

Chapter VIII The Chinese Communist Party and Ownership Reforms: the Redefinition of Socialism

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1. Introduction: Chinese Socialism and the Ownership System

On July 1, 2001, General Secretary Jiang Zemin delivered a speech at the eightieth anniversary of the Chinese Communist Party (CCP, hereafter) and announced a new policy to admit private entrepreneurs into the Party. This decision shook the world, since it implied that capitalists would now be admitted into a party that considered itself a vanguard of the proletariat. Why was such an outrageous decision made? This paper aims to explore the emergence and development of private entrepreneurs in socialist China by analyzing the economic factors, the theoretical evolution that justified the policy changes, the specific policy processes of reforms in the ownership systems and in the organizational policy of the Party, in which different ideological standpoints and political forces interacted.

The investigation of the question of the ownership system involves delving into the essence of socialism. Before dwelling on the above issues that mainly relate to the changes following the advent of reforms and opening policies in the late 1970s, let us briefly review the CCP's notion of socialism and the ownership system and the type of ownership system policies adopted by them after liberation.

1.1. The Establishment of the People's Republic of China: From New Democracy to Socialism

The People's Republic of China did not initially claim to be a socialist state. For a few years following the Liberation in 1949, China was said to be in the stage of New Democracy, in the midst of the transition from a capitalist to a socialist state. Based on the prevailing situation in China, Mao Zedong set the first stage of the revolution by effecting a period of allied dictatorship of several classes including the workers, peasants, national bourgeoisie, and petit bourgeoisie. Thus, the Party acknowledged that there were several forms of ownership that coexisted in China during that time, including the state-owned economy with socialist characteristics, the cooperative economy and the state capitalist economy with half-socialist characteristics, and individual private economy and private capitalist economy. The state

capitalist economy was a system in which private enterprises fell under the indirect control of the state-owned economy by means of purchasing raw materials and contracting product sales; the private enterprises eventually made a transition to joint management with the state through state investments and the dispatching of managers by the government.

Initially, Mao Zedong had stated that the stage of New Democracy would last for a fairly long time, but he changed his view after the autumn of 1952. In 1954, the Party officially adopted the “General Line and the Overall Task in the Transitional Period,” and embarked on the socialist transformation of agriculture, handicrafts, and capitalist industry and commerce. In brief, the socialist transformation constituted the nationalization of the means of production. The General Line and the Overall Task in the Transitional Period stated that this transformation would be implemented in “ten to fifteen years or perhaps more;” however, in reality, its basic completion was announced three years after its commencement.¹

1.2. Theory of Socialist Public Ownership

With regard to theory, two publications greatly impacted the Chinese economic theorists, namely, Stalin’s *The Questions of Soviet Socialist Economy* and *The Textbook on Political Economy* that was based on Stalin’s book and edited and published by the Economics Institute of the Soviet Academy of Sciences.² The basic principles of the Soviet Communist Party at that time were as follows: the question of ownership concerned the possessors of the means of production; the socialist public ownership is the only economic foundation of a socialist society; the socialist public ownership comprises only two basic forms—the higher-level form is the ownership of the “whole people” and the lower-level form is the ownership of the collective; the socialist state ownership is identical to the socialist ownership of the “whole people”; the ownership of the collective gradually transforms into the ownership of the “whole people”; finally, the latter becomes the only form of ownership in a socialist society. Although Mao later criticized the USSR and its dogmatism, these understandings of ownership remained the mainstream in both the theory and policy of the CCP until the late 1970s. In simple terms, in Mao’s time, the efforts to “heighten” the level of ownership continued on the understanding that public ownership of the means of production was one of the most important elements that defined a socialist society.

The question of ownership cannot be separated from the theoretical aspects of socialism. The definition of socialism is crucial for the CCP since it justifies its policies and power and stipulates the normative relationship between the CCP and the populace. Therefore, in the following analyses, I shall elucidate the manner in which the CCP’s theory, policy, and the actual situation in society developed through certain stages of interaction after the advent of reform and opening policies

in the late 1970s. The main object of analysis is the intraparty development of the ideological struggle and the policy disputes over ownership reforms. This exercise should enable us to understand how economic issues are deeply tied to politics, and how the one-party rule by the CCP has undergone essential changes in terms of ideology and organization along with marketization, despite the fact that the contradiction between politics and economics is not entirely resolved.

2. Marketization and the Ownership System under the Leadership of Deng Xiaoping

2.1. The Commencement of Marketization and the Advent of New Forms of Ownership

In the late 1970s, marketization commenced in tandem with the advent of new forms of ownership. This was due to the following factors. After the Cultural Revolution ended in 1976, many “educated youth” (*zhishi qingnian*) who had gone to the countryside returned to the cities to seek jobs. At the same time, China was entering a period characterized by a surge in the working population that was partly induced by Mao Zedong’s 1957 critique of Peking University President Ma Yinchu, who had advocated population control. Since the state-owned enterprises were already over-staffed with little capacity for absorbing new labor, urban unemployment became a serious problem in the late 1970s. Therefore, the Party had no choice but to permit the revival of individual businesses, which had been criticized in the past as “tails of capitalism.” Since individual businesses were not considered in the planning system, they had to secure raw materials and channels to sell their products independently. Thus, the increasing population pressure led to the establishment of a structure in which the market economy expanded along with the growth of a new form of ownership—the privately owned individual businesses.

In addition, people’s communes in the countryside were dismantled partly due to the need to promote grain production to match the population growth, and it was replaced with the peasant household production responsibility system. Under this system, although land ownership remained with the village collective, peasant households gained the right to use the land and entered into production contracts with the village authorities. In addition, the so-called township enterprises developed rapidly in the rural areas. These enterprises can be largely divided into two types—the collectively owned enterprises run by the townships or villages (as per the Sunan model) and individual businesses or private enterprises (as per the Wenzhou model). Both developed outside the purview of the planning system as enterprises with new forms of ownership.

Another new type of ownership existed in the form of the foreign enterprises

that emerged as a result of the policy that ushered in foreign direct investment. Deng Xiaoping was concerned about China lagging behind the world in science and technology, and worked earnestly to introduce advanced foreign technology; for this, they labored to earn foreign exchange. The first target was overseas Chinese capital. In order to achieve this target, preferential foreign investment policies were introduced, and Special Economic Zones were established in the areas of Guangdong and Fujian with special ties with them. In the following years, there were repeated criticisms against the inflow of western, capitalist culture in forms such as the anti-spiritual pollution movement. However, Deng Xiaoping argued that the positive effects of introducing foreign capital were greater than the negative effects, and succeeded in gradually extending the areas and sectors permitting foreign investments.

2.2. The Development of New Theory and Policy on Ownership

The planning and the public ownership systems were not immediately affected by the increase in individual businesses, township enterprises, and foreign firms. In the 1980s, it was still maintained that the three major elements of socialism were planning, public ownership, and the distributional principle of “to each according to his work.” However, based on the change in the actual situation, the theoretical venture gradually advanced and formed the basis for the later development in policy. In terms of a theoretical breakthrough, in the first place, it was crucial that the ideological standpoint of Deng Xiaoping triumphed in the political struggle for the commencement of reform and opening policies. In other words, the Party officially no longer considered Mao Zedong’s words and deeds as dogma and acknowledged that practice is the sole criterion to judge truth.

With regard to the development in the theory of ownership, first, the following argument increasingly gained force in theoretical circles: as Marx stated that the rights of ownership and possession and those of control and use can be exercised separately, the question of ownership is not limited to the mere question of to whom the means of production belongs, as Stalin argued. Therefore, it was necessary to discuss the specific forms of public ownership.³ The idea of separating ownership and management developed on this basis and was included in the “CCPCC Decision on Reforming the Economic System” of 1984. This theoretical development led to the introduction of specific policies such as the enterprise management contracting system in the 1980s as well as the establishment of the modern enterprise system centered on the clarification of property rights and the founding of State Assets Investment and Management Corporations after 1993.

Second, the idea of the ownership structure was presented in relation to the first point. Based on past experience, it was argued that a variety of ownership systems, that is, the development of ownership systems other than public ownership,

was necessary to promote the commodity economy (*shangpin jingji*) by galvanizing the various forces in society and satisfying the material and cultural needs of the people. The background to this argument was the abovementioned development of the advent and growth of individual businesses, township enterprises, and foreign enterprises. Further, with regard to the theoretical aspect, there was apparently an influence of the “soft budget constraint,” an idea put forward by the Hungarian economist Janos Kornai. Kornai used this concept to point out that since the losses of public enterprises were compensated by the government, little attention was paid to efficiency and economy.⁴

With the advance of marketization and the increasing emphasis on the revitalization of enterprises as the most important task in economic reform, it became clear that the inefficiency of public ownership inevitably constituted the focus of the discussion. In the mid-1980s, “[substituting] tax for profit (*ligaishui*),” that is, the policy enabling the switch from the turning over of enterprise profits under the planning system to a modern enterprise tax system, failed to revitalize the enterprises. Subsequently, even bolder reform measures were designed to relieve the serious situation in which enterprise losses were becoming a burden on state finances, particularly the finances of the localities. In late 1986, the State Council approved the implementation of profit contracting by large- and medium-sized enterprises that had spontaneously begun in the localities. Simultaneously, it promulgated a regulation that permitted the localities to choose some enterprises to experiment with a stock system.⁵ Approximately around the same time, the “Enterprise Bankruptcy Law (Tentative)” was enacted,⁶ and at the Thirteenth Party Congress in 1987, the property rights of some small-sized enterprises were permitted to be sold to collectives or individuals. Subsequently, in 1988, the “Tentative Regulations on Private Enterprises” were enacted, and there was no longer a constraint on the number of workers an individual business could hire. In other words, private enterprises were officially acknowledged as those with eight or more hired staff and workers, while individual businesses remained a category with less than eight staff and workers.

2.3. Adverse Current against Reform and the Southern Statement: Deng Xiaoping’s Understanding of Socialism

In the wake of the “June 4 Incident” in 1989, however, the discourse over the direction of reform was derailed. On the one hand, under the initiative of the local government, the Shanghai Stock Exchange opened in December 1990 followed by the Shenzhen Stock Exchange in July 1991.⁷ On the other hand, the conservatives, who had experienced a sense of crisis at the overturn of the socialist systems in the Soviet Union and the East European countries, held the upper hand in the policy-making process. The central figures of this camp included Chen Yun, who had continuously advocated the need to maintain the dominant status of planning, Premier

Li Peng, and Vice-premier Yao Yilin, who had been promoted by Chen Yun and had actively participated in the core sectors of the planned economy.⁸ Although it was ultimately rejected, the draft regulation on re-collectivizing agriculture was discussed at the Politburo and the executive meeting of the State Council. Peasants in some localities began cutting down orchard trees and killing their cattle in fear of re-collectivization. An example of a policy that was actually adopted was the revival of “political expression” as a standard in rating the employees that was approved by the State Council. This was the second advent of the principle of “to each according to his politics,” which had existed from the 1957 Anti-Rightist Campaign until after the end of the Cultural Revolution.

In July 1990, the Politburo Standing Committee invited more than 10 economists to a meeting to discuss the economic situation and the measures to be taken, during which an intense debate broke out over whether or not marketization should be the direction of reform.⁹ Some argued that under socialism, they had to implement a planned economy based on the system of public ownership, and argued that the inflation of 1988 and the June 4 Incident that occurred in the following year were the results of incorrectly directing reform toward a market economy. At the end of that year, Gao Di, a trusted follower of Premier Li Peng and the then president of the *People's Daily*, wrote in his newspaper, “Market economy meant forfeiting public ownership, negating the leadership of the communist party and the socialist system, and implementing capitalism.” In the spring of 1991, *Liberation Daily*, the organ of the Shanghai party committee, published a few articles (written under the pseudonym, Huangfu Ping) based on Deng Xiaoping's statements where-in it put forth a straightforward criticism of Gao's viewpoints. Nevertheless, these articles became a target of criticism by the party organization.¹⁰

Deng Xiaoping's statements during the so-called second southern tour in early 1992 countered such criticism against reform. Deng presented the idea of the “Three Advantageous,” which stated that any policy that was advantageous to developing the productive forces, enhancing the comprehensive power of the state, and improving the living standards of the people, was socialist. According to Deng, development was paramount. If there was no reform, then there would be no development; if there was no development, then the socialist government would collapse like those of the Soviet Union and East Europe. Such thinking won the strong approval of many localities that had been suffering from a recession since the planners took the helm of economic policy-making. With their support, the bold and flexible pursuit of economic development and marketization became the policy mainstream, and at the Fourteenth Party Congress held in October 1992, it was officially decided that the Party would aim at establishing a socialist market economy.

Nevertheless, as far as the ownership structure was concerned, no change was made in the stipulation that public ownership was the main form and individual businesses, private enterprises and foreign capital firms were supplementary forms.¹¹

Undoubtedly, Deng Xiaoping strove to maintain and develop socialism and believed that public ownership was the very basic element of socialism. In 1985, he stated that they had to uphold two fundamental principles, namely, to maintain the socialist, publicly owned economy as the main form and to achieve common prosperity in the long run.¹² In the 1992 southern statement, he also argued that Shenzhen, the special economic zone adjacent to Hong Kong, was not capitalist but socialist because public ownership was the main form there and only a quarter was occupied by foreign investments.¹³

To summarize, after the advent of reform and opening policies, marketization and the pluralization of the forms of ownership advanced in tandem, although planned economy and public ownership were claimed to be the basic elements of socialism. In the beginning, the changes were not drastic and only involved permitting individual businesses, township enterprises, and foreign firms to create employment opportunities and introduce foreign technology and capital. However, gradually, based on the breakthrough in theory, the separation of the rights of ownership and management and experiments with the stock system were introduced with a view to resolving the inefficiency of publicly owned enterprises and its negative effects on state finances. The conflict between those who wanted to promote marketization boldly and others who feared that excessive marketization would undermine socialism reached its apex after the June 4 Incident and the collapse of the socialist systems in the Soviet Union and East Europe. It was only in 1992 that the victory of the former was established, when the CCP decided to abandon planning and aim at erecting a socialist market economy. Nevertheless, the principle to uphold an ownership system with public ownership as the main form was not changed. A staunch Marxist, Deng Xiaoping advocated the implementation of socialism with Chinese characteristics, but at the same time, he believed that public ownership was the very basic institution of socialism that could not be abandoned.

3. Marketization and the Ownership System under the Leadership of Jiang Zemin

3.1. Zhu Rongji's Blueprint for Thorough Reform and the Localities' Response

In the spring of 1993, Li Peng was reappointed as Prime Minister, but he remained absent from duty due to health reasons until autumn, purporting that he had a heart problem.¹⁴ In the meanwhile, Zhu Rongji took the initiative in reform policy-making and drew a bold blueprint for thoroughly reforming the economic system. These efforts led to the Decision on Some Questions Concerning the Establishment of the Socialist Market Economy System, approved at the Third Plenum of the Fourteenth

Central Committee in November 1993. With regard to ownership, the Decision stated that the modern enterprise system with public ownership as the main form was the basis of the socialist market economy system; those state-owned large- and medium-sized enterprises with conditions to do so could be reorganized into limited companies and stock companies according to law, and the strength of the position of public ownership as the main form of the national economy could vary between localities and industries. The position of public ownership as the main form was manifested in the superiority of state- and collective-ownership among the total assets in the society and in the state-owned economy comprising the vital part of the national economy and playing a leading role in economic development. The general, small-scale state-owned enterprises, on the other hand, could be sold to collectives or individuals.

In addition, it was also stipulated in the Decision that the functions of the government would be transformed and that the state's functions of social and economic management and as the owner of state assets should be separated. The intention was to increase the productivity of state assets by separating public administration and asset investment. Following this Decision, Shanghai, Qingdao, and some other localities began reorganizing the supervisory government departments into state asset management corporations. From one perspective, this implied that the supervisory departments attempted to preserve their vested interests in the control over their subordinate enterprises on the pretext of reform. At the same time, it had also become an important task to control and prevent the drain of state-owned assets. Enterprises that suffered from a shortage of funds had illegally begun converting their assets into bonds and selling them to their staff and workers.¹⁵

The sales of state-owned enterprises were in fact endorsed and supported by the localities. In the wake of Deng Xiaoping's southern tour in 1992, the entrepreneurial localities had embarked on numerous projects such as the construction of technology development zones in the hope of luring foreign investment. Since most such projects proved unprofitable, non-performing loans began accumulating, and this aggravated the stark fiscal situation of some localities. One way to solve this problem was to sell the loss-making state-owned enterprises, which had become a serious fiscal burden. For instance, as of May 1995, over 80% of the county-level state-owned enterprises in Sichuan province were in the red. In 1994, the provincial authorities decided to approve the sales of state-owned enterprises, which had started spontaneously in Yibin County around 1990. They proceeded to sell all the county-level state-owned enterprises in the province.¹⁶

In addition to the fiscal concern, there were certain other factors that prompted the local leadership to sell their deficit-ridden enterprises. First, in order to improve their performance and evaluation by their seniors so as to be promoted faster than their counterparts in other localities, local leaders needed to increase the efficiency of industry and develop the economy. In fact, this was better achieved

by privatizing the ailing state-owned enterprises.¹⁷ Second, under the auspices of Vice-Premier Zhu Rongji, the State Council resolutely implemented the financial system reform in 1993–95, whereby the state banks were instructed by the People's Bank (the central bank) to avoid financing high-risk enterprises; this aggravated the predicament of the state-owned enterprises.¹⁸

However, it must be noted that much of the Third Plenum Decision in November 1993 remained a blueprint and was not immediately implemented to the letter. Chinese policies are different from those of the industrialized democracies, and even the highest-level decisions may not be considered seriously for prompt implementation. This was certainly the case with such an ideologically sensitive issue as public ownership. Although the Decision stipulated that small-scale state-owned enterprises could be sold, the local leaders had to keep a low profile and be most discreet in their sales to avoid any criticism as being politically incorrect.

3.2. Outbreak of a Heated Debate in the Mid-1990s

According to the informally circulated, so-called ten thousand-word document that criticized the sales of state-owned enterprises, many local cadres regarded privatization as an important means to achieve rapid economic growth.¹⁹ The document specifically criticized Sichuan province for its decision to sell all county-level state enterprises, and Heilongjiang province, whose party committee was accused of emphatically accelerating the development of the privately owned economy. The document asserted that the dominance of the state-owned economy was the crucial factor in maintaining the socialist nature of the Chinese economy as a whole. Further, it stated that the decline in the percentage of the state-owned economy would undermine the basis of the socialist economy, weaken the leading role of the Party and the authority of the central government, and directly threaten the dictatorship of the proletariat. In addition, it claimed that the privately owned economy would become the economic basis for the political demands of a newly born bourgeoisie. Thus, this argument for the maintenance of public ownership was made mainly from the standpoint of upholding the ideological orthodoxy and political power of the CCP.

On the other hand, there was an argument in favor of reform measures such as the introduction of the stock system and the circulation of assets, argued from the standpoint of achieving economic efficiency and growth. The debate became intense and palpable in 1996 when reformers in the State Commission for Restructuring the Economy explicitly asserted that it was illusory to attempt to defend the dominant position of public ownership by maintaining the absolute, quantitative superiority of publicly owned assets. They also argued that the leading position of public ownership relies on the development of the state-owned enterprises that occupy the vital sectors of the national economy. However, the reformers still could not expressly

advocate privatization, and used the following rhetoric: practice had already clearly answered whether trading in property rights constituted privatization or not; it was noteworthy that in retrospect, it could be said that in the course of the process of reform, from peasant household contracting to ownership system reform, “privatization” had been incessantly criticized; such disapproval might have disrupted reforms to some extent, but it never hindered the process of reform.²⁰

The reformers were referring to the poor performances of the state-owned enterprises and their sales that were actually proceeding not only in the provinces that were mentioned in the ten-thousand word document but in other areas as well.²¹ According to the Industrial Census, in 1995, the state-owned industrial assets accounted for 53.7 per cent of the total industrial assets in the national economy, which was a 21 percentage point decrease from the figure in 1985. In addition, in 1995, the total liabilities of the state-owned industrial enterprises amounted to 65.8 per cent of the total assets.²² In the first quarter of 1996, there emerged a situation in which for the first time in history state-owned enterprises as a whole recorded a total deficit. At this point, the ideological debate intensified and the top leaders became overtly involved in it. In March 1996, at the National People’s Congress, Prime Minister Li Peng expounded on the enterprise reform that was to be implemented during the upcoming 9th Five Year Plan and stated:

With regard to releasing and galvanizing small-scale state-owned enterprises, you can differentiate the circumstances and adopt different forms such as reorganization, joint operation, merger, joint-stock partnership, leasing, management contracting, and sales. Judging from the practice of some localities, most of the small-scale state-owned enterprises that have undergone reform and reorganization remain state- or collectively-owned; that is, they have assumed different forms of public ownership, and few have been sold to private firms or individuals.²³

The policy of “grasping the large and releasing the small” (*zhua da fang xiao*) had been introduced since Jiang Zemin inspected nearly 50 enterprises in Shanghai, Jiangsu, Zhejiang, Liaoning, Jilin and Heilongjiang in May and June of 1995.²⁴ However, in the prevailing ideological struggle, it seemed as if Li Peng were putting a break on the sales of small-scale state-owned enterprises. Immediately prior to Li’s speech, an article in Neibu Wengao (*Internal Manuscripts*, the internal version of Qiu Shi [*Seeking Truth*], which is a weekly organ of the CCP central committee) had severely criticized privatization and the reformist view that if public ownership encompassed the vital sectors of the national economy, it was unnecessary for it to occupy the majority in quantitative terms.²⁵

In contrast, on May 4, 1996, Jiang Zemin held a meeting to discuss enterprise reform and development with the leaders of Shanghai, Jiangsu, Zhejiang, and

Shandong, and instructed that Deng Xiaoping's "three advantageous" be the standard for judging the suitability of state enterprise reform. He further articulated:

We must stick to liberating our thoughts, seek truth from facts, boldly experiment, and boldly proceed forward ... In the process of reform, it is normal to have different opinions on certain measures; this is conducive to widely collecting useful views. What is important is to respect practice, and in the practice earnestly summarize the experience.²⁶

In July, the former State President and Deng's staunch ally Yang Shangkun visited Heilongjiang, which had been criticized by the ten-thousand word document. He approved of the innovativeness of the local leadership and instructed that they should boldly proceed, experiment and conduct reform.²⁷

The third ten-thousand word document was based on an article that was published in one of the journals controlled by the leftist ideologues in April 1996 and was subsequently revised and circulated in the beginning of 1997.²⁸ It pointed out that the focus of the conflict between the two kinds of views of reform and opening rested on either steadfastly upholding or negating the position of public ownership as the main form. It criticized the view that privatizing small enterprises was justified since the large- and middle-sized enterprises comprised the majority of the assets, by pointing out that the proportion of the workers in the former was as high as 80 per cent, and that privatization would lead to large-scale polarization. Moreover, the author contended that the covert intention of those who quoted Marx and advocated the stock system was the privatization of the state-owned enterprises. The earlier months of 1997 also witnessed the emergence of the fourth ten-thousand word document and the castigation of Shenzhen's party secretary, Li Youwei.²⁹ Li had written a paper entitled, "Thoughts on Some Questions Regarding the Ownership System" in which he argued that in reality Chinese socialism differed from the socialism professed in the writings of Marx and Engels and that the state possession of assets was stifling the development of the productive forces. The circulated critique of Li dismissed him as unqualified for membership in the central committee and the leading positions of party and government organizations.

Eventually, Li Youwei maintained his position as the alternate member of the Central Committee at the 15th Party Congress in September 1997. However, in Heilongjiang, Yue Qifeng, the secretary of the Provincial Party Committee, even failed to be elected as a representative of the 15th Party Congress in the second quarter of 1997. Yue had actively advocated and implemented "releasing" the small-sized state-owned enterprises. In March 1997, he had boasted that 70 per cent of the enterprises that had been released were galvanized and that the fiscal income of the province had tripled over the past three years since his appointment in April 1994.³⁰ Although the reasons for his unpopularity in Heilongjiang seemed rather

complicated, Yue Qifeng's failure must have been regarded as a consolatory victory for the leftist ideologues who had been extremely critical of his leadership.³¹

3.3. Verdict at the 1997 15th Party Congress and Its Results

After Deng Xiaoping's death in February 1997, it was Jiang Zemin's responsibility to settle this raging debate that concerned a profound contradiction between socialism and marketization and between the monopoly of political power and the pluralization of economic power. By 1997, the debate became quite apparent, as the conservative ideologues and reformist theorists used journals under their influence as platforms for expressing their views.³² This year was particularly significant for the two sides because the Party Congress in September decided the new leadership and the new policy line for the following five years.

However, in reality, Jiang's 1997 ruling was an indecisive one although it led to some important breakthroughs in theory and policy. In his report at the 15th Party Congress in September, he stated that the position of public ownership as the main form was embodied in two respects: first, the publicly owned assets had to maintain superiority among the total assets in society; second, the state-owned economy had to control the vital parts of the national economy and play a leading role in economic development.³³ These points had been mentioned before, but his subsequent statements were novel; he elucidated what he meant by the superiority of publicly-owned assets by stating that while their quantitative superiority had to be maintained, their qualitative improvement was even more important. He stressed that as long as the vital parts of the national economy were state-owned, the decrease in the percentage of state-owned assets would not affect the socialist nature of the country. At the same time, Jiang approved the stock system by acknowledging that it was conducive to the separation of ownership and management. He further maintained that it was not possible to determine whether the stock system itself was publicly or privately owned in nature, but the key was to focus on who possessed the share-holding rights. In another paragraph, he redefined the status of the non-publicly owned economies and upgraded them from mere supplements to important elements of the socialist market economy.

Thus, on the one hand, Jiang endorsed the reformists' argument regarding the need to relocate state assets out of the competitive sectors. Although public ownership maintained its status as the main form and the basis of the socialist economic system, the interpretation of this status changed. Jiang also confirmed the need for the development of other kinds of ownership during the preliminary stage of socialism. On the other hand, at the same time, since public ownership had to maintain overall, quantitative superiority and control over the vital parts of the national economy, there remained quantitative and qualitative limits to the growth of non-public ownership. In this manner, the 1997 verdict was yet another compromise between

economic rationality and ideological orthodoxy.

However, what followed in the localities was an acceleration of the sales of state assets. This stemmed partly from policy—the approval and encouragement received at the 15th Party Congress—and partly from reality—the growing deficits of the state-owned enterprises that were badly affected by the Asian financial crisis that erupted in July 1997, which exacerbated the deflationary economic situation. For example, in the first quarter of 1998, Henan Province experienced the worst economic situation in over a decade; therefore, it was decided partially to privatize its large- and medium-sized state enterprises and sell the small-sized ones in non-vital sectors.³⁴ Nationwide, the number of staff and workers in the state sector (including enterprises and the government) decreased from 113 million in 1995 to 86 million in 1999, while that of the private sector increased from 56 million to 83 million in the same years.³⁵ Against this backdrop, the ideological dispute underwent a significant development in September 1999.

3.4. A Breakthrough at the Fourth Plenum of the 15th Central Committee, September 1999

In 1999, it became evident that it was neither Premier Zhu Rongji nor Vice-premier Wu Bangguo, who was in charge of industry, but Jiang Zemin himself who would lead the reform policies in state-owned enterprises. Between April and August, he inspected local state-owned enterprises and held five discussion meetings with the local government and enterprise leaders and provided instructions on boldly experimenting with and proceeding with reforms and further restructuring the distribution of state-owned assets.³⁶ Although it puzzled some China watchers, this reform had to be the responsibility of the Party General Secretary in view of the ideological significance of what was to follow. By touring the localities and summoning local leaders to report and discuss state enterprise reforms, Jiang was laying the groundwork and garnering support for the theoretical breakthrough that he intended to make.

The Fourth Plenum of the 15th Central Committee held in September brought about an epoch-making change in the communist theory of ownership. Under the new official slogan—“there are advances and retreats, and things to be done and things not to be done (*you jin you tui, you suo wei, you suo bu wei*)”—the Plenum only mentioned the qualitative improvement of state assets; their quantitative superiority was no longer sought.³⁷ Yet, the ownership system was considered to have remained unchanged with public ownership as the main form, and thus the basic economic system of socialism was maintained. The ownership system changed not in name but in substance. Industries relating to national security, infrastructure, public utilities and the production of important public goods, and the core enterprises of the “pillar” (*i.e.*, leading) industries were named as sectors vital to the national

economy, in which public ownership should remain dominant. For the first time, the communiqué of the Plenum manifested that the stock system and the mixed economy would be strongly promoted.

However, Jiang Zemin was unprepared openly to acknowledge that the public ownership system was virtually abandoned. The Plenum categorically denied the privatization of ownership and particularly emphasized the strengthening of party leadership over state enterprise reforms.³⁸ Jiang required the rhetoric because this new policy was tantamount to changing the definition of socialism and, if mishandled, could seriously undermine the unity of the Party and shake the foundations of the system. The conservative ideologues and those in favor of planning were certainly still around and vociferous in their opposition to privatization.³⁹ Privatization was, therefore, something officials could do without vocalizing it. Even to this day, private enterprises in China are called privately run enterprises (*siying qiye*) and not privately owned enterprises (*siyou qiye*).

There were also practical reasons for strengthening the leadership of the Party over state enterprises. In the sales of small-scale enterprises, there were numerous cases of illegal practices in many localities including the transfer of assets at unjustly low prices or using the sale as an excuse for evading debt payment.⁴⁰ One specific measure was for the central and local party committees to reinforce their control over the leading personnel of important enterprises.⁴¹ In December 1999, approximately two months after the Plenum, the party center circulated the decision to abolish the Central Large Enterprise Work Commission and newly establish the Central Enterprise Work Commission.⁴² While the former, which was established in the previous year, was only intended to administer the leading cadres of the party organizations in the enterprises, the new commission was designated to appoint and remove both the managers and the party cadres. This new commission was parallel in function to the Central Financial Work Commission, which had been established in the previous year.⁴³ Thus, the Party was not giving up its power by supporting the shift in its ideology. It was struggling to cope with globalization and survive and prosper in a new era.

In sum, while the 15th Party Congress accepted Deng Xiaoping Theory as the party's guide for action and official ideology in addition to Marxism-Leninism and Mao Zedong Thought, Jiang Zemin introduced another theoretical breakthrough. This involved the change in the definition of the ownership system with public ownership as the main form, which was effected over two stages at the 15th Party Congress and the Fourth Plenum of the 15th Central Committee. In brief, it was theoretically legitimized that the status of public ownership as the main form and socialism could be maintained without the quantitative superiority of the publicly owned economy.

It can be said that reforming the inefficient system of public ownership was inevitable as the Party regarded economic development as the top priority and

accepted the market economy as the method to achieve it. However, this was tantamount to changing the definition of socialism. Jiang Zemin virtually abandoned public ownership in order to rejuvenate the lagging economy; he did this on the basis of changes in the actual situation in the localities, where the authorities proceeded with the sales of state-owned enterprises in order to improve their fiscal and economic situations. Jiang's endeavor was also motivated by his desire to enhance his prestige and power by creating his own theory. Another factor was the boost in his confidence that he had gained sufficient political might to introduce such fundamental innovation in party ideology.

4. The "Three Represents" and the Admission of Capitalists into the Party

4.1. The Advent of the Important Thought of Three Represents

Once it was decided to dispense with the dominance of public ownership in many sectors, the next issue for the Party was to define the political relationship with the rising social force, namely, the owners of the private and privatized enterprises. As mentioned in the ten-thousand word document, it was felt that these capitalists would be inclined to form their own political group if given free rein. Another intense debate erupted from among the leftist ideologues; this time, it was so intense that the reformists were openly criticized by name. However, considering the seriousness of what was at stake, this criticism was understandable. This time, Jiang Zemin's verdict was to co-opt the capitalists into the Chinese Communist Party. He and his team had to establish a theoretical basis to justify such a supposedly profane act against orthodox Marxism.

In reality, from the first half of the 1990s, private entrepreneurs were being admitted into the Party in a number of localities. One critical analysis pointed out that there were three forces that promoted this: private entrepreneurs who wished to gain power to promote their business; some original party members who had turned themselves into capitalists through the management of township enterprises and supported the admittance of fellow capitalists into the Party; and party members who expected the capitalists to provide the funds for local development.⁴⁴ Against this, one of the first published arguments for providing private entrepreneurs with political and social status came from none other than Yue Qifeng in early 1995.⁴⁵ After the 15th Party Congress, a well-thought-out argument was presented at the Central Party School by some theorists, who cited four reasons why capitalists should be admitted into the Party: if capitalists were not admitted, the Party would lose an important political resource to other political organizations (such as the democratic parties and the Federation of Industry and Commerce); they would seek agents within party organizations and thereby cause corruption; localities

ties would devise countermeasures that would undermine the cohesiveness and discipline of the Party; and those with strong political demands could gradually turn themselves into potential contenders for power.⁴⁶

In February 2000, Jiang went on a “southern tour” in Guangdong and announced what was later termed as the “important thought of three represents” (Three Represents, hereafter). This concerned the idea that the Party had to represent the following three points in order to win the support of the people: the development requirements of China’s advanced, social productive forces; the course of progress of China’s advanced culture; and the fundamental interests of the widest range of people.⁴⁷ Initially, not many understood the implication of the Three Represents. In May, Zheng Bijian, a reformist ideologue and then vice-president of the Central Party School, wrote in the *People’s Daily* that there are special requirements of the times that the Party must meet in each stage of history. In the midst of the New Democratic Revolution, the Party spirit and its advanced nature was embodied in the fact that it represented the fundamental interests of the masses, including the workers, peasants, petit bourgeoisie, and the national bourgeoisie and stood in the frontline of the struggle against imperialism, feudalism, and bureaucratic capitalism. Under the current historical conditions, the spirit and the advanced nature of the Party is reflected only in the practice of reform and opening-up and socialist modernization; from this standpoint, the organization of the Party must be strengthened along with the rapid development of science and technology, the globalization of the economy, and the modernization and restoration of China.⁴⁸ This account reads as if the Party should presently represent the fundamental interests of, and give admission to, the owners of private enterprises who are performing well in the high-tech and other industries.

In the meanwhile, the ideological and political critique of the decision made at the Fourth Plenum persisted in the journals controlled by the conservative ideologues.⁴⁹ In addition, as the meaning of the Three Represents gradually became clear, the conservative ideologues began leveling their criticisms of the idea of admitting the owners of private enterprises into the Party.⁵⁰ Perhaps, the most significant of all was the censure of Li Junru, a Vice-president of the Central Party School, who went to the press and began vociferously arguing for the admission of private enterprise owners into the Party.⁵¹ Li belonged to the so-called “Shanghai clique,” and a critique of him was naturally construed as an indirect attack on Jiang Zemin.

Despite such opposition, in his speech delivered at the 80th anniversary of the establishment of the CCP in July 2001, Jiang Zemin announced that the outstanding elements of the society that meet the conditions should be absorbed into the Party so that it can extend its influence and strengthen its centripetal force in society. In his report addressed to the 16th Party Congress in November 2002, Jiang also said that there was a need to encourage and mobilize all the positive elements with-

in society in order to support the great revival of the Chinese nation. The Congress also revised the self-definition of the party given at the commencement of the Party Charter. The CCP was now not only stipulated to be the vanguard of the Chinese proletariat but also that of the Chinese people and the Chinese nation (*Zhongguo renmin he Zhonghua minzu*). In the second paragraph of the Charter, the Three Represents was added as the Party's new guide for action, which meant that it was sanctified as the official ideology.⁵²

In fact, Jiang had clearly denied admitting the owners of private enterprises in August 1989, implying that it would change the nature of the Party. However, the Party theory then gradually developed, from Deng's Three Advantageous to Jiang's "there are things to be done and not to be done," and eventually to the Three Represents. The motive force was marketization that finally began the metamorphosis of the CCP. This was justified in economic and political terms—it was conducive to economic development, national glory, and the maintenance of power. The CCP no longer adhered to socialism in the orthodox sense of the term and overtly relied on developmentalism and nationalism to account for their rule.

5. Concluding Remarks

The CCP is an ideological party that pays great attention to theory, and its policies need to have a theoretical foundation. Therefore, some theoretical development always precedes important policy changes. Conversely, an important policy change may be predicted upon observing a new development in theory.

Another characteristic of the CCP lies in the pragmatic interpretation of ideology. It can be said that the history of theoretical development by the CCP, from Mao Zedong Thought to Deng Xiaoping Theory and the Three Represents, is that of inventing practical ideologies.⁵³ At the 15th Party Congress in 1997, Jiang had stated that the definition of socialism was elastic and changed with practice. In this context, the Three Represents, which justifies the virtual abandonment of public ownership and opens the way to admit capitalists into the Party, is the latest innovation to suit the time of globalization and allow the Party to maintain its leadership over the marketizing economy and society. It is particularly significant since it changes the nature of the CCP from a class party to a national party, and redefines the legitimacy of its rule from being a revolutionary vanguard to a champion of development and nationalism.

Opposition to such blasphemy, as it were, was formidable. It arose partly from fiscal concerns that the sales of state-owned enterprises involved a substantial, illegal draining of state assets, but came mainly from ideological and political concerns. However, such objection from the conservative planners and ideologues was overwhelmed by the changing reality, particularly at the local level. Although public

ownership was not the sole cause of the problem, the state-owned enterprises actually proved unprofitable, and the leaders of the localities in dire straits had no option but to sell them off. China always changes from the changes occurring in the localities. Under the permanent condition that there is a limit to the central fiscal capacity to support the localities, the deterioration in the local economy becomes the travail that spawns bold, local reform measures, which are then approved and proliferated by the center. The virtual abandonment of public ownership underwent a typical case of such a policy process of marketization.⁵⁴

The shift in the most basic aspects of ideology and organization that occurred around the turn of the century deserves to be called a metamorphosis of the Party. However, it should be noted that this metamorphosis has nothing to do with democratization; rather, it intends to reinforce the dictatorship of the Party. Further, it should be noted that the policy may lead to some unexpected results. First, the combination of dictatorship and developmentalism could occasion the amalgamation of the interests of the government and business in the manner of “crony capitalism.”⁵⁵ Perhaps, this is what is actually happening in a number of lower-level localities, although further investigation is required to verify this point. Second, the capitalists are apparently not actively responding to the change in the admission policy of the Party. According to a survey of 3,258 private enterprises that was published in February 2003, only 16 owners were admitted into the Party in the wake of Jiang Zemin’s speech in July 2001.⁵⁶ Out of the 70.1 per cent of the owners who were non-party members, only 11.1 per cent expressed their willingness to join. In Fujian province, this rate amounted to a mere 1.8 per cent. Such a lack of enthusiasm stemmed partly from their personal commitments in their business activities, but also from their fear that once co-opted into the Party, they are tightly controlled and bound by internal discipline and many expectations.

Whether they are inside or outside, it appears that the relationship between the capitalists and the Party or between economics and politics will remain delicate and problematic. The fundamental question lies in the dictatorship of the Party, or “Party leadership” (*dang de lingdao*), in the terminology of the CCP. As yet, there is no sign that the Party will one day put forward a new interpretation of this basic political principle, as they did with their basic economic system.

Notes

1 Amako, pp. 30–1.

2 Information in this paragraph relies on Xiao Liang, p. 134.

3 *Ibid.*, pp. 141–54.

4 See Kornai.

5 ‘Some Regulations of the State Council on Deepening Enterprise Reforms and

- Strengthening Enterprise Vitality' (in Chinese), collected in Zhou and He, p. 59.
- 6 This law was implemented in November 1988, three months after the enactment of the State-Owned Industrial Enterprise Law.
 - 7 See Li, Li and Zhang.
 - 8 For the details of the following moves to repudiate reform, see Takahara, 1992.
 - 9 Wu and Zhang, pp. 125–6.
 - 10 Xue Muqiao, p. 438.
 - 11 It was stated like that in Jiang Zemin's report to the Congress, but in the revised Party Charter, it was merely said that they had to maintain the ownership structure in which the public ownership of the means of production was the main form and various economic elements coexisted with it.
 - 12 Deng, p. 142.
 - 13 *Ibid.*, p. 372.
 - 14 Available evidence suggests that Deng Xiaoping had wanted Zhu Rongji to take over the premiership at the National People's Congress in March 1993. Although Li was reappointed, which was a demonstration of the strength of the conservatives, he clashed with Zhu over reform measures, especially over the commercialisation of the so-called state-owned specialised banks. (Takahara, 1999, pp. 59–61.)
 - 15 For details, see Takahara, 1996.
 - 16 Imai, 2002, pp. 19–20.
 - 17 Li, Li and Zhang, *op.cit.* Zhang Weiying, Li Shaomin and Li Shu conducted research during 1993–95 in over 2000 counties involving 400,000 enterprises, and reached this conclusion. (See also "'Private' Beats State Assets: 20 Years of Reform in China's State Assets Management System is Heading for the Final Crunch' (in Chinese), available online at NEWS.SOHU.COM (29 September 2003), Commercial Weekly.
 - 18 Imai, 2003, p. 39.
 - 19 According to two writers of the *People's Daily*, there were four versions of the ten thousand-word document, which were circulated in turn in between the end of 1995 or the beginning of 1996 and the beginning of 1997 (Ma and Ling: 242–353). The first version is collected in *Yazhou Zhoukan* (Asian Weekly), 14 January 1996, pp. 22–8.
 - 20 *Zhongguo Gaige* (China Reforms), 1996, No. 6, p. 1.
 - 21 For the case of Shaanxi province selling state-owned enterprises because of their deficits and the difficulties of county finances, see Zhang Jianjing's article in *Zhongguo Jingji Shibao* (China Economic Times), 20 May 1997, collected in Zhang Wenmin *et al.*, pp. 43–4.
 - 22 The Census was published on 18 February 1997 (Editorial Group, p. 190).
 - 23 State Commission for Economy and Trade, and CCP Central Office for Documents (1999), p. 86.
 - 24 *Ibid.*, pp. 69–70.
 - 25 An article by Pan Zhengqiu, introduced in *Baokan Wenzhai* (Abstracts of Newspapers and Periodicals), 18 March 1996.
 - 26 State Commission for Economy and Trade, and CCP Central Office for Documents (1999), pp. 96–7.
 - 27 *Renmin Ribao* (People's Daily), 19 July 1996.
 - 28 The journal was *Dangdai Sichao* (Contemporary Thought), and the article was authored by a Special Commentator. An excerpt of the document is collected in Ma and Ling,

- pp. 312–6.
- 29 *Ibid.*, pp. 351–3, and pp. 358–66.
- 30 *Ming Pao*, 12 March 1997.
- 31 An official of the provincial government suggested that Yue had put a lot of emphasis on galvanising the small enterprises but not so much on the large enterprises and huge state farms, which constituted the Establishment of the province, as it were. (Interview in Harbin, December 1997.)
- 32 For details, see Ma and Ling, pp. 394–408.
- 33 Jiang (1997), pp. 21–2. I shall explain later which sectors were regarded as vital to the national economy.
- 34 *Baokan Wenzhai (Abstracts of Newspapers and Periodicals)*, 28 May 1998.
- 35 Mao and Zhang, p.17. Of course the causes of the shrinking of the state sector were manifold, including the sales and mergers of state-owned enterprises, the increase in the number of workers laid-off by the state-owned enterprises, and the restructuring of the government.
- 36 For parts of his remarks at the meetings, see State Commission for Economy and Trade, and CCP Central Office for Documents (1999), pp. 287–323, and pp. 327–43.
- 37 The Decision passed at the Plenum is collected in *ibid.*, pp. 452–77.
- 38 As regards the role of party organisations within enterprises, which was another point of serious contention between the conservatives and the reformists, the Plenum emphasised the upholding of political principles and demanded the role to be strengthened.
- 39 Some of their articles scathingly criticising the reformist views are collected in Editorial Group, pp. 183–91, and pp. 280–8.
- 40 In July 1998 the State Commission for Economy and Trade issued a circular to cool down the fervour for selling small state-owned enterprises, and in November that year Zhu Rongji strictly ordered to prevent the illegal draining of state assets. (*Jingji Ribao (Economic Daily)*, 11 July 1998; *Renmin Ribao (People's Daily)*, 30 November 1998.)
- 41 The Fourth Plenum also stressed the role of the party organisation within the enterprise. This is another question that requires substantial investigation, and I cannot dwell on it in this chapter.
- 42 This circular is collected in Legal Office of the General Office of the Party Centre *et al.*, pp. 122–5.
- 43 Takahara, 2003, pp. 50–64.
- 44 See Wang Binhe's argument that appeared in *Zhenli de Zhuiqiu (Pursuit of Truth)*, 1994, No. 11, collected in Editorial Group, pp. 205–6.
- 45 *Fendou (Struggle)*, 1995, No.1, collected in *ibid.*, p. 206. Yue proposed that those influential ones with good political tendencies and achievements should be given necessary attention, and that some should be absorbed into People's Congresses, Political Consultative Conferences and the Youth Federation.
- 46 An article by Wang Changjiang, *et al.*, in *Lilun Qianyan (Theoretical Front Line)* (1998, No. 21), collected in *ibid.*, pp. 231–4.
- 47 Jiang, J., 2003, pp. 191–7.
- 48 *Renmin Ribao (People's Daily)*, 18 May 2000.
- 49 Just to cite a few reformists that were criticised in those journals by name, they included Che Hongqing (*Zhongliu (Middle Reaches)*, 2001, No. 2, pp. 2–), Chen Guang (*Ibid.*, pp. 6–), and Qiu Xiaohua (*Zhongliu (Middle Reaches)*, 2001, No. 3, pp. 5–).

- 50 See the collection of conflicting arguments in Editorial Group, pp. 205–6, pp. 231–4, 237–44.
- 51 He went on two interviews that were published in *Bai Nian Chao* (*Century Tide*, 2000, No. 9) and *Far Eastern Economic Review* (26 October 2000). The former interview article was entitled, “The Three Represents and Party Construction”.
- 52 For Jiang’s report and the new Party Charter, see the *Collection of Documents of the Sixteenth National Representatives Congress of the CCP* (in Chinese), 2002, Beijing: Renmin Chubanshe. In the summer of 2001, the party center banned the conservative journals critical to Jiang’s 80th Anniversary speech. (*Yomiuri Shimbun*, 20 August 2001.)
- 53 Cf. Schurmann, pp. 17–38.
- 54 The Third Plenum of the 16th Central Committee in November 2003 went one step further and acknowledged that the stock system should be the major form of public ownership and that private capital could invest in infrastructure and public utilities, which was also an endorsement of what was happening in reality.
- 55 Wu Jinglian also started warning about crony capitalism in 2003 (Wu, pp. 395–7.)
- 56 This was China’s 5th Sample Survey of Privately-run Enterprises, reported in China News Service (in Chinese), 18 February 2003; *Xuexi Shibao* (*Study Times*), No. 210 (10 November 2003), available on line at: <http://www.studytimes.com.cn/bike/viewnews.html?id=6905>, accessed on 17 November 2003.

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