

Studies on the Chinese
Market Economy Series

The Development of China's Nongovernmentally and Privately Operated Economy

Chief Editors:
Gao Shangquan
and Chi Fulin



FOREIGN LANGUAGES PRESS BEIJING

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FOREIGN LANGUAGES PRESS BEIJING

First Edition 1996

The project is aided by
(Hainan) China Foundation for Reform and Development Research.

ISBN 7-119-01775-6

© Foreign Languages Press, Beijing, China, 1996

Published by Foreign Languages Press
24 Baiwanzhuang Road, Beijing 100037, China

Distributed by China International Book Trading Corporation
35 Chegongzhuang Xilu, Beijing 100044, China

P.O. Box 399, Beijing, China

Printed in the People's Republic of China

图书在版编目(CIP)数据

中国民私营经济的发展(英文版):英文/高尚全、
迟福林主编. —北京:外文出版社, 1995
(经济丛书)

ISBN 7-119-01775-6

I. 中… II. ①高… ②迟 III. 私营经济-研究-中国
-英文 IV. F121.23

中国版本图书馆 CIP 数据核字 (95) 第 07210 号

中国民私营经济的发展

高尚全 迟福林 主编

责任编辑 程钦华 胡开敏

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©外文出版社

外文出版社出版

(中国北京百万庄大街 24 号)

邮政编码 100037

北京外文印刷厂印刷

中国国际图书贸易总公司发行

(中国北京车公庄西路 35 号)

北京邮政信箱第 399 号 邮政编码 100044

1996 年(大 32 开)第 1 版

(英)

ISBN 7-119-01775-6 /F·31(外)

02300

4-E-3042P

Editor's Note

Born and developed from China's economic reform, the nongovernmental and private economic sectors have become an important component part of the country's socialist market economy and factors contributing to China's economic growth. The rapid rise of the nongovernmental and private economic sectors has not only brought life and vigor to the Chinese economy but also promoted the speed of its growth. We can confidently predict that the nongovernmental and private economic sectors will play more important roles in the national economy and develop faster along with the development of the market economy and the deepening of China's economic reform.

In April 1994 the China (Hainan) Institute for Reform and Development and the Chinese Nongovernmental and Private Economic Sectors Research Society jointly sponsored a symposium on the development direction of China's nongovernmental and private economic sectors in the 1990s. With the aim of contributing to the development of these sectors, studying the new conditions and problems arising during the progress of their development and offering pertinent reform suggestions, officials and specialists from the Research Office of the State Council, Central Policy Research Office, United Front Work Department, National People's Congress, State Planning Commission, All-China Federation of Industry and Commerce, Chinese Academy of Social Sciences, Beijing University, Central Party School, and representatives from major nongovernmental and private enterprises gathered in Haikou, capital of Hainan Province. They raised many constructive suggestions from various angles, and the China (Hainan) Institute for Reform and Development presented a research report at the meeting.

It is on the basis of these discussions and the report of the

Institute, as well as on the research data compiled by scholars in recent years that this book has been compiled. Here, we give our heartfelt thanks to all the experts who have contributed to it.

The book is divided into five special topics, highlighting important theoretical and practical problems which have cropped up during the process of developing the nongovernmental and private economic sectors in China. Several points of view are presented for readers to ponder.

This book was written by Zhu Huayou and Liu Chenghui and edited by Gao Shangquan and Chi Fulin. The copy editor was Chi Fulin.

Special thanks are due to the (Hainan) China Foundation for Reform and Development Research, which assisted the publication of the book.

Editors

Contents

Chapter I

The Development of Present Situation of China's Nongovernmental and Private Economic Sectors	1
I. The Concept of the Nongovernmental Economy	1
II. Return from the State to Society	11
III. The Historic Breakthrough of China's Nongovernmental Economy	23
IV. Roles of the Nongovernmental and Privately Owned Economic Sectors in China's Reform, Development and Stability	34

Chapter II

Some Theoretical Problems in the Development of the Nongovernmentally and Privately Operated Economy	39
I. Standards of Theoretical Research	40
II. On the Nature of the Private Economy	45
III. Developing the Nongovernmentally and Privately Operated Economy and Establishing a New Socialist Market Economy System	50
IV. Developing the Nongovernmental and Private Economic Sectors Is to Realize Workers' Property Rights	68

Chapter III

The Objective Environment for Nongovernmentally and Privately Operated Economy	87
I. Fair Competition	87
II. Legal Protection	92
III. Social Security	95
IV. The Government and Nongovernmental and Privately Owned Enterprises	99

Chapter IV

The Features of Private Enterprises	116
I. Features of the Heads of Private Enterprises	116
II. The Internal Management and Market Image of Nongovernmental and Private Enterprises	123
III. Nongovernmental and Private Enterprises Should Pay Attention to Enhancing Their Image	128
IV. Viewing Nongovernmental and Private Enterprises Historically and Scientifically	136

Chapter V

The Direction of Development for Nongovernmental and Private Enterprises	143
I. The Internationalization of Nongovernmental and Private Enterprises	143
II. The Share-Holding System of the Nongovernmental and Private Sectors of the Economy	162
III. A New Field of the Nongovernmental Economy: State-Owned Enterprises Operating as Nongovernmental Entities	180
IV. Opportunities for Developing the Private and Nongovernmental Economic Sectors	197
V. Attaching Great Importance to the Differences Among Regions and Helping Western China Develop the Nongovernmental and Private Economic Sectors	200

Chapter I

The Development and Present Situation of China's Nongovernmental and Private Economic Sectors

I. The Concept of the Nongovernmental Economy

The nongovernmental economy is a worldwide phenomenon, emerging especially vigorously in recent years. What does the "nongovernmental economy" actually mean? Here are several typical opinions of Chinese economists:

(I) The nongovernmental economy as an economic category in contrast to the governmental economy.

Some economists think that intrinsically nongovernmental management implies private management. The purpose of creating the concept of "nongovernmental management," therefore, is to stress the concept of a private economy.

This view is opposed by other economists, whose reasons are as follows: We can not directly equate the nongovernmental with the private economy in spite of the similarities between them. The two are not equal to each other. For example, the Beijing Municipal Regulations on the Contracted Management of Rural Collective Enterprises approved by the Beijing Municipal People's Congress in 1994 stipulate: The township (town) and village economic cooperative organizations can contract an enterprise to all types of economic entities (including collectives, units or individuals) by signing a contract, on the premise that the ownership of the enterprises' assets remains unchanged. The contractor can be a collective (under the charge of a factory director or a manager), partnership (more than two people), individual (one

person), legal person (an enterprise or an institution) or other form of contractor. All these are different modes of management without changing the nature of collective ownership. Their common feature is that they affirm individual benefit and give full play to individual activity. The contractor is entitled to make management decisions, arrange the deployment of capital, make investment decisions, handle assets, employ and dismiss workers, distribute salaries, decide on the management structure and receive lawful profits. Private ownership of the means of production has no direct relationship with such a production or management mode, although the latter definitely belongs to the category of nongovernmental management. The essence of nongovernmental management is that the user of the property independently chooses the management mode suitable for the enterprise, on the premise that the original ownership of the property remains unchanged. It emphasizes the choice of the management mode of the property rather than the change of the ownership. Thus, both private ownership and non-private ownership can be the basis of the nongovernmental economy; in other words, the nongovernmental management of an enterprise has no necessary connection with the type of ownership.

(II) Nongovernmental management is a concept broader than that of private management.

Some specialists think that the basic meaning of nongovernmental management is "management by nongovernmental organizations or individuals." This definition confines itself to the method of management, ignoring the problem of the ownership of the means of production. Nongovernmental management does not necessarily imply private ownership, and the former contains a meaning broader than the latter. China's state-owned nongovernmental enterprises and the privately owned enterprises are both part of the nongovernmental economy. The former relates to contracted, leased and joint-stock enterprises; and the latter includes individual businesses, private businesses, cooperative enterprises, collective enterprises, joint ventures and other economic forms. Here we must stress that when we define the

connotations of the category of the nongovernmental economy we can not mix up the ownership relations and the management modes of the means of production.

In a word, the essence of nongovernmental management lies in an enterprise's management being independent of the government. In a typical state-run economy the government directly owns and participates in the operation of an enterprise. The governmental economy especially emphasizes the government's rights of ownership, arrangement and operation of an enterprise. This is in clear contrast to nongovernmental economy, in which there is no requirement as regards who owns the means of production but which emphasizes that "the people" (referring to social economic persons, including representatives of enterprises or institutions and individuals in both rural and urban areas) own a large share of the stocks of an enterprise. Moreover, "the people" should operate and manage the enterprise on their own. If we look back on the history of China, which has a tradition of governmental economy, we will find that from the very beginning the nongovernmental economy appeared as an economic category in contrast to the governmental economy.

(III) The development of China's nongovernmental economy is a great breakaway from the traditional production mode formed throughout history.

China's economy has traditionally been a governmental one with its roots deep in history. During the Han Dynasty (206-220 B.C.) salt and iron were already monopolies of the imperial court. Tracing back to the prehistoric Shang Dynasty (around early 17th-11th century B.C.), the concept of "all land in the world belongs to the king" emerged. During the following Zhou Dynasty (circa 11th century-221 B.C.), when class contradictions began to be clarified and reflected in Chinese culture, the virtues of "worshipping Heaven and protecting the people" and "enriching the people" became advocated. During the Warring States period (475-221 B.C.), the Sage Mencius clearly proposed his views on how to run a country well. For him the people were the most important in a state. After them ranked the country, and last of

all the monarch. However, his ideas, limited by the historical conditions of his time, did not yet deviate from the two principles: "All emperors are chosen by Heaven" and "the monarch is the foundation of a nation." For this reason, all the states of the Warring States period paid much attention to the governmental handicrafts industry, while the nongovernmental handicrafts industry had to grope its way to development without any help from the ruling court. The nongovernmental handicrafts industry had no opportunity to develop by producing goods for either political or military use. In the Han Dynasty (206 B.C.-220), with the development of the national economy and intensification of class contradictions, the burdens of heavy taxes and corvee labor drove large numbers of peasants into bankruptcy. Many were even forced to leave their homes to seek a living elsewhere. In this situation, the large-scale governmental handicrafts industry and the smaller nongovernmental handicrafts industry, which was restricted to certain manufactures, gradually became coexistent in the national economy. Emperor Wu Di of the Han Dynasty made salt, iron and coin casting government monopolies. The products of the three trades were mainly for the imperial family's and the army's use, with only small amounts allowed to be put on the market to earn revenue. This effectively checked the growth of the nongovernmental trade in these commodities.

The founder of the Ming Dynasty (1368-1644), Zhu Yuanzhang, insisted on the centralization of authority, but he also realized that the monarch should be kind to his subjects, otherwise they would rise in resistance. So he implemented a policy to encourage both governmental and nongovernmental industries to develop. Although the governmental business still dominated the national economy, both governmental and nongovernmental industries grew rapidly throughout the dynasty. And it was due to this policy that the first seeds of capitalism appeared in the handicrafts industry.

Because the governmental industry played the leading role, the nongovernmental sectors had to seek existence and development in the narrow space left to them by the government. This situation lasted until the late years of the Qing Dynasty

(1644-1911) and the early years of the Republic of China (after 1911). We could even say that it lasted until 1949, when New China was founded. At the beginning of the Westernization Movement in the late 19th century, the bureaucratic warlords represented by Li Hongzhang advocated the development of some nongovernmental enterprises which would rely on the government's support and foreign capital and technology. In practice, however, they were confronted with insuperable difficulties, among which that of collecting funds was the biggest. Almost all the important projects launched during that period (the Shanghai Steamship Merchants Bureau, the Kaiping Mines at Luanzhou, the Tianjin Telegram Company and the Shanghai Textile Bureau) encountered great difficulties in raising funds and had to turn to the government for financial aid. Although these projects were designated as "government-supervised and merchant-managed" enterprises, they soon became in fact government-owned and government-managed enterprises.

After 1949, when China cast off the twin yokes of foreign capital and feudal rule, the government-owned and government-managed economic setup did not disappear along with the old system or even decrease, but became even more dominant in the national economy under the theoretical guidance of "socialism equaling public ownership plus distribution according to work." Public ownership of the means of production refers to ownership by the whole people of the means of production, and ownership by the whole people of the means of production is the same as ownership by the state. So state-owned enterprises must be managed by the state. Since theoretically we regarded public ownership as the same as public management, public management as equal to state management, and state management as identical to government ownership, in reality China's economy was made a state-dominated governmental economy on the basis of carrying forward the traditional mechanism of government ownership and government management. There even formed in society at large a distorted cultural attitude that the governmental enterprises were respectable while the nongovernmental ones were disreputable. This misconception was not addressed until the Third Plena-

ry Session of the Eleventh National Congress of the Communist Party of China in late 1978.

In conclusion, as major lines of the ownership structure in the development of China's economy, publicly owned and government-managed, state-owned and government-managed and government-owned and government-managed industries not only existed during the Shang and Zhou dynasties, but persisted throughout the Chinese history until modern and even contemporary times. With the deepening of China's economic structural reform and the development of the country's opening up to the outside world, the nongovernmental economy (including privately owned and government-owned) also developed quickly to some extent. Although the publicly owned, state-owned and government-owned nongovernmental enterprises have not been fully developed yet, and the privately owned nongovernmental enterprises are still in a state of "gap economy," a new turning point has been reached. At this historic meeting the Chinese Communist Party advocated developing the publicly owned, state-owned and government-owned nongovernmental economy for the first time in China's economic history, constituting a complete breakthrough in the traditional production and management modes. This will have profound influence on China's economic and social development, the historic significance of which should not be underestimated.

(IV) Developing the nongovernmental economy is an inexorable choice matching the requirements of China's productive forces.

At present, the realization of "limited nongovernmentalization" of the national economy in China is an inexorable choice, as it suits the internal requirements of the productive forces.

Firstly, governmental ownership and governmental management of enterprises are parts of a production and management mode only effective under specific historical conditions and within a specific range of economic endeavors. In the present situation it is completely impossible for state-owned enterprises to monopolize China's economy. From ancient to modern times all the

rulers of China believed in centralized state power, and in order to increase the state's power financially and politically, all of them used to pay attention to promoting some aspects of the governmental economy. Up until the present, however, none of them could maintain and consolidate the state's power with the sole support of the governmental economy, completely excluding the nongovernmental economy. This proved to be the case even when the nongovernmental economic sectors were replaced by their governmental counterparts. The experiences of old China, a feudal society or semi-colonized semi-feudal society, and the early stage of New China proved that government ownership and government management of an enterprise are parts of a production and management mode playing a certain active role in a specific field. For example, at the beginning of the establishment of a new political regime the governmental economy may play an effective role in consolidating political power and promoting economic development. But when it finishes restoring the national economy, the monopolizing governmental economy does not have an active role to play any more. After the founding of the People's Republic of China, the country's industrialization took shape, and especially after the past 10-odd years of practice in reform and opening up to the outside world, the governmental economy has shown itself out of step with the demands of the development of the productive forces. Under the new conditions, the governmental economy is not only failing to make the national economy prosper, but is seriously hampering the development of individual initiative and the bringing into full play of individual skills. The attempt to make all enterprises owned and managed by the government, thus making the state-owned economy monopolize the national economy is a theory and practice running counter to the development trend of China's productive forces. One of the goals of China's economic structural reform, which began in late 1978, is to transform the traditional governmental modes of production and management, traditional property structure and traditional management mechanism, and at the same time cause the privately owned and government-owned nongovernmental economic sectors to grow on a wider scale, on

the premise that the state-owned economy is preserved in certain fields and to a certain extent. In other words, China should realize limited non-governmentalization of the national economy at the same time as the governmental economy is consolidated in the appropriate sphere. This is an inexorable choice which matches the internal requirements of the development of productive forces.

Secondly, the limited non-governmentalization of the national economy helps bring all positive factors into play and promotes a healthy and speedy growth of the social economy, as a whole. That the relations of production must be suited to the development of productive forces is an objective law independent of man's will. In actual practice, which mode of production will develop and which will finally be abandoned do not depend on man's value judgements or any individual's subjective desire, but on objective economic practice, using the yardstick of economic efficiency. Why is limited non-governmentalization of the national economy helpful for bringing into play all the positive factors? The root cause is as follows: Although nongovernmental management is a category of the relations of production, it does not indicate private ownership of the means of production, but is just a theoretical generalization and a practical description of a specific mode of production and form of management. The term of the nongovernmental economy refers to privately owned enterprises, collective or state-owned enterprises completely managed by individuals, individual businesses, partnership businesses and enterprises contracted or leased to individuals. Encouraging the nongovernmental economy to develop rapidly in certain rather larger fields (i.e. limited development), but in a controlled way entails allowing the modes of production or forms of management mentioned above to develop independently, freely and rapidly, on the premise that the governmental economy should be preserved on an appropriate scale. In this way the positive factors of every aspect of the economy as a whole will be marshalled and give a definite impetus to its rapid and healthy growth.

Thirdly, realization of limited non-governmentalization can coordinate all types of economic benefits so that they operate at their optimum level. At the present stage of China's development

we can not completely non-governmentalize (though this is different from privatization) the economy just as we do not want complete public ownership, a state-owned and state-managed economy or a state-owned and government-managed economy. A policy of all-round non-governmentalization can neither coordinate the development of the basic industries nor stimulate unprofitable industries to provide society with sufficient products and labor services to meet the people's various needs. But limited non-governmentalization of the national economy can not only avoid the problems which are likely to emerge in the transition from the governmental to the nongovernmental economy, but properly coordinate the economic benefits of all aspects. Thus every economic sector will get its share of the fair competition and develop healthily. In this regard we can gain some enlightenment from Taiwan's experience. As everyone knows, Taiwan's economy developed through a series of economic reconstructions when the Kuomintang retreated to Taiwan. The material base of Taiwan's economy after the Second World War came from three sources: Capital and enterprises taken over from the Japanese; capital, equipment and technical personnel brought from the mainland by the Kuomintang when they escaped; and economic aid from the United States. During the process of the economic reconstruction and industrialization, the Taiwan authorities carried on the mainland's tradition of centralized power and put their main efforts into developing government-owned and government-managed enterprises. This had a close relationship with Taiwan's practice of transforming local capital directly into industrial capital during the earlier process of land reform. Although the governmental economy played an important role in consolidating the political power of the Kuomintang, all-round governmental control of the economy would certainly have prevented private capital and ordinary people from engaging in free production and management, thus impeding the development of the economy. Cognizant of that fact, in 1953 Taiwan promulgated the Regulations on Transforming Governmental Sideline Enterprises into Nongovernmental Businesses, which clearly affirmed the positive roles of the nongovernmental enterprises and