# Economic Reform And State Owned Enterprises In China 1979 87 Studies On Contemporary China

# Economic Reform and State-Owned Enterprises in China (1979-1987): Studies on Contemporary China

The dramatic economic transformation of China from 1979 to 1987 involved a complex interplay of political will and pragmatic adjustments. Central to this transformation was the handling of state-owned enterprises (SOEs), the backbone of the Chinese economy under Mao Zedong. This period, documented extensively in numerous studies on contemporary China, reveals a crucial chapter in the nation's journey from a centrally planned system to a more market-oriented approach. This article examines the key aspects of this pivotal era, focusing on the reforms implemented, their impact on SOEs, and the challenges faced. Keywords throughout will include: *SOE reform*, *China's economic transition*, *dual-track price system*, *contract responsibility system*, and *rural reforms*.

## The Dawn of Reform and the Shifting Role of SOEs

The death of Mao Zedong in 1976 and the subsequent rise of Deng Xiaoping ushered in a new era of pragmatic reform. Deng recognized the limitations of the centrally planned economy and initiated a series of reforms aimed at boosting productivity and improving living standards. The initial focus was on agriculture, with the implementation of the *contract responsibility system*, which replaced collective farming with individual household contracts. This *rural reform* significantly increased agricultural output, freeing up labor for industrial development and generating surplus capital.

However, SOEs, which constituted the bulk of the industrial sector, remained largely under state control. The initial reforms aimed to enhance their efficiency without fundamentally altering their ownership structure. One key strategy was the introduction of the *dual-track price system*. This system allowed enterprises to sell a portion of their output at market prices, while the remainder was sold at state-set prices. This created an incentive for SOEs to improve efficiency and increase production to take advantage of higher market prices. This approach, while considered a stepping stone, was also problematic, as it often led to dual quality and corruption.

## Challenges and Contradictions in SOE Reform

While the *dual-track price system* offered a degree of flexibility, it did not address the fundamental issues of SOE management. Many SOEs suffered from inefficiency, lack of accountability, and excessive bureaucracy. The state-set prices often failed to reflect true market values, leading to resource misallocation and production imbalances. Furthermore, the absence of bankruptcy mechanisms meant that poorly performing SOEs were often propped up by the state, draining resources that could have been invested elsewhere. Studies on contemporary China highlight this inherent tension between the desire for economic liberalization and the political need to maintain state control over key industries.

The period also saw experiments with various management reforms, such as the introduction of enterprise contracts and the delegation of greater autonomy to managers. These initiatives, while aiming to enhance efficiency, faced resistance from entrenched interests and a lack of clear regulatory frameworks. The reforms in this era were a gradual, often hesitant, process characterized by trial and error, demonstrating the political and economic complexities of transforming a large, state-dominated economy.

## The Impact of Rural Reforms on SOEs

The success of the *rural reforms* had a significant indirect impact on SOEs. The increased agricultural production created a larger domestic market for industrial goods, stimulating growth in the SOE sector. The surplus labor from the agricultural sector also provided a significant workforce for expanding industries. However, this growth was uneven, and many SOEs struggled to adapt to the changing economic landscape. The growing private sector, while still small in 1987, began to compete with SOEs, further pressuring them to improve their efficiency. This competition, though initially limited, foreshadowed the greater challenges SOEs would face in the following decades.

## Assessing the Legacy of the 1979-1987 Reforms

The period from 1979 to 1987 witnessed significant progress in China's economic reform, but it also highlighted the complexities and challenges of transforming a centrally planned economy. While the reforms laid the groundwork for future growth, they didn't solve the fundamental issues of SOE efficiency and accountability. The experience of this period, widely studied in works on contemporary China, provided valuable lessons for future reforms, informing the more radical market-oriented approaches adopted in subsequent years. The *SOE reform* process during this era serves as a crucial case study in the delicate balance between economic liberalization and maintaining state control in a transitional economy.

## Conclusion

The economic reforms undertaken in China between 1979 and 1987 represent a watershed moment in the country's history. While the initial steps focused on agricultural reform and the gradual introduction of market mechanisms into the SOE sector, the period was characterized by a complex interplay of experimentation, cautious liberalization, and the ongoing challenge of reconciling economic efficiency with political control. The legacy of this era continues to shape debates on economic reform and the role of the state in China's economic development. Understanding this period is crucial for analyzing subsequent reforms and China's overall economic trajectory.

## FAQ

**Q1: What were the main goals of SOE reform during this period?**

A1: The main goals were to improve the efficiency and productivity of SOEs, increase output, and better allocate resources. The reforms aimed to stimulate growth without completely abandoning state ownership.

**Q2: How successful were the initial reforms in addressing the problems faced by SOEs?**

A2: The initial reforms had mixed success. While the dual-track price system offered some incentives for greater efficiency, it also led to inefficiencies and corruption. Many fundamental problems, such as managerial accountability and lack of bankruptcy mechanisms, remained unresolved.

**Q3: What role did the contract responsibility system in agriculture play in the broader economic reform process?**

A3: The contract responsibility system was crucial. It dramatically increased agricultural productivity, providing surplus capital and labor for industrial expansion. The success of rural reforms provided momentum and confidence for extending reforms to other sectors.

**Q4: What were some of the major challenges faced during the implementation of SOE reforms?**

A4: Major challenges included resistance from entrenched interests within the SOE system, a lack of clear regulatory frameworks, the difficulty of balancing state control with market mechanisms, and the absence of effective bankruptcy procedures.

**Q5: How did the growing private sector influence the SOE reform process?**

A5: The emergence of the private sector, even on a small scale, introduced competition that pressured SOEs to improve their efficiency. This competition, though indirect, was a key driver of subsequent reforms.

**Q6: What are the key lessons learned from the SOE reforms of 1979-1987?**

A6: Key lessons include the importance of gradualism, the need for clear regulatory frameworks, the difficulties of balancing state control with market forces, and the importance of addressing fundamental management issues within SOEs. The experience underscores the complexity of transitioning from a centrally planned to a market-oriented economy.

**Q7: How did the reforms of this period lay the groundwork for future economic growth in China?**

A7: By introducing market mechanisms and improving agricultural productivity, the reforms of 1979-1987 created a more dynamic and efficient economy. This provided the foundation for the more sweeping reforms of the later 1980s and 1990s, which would accelerate China's economic growth.

**Q8: Where can I find more detailed studies on this topic?**

A8: Numerous academic journals and books focusing on contemporary Chinese history and economics cover this period in depth. Searching for keywords like "Chinese economic reform," "state-owned enterprises in China," "Deng Xiaoping's reforms," and "dual-track price system" in academic databases like JSTOR, EBSCOhost, and ProQuest will yield extensive research. Look for works published by specialists in Chinese economics and political science.

Economic Reform and State-Owned Enterprises in China, 1979-87: Studies on Contemporary China

**Introduction:**

The period between 1979 and 1987 marked a significant transformation of the Chinese economy. Following the turbulent years of the Cultural Revolution, the leadership under Deng Xiaoping launched a range of economic reforms aimed at revitalizing the nation. Central to this endeavor was the transformation of state-owned enterprises (SOEs), the backbone of the Chinese economy. This article will investigate the multifaceted interplay between economic reform and SOEs during this crucial decade, drawing on available studies of contemporary China. We will analyze the hurdles faced, the strategies employed, and the results that influenced China's economic trajectory.

**Main Discussion:**

Prior to 1979, Chinese SOEs existed within a state-controlled economic system. Manufacturing quotas were established by the state, and prices were regulated. This system, while guaranteeing a measure of economic stability, suffered from considerable inefficiencies. Lack of motivation led to slow innovation, low quality goods, and inefficiency.

Deng Xiaoping's reforms sought to tackle these challenges through a stepwise process of decentralization. Early reforms focused on bestowing SOEs greater independence in production decisions and allowing them to retain a portion of their revenues. This change aimed to increase efficiency by linking rewards to productivity.

However, the change was not without its challenges. The lack of a fully developed market mechanism created confusions regarding valuation, financing, and contestation. Many SOEs, accustomed to government subsidies, struggled to respond to the needs of a more market-driven environment.

Furthermore, the reform process itself was defined by internal contradictions. While fostering greater independence for SOEs, the government maintained significant control over key industries of the economy. This created a mixed system that often led to inefficiencies.

The period also observed the emergence of a two-tiered system, where SOEs persisted to function alongside a expanding number of private enterprises. This combination presented both benefits and difficulties. It spurred invention and competition, but it also exacerbated the differences between different segments of the economy.

Studies on contemporary China during this era highlight the significance of ideological considerations in shaping the tempo and course of economic reform. The equilibrium between financial productivity and political stability acted a significant role in determining the precise policies adopted.

**Conclusion:**

The economic reforms implemented in China between 1979 and 1987 represented a crucial step in China's shift to a free-market economy. The reorganization of SOEs was a complex and difficult undertaking, characterized by both successes and shortcomings. While the reforms spurred market development, they also generated novel difficulties, including differences and the need for continued reform. The conclusions learned from this period persist to be pertinent to comprehending China's economic development and the function of SOEs in the twenty-first century.

**Frequently Asked Questions (FAQs):**

1. **What were the primary goals of economic reform in China during this period?** The primary goals were to enhance economic output, improve efficiency, and raise living standards.

2. **What were the major challenges faced in reforming SOEs?** Major challenges included rejection to change from within the SOE system, the absence of a fully developed market system, and the requirement to reconcile economic productivity with ideological stability.

3. **How did the dual-track system influence the economy?** The dual-track system generated both opportunities and challenges. It fostered rivalry and innovation, but also intensified economic inequalities.

4. **What are the long-term effects of the reforms undertaken during this period?** The reforms laid the groundwork for China's subsequent economic growth, while also defining the ongoing role and challenges associated with SOEs.