

Why has the reform of large State-Owned Enterprises been so difficult for the Chinese government?

As the Chinese Communist Party reforms the economy of the country a lot of progress has been made. However, progress always comes at a cost and as now becomes evident this cost might cause China problems on such a large scale that solutions could become difficult to find.

The problems the Chinese leadership is facing to a great extent come from the restructuring of the state-owned industry. After the CCP successfully gained power in 1949 most of economic development was put on a large-scale heavy industries. Most of the urban population was employed in such enterprises. The centrally planned economy did achieve good results at the beginning but development slowed down greatly in the period up until the late 1970s, in particular due to Mao Zedong's politically motivated campaigns.

When Deng Xiaoping came to power after Mao's death the old communist economic planning methods were discarded in favour of a much more "capitalist" system, described as a socialist market economy by the leaders. On the road to true socialism, they said, the country would need to be better developed than could be possible with pure state planning. So the economy was freed up and private businesses were once again permitted. Making profits and private gain were no longer the evil habits of the old bourgeois society, but part of the new modern spirit of a strong China.

This change can be seen in the decrease of the SOEs share of China's economic output, which has fallen from 78 percent in 1978 to 43 percent in 1994 (Lairson, p. 249). At the same time the number of employees in private businesses has dramatically increased, about two-thirds of all workers in Guangzhou are now employed in collective or private enterprises as opposed to 1985 when roughly that amount was still found working in the state sector (Lee, p.44).

This is part of the reason for some of the major problems that China is now facing. The entire welfare system, which only existed in the cities, was, and still is mainly, based upon the work-units (*danwei*) in state-owned or collective facilities. As the private sector employs more and more people they are often left without any social protection in case of illness and unemployment. The state is currently restructuring its safety net in this respect, but especially the short-term effect will be very serious and could very likely have destabilising consequences.

In addition to people not having proper health security in private businesses, one of the most serious issues is unemployment. As the economy has become more market-oriented the pressure on SOEs has grown to be more competitive. However, these companies are still having major problems in making profits. Their dependency on state subsidies has still not improved much in the past two decades. Half the government's revenues are still simply spent on subsidising the state sector (Lairson, p.249). Most of the amazing growth over recent years has simply come from improved possibilities for private industry. However, while the economy grew faster than in almost any other country since the early 1980s, the number of jobs has not really been increased. Over the next few years China will need to create up to 18 million jobs annually. But as a Chinese official is quoted, "we have run out of easy things to reform". Many millions of Chinese are losing their jobs every year due to the state's efforts to improve the SOEs (The Economist, p.3f). Up to 40 percent of all workers in SOEs could lose their jobs if this were to be run by commercial standards (Lairson, p. 249).

The dilemma of creating a capitalist economy while making sure people can support themselves is one of the hardest problems. Unrest among the population is increasing in the face of this because a lot of the unemployed cannot find new work. In addition inequalities among the Chinese population are growing as the eastern and southern coastal areas develop much faster than the rest of the country. Around half of all the employees in SOEs in Guangzhou are migrant workers coming from the poor inland areas (Lee, p.44).

In the face of China's likely accession to the World Trade Organisation the pressures on the SOEs are going to increase even more as competition from abroad comes into the country. The state will need to put a great effort into improving the situation for its people if the current establishment wants to remain in power. A better safety net needs to be created to protect workers from the, hopefully, short-term effects of restructuring the economy. Unemployment benefits will cost a great deal but are necessary in an effort not to destabilise the political situation in China. The government will probably not be able to stop the democratisation of the country in the long-term, but the consequences of not considering the situation of millions of Chinese could lead to major problems, possibly ending in violence as grievances erupt. Even though it is the reform and opening-up policies of the country that are causing the current problems, not reforming would not improve the situation. Improving education in China and working against corruption will be needed to channel money and people to the right places. If all efforts can be concentrated well, this could lead to further growth as people get the opportunities they need to improve China's economic performance and be rewarded for their personal input at the same time.

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