METU Studies in Development, 43 (August), 2016, 449-474

The role of the Chinese state in the reform: Sustaining state ownership in Chinese industry[1]

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Abstract

In the reform period which began at the end of the 1970s, China has recorded high economic growth. SOE reform has been among the significant reform areas. The overview of the stages of the SOE reform and the policies implemented in the last stage of the reform in the strategic industries of information technology, telecommunication and mining indicates that the target of China's SOE reform has been strengthening and supporting the SOEs in order to improve the performance of the industry and increase the competitiveness of the economy in global markets, rather than eliminating the SOEs.

Key words: China's SOE reform, Chinese state, "grasping the large and letting the small go", "state advances, private retreats".

JEL code: P26.

1. Introduction

With her record of economic growth rate which has been around 10 percent on average annually and her impressive performance on "open door" policy since the reforms began at the end of the 1970s, China's economic success during the transition period has attracted the attention of the rest of the world. As a consequence, an extensive literature on China's reform experience has emerged, which prominently focused on the question whether China has completed establishing a capitalist economy or whether she has presented an alternative to

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[1] This article is based on a part of the PhD Dissertation titled "The Transformation of the Chinese State and Its Role in the Economy During the Reform Period: The Sustaining State Ownership", METU, Political Science and Public Administration, October 2014.

capitalism.[2] This question is obviously attractive; however it is more essential to provide explanations on what kind of a social and economic transformation China has went through since the beginning of the reform period, instead of searching for a straightforward statement on China's economic system. In order to have an understanding of at least part of the transformation, this paper aims to assess China's state-owned enterprise (SOE) reform and then focus on the policies implemented in the last stage of this reform area in the strategic industries of information technology (IT), telecommunications and mining.

It would not be wrong to state that the Chinese leadership fixated on one point at the outset of the reform period. Economic development was compulsory not only for providing a better life to Chinese people, but also for sustaining the power of the Chinese Communist Party (CCP) and the one-party regime in China. In order to achieve economic development, rural industrialization was above all moved up on the priority list of economic reforms. In urban areas, Party's attempts to restructure the Chinese enterprise system which was comprised of state-owned enterprises (SOEs) gained extra significance not only because of its implications in the social, economic and political spheres of life, but also because of its relation to other reform areas. In addition, China's SOE reform based on a gradualist strategy has been distinct from the shock therapy strategy of other transition countries (Jefferson and Rawski, 1994: 47; Zhang, 2009: 20). All in all, sustaining state ownership in Chinese industry after nearly 40 years of reform has been discussed widely.

China's SOE reform began with granting autonomy to the SOEs and arrived at the policy of *guo jin min tui* (state advances, private retreats), the implementation of which started at the end of the 2000s, after the policy of *zhuoda fangxiao* (grasping the large and letting the small go). In this regard, it seems to be reasonable to assert that SOE reform policies have been rather unstable in terms of establishing a market-driven enterprise system in China. However, Chinese SOE reform, from the outset, has systematically aimed at transforming the Chinese industrial sector without fully privatizing the SOEs so that this sector will be composed of strong large-scale SOEs as national champions and demonstrate increasing competitiveness in global markets (Bramall, 2009: 476). As a consequence of such reforms, the Chinese government has managed to create national champions, taking part in the global competition, but with socioeconomic burden. For example, there

[2] The discussion rotates around two adverse arguments. On the one side, some claim that Chinese system has been an alternative to capitalism and neoliberalism (cf. Ramo, 2004; Arrighi, 2007; Lo and Zhang, 2010; Amin, 2013). On the other side, stand two groups of scholars. Both groups assert that the Chinese economy has already become capitalist but come to a different conclusion. While one group tends to appreciate such an economic and social transformation in China (cf. Laffont and Qian, 1999; Shambaugh, 2000, 2008; Chen, 2002; Naughton, 2007;), the other strictly criticizes the capitalist transformation (cf. Hart-Landsberg and Burkett, 2005; Harvey, 2007; Huang, 2008; Bramall, 2009).

happened a dramatic decrease in public employment and a sharp increase in unemployment accompanied by decreasing expenditures on health, education and social security. Also, SOE reform has had a role in increasing corruption, one of the most pressing problems of all developing countries, and deepening the existing inequalities in China, while contributing to the emergence of new types of inequalities.

With the aim of explaining China's SOE reform process and its consequences, this paper firstly focuses on the stages of SOE reform in order to indicate the policies which have been implemented to realize the target of modernization of the Chinese enterprise system. Specifically, the policies of the last stage implemented in the strategic industries of Chinese IT industry, telecommunications industry as closely related to IT and mining industry are examined in order to have a better understanding of China's SOE reform process. The policies in these sectors seem to have contradictory intensions in the sense of allowing competition on the one hand and consolidating state ownership on the other, and give adverse signals about the general character of the SOE reform. Then, it becomes questionable whether establishing a free market economy is targeted through the SOE reform or not. Nevertheless, it may be asserted that these different policy choices have served for the achievement of the same goal. Policy variation has stemmed from the fact that the Chinese state has selected different strategies in diverse industries in accordance with the priorities of the state and the characteristics of the relevant industry in order to ensure sustainability of economic development and integration to the global economy (cf. Jessop, 2008: 1-18). Consequently, SOEs have sustained their crucial role in the Chinese economy after nearly 40 years of the reform.

2. China's SOE reform and its stages

Under the central planning system, SOEs used to constitute the most important element of the "work unit" (*danwei*) system which was an extremely complex welfare system in urban China based on the principle of life-time employment and included the provision of pension, housing and free medical care to the SOE workers (Gu: 2001: 131). In the old system, generally referred to as the "iron rice bowl", SOEs not only employed workers and provided them welfare services through the resources received from the central government but also constituted the backbone of financing the whole system by transferring their profits directly to the central government (Gu: 2001: 133). However, the restructuring of the Chinese enterprise system with the start of the reform period has brought about the abolishment of the work unit system.

Beyond doubt, China's SOE reform appeared as a difficult task at the beginning, since SOEs were very large and employed a large share of workers (Jefferson and Rawski, 1994: 50). In 1978, the share of the number of employed persons in SOEs in total employment was around 18 percent, while 78 percent of the employees in urban China worked in SOEs (China Statistical Yearbook 2015). For that reason, a gradualist strategy was preferred in this reform area as in the other areas (Jefferson and Rawski, 1994: 65-66). Contrary to other transition countries that have privatized state enterprises immediately under the shock therapy strategy, China's SOE reform has been incrementalist in the sense of gradual liberalization of the enterprise system. Hence, it is easier to overview the implementation process within stages in order to have a better grasp of the consequences.

The first stage of China's SOE reform (1978-1984) was characterized by the measures taken to grant some degree of autonomy to the SOEs and their managers in their operations (Bramall, 2009: 332, 412; Yang, 2008: 26-27). The problem of 'too many mothers-in-law' meaning that the SOEs faced too much intervention of the CCP members in their operations, was seen as one of the important factors giving rise to the inefficiency of Chinese industry during the Maoist era (Andreas, 2009:82). In granting autonomy to the SOEs, the intended goal was to increase the incentives to improve performance on productivity and profitability. More specifically, SOEs were granted the right to have control over their output after guaranteeing the quota level required by the plan and also to keep some percentage of their profits (Bramall, 2009: 332). The first stage of reforms represented a great transformation when compared to the functioning of the Chinese enterprise system under central planning in which the SOEs and their managers had almost no authority to make decisions on production, wages, employment, research and innovation (Komiya, 1987 as cited in Jefferson and Rawski, 1994: 50). On the other hand, transformation was admittedly partial and the Party continued to have a great influence over the SOEs. The autonomy granted to the SOEs turned out to be a serious problem, particularly when the political interests of the party organs and the economic concerns of the SOE managers failed to coincide (Dickson, 2003: 42-43).[3] Despite all, it is now evident that the partial transformation of the Chinese enterprise system through granting autonomy to the SOEs played an imperative role in the de-collectivization process of the Chinese industry, the establishment of industrial markets and the labor market (Jefferson and Rawski, 1994: 51). Hence, it is possible to argue that China's SOE reform since its first stage was conducive to the emergence of capitalist relations in China, although privatization was not even yet uttered as a word.[4]

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3 In Shanghai, almost half of the members of the party committee had to be members of the board of directors of SOEs and at least one-third of the members of the party committee had to be managers in order to avoid such problems. As a survey shows, party secretaries also served as chairmen of the board in 49 among 59 firms, and deputy party secretaries as chairmen in 7 firms (Dickson, 2003: 43).

4 Gradualism was a good economic choice when the failure of shock therapy strategy in other transition economies was taken into consideration, while privatization was also not a viable political option in China at that time; because state ownership was seen as one of the most important socialist values by

The second stage of China's SOE reform (1984-1992) was marked by the Contract Responsibility System (CRS) which served to systemize and determine the boundaries of the autonomy granted to the SOEs. CRS was based on a contract on the transfer of a fixed percentage or a certain amount of profits from a SOE to the central government in return for some level of operational autonomy (Hassard, et al., 1999: 58, Jefferson and Rawski, 1994: 51). Further, CRS formalized the autonomy of the SOEs both in making employment decisions and in the determination of wage levels according to work performance and technical competence of workers (Koo, 1990: 809-810, 815). The autonomy granted by the CRS appears to be similar to the autonomy granted by the household responsibility system (HRS) implemented in agriculture.[5] On the other hand, there is a noticeable difference between the two. In the first half of the 1980s, HRS ensured the abolition of collective farming and the emergence of a free market of land in rural China (Meisner, 1999: 463), while CRS did not directly serve for privatization in Chinese industry.

CRS was obviously a policy tool of a transition economy possessing the characteristics of both the plan and the market. Under this system, SOEs continued to be controlled by two authorities, the SOE managers on the one hand and the CCP members who did not take their hands off of the SOEs on the other (Koo, 1990: 814). In time, the CRS turned into a kind of subsidy system, because the Chinese government sustained responsibility of the losses of the SOEs, instead of creating self-sufficient SOEs (Ho and Young, 2013: 85). CRS came under heavy criticism because of the fact that the welfare services provided by the SOEs to their workers still constituted a considerable cost item damaging the profitability targets of the SOEs (cf. Hassard, et al., 1999: 65).[6] On the other hand, even the critics have conceived the CRS as an important step specifically for the role it played in de-collectivization of the industry (cf. Jefferson and Rawski, 1994: 51). In addition, the SOEs which became successful under this system performed well in the following stages of SOE reform (cf. Nolan and Wang, 1999: 187). After all, the CRS was unquestionably a principal factor in the transformation of state-society relations and class structure in China. In a sense, the CRS played a role in smashing

especially the conservatives within the CCP who were strictly faithful to the Maoist principles (Bramall, 2009: 332, 404; Macfarquhar, 2011: 331-332).

5 HRS was originally adopted in 1980. It involved a contract between households and production teams for some portion of land and return of the agreed share of output by households (Meisner, 1999: 461). The system was held to be the main policy tool for realizing the targets of increasing efficiency of agricultural production and accelerating rural industrialization (Aiguo, 2000: 130).

6 Chinese private enterprises had more advantages than the SOEs in terms of increasing profitability, since they did not have to consider expenditures on welfare services. Still, SOEs had the advantage of soft budget constraints; whereas private enterprises and collectives had generally operated under bankruptcy threat (Jefferson and Rawski, 1994: 60-61).

the "iron rice bowl" by limiting the rights of Chinese workers and raising the capitalist incentives of the SOE managers, who turned out to be the members of the newly emerging Chinese capitalist class.

The main target of the third stage of China's SOE reform (1992-2003) was the modernization of the Chinese enterprise system so as to render it compatible with the newly introduced market conditions.[7] This was one of the pillars of the "socialist market economy" which was declared to be established in the 14th Central Committee of the CCP (1992-1997) (Wang, 2008: 136-138). In line with this target, the *xiagang* (laid off) policy based on diminishing the number of workers in the SOEs was made one of the first priorities.[8] Once the *xiagang* was put into action, large layoffs began in most of the SOEs giving rise to a sharp decrease in the number of SOE workers (Jefferson and Rawski, 1994: 62-63, Bramall, 2009: 421-422). Tens of millions of SOE workers lost their jobs, but this was not reflected equivalently by a sharp increase in the employment in the private sector.[9]

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7 Modernizing the Chinese enterprise system was not a simple task especially when the problems of the system were taken into consideration. These problems got even worse due to the lack of financial regulations, specifically on lending and insolvent enterprises, suitable for market economy (OECD, 2000:19). Since 1985, the Chinese government has not transferred cash to the SOEs; rather they are provided loans by the state banks. Until the mid-1990s, most of the SOEs had recorded losses and created non-performing loans which had a negative impact on the banking sector and hence on the whole Chinese economy. Because of the increasing non-performing loans, the state banks were under threat of insolvency and the Chinese economy faced the risk of a financial crisis (Ho and Young, 2013: 85). In order to deal with the problem of non-performing loans, the Chinese government put a lot of efforts into strengthening the "big four" state banks at the end of the 1990s. Four asset management companies were established for the banks to transfer non-performing loans (Naughton, 2007: 462).
The government's attempts to establish a modern enterprise system also made the adoption of Western management and corporatization practices such as the board of directors and shareholders essential especially for the large and medium-sized SOEs. In line with these efforts, Competition Law and Company Law were passed in the years 1993 and 1994 respectively. The Company Law not only formalized all the regulations in use since the beginning of the SOE reform and signaled the upcoming institutional changes but also presented the regulatory rules of mixed-ownership (Naughton, 2007: 301). In addition to this, the Company Law organized the rules of offering shares by the SOEs to the public in the stock exchanges which were established in Shanghai and Shenzen in the early 1990s (Ho and Young, 2013: 85). To complement these reforms aiming to establish a modern enterprise system in China, the government has sought to reform the fiscal system and the foreign exchange system since the early 1990s (Yang, 2008: 29).

8 In general, the *xiagang* policy was seen as a way of balancing the effects of the lack of privatization in the reform agenda, while some specific causes of the policy have to be mentioned such as the pressure of hundred millions of young workers who came from the rural areas to the cities to find jobs or the efforts to attract foreign direct investment (*Asian Labor Update*, April-June 2006).

9 For a detailed analysis of the employment numbers, *Number of Employed Persons at Year-end in Urban and Rural Areas* in *China Statistical Yearbook 2014* at http://www.stats.gov.cn/tjsj/ndsj/2014/indexeh.htm would be seen. Through the end of the 1990s, the Ministry of Labor and Social Security was formed and Re-employment Centers (RECs) were established to compensate for social and economic costs of the workers who lost their jobs in SOEs (Naughton, 2007: 186). RECs were designed to be like a waiting room until a new job was found for

Additionally, workers who continued to work in the state sector never felt that their job was secure (Andreas, 2011: 4). In the way of establishing a modern enterprise system, the Chinese government also aimed to gradually eliminate the welfare services, pensions and health insurance provided by the SOEs to the remaining workers. As a next step, life-time employment was abolished and replaced by a contract system through one-time payment to workers. These regulations served for the establishment of the labor market in China, accelerated the process of smashing the "iron rice bowl" and the emergence of new socioeconomic inequalities in addition to the existing ones (Andreas, 2011: 4).[10]

The policy that marked the third stage was put into action under the slogan of *zhuoda fangxiao* (grasping the large, letting the small go) in the Fifth Plenum of the 14th Congress of the CCP in 1995 (Bramall, 2009: 420-421, Chen and Dickson, 2010: 27). The policy was designed for restructuring the large and medium-sized SOEs which had good performance on the one hand and for closing, merging or privatizing the smaller SOEs and the Township and Village Enterprises (TVEs) which were unable to increase their profitability and productivity on the other. TVEs were the engine of rural industrialization which became the "dynamic force in the Chinese economy" since the beginning of the reform period (Meisner, 1999: 465). They were mostly collectives formed by local governments, private investors and foreign investors, and faced lower tax burden and fewer administrative regulations so as to ensure their contribution to rural industrialization and overall economic growth (Fairbank and Goldman, 1998: 412). In addition to their contributions to rural industrialization, TVEs also played a role in increasing the incentives of the SOEs to improve performance due to the growing competitive environment (Naughton, 2007: 275). Despite their contributions, even the most powerful TVEs began to experience financial difficulties at the beginning of the 1990s (OECD, 2000: 7). Subsequently, the government put the policy of "letting the small go" into action, on the belief that the whole Chinese enterprise system together with the national economy would be jeopardized in case of insolvency of the enterprises with bad performance (Chen, 2013: 4).

Although "privatization" was not officially pronounced, the policy of "letting the small go" was held to be an important step of privatization in China within the neoliberal perspective (cf. Hassard, et al., 1999: 68-70). Here, it must be noted that

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the unemployed worker, where a basic living allowance was provided to the worker for some time period (OECD, 2000: 95). If the worker waiting in a REC was not able to find a job within three years, he or she received an unemployment insurance payment for two years (Holz, 2003: 253). It seems that the workers were left to go to their own way after these two years passed.

[10] The poor working and living conditions of migrant workers may exemplify the socioeconomic inequalities that have grown in the aftermath of the reforms. Provided that migrant workers received lower wages, lived in unfavorable places and worked under insecure conditions, the allowance of labor mobility in China generated a significant social problem (*China Left Review*, 2011:7).

China's policy implementation was different from the privatization experience of other developing countries that heavily relied on selling the state enterprises with good performance. Hence, China's policy of "letting the small go" which intended to strengthen Chinese industry through cleaning out the SOEs and the TVEs with bad performance was compatible with the general agenda of China's SOE reform. Since the beginning of SOE reform, the Chinese strategy has been to make the SOEs strong enough not only to increase the efficiency of the industry, but also to make them globally competitive and create "national champions" similar to the South Korean *chaebols* and Japanese *keiretsu* through government supports, rather than eliminating them (Bramall, 2009:420-421).[11]

As a consequence of the "letting the small go" policy, the number of the SOEs had decreased sharply at the beginning of the 2000s. Still, state ownership continued to dominate the Chinese industry especially in the strategic sectors and, more importantly the remaining SOEs increased their profitability considerably since the mid-1990s in line with the expectations of the Chinese government as indicated in Table 1. Besides, the managers and the top officials of the SOEs, the relatives of the top leaders of the CCP and those who have similar close relationships became the owners of these enterprises and their assets under this policy. Only a few lucky employees had the chance of having a share of these transfers (Bramall, 2009: 424). The new owners of enterprises were to constitute the new Chinese capitalist class together with the other private capitalists. Furthermore, the remaining SOE managers and the CCP members who were able to exert influence over the SOEs, have gained control on huge amount of state assets and thus found a variety of opportunities of corruption.[12]

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[11] Promotion of global competitiveness is a part of the neoliberal project supported by the international organizations not only in advanced capitalist countries but also in developing countries (Cammack, 2006: 1-2, 13). This process is global and yet needs the national state for functioning, while subjecting labor, business and civil society to the process (Cammack, 2006: 3-5). As a consequence, domestic politics, class relations and class struggle have been strongly related to the promotion of global competitiveness (Cammack, 2006: 13). The emphasis of the Chinese leadership on increasing the global competiveness of the national economy stems from the fact that China has also become a part of the neoliberal project as a consequence of its open-door policy since the beginning of the reform period.

[12] *China Daily*,27th April 2015

Table 1
Comparison of State-owned Enterprises and Private Enterprises in China

	Number of Enterprises (Percentage of Total Enterprises)		Total Assets (Percentage of Total Assets in the Industry)		Total Profits (Percentage of Total Profits in the Industry)	
	State-owned Enterprises	Private Enterprises	State-owned Enterprises	Private Enterprises	State-owned Enterprises	Private Enterprises
1998	39.2	6.5	68.8	1.4	36.0	4.6
1999	37.8	9.0	68.8	2.0	43.6	5.3
2000	32.8	13.6	66.6	3.0	54.8	4.3
2001	27.4	21.2	64.9	4.4	50.5	6.6
2002	22.6	27.0	60.9	6.0	45.5	8.5
2003	17.5	34.5	56.0	8.6	46.0	10.3
2004	12.9	43.2	50.9	11.0	45.7	12.0
2005	10.1	45.6	48.0	12.4	44.0	14.3
2006	8.3	49.6	46.4	13.9	43.5	16.4
2007	6.1	52.6	44.8	15.1	39.8	18.6
2008	5.0	57.7	43.8	17.6	29.7	27.2
2009	4.7	58.9	43.7	18.5	26.9	28.0
2010	4.5	60.3	41.8	19.7	27.8	28.5
2011	5.2	55.5	41.7	18.9	26.8	29.6
2012	5.2	55.0	40.6	19.9	24.5	32.6
2013	5.2	55.3	39.4	20.0	22.2	30.5
2014	5.0	56.6	38.8	22.3	21.3	34.6

Source: Chinese Statistical Yearbook, NBSC, 1999-2015, available at http://www.stats.gov.cn

Despite the neoliberal expectations that the privatization wave started in the second half of the 1990s was to continue in the following decade, the last stage of China’s SOE reform (2003-onwards) proved the opposite. The state ownership in strategic sectors such as petroleum, coal, metallurgy, electricity, telecommunications, transport equipment and military industry was rather strengthened (Naughton, 2007: 303, The Economist, June 23rd 2011). The ramifications of global financial crisis of 2008 further reinforced the government’s policy choice, particularly in an environment where the sustainability of free market was globally in question (Chen, 2013: 4). At the end of the day, under the policy of *guo jin min tui* (state advances, private retreats), the Chinese government provided supports to the SOEs, including high bank loans and subsidies, besides taking a concrete step towards sustaining state ownership in the industry.[13]

From the vantage point of neoliberalism, *guo jin min tui* has been strongly criticized for breaking the market rules. To be clear, this policy is criticized not simply because of the expansion of state ownership in Chinese industry, but because of a growing political logic that intends to increase the control of the Chinese government both in the national and global economies (cf. Lin, 2013: 1-2, Von Roda, 2010:1, *The Economist*, 6th October, 2012). In this regard, neoliberal perspective asserts that such a policy not only gives rise to the misallocation of resources between public and private sectors but also damages the rules of global competition (cf. *The Economist*, 23rd June 2011).[14] Hence, g*uo jin min tui* has been declared to be a corrupt, inefficient and market-distorting ideology (cf. Lin, 2013: 2). On the other hand, there has also been a new explanation within the neoliberal perspective which, in line with Deng's famous statement on the insignificance of the color of the cat[15], holds that the intervention of the Chinese state in the economy and the dominance of the SOEs in the industry are in fact the right policy choices for a country that is a latecomer in the global economy (cf. Nolan and Wang, 1999:194, Yang, 2008: 30).[16]

The policies implemented in the succeeding stages of China's SOE reform were to ensure that the enterprise system consisted of profitable and globally competitive SOEs. However, SOEs continued to suffer from inefficiency, increasing debt and corruption.[17] Only a few SOEs such as PetroChina and China

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13 In support of this strategy, State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) was established in 2003 (Chen, 2013: 4), which is the basic regulatory body responsible of supervising and controlling Chinese SOEs on behalf of the Chinese state by the help of its central and local organizational structure (Naughton, 2007: 303). SASAC holds a number of diverse functions, such as being the regulator of the SOEs on the one hand and the investor of them on the other hand. As the regulator, SASAC possesses the power of imposing punishments which is a privilege no ordinary investor would have. In order to ensure that SASAC is able to perform these functions, the Law on State-owned Assets of Enterprises (SOAE) was passed in 2008, which guaranteed the control of all SOEs under SASAC and determined the exact duties and responsibilities of the Commission. In addition to its regulatory and supervisory functions, SASAC is also in charge of appointing and removing the top executives of the SOEs, the most powerful industrial enterprises in China (Ho and Young, 2013: 86-87).

14 The authority assigned to SASAC has also been criticized for causing management of the industry in line with the political motives of the CCP, rather than through rational economic motives (cf. Chen, 2013: 19).

15 In his speech in the Communist Youth League in July 1962, Deng stated that "it doesn't matter whether a cat is black or white, so long as it catches the mice." (Goodman, 1994: 68). At that time, this statement was related to the discussion on the permission of individual farming in order to increase food production, while it turned out to be valid for all the policies of Deng.

16 Within the state-centered approach, this process is explained as 'state neoliberalism' which has been formed as a consequence of China's historical conditions (cf. Chu and So, 2010: 49-50).

17 *Caixin*, 8th April 2015

Mobile succeeded, mostly due to the great advantages enjoyed by them.[18] The Third Plenum of the 18th Central Committee which took place in November 9-12, 2013 was insistent on deepening the SOE reform and promoting the private sector.[19] Before the Third Plenum, there were great expectations about the liberalization of the Chinese enterprise system, since Third Plenums have been meetings where important decisions about economic issues were taken.[20] It was anticipated that the Chinese government was in an effort to end the gradual approach of Deng and hence to advance market reforms.[21] On the other hand, it was also claimed that such attempts represent only "a wish list, not a to-do list"[22], because no specific policies regarding the enterprise system and the ownership structure in Chinese industry have appeared yet,[23] and such pragmatic market-oriented reforms have generally produced an opposite effect by ironically strengthening SOEs and their role in the Chinese economy, rather than eliminating them (cf. Lin, 2013: 3).

Third Plenum of the 18th Central Committee ended with an emphasis on a "decisive role" for the market economy and set an agenda for the new round of the SOE reform. Contrary to the expectations, this new round was driven by a mixed ownership for increasing economic efficiency, but it did not mean that a regular privatization policy would necessarily proceed.[24] Mixed ownership of the SOEs, except the ones producing public goods and military goods, entailed that large SOEs which have been monopolies in the strategic industries can be converted into joint-ventures formed with private investors including SOE employees and foreign

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18 *The Diplomat*, 19th June 2013

19 *Caijing*, 1st November 2013
The concentration on the SOE reform was a part of the "383 plan" of China, as it is labeled in the Chinese press, introduced before the Third Plenum. The plan purposes to regulate the relations between three actors- government, market and enterprises- in eight areas through three policy packages, one of which being the SOE reform (*Caixin*, 28th October 2013, *China Daily*, 31st October 2013).

20 The decision of establishing "socialist market economy" taken in the Third Plenary Session of 14th Central Committee in 1993 is one of the best examples (*Caixin*, 8th November 2013).

21 *China Daily*, 31st October 2013

22 *China Economic Review Magazine*, 30th October 2013

23 cf. *The Economist*, 16th November 2013

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

investors.[25] Following the central government's pledge on mixed ownership, more than 20 provinces and municipalities have declared their local SOE reform plans for the implementation of the policy.[26] On the other side, the mixed ownership model received some criticisms as there was no visible progress in property rights and corporate governance,[27] and this raised the question whether state capital and private capital would ever have equal rights under the system of mixed ownership.[28] In this regard, some pointed out that the environment is still cloudy for the entrepreneurs who want to enter such sectors in China.[29] In other words, it is not known exactly whether this new model will improve the performance of enterprises, provided that mixed ownership policy under the control of the "leading small group" chaired by the President Xi Jinping serves for the avoidance of a full privatization policy.[30]

> Overt SOE reform seems unlikely for two important reasons. The first is that they are making money today, unlike in the 1990s and contributing to a small but important extent to the fiscal health of the system. The second is ideological, because Party conservatives believe that a "socialist" state must own at least some of the "means of production." Despite the oligopolistic character of many of the SOEs and the distasteful fact that the "princeling" children of top leaders are disproportionately benefiting from them, the vested interests behind the SOEs appear too strong to attack frontally at this time.[31]

As mentioned above, China's SOE reform, based on sustaining state ownership in the industry even after nearly 40 years of reform, has been among the most important reform areas. China's SOE reform has progressed through several stages marked with different policies. Although each stage seems to have provided adverse signals about the direction of the reform, the main target has remained the same. The goal has been to make the SOEs suitable for functioning under the conditions of market economy domestically and globally. So large-scale privatization of the SOEs has not been in the agenda. In addition to improving the performance of the SOEs, the abolishment of the work unit system and the "iron rice bowl" which were the mechanisms ensuring the egalitarian social structure during the central planning era were among the most significant consequences of

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[25] The policy of mixed ownership gives the priority to national private investment instead of foreign investment. Foreign investors may become the largest shareholder but not a majority shareholder (*China Daily*, 29th July 2015).

[26] *China Daily*, 29th July 2015

[27] cf. *Caixin*, 13th August 2014

[28] *China Daily*, 28th April 2014

[29] cf. *China Daily*, 10th April 2014

[30] *China Economic Review Magazine*, 17th July 2015

[31] Paal D.H., "China's Third Plenum: Limited Reform", *China-US Focus*, 2013.11.01, available at http://carnegieendowment.org/2013/11/01/china-s-third-plenum-limited-reform/gsht

the SOE reform. Consequently, in China, SOE reform process since its beginning has contributed to the emergence of a new class structure and new inequalities in addition to the deepening of the existing ones.

3. Three strategic Chinese industries

Three strategic sectors are selected to overview the policies implemented in the last stage of the reform in search for a better understanding of China's SOE reform process. Information technology (IT) industry presents significance in many aspects for the Chinese economy as it certainly has for all the economies in the 21st century. The development of the IT industry has been vital for the realization of China's "go global" strategy in addition to having a role in improving the efficiency of other sectors. Also, a specific role is assigned to the Chinese IT industry in the transformation from investment-based to consumption-based economy through increasing the consumption of IT products.[32] The telecommunications industry, the second strategic sector of the analysis, is closely related to the IT industry. The mining industry, which has also been among the strategic industries, has also deserved the attention of the Chinese government. Resource scarcity has been one of the problems of China, and hence improving the efficiency of the mining industry has been significant for sustainability of economic growth and ensuring self-sufficiency. In brief, it has been essential for the Chinese reformers to solve the longstanding problems of the mining industry such as overcapacity, accidents giving rise to deaths, illegal mining, smuggling and environmental degradation.

The reason why these industries are selected is that policies implemented in these industries might seem contradictory at first glance and give adverse signals about the direction of China's SOE reform. State ownership has been consolidated in the mining industry and the telecommunications service industry in line with *guo jin min tui*, while a kind of controlled competition was allowed in the IT and telecommunications equipment industries. Policy variation among strategic industries has been nevertheless at work. By taking the idiosyncrasies of each industry into account and applying different strategies, the Chinese state has aimed to ensure the sustainability of economic development and integration of the Chinese economy to the global economy (cf. Jessop, 2008: 1-18).

3.1. *IT and telecommunication industries*

Chinese IT industry has a diversified ownership structure with the dominance of foreign firms, although it is difficult to assert that free market principles have

[32] *China Daily*, 20th August 2013

been fully applied in the sector.[33] State intervention has mainly taken the form of financial supports to IT firms, but also the Chinese government began to introduce entry barriers to the market for foreign firms after certain amount of technological knowledge was acquired. These policies have been criticized because of their distorting global markets effects and because they make it difficult for foreign firms to exist in the Chinese market through Chinese specific rules and regulations that aim to protect the Chinese IT firms.[34] The US and European IT firms have complained about the regulatory requirements of the Chinese government which keep them out of the Chinese IT market and demanded the cancellation or relaxation of compulsory certification of most of the technology products imposed by China.[35] Conversely, the Chinese government defends its strategy by emphasizing that Chinese IT firms need protection. This is because the overall size of the Chinese IT and telecommunications markets is small in comparison to those in countries like Japan, Germany and the US. For instance, Chinese expenditure on the technology related to these markets corresponds to only one over twentieth of German expenditure (Simon, 2012: 193). Also, the Chinese government defends itself on the ground that there have been complaints about discrimination against the Chinese IT firms in foreign markets.[36]

Similar strategies of intervention have been employed by the Chinese government in the telecommunications equipment sector; while the telecommunications service sector has represented an oligopolistic characteristic with four SOEs under strict state controls.[37] Contrary to its general commitments of liberalization to the World Trade Organization (WTO), the Chinese government

33 At the beginning of the second half of the 2000s, Chinese IT sector was dominated by foreign firms which constituted 51 percent of the total number of firms, when compared to 27 percent and 22 percent shares of Chinese private firms and SOEs respectively (Simon, 2012: 193). On the other hand, the top 20 IT and telecommunication firms in China in 2006 was consisted mostly of SOEs (cf. Simon, 2012: 196-197).
The foreign firms were mostly Asian, while technological knowledge was mainly provided by the firms from the EU and the US. The Chinese firms in this sector generally produce low quality goods as they lacked high technology, but they contributed to increasing employment. In time, there have been higher exceptions from the Chinese IT firms such as Huawei, Lenovo and ZTE which have improved their technological level and increased their competitiveness in the global market (cf. Simon, 2012: 194-195).

34 John Neuffer, Vice-President for Global Policy at the Information Technology Industry Council, a global organization working for the development of technology in the world, stated that non-Chinese companies have to create two costly product lines, for the Chinese standards on the one hand and for the world standards on the other hand (*China Economic Review Magazine*, 24th February 2010).

35 *China Economic Review Magazine*, 24th February 2010

36 *China Daily*, 1st August 2013

37 The Chinese telecommunication service sector constituted the “Big Three” consisted of China Telecom, China Unicom and China Mobile, all of which had almost 80 percent market share at the beginning of the 2000s (*Business Weekly*, 17th April 2001). In the early 2010s, China DBSAT entered the market as another state-owned telecommunication enterprise (EU SME, 2011).

intervenes into the telecommunication service sector by means of a variety of policies such as discretionary licensing, personnel rotation, corporate and industry restructuring (Hsueh, 2011: 93). Such regulations have not only demonstrated the strong control of the Chinese government, but also played a role in the transformation of the relations of actors within this sector. For instance, the government-issued licenses for the entrance of 3G and 4G networks have provided some enterprises with better opportunities to become more powerful and competitive in the market.[38]

In the Chinese telecommunications equipment sector which has gained an important position in the global markets (Naughton, 2003: 18), there have been fewer regulations in contrast to the telecommunications service sector (Hsueh, 2011: 78-79). On the other hand, Chinese specific regulations have emerged in this sector despite the WTO membership (Hsueh, 2011: 84). For instance, the Chinese government has imposed Chinese specific interpretations of WTO commitments, rather than simply signing the WTO Basic Telecommunications Agreement which was expected to be signed after China's accession to the WTO. In time, the Chinese government has also put pressure on foreign direct investment inflows to the telecommunications equipment sector, as happened in the telecommunications service sector (Hsueh, 2011: 88-89).

The diversified strategy of the Chinese government in the IT sector and the subsectors of telecommunications in terms of allowing a kind of controlled competition on the one side and consolidating state ownership on the other side might be explained by the fact that the main purpose of the Chinese government has been to strengthen these new industries under the conditions of transition to capitalism. In addition to the Chinese specific control mechanisms which have been established to achieve this goal, too much effort has been made by the Chinese government in promoting the establishment of large enterprises and enterprise groups in IT and telecommunications sectors, which would have global competitive power as one of the golden rules of sustaining capitalist economic development in the era of globalization.

3.2. Mining industry

When compared to the industries of IT and telecommunications, Chinese mining industry has different characteristics, especially because it is a traditional industry based on the production of scarce natural resources. Since the beginning of the 2000s, consolidation policy, which involved closure or merger of small enterprises to ensure the provision of big enterprises and enterprise groups, has been implemented in the Chinese mining industry. The policy aimed at solving the

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38 *Caijing*, 10th August 2013

longstanding problems of the mining industry, increasing its efficiency, and preparing the Chinese mining firms to actively participate in the global competition for natural resources. So far consolidation policy has been implemented in different subsectors of the mining industry such as coal, iron and steel, ferrous metals and rare earths.[39] Chinese coal industry is particularly a central implementation field of the consolidation policy, since coal is the most significant mine for China, providing three quarters of power generation. In 2004, National Development and Reform Commission (NDRC)[40] announced that the policy was going to be implemented in the provinces of Shanxi, Shaanxi and the autonomous region of Inner Mongolia by the formation of 13 large-scale coal enterprise groups.[41]

NDRC declared further targets on number of enterprise groups and set minimum requirements for continuing operation in the Chinese coal sector in the following years,[42] which led to the closure of over 1100 coal mines in 2014.[43] The owners of these mines turned out to be the shareholders of a large coal company or most of them preferred to shift their business predominantly to tourism and then to other sectors like agriculture, construction, property and service sectors. While this process was officially interpreted as the transformation of the coal industry through forcing the local coal barons out of industry,[44] another explanation would be the transfer of the resources from the private small mines, or from the Chinese petty bourgeoisie, to the state-owned giants. So the transformation of the Chinese coal industry can be described as the increasing dominance of the newly emergent Chinese capitalist class, or bureaucratic capitalist class in the words of Meisner (1999), through forcing the small private capital move to other sectors.[45] In this regard, neoliberal criticisms have pointed out that the consolidation policy has failed to be in line with market principles since private enterprises even those with

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[39] Rare earths, which are used in the formation of high technology products, constitute 17 metals. They take the name rare not because they are rare, but because their mining is a hard process producing excessive pollution (*China Economic Review Magazine*, 20th March 2012). Chinese rare earth industry produces 95 percent of the world's rare earth reserve and suffers from the problems of illegal mining, smuggling and environmental damage. Consequently, the Chinese government has implemented export restrictions and licenses in the industry in addition to the consolidation policy (*China Daily*, 16 July 2011). Only SOEs have been permitted to mine these metals, while private enterprises can only be shareholder.

[40] NDRC operates under the State Council and is responsible for determining and implementing economic policies in China.

[41] *China Economic Review Magazine*, 3rd December 2004

[42] *People's Daily*, 21st October 2010

[43] *China Daily*, 24th December 2014

[44] *People's Daily*, 20th December 2012

[45] On the other hand, it would be mentioned that some of the private owners of the old coal mines benefited from the consolidation process in the sense of receiving more than the value of mines (Ma, 2009).

good performance have been forced to merge with the SOEs or move on to another sector.[46]

A similar transformation occurred in the Chinese steel industry. Wang Yifang, the chairman of state-owned Hebei Iron and Steel Group, announced in 2010 that his company would have acquired or merged with a private enterprise, preferably Yongyang Steel. While Yongyang Steel declared that they had no such intention, time has shown that Wang was right and companies were to merge. Examples as such led to criticism that the consolidation policy of the Chinese government has turned its face especially to the private enterprises in the steel industry especially since 2008. The only way of continuing operation for the Chinese private steel companies has been to increase their production capacity; otherwise they would be shut down or acquired by the SOEs. In response to this, Kong Ping, the deputy general manager of Hebei Steel, once stated that Hebei Steel provides management expertise to the private companies in the province, rather than being in an effort to acquire them. In addition, it is asserted that it would be easier for Yongyang Steel to attain raw materials as a consequence of consolidation.[47] Actually, it would be misleading to claim that the consolidation policy has solely intended to takeover the private companies. There are a number of examples that SOEs were consolidated. For example, in 2007, state-owned Sinosteel Corp. which was China's leading raw materials and service provider and the state-owned Baosteel which was the largest steelmaker in China were consolidated.[48] Hebei Iron and Steel Group, one of China's biggest steel mills was formed through the merger of state-owned Tangshan Iron and Steel, state-owned Chengde Xinxin Vanadium and Titanium Co., and state-owned Handan Iron and Steel Co.[49]

There have also been a number of mergers and acquisitions in the sectors of ferrous metals and rare earths since the beginning of the 2000s. Seven companies merged to form China Aluminum Corporation (Chalco) in 2001 which became the largest aluminum company in the world. In 2003, nine copper companies, including Jiangxi Copper Industrial Corporation, China's largest producer, and China Non Ferrous Metals Corporation (CNFC), merged with the purpose of going global.[50] In 2009, the State Council approved the merger of the state-owned Changsha Research Institute of Mining and Metallurgy in Hunan Province and the state-owned Luzhang

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46 (cf. *People's Daily*, 4th November 2009). Also, there has been a debate on what extent the consolidation policy has been successful in improving the safety conditions of the mines. It is asserted that Chinese coal mines have remained to be the most dangerous and unsafe working areas despite the efforts of the Chinese government in increasing the safety standards (cf. *Caixin*, 17th November 2011).

47 *Caixin*, 21st September 2010

48 *People's Daily*, 6th December 2007

49 *China Daily*, 30th December 2008

50 *China Economic Review Magazine*, 1st March 2003

Mining Industry in Shandong province to form China Minmetals Corp. which is among country's leading producer and trader of metals and minerals.[51] In 2011, Wang Ping, the mayor of Ganzhou city, stated that Ganzhou Rare Earth Mineral Industry Co. has been restructuring itself to get bigger as a group.[52] At the end of 2012, Inner Mongolia Baotou Steel Rare-Earth (Group) Hi-Tech Co. (REHT), China's top rare earths producer, made the necessary agreements and contracts in order to gain the control of 12 other rare earth firms in Inner Mongolia. For many, this was regarded as a move towards a "megacompany". The firms transferred 51 percent of their shares to REHT and, in turn, REHT supported them in technology, funding and management.[53]

Table 2 would help explain the impact of the consolidation policy on the ownership structure of the Chinese mining industry. It indicates that the consolidation policy has been successful in gathering resources and assets in the hands of big SOEs. Although the percentage of private enterprises in the coal industry is almost four times the percentage of the SOEs, the SOEs possess almost seven times the assets owned by private enterprises. This is a striking evidence indicating that the Chinese government has been successful in creating big SOEs in the mining industry.[54] Table 2 also demonstrates that this is the general trend in the other mining subsectors with the exception of the non-metals industry.

The Chinese government had no intent to nationalize the mining industry and prevent the rise of the private sector. Rather, the above examples of consolidation in different mining subsectors and all of the data presented in Table 2 simply reveal that the core aim is to ensure the sustainability of industrial development and economic growth, and the global competitiveness of the economy through restructuring the mining industry in terms of being composed of big enterprises and enterprise groups.

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51 *Caijing*, 27th October 2009

52 *China Daily*, 8th April 2011

53 *People's Daily*, 28th December 2012

54 A quick comparison between the largest Chinese SOE, China National Petroleum Corp, and the largest private conglomerate, Fosun Group, should prove our point. At the beginning of 2003, the former had total assets of 2.2 trillion yuan, while the other owned assets worth only 150 billion yuan (*China Daily*, 11th November 2013).

Table 2
Comparison of State-owned/State-holding Enterprises and Private Enterprises in Mining Industries (2014)

SECTOR	Number of Enterprises (Percentage of Total Number of Enterprises)		Total Assets (Percentage of Total Assets in the industry)	
	State-owned and State-holding Enterprises	Private Enterprises	State-owned and State-holding Enterprises	Private Enterprises
Coal industry	2.0	8.3	7.0	1.0
Ferrous Metals Industry	0.3	5.0	0.9	0.7
Non-Ferrous Metals Industry	0.6	2.1	0.5	0.3
Non-Metals Industry	0.4	5.1	0.2	0.3

Source: China Statistical Yearbook, NBSC, 2015, available at http://www.stats.gov.cn/tjsj/ndsj/2015/indexeh.htm

4. Conclusion

Since the end of the 1970s, SOE reform has remained a significant reform area not only because it has had an impact on other reform areas and played a crucial role in integrating China into the global economy, but also because it contributed to the transformation of economic relations and social structure in China. As happened in all other reform areas, reforming SOEs was a gradual process which, in fact, went through four stages. The first stage began with granting autonomy to the SOEs. In the second stage, CRS was established in order to formalize the autonomy. Privatization policies and layoffs, which were carried out to modernize the enterprise system, went hand in hand with the target of establishing “socialist market economy” and marked the third stage. In the final stage, state ownership and control in strategic sectors have been consolidated.

In portraying China’s SOE reform process, extra attention is paid to its final stage, particularly to the developments in the Chinese IT industry, telecommunications industry and mining industry that are among the strategic industries. The policies implemented in these industries since the mid-2000s represented the general characteristics of the SOE reform, although there were policy variations among the three due to their idiosyncrasies and the priorities of the Chinese state.

More specifically, policy variations have stemmed from the strategy of successive Chinese governments to strengthen three strategic sectors by industry specific policies with the common aim of improving the performance of the Chinese industry. In other words, the Chinese state has selectively determined different strategies in different sectors of the economy depending on conditions of the sectors as it is mainly targeted to ensure the sustainability of China's capitalist economic development. All the governmental attempts to increase competitiveness of Chinese SOEs in global markets were thus parts and parcels of an overarching strategy to achieve the goal. This strategy has entailed improving profitability and productivity performance of the SOEs and making regulations to protect them at the expense of being accused of distorting global markets. Controlled competition in the IT and telecommunications equipment industries and consolidation of state ownership in the telecommunications service and mining industries have ironically served for sustaining China's capitalist economic development, contrary both to the CCP's commitment to socialist values and to the neoliberal anticipation of less state intervention in the Chinese economy.

In the 18th National Congress held in November 2012, President Hu Jintao emphasized the significance of strengthening the SOEs and the need for deepening the SOE reform, while underlining the importance of the private sector for the Chinese economy. In the same Congress, Wang Yong, Director of SASAC, mentioned the necessity to learn how to deal with market mechanisms from multinational companies in order for Chinese SOEs to improve their competitiveness in global markets. In his recent public speeches, President Xi Jinping has also stressed the significance of the SOEs in China's economic development.[55] These statements of Chinese leaders seem to have two major implications. First, the position of the SOEs within the Chinese economy will be kept intact. Second, CCP's official view of the SOE reform has been substantially different from the general neoliberal expectations that the SOEs will soon be eliminated through privatization. From the beginning, China's SOE reform has been about improving the performance of SOEs, strengthening their role in the economy and increasing their global competitiveness. As a matter of fact, the emphases on mixed ownership in the new round of SOE reform, which was set after the Third Plenum of the 18th Central Committee, have once again proved this very fact.

As a conclusion, SOEs persist to be among the most important actors of the Chinese economy after nearly four decades of the reform, although/because they have been transformed to enterprises with capitalist targets contrary to the socialist commitments of the Chinese governments. Therefore, SOE reform has played a crucial role in the process of transformation of social structure in China and the rise of the new Chinese capitalist class. In addition to private capitalists, CCP members, those have had close relationship with CCP leaders or those who have managed to

[55] *China Daily,* 18th July 2015, *China Daily,* 11th December 2014

take advantage of the dual characteristic of the Chinese economy during the transition period have constituted the new Chinese capitalist class. SOE managers who had close ties to the CCP may also be counted in the newly emergent capitalist class, since they have used reform policies in their advantage and became the new owners of some enterprises which were privatized in the second half of the 1990s. Some remaining office-holders even preferred illegal ways to benefit from the deficiencies of the enterprise system under construction. A good indicator would be the dramatic increase of corruption in China. This is closely related to the fact that Chinese SOE managers have control over a substantial amount of capital, although they do not own it.

The SOE reform in China has thus, especially contributed to the deepening of inequalities not only within urban areas, but also between urban and rural areas. This outcome has astonished the development economists who defend that inequalities, and specifically income inequality, tend to diminish as a result of industrialization and economic growth. Since such inequalities failed to disappear in China, they generally turn to explain the current situation with excessive state intervention and violation of market principles. Within the neoliberal perspective, abolishment of state ownership in the Chinese economy has been wholeheartedly expected since the beginning of the reform period, except a few who appreciated China's strategy. The question about China's SOE reform after nearly 40 years would be whether it matters who owns enterprises in the industry if these enterprises operate for capitalist targets, and their managers have turned out to be "accustomed to treating the enterprise as a means to line their own pockets."[56]

[56] Andreas J., "Expropriation of Workers and Capitalist Transformation in China", *China Left Review*, Issue 4, 2011, p. 6, available at http://chianaletreview.org/?p=477

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Özet

Çin Devleti’nin reformdaki rolü: Çin endüstrisinde devam eden devlet mülkiyeti

1970’lerin sonunda başlayan reform döneminde, Çin yüksek ekonomik büyüme kaydetmiştir. Bu süreçte, devlet işletmeleri reformu önemli reform alanlarından biri olmuştur. Çin devlet işletmeleri reformunun evreleri ve özellikle son evrede bilişim teknolojisi, telekomünikasyon ve madencilik sektörlerinde uygulanan politikalar incelendiğinde, Çin’de devlet işletmelerinin ortadan kaldırılmasının amaçlanmadığı görülmektedir. Aksine, Çin devlet işletmeleri reformu hem endüstrinin performansını iyileştirmek hem de ekonominin küresel piyasalardaki rekabet gücünü arttırmak için devlet işletmelerinin desteklenmesi ve güçlendirilmesine dayanmaktadır.

Anahtar kelimeler: Çin devlet işletmeleri reformu, Çin devleti, "büyük olanı koru, küçük olanı bırak gitsin", "devlet ilerliyor, özel geriliyor"

JEL kodu: P26.