, did business unlicensed for two years. He started out in a small way, selling beef which he bought from peasants. Then he switched to fruit, going out to buy a load of fruit and selling it in the city. By 1986, when his unit finally agreed to release him, he was able to invest 12,000 yuan, nearly all his own, in

⁶⁰JJCK, 28 May 1989, p. 2.

setting up his bakery and shop. A woman who ran a clothing business which had a turnover of some 4 million yuan in 1987 told a similar story. She too used to work in a state factory, but left in 1983 because the factory's leaders, very zealous about the birth-control campaign, were making her life a misery over her decision to have her one child out of turn. With a few hundred yuan, she started a stall selling clothes in Chengdu's Beizhan market, getting up early to go and buy the clothes. Later, as she started to build up a little capital, she bought clothes from Shanghai, still later establishing links with well-known Shanghai clothing factories. By 1988 she had her own factory making 50 per cent of the goods she sold, plus a shop in the city, a warehouse and four stalls in the Beizhan market, and admitted to fixed assets of 800,000 yuan. By this time, she was able to get substantial loans from a collectively-owned bank, and she thought her next project, if only she could find the land, might be a hotel/office building in the city.

Small retail, repair or catering businesses were a popular start for individuals with limited funds. Those without even the funds to set up a stall could start out by running a stall on commission. Many of the stallholders in the Beizhan market had started in this way. The stallholder was responsible for market and licence fees, while a distributor supplied the clothes. Mr. Liu, a stallholder in the market who, like most of his colleagues, admitted to liquid assets of 40,000 yuan in 1988 (although as mentioned above, the operators of similar stalls in the Hehuachi market nearby were reported to be worth three times as much), had started by working for wages in a stall run by someone else. Then he got his own stall, but sold on commission because he lacked the funds to get in his own supplies. By 1988, he was employing two people to run the stall, while he devoted his time to making buying trips to Shanghai and Fujian,

cultivating *guanxi*, and reading about foreign entrepreneurs and the privatisation policies of Margaret Thatcher, which he followed with great interest.

It was clearly possible, therefore, for successful private businesses to be started in the 1980s from the kind of funds an average family could provide. Many private businesses were also launched with help from relatives and friends, raising the start-up capital to several thousand yuan - sufficient to start up a permanent workshop or retail business. Among the private businesses I interviewed in 1988, loans of this sort were far more common than loans from other sources.

Other sources were available, however, although often at very high rates of interest. After 1985 the Chinese financial system was loosened up and many small financial banks and credit societies appeared, serving mainly collective and private enterprises. An example is the Huitong Urban Co-operative Bank in Chengdu. Set up by the Southwest Finance University and other state units in 1985, by 1988 its shareholders also included some individuals. According to the manager any licensed private business could open an account, and the whole balance could be freely withdrawn in cash. Loans were available to private businesses at state-regulated rates: before September 1988 the rate was between 9 and 9.9 per thousand per month for private businesses, as opposed to 9 per thousand for collectives. After September when the government raised interest rates, the rates rose to 13.5 per thousand per month and 12 per thousand per month respectively. Loans were generally for three to six months, but could be renegotiated at the end of that time. First loans for private businesses were usually from 30,000 to 60,000 yuan, but once the enterprises had built up more mortgageable assets larger loans were possible: the manager gave

the example of a million-yuan loan made to the Chengdu clothing company, mentioned earlier. Pawn shops and credit co-operatives also reappeared in major cities, catering to private and collective businesses.⁶¹ In many rural areas private moneylending re-emerged and became common. In some cases those who had obtained loans from state banks and credit societies then re-lent all or part of the money to others at higher interest. For example an individual transporter who borrowed 40,000 yuan in 1985 was reported to have lent the money to three peasants to start a business. They were to pay back the principal plus the bank rate of interest, plus a share of the profits.⁶² Private money-lending institutions formed by groups of individuals became common and were often organised along similar lines to traditional banks or credit unions. There were also revolving credit societies in which members pooled funds, then took it in turn to borrow. One survey found that over 30 per cent of all rural households were involved in some form of private money-lending.⁶³ In Wenzhou in 1986, it was estimated that the unofficial finance market was providing over 200 million yuan annually, about 30 per cent of capital required by township enterprises.⁶⁴ Loans between family members were usually interest-free; loans between friends sometimes carried about the same interest as if the money were deposited in a bank account.⁶⁵ Other loans were usually at very high interest rates, even as high as 40 per cent per month.⁶⁶ A survey of rural borrowers in Jiangsu found that over 20 per cent were borrowing at unspecified 'high

⁶¹SWB, 7 January 1989, FE/0352 B2/7; *Shoudu jingji xinxi bao* [Capital Economic News], 23 February 1988, p. 1.

⁶²NMRB, 24 February 1986, p. 4.

⁶³*Zhongguo cunzhen baiye xinxi bao* [China Village Trades Informer], 14 January 1987, p. 1, cited in Watson, (1989), p. 108.

⁶⁴Zhang Renshou, Yang Xiaoguang and Lin Dayue, "'Wenzhou moshi" dui jingji tizhi gaige de xiangdao yiyi' [The guiding significance of the 'Wenzhou model' for structural economic reform], *Zhejiang xuekan* [Zhejiang Studies], no. 5, 1986, pp. 4-10, p. 7.

⁶⁵*Zhongguo shangbao* [China Commercial News], 18 March 1989, p. 1.

⁶⁶Watson (1989), p. 107.

interest'.⁶⁷ In Chengdu in 1990, the private lending rate was generally 35 to 45 per thousand per month.⁶⁸ These high rates reflect not only a high demand for funds, but also the high profitability of private business ventures. Borrowers were expected, and indeed were usually able, to pay back the loans within a few months, and according to the Jiangsu report quoted above the amounts borrowed were increasing from a few hundred yuan to thousands. Reports in 1989, however, suggested that in some areas non-government credit institutions were overreaching themselves; in Wenzhou in early 1989, no doubt at least partly as a result of the centrally-initiated credit squeeze, over 20 such institutions failed with liabilities exceeding 1 million yuan.⁶⁹

Thus it can be seen that in the latter half of the 1980s, the financial arrangements open to private entrepreneurs became extremely diverse. Both the state banks, and the collective banks from 1985 onwards, improved the financial services available to private businesses, and loans became much more freely, if expensively, available from a wide variety of sources. The banking system, however, remained far from adequate to the demands of the dynamic commercial economy of the private traders, and this combined with their distaste for taxation and distrust of officialdom to make the majority steer clear of official financial institutions.

Conclusion

This chapter has examined the ways in which private businesses solved problems in three common areas: supplies, premises, and finance. The three show a common pattern. In each of them, central policy support was

⁶⁷*Zhongguo shangbao*, 18 March 1989, p. 1.

⁶⁸Interview, Chengdu, January 1991.

⁶⁹*Xinwen bao* [News], 11 April 1989, p. 1.

echoed, more slowly, by changes at lower levels of the administrative hierarchy. The slack left by inadequate official responses was taken up to some degree by the much more readily adaptable solutions which arose from the changing economic situation. Thus as the reform process progressed a stage was reached at which it began to generate its own solutions. Private businesses both benefited from this, and contributed to it. Both administrative cadres, and state production and distribution units became more willing to deal with private businesses either legitimately or otherwise. This economic dynamism had further consequences for the subsequent path of reform.

With increased attention to profitability, state enterprises became weary of their burden of excess employees, adding further impetus to the generation of private employment as an alternative. The increased role of the market and the preferability of market sales made it yet more difficult for state planning to function, as goods were diverted to the free market. A similar trend can be seen in the evolution of the land and capital markets. The unofficial nature of the responses to economic opportunities in the areas discussed in this chapter led to similar consequences in each case: high prices and corruption in supplies, an impenetrable legal minefield in the realm of land ownership, and high interest, lack of government monetary control and speculation in the field of finance. An uneasy and shifting combination of state, state-approved, private, unofficial, and downright illegal arrangements evolved: one which seemed in many instances to be lubricated by the widespread corruption which became one of the major political and economic problems facing the Chinese government in the late 1980s.

The economic pressures generated by the reforms were favourable to the growth of private enterprise, and the responses to these pressures began to challenge long-held concepts concerning the proper hierarchical distribution of state, collective and individual and the role of the government in the economy. This section has discussed the interaction among private businesspeople, cadres, and other enterprises, and how this interaction was affected by the reform process. The following chapters will discuss these changes in relation to three issues: the changing role and nature of the private economy in China, the administrative problems arising from these changes; and the underlying and important issue of changing forms of ownership.

CHAPTER SIX: NEW ISSUES IN THE PRIVATE SECTOR

The impact of the post-1978 reforms on attitudes to private businesses, and the consequent changes in the opportunities available to them, brought about important changes in the position of the private sector in the economy and in Chinese politics. During the 1980s there was dramatic growth both in the size of the private sector as a whole, and in the size and impact of particular firms. At the same time the private economy became much more intimately connected with other ownership sectors, both through the increasing variety of trading relationships described in Chapter Five, and through a complex variety of administrative arrangements, which stemmed from further attempts to reform state and collective enterprises and from the private sector's uncertain relationship with the state administration. This chapter discusses these developments in the role and nature of the private economy.

The growing size and impact of the private sector

The registered private sector is still very small in proportion to the Chinese economy as a whole. The tables in the Introduction show extremely rapid growth in the number of registered individual businesses, but from very small beginnings, so that after a decade of reform policies there were still less than 15 million private businesses registered with the ICB. Although these businesses were making inroads into manufacturing, food processing, construction, transport and other industries, they were still predominantly involved in retailing, catering and services, yet even in these trades they only made up less than a fifth of retail value in official statistics, and scarcely showed at all in industrial output figures. The rural statistics recorded by the

Ministry of Agriculture show that the private sector, even only the *recognised* private sector, is much more significant in the rural economy, making up over one quarter of GVIO in township enterprises by 1988, but the fact remains that, in relation to the national economy, the acknowledged private sector remains small.

It is these official figures, especially the lower figures of the State Statistical Bureau and the ICB, on which official policy statements and discussions of the private sector in China have been based. However, as noted in the Introduction, private businesses are in fact much more significant than official statistics indicate. Firstly, even the official figures, known to be far too low, show a remarkable impact for a small private sector which began virtually from scratch in 1978. The very rapidity of its growth was, in itself, a serious challenge to traditional assertions about the superiority of the socialist sectors. Secondly, and very importantly, the importance of the private sector in the rural economy was virtually ignored in official statements that the private sector remained a marginal 'supplement' to the publicly-owned economy. Thirdly, while the overall share of private businesses in the national economy was not large, they did much better in particular localities and trades. For example as early as 1984 sales by private restaurants in Changchun were ahead of state and collective restaurants by 13.5 million yuan and 9.47 million yuan respectively.¹ In the tailoring trade, private businesses produced two-thirds of Ha'erbin's tailored clothes in 1983.² Private transporters were recorded as handling 9.9 per cent of total goods

¹Li Bin and Zhao Ming, 'Geti jingji zuoyong de bianhua - Changchun shi geti jingji diaocha' [A change in the role of the individual economy - a survey of Changchun's urban individual economy], *Jingji yanjiu* [Economic Research], no.3, 1987, p. 51.

²HEBRB, 12 November 1983, p. 2.

transported in China in 1984, but in the first half of 1985 in Chengde, private and joint operators handled 2.4 million of the total 2.7 million tonnes of goods transported.³ In many areas, private operators handled as much as one third of passenger transport by 1988;⁴ in Jiangxi it was calculated that privately-run (although not necessarily privately-owned) transport exceeded state and collective transport by 45 per cent.⁵ Chinese researchers' surveys also confirm that by the late 1980s the private sector was much larger than official statistics suggested, with estimates of the private share of gross output value ranging from 40 to 60 per cent in some more developed regions.⁶ In Changle county in Fujian, over 95 per cent of enterprises were privately owned (though not always registered as such) in 1988, and they made up 74.36 per cent of the county's gross output value in 1987.⁷

Increasing integration

As the 1980s progressed, the influence of private businesses was also enhanced by their formation of relationships with other ownership sectors and among themselves. With reforms to make state enterprises more independent and profit-oriented, the forms of ownership and management in the economy became more complex, and the simple trinity of state, collective and individual began to be superseded. As Liu Guoguang put it in 1986, 'Ownership by the whole people, collective ownership and individual ownership are no longer separate from one another, and there are no

³JJRB, 17 August 1985, p. 2, RMRB, 14 September 1985, p. 2.

⁴Yan Ying'an, 'Dui geti keyun jiage yao jiaqiang guanli' [Individual passenger transport prices need more control], *Jiage lilun yu shixian* [Price: Theory and Practice], no. 6, 1988, p. 51.

⁵ZGGSB, 20 March 1989, p. 1.

⁶see Zhang Kai, 'The development of private enterprises in China', *Shiyue pinglun* [October Review], (Hongkong), June/July 1988, pp. 49-51.

⁷Chen Jianhua, (1988), p.42.

insurmountable barriers between various forms of ownership⁸ As discussed in Chapter Five, while the small size and independence of most private businesses could be an advantage in terms of flexibility, their size and their lack of political clout could disadvantage them severely in competition with state and collective units for supplies, business premises and so on. One way in which private businesses sometimes sought to overcome this was to club together in various co-operative formations, although this appears to have been rare. For example, a group of vegetable sellers might pool their funds to buy in bulk: a group of twenty-four stallholders who did this in Qiqiha'er in Heilongjiang managed to double their incomes.⁹ Other groups of private business people organised collectively to solve the problem of business premises by pooling their funds to build market buildings.¹⁰

More significant than collective action to solve business problems were the increasing links across ownership sectors. As well as increasing business links as state and collective units bought the output or services of private businesses, an important factor was the ways in which private businesses sought to solve problems of prejudice and supply difficulties by attaching themselves to a state or collective unit. The practice of leasing counters in state-run shops to *getihu*, referred to in Chapter Five, is one example of this: Chengdu's famous mosquito-net manufacturer, Yang Yi'an, moved into the Shanghai market via the Number One Department Store in December 1986, and proceeded to equal the store's previous year's sales of nets in six

⁸Liu Guoguang, 'Guanyu suoyou zhi guanxi gaige de ruogan wenti' [Some problems in the reform of ownership relations], speech at a conference on ownership, 21 November 1985, in *JJR*, 4 January 1986, p. 3; translated in *SWB*, 17 January 1986.

⁹*JJCK*, 18 January 1988, p. 1.

¹⁰For example *RMRB*, 10 September 1985, p. 2.

months.¹¹ Private operators leasing counters in state shops benefit not only from the better environment, but also from the better public image of state shops, which while not famous for their efficiency or good service, do have the reputation of being more honest than *getihu*.

Another form of co-operation between private businesses and state or collective units was the *guahu* or 'hanger-on' system. This is best known in Wenzhou but was also found elsewhere, and was one of the most common methods of obtaining a false collective registration. In some cases there was genuine co-operation between the publicly-owned unit and the private business: a private business doing out-work or marketing for a publicly-owned unit used the unit's name or received other assistance such as supplies of raw materials. This could even amount to a takeover by a state unit in competition, with the private operator having no decision-making power and being similar to an employee paid piece-rates. In other cases, the private business merely paid the state unit a fee for the use of its name, and used this name, and the collective licence thus gained, to do business entirely on its own account.¹² Such arrangements helped individuals overcome supply difficulties and avoid restrictions applied to private businesses, and provided them with more security. In some cases the state unit benefited simply from its commission, but this could also be a cheap and easy way for a state unit to expand its operations, avoiding the costs which would normally be associated with buying its own equipment and providing facilities for workers. The Guangzhou Postal and Telecommunications Bureau, for

¹¹RMRB, 14 December 1986, p. 1 and 25 August 1987, p. 2.

¹²JJRB, 26 November 1987, p. 2; Huang Jiajing, 'Wenzhou de guahu jingying ji qi wanshan wenti' [Wenzhou's *guahu* management and how it can be improved], *Zhejiang xuekan* [Zhejiang Studies], no.5, 1986, pp. 14-18.

example, used this method to expand its services, with arrangements in which individuals or collectives provided space and equipment, and the Bureau provided technical assistance and support.¹³ The *guahu* system was also seen by authorities as a way of making administrative control easier, since it served to unite individual businesses under one umbrella organisation. For example the municipal government of Botou city in Hebei, when it began to actively support the growth of private businesses, made a point of encouraging this system for just this reason.¹⁴ On the other hand, the large number of private businesses using this method to register as collectives makes it difficult to assess accurately the size of the private sector. Furthermore, as is clear from the above description, *guahu* arrangements were highly varied and often legally unclear. Yet under the encouragement given to state and collective enterprises to make their own efforts to earn profits, such arrangements proliferated. The State Council itself gave support to such relationships with its March 1986 regulations on promoting horizontal economic links, which specifically encouraged all kinds of contractual links across ownership lines.¹⁵

The rise of the *siying qiye*

An important aspect of the growth of private business in China has been the development of the larger enterprises called *siying qiye* [privately-run enterprises] to distinguish them from the smaller *getihu* [individual households]. At first, these were often called *siren qiye* [private personal

¹³JJCK, 2 January 1988, p. 1.

¹⁴*Zhongguo xiangzhen qiye bao* [Chinese Township Enterprises], 28 March 1988, p. 1.

¹⁵'Guowuyuan guanyu jinyibu tuidong hengxiang jingji lianhe ruogan wenti de guiding' [State Council decision on some questions in further promoting horizontal economic links], 23 March 1986, in Falü chubanshe fagui bianjibu, eds, *Siyong qiye changyong falü shouce* [Handbook of laws often used by private enterprises], (Beijing, Falü chubanshe, 1988), pp. 312-320.

enterprises], but this obviously sounded too capitalistic, and *siying qiye* came to be the official term. Such enterprises, defined as privately-owned enterprises employing over seven people, began to develop early in the reform program, but because of their politically sensitive nature were not legalised until 1988. The *siying qiye* raised a number of questions as to the role of private enterprise in China and other socialist countries. Their size and impact posed a striking challenge to the old scenario of a small, restricted private sector of individual or family businesses, controlled and dominated by the socialist system. Indeed the background and evolution of these enterprises cast serious doubts on the ability of that system to exert control effectively in a reform environment. Their nature, and the type of person who ran them, suggested a closer integration of the private and public sectors and more scope for private entrepreneurs to exert political and economic influence. Finally, all of these factors combined to make the *siying qiye* a difficult problem for policy-makers and administrators; one which had not been adequately addressed.

As discussed in Chapter Three, the argument used to suggest that private business would not be a danger to socialism was that the private sector would be restricted. Businesses would be kept small in size, so that there would be no scope for exploitation or the accumulation of capital. Such small businesses would remain marginal and dependent on the socialist publicly-owned economy, and therefore could not have much impact on the socialist nature of the economy as a whole. However as Chapters Four and Five have shown, the impact of reforms on the state sector worked to change this situation, making the public economy less amenable as a tool for limiting private business. At the same time, pressures on administrators to develop

their local economies, and to provide employment, continued to combine with limited state resources to encourage recourse to alternative means of development, among them the private economy. As a result of these pressures, *getihu* who wanted to take on more employees, or other private investors with capital waiting to be used, found that the rules designed to prevent the development of capitalist enterprise could often be broken or bent.

Because private businesses are owned by individuals who employ others and profit from their labour, the question of how many people they may employ has been a much more sensitive issue than other factors of size. Individual businesses, for years the only type of domestic privately-owned business acknowledged by the government, were limited to 7 employees. This limit was retained even in 1983, when many other restrictions on individual businesses were removed, and the number of employees remained the sole criterion by which *getihu* and *siying qiye* were differentiated in the 1980s. But the same logic which worked against the limitation of individual businesses' assets and technological level applied here too, particularly as the type of enterprise and level of development of most private businesses made increasing labour inputs an obvious method of expansion. In addition there was the pressure of the unemployment problem: one of the major reasons for promoting the individual economy was to provide jobs. If a private watch-repairer who took on three apprentices was doing the state a favour, did not the same apply to the baker who employed a hundred handicapped youths?¹⁶

¹⁶JJRB, 12 November 1987, p. 2.

Individuals who wished to employ over seven people were not slow to play on these points. Jiang Wei, a private businessman who set up a joint venture with a Hong Kong company, when invited to speak to the students of Liaoning University, pointed out that promoting private enterprise provided jobs for thousands of young people.¹⁷ When Wenzhou building machinery maker Liu Shangtan, with an annual output worth 1 million yuan, was urged to give up while the going was good, he reportedly said he couldn't, because if the factory closed down, what would become of its 123 workers?¹⁸ It was the authorities promoting private business, as much as the entrepreneurs themselves, who wished to make this point; the case of Nian Guangjiu, the man behind '*Shazi Guazi*' melon seeds, is a good example. When Nian came under attack for tax evasion, exploitation and poor treatment of employees, he was reported to have written to the Anhui Party Secretary in his own defence. His letter, published in full with the secretary's reply, pointed out that the *Shazi Guazi* Company provided a market for about 5,000 melon seed growers and jobs not only for its own employees but also for independent retailers of *Shazi Guazi*. Furthermore, it would mend its ways and pay some two million yuan in taxes that year.¹⁹ Whether Nian really wrote the letter as published hardly matters, for the point of its publication was clearly to demonstrate the economic advantages of allowing private enterprises to grow. In fact, by the time the letter appeared in 1985, Nian's company had been taken over by two local-government companies, with Nian as manager,

¹⁷*RMRB*, 31 December 1985, p. 1.

¹⁸*NMRB*, 10 August 1987, p. 1.

¹⁹*GMRB*, 1 April 1984. For an English account of Nian's rise to fame, see Hershkovitz, (1985), pp. 430-439.

but the letter was printed as part of the campaign to promote private business anyway.²⁰

Larger private enterprises began to appear as early as 1981, but at that time it was politically impossible for the Party leadership to acknowledge and legitimise them: the debate on whether the small and ostensibly limited *getihu* were acceptable under socialism was only just getting into the open, and the reformists' arguments were predicated on the assertion that *getihu* would not be allowed to get any bigger. Reformists who see large private enterprises as the logical and beneficial extension of the individual economy have probably done so all along, but they could hardly have had this proclaimed as Party policy in 1981. What they could do, was to sit back and let economic reforms develop their own momentum.

Thus when *siying qiye* first began to appear, the Central Committee adopted a 'wait and see' policy: i.e., *siying qiye* would be allowed to develop, while the central government and public debate continued to ignore and even deny their existence. In 1984, a year in which the marketisation of the economy was actively promoted, private enterprise was necessary to absorb surplus rural labour and help stimulate commodity circulation. Central Committee Document No. 1 on rural reforms acknowledged the usefulness of *siying qiye* to the reforms, and bent over backwards to see their good side:

Of enterprises which are currently exceeding regulation employment numbers, some have implemented systems different from *siren qiye*, for example, taking a certain proportion of after-tax profits to be invested in collective assets; regulating the limits of dividends and owners' income; issuing a certain amount of profit to workers, etc.

²⁰See *RMRB*, 28 November 1987, p. 2. Apparently the now collectively-owned 'Shazi Guazi' company was not a success: this article details its failure with debts of over 900,000 yuan.

These thus have elements of co-operative economy to varying degrees. We should help them continue to improve, and they may be treated differently from capitalist employers.²¹

When even limiting the amount of profits to be taken as income (the remainder no doubt reinvested and still privately owned) is interpreted as a step towards co-operativisation, it is not hard to see how almost any private enterprise could avoid being seen as a 'capitalist employer'.

The next major step in central policy towards *siying qiye* came in 1987, when Central Committee Document No. 5 acknowledged the role of *siying qiye* and adopted a new policy towards them of 'Allow to exist, improve administration, promote the good and limit the bad, and gradually guide' [*yunxu cunzai, jiaqiang guanli, xingli yibi, zhubu yindao*].²² The policy of gradual guidance was of course a continuation of the ideas expressed in 1984, that the larger private enterprises should be guided towards some form of cooperative or collective operation. Those who believed large-scale private employers to be incompatible with socialist goals felt that this should be quite a short process of encouraging oversized private enterprises to collectivise. The ICB's 1983 regulations on the registration of urban cooperatives and individual businesses had stated categorically that individual businesses should be changed into cooperatives once they passed regulation size.²³ But

²¹ 'Zhonggong zhongyang guanyu yi jiu ba si nian nongcun gongzuo de tongzhi' [Notice of the Central Committee concerning rural work in 1984], 1 January 1984, in Guojia xingzheng guanli ju geti jingji si and *Beijing ribao* lilun bu, eds., (1984), pp. 188-201, p. 190.

²² Quoted in Ren Zhonglin, (1987), p. 23; see also *JJRB*, 21 March 1987, p. 3.

²³ Guojia gongshang xingzheng guanli ju, 'Guanyu chengzhen hezuo jingying zuzhi he geti gongshangyehu zai dengji guanli zhong ruogan wenti de guiding' [Regulations on some questions in the registration of urban co-operatively managed organisations and individual industrial and commercial households], quoted in Guojia gongshang xingzheng guanli ju geti si and *Beijing ribao* lilun bu, eds., (1984), pp. 10-13.

others were anxious to avoid a repetition of the socialist transformation of the 1950s and said that collectivisation should be strictly voluntary.²⁴ The theory of the initial stage of socialism, expounded in Zhao Ziyang's report to the 13th Party Congress in 1987, finally gave official recognition to the large private enterprises, the *siying qiye*, as a legitimate economic type, separate from individual businesses, and the projected time-span for this initial stage into the middle of the next century apparently meant that such 'capitalistic' enterprises would be acceptable for a long time to come.²⁵

By late 1987 most discussions of the problem were getting rather vague about the how and the when of collectivisation; there began to be less talk of 'gradual guidance', and the emphasis turned to improved administration, as the means by which state control over the private sector could be effected. This stance was confirmed in 1988, when ICB branches in some cities began to develop procedures for the registration and administration of *siying qiye*. Then in June 1988 the State Council passed a set of provisional regulations on *siying qiye*, accompanied by regulations on income tax on private enterprises and on personal income from private enterprises, to take effect from 1 July.²⁶ These regulations stated that *siying qiye*, defined as enterprises with privately-

²⁴For example Wu Shangli, 'Wo guo geti jingji falü diwei de tantao' [An exploration of the legal position of China's individual economy], *Caijing kexue* [Financial and Economic Science], no. 4, 1987, pp. 75-78, p. 78.

²⁵Zhao Ziyang, 'Yanzhe you Zhongguo tese de shehuizhuyi daolu qianjin' [Advance along the road of socialism with Chinese characteristics], report to the 13th Congress of the Chinese Communist Party, 25 October 1987, in *JJRB*, 4 November 1987, p. 2.

²⁶Zhonghua Renmin Gongheguo siying qiye zanxing tiaolie' [People's Republic of China provisional regulations on private enterprises] (See Appendix); 'Zhonghua Renmin Gongheguo siying qiye suode shui zanxing tiaolie' [People's Republic of China provisional regulations on private enterprise income tax]; and 'Guowuyuan guanyu zhengshou siying qiye touzizhe geren shouru tiaojie shui de guiding' [Decision of the State Council on the collection of regulatory personal income tax from investors in private enterprises], 3 June 1988, in *RMRB*, 29 June 1988.

owned assets and employing over eight people, were a 'supplement to the socialist publicly-owned economy' and enjoyed the protection of the state. *Siying qiye* were divided into those owned by an individual investor, by partnerships of two or more people - the owners of both types retaining liability for the enterprise - and limited liability companies owned by between 2 and 30 shareholders. Special permission could also be given for enterprises of more than 30 shareholders, but *siying qiye* were not allowed to issue shares to the public. The regulations also dealt with employment and working conditions within private enterprises, including the stipulation that private enterprise labour contracts should be filed with the local labour bureau and that labour disputes should be handled according to the regulations for dealing with such disputes in state enterprises.

The central refusal to acknowledge and deal with the issue of large private enterprises until 1987-88 meant that specific policies and procedures could not be formulated, so local governments were left largely to their own devices. While some areas chose not to encourage such enterprises, economic and policy pressures were such that many local authorities found ways to accommodate them. Given the unofficial nature of their existence until 1988, it is not surprising that the administrative status of *siying qiye* varied widely among localities, and was often very unclear.

Large private enterprises developed in a number of ways: some were *getihu* which grew larger and took on more employees; some derived from the leasing of state or collective enterprises to individuals; or they could be established by joint investors. Since until June 1988 there was no official

category of registration as a *siying qiye*, administrative organs dealt with such enterprises in a variety of ways:

- 1) Some were registered as *getihu*, but given permission to employ over seven people. This appears to have been more common in urban areas.
- 2) They may have obtained a collective licence by paying an 'administration fee' to a state or collective unit or local government organisation such as a street committee or township business corporation, in order to get its stamp on their application. The fee was generally 1-2 per cent of output value or 5-10 per cent of turnover. One private entrepreneur I interviewed in Chengdu had done very well for himself: the unit he approached had little confidence in his venture, and demanded a fixed fee of a few hundred yuan instead of the 1 per cent of output value that he suggested. As his factory's output value was 300,000 yuan in 1987 and an estimated 600,000 yuan in 1988, this proved to be a good thing for him.
- 3) Some entrepreneurs managed to get collective licences by claiming to be collectives in their own right, without an umbrella unit. This was done by arrangements such as those described in the quotation above from Document No. 1 of 1984. The director of one company I visited on the outskirts of Chengdu, a five-factory concern which he started in 1982, found it expedient in 1983 to turn over a portion of the assets as shares to staff members. This portion remained no more than 10 per cent and the director retained total control of the enterprise, yet he was thus able to claim that his was a 'collective share company'. The owner of a large fashion retail and manufacturing company in Chengdu, also interviewed in 1988, distributed a certain part of the profits to staff as bonuses: hence her company was 'collective' even though she was a leading member of the local Individual Labourers' Association. This woman made a point of maintaining an

excellent relationship with cadres who could influence her enterprise, and neither she nor they seemed to find the apparent contradiction difficult to live with at that time.

4) *Zhuanyehu* [rural specialised households] are often indistinguishable from private enterprises, although unacknowledged as such. Not all *zhuanyehu* are run by peasants who have specialised: for example a man I interviewed in 1988 had left his job in a Chengdu dairy company to move out to the rural outskirts of Chengdu, rent land and build a modern chicken farm. With the legalisation of large private enterprises in 1988, however, he was under pressure to obtain a *siying qiye* licence.

5) Many larger private enterprises, perhaps the majority, have been registered as collective township enterprises. This has often been encouraged by local cadres, who wanted to fill quotas for promoting local industry and commerce, and have therefore been willing to give collective registration to private enterprises which exceeded the employment limits for *getihu*, in order to utilise their investment. In Anhui, for example, many private enterprises developed in this way after 1984, when the provincial government initiated a drive to promote township enterprises.²⁷ Thus the growth of larger private enterprises was often an integral part of the economic development of a community, and could only be achieved by close co-operation between private entrepreneurs and local government.²⁸

The size and impact of the siying qiye

Not surprisingly in view of the variations described above, exactly how many of these enterprises there are is difficult to determine. Local administrative

²⁷*Zhongguo xiangzhen qiye bao* [Chinese Township Enterprises], 4 April 1988, p. 1.

²⁸Byrd and Lin, (1990), also discusses this practice in some detail.

organs and research institutions have published their own surveys and reports, but have had different ideas as to where to draw the line between a *getihu* and a *siying qiye*. The State ICB, and presumably its local branches, has stuck to its regulations and called any enterprise which admits to being privately owned, and employs eight or more people, a *siying qiye*. Until 1988, its statistics, from necessity, counted only those enterprises which had been registered as *getihu*, yet were in fact larger than *getihu* size. A 1986 study of Shanghai's private sector argued that the line should vary from place to place and trade to trade; for their own purposes the authors chose a cut-off mark of 10 employees.²⁹ The policy research office of the Wenzhou municipal committee was, not surprisingly, more liberal, and felt that 30 employees would be an appropriate figure.³⁰ Some surveys include enterprises which are in fact private, but registered as collective; others do not. Euphemistically labelling these enterprises 'privately-run' also causes problems, as some surveys take the term literally and include any enterprises which are run (for example leased) by individuals.

Estimates as to the number of *siying qiye* nationwide varied in late 1987 and 1988 between two and three hundred thousand. At that time the only figure the ICB released was that of the 115,000 individual enterprises registered as having eight or more employees.³¹ In June 1988 Ren Zhonglin, the director of the State Bureau of Industry and Commerce, announced that China had 225,000 *siying qiye* employing 3.6 million people and making up 1 per cent of

²⁹Chen Baorong and Chen Xiumei, 'Shanghai siren jingji ruogan wenti tansuo' [A probe into some problems concerning Shanghai's private economy], *Shehui kexue* [Social Science], no. 9, 1986, pp. 28-42.

³⁰Tao Youzhi, (1987), pp. 22-24.

³¹GMRB, 16 March 1988, p. 1.

gross industrial output value.³² This figure included some enterprises registered as collectives, but is probably still much too low. It is difficult for the ICB to determine how many 'collective' enterprises are in fact private, and many do not come directly under its jurisdiction. One survey suggested that 0.8 per cent of rural households were *siying qiye* in 1985, which on official figures would give a total of 1.53 million.³³ A survey of 20,000 rural households found that 74 per cent were employers, and based on this survey one Chinese estimate put the total number of *siying qiye* at around one million in 1988.³⁴ An academic in Sichuan estimated that there were 8-12 million employees in *siying qiye* in early 1990.³⁵

Local figures imply a large number of these enterprises. Hebei's Handan area claimed nearly 22,000 *siying qiye* of various kinds - including joint stock companies and partnerships - responsible for 22 per cent of total output value.³⁶ Figures on the individual economy in Beijing show a ratio of 295 businesses to 295 personnel in 1978; by the end of 1986 it was 9,174 businesses to 142,000 personnel: an average of 15 people per business.³⁷ In certain areas *siying qiye* have come to play a major role in the economy. According to one report, around 50 per cent of Wenzhou's revenue in 1987 was derived from private business, 32 per cent of it from *siying qiye*.³⁸ In Wuchuan county in

³²RMRB, 24 June 1988, p. 1.

³³He and Zhu, (1986), p. 5.

³⁴Zhang Houyi and Qin Shaoxiang, (1988), p. 4.

³⁵Ole Odgaard, personal communication.

³⁶JJCK, 5 November 1987, p. 1.

³⁷Li Jiali, 'Geti gongshangye lingdao guanli tizhi jidai gaishan' [The leadership and administration of individual industry and commerce urgently needs improvement], *Jingji gongzuo tongxun* [Economic Work Dispatches], no. 3, 1987, pp. 26-27; reprinted in FBZ, F51, no. 4, 1987, p. 42.

³⁸RMRB, 4 April 1988, p. 1; JJCK, 14 November 1988, p. 4.

Guangdong, *siying qiye* with over 11 employees made up approximately 43 per cent of gross output value in 1987, and 44 per cent of revenue.³⁹

In spite of occasional well-publicised cases of extremely large private enterprises with millionaire owners, the bulk of *siying qiye* remained relatively small. The ICB estimated in 1988 that 70 - 80 per cent of *siying qiye* had fewer than 30 employees, with less than 1 per cent employing more than 100; the average overall was 16 employees per enterprise. The average capital of *siying qiye* was estimated to be 50,000 yuan.⁴⁰ In Anhui in 1987, 40 per cent of *siying qiye* employed over 20 people, had assets exceeding 100,000 yuan, and output value exceeding 200,000 yuan. Over 10 per cent had an output value of over 500,000 yuan.⁴¹ Sources of capital tended to be the same for *siying qiye* as for *getihu* (not surprisingly since many began as *getihu*), except that increasing size gave *siying qiye* more scope for borrowing from financial institutions, as they were more likely to have the collateral and connections necessary for such loans. A common source of extra funds for larger enterprises, especially in rural areas, was the practice of requiring new employees to invest a sum of money, usually a few hundred yuan but sometimes more, in the enterprise.⁴² This practice is also common to rural collective enterprises, and is indicative of the high demand for jobs in rural industry, as well as the shortage of capital.⁴³

³⁹JJCK, 14 November 1987, p. 4.

⁴⁰GMRB, 16 March 1988, p. 1; Zhang Houyi and Qin Shaoxiang, (1988), p. 4; SWB, 20 July 1988, FE/W0035 A/2.

⁴¹Zhongguo xiangzhen qiye bao [China's Township Enterprises], 4 April 1988, p. 1.

⁴²Interview, January 1991.

⁴³For a description of employees bringing in funds in rural collective enterprises, see Jean C. Oi, 'The Fate of the Collective After the Commune', in Debora Davis and Ezra Vogel, eds., *Chinese Society on the Eve of Tiananmen*, (Cambridge, Mass., Harvard University Press, pp. 15-36.

Many of the examples of large private enterprises in published accounts have grown up from individual businesses, and are in light manufacturing (e.g. clothes, mosquito nets, cassette head cleaner) or catering and food processing (e.g. bakeries, ice blocks, melon seeds). However the predominance of these types of *siying qiye* in newspaper reports is probably because they are conveniently located in cities, rather than because they are typical of *siying qiye*. Although there is inevitably an overlap, there is a distinct difference both in fields of activity and in location between the majority of small individual businesses and the majority of the larger *siying qiye*. Due to these differences, the growth and acceptance of the *siying qiye* marked a new phase in the development of private enterprise in China.

As well as being bigger and therefore able to have a more obvious effect on the economy, *siying qiye* tend to be engaged in industry, mining, transport and construction, with a smaller proportion in consumer industries. According to one source 82 per cent of *siying qiye*, 87 per cent of their personnel and 83 per cent of their capital were to be found in industry, transport and construction in 1988.⁴⁴ This is significant for the status and security of private business as a whole in China. Productive enterprises are more prestigious and more politically acceptable, getting away from the notion, found both in Confucian Chinese tradition and in Marxism, of the merchant who merely buys and sells, extracting an exploitative income in the process. The growth in scale and the wider range of trades also means that the private sector is becoming more integrated with the rest of the Chinese

⁴⁴Zhang Houyi and Qin Shaoxiang, (1988), p. 4.

economy, as the customers of these enterprises are state enterprises and local government organs, as well as individual consumers. Like smaller businesses, larger firms form direct links with state enterprises, as for example a workshop of 60 people making bulbs for electronic watches for the Shenyang Electronic Instrument Factory for overseas sale.⁴⁵

Some private enterprises have formed direct overseas links. For example, the Liaoning entrepreneur Jiang Wei set up a joint venture with a Hong Kong firm dealing in photoprocessing and photocopying,⁴⁶ and a Tianjin maker of hot water heaters upgraded his product to export quality with a Japanese design, and entered a joint venture with a U.S. company in 1984.⁴⁷ A large number of Chinese entrepreneurs have set up export processing enterprises in Guangdong. This began much earlier than was officially acknowledged: for example in Dongwan county from 1984 onwards, private investors were encouraged by local authorities to register their enterprises as 'collectives' so that they could do export processing and compensation trade, at that time forbidden to private enterprises. By 1987 these private enterprises accounted for over 15 per cent of the area's foreign processing and joint venture business.⁴⁸

⁴⁵JJCK, 18 December 1987, p. 1.

⁴⁶JJRB, 18 April 1985; RMRB, 31 December 1985; Li Yong and Chen Hongjun, 'Geti jingji zai shewai jingji guanxi zhong falü diwei chutan' [A preliminary exploration of the legal position of the individual economy in foreign economic relations], *Faxue zazhi* [Law Journal], no. 4, 1985, pp. 20-21.

⁴⁷RMRB, 31 October 1984, p. 2.

⁴⁸RMRB, 5 July 1988, p. 2; Pan Zuodi and Xie Jianmin, 'Guanyu siren qiye ruogan wenti de tantao' [An exploration of certain questions regarding private enterprises], *NYJJWT*, no. 1, 1988, pp. 43-45. See also Jia Ting and Wang Ruicheng, 'Siying qiye zhu jieceng zai Zhongguo de jueqi he fazhan' [The rise and development of the stratum of private entrepreneurs in China], in Guojia 'qi-wu' qijian Zhongguo siying jingji yanjiu keti zu, (1989), pp. 32-50, p. 35.

According to the ICB, over 70 per cent of *siying qiye* are located in rural areas.⁴⁹ In fact the percentage is probably higher, if enterprises which are privately owned but not acknowledged as such are taken into account. The rural bias probably reflects a greater degree of economic freedom in rural areas and more flexible attitudes to administrative problems such as registration as a *zhuanyehu* or collective enterprise, as well as much easier logistics with regard to space and supplies. Premises of the size needed for even a small factory are extremely difficult to obtain in the cities, especially for an individual, and some city planning authorities have had a policy of discouraging industrial development in the already crowded and polluted urban areas.

A related issue is the nature of the people involved in running *siying qiye*. Here also there is a marked difference from small *getihu*. According to one report, 60 per cent of owners of *siying qiye* in rural areas were originally management or supply and marketing staff in state or collective enterprises, or cadres in production teams or brigades.⁵⁰ Another survey gave the figure as around 46 per cent.⁵¹ Still other officials and personnel on key units such as state supply bureaus are often involved less directly, with positions as consultants, directors, or by having relatives employed in the enterprise. In Wenzhou, (admittedly hardly a typical case), 70 per cent of cadres at *xiang* and *zhen* level were found to receive benefits from relatives in private

⁴⁹GMRB, 16 March 1988, p. 1.

⁵⁰RMRB, 16 March 1988, p. 1.

⁵¹Zheng Xinmiao, Wang Tongxin, and Wu Changling, 'Dui nongcun siying jingji fazhan de lilun sikao ji zhengce jianyi' [Theoretical reflections and policy suggestions for the development of the rural private economy], *NYJJWT*, no. 5, 1990, pp. 47-50, p. 48.

enterprise.⁵² Entrepreneurs with a cadre or management background are of course the people most likely to have the knowledge and management skills to run a larger enterprise successfully. It is also they who have the contacts which enable them to lease land, obtain electricity or fuel and raw materials, to smooth the path of leasing procedures, and so on. There are two sides to this question: some private entrepreneurs complain that they are forced to give jobs or directorships to cadres and their relatives when they have no wish to do so. On the other hand some entrepreneurs seek this close involvement with cadres and other useful and influential people, to make doing business both easier and more secure. The close relationship of private enterprises to rural authorities, both in their personnel and in the administrative arrangements described earlier, must surely make overt discrimination against them less likely.

The renewed theoretical debate on private enterprise

The private sector was allowed to grow in response to the imperatives of competition and economic reform, but in doing so it developed into something both quantitatively and qualitatively different from the small, 'supplementary' sector of the simple individual tailor or stallholder of the early promotion of the individual economy. The emergence of large private enterprises was even more of a problem, as it contradicted the main tenets of the early case for allowing the individual economy. Clearly the original assessment of the role and nature of the private sector was no longer applicable. In the latter half of the 1980s, the need to revise the accepted

⁵²Ji Jianlin and Zhu Jun, 'Siying qiye lirun liuxiang fenxi' [An analysis of profit uses in private enterprises], *Zhongguo nongcun jingji* [Chinese Rural Economy], no. 9, 1989, pp. 48-52, p. 49.

concept of the private sector in the light of the facts gave rise to a lively debate and some energetic theoretical gymnastics in China, revolving around three key issues of employment and exploitation, income distribution, and state dominance and control of the economy. This debate reached a peak in 1987-88, but was stifled by the changed political environment after June 1989.

The larger private enterprises have provoked concern over their owners' high incomes and reliance on the labour of others. As one private businessman put it, '*yao xiang fu, jiu dei gu*' (If you want to get rich, you have to employ others),⁵³ but in doing so they evoke the twin spectres of polarisation and exploitation. For some Chinese socialists, a flourishing crop of home-grown capitalists, as they see it, is hard to accept, and even those who believe that large private enterprises have a place in Chinese socialism have yet to agree on exactly what that place is, or indeed how to keep them there.

One response to the growth of such enterprises has been to say that they are exploitative and capitalist in nature, and incompatible with socialist principles. Such arguments have pointed to employers' high incomes and related these directly to the number of employees. A study of private enterprises in Tianjin, for example, gave the following results:⁵⁴

⁵³JJRB, 5 December 1987, p. 2.

⁵⁴Quoted in You Lianpu, 'Shilun wo guo xian jieduan siren gugong jingji de xingzhi' [A tentative discussion of the nature of the private employer economy in China's current stage], XHWZ, no. 11, 1987, p. 48.

| Number of Employees | Employer's Income as a Multiple of Employees' |
|---------------------|---|
| 7 or less | 5.5 |
| 8 - 20 | 9.8 |
| 21 - 40 | 27.3 |
| 41 - 60 | 57.7 |
| over 60 | 65.9 |

Critics have pointed out that this type of equation takes no account of the entrepreneur's capital assets or management, but the response has been that such striking disparities cannot be merely the reward for the employer's allegedly more complex labour, risk, or interest on capital, but must surely be surplus value appropriated from the workers.⁵⁵ There has also been much concern about income polarisation and the jealousy provoked by private entrepreneurs' high incomes. A survey of private businesses in Beijing gave their reported net income as averaging 409 yuan per month; the average for those with employees was 799.63 yuan per month, 2.7 times higher.⁵⁶ A Shanghai survey reported employer incomes of generally between 5,000 and 10,000 yuan per year, with some netting 30,000-40,000. One employer in Shenyang was reported to have an annual net income of a staggering 800,000 yuan, at a time when urban per capita incomes averaged 1, 119 yuan.⁵⁷

⁵⁵JJRB, 5 December 1987, p. 2; Li Shi, 'Wenzhou moshi de ji ge lilun wenti' [Several theoretical problems of the Wenzhou model], *Jingjixue dongtai* [Trends in Economics], no. 9, 1986, p. 28; Wu Shangli, (1987), p. 77.

⁵⁶The figures for Beijing, Shanghai and Shenyang were all quoted in JJRB, 12 February 1988, p. 1.

⁵⁷ZGTJNJ, 1990, p. 289.

Another line of argument admits that there is a difference between small individual businesses and large employers, but maintains that the latter are still not capitalist. The employers' high incomes do arise partly from exploitation, but they themselves also participate in labour, and the relationship between employer and employee, we are told, is one of mutual benefit and equality, quite different from that found in capitalist countries. The capitalist nature of the enterprise is mitigated by the surrounding socialist system.⁵⁸ One writer claims that the socialist state also limits capitalism directly through taxation: the employer's income is progressively taxed so that the higher it is, the more it is contributing to general welfare; likewise accumulation benefits everyone by developing the economy and, if it leads to higher income from expanded production or realisation of assets, this again is taxed.⁵⁹

Opponents have hit back with reports showing that the relationship between employers and employed is in fact far from idyllic. Working hours have generally been longer than those in state or collective units; payment is often by the piece-rate system, with rates lower than those in state units. Thus workers end up with a higher salary than in state units, but only by working harder.⁶⁰ And this is not merely the extra work to be expected in an efficient enterprise with no 'iron rice bowl': the longer hours can be 16 hours a day or more.⁶¹ Furthermore, not all employers do engage in labour themselves: a 1988 survey found that one-third of the private restaurants in Beijing were

⁵⁸Chen Baorong and Chen Xiumei, (1986), p. 27; Zhang Renshou et al, (1986), p. 6.

⁵⁹ Li Jianjun, 'Gugong qiye fazhan bu hui zaocheng liangji fenhua' [The development of employer enterprises will not create polarisation], *Jingjixue wenzhai* [Abstracts of Economics], no. 1, 1987, p. 16.

⁶⁰JJXZB, 24 January 1988, p. 3.

⁶¹JJRB, 5 December 1987, p. 2.

run by employed managers, with the owner of the enterprise simply collecting the profits.⁶² Provisions for workers' safety, health, insurance and other benefits only began to be regulated for in the late 1980s, and hence are often non-existent,⁶³ although some employers have made a point of providing good conditions to avoid being labeled as capitalist exploiters. Employment is often on a casual basis, and calls for the prohibition of child labour indicate its prevalence.⁶⁴ However, once again these conditions must be compared to the alternative of unemployment or perhaps contract employment in a publicly-owned enterprise where in fact conditions may be no better. As one worker in a private enterprise is reported to have said,

What exploitation? Here they pay us 200 yuan for one month's work. In the state factories you get at most 60 yuan for subsidiary work. You tell me who's exploiting who?⁶⁵

Some theorists, more outspoken before 1989, were really not so interested in issues of exploitation and inequality, saying that whatever works economically should be allowed. Said one group of economists in Wenzhou:

It is foolish in the extreme to seek an unrealistic social equality at the cost of sacrificing economic efficiency. . . . Within the limits of income inequality that society will bear, the only aim should be raising efficiency and promoting economic development. And, judging from Wenzhou, society can accept much more income inequality than people think.⁶⁶

⁶²JJRB, 13 February 1988, p. 2.

⁶³JJCK, 1 February 1988, p. 4.

⁶⁴Hu Anchao, 'Shilun wo guo siren qiye falü diwei yu tiaozheng' [A tentative discussion of the legal position and regulation of China's private enterprises], *NYJJWT*, no. 11, 1987, p. 52; *SWB*, 10 March 1988, FE/0096 B2/4. In 1991, the State Council put out a set of regulations banning child labour: see *SWB*, 11 May 1991, FE/1096 C1/1-2.

⁶⁵RMRB, 12 April 1988, p. 2.

⁶⁶Zhang Renshou et al, (1986), p. 6.

Being exploited may after all be better than being unemployed, and being unequal in a richer country may be preferable to all being poor together. 'Exploitation,' it was argued in 1986, 'cannot be made the standard for measuring social welfare.'⁶⁷ This reflected the application of the concept that the main task of the current stage of socialism is economic development to the question of private enterprise. This became the prevailing argument up until 1989, and the elaboration of the theory of the initial stage of socialism, during which diverse economic forms must continue to exist, allowed it to be taken a little further. Some commentators discarded attempts to give private enterprise a veneer of socialist respectability, saying that *siying qiye* were capitalist, but should be supported anyway.

What we now call 'privately-run economy' [*siying jingji*] is in fact private capitalist economy [*siren zibenzhu yi jingji*]. I believe that in the initial stage of socialism private capitalist economy must be developed much more. So long as it is beneficial to the development of the forces of production, we should admit the existence of private capitalist economy and admit the existence of exploitation.⁶⁸

This quotation brings out the problem of terminology. As explained earlier, the euphemistic '*siying qiye*' [privately-run enterprises] has come to be the official term for privately-owned enterprises which employ over seven people. But the vagueness of the term causes problems, particularly in academic circles, where some scholars either reject it and use the clearer *siren qiye* [private personal enterprises] or take it at face value and include any enterprise which is being independently run by an individual in their discussion. *Siren qiye* is most commonly used either by those who are

⁶⁷Li Shi, (1986), p. 28.

⁶⁸Feng Lanrui at a conference on economic strategy held by the Chinese Academy of Social Sciences, November 1987. See *JJXZB*, 6 December 1987, p. 1.

opposed to large private enterprises, and wish to make them sound selfish and capitalistic, or by those, like the author of the statement above, who support them and yet agree that they are capitalistic, and believe in calling a spade a spade.⁶⁹

Reassessment of the 'supplement' theory

The changes in economic relationships wrought by the reforms could not fail to bring into question the original assertion that the private sector in China would consist of small family concerns, easily controlled and limited by their dependence on the publicly-owned economy. From around 1985, articles began to appear in scholarly journals arguing that the 'individual economy' was becoming much more than a mere supplement.⁷⁰ By 1988, however, some published articles were beginning to challenge the whole basis upon which assessments of China's ownership relations were made, defining 'private' not solely in terms of nominal ownership, but also in terms of management and use rights. This meant that they included the vast majority of rural producers in their discussions of the private economy. A 1988 article in the Tianjin newspaper *Kaifa bao* [Development], for example, argued that the '*geti siying jingji*' [individual privately-run economy] now basically dominated agriculture, and the prices of many commodities were no longer

⁶⁹One of the more outspoken and prolific writers at this time was quite up-front about the problem: in one article, after arguing forcefully that *siying qiye* were capitalist enterprises, he noted the bad public relations effects of naming them as such, and suggested that, while theoretical analysts should be aware of the true situation, it might be better for the private sector's development prospects to go on using vague terms like '*siying jingji*'. See Xiao Liang, 'Guanyu siying jingji de jige lilun wenti' [Several theoretical problems concerning the private economy], *Tianjin shehui kexue* [Social Sciences in Tianjin], no. 4, 1988, extract published in *XHWZ*, no. 4, 1988, pp. 44-46. See also Xiao's Introduction to *Guojia 'qi-wu' qijian Zhongguo siying jingji yanjiu zu*, (1989).

⁷⁰For example Song and Tan (1985), pp. 56-58; Li Bin and Zhao Ming, (1987), pp. 51-53.

determined by the state. Private enterprises were moving into materials and machinery production as well as light industry; if individually-leased enterprises were also taken into account, the privately-run sector was much more than a 'supplement'. The writer also argued that since more and more of China's new jobs were being provided by this private sector, and given China's huge labour force and the reserves of labour still to be transferred from agriculture, the private sector must continue to grow. Therefore, the article concluded, the private and privately-run economy 'cannot be reversed, and is no longer merely a beneficial supplement subordinate to the publicly-owned system, but plays an influential role in the national economy.'⁷¹ A similar case was made by Shi Chenglin of the Changde Rural Economy Committee, Hunan, in a 1989 article published by *Nongye jingji wenti* [Problems in Agricultural Economy], entitled 'A Reassessment of the "Supplement" Theory'.⁷² Over a year later, the same journal published a critique of Shi's article, which doggedly ignored all the changes in management brought about by the reforms, and all the theoretical debates which had gone on before June 1989, to argue that it was impossible to call China's agricultural production 'private' because the land was collectively owned. The writer then clinched the argument with the statement that the privately-run economy could not possibly be more than a supplement, because China was a socialist country:

Take the practical implications of the privately-run economy: its basic nature is capitalist, and in our socialist country it cannot increase to the leading position. The

⁷¹*Kaifa bao* [Development], 15 January 1988, p. 3.

⁷²Shi Chenglin, 'Dui "buchong lun" de zai renshi' [A reassessment of the 'supplement' theory], *NYJJWT*, no. 2, 1989, pp. 15-17.

socialist system will not allow it; a socialist system cannot be established upon a capitalist economic base.⁷³

Conclusion

The growing influence of the private sector, complex and varied relationships between private enterprise and other sectors, and the tremendous growth in the size of both the private sector as a whole and private enterprises themselves, meant that the original concept of a marginal sector of small individual businesses became outdated. The growth and eventual acknowledgement of the *siying qiye* is of particular significance, indicating a much firmer foothold for private enterprise in the Chinese economy. The original idea that private businesses would be constrained by their dependence on the state sector was never very workable, and became steadily less so as reforms to make state enterprises more independent and profit-seeking took effect. This posed new problems of policy and administration, as alternative methods of administrative and legal regulation needed to be developed and implemented. The following chapter will discuss the administration of the private sector and how it has changed in response to the changes in the nature of private business in China.

⁷³Chen Baocai, 'Dui "buchong lun" de zai renshi yi wen de shangque' [A discussion of the article 'A reassessment of the "supplement" theory'], *NYJJWT*, no. 8, 1990, pp. 45-46, p. 45.

CHAPTER SEVEN: THE PRIVATE SECTOR AND STATE CONTROL

The development of the private business sector in the 1980s shows the interaction of a number of conflicting forces. Many of these were inherent in the very formulation of private sector policy: China's government wanted an independent, vigorous, entrepreneurial private sector, but one which remained subordinate to the public sector and established mechanisms of economic control. In fact, the government's attitude to developing private business mirrored its approach to the entire program of market reforms, as it grappled with the uneasy partnership of plan and market. Indeed many of the problems of administering the private sector are the direct result of this partnership in action. The state's efforts to control the private sector can therefore be seen both as a case study of one aspect of the reforms, and as a metaphor for China's reform program as a whole.

As we have seen, the early proposals for developing private business confined themselves to the 'individual economy' and maintained that it would remain marginal and easily be controlled because 'in the scope of management, the supply of raw materials, price and taxation, it is subject to control and restriction by the public economy and by the state organs concerned'.¹ By their very nature, private businesses of all kinds were relatively difficult to constrain and police, being independent and outside many of the established control mechanisms. Nevertheless, the CCP had previously had a remarkable degree of success in restricting private business, almost eradicating it altogether during the Cultural Revolution. In the 1980s,

¹BR, no. 33, (18 August 1980), p. 4

however, the general thrust of economic policies was to reduce, not increase, the level of collectivisation and bureaucratic control, and economic growth became the dominant goal. The forces generated by the reforms made both 'the public economy' and 'the state organs concerned' increasingly less reliable as arms of the central government. The responses administrators made to the problem of controlling private business were conditioned by a number of different factors, including the contradictory nature of private sector policies, the variable signals they received as a result of conflicts within China's central leadership, their own perceptions of where their interests lay, and the norms built up over decades of socialist administration. In many ways, therefore, the administration's very approach to the private sector was inappropriate, as it sought to apply old methods and old structures, themselves subject to internal tensions, to a new situation.

The framework of administrative controls

The initial policy of promoting a supplementary private sector was in no way intended to challenge the basic conceptual framework of the socialism as a Communist Party-controlled, planned economic system based on state ownership ('ownership by the whole people') of the means of production. Therefore in spite of the specific efforts to promote private business, general economic and administrative policies remained predicated on the notion of state-sector superiority and an historical progression from private to collective and thence to state ownership. This meant that the single most important determinant of an enterprise's status in matters of licensing, taxation, building approvals, supplies, loan applications and the like was its ownership. In all of these matters, discriminatory policies designed to maintain the dominance of the public sector remained in force.

As the rapid development of the private sector shows, however, the force of such policies was in fact much weakened by the reforms as they were contradicted by other policies on economic development and the government directives designed to implement them. We have seen how drives to promote private business, increase tax revenue or employment, or commercialise the rural economy, resulted in pressures on local administrators to fill quotas by assisting private businesses. Even initiatives designed mainly to promote the collective sector, such as the drive to increase the number of township enterprises, eased the way for private entrepreneurs who were encouraged by township committees to set up enterprises to boost the township's figures. In addition to specific policies, the economic conditions arising from reforms also encouraged local support of private businesses which could increase local revenue and employment. At the same time, increased autonomy produced similar incentives for the publicly-owned enterprises and bureaus, or individuals within them, controlling the supplies private entrepreneurs needed, as they could obtain much higher profits from selling goods through unofficial channels.

As a result, private operators were often able to overcome the disadvantages of their marginal position and the private sector developed into much more than just a stop-gap. However, apart from the open free markets and the policies aimed specifically at developing the private sector, the solutions which developed from this matrix of conflicting forces were informal ones, outside the regular channels of administrative control. They relied not on regulated, open procedures, but on personal connections, bribery, and go-betweens. The private sector was, of course, not the only stimulant of this

informal economy; it had existed before the reforms, and unofficial dealings of government ministries and departments, publicly-owned enterprises and corrupt cadres became a major political issue in the second half of the 1980s. But the results of such dealings were particularly visible in the private sector, and its enforced 'legal degeneracy' (to use Anders Åslund's term)² had serious implications for the nature of its development and its relationship with the state.

For private entrepreneurs themselves, such a path to development was not ideal. The perception that the private sector was a temporary economic band-aid made it politically insecure, while the informal ways in which entrepreneurs overcame constraints made them dependent on the goodwill of their benefactors. This situation could not help but provide immense opportunities for bribery and extortion. As discussed in Chapter Five, private entrepreneurs, particularly those with larger enterprises, which combined a less certain political position with more demanding logistical problems, often found that they were obliged to include benefits to key administrative and supply cadres in their budgets. Collective registration could have a catch, too: apart from the obvious need to keep the goodwill of the unit or local government committee which provided the 'collective' hat, such organisations have been known to claim real ownership of the enterprise.³ In any case it is clear that local cadres use their leverage over private enterprises to exact from them benefits for the collective: for example they

²Åslund, (1985), p. 211. Åslund uses the term to describe the condition of the private sector arising from the combination of persistent demand for the goods and services the private sector provides, and the necessity under socialist governments for it to break or bend the law in order to survive.

³ZGGSB, 26 September 1988, p. 3; JJCK, 16 December 1990, p. 4.

may be required to employ more people or make donations to public causes, in much the same way as collective enterprises are.⁴

For the central government, reformists and conservatives alike, this course of development was a problem because it sabotaged the state's ability to control the economy effectively. False registrations made it impossible to collect reliable statistics on which to base economic policies, goods were diverted from planned distribution to be sold on the market, while the risks and costs associated with such diversion meant that markets for many goods were distorted by the high costs of corruption. In addition, much of the real administrative control over the private sector was vested in officials at the local level. Particularly in rural areas, it was they who developed the range of locally-varied procedures for dealing with private businesses, and it was they who were left with the most power to extract revenue from this fast-growing and profitable sector. This was likely to make them proprietorial towards private enterprise - defending it from the demands of the central government while seeking to exploit it for local or personal ends - and more sympathetic to the interests of private entrepreneurs.⁵

The contradictory pressures arising from the attempt to place the structures of command economics alongside free market forces has thus produced a middle stratum of 'doorkeepers' whose control over goods, funds or

⁴See Oi, (1990); Odgaard, (1990a).

⁵This is part of the development which Jean C. Oi, cited above, refers to as 'collective corporatism' on the part of rural local governments. Vivienne Shue, in *The Reach of the State*, (Stanford University Press, 1988), discusses in some detail the forms of local government control under the reforms and under Mao. The evidence on private business suggests that local cadres are resisting the central government's efforts to regulate their administrative role somewhat more successfully than Shue's essays predict.

administrative approvals gives them considerable power over the course of economic development. Their interest lies, not in further reform, but in the maintenance of the disorderly, experimental transitional stage which gives the greatest degree of local or personal discretion. Local governments have used the freedoms given to them by the reforms to promote local economic growth, but this makes them less amenable to a revival of central economic control. Departmentalism is also a problem, as ministries and administrative departments seek to promote economic activity which will increase their own sphere of influence. The private sector, because of its relative independence, appears to be seen as a kind of frontier territory, open to whichever organisation can stake a claim. While local authorities have responded to reform pressures by enabling the private sector to develop, and will fight to preserve it where possible, they have done so in a way that maintains their own power over it and is likely to inhibit its positive potential for the Chinese economy.

Policing and social control

Bureaucratic attempts to constrain the negative effects of private sector development also continued to use methods formulated in the context of increasing rather than decreasing direct government economic control. If one of the features agreed upon as a determinant of socialism was the dominance of public ownership in the economy, another was a firm commitment to the maintenance of stability and 'economic order'. While governments of all persuasions desire a certain amount of order and stability, communist ideology claimed that the socialist economic order, obtained by extensive administration of the economy, was superior to the 'chaos' of capitalism. Thus the maintenance of an acceptable degree of economic order was

particularly important to China's reformists in the 1980s, as any disorder or loss of government control was likely to be seen as an indication that free-market measures were leading China away from the socialist road. This was a difficult problem, as the effect of the reforms was indeed to disrupt the existing order, apparently strengthening the case of conservatives who called for a reversion to increased bureaucratic control. Thus there were recurrent periods of adjustment and retrenchment which were justified in terms of restoring economic order, the most significant of these being that which began in late 1988 and escalated in 1989. The same imperatives influenced the development of the private sector: among the first problems to receive attention in the administration of private business were those which related immediately and visibly to 'economic order', such as speculation, unlicensed trading, cheating of customers by giving short weight, adulterating products or selling fake name-brand products, unauthorised dealing in planned-distribution goods, tax evasion, and charging excessively high prices.

It was important to reformists to minimise the negative effects of reform measures, and to deflect criticism where possible. Thus official statements on the private sector sought to differentiate illegal behaviour from legitimate business activities and often associated the former with unlicensed traders who were giving legitimate individual businesses a bad name. A typical notice on strengthening the administration of the individual economy, put out by the Beijing municipal government in 1983, began by noting that the revival of the individual economy had played an active role in making up the shortfalls of the state and collective economy, promoting prosperity, providing employment and making life more convenient. It then added that 'a small number of individual businesspeople do not have a correct attitude

in their operations; some, especially unlicensed pedlars, raise prices, cheat the masses, disrupt the market, and affect social order in the capital and the people's livelihood.⁶ As was noted in Chapter Four, campaigns to wipe out illegal business were sometimes interpreted, by both officials and individual operators themselves, as a signal to attack all private business, and official statements and press reports were, at least until the 1989 campaign, at pains to point out the difference.⁷ Even in 1989, the initial post-June attack on private operators, during which articles in the conservative-controlled press now implied that a *majority* of them were guilty of some illegal activity, was soon moderated. In the words of a 1983 article, the aim of the Chinese government was to promote 'something lively, but not chaotic, controlled but not stifled.'⁸ This came in later years to be referred to as the 'healthy development' of private business: an elusive, often paradoxical ideal of free enterprise constrained by the state bureaucracy, or in Chen Yun's now famous phrase, 'a bird in a cage'.

In their attempts at achieving this ideal, administrative departments such as the bureaus of Industry and Commerce, Public Security, and Taxation encountered a number of problems. Some were derived from the conflicts generated by the ideal itself: between entrepreneurs who wanted as little interference as possible, and administrators who wanted the opposite; and between the desire for administrative control and the desire for a more free-

⁶Beijing shi renmin zhengfu guanyu jiaqiang dui geti gongshangyehu guanli de tongzhi' [Beijing Municipal People's Government notice on strengthening the administration of individual industrial and commercial households], 10 March 1983, in *Zhonghua renmin gongheguo guowuyuan gongbao* [Bulletin of the State Council of the People's Republic of China], no. 7, 10 May 1983, p. 254.

⁷For example *RMRB*, 18 March 1983, p. 2, 26 August 1986, p. 4, and 28 December 1986, p. 2; *SWB*, 16 March 1988, FE/0101 B2/6.

⁸*RMRB*, 11 March 1983, p. 2.

market oriented style of development. Other problems arose from the unsuitability of the accustomed administrative procedures, established under a planned economy, for administering the independent private business sector. Administrative departments were inclined to use familiar approaches wherever possible; indeed, alternative approaches which adapted to the individualism of private business would have been incompatible with the goal of retaining the bureaucratic direction of the economy. Therefore many of the measures adopted were aimed at making private business people more amenable to established mediums of economic and social control. However, the propaganda campaigns, inspection drives, and mass organisations which had been effective in the 1950s, in the context of increasing state control and collectivisation, were much less so in the new conditions of the 1980s.

One of the main approaches of administrative departments to controlling illegal business practices by private traders was to conduct inspection campaigns from time to time. These were usually initiated at the central level, as in 1983 when reform measures were accompanied by a number of circulars and regulations detailing tighter control of economic activity. The State Council's April, 1983 supplementary regulations on the urban individual economy directed the ICB to strengthen administrative control of individual businesses and to eradicate their illegal activities. These regulations were part of a series of directives on market administration, price control, and product quality issued at this time. As we saw in Chapter Four, these moves to tighten administrative control over free market activities reflected the changing political emphasis in the central government and resulted in a series of campaigns at lower levels. Relatively large-scale campaigns occurred in 1983, 1986, and 1988-89, while there was also an annual

tax collection campaign which would involve inspection drives aimed at private businesses.

These periodic inspection drives were an example of an approach commonly used by the CCP: concerted, widely publicised campaigns which mobilised resources to solve, or at least appear to solve, a particular problem. They use methods reminiscent of the mass campaigns of the 1950s to stimulate and coordinate the efforts of a number of departments: for example Shanghai organised over 2500 people from the ICB, Public Security, Tax Bureau, Ministry of Commerce and the street committees for its inspection drive in 1983.⁹ Their importance lay in their propaganda value as much as in their real effect, and they were carefully publicised. Campaigns to clean up private business would be preceded by increased media reports of illegal trading, profiteering, and tax evasion. These would be followed up by prompt action in the form of new regulations or policy initiatives at central level, accompanied by reports of highly successful campaigns in particular localities, telling in detail how many thousand illegal traders had been dealt with and how many thousand yuan of illegal profits had been confiscated, giving the impression that united, decisive action by the relevant departments had swiftly and effectively solved the problem. This made more spectacular publicity than a more pedestrian approach, but the need to repeat such drives, and continued reports of unlicensed traders and illegal activities by licensed traders, show that the results were only temporary. In spite of repeated crackdowns on unlicensed trading, for example, the *Renmin ribao* estimated that unlicensed individual traders 'certainly numbered no less than 19

⁹RMRB, 6 July 1983, p. 1.

million' in 1987, when there were some 14 million *licensed* individual businesses.¹⁰

A major shortcoming of the inspection drive approach was that even the temporary impact it had was confined to the visible symptoms which stemmed from much deeper and more complex problems in the economy. For example, the ICB's drives to eradicate unlicensed trading failed mainly because little was done to address the reasons why so many traders remained unlicensed. Unlicensed traders, if caught, were either licensed, if appropriate, or fined and stopped. Licensing was important to the ICB because it made private operators much easier to control, so except in cases where particular localities or cadres opposed the policy of promoting private business, every effort was made to encourage unlicensed traders to register, including adjusting licensing criteria or issuing temporary licences to individuals who did not qualify.¹¹ Obviously, many operators avoided licensing precisely because they wished to avoid administrative interference and ignore regulations, and knew they could get away with it. But there were also a considerable number who were unable to obtain a licence, and yet had strong incentives to go into business. This category included people with no proper household registration, people who still had jobs in work units which would not release them, retired people in localities which refused to license retirees, and 'job-waiting youth' who feared that they would put themselves out of the running for a (preferable) state or collective job if they were known to be running a private business. Sometimes it was the very restrictiveness of ICB policies, aimed at improving control over private business, which drove

¹⁰RMRB, 22 May 1987, p. 2.

¹¹'Zhongguo xian jieduan geti jingji yanjiu' (1982), p. 84; JJB, 17 September 1987, p. 1.

private operators to stay completely out of reach: for example the rule adopted by many local ICB offices that individual pedlars must have fixed stalls.¹² This naturally made inspection of licensed businesses easier, but space for fixed stalls could be hard to find, and many people would simply operate businesses illegally for this reason.¹³

With respect to other illegal activities by licensed businesses, the campaign approach could not deal effectively with the incentives for illicit behaviour generated by reform conditions. Inspection drives attacked mainly such infractions as unlicensed trading, adulteration of products, cheating, and charging high prices, and were less effective against tax evasion, which could be better hidden, and the widespread procurement of goods and raw materials through illegal channels. They also attacked mainly the small, publicly-visible street-level traders who were usually the last link in a much longer chain of illicit trading in high-demand goods. Cadres and staff in state units and economic departments were also influenced by the opportunities offered by the reforms, and it was of course these same people whom the central government had to rely upon to conduct clean-up campaigns. Even the determined attack on cadre corruption of 1989 was blocked by the cadres themselves: for example the drive to inspect and clean up the many trading companies which served as vehicles for diversion of planned-distribution goods was blocked by 'leadership at various levels'. Nor was this solely a matter of individual corruption; again, the increased local autonomy of the

¹²For example *HEBRB*, 4 June 1983, p. 1.

¹³*HEBRB*, 4 June 1983, p. 1; Zhang Hao, Chen Jian, and Fang Rong, 'Beijing shi chengqu qingnian congshi geti jingying qingquang de diaocha' [Survey of conditions for young people doing individual business in the Beijing urban area], *Jingji yanjiu* [Economic Research], no. 5, 1982, pp. 55-60, p. 58.

reform era meant that many such companies were affiliated with local government departments.¹⁴

Further problems stemmed from the nature of the administrative system itself. Once the campaigns were over, the task of maintaining market order was left mainly to the ICB. Regular ICB inspection was inadequate for a number of reasons. One was that the traders were sometimes way ahead of the ICB: in Beijing in 1987, unlicensed traders were reportedly employing scouts who recognised ICB officials and used motorcycles, or even walkie-talkies, to warn of their approach.¹⁵ The ICB maintained that it lacked the ability to do more than make such inspections, complaining in particular of a shortage of staff. An official whom I interviewed at the Guangzhou ICB, for example, lamented the fact that one ICB officer was responsible for as many as 150 *getihu*. A 1986 survey of Changchun found an average of 500 individual businesses to one ICB officer.¹⁶ Many observers, both within and without the ICB, have also pointed to the lack of training of ICB officers; for example in the Changchun survey only 36 per cent of those responsible for the administration of private business said they felt themselves to be competent.

In fact the ICB officers in cities and districts I visited did not appear to be particularly harried and overworked, and all the evidence points to ICB cadres having extensive knowledge of, and power over, private businesses in their area. An alternative interpretation of the ICB's failure fully to implement central directives lies in the contradiction between general reform

¹⁴See *SWB*, 20 January 1990, FE/0667 B2/7, and *SWB*, 23 January 1990, FE/0669 B2/6.

¹⁵*RMRB*, 22 May 1987, p. 2 and 27 June 1987, p. 5.

¹⁶Li Bin and Zhao Ming, (1987), p. 53.

imperatives of local economic development and regulatory efforts to constrain private business, and between the local authority developed by administrators and the central government's attempts to reduce them to mere bureaucrats, faithfully implementing central regulations. A key aspect of the structure of administration is the importance of local relationships. Inspection by the ICB and other organisations was often made ineffective by the pressure of personal connections. Since inspectors were responsible for a particular area. This enabled them to become familiar with the businesses in their district and have a very clear idea of which were law-abiding and which are not. At this point, however, the complex system of *guanxi*, part personal obligation, part local loyalties, and part bribery, came into play. Local officials might therefore aim not so much to eradicate illegal business, or to force businesses to operate in the way central authorities would like; rather they might seek to find an equilibrium, an arrangement mutually satisfactory to all sides wherein administrators regularly collected fines, and businesses regularly paid the fines and carried on.

Of course, private businesses did pose a difficult problem for administrators. The many small businesses were hard to control precisely because of their smallness: their business transactions involved small, hard-to-trace quantities of goods, were conducted entirely in cash, and went unrecorded by either side. Many of the roadside types were mobile and could move away if pressures from irate customers or diligent market inspectors required it. Repeated demands from the ICB that they display price tags on all goods were ignored, so that prices could easily be altered if a price inspector happened into view. These attributes seem particular to the small, individual businesses, but larger businesses tended to be just as difficult to police, largely because of their role

in the network of connections and local economic interests which arose from the new opportunities of the 1980s.

Private entrepreneurs of all kinds were unusual in Chinese society in that they were independent of the majority of structures through which the state was accustomed to maintaining social control. Until the post-Mao reforms, the trend of organisation in China was to make individuals part of groups - work units, communes, residential areas, the Party and Youth League - and to use these groups to control people's lives by making them reliant on them for their economic security and future advancement. For urban residents this subordination to groups had become most advanced - not only payment for work, but also housing, health care, old age security, and future career prospects all depended on the work unit, the street committee, the Party. Private entrepreneurs, by virtue of being denied access to these benefits, were also immune to the leverage normally applied in this way. The reforms to agriculture and the rise of free market trade gave new flexibility to rural residents, and the existence of a legal or illegal free market in most of the necessities of life, including employment, reduced the effectiveness of these levers throughout society. A large portion of employees in urban businesses are from rural areas; working for a private business enables them to live in the city for a while and, since it is a matter arranged directly between employer and employee, is hard for the Labour Bureau and Public Security to control. It is usually up to the employer to provide board and lodging for these employees.

The implementation of birth-control policies is another example of the difficulties posed by private business for administration. A 1988 letter to the

Renmin ribao from the Public Security Bureau of Zaoyang municipality in Hubei reported that of 170 private clothing sellers in one market, 40 couples already had an extra-plan child, and 17 more were expecting one. According to the bureau, birth control administration among private operators had been ineffective both because they were scattered individuals and came from different localities, and because the various administrative departments were not sure whose responsibility it was.¹⁷ On another page, the paper reported that Jiangxi had taken steps to remedy a similar situation: private operators would need a 'birth control certificate' from their household registration office in order to obtain a business licence. Pregnant women without a certificate of permission from their place of household registration were to be treated as extra-plan and, if they insisted on having the child, be 'punished according to the relevant regulations'. However, the effectiveness of any punishments was reduced by the financial and social independence of private operators, who could often afford to pay fines, could not have their wages reduced, were not dependent on a work unit for housing or promotion, and need not fear the opprobrium of work-unit leaders. Indeed, private business provided a sanctuary for those who wished to escape from these pressures: it was reported in 1989 that couples had been converging on the Sichuan-Hunan-Hubei border area to escape birth control regulations, and were able to do so on the pretext of 'doing business'.¹⁸ One of Chengdu's most successful private entrepreneurs told me that she originally left her state job because of the problems she encountered after having a child out of turn in 1983, when her unit was being particularly zealous about the birth-control campaign.¹⁹

¹⁷*RMRB*, 12 October 1988, p. 5.

¹⁸*SWB*, 27 January 1989, FE/0369 B2/5.

¹⁹Interview, September 1989.

Administrative departments responded to the independence of the private sector by trying to organise private operators in such a way as to make normal procedures applicable to them: to make them part of groups. This was aimed both at facilitating control, and at overcoming the perception of private operators as outcasts, separated from the collective society. This perception was seen by reformists as a barrier to the development of private business, and by bureaucrats as one reason for illicit business practices, the argument being that if private operators were imbued with a sense of belonging, they would be much more public-spirited and less inclined to cheat their customers and evade taxes. Thus administrative departments focussed their activities on reducing the social marginality of private businesspeople, seeing this as the key to controlling them effectively. This approach did have some success, but was hampered by private operators' reluctance to be organised in a bureaucratic way, and the lack of incentives for them to participate actively once they had been. Although the organisational methods used provided a structure for control, it was without the leverage needed to make it really effective.

One avenue for integrating private business with the socialist system was Party membership, but the bulk of Party membership in the private sector is the result of Party members and cadres moving into private business (often using their connections and expertise to run large and successful *siying qiye*), rather than established private operators becoming Party members. In 1989 in the wake of the Tiananmen crackdown, private employers were finally banned from joining the Party; those who were already Party members were

allowed to remain, but their incomes were to be limited and they were put under renewed pressure to use their profits for employee or public welfare.²⁰

Earlier, in the mid-1980s, reformists in the Party leadership had fitfully pushed for recruitment of private businesspeople into the Party, and occasional articles appeared in the press on private entrepreneurs joining the Party or on increased Party activities among them. Among the barriers to such involvement was the attitude of private operators themselves: the Party had for so long been the enemy of private businesspeople that many remained suspicious of it, as of all arms of state bureaucratic control. They saw quite correctly that one of the aims behind involving them in the Party was to increase control over them: Party and Youth League activities among private businesspeople were usually concerned with promoting Party policies and honest business practices. For example the model private businessman and Party member Bai Shiming busied himself organising a political study group for young businesspeople, and the Youth League cooperates with the Individual Labourers' Association to organise competitions and campaigns to clean up private business practices.²¹

Not surprisingly, such Party and Youth League activities attracted limited interest from private businesspeople. The Party also often lost contact with existing Party members who went into private business, because of a failure to adapt its organisational structure to suit new conditions. The Party structure was based on lines of territorial administration and state units of production

²⁰*South China Morning Post*, 2 October 1989; *Beijing ribao* [Beijing Daily], 25 November 1989.

²¹Bai Shiming: *RMRB*, 2 November 1983, p. 4; Youth League: *RMRB*, 27 February 1983, p. 1, 14 August 1983, p. 1.

and work. Private entrepreneurs were often geographically mobile and operated across many boundaries. Even those who were already Party members, especially those from rural areas, often moved away from their original Party branch and no longer attended meetings. More attention was paid to this problem in 1984 as reform policies encouraged peasants to move into towns to do business. Some areas established new Party branches, organised into sub-groups according to area or trade, to cater for such people.²² Some Party branches also tried to be more useful to private operators by organising trade fairs and the like. In the city of Linfen in Shanxi, a new incentive was added to business ethics campaigns by allowing Party members to use their membership for advertising, hanging up signs saying that as Party members they guaranteed good service.²³

In fact, the idea that private businesspeople should be Party members (and vice versa) was never really accepted: despite the official line that private operators were 'socialist labourers', there was always grave doubt within Party circles that they were quite socialist enough. Particular concern was expressed over admitting those who employed others in their businesses, since it was felt that even those who employed only a few assistants, within the limits of the *getihu* regulations, were to some degree exploiting them.

A much more determined attempt to organise private operators was the Individual Labourers' Association [*geti laodongzhe xiehui*], clearly an application of yet another established mode of social control, the mass organisation. Private entrepreneurs, in all fields of business, were seen by

²²*Zhongguo nongmin bao* [Chinese Peasant], 21 June 1984; *NMRB*, 13 August 1985, p. 1.

²³*RMRB*, 22 April 1987, p. 4.

administrators as a group with the common feature of being outside the normal collective structures of society, having no '*danwei*' responsible for them. The Individual Labourers' Association was the ICB's approximation of a '*danwei*' for private businesses. In spite of its name, larger businesses were included as well as individual businesses proper, regardless of their registered status, although with the official acceptance of *siying qiye* in 1988 there came moves to set up a Private Entrepreneurs' Association specifically for them.²⁴ The Individual Labourers' Association was established piecemeal, beginning at county and urban district level in 1980 under the auspices of ICB departments. By the middle of 1985, 91 per cent of counties and municipalities had set up these associations.²⁵ Then in December 1986, a national meeting of association representatives marked the establishment of the national Individual Labourers' Association, which had been approved by the State Economic Commission in July.²⁶ At the meeting, the representatives 'unanimously adopted' Central Committee Advisory Commission Deputy Chairman Bo Yibo as honorary president; Xue Muqiao, Wang Liu and Qiao Mingfu as consultants, and the then Director of the State Bureau of Industry and Commerce, Ren Zhonglin, as president.²⁷ The national association, like its lower branches, is very much an arm of government organised by the ICB, modelled on other organisations such as the labour unions and the women's federation. It is funded from the

²⁴Reports of these associations present them as a spontaneous movement on the part of large-scale private entrepreneurs. (*RMRB* overseas edition, 18 January 1988, p. 1, *JJRB*, 8 May 1989, p. 1, Zhang Houyi and Qin Shaoxiang, (1988). But then, that was the story with the Individual Labourers' Association too. The involvement of the Individual Labourers' Association and the Private Entrepreneurs' Association in government policy promotion suggest that they are much the same thing. See *JJRB*, 28 April 1990, p. 2.

²⁵*RMRB*, 14 October 1985, p. 2.

²⁶*RMRB*, 30 July 1986, p. 2.

²⁷*RMRB*, 6 December 1986, p. 2.

administration charge collected from private businesses by the ICB. In Guangzhou in 1988, 40 per cent of the administration fee was allocated to the association.²⁸ At both national and lower levels, the association was run by committees made up partly by ICB cadres and partly by elected representatives. It was generally the ICB cadres who controlled the association's finances, and the association's offices were located with those of the ICB. In the national association in 1988, the finance department was run by nine people, of whom the senior three were central ICB cadres. In Guangzhou, ICB cadres acted as district secretaries, and the finances were managed directly by the ICB. The day-to-day activities of the association were mostly organised at county or district level, and most committee members were private operators, elected by members. Participation in the committee was of course time-consuming, but some operators saw it as a way of establishing a good relationship with ICB cadres, keeping abreast of policy developments and market information, and enhancing their own power and prestige. In Chengdu, committee members were paid an honorarium for each meeting.

According to the national Individual Labourers' Association's Beijing headquarters in 1988, the main aim of association activities was to unite, educate, and administrate private operators. Materials pertaining to business regulations and business ethics were disseminated from central level down to county and district level, and thence to small study groups. In some areas broadcasts or blackboards in markets were also used, particularly in small towns where association groups were not well organised. As well as

²⁸Interview, Guangzhou ICB, October 1988.

disseminating propaganda and information among private business people, the association organised activities designed to mobilise them to conform to administrative goals. The Beijing municipal government's March 1983 notice on strengthening the administration of individual businesses underlined this role of the association in Item 8, which said 'One important task of the individual labourers' association is to carry out regular education among individual business people in obeying the law, actively promoting the "*wu jiang si mei*" and "*san reqing*" movements [both movements to promote better manners], and promoting civilised business and civilised production'.²⁹ As part of the drive to clean up free market trading in 1983 the Individual Labourers' Association combined with the Youth League in many areas to organise a campaign among young private operators to 'win the people's trust' through good service, promoting socialism, studying hard, obeying the law, displaying licences and helping in the fight against unlicensed traders.³⁰ By 1988, individual operators of all ages could be seen displaying certificates saying that they too could be trusted by the people: they were *renmin xin de guo de getihu*.

The structure of the association makes it obvious that it is intended as a means of organising and controlling private operators. Yet this does not mean that it is entirely one-sided: the unusual position of private business, and the role of the ICB in promoting economic reform, have meant that the association has often acted as a genuine advocate for private operators, insofar as their interests coincided with those of reformists in China's leadership. Efforts to improve the security and status of private business were also part of

²⁹See note 6 above.

³⁰RMRB, 27 February 1983, p. 1; RMRB, 14 August 1983, p. 1.

the administrative strategy of making private operators more controllable by attacking their marginality. Therefore in addition to promoting the administrative control of its members, the Individual Labourers' Association was also quite active in promoting their interests, often acting rather like a Chamber of Commerce or the traditional trade guilds. The association assisted private operators by helping them negotiate with administrative departments other than the ICB, for example in matters of premises or supplies. It helped them obtain loans from banks, and some branches organised mutual aid funds among members, which provided welfare funds or low-interest loans funded by members' contributions. It also organised classes in business management or, more commonly, in technical skills such as hairdressing or tailoring. All of these activities suited the aims of the ICB in promoting the development of a stable, manageable and professional private sector, but they were also helpful to operators. At the inaugural meeting of the national association in December 1986, representatives were extremely vocal in voicing the complaints and desires of private operators, complaining of social prejudice and too much arbitrary bureaucratic interference, and calling for the proper implementation of central regulations. This seems to have been a centrally-orchestrated attack on lower-level bureaucratic management of private business, prompted partly by the falls in private business numbers in the first half of 1986.³¹ Bo Yibo declared that the policy of promoting the individual economy would continue, and Zhao Ziyang was pictured on the front page of the *Renmin ribao* shaking hands with private business representatives.

³¹RMRB, 27 September 1986, p. 2, 28 December 1986, p. 2.

The individual labourers' association clearly had some success in uniting and organising private operators and improving the ICB's links with them, but it was not without problems. Some of these arose because, again, it was an attempt to make private operators fit the administration, rather than the other way around. In most cases, association branches were organised by locality, combining private businesses of all types and sizes together. As Ole Bruun has pointed out, from the ICB's point of view this made sense: it saw them as a socio-political category of people whose main feature was not being part of a social unit, rather than dividing them in economic terms.³² Organising them by area also accorded with the normal structures of Chinese administration. As the organisation of association branches built up this was criticised, and in some areas branches were organised by trade. Another problem was that although it put an administrative structure in place over private operators, the association lacked effective power over them. It could publicise policies and regulations, but it could not force operators, or indeed administrators, to obey them. It also appears to have had trouble attracting participation in some areas. Although membership of this 'voluntary' association was generally automatic on obtaining a licence, many operators took little interest, seeing the association - with reason - as merely an arm of bureaucracy. Others were too busy, or too mobile, to be interested in taking part. Therefore although glowing press reports, and interviews with association officials, described an organisation active among nearly all private operators, most of those I interviewed expressed little interest in the association or its activities. Further weight was given to this impression by staff of the Guangdong Insurance Company, who dismissed the association as

³²Bruun, (1988), p. 102.

quite useless as an avenue for promoting insurance or superannuation policies among private businesses.³³ Those private operators who were active in the association had quickly become committee members and appeared to have made a conscious decision to align themselves with the bureaucracy where possible. One entrepreneur said that she found her involvement with the association quite onerous, but that it was 'necessary'; she had a particularly good relationship with the local ICB.

Taxation

Reformists realised that the impact of market reforms made established administrative procedures inappropriate. A consistent theme in the reforms has been the desire to establish a more standardised system which relies on impersonal regulation and legality rather than the highly personalised, arbitrary system inherited from the Maoist era.³⁴ Yet the introduction of economic reforms before political or administrative reforms meant that economic incentives and opportunities developed before new means for regulating them were in place. As a result, the existing bureaucracies took hold of these opportunities and made them their own, and thus had an interest in obstructing central government efforts to standardise administration. A telling example of this process is the central government's efforts to develop the taxation (one of the 'economic levers' much vaunted by reform economists) of the private sector.

³³Interview, October 1988.

³⁴ See the discussion in Victor Nee, 'Peasant Entrepreneurship and the Politics of Regulation in China', in Victor Nee and David Stark, eds., *Remaking the Economic Institutions of Socialism: China and Eastern Europe*, (Stanford University Press, 1989), pp. 169-207, and Shue, (1988).

So far as I have been able to discover, private businesses are subject to an income tax and a turnover or product tax where appropriate. In addition to these central taxes, they are asked to pay the wide and varied range of local fees and levies, discussed in Chapter Four, which are in many cases the main contribution of private business to local revenue. Thus it is in the interest of local governments to emphasise the collection of these local fees and charges ahead of central taxes.³⁵ For the central government, the implementation of a centrally-regulated tax system is essential if the economy is to be successfully managed from the centre, but even local-level tax bureaus, which might be seen as representing the central government, appear to have resisted the standardisation of tax collection. In the following discussion I will argue that they, like other local cadres, have sought to maintain the procedures which give them the greatest degree of power in relation both to private businesses, and to the central government.

When individual businesses were first revived there were no income tax rules designed specifically for them; official policy was to tax them according to the 14-grade collective tax regulation plus an additional percentage levied on high incomes.³⁶ However at this stage the government's main concern was to promote the rapid development of individual business and overcome bureaucratic prejudice and discrimination against it. In October 1980, therefore, the Ministry of Finance put out a notice declaring that the tax burden on individual businesses was too heavy, and that payment according

³⁵For example, the amount of revenue actually reported to higher levels will usually be much lower than the real total. See Odgaard, (1990), p.111-113.

³⁶The 14-grade schedule, and several provincial 8-grade schedules introduced after 1978, are translated in Muth, (1987), pp. 225-226.

to the 14-grade regulation was to be discontinued.³⁷ Instead, income tax on individual businesses was to be decided at provincial level in accordance with local conditions, until a national tax policy on the individual economy was formulated. It was not until 1986 that a set of regulations applying specifically to individual businesses was released. In the meantime, provinces developed their own approaches, based on the 1964 eight-level tax schedule for collective handcraft enterprises. According to economist Fang Sheng, this meant that the average income tax on individual enterprises fell by 70 per cent.³⁸ Thus central approval was given for the development of localised and highly varied procedures for the taxation of individual businesses. Local departments sometimes used this freedom to set extremely high tax rates.³⁹ In October 1981, further steps were taken to lighten the tax burden and individual businesses in trades which the state wished to promote, or which had financial difficulties, could have their taxes waived.⁴⁰ Since larger private enterprises which exceeded the limits of *getihu* were not officially acknowledged until 1987, there could hardly be separate tax policies formulated for them and it was up to local tax officials to deal with them as they saw fit; they were usually taxed according to their registration as *getihu*, *zhuanyehu*, co-operatives or collectives.

³⁷Caizheng bu guanyu gaijin hezuo shangdian he geti jingji jiaona gongshang suode shui wenti de tongzhi' [Ministry of Finance notice on improving the payment of industrial and commercial income tax by cooperative shops and the individual economy], 9 October 1980, in Guojia xingzheng guanli ju geti jingji si and *Beijing ribao lilun bu*, eds., (1984), pp. 48-49.

³⁸Fang, (1982), p. 183.

³⁹Solinger, (1984), p. 203.

⁴⁰*RMRB*, 29 April 1985, p. 2. *BR*, no. 44, 1981, p. 27, stated that new individual and collective enterprises would be exempt from commercial tax for three years, but the reports of early taxation practices by Yudkin, (1986), pp. 84-85, suggest that this was not the case for private businesses. I have found no cases of this except for certain repair or service businesses seen by local authorities as not very profitable but highly beneficial to the community.

In these early years, the main concern of the central government was to promote the individual economy and overcome opposition to it. By 1983, the individual economy had grown greatly and, as reflected by the campaigns discussed above, more attention was paid to controlling it. In the field of taxation, this was seen in a switch from concern that individual businesses were being taxed too heavily, to declarations that they were not being taxed nearly enough because of their ability to evade what taxes there were. In August, the Ministry of Finance announced procedures for collecting commercial tax from individual businesses and some collectives through the wholesale units from which they bought their supplies.⁴¹ But this was unpopular because, having been given a stake in their own profits by the reforms to state enterprise budgeting, wholesalers were now anxious not to discourage private business custom.⁴² A follow-up regulation in January 1984 suggested that even those wholesalers who had been active in collecting the tax had probably had their own motives, as they had sometimes been overzealous in their role as tax agents, collecting 'income tax' (although how they could possibly assess it is a mystery, and it seems more likely that it was not an approved tax at all) as well as commercial tax.⁴³ In any case this regulation was bound to be of limited use because, as discussed in Chapter Five, individual traders were increasingly finding alternatives to state-controlled

⁴¹Caizheng bu guanyu dui geti shangfan he bufen jiti shangye qiye shixing you pifa bumen daikou lingshou huanjie gongshang shui de zanxing guiding' [Ministry of Finance provisional regulations on the collection of retail-level industrial and commercial tax on individual pedlars and some collective commercial enterprises through wholesale departments], 17 August 1983, in *Zhonghua Renmin Gongheguo guowuyuan gongbao* [Bulletin of the State Council of the PRC], no. 18, 1983, pp. 832-834.

⁴²RMRB, 2 September 1989, p. 6.

⁴³Caizheng bu guanyu dui geti shangfan he bufen jiti shangye qiye you pifa bumen daikou shuikuan jige wenti de tongzhi' [Ministry of Finance notice on several problems in the collection of taxes from individual pedlars and some collective commercial enterprises by wholesale departments], 10 February 1984, in *Zhonghua Renmin Gongheguo guowuyuan gongbao*, no. 5, 1984, p. 159.

supply channels. The main strategy for improving tax collection, as for other aspects of private sector administration, was to rely on the familiar methods of the campaign. First, in 1983 more and more complaints appeared in the press that individual traders were evading taxes by not registering for taxation, keeping false accounts, under-reporting turnover, and, on occasion, beating up tax collectors.⁴⁴ In October 1983, the Tax Bureau gave further impetus to the tax collection campaign with a notice saying that individual businesses must pay tax according to the law. The notice stipulated that individual businesses must keep account books and provide evidence of turnover, income and expenditure. Individuals who evaded tax or who refused to pay and beat up tax officials would be fined or taken to court.⁴⁵ A nationwide push for better tax inspection and collection had begun.

In succeeding years, central initiatives on tax collection followed the same trend of introducing measures aimed at making taxation more systematic and standardised, accompanied by campaigns which put pressure on officials to carry them out. In January 1986, the State Council at last issued the first national post-reform regulations on income tax on individual businesses.⁴⁶ Tax collection according to these regulations was apparently a model of order and rationality, in which the operator's taxable income was determined on the basis of the business's books and taxed according to a schedule which, for

⁴⁴For example *RMRB*, 16 July 1983, p. 3; *HEBRB*, 13 July 1983, p. 1.

⁴⁵Zhonghua Renmin Gongheguo caizheng bu shuiwu ju guanyu geti gongshangyehu bixu yifa nashui de tongzhi' [Notice of the Tax Bureau of the People's Republic of China Ministry of Finance: individual businesses must pay tax according to the law], 8 October 1983, in Guojia gongshangju geti jingji si and *Beijing ribao* lilun bu, eds., (1984), pp. 46-47.

⁴⁶Zhonghua renmin gongheguo chengxiang geti gongshangyehu suode shui zanxing tiaolie' [People's Republic of China provisional regulations on income tax on urban and rural individual industrial and commercial households], 7 January 1986, published in *RMRB*, 25 January 1986, p. 2.

most businesses, would result in a tax burden far less than that of collective enterprises. One flaw in this scenario, however, was revealed by the issue in September of yet another declaration that individual businesses must keep books,⁴⁷ indicating that many still did not do so. Apart from this, the picture presented by central taxation policies towards individual businesses was at last one of reasonable order.

The taxation of the larger *siying qiye* was more of a problem because of the great confusion in the registration of these enterprises, and the fact that political considerations meant that their very existence was not openly discussed for several years. The taxation schedule proposed for individual businesses was in many ways unsuitable for larger enterprises, making no allowance for depreciation of assets, investment, or any differentiation between the owner's income and that of the enterprises. The common practice of taxing them as collectives was also undesirable, as it gave them access to 'undeserved' tax breaks and did not provide the control over private incomes or investment levels which was necessary if socialism was to be maintained. Until the existence of large private enterprises was acknowledged and approved, no specific regulations regarding them could be formulated, and this gave rise to increasing complaints from administrators, social scientists and private entrepreneurs themselves. Finally, the June 1988 regulations on *siying qiye* were accompanied by regulations on income tax on private enterprises and on personal income from private enterprises.⁴⁸ These

⁴⁷JJRB, 15 September 1986, p. 2.

⁴⁸Zhonghua Renmin Gongheguo *siying qiye suode shui zanxing tiaolie*' [People's Republic of China provisional regulations on private enterprise income tax], 3 June 1988; and 'Guowuyuan guanyu zhengshou *siying qiye touzizhe geren shouru tiaojie shui de guiding*' [Decision of the State Council on the collection of regulatory personal income tax from investors in private enterprises], in *RMRB*, 29 June 1988.

regulations taxed *siying qiye* at a flat rate of 35 per cent, and offered strong tax incentives to enterprise expansion and investment of profits, with a provision that not less than 50 per cent of after-tax profits had to be used for 'production development': expansion of the enterprise, offsetting losses, paying off debts, or investing in other enterprises.⁴⁹ Apart from this stipulation, there was no limit on the income investors might derive from the enterprise. Directors' salaries were limited to no more than ten times average staff wages and were liable to graduated personal income tax, but the portion of after-tax profits used for personal consumption was subject to a 40 per cent proportional tax only.⁵⁰

The above account of the evolution of central taxation regulation makes the process sound a little slow and disorganised, but at least the regulations themselves, once arrived at, were clear enough. A set of national standards had been achieved. Yet continued reports and academic studies on problems

⁴⁹After the release of these regulations, the Tax Bureau also levied a 7 per cent 'accumulation tax', to be used for centrally-funded transport and construction projects. See *Xinwen bao* [News], 27 July 1989.

⁵⁰On the face of it, these regulations appeared to give many owners of large *siying qiye* significant advantages over both *getihu* and collective enterprises. A collective enterprise with an income of over 25,000 yuan should, according to the relevant regulations, be taxed at progressive rates over 42 per cent, and the provisions for directors' salaries, covering losses, and further investment are likely to provide useful loopholes. In fact, most *siying qiye* would be considerably worse off if taxed as such, which is another reason why they prefer to be registered as something else. Many private enterprises registered as collectives were in practice being taxed at an unofficial proportional rate of around 20 per cent, or received tax concessions such as a tax-free period of up to three years designed to encourage the development of collective township enterprises. The new regulations also meant that an entrepreneur's personal income would be taxed twice. For discussions of these issues, see Cheng Xiangqing, Li Bojun and Xu Huafei, 'Siying qiye fazhan xianzhuang yu mianlin de wenti' [Current conditions and problems in the development of private enterprises], *Zhongguo nongcun jingji* [China's Rural Economy], no. 2, 1989, pp. 24-31; and *Zhongguo shehui jieji, jieceng yanjiu* Guangzhou yanjiu zu, 'Guangzhou geti gongshangye, siying qiye jingji zhuangkuang de fenxi' [An analysis of the economic situation in individual industry and commerce and private enterprises in Guangzhou], *Zhongguo wujia* [Prices in China], no. 5, 1990, pp. 42-46, p. 45. For the regulations on collective enterprise income tax, see *RMRB*, 20 April 1985, p. 2.

in taxation, and interviews with taxation officials and private entrepreneurs, give quite a different picture, of a complexity almost impenetrable not only to researchers, but to businesspeople themselves. While the regulations indicate an attempt on the part of central authorities to evolve standardised, reliable procedures, the actual practice of tax collection shows a reluctance at lower levels to implement such a regulated system. Tax officials said that the conditions for such a system were lacking, and relied instead on the more familiar hierarchical, group-oriented systems which offered the greatest scope for local discretionary powers.

Officials from the tax bureaus of Sichuan province and the city of Chengdu, interviewed in 1988, described a system of calculating and collecting tax which bore little relation to central regulations. At first the provincial tax official said that the income tax on individual businesses was calculated according to the 1986 regulations, but when pressed as to how this was done without proper bookkeeping by all businesses, he said that the regulations were applied only to the 8 per cent of businesses with proper accounts. The remaining 92 per cent were taxed quite differently using the *ding'e* method, in which businesses were required to pay a predetermined amount each month. The commercial tax and income tax were determined together as a set percentage of turnover, which was estimated by tax officials on the basis of their knowledge of the businesses in their area and operators' declared turnover and profit. At the Chengdu municipal Tax Bureau, the story became more complex. Several methods of tax collection were described, but the main method was as follows: individual operators were supposed to declare their earnings, but the Tax Bureau had little faith in their honesty. Businesses were therefore organised into groups according to trade, and

occasional meetings were held by the Bureau at which a figure for average turnover would be thrashed out. Finally, the Tax Bureau would decide on the figure to be used. This done, the amount of tax to be paid was calculated according to regulations. For example a retail business might have a monthly tax bill calculated as follows:

| | | |
|---|---------|------|
| Estimated turnover | 1000.00 | yuan |
| 3% turnover tax | 30.00 | yuan |
| City construction tax (7% of turnover tax) | 2.21 | yuan |
| Education fee (1% of turnover tax) | 0.30 | yuan |
| | ----- | |
| Total | 32.51 | yuan |

Net income, I was told, was often estimated according to the gross profit rate of state enterprises in comparable lines of business, with allowance made for costs, which included purchases and expenses, government charges, the turnover tax, and salaries including that of the licence holder. Income tax was then calculated according to the 1986 regulations.

According to tax officials, the amounts concerned were 'negotiated' with operators, so that they did not feel unfairly treated and were happy to pay the tax. But according to businesspeople themselves, they were given little say in the matter, but were simply told how much they were expected to pay. Most had no idea how their tax bill was arrived at, but simply paid up. Without

clear bookkeeping, the system of tax calculation, if there really was one, left the Tax Bureau almost unlimited opportunity to alter the figures at will.

The actual methods of collection were similarly open to manipulation. The Tax Bureau itself did not have adequate staff to conduct all inspection and collection by itself, and therefore, again turning to well-tried methods developed since 1949, had delegated some of the burden to the ICB, the Individual Labourers' Association, and the street committees. In Chengdu, in response to the central push for more effective tax collection in 1983, mutual supervision groups were set up, managed by representatives from residents' committees and the Individual Labourers' Association, with Tax Bureau cadres supervising. Thus the residents' committees and the association acted as agents for the Tax Bureau, and received either a small commission on tax collected, or a bonus if cases of tax evasion were discovered. By 1986 over 600 such groups had been formed in Chengdu. In addition, the Tax Bureau set up inspection teams to conduct spot checks on businesses and to make estimates of average earnings, and in 1988, in response to yet more concern about tax evasion, a special task force was set up to crack down on tax evaders.

The Tax Bureau's approach to tax collection was therefore a combination of the two methods alluded to earlier: concerted inspection drives and the use of the established hierarchies of bureaucratic control. The drive approach became institutionalised, with an annual campaign reaching a peak in September-October each year, followed by press reports of successes in the crackdown on tax evasion. The very repetition of the campaign approach illustrates that the tax collection system itself was far from satisfactory. The Tax Bureau acknowledged this, and attributed it to the scattered, independent

nature of private businesses, inadequate tax personnel, and the fact that the majority of businesses did not keep reliable books. Yet in spite of continued central announcements on the need for individual businesses to keep books, it appears that up to 1988 no real effort had been made to make them do so. This suggests that lower-level tax officials were in fact quite satisfied with the alternative complex, arbitrary methods which left far more discretion in their hands than would a clearer and more regulated system. Tax officials admitted that they were more lenient with businesses which were seen as cooperative, honest, and socially useful, and that they applied higher taxes to those which were suspected of cheating either the state or consumers.⁵¹ The very localised system of tax collection and the delegation of collection to members of the residents' committees and the Individual Labourers Association, who were on familiar terms with business operators on their beat, would also offer immense scope for both victimisation and favouritism on the basis of graft and bribery. It also appears that other bureaucracies, such as the ICB, may not have been cooperating with the Tax Bureau in ensuring that all taxable businesses came under its control. In Chengdu in 1988, for example, only 46.1 per cent of ICB-registered private businesses were paying tax to the Bureau, although a certain number of others were registered with the Bureau but tax exempt.⁵²

The tax drive of 1989, in the context of the June crackdown, sought to change this situation. It was unusually determined, and cadres in other organisations besides the tax bureaus appear to have been given definite signals that this time the central government was serious. In Chengdu, the

⁵¹Bruun, (1989), p. 119, also found this in his interviews in Chengdu.

⁵²Interview, Chengdu, January 1991.

proportion of private businesses registered with the Tax Bureau increased to 75.5 per cent by the end of September 1989, and even though over 40,000 businesses (16 per cent of the city's total in 1988) closed down, the volume of taxes collected increased from 35.2 million yuan in 1988 to over 40 million yuan by the end of September 1989.⁵³ Chengdu's experiences seem fairly typical, and the newspapers of early 1990 are full of reports of increased tax collection from private businesses.

The 1989 campaign was more successful than its predecessors because of the unusual political tension of the time, but it did not change the basic pattern of tax collection established in previous years. In the first half of 1989 there was already increasing publicity about tax evasion among private entrepreneurs as part of the conservative campaign against certain aspects of the reform program. Estimates of tax evasion among private operators were now high: for example *Jingji ribao* reported in March that 60 to 70 per cent of private businesses avoided paying some of their proper tax burden.⁵⁴ On 1 August, the national Tax Bureau launched its collection campaign with the usual sort of notice, saying among other things that private operators must cooperate with tax inspectors, keep accounts according to regulations, and issue receipts.⁵⁵ Then in September, the State Council stepped up the tax collection campaign by issuing a circular on improving the taxation of private businesses.⁵⁶ The circular included the interesting provision that any dereliction of duty on the part of tax collectors ('cases related to tax inspection order') should be dealt with within the Tax Bureau itself. But already, the Tax

⁵³Interview, Chengdu, January 1991.

⁵⁴*JJRB*, 8 March 1989, p. 2.

⁵⁵*RMRB*, 2 August 1989 p. 2.

⁵⁶*SWB*, 5 September 1989, FE/0553 B2/7.

Bureau had prepared its defenses, again pointing to the difficulty of implementing central regulations through local-level cadres. Tax Bureau head Jin Jin echoed his colleagues in other bureaucracies when he complained in July that the Bureau had insufficient staff (one tax inspector for 100 businesses) and added:

Governments and departments in some places have not completely and correctly grasped the Party's policy towards the individual economy, and on occasion only talk about 'beneficial', not about 'supplement'; they only talk about 'development', not about 'appropriate', and are only concerned that tax collection will damage the enthusiasm of individual businesspeople. Thus they do not sufficiently recognise the importance of improving private business tax control, and do not give it strong support.⁵⁷

There is certainly some evidence that this was the case in the 1989 campaign. In spite of its vehemence, it was still a traditional drive organised in the usual way and dependent upon local officials. Local governments and tax officials, while fulfilling the demands of the campaign, sought in some cases to defend private business from higher central tax payments and from greater central control. The impact of vested interests in the private sector was made clear in the clean-up campaign of 1989, when the drive to force fake collectives to register as private enterprises was actively obstructed by local government cadres; for example, tax officials in Liaoning were of the opinion that registering and taxing private enterprises as such could not be done as it would cause them to go bankrupt.⁵⁸ In Shenyang, a city which had actively developed the private sector, cadres apparently assisted private enterprises to defend themselves against the feared conservative attack by allowing new bogus registrations: a 21.03 per cent drop in the number of registered *siying*

⁵⁷JJRB, 14 July 1989, p. 2

⁵⁸JJCK, 15 May 1989, p. 1; Cheng Xiangqing et al, (1989), p. 29.

qiye coincided with a 30 per cent increase in new collective enterprises, mostly, it was claimed, the *ex-siying qiye*.⁵⁹

This did not mean, however, that local cadres did not use the conservative political atmosphere to increase their own control over private business. The ICB conducted an exhaustive licence inspection campaign from early 1989, and, once the campaign to extract more funds from private business had died down, there were numerous complaints that the practice of exacting random and excessive fees from private operators was increasing.⁶⁰ As discussed in Chapter Four, fees and levies decided at the local level were a major source of local revenue, and are clearly still a major bone of contention between local and central authorities. Although this is a question that requires further research, the central government's 1990 and 1991 declarations against such charges, and continuing problems with the registration and taxation systems, suggest that the 1989 clean-up campaign, far from being a successful assertion of central control, may have been hijacked by local authorities and used to their advantage.

Conclusion

An examination of the administration of the private business sector shows a number of different forces at work and in conflict with one another. In general, the ICB was keen to promote the development of private business, but did so in a way that was designed to augment its own bureaucratic power in relation to both businesses and other bureaucracies. This aim was at times in conflict with that of improving economic stability and order, as it led to a

⁵⁹JJCK, 11 April 1990, p. 1.

⁶⁰See for example the series of letters and reports in ZGGSB, Jan-Feb. 1991.

reluctance to discard group-oriented, organisational approaches for more standardised methods, relying on clearly determined procedures and regulations. The same conflict is even more obvious in the Tax Bureau, which had less of a commitment to promoting the private economy. Here the commonly noted conflict between central and local interests is particularly obvious, as a more standardised system would be in the interests of the central government by increasing its direct control, whereas the system of local tax calculation and collection in place by 1988 left control almost entirely in local hands.

Throughout the period under discussion, the trend of central government regulations has been towards a more standardised system. The central government would like a greater reliance on fixed laws and regulations, with the proviso that the legal system remain under its direct control. Yet the situation is not a simple one of a reformist central government clashing with local bureaucracy in its efforts to replace administrative direction of the economy with the use of legal and economic restraints. The policies of the central government, although tending in this direction until 1989, were also marked with internal conflicts reflecting disagreement among China's leaders as to how reforms should proceed. These conflicts reached a peak in mid-1989, but had in fact shaped the whole course of the reform program. The reformists' often-declared goal of using 'economic levers' to control the economy was at odds with the government's reluctance to abandon arbitrary interference, revealed again and again in its responses to particular problems such as price control, employment, and shortages. Underlying the government's administrative strategies was its ideological commitment to maintaining the dominance of public ownership, which informed many of

the policies and regulations on private business. Yet at the same time an important debate was developing on the nature of public ownership itself, as the impact of economic reforms, including the growth of various forms of private business, challenged the concepts on which the established vision of socialism in China had been built. This debate is inseparably linked with the growth of the private sector, and is addressed in the next and concluding chapter.

CHAPTER EIGHT: THE OWNERSHIP DEBATE

The rapid growth of the non-state economy -- this quiet reform has not been publicised, nor does it have direct organisers, but it is in fact carrying out a bottom-up, pervasive reform. If this trend continues to develop, it will inevitably lead to a series of reforms in China's economic foundation and social structure.¹

The preceding chapters have discussed issues relating specifically to the development of the recognised private sector in China. To understand the impact of this development, however, it must be related to the wide range of reforms of which it was a part. The growth of private business, coupled with a downward transfer of power in agriculture, state and collective enterprises, and government, made the traditional vision of the state-controlled economy difficult to maintain. The search for greater efficiency and the response of state units and local administrators to market opportunities began to blur the divisions between different forms of ownership as complex relationships grew among them. In enterprises, experiments such as contracting and leasing to individuals, takeovers, and joint-stock companies gave increasing scope for private control and even ownership of productive assets, and correspondingly diminished the direct control of the state. Parallel to these changes was a new debate which questioned long-held concepts of state ownership and its role in defining socialism. This concluding chapter therefore aims to locate the private economy in the context of changes in other forms of ownership in China and the debate over ownership as a whole.

¹Wu Renzhong, 'Ji bu gao siyouzhi you neng chongfen liyong shichang jizhi cunzai di san tiao lu ma?' [Is there a third way which can utilise market incentives without privatisation?], *JJXZB*, 16 April 1989, p. 3.

The private sector was revived as part of a structural reform of the system of ownership in China, an attempt to invigorate the economy by increasing the role of non-state sectors. This was a major shift in policy which, particularly in its encouragement of the privately-owned economy, presented serious practical and ideological challenges to the traditional Marxist-Leninist view of the superiority of state ownership. These challenges were revealed very clearly by the success of the *getihu* and *siying qiye*. Official Party policy continued to see this sector as marginal and supplementary, and acceptable only so long as it remained so. Yet as this study has shown, in practice it quickly overstepped the boundaries prescribed for it and, particularly in certain trades and localities, became far more than a mere addendum to the mainstream economy. It was also a sector which, because it was outside collectivised control structures, was singularly difficult for the Chinese government to control.

Another reason why the private sector proved difficult to contain was that it developed in concert with other reforms which dramatically decreased the central government's direct control over the economy. A fundamental factor was, of course, the rural reforms which handed agricultural production over to households. This led to the private operation of agriculture and sideline production even though the main means of production, the land, still remained under collective ownership. Independent farmers and specialised households inevitably became both suppliers and customers of private traders in services and consumer goods. The household management of agriculture also released the huge reservoir of surplus rural labour which provided a strong stimulus to the growth of private business at county level and below and supplied cheap labour for private enterprises.

Like the private sector, collective enterprises were also encouraged as a way of creating jobs and improving living standards. In effect both the collective and private sectors were responding to the same economic stimuli. As discussed earlier, however, the pressure on local authorities to develop collective enterprise and their desire to increase local revenue made it relatively easy for private enterprises to be registered as collectives, so an unknown proportion of the collective sector, particularly among the township enterprises, was in fact privately owned and run. This caused serious administrative problems for the government, which persisted in dividing the economy and regulating it in terms of ownership.

From one point of view, it matters little whether an enterprise is private or collective: they are both part of the growing portion of the economy which is *not state*. This section of the economy was generally more directed by market forces, and was harder for the state to control using administrative means. This made the maintenance of a planned economy, even a 'planned commodity economy', progressively more difficult.

Finally, the promotion of private and collective ownership (which meant abandoning the idea of inexorable, *upward* progression towards state ownership) challenged state ownership ideologically. The very admission that the state-run economy needed a 'supplement' was an acknowledgement of failure. The concept of the initial stage of socialism sought to confine the failure to past misjudgement of the historical moment, but was not convincing. By progression, the admission of shortcomings in one area could not fail to raise questions about others: if the state-run economy was inappropriate for roadside noodle-stalls, was it better for noodle factories? Continued inefficiency in the state sector and

the relative success of the collective and private sectors could not fail to beg the question.²

Not surprisingly, therefore, the structural reform of the state-collective-private ownership mix was accompanied by reforms in the management of the public economy aimed at addressing this issue of ownership and efficiency. The reforms within the publicly-owned sectors of the economy generally sought to obtain some of the advantages of private ownership - enterprise autonomy, responsiveness to economic opportunities, high incentive for more efficient operation - without forsaking China's commitment to public ownership. The example of household contracting in agriculture was therefore followed by experiments in contracting out the management of small and medium industrial and commercial enterprises.

The rationale behind these reforms was the idea of separating ownership rights from management rights [*liang quan fenli*]. This offered a way in which the management of enterprises could be radically altered without, in theory, affecting their ownership status at all, thus sidestepping the issue of why the state-run economy was not performing as desired. It was argued that if the ownership and management of enterprises could effectively be separated, then many of the problems endemic to public ownership could be avoided. Enterprises would be able to respond to economic pressures unencumbered by the socio-political considerations of the state or the collective. Instead of direct administrative control,

²Delegates to the Fourth Session of the Seventh National People's Congress in March-April 1991 argued that state enterprises needed to be made more independent (i.e., more like the private and collective enterprises) if their performance was to improve. It was estimated that at least one third of state enterprises were unprofitable. See *SWB*, 13 April 1991, FE/1045 C1/1.

enterprises would be freed to act under the indirect guidance of macro-economic controls and market forces.

Of the reforms which come under the heading of *liang quan fenli*, the one of most interest to this study is the leasing of state or collective enterprises to individuals. Leasing comes the closest to outright privatisation, and has also increased opportunities for the growth of privately-owned businesses and their integration into the economy. In rural enterprises it developed alongside the contracting system, as in some cases an individual would take over full responsibility for managing the enterprise, with the original 'owners' simply collecting part of the profits.³ The leasing of small state commercial enterprises began to spread in 1983, and was formalised in a State Council circular on the reform of the urban commercial system in July 1984.⁴ The bulk of leased enterprises were, in fact, collectively-owned, and in urban areas the majority have been small-scale commercial or service enterprises. By June 1987, however, 27,000 state-owned commercial enterprises had been leased out.⁵ Leasing of medium-sized enterprises in urban areas began in 1987, but this was controversial, and a 1987 *Hong qi* article seemed to set the tone when it pronounced that leasing was 'less suitable' for larger or industrial enterprises.⁶ Leasing has also been confined mainly to unprofitable

³Zhongguo shehui kexueyuan nongcun fazhan yanjiusuo siying jingji yanjiu zu, 'Wei siying qiye wending fazhan chuangzao lianghao de shehui jingji huanjing' [Create a favourable socio-economic environment for the steady development of private enterprises], *Zhongguo nongcun jingji* [China's Rural Economy], no. 3, 1988, pp. 49-56.

⁴BR, no. 35, 27 August 1984, p. 4; JJB, 1 August 1984, p. 1.

⁵RMRB, 7 March 1988, p. 5. For reports on leased state enterprises see RMRB, 25 April 1984, p. 2; RMRB, 26 August 1984, p. 2; JJB, 5 July 1984, p. 1; *Zhongguo shangye bao* [Chinese Commerce], 10 November 1987, p. 2; Peng Heming, 'Yixiang zushi qiye biange de zhongda cuoshi - Chongqing shi zhongqu xiaoxing guoying yinshiye shixing zulin jingying de diaocha' [A major step in promoting enterprise reform - a survey of the implementation of leasing management in small-scale state-run food service in Chongqing], *Caimao jingji* [Finance and Trade Economics], no. 3, 1985, pp. 60-62.

⁶Zheng Li, Liu Zhaonian and Xiao Wentong, 'Zulin jingying de butong xingshi' [The various forms of leasing management], *Hong qi* [Red Flag], no. 12, 1987, pp. 17-18.

enterprises, although in the open theoretical atmosphere of 1988 it was suggested that if leasing could save loss-making enterprises it should surely be considered for profitable enterprises also.⁷

The economic results of leasing often were impressive. In 1987 it was reported that leased enterprises in Beijing (which by that time made up nearly 36 per cent of the city's small-scale enterprises) had increased their gross income by 35 per cent, profit by 83.4 per cent, tax payments by 53.8 per cent, retained profits by 76.4 per cent and salaries by 35.8 per cent in 1986 as compared to 1985.⁸ In the city of Jiaohua in Jilin, 56 leased enterprises increased tax payments by 29.6 per cent, profits by 140.6 per cent, and staff incomes by 24.8 per cent in the first quarter of 1987 compared with the same period in 1986; the increases being much greater than those made by non-leased enterprises.⁹ The success of many leased enterprises in turning losses into profits is attributed to the lessees' improved freedom of management and the strong incentive created by the need to pay the rent and the right to keep the surplus.

The specific arrangements by which the lease is made vary, but the basic principle is that an individual undertakes to pay a fixed rent to the owners of the enterprise, in return for the right to manage it and distribute its profits as he or she sees fit. In some cases, particularly those involving urban, state-owned enterprises, leaseholders have complained that they are not given full management rights, and remain restricted, but in many rural collective enterprises the leaseholder appears to have almost total control. Sometimes lease agreements include stipulations as to what

⁷JJXZB, 6 March 1988, p. 1.

⁸JJRB, 21 February 1987, p. 1. These figures are based on a comparison of the period September-November of both years only.

⁹RMRB, 19 June 1987, p. 2.

proportion of income is to be used for maintenance and improvement of plant, staff welfare and superannuation, and so on, or allowance may be made for this in the rent.¹⁰ In other cases the rent has been decided by tender; for example a shop on the outskirts of Beijing was leased by tender with a reserve rent of 15,800 yuan per year in 1986. Bidding lifted the rent to 23,700 yuan. After a year the leaseholder managed to make both the rent, and a profit of 7,000 yuan.¹¹

Leasing a state or collective enterprise is one way in which an individual can go into business, as it solves the problems of premises, lack of capital, and often supply sources as well. Although leaseholders are supposed to guarantee payment of the agreed rent and take responsibility for losses, many have in fact no way of doing so, but are allowed to lease anyway. In one study, the collateral of lessees and their guarantors generally had a real value of around 6,000 yuan, whereas the enterprises they were leasing had assets of 200,000 to 300,000 yuan.¹² Given the high incomes of successful lessees, leasing an enterprise can be a good way of building up enough capital to start a business of one's own. Another important issue in the leasing debate is that in many cases leasing has in fact led to a partial or complete privatisation of enterprise ownership, as leaseholders have invested their profits in the enterprise in their own name. In a 1988 article, Liu Wenpu describes how in some places, such privatisation of rural collective enterprises began in the early stages of rural reforms

¹⁰For example, see Peng,(1985), for a detailed description of leasing arrangements in Chongqing.

¹¹JJCK, 30 April 1988, p. 4.

¹²Guo Yongjie, 'Zulinzhi de bibing ji duice' [Shortcomings of the leasing system and ways to deal with them], *Jingji yu guanli yanjiu* [Studies in Economics and Management], no. 2, 1987, pp. 37-38. See also the comment on this article in *Jingji yu guanli yanjiu*, no. 3, 1987, and Hunan sheng Anhua xianwei bangongshi diaoyan shi, 'Dui zulin jingying zhong jige wenti de tantao' [An enquiry into several problems in leasing management], *Jingji yu guanli yanjiu* [Research on Economics and Administration], no. 4, 1987, pp. 27-28 and 14; p. 27.

through experiments with the contract [*chengbao*] system. Contracting is supposed to differ from leasing in the degree of control over management retained by the owners of the enterprise, but in many cases the line between the two systems is hard to draw. Liu gives the example of a bottle-top factory established by a production team. When the factory proved unprofitable, it was 'contracted' to an individual in 1981. The arrangement was really a straightforward lease, in which the individual agreed to pay 10 per cent of the profits plus a set rent on equipment. The contractor then invested in the factory, so that by 1983, 81.5 per cent of the capital belonged to him. With depreciation and the overall development of the factory, the collective assets were by this time so insignificant that he was able to hand them back to the collective and carry on running the factory as a private enterprise.¹³ In a 1986 study of 30 leased or contracted enterprises in Shenyang, the contractors' own investment was generally 25 to 30 per cent of the original fixed assets and climbing.¹⁴ As the collective share in such enterprises diminishes, lessees were able either to buy out that share once the lease period was up, or continue to pay dividends while operating, to all intents and purposes, as a private enterprise.

Discussions of leasing in the media are aimed at winning it more acceptance, and tend to emphasise that the ownership of the enterprise does not change. However, the handing over of an enterprise in return for rent does raise far-reaching questions as to how public ownership shall be manifested. The issue of leasing provoked considerable debate in China, which came to a head in June-July 1987, when *Jingji ribao* opened a

¹³ Liu Wenpu, 'Lun nongcun jiti qiye siyinghua wenti' [On the privatisation of management of rural collective enterprises], *NMRB*, 21 September 1988, p. 3.

¹⁴ He and Zhu, (1986).

public forum in its pages over the 'Guan Guangmei phenomenon'. In 1985, Guan Guangmei leased a grocery store in the Liaoning city of Benxi, and promptly increased its annual profits by 40 per cent. In 1986 she leased another two shops and in January 1987, with a partner, leased five more, forming a 'leasing consortium' with 1,000 employees, one-third of sales in the city's non-staple food trade, and one-half of profits.¹⁵ Guan made sweeping changes to the management of the shops, the most controversial of which involved working conditions and payment. Her own income was also a matter of concern, as she was legally entitled to the net profits of 42,000 yuan, although she did not in fact take this much as personal income.¹⁶

Jingji ribao opened the debate with a letter from Guan Guangmei herself, in which she complained that since leasing more shops she was encountering a lot of opposition from cadres who said that what she was doing was bourgeois liberalisation and unsocialist. Guan denied this, basing her argument on the foundation of the reformist case, the supremacy of the productive forces. She had instituted a system of paying managers' wages according to profits, and staff wages according to sales:

But this method is seen by some as a capitalist management method, as unequal and exploitative, as 'reaping the fruits of others' labour'. No matter how I look at it I can't understand: enterprises which in the past had declining profits or losses, and were even unable to pay out salaries, were socialist; now enterprises which have profits and give bonuses are capitalist. It's very strange!¹⁷

¹⁵*JJRB*, 13 June 1987, p. 1. See also Benxi shi tigai ban, 'Cong zulin yi ge shangdian fazhan chengwei shangye zulin jituan - ji Benxi dongming shangye jituan' [From leasing one shop to a commercial leasing consortium - the Dongming commercial consortium, Benxi], in Guojia jingji tizhi gaige weiyuanhui, eds., *Zhongguo jingji tizhi gaige shi nian* [Ten years of structural economic reform in China], (Beijing, Jingji guanli chubanshe, 1988), pp. 276-80.

¹⁶*JJRB*, 15 June 1987, p. 1.

¹⁷*JJRB*, 12 June 1987, p. 1.

This was the beginning of a six-week debate on whether leased enterprises were capitalist or socialist. Many correspondents were not convinced by Guan's argument that it was economic results which counted:

We cannot say that since an enterprise's profits have increased, it has paid taxes to the state, and workers' incomes have increased, so it is a socialist enterprise; likewise, we cannot say that enterprises which run at a loss are therefore capitalist.¹⁸

Although *Jingji ribao* published letters expressing a wide range of opinions the bulk of those chosen, as well as the editorials, came down in favour of leasing. In addition to emphasising its economic benefits to the state, employees and consumers, attempts were made to counter the charges of capitalism. Leaseholders' high incomes were justified by their hard work, responsibility and risk, and readers were reminded that only a small portion of enterprises were leased: the majority of state enterprises were still state-run, and would preserve the socialist nature of the economy as a whole.¹⁹

Above all, it was argued that leasing was a simple reform of management, not of ownership: a separation of ownership and management rights. However there are a number of problems with this argument which were clearly illustrated by the case of Guan Guangmei. These included the power held by leaseholders over employees, the leaseholders' autonomy in investment decisions, the ownership of new assets acquired after leasing, and the role of the Party: questions which were fundamental to socialist politics. Guan Guangmei in fact made a point of improving employees' economic and working conditions, offering increased wages and bonuses and many benefits for her workforce. However, these were

¹⁸*JJRB*, 3 July 1987, p. 1.

¹⁹ For example *JJRB*, 14 July 1987, p. 1; *JJRB*, 18 July 1987, p. 1.

accompanied by crushing fines (50 yuan in one example) for bad performance.²⁰ Guan also dramatically cut the number of managerial staff in her enterprises, and herself acted as Party secretary of the consortium.²¹

In view of this, many commentators questioned the significance of the state's continued ownership of enterprises, if management were really handed over. One letter in the Guan Guangmei debate stated:

The reason why capitalists are able to exploit the workers is not only that they have the power of ownership, but more importantly that they have the power of use of the enterprise and the power of allocation of the results of labour. When enterprises are leased, these two powers go to the lessee. Under these conditions, to say that the enterprise is a socialist enterprise as before is hard to accept. If so, it is a devalued socialist enterprise.²²

In fact Guan Guangmei had been allowed unusual freedom; many other reports suggest that leaseholders often do not have full management rights, particularly in the staffing and investment decisions that are of central importance to the lessors. To them, the enterprise's role in social welfare remains extremely important, and leaseholders have found it almost impossible actually to sack employees.²³

The separation of ownership and management is a compromise solution, an attempt to make enterprises behave like private enterprises without privatising them. Although most leased enterprises have shown dramatic improvement in economic returns, problems such as the running down

²⁰JJRB, 13 June 1987, p. 1.

²¹JJRB, 12 June 1987, p. 1; figures on staff cuts in Benxi shi tigai ban, (1988), p. 277.

²²JJRB, 3 July 1987, p. 1.

²³Yang Zhaoxi and Liu Junying, 'Zulin shi Beijing xiao shangye mianmao yi xin - Beijing shi guoying shangye xiao qiye shixing zulinzhi gaige de gaikuang' [Leasing gives Beijing's small commerce a new look - an overview of leasing reform in small state-run commercial enterprises in Beijing], *Tigai xinxi* [Structural Reform News], no. 4, 1987, reprinted in *FBZ*, F 51, no. 3, 1987, pp. 24-26.; *JJCK*, 27 April 1988, p. 4; *JJCK*, 3 May 1988, p. 4.

of assets, short-term planning, and conversely, lack of real managerial independence are the costs of this compromise.²⁴ While the opponents of the 'Guan Guangmei phenomenon' felt that leasing went much too far down the road to private ownership and capitalism, there was also an alternative critique which argued that the very problem with leasing and contracting was that they did not go far enough. It was necessary to continue the process begun with the promotion of the private sector, and alter the system of ownership itself. Those debating such issues could not fail to compare the administrative complexities and problems of 'splitting ownership and management' with the rapid growth and dynamism of the truly 'private' sector examined in this study. A group of economists concluded from a study of private enterprise in Wenzhou, for example, that in fact it was necessary to *reunite* ownership and management:

Tertiary and secondary industry in rural Wenzhou, which originally practised contract management, has progressively changed to private household management, reuniting the ownership and management of the means of production. This is because enterprises in which the 'two powers' are separated commonly have lower economic efficiency than those in which the 'two powers' are united. . . . This has forced the Wenzhou peasants to reform further the ownership type.²⁵

Behind the criticism of leasing and contracting was of course a critique of state ownership itself. Much of the public discussion followed the 'initial stage of socialism' theory and was in terms of the appropriate level of centralisation (i.e., ownership) for a given industry and level of productive forces. This approach was relatively tactful and face-saving, as it suggested that a state-owned economy was theoretically superior - just not yet. At a more analytical level, an academic debate developed which went much further, examining the source of state enterprises' poor

²⁴For discussions of these problems, see Yang & Liu, *supra*; Guo Yongjie, (1987); *JJR*, 23 July 1987, p. 1; *JJR*, 6 October 1987, p. 1.

²⁵Zhang Renshou et al, (1986), p. 5.

performance in political terms. According to some, state ownership as practised in China was not in fact 'public ownership', still less was it ownership by the workers. Enterprises and workers, having no direct right to the benefits of property or, following Kornai's theory of the soft budget constraint, to its associated risks, had no incentive to use the means of production efficiently.²⁶ A number of theoreticians began to argue that 'public ownership' in China was intrinsically inefficient because of its lack of definition: in terms of real control, an enterprise was not owned by any one body, but by an assortment of bureaucracies such as the planning committee, the labour bureau, the price bureau, and relevant ministries.²⁷ This tended to give rise to interest-group lobbying and corruption as well as a lack of real concern for the enterprise, and perpetuated the personalised management of the economy by cadres rather than the systematic rule of (centrally-controlled) law as favoured by reformist leaders.

For small enterprises, advocates of privatisation suggested outright sale to individuals or collectives. The sale of small-scale commercial and service enterprises was approved by the State Council in 1986, and was widely discussed in the media in 1987-88. A number of cities began to sell enterprises by auction, but the practice was restricted to small, unprofitable concerns. Most sales were to other state or collective enterprises, but some were to individuals.²⁸

²⁶Zhong Dong, 'Shehuizhuyi xuyao siyouzhi ma?' [Does socialism need private ownership?], *Guangzhou yanjiu* [Guangzhou Studies], no. 5, 1988, reprinted in *XHWZ*, no. 7, pp. 12-19, p.14.

²⁷See Yang Xiaokai, 'Economic Thinking and Reforms in China', paper presented at a seminar, 'Communism's Wake: Some Economic Implications, Centre of Policy Studies, Melbourne, December 1989, esp. p. 5.

²⁸For examples see *RMRB*, 23 May 1988, p. 2; *SWB*, 10 December 1988; *Kaifa bao* [Development], 14 June 1988, p. 1. For a discussion of the recent history of enterprise sales, see Tian Yuan, Ye Jingsheng and Qi Gang, eds., *Zhongguo qiye chanquan zhuanrang* [Enterprise asset transfer in China], (Beijing, *Jingji ribao* chubanshe, 1988).

For larger enterprises a more popular and more acceptable proposal was to transfer the ownership via the sale of shares. Joint stock ownership has been seen as the optimum course to follow for reforming the whole economy, as it offers the benefits of privatisation, can be effected gradually, leaves room for continued state influence through shareholding, and is seen as an 'advanced' form of ownership, the pinnacle of the Western sequence of economic development which has in fact defined the Chinese concept of modernisation. It can also be presented in an ideologically acceptable way, as the shareholders can be seen as collective owners of the enterprise and there is no one capitalist 'boss'. Some writers have argued that joint stock ownership is in fact a much truer form of 'public ownership' than the state or collective ownership practised in China.²⁹ However, the experiments in joint stock ownership ran into a number of problems. Leading advocates of joint-stock ownership such as Li Yining envisaged a decline in state holdings in any one enterprise, but a more conservative approach insisted on majority state ownership of shares.³⁰ This both failed to produce the desired improvements in efficiency, since the state organisations which participated continued to act as they always had, and also provided increased opportunities for corruption as obscurely-defined holding companies were set up and used by cadres to

²⁹For example Rong Jian and Fan Hengshan, 'Lun suoyou zhi de kaifang' [On the opening up of the system of ownership], *XHWZ*, no. 4, 1989, pp. 36-39.

³⁰Li Yining, *Zhongguo jingji gaige de silu* [A guide to China's economic reform], (Beijing, Zhongguo zhanzhong chubanshe, 1989). By 1991, when the reform of large and medium-sized state enterprises was one of the major items on the economic policy agenda, prominent economists including Li Yining were suggesting that share-holding take place among state enterprises themselves. See *SWB*, 13 April 1991, FE/1045 C1/1. One proposal to maintain state majority ownership while reducing the direct power of various bureaus and departments is to invest the ownership of shares in state-owned, independent financial institutions. See Adrian Wood, 'Joint Stock Companies with Rearranged Public Ownership: Invigoration of China's State Enterprises Further Considered', (London School of Economics Development Research Programme, CP No. 11, March 1991).

launder funds and transfer goods.³¹ As discussed in Chapter Six, joint-stock ownership was also a refuge for private entrepreneurs, who could make a small issue of shares and thus make their enterprise 'collective'. As far as the leading theoreticians proposing joint-stock ownership were concerned, this was not a significant issue, but to more conservative leaders and bureaucrats trying to run what was still supposed to be a planned economy, the burgeoning confusion over ownership was seen as a serious problem.

It is not intended here to claim that the shift towards ownership reforms in the publicly-owned economy was a result of the successful development of the private business sector. Rather, the latter was part of a series of reforms, the thrust of which was to chip away at ideological objections to private enterprise and raise inescapable questions regarding the future of public ownership. The debate on ownership reform, nevertheless, had important implications for the private sector both because further reforms in the public economy increase opportunities for private entrepreneurs, and because it went beyond the traditional hierarchy of state, collective and private ownership. Above all, its chief protagonists rejected the moral content of this hierarchy, which equates the degree of public ownership with the degree of socialist virtue.

In practical terms, the combination of reforms generated a momentum which fuelled the recovery of private business to an important position in the economy. Reforms to budgeting and pressure from above gave local

³¹A good discussion of these issues, which summarizes the main arguments in the debate, can be found in Yang Xiaokai (1989), and Yang Xiaokai and Geoff Hogbin, 'Policy Options Towards China's Reform of its Economic System', paper presented at the inaugural conference of the Chinese Studies Association of Australia, Melbourne University, July 1989.

governments strong incentives to support private business. Although opposition did not disappear, local authorities began increasingly to see private business as a cheap, quick way of stimulating their local economy and raising revenue. Therefore they assisted the development of private businesses, and even connived with them against centrally-directed administrative departments, for example by assisting them to register as collectives. At the same time, reforms in agriculture and publicly-owned enterprises dramatically increased opportunities for private business both by increasing demand for their goods and services and by making supplies more readily available.

The role of local authorities - whether local government cadres or officials at the lower levels of vertical bureaucracies like the ICB - in developing private business in China highlights one of the major issues in the reforms: the mechanisms and extent of central control. Throughout the 1980s, private entrepreneurs remained extremely dependent on the goodwill of local cadres. Administrative controls on private business remained highly localised and subject to the discretion of officials, who manipulated private enterprise to benefit themselves or their localities or both. Vivienne Shue, in her book of essays *The Reach of the State*, suggests that a major aim of reformists has been to break down this local leverage by increasing the role of the market and standardising administration, turning officials into corporate executives rather than old-style cadres. Such an agenda can clearly be seen in the central government's efforts to standardise the administration of the private sector. But at the same time, the resistance of local cadres to this reduction in their role can be seen in the way they have responded, continuing to exercise local authority and extract local levies from private business, while pleading inability to implement central regulations. When the

central government's main aim was simply to promote economic growth, this did not matter too much, but in times of economic and political retrenchment, when the centre sought more direct control over the economy, local interests became a major obstacle.

Meanwhile, the forces which had caused China's leadership to promote the private sector in 1978 did not diminish as reforms progressed; on the contrary, consumer demand and the need to create jobs continued to increase. By the late 1980s, the state was in fact less able than ever to provide for all the needs of consumers; and furthermore, after a decade of reform, with its constant discussion of living standards and its openness to other countries, the public was less willing than ever to put up with its failure to do so. The private sector was part of a network of non-state production and marketing which was of vital importance to maintaining living standards. The economic and political costs of attacking it would be great.

The campaign to increase administrative control over private business which began in early 1989, and appeared to escalate into outright attack after 4 June, clearly illustrates the way the above factors continued to force those who opposed the private economy to back down. The political and economic clampdown of 1989 had grave implications for the future of private business. To bureaucratically-minded leaders such as Li Peng, who wished to restore Communist Party control over the economy and society, the private sector epitomised the anarchic forces generated by the reform program. Private entrepreneurs were outside the regular systems of collective social control, they were difficult to police, they engaged in bribery and corrupted the publicly-owned economy, they evaded taxes, and their high incomes provoked popular discontent. They were also, because

of their still-marginal social position, an ideal scapegoat for some of the deep political and economic problems China was experiencing.³²

Therefore 1989 brought renewed attempts to improve administrative control over private business in the form of a major clean-up campaign, relicensing of private operators and the most determined tax collection drive since the reforms began. After the suppression of the protest movement in June, there was also a marked change in the official publicity concerning private entrepreneurs, as traditional Marxist-Leninist ideology made a comeback. The ownership debate came to a sudden halt, and numerous newspaper articles appeared which insisted on the maintenance of the existing state-collective-private system, using Marxist rhetoric which had been absent from economic debate for years.³³ The resurrection of the Lei Feng campaign in the months after June 1989 implied a rejection of the profit-seeking, entrepreneurial behaviour previously held up as a model. Official efforts to popularise private entrepreneurs and justify their high incomes disappeared. Instead, people dissatisfied with low incomes and rising prices were encouraged to direct their anger at private operators. Publicity concerning the tax collection drive now implied that most private operators derived their high incomes, not from their risk, capital and hard work as claimed before, but from tax evasion.³⁴ Private businesses were also blamed for much of the

³²This point is made by Anita Chan and Jonathan Unger in their article, 'Voices from the Protest Movement, Chongqing, Sichuan', *Australian Journal of Chinese Affairs*, no. 24, (July 1990), pp. 1-21, p. 19.

³³*Guangming ribao*, for example, published an article entitled, 'On the anti-people nature of "A declaration of private ownership"', on 28 July 1989. This article attacked the pro-privatisation sentiments expressed in a wall-poster entitled 'China's hope - a declaration of private ownership' which had been put up at the Institute of Aeronautics and Astronautics. The very title of the *GMRB* article recalled the class-struggle polemics of the Cultural Revolution. See *SWB*, 8 August 1989, FE/0529 B2/7 for an English summary. For further examples, see *RMRB*, 4 September 1989, p. 6; *RMRB*, 2 December 1989, pp. 1-2

³⁴*JJRB*, 14 July 1989, p. 2; *RMRB*, 23 July 1989, p. 5; *RMRB*, 2 September 1989, p. 6.

corruption and black marketeering which had become so objectionable to the public. One article spoke of an army of corrupt *getihu* undermining the integrity of the socialist economy:

The great disparity between individual operators and staff and workers in general is one of the main indications of unequal social distribution. The high incomes of *getihu* and the ease with which they obtain them make a small number of staff and cadres 'down swords' and join the ranks of the *getihu*. [i.e., by accepting bribes from them.]³⁵

Yet the government never actually revoked its support of the private sector as a limited supplement; and as we have seen, the 'supplement' theory has been rendered untenable. The government news service declared in August 1989 that 'the private sector will continue to develop', as this was 'conducive to solving the serious employment problems by invigorating the domestic economy.'³⁶ In October, at a national meeting on production, Li Peng reiterated that private businesses were 'a necessary supplement', although he characterised them as 'small businessmen and pedlars' and alluded to the need to crack down on tax evasion and illicit wholesale profits.³⁷ By late 1989 there was clearly concern at the decline in private sector numbers, and officials and press articles again began to offer assurances that the policy of promoting both *getihu* and *siying qiye* had not changed. In early 1990, an ICB report to the State Council noted the need to further clarify that the policies of promoting the private economy, encouraging some people to get rich first and protecting the legal rights of *getihu* and *siying qiye*, had not altered.³⁸ Although the Bureau's raising of the issue indicates the strength of the attack on the private sector, the fact

³⁵RMRB, 2 November 1989, p. 2.

³⁶SWB, 14 August 1989, FE/0534 B2/4.

³⁷SWB, 28 October 1989, FE/0599 B2/3

³⁸RMRB, 26 March 1990, p. 2.

that it was reported in the *Renmin ribao* also shows the leadership's concern that the attack should not be allowed to go too far.

Despite this, the continued political uncertainty over the private sector does have serious implications for its development and characteristics. The government's continued insistence that the private sector be limited to a supplementary role and the planning of the economy around an ownership hierarchy has forced private entrepreneurs into illegal or semi-legal behaviour. The artificial administrative barriers created by giving preference to state and collective enterprises provided further opportunities for corruption, as economic interests arising from the reforms have encouraged administrators to bend these barriers where possible. This has increased the power of local administrators over private entrepreneurs, lent itself to extortion, and decreased the central government's control. Thus the attempt to preserve state control by insisting on the dominance of the state sector is frustrated by the effect of reforms, and becomes self-defeating. Adherence to the 'supplement' theory and the equivocal political status this implies for the private sector means that although the private sector is no longer marginal in many respects, many entrepreneurs continue to behave in a marginal way. The private sector remains characterised by a reluctance to invest in long-term projects, a high element of risk income, and conspicuous consumption.

For those not constrained by the political and ideological baggage of the Party, the answer to such problems lies in abandoning the 'supplement' theory and acknowledging the role of the private sector in theory as well as in practice. Placing private enterprise on an equal footing with state, collective and indeed any other form of ownership, and making none of them sacred, would remove many of the incentives for corruption in the

existing system. If collectives were not given preferential political and economic treatment, there would be no need for private enterprises to buy their way to a collective licence, and if administration were not based on divisions of ownership, it would not much matter if they did. If state enterprises were not given preferential allocation of goods through the planning system, there would be less demand for them to be siphoned off and sold to private and collective businesses at high prices. Continued adherence to the tripartite planning model is now in fact unworkable in China: too much of the economy is outside central government hands, and bringing it back under central control now appears to be too costly both economically and politically. Effective economic direction now requires fundamental changes in the government's approach to economic administration. Thus, the question of ownership is inherently linked to the nature of state administration and its operation.

Reformists have long realised this, and this study of private business has shown their ideas at work in the efforts to remove restrictions on economic activity according to form of ownership, to make administration more systematic and less subject to personal discretion, and to improve the taxation system. The ownership debate before June 1989 moved significantly towards a new framework for assessing different forms of ownership. These trends were reversed or halted in June, but as was clearly shown by the subsequent treatment of the private sector, the economic forces behind them remained as strong as ever.

In fact the theoretical arguments about ownership were not so much attempts to develop a new blueprint for socialist (or even non-socialist) development, as to make sense of the enormous changes which took place in the Chinese economy in the 1980s. The growth of the private sector was

a significant part of these changes. As this study has shown, private entrepreneurs reacted with alacrity to the opportunities arising in the 1980s, and interacted with the changing reform environment to produce a dynamic, fast-growing economic force which, from its niche at the matrix of old power structures and new incentives, challenged many of the assumptions upon which the 'planned commodity economy' was to be built.

By their very success, the private entrepreneurs demonstrated the vitality of the profit motive, and the private sector quickly expanded beyond the negligible role assigned to it to force changes in taxation, licensing, and regulation. Along the way, it developed complex and intimate relationships with administrators and with other ownership sectors. This patronage afforded them some protection, as it made them the subjects of a quiet power struggle among both vertical and horizontal divisions of the administrative structure. In return for this protection, however, the private sector remained dependent on administrative goodwill in ways which limited its developmental potential. This is a significant problem for China, since, in the absence of real changes to the political and administrative environment, the investment capital generated by private enterprise will tend to be used less productively.

It is difficult, writing in 1991, to assess either the full extent or the true potential of the private sector in China. Clearly, it has become far more than the 'limited supplement' of the early debate. If we look at the question not in terms of nominal ownership (which as we have seen, has very little to do with real property rights), but of where management decisions are actually being made, the acknowledged private sector is in fact thoroughly enmeshed in a much wider network of non-state

enterprise, which has fundamentally altered the dynamics of the Chinese economy. The *getihu* and *siying qiye* have proved their ability to weather even such severe political setbacks as occurred in 1989; it was largely their important role in the non-state economy which enabled them to do so.

Given its now entrenched position, and the continued need for a private sector to provide employment and an acceptable standard of circulation, further quantitative growth in the private sector seems likely. The question now is whether the private sector can make further qualitative development by expanding its industrial activities and improving its level of technology. The resilience of local-level administrative power over private enterprise suggests that further qualitative development of the private sector will continue to be related to the extent of regional economic independence, because it is local development strategies which are likely to promote private enterprise. This also means that a growing private sector in China may not be as 'private' as ownership theories would suggest, but is likely to be intimately connected to collective and administrative power structures.

APPENDIX: MAJOR PRIVATE BUSINESS REGULATIONS

The following are the regulations on *getihu* and *siying qiye* issued in the 1980s. They are all available in *Siying he geti jingji shiyong fagui daquan* [Complete Laws and Regulations for the Private and Individual Economy], (Beijing, Renmin chubanshe, 1988), and of course in many other collections as well. *Renmin ribao* references are also given where available.

1. Certain Policy Regulations of the State Council on the Urban Individual Economy

[*Guowuyuan guanyu chengzhen geti jingji de ruogan zhengcexing guiding*], 7 July 1981.

Under China's socialist conditions, the individual economy, which respects the policies and laws of the state, serves socialist construction, and does not exploit the labour of others, is a necessary supplement to the state and collective economies. Citizens who engage in individual business are independent labourers who earn their own living. The level of development of the productive forces in China is not high, and the commodity economy is not developed; it is inevitable that, for a relatively long historical period, different economic elements and different modes of operation will coexist. Experience has shown that on the premise that the state and collective economies have absolute predominance, the restoration and development of the urban non-agricultural economy is highly significant for developing production, enlivening the market, satisfying the everyday needs of the people and increasing employment. Governments in all areas and the relevant departments of Finance, Commerce, Light Industry, Materials, Banking, and Industrial and Commercial Administration should earnestly foster the development of the urban non-agricultural individual economy, and provide support and convenience in matters of funding, supplies, premises, taxation, and market administration. Discrimination of any kind against the individual economy, undue interference, or adopting a negative attitude, are disadvantageous to socialist economic development and are

erroneous. The following policy regulations are made to ensure the healthy development of the urban non-agricultural individual economy:

1) 'Urban non-agricultural individual economy' refers to all kinds of small-scale handicrafts, retail commerce, catering, services, repairs, non-mechanised transport, and building renovation engaged in by individuals in the urban non-agricultural population.

2) In order to bring into play their role of filling in the gaps, the state encourages and supports job-waiting youth to engage in those trades needed by the people in which the state and collective economies do not engage or do not engage enough.

3) State and collective enterprises, on the basis of need and possibility, may in a planned way lease or contract out to individuals some handicraft, repair, service and commercial shops which are suitable for dispersed operation.

4) All young and middle-age persons waiting for work who have proper urban residency can apply to engage in individual business operations. Those retired staff and workers who possess technical expertise or management experience urgently needed by society and who can pass on their skills to apprentices may also apply to engage in individual business operations.

Applications for individual operations shall be commented upon by the street committee, and after approval by the local department of Industrial and Commercial Administration, a licence will be issued. Persons who have not obtained approval are without exception forbidden to operate. Individual businesses must complete the relevant procedures of the Industrial and Commercial Administration departments when ceasing operations, changing trades, merging or transferring ownership.

5) Individual businesses are in general operated by one person or family; when necessary, after obtaining the approval of Industrial and Commercial Administration departments, they may they may take on one to two assistants. Those which are highly technical or involve special skills may take on two or three, not exceeding five, apprentices. When taking on assistants or apprentices it is necessary to formulate contracts stipulating the rights and obligations of both parties, duration, remuneration, et cetera. The contract must be certified by the local Industrial and Commercial Administration department.

6) Local governments and relevant departments should plan in a unified manner and actively arrange the shop-fronts, outlets, sites and stall-spaces needed for the development of the individual economy. Individual businesses may also arrange with relevant departments to borrow, rent or purchase the necessary buildings, tools and equipment.

7) In order to fully bring into play their characteristics of flexible operation and bringing convenience to the people, individual businesses are permitted to engage in diverse kinds of operation, such as processing materials for others, selling their own products, selling on commission, setting up stalls, hawking in the streets, itinerant selling, etc. Individual operators may, within the limits allowed by regulations, engage in the rural-urban transport for sale of some fresh commodities and special agricultural sideline products which policy allows to be freely bought and sold, but they may not engage in wholesale activities.

8) Local departments of Commerce, Materials, etc., should, according to the principles of taking all aspects into account and giving equal treatment, include in the plan, rationally allocate, and actively arrange for that part of the raw materials and goods needed by individual businesses which comes under planned supply.

9) Commodities bought by individual businesses from state industrial and commercial enterprises and collective enterprises at wholesale prices are to be sold at the retail prices set by the state. Products which use raw materials supplied by Materials departments may be priced according to quality with reference to the price of state products of the same type. Commodities bought independently at negotiated prices may be sold at market prices. Standards for fees for services, repairs, and non-mechanised transport may be set by evaluation by the Individual Labourers' Association, or independently negotiated between buyers and sellers.

10) Local governments and relevant departments may assist in lending the necessary funds when individual businesses are not able to raise enough; those with cash flow difficulties may apply for bank loans.

11) In order to encourage individual operators to engage in the repair, processing, catering and service trades which society urgently needs and desperately lacks, the state may, at its discretion, give appropriate tax concessions. Businesses which are needed by the general public but which have difficulties or small profits may apply for exemption from taxes.

12) The state protects the proper operations, legal income and assets of individual business operators. No department or unit may indiscriminately interfere with any business activities of individual businesses which are allowed by state policy and law. No unit may appropriate approved business outlet locations. Material supplies entered into the plans of the relevant local departments may not be cut off at will. Except for those fees and taxes which they may charge under state tax laws and the relevant local government regulations, no department or unit may under any pretext randomly exact fees.

13) Individual business operators enjoy the same political rights and social position as workers in units under ownership by the whole people and collective ownership. Relevant departments and units must give equal treatment to youth who have engaged in individual business in matters such as joining the army or continuing their studies, and must not discriminate against them. Individual business operators may pay insurance fees to the insurance company. A labour insurance welfare and pension system will gradually be set up; concrete methods to be determined elsewhere. Individual business operators may calculate work seniority according to the years actually spent in business from the date of licence approval.

14) Individual business operators may, on the basis of voluntary involvement, establish individual labourers' associations or federations according to trade. The duties of the associations or federations are: to provide all kinds of services to members, to exchange experiences, pass on skills, disseminate and organise the study of Party and government policies, supervise the implementation of state laws and policies by members, and reflect the opinions and requests of members to the relevant departments as they arise.

Individual labourers' associations or federations shall be under the leadership of Industrial and Commercial Administration departments or departments designated by local People's Governments.

15) Individual business operators must respect the laws and policies of the state, engage in legitimate operations, and accept the supervision of the masses. They may not engage in speculation and profiteering, tax evasion and tax avoidance, adulteration of products, or artificial price raising. Perpetrators should be warned, given economic punishment, have their

licence revoked, or be investigated for criminal responsibility, according to the seriousness of the case.

Those elements who have committed serious profiteering offenses and criminal elements who have violated the law and discipline, may not open for business independently.

16) The above regulations may in principle be applied to rural non-agricultural individual businesses. Policies and methods of administration for individuals engaging in cultural, educational, pharmaceutical, and health businesses will be determined elsewhere.

17) While implementing this policy and developing the urban non-agricultural individual economy, the People's Governments of each province, municipality, and autonomous region should first carry out investigations, educate cadres, make a general plan, and then begin the work in a planned way, guarding against any headlong rush or abandonment of leadership.

18) The People's Governments of each province, municipality, and autonomous region may formulate detailed supplementary regulations and administration methods, based on the above regulations in combination with actual conditions in their own region.

2. Supplementary Regulations to 'Certain Policy Regulations of the State Council on the Urban Individual Economy'

[*Guowuyuan guanyu chengzhen fei nongye geti jingji ruogan zhengcexing guiding' de buchong guiding*], 13 April 1983, published in *RMRB*, 25 April 1983.

In July 1981, the State Council issued 'Certain Policy Regulations of the State Council on the Urban Non-Agricultural Individual Economy' (hereafter the 'Regulations'), which have played an important role in invigorating the economy, enlivening the market, making people's lives more convenient, and providing employment. The report of the Twelfth Party Congress once again clearly pointed out: 'In both rural and urban areas, we must encourage the individual economy of working people to develop appropriately, within the limits prescribed by the state and under industrial and commercial administration and control, as a necessary and beneficial supplement to the

publicly-owned economy.' In order to better carry out this spirit, the following supplementary regulations have been made with regard to certain problems concerning individual industry and commerce found in implementing the 'Regulations' in the localities:

1) Scope of operations of individual businesses: In handicrafts, they may be permitted to use power-driven tools for processing and production; in transport they may, according to concrete local conditions, be permitted to use motorised vehicles and boats for passenger and goods transport; in repairs, they may provide repair services for people's daily needs and for production and scientific research.

2) After approval, individual businesses may engage in long-distance transport and sell in bulk, but this is limited to those agricultural sideline products which are permitted to be marketed after fulfilment of state purchase quotas, as well as third category small commodities among industrial goods. In addition to buying commodities wholesale from state-run commerce, individual retailers can also deal in industrial consumer goods for which state quotas have been fulfilled and other commodities which have not been given quotas in the state plan. County and municipal Industrial and Commercial Administration authorities, when setting the scope of operations of individual commerce, should relax restrictions appropriately.

The prices of the commodities sold by individual commercial businesses and the fee standards for repairs, services, and transport, shall be in accordance with the 'Provisional Measures for Price Control' issued by the State Council on 6 August 1982.

3) In general, retirement benefits will not change for those retired workers who have obtained approval to engage in individual industry and commerce who retired under normal conditions (not including retirement due to illness), and who fulfil one of the following conditions: 1. are able take on apprentices to pass on skills or management experience; 2. have traditional skills, and are able to revive and develop famous products.

4) Of persons who have been released after serving prison sentences or being reeducated through labour, all those who have formal urban residency and management ability may apply to engage in individual business operations.

5) In order to establish small market towns, urban job-waiting youth and idle persons in society, especially those with skills or management ability, may take proof of their local residence registration and go to outside towns (i.e. satellite towns) and apply to the local county Industrial and Commercial Administration authorities to engage in individual business. They may retain residence registration in their city of origin.

6) Individual industrial and commercial businesses which take on assistants and apprentices should do so according to the 'Regulations'. In the cities it is not permitted to take on persons with rural residency; in towns (i.e. satellite towns), it is permitted to take on persons with rural residency, but they may not change their rural registration, and the state will not provide them with grain rations.

7) Apprentices in individual industrial and commercial businesses whose apprenticeship period has expired may independently apply to open businesses or may voluntarily engage in joint or co-operative operations.

8) With regard to the sites needed by individual businesses, as well as the supply of goods and raw materials and so on, the relevant departments of each area should act according to the stipulations of the 'Notice on Solving the Problem of Sites Required for the Development of the Urban Collective Economy and Individual Economy' jointly issued by the State Labour Bureau, State Urban Construction Bureau, Ministry of Public Security, and Bureau of Industry and Commerce on 6 May 1981 and with reference to the 'Notice on the Supply of Goods to Urban Individual Industrial and Commercial Businesses and Related Problems' issued by the Bureau of Industry and Commerce, Ministry of Commerce, Ministry of Food, National Supply and Marketing Co-operative, State Materials Bureau, and State Labour Bureau on 22 June 1981. They should each take care of their own responsibilities and conscientiously implement [policy]. People's Governments at all levels must supervise the relevant departments' practical implementation.

9) Individual industrial and commercial businesses may adopt trade names, carve seals, and open bank accounts.

10) The Individual Labourers' Associations are self-governing mass organisations of individual labourers, which accept the guidance of the Industrial and Commercial Administration authorities at their level. People's Governments at all levels must actively support the work of the Individual Labourers' Associations.

Individual Labourers' Associations should be established according to administrative district divisions, and organise their activities in groups according to trade. The personnel of the standing organs of the Individual Labourers' Associations should be decided by the associations themselves following the principle of being few but effective. The necessary funding should be taken from administration fees. The methods of collecting these fees shall be decided by the Bureau of Industry and Commerce and the Ministry of Finance.

11) Individual business operators may take out insurance with insurance companies to solve problems of old age support, health care, etc.

12) Apart from the taxes and charges which individual businesses are required to pay under state laws and the regulations of the People's Governments of each province, autonomous region, and centrally-administered municipality, no department or unit may exact further charges from them. Charges levied on individual businesses must be administered through Industrial and Commercial Administration authorities. People's Governments at all levels must strictly stop those who randomly exact fees or raise fee levels, and individual businesses also have the right to refuse to pay or to lodge complaints with the authorities in charge.

13) The legitimate rights and interests of individual industrial and commercial businesses are protected by the state according to the law; no department or unit is permitted to infringe upon them. Individual business operators may lodge complaints with the local People's Government or bring a suit to court against those who infringe upon their legitimate rights and interests.

14) Industrial and Commercial Administration authorities at all levels must strengthen administrative control of individual industrial and commercial businesses, guarantee their legitimate operations, and eliminate illegal activities.

The interpretation of some specific policy questions in the registration of individual businesses shall be the responsibility of the Bureau of Industry and Commerce.

When individual businesses engage in illegal activities and should have their operating licences withdrawn or revoked, this should be handled by the local Industrial and Commercial Administration authorities. No other unit or individual has the right to confiscate or destroy the operating licence.

15) These regulations are effective from the day of issue. Any previously issued regulations on the urban individual economy which contradict these regulations are superseded by these regulations.

3. Certain Regulations of the State Council on the Rural Individual Economy
[*Guowuyuan guanyu nongcun geti gongshangye de ruogan guiding*], 7 February 1984, published in *RMRB*, 12 March 1984.

Developing rural individual industry and commerce has an active role to play in promoting rural commodity production, invigorating urban-rural circulation of materials, and utilising rural surplus labour. In order to further strengthen the leadership, administration and supervision of rural individual industry and commerce and support its healthy development, the following regulations are made:

1) 'Rural individual industry and commerce' refers to industry, handicrafts, commerce, catering, repairs, transport, and building renovation trades which are engaged in by rural residents and are suitable for individual operation, as well as other trades in which the state allows individual operation.

2) Rural residents engaging in individual industry and commerce must, bearing certification from their production brigade or village committee, apply to their local Industrial and Commercial Administration authorities to register for business. Business operations may begin after assessment by county or municipal Industrial and Commercial Administration authorities and issue of a business licence. Permanent businesses should be issued a business licence; short-term or seasonal businesses should be issued a temporary business licence.

When applying to register and open for business, persons operating food service or food supply businesses must also obtain a food products hygiene certificate from the food hygiene inspection authorities and proof of having passed a health inspection for persons engaged in the business; those who operate in relatively technical trades must also have proof of having passed a technical assessment by the relevant departments; those who operate inns or seal-engraving businesses must also have the agreement of the local department of public security.

Individual businesses must complete the relevant procedures of the Industrial and Commercial Administration departments when ceasing operations, changing trades, merging, altering their product lines, etc.

3) The state encourages rural surplus labour to engage in trades urgently needed by society. Regarding those who operate handicrafts, repairs, services, and catering businesses which are urgently needed by society but which are in difficulties, the state may give them assistance in matters such as loans, pricing, and taxation, and give them the necessary technical assistance.

4) The development of rural individual industry and commerce must be beneficial to the growth of small towns. Rural individual business operators may, being responsible for their own grain, go to run stalls in small towns. Those who are able may also, with the approval of Industrial and Commercial Administration authorities, open and operate shops, but they must not wantonly use agricultural land.

5) Rural individual businesses should engage in business activities according to the business limits approved by Industrial and Commercial Administration authorities.

Rural individual industry and commerce should mainly engage in retailing, but is also allowed to engage in urban-rural transport and bulk sales. The business limits of retail businesses in regions which are far-off, isolated, and with poor transportation may be appropriately widened. Businesses engaging in urban-rural transport and bulk sales are limited to third-category agricultural sideline products, sideline products which are allowed to be marketed outside unified and assigned purchase by the state, as well as third-category small commodities among industrial goods.

Rural individual industry and handicrafts may use power-driven tools for processing and production.

Rural individual repair businesses may engage in repair services in production and scientific research as well as repair services related to people's daily needs.

Rural individual transport businesses may, in accordance with the relevant state regulations, use motorised vehicles and boats for passenger and goods transport.

6) The operating styles of rural individual businesses may be flexible and varied, for example producing and selling their own goods, processing

materials for others, selling on commission, selling from village to village, itinerant services, etc.

7) Rural individual businesses are in general operated by one person or family; when necessary, after obtaining the approval of Industrial and Commercial Administration departments, they may they may take on one to two assistants. Those which are highly technical or involve special skills may take on two or three, not exceeding five, apprentices. When taking on assistants or apprentices it is necessary to formulate contracts stipulating the rights and obligations of both parties, duration, remuneration, et cetera.

8) Rural individual operators who go outside their own county or province to do business must, bearing their business licence or temporary business licence and in the case of food service and food supplies their hygiene certificate also, apply to the Industrial and Commercial Administration authorities at their destination for registration before operating the business.

9) Apart from those who retired because of illness, retired staff and workers who are rural residents who fulfil one of the following conditions will retain retirement benefits: 1) those who are able to take on apprentices and pass on skills or management experience; 2) those who have traditional skills and can revive and develop famous products.

10) Supplies of goods and raw materials needed by rural industrial and commercial businesses, except for state list-price grain and oil, should be carried out with reference to the stipulations of the 'Notice on the Supply of Goods to Urban Individual Industrial and Commercial Businesses and Related Problems' issued by the Bureau of Industry and Commerce, Ministry of Commerce, Ministry of Food, National Supply and Marketing Co-operative, State Materials Bureau, and State Labour Bureau on 22 June 1981. Rural individual business operators may also use their business licence or temporary business licence to go to other areas and purchase independently.

11) The prices of goods produced or sold by rural individual industrial and commercial businesses and the fees for services and repairs shall be decided according to the 'Provisional Measures for Price Control' issued by the State Council on 6 August 1982.

12) With approval, rural individual businesses may adopt a trade name and have seals made. They may open accounts and apply for loans in accordance with bank and credit society regulations.

13) Rural individual business operators may join the Individual Labourers' Association of their county or municipality.

14) Rural individual businesses should pay taxes and charges according to state laws and the regulations of provinces, autonomous regions, and municipalities under central administration. Charges levied on individual businesses must be administered through Industrial and Commercial Administration authorities. People's Governments at all levels must strictly stop those who randomly exact fees or raise fee levels, and individual businesses also have the right to refuse to pay or to lodge complaints with the authorities in charge.

15) People's Governments at all levels must strengthen their leadership of rural individual businesses, and Industrial and Commercial Administration authorities at all levels must strengthen their administrative control. Departments of Planning, Agriculture, Commerce, Supply and Marketing, Food, Materials, Transport, Taxation, Banking, Public Security, Hygiene, Urban Construction, and Environmental Protection must liaise closely with Industrial and Commercial Administration authorities. Each taking care of their own responsibilities, they must guide, supervise, and support the healthy development of rural individual industry and commerce.

16) Rural individual industrial and commercial businesses should respect state laws and discipline. Sabotaging state purchase plans, damaging the nation's mineral resources, tax avoidance and tax evasion, using threats and force to dominate the market, artificially raising prices, giving short weight, selling fake or adulterated products, selling edibles banned from production or sale, trading in coupons and certificates or exchanging them for goods, forging, renting out, alteration, or transferral of the business licence, and other illegal activities, are not permitted. Perpetrators shall be dealt with by responsible departments in accordance with the relevant state regulations. Those who violate the criminal law shall have their criminal responsibility investigated by the legal authorities according to the law.

17) The business licence obtained by rural individual businesses is the legitimate certification issued by Industrial and Commercial Administration authorities on the authority of the state. Apart from Industrial and Commercial Administration authorities, no unit or individual may confiscate or revoke the business licence.

18) The state protects the legitimate rights and interests of rural individual businesses. Individual business operators may lodge complaints with their local or superior-level People's Government or bring a suit to court if their legitimate rights and interests are infringed upon.

19) Detailed regulations for the registration of rural individual businesses shall be decided by the State Bureau of Industry and Commerce.

20) Methods of implementation may be decided by People's Governments of provinces, autonomous regions, and municipalities under central administration on the basis of these regulations.

21) These regulations are effective from the day of issue.

4. 'Provisional Regulations for the Administration of Urban and Rural Individual Businesses'

[*Chengxiang geti gongshangyehu guanli zanxing tiaolie*], State Council, 5 August 1987, published in *RMRB*, 19 August 1987. Also translated in *SWB*, 21 August 1987, FE/8652/C1/1-4.

Article 1 In order to guide and assist the development of the individual economy of urban and rural working people, strengthen the supervision and administration of individual businesses and protect their legitimate rights and interests, these regulations are made on the basis of state laws and regulations.

Article 2 Urban job-waiting persons and rural residents with business ability as well as other persons permitted by state policy may apply to engage in individual industrial and commercial operations. After assessment and registration they shall be individual business operators.

Article 3 Within the limits allowed by state laws and policies, individual operators may engage in industry, handicrafts, construction, transport and communications, commerce, food service, services, repairs and other trades.

Article 4 Individual businesses may be run by an individual or by a family. Businesses run by an individual bear civil liability to the extent of entire assets of the individual; businesses run by a family bear civil liability to the extent of the entire assets of the family.

On the basis of operating conditions individual operators may hire one to two assistants; those with technical skills may take on three to five apprentices.

Article 5 The legitimate rights and interests of individual business operators receive the legal protection of the state, and no unit or individual is permitted to infringe upon them.

Article 6 The State Bureau of Industry and Commerce and Bureaus of Industry and Commerce at each level shall perform the following administrative duties regarding individual industrial and commercial businesses:

- 1) Assessment, registration and issue of business licence for applications to engage in individual industry and commerce;
- 2) In accordance with the law and the stipulations of these regulations, to administrate and supervise the business activities of individual business operators, guarantee their legitimate operation and eradicate illegal business activities and defend urban and rural market order;
- 3) provide guidance to the activities of the Individual Labourers' Association;
- 4) other administrative powers conferred by the state.

Responsible departments in all relevant trades should provide professional administration, guidance, and assistance to individual businesses in accordance with state regulations.

Article 7 Individuals or families who apply to engage in individual business should, bearing certification of their place of residency and other relevant certification, apply to their local Industrial and Commercial Administration authorities for registration. Business operations may begin after assessment by county-level Industrial and Commercial Administration authorities and the issue of a business licence.

Those who are required by the state to have special qualifications or approval from relevant departments, should submit the relevant documents at the time of application.

Applications to operate inns, seal carving businesses, agencies, or printing businesses should undergo inspection and approval by local Public Security authorities.

Article 8 The main items to be registered by individual businesses are as follows: business name, name and address of operator, number of

people engaged in the business, amount of capital, form of organisation, scope of operation, style of operation, and place of business.

Article 9 When changing their business name, residential address, form of organisation, scope of operation, style of operation, business premises or names of operators of family-run individual businesses, individual operators should apply to register the changes at the Industrial and Commercial Administration authority where they were originally registered. They may not make changes without approval.

Individual businesses operated by an individual must re-apply for registration if the operator changes.

Article 10 Individual businesses should apply for inspection of their business licence by their local Industrial and Commercial Administration authority within a fixed period each year. The Industrial and Commercial Administration authorities have the power to revoke the licences of those who exceed the designated period without proper cause.

Article 11 Individual businesses which close down should complete procedures for closing the business and cancel their business licence. Businesses which cease operations for more than six months shall have their licence revoked by Industrial and Commercial Administration authorities.

Article 12 When individual businesses cancel their licence, or their licence is withdrawn or revoked, they should repay all debts to creditors.

Article 13 Individual businesses should pay registration and administration fees according to regulations. The standards and collection methods for registration and administration fees shall be decided jointly by the State Bureau of Industry and Commerce and the Ministry of Finance.

Article 14 Local People's Governments should include the sites needed by individual industry and commerce in their urban and rural construction plans and make overall arrangements for them. No unit or individual may wilfully occupy space approved for individual business.

Article 15 Regarding those raw materials, goods and fuel required by individual businesses which must be supplied by state wholesale units, the supplying units should make proper arrangements and should not discriminate against individual businesses.

Article 16 Individual business operators may open accounts at banks of financial institutions, and may use their business licence to apply for loans.

Article 17 The business licence of an individual business in the legitimate certification issued by the Industrial and Commercial Administration authorities on the authority of the state. Apart from confiscation or recall by Industrial and Commercial Administration authorities in accordance with legal procedures, no unit or individual is permitted to confiscate or revoke licences.

Article 18 Apart from those approved in state laws and regulations and other regulations of provincial People's Governments, no unit or individual is permitted to collect fees from individual businesses.

Individual businesses have the right to refuse to pay unauthorised fees, and Industrial and Commercial Administration authorities at all levels have the right to prevent such charges.

Article 19 Individual businesses should respect the stipulations of state law and policy, consciously maintain market order, adhere to professional ethics, and engage in legitimate business operations. They may not engage in the following activities:

- 1) speculation, fraud, smuggling or selling smuggled goods;
- 2) using threats or force to dominate the market, artificially raising prices or forcing others into buying or selling;
- 3) doing shoddy work and using inferior materials, selling poor-quality goods as high-quality, giving short weight, or adulterating products;
- 4) selling food products which do not meet hygiene standards or are harmful to people's health;
- 5) producing or selling narcotics, fake products, or imitations;
- 6) selling reactionary, absurd, or pornographic books, journals, pictures or audio-visual products;
- 7) other production and business activities not permitted by law and policy.

Article 20 Individual business operators should, in accordance with tax authority regulations, register for taxation, establish account books, and pay taxes. They must not avoid, evade or refuse to pay taxes.

Article 21 When taking on assistants or apprentices, individual businesses should sign written contracts agreeing on the rights and obligations of the two parties, stipulating remuneration, welfare provisions, time limit of the contract etc. Signed contracts are protected by the law of the state and cannot be broken at will.

Businesses engaging in trades which may affect people's health or safety must take out insurance for their assistants or apprentices with the People's Insurance Company of China.

Article 22 Individual businesses which violate Articles 7, 9, 10, 11, 13 and 19 of these regulations shall be given the following penalties by the Industrial and Commercial Administration authorities according to circumstances:

- 1) warning;
- 2) fine;
- 3) confiscation of illegal income;
- 4) temporary suspension of business operation;
- 5) suspension or revoking of business licence.

The above penalties may be imposed concurrently.

Those who violate the maintenance of public order shall be punished by Public Security authorities according to regulations; those who violate the criminal law shall have their criminal responsibility investigated according to the law.

Article 23 In the case of individual businesses or their personnel preventing or obstructing Industrial and Commercial Administration personnel and other administrative personnel from fulfilling their official duties in accordance with the law, those whose offence is not criminal should be punished by public security authorities in accordance with relevant regulations; those who violate criminal law should have their criminal responsibility investigated according to the law.

Article 24 In the case of Industrial and Commercial Administration personnel or other administrative personnel who violate the terms of these regulations and seriously fail in their duty, practise graft, accept bribes or who violate the legitimate rights and interests of individual businesses, the relevant authorities should apply administrative and economic penalties according to the seriousness of the case; those causing economic losses should be ordered to pay compensation; those who violate criminal law shall have their criminal responsibility investigated according to the law.

Article 25 Individual businesses which refuse to accept the decision of the Industrial and Commercial Administration authorities on their punishment for infringement of regulations should first act according to the decision, and then within 15 days of receiving notice of the decision, appeal to

the level above the authority which made the decision. The upper-level authority should reply within 30 days of receiving the appeal. Those refusing to accept the result of the appeal may take the case to court within 30 days of receiving the appeal result.

Article 26 In accordance with the relevant state regulations, individually or family-run profit-oriented concerns in the fields of culture and education, sport, recreation, information, scientific and technological exchange, consulting services, and all kind of technical training, etc., should also act according to these regulations.

Article 27 These regulations shall be interpreted by the State Bureau of Industry and Commerce; details for their implementation shall be decided by the State Bureau of Industry and Commerce.

Article 28 These regulations take effect from 1 September 1987.

5. People's Republic of China Provisional Regulations on Private Enterprises
 [*Zhonghua renmin gongheguo siying qiye zanxing tiaolie*], 3 June 1988,
 published in *RMRB*, 29 June 1988.

Part One General Principles

Article 1 These regulations are formulated in order to encourage and guide the healthy development of private enterprises, protect the legal rights and interests of private enterprises, strengthen supervision and administration, and promote the planned socialist commodity economy.

Article 2 'Private enterprises' in these regulations are profit-seeking economic organisations in which enterprise assets are under private ownership and which employ 8 people or over.

Article 3 The private economy is a supplement to the socialist publicly-owned economy. The state protects the legal rights and interests of private enterprises.

Private enterprise must operate within the limits prescribed by state laws, regulations and policies.

Article 4 Staff and workers of private enterprises shall organise labour unions according to law. The legal rights and interests of staff and workers shall receive the protection of the state.

Article 5 Private enterprises may establish private enterprise associations.

Part Two Types of Private Enterprise

Article 6 Private enterprises are divided into the following three types:

- 1) single investor enterprises [*duzi qiye*];
- 2) partnerships [*hehuo qiye*];
- 3) limited liability companies [*youxian zeren gongsi*].

Article 7 'Single investor enterprises' are enterprises in which a single person invests capital and operates the enterprise.

Single investors shall bear unlimited liability for the enterprise.

Article 8 'Partnerships' are enterprises which, by agreement, two or more people invest in and jointly manage, bearing joint responsibility for profits and losses.

Partnerships should be based on written agreements.

The partners shall bear joint unlimited liability for the enterprise.

Article 9 'Limited liability companies' are enterprises in which investors are liable for the amount of their investment in the company, and the company is liable to the extent of its total assets.

Limited liability companies should fulfil the following criteria:

- 1) 'limited liability company' or 'limited company' must be clearly displayed as part of the name of the company;
- 2) the company must have a constitution in accordance with these regulations;
- 3) there must be between 2 and 30 investors;
- 4) registered capital must be legally certified;
- 5) investors wishing to transfer and withdraw their investment must have the agreement of co-investors; or if there are over three investors, the agreement of over 50 per cent of them;
- 6) registered capital must not be reduced;
- 7) shares may not be sold to the public.

Limited liability companies with over 30 investors must make special application to Industrial and Commercial Administration authorities, and may be registered only after approval.

Article 10 Limited liability companies may receive legal person status according to law.

Part Three Establishment and Closure of Private Enterprises

Article 11 The following persons may apply to establish private enterprises:

- 1) rural residents;
- 2) urban job-waiting personnel;
- 3) operators of individual businesses [*geti gongshanghu*];
- 4) staff of publicly-owned units who have resigned or been dismissed;
- 5) retired personnel and other personnel when permitted by state laws, regulations and policies.

Article 12 Private enterprises may, within the limits prescribed by state laws, regulations and policies, engage in production and management in the trades of industry, construction, communications and transport, commerce, catering, services, repairs, and scientific and technical consultancy.

Private enterprises may not engage in the military or finance industries, and may not manufacture or deal in products forbidden by the state.

Article 13 Applicants to establish private enterprises must have the following characteristics:

- 1) capital and personnel appropriate to the scale of production operations and services;
- 2) fixed business premises and the necessary facilities;
- 3) field of operations in accordance with state laws, regulations and policies.

Article 14 The constitution of a limited liability company should include the following items:

- 1) the name and address of the company;
- 2) the aims and field of operations of the company;
- 3) registered capital and the total investment of each investor;
- 4) names and addresses of investors, and their rights and obligations;
- 5) the organisational structure of the company;

- 6) conditions for dissolution of the company;
- 7) conditions for withdrawal or transferral of capital by investors;
- 8) methods for distribution of profits and bearing of losses;
- 9) procedures for alteration of the constitution;
- 10) other items which need clarification.

Article 15 Applicants to establish private enterprises must, with supporting documentation, apply to their local Industrial and Commercial Administration authority for registration, and may only begin operations after the business licence has been endorsed.

Article 16 Divisions, mergers, transfers or changes of address or private enterprises, as well as changes in field of business, should be reported to Industrial and Commercial Administration authorities so that the registration may be altered or replaced.

Article 17 To close down, private enterprises should apply to Industrial and Commercial Administration authorities 30 days prior to closure, and cancel their registration after approval.

To close down, private enterprises should have their assets audited and settle debts.

Article 18 Private enterprises which go bankrupt should have their assets audited and settle debts; detailed procedures shall be decided separately.

Article 19 Registration and alteration or cancellation of registration of private enterprises which qualify as legal persons shall be carried out according to the 'Regulations of the People's Republic of China for the Registration and Administration of Legal Person Enterprises'.

Part Four Rights and Obligations of Private Enterprises

Article 20 Investors in a private enterprise have the right of ownership of its assets. The assets of the enterprise may be legally inherited.

Article 21 A private enterprise has the following rights in its production and business activities:

- 1) sole rights to an approved and registered name within regulation limits;
- 2) self-management within the approved and registered limits of the enterprise;

- 3) the right to decide its own organisational structure and to hire and fire staff and workers;
- 4) the right to decide its salary structure and methods of profit distribution;
- 5) in accordance with state price administration regulations, the right to decide the enterprise's product prices and charges;
- 6) the power to enter contracts;
- 7) the right to apply for patents and register trademarks.

Article 22 Private enterprises may, in accordance with state laws and regulations, set up Sino-foreign joint ventures and co-operative ventures with foreign companies, enterprises and other economic organisations and individuals. They may contract to do processing of foreign materials, processing to foreign specifications, assembly of imported components, and compensation trade.

Article 23 In their operations private enterprises should fulfil the following obligations:

- 1) obey state laws, regulations, and policies;
- 2) pay taxes according to the law;
- 3) accept the supervision and administration of relevant authorities of the state.

Article 24 Private enterprise should open accounts with banks or other financial institutions in accordance with the relevant state regulations. Those which qualify under regulations, may apply for loans.

Article 25 Apart from those designated by state laws and regulations, no unit may demand funds, materials or services from private enterprises in any way. Private enterprises have the right to refuse to pay into special collections, and the Industrial and Commercial Administration authorities have the power to stop such charges.

Article 26 The 'Legal Person Enterprise Business Licence' or 'Business Licence' of a private enterprise may not be cancelled or revoked except by Industrial and Commercial Administration authorities according to regulation procedures.

Part Five Labour Administration of Private Enterprises

Article 27 When employing staff and workers, private enterprises must sign written contracts on the basis of equal agreement and direct consultation. The contract must specify the rights and obligations of each side.

Private enterprise labour contracts should be filed with local labour administration authorities.

Article 28 Labour contracts should include the following:

- 1) the quantity and quality of labour required of the employee;
- 2) the period of the contract;
- 3) working conditions;
- 4) payment, insurance and welfare provisions;
- 5) labour discipline;
- 6) penalties for breaking the contract;
- 7) any other items agreed upon by both sides.

Article 29 Labour disputes in private enterprises shall be handled according to the 'Provisional Regulations on the Handling of Labour Disputes in State-run Enterprises'.

Article 30 Private enterprises must implement state regulations regarding labour protection, establish necessary procedures, provide facilities for labour safety and hygiene, and ensure the safety and health of staff and workers.

Private enterprises must take out insurance with an insurance company according to state regulations, for those staff members who work in trades or industries which are a risk to personal life or health.

Article 31 Private enterprises shall practise the eight-hour work-day system.

Article 32 Private enterprises shall not employ children under 16 years of age.

Article 33 Labour unions of private enterprises have the right to sign collective contracts with the enterprise on behalf of staff and workers, to protect the legal rights and interests of staff and workers according to the law, and support the enterprise's production and business activities.

Part Six Finance and Taxation of Private Enterprises

Article 34 Private enterprises must report to their local tax authority and register for taxation within 30 days of obtaining a 'Legal Person Enterprise Business Licence' or 'Business Licence'.

Article 35 Private enterprises must, in accordance with state financial and accounting regulations and tax authority regulations, have a sound financial accounting system, appoint an accountant, establish account books, fill in financial report forms, strictly fulfil tax obligations, and accept the supervision and inspection of tax authorities.

Article 36 The salary of the director (manager or chairperson of the board) may be set at any level under 10 times the average salary of enterprise staff and workers.

Article 37 The income tax on private enterprises shall be levied according to the 'People's Republic of China Provisional Regulations on Private Enterprise Income Tax' and related regulations.

Article 38 Not less than 50 per cent of the after-tax profits of a private enterprise must be used as development funds. Enterprises which, due to special circumstances, wish to invest less than 50 per cent, must seek approval from tax authorities.

The development funds of private enterprises may be used to expand production, invest in other enterprises, repay loans or make up the enterprise's own losses. Other uses require approval by tax authorities.

Article 39 The salaries and income from after-tax profit distribution of investors in a private enterprise should be subject to personal income tax.

Part Seven Supervision and Punishment

Article 40 Industrial and Commercial Administration authorities should strengthen administrative control and supervision of private enterprises, protect legal business operations, and eradicate illegal business activities.

The departments in charge of various trades should, in accordance with state regulations, give professional guidance, help and administration to the production and business activities of private enterprises.

Article 41 Private enterprises engaging in any of the following practices shall be dealt with by Industrial and Commercial Administration authorities,

and shall be given warnings, fined, have illegal income confiscated, be closed for rectification, or have their licence revoked, according to circumstances:

- 1) giving false information at registration, practising fraud or deception or opening for business without approval and registration;
- 2) engaging in operations other than those designated in the registration of the enterprise, or failing to alter, renew, or cancel registration according to the proper procedures;
- 3) forging, altering, renting out, transferring, selling or making unauthorised copies of a 'Business Licence';
- 4) engaging in illegal business activities.

Private enterprises with legal person status which violate registration regulations shall be penalised with according to the stipulations of the 'Regulations of the People's Republic of China for the Registration of Legal Person Enterprises'.

Article 42 Private enterprises engaging in the following practices shall be warned or fined according to circumstances by authorities of Labour Administration:

- 1) engaging in production operations without regard for state labour protection regulations;
- 2) employing child labour;
- 3) infringing upon the legitimate rights and interests of staff and workers.

Article 43 Private enterprises which violate Article 38 of these regulations shall be given warnings or fined according to circumstances by tax authorities.

Article 44 If a private enterprise believes the penalties and decisions made by administrative authorities under Article 41 and Article 42 of these regulations to be unreasonable, it should, within 15 days of receiving notification of the decision, appeal to the next level up of the authority which made the decision. The upper level should make its decision within 30 days of receiving the appeal. Appellants who are dissatisfied with the second decision may appeal to the People's Court within 30 days of receiving notification.

If no appeal has been made or court proceedings initiated within the time limit, the penalty decision takes effect.

Article 45 Private enterprise which violate state laws and regulations regarding taxation, natural resources, industrial and commercial

administration, prices, finance, measurements, quality control, hygiene, and environmental protection shall be penalised by relevant authorities according to the law.

Article 46 Staff members of administrative authorities who violate the stipulations of these regulations, abuse their powers and bend regulations for their own benefit, accept bribes, or infringe upon the legitimate rights and interests of private enterprises, should be given administrative or economic penalties by the relevant authorities according to circumstances; if they violate the criminal code their criminal responsibility shall be investigated according to the law.

Part Eight Supplementary Articles

Article 47 These regulations shall be interpreted by the State Bureau of Industrial and Commercial Administration; methods of implementation shall be decided by the State Bureau of Industrial and Commercial Administration in conjunction with relevant departments.

Article 48 These regulations take effect from 1 July 1988.

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