**The State and Privatisation:**

**The Chase for Cash, and its Whitewash**

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More than twenty years ago, it seemed fair to cast the state as a monolith, perhaps as a giant boulder, if one undergoing mutilation and disintegration, as marketers and policy mavens chiseled it apart (Solinger 1992). A process of dismantling, then already well underway, appeared to presage the unraveling of the state's dominance over all economic activity and of its sway over every kind of ownership, powers that, by the turn of the 1980s, it had enjoyed for some three and a half decades.

But in many ways that process of decomposition has turned back upon itself over the past ten years or so, as if as a magnet, sucking the discarded chips and segments back into itself once again. Instead of a cracking and crumbling edifice, one sees today that—despite the leadership's moves to permit an offering up of state assets, and its willingness to open up opportunities for private entrepreneurship--the state instead is a fixture that in many ways, and in a multitude of realms, continues to exhibit a nearly undiminished clout.

Today, however, unlike when it truly aspired to the enactment of socialist rule, the state accomplishes its preponderance not so much by diktat, plan and propaganda. The tools have largely, if not altogether, been altered. In current times, the power of the state and its commanders over the economy lies much more in the personal than simply in the material and moral realms--it becomes instantiated in its own skills to coopt, collaborate, and only sometimes to crush.

Nonetheless, the years since 1978 do tell a story of great change in material terms: In the first place, between 1978 and 1993 employment in state-owned enterprises dropped from seventy-five to sixty percent of the urban labour force (Cao, Qian and Weingast 1999: 104). In just the nine years from 1978 to 1987, the 140,000 registered urban enterprises of 1978 jumped to nearly 3.4 million units with their employees (that is, those known to the authorities) adding up to some five million people (Gold 1991: 84).

Turning to a longer span of time, Barry Naughton calculates that by the end of 2004, those employed in the domestic urban private sector represented about twice the numbers as did those in the traditional state sector (fifty-five million compared to fewer than thirty million) (Naughton 2007: 106). He figures that in 2003 just about five percent of the entire labour force (including those in the rural areas) was working for the government or for state-run public service units (*Ibid.*, 184).

Also reflecting major transformation, in the few years between 1997 and 2003, the total number of state-owned enterprises was nearly halved: the 262,000 of them in existence in 1997 were reduced to the 146,000 of the latter year, according to the Ministry of Finance; employees' numbers in these firms shrank from 70 to 42 million over the same years[1] (Batson 2014: 7). Reportedly, the state-owned sector's share of total industrial output crashed down from its seventy-eight percent as of 1978 to a tiny eleven percent thirty years later (Lampton 2014: 81-82).

And as of 2013, as many as 762 private firms were listed in the A-share market, while a total of some 10 million private companies had sprung into being by that point. Moreover, the combined output of the private sector amounted to about sixty percent of gross domestic product (Mo 2013). As of the midpoint of that year, state-owned firms had not managed to grow even half as much as the private ones, registering just a 5.6 percent increase as against almost 11 percent in the private sector. Relatedly, those that were state-owned saw only a 4.6 percent average return on assets,[2] while private firms saw 12.4 percent[3]; additionally, one quarter of state firms were running at a loss, while about one twelfth of private ones were (Orlik 2013).

But even as the state's assets, output and workers' numbers all seemingly slid palpably, other forms of state activity pressed on. In the first place, official corruption that attracts such censure can be depicted as the outcome of coalitions, social networks and access which, en masse--besides playing out their more nefarious embodiments--worked too to weave up the sinews of the nation's economy and kept it buoyant. And, secondly, government and Party functionaries found multiple modes of interfering with, blocking and excluding the private realm's efforts while facilitating the state-related portion of the economy.

This chapter reviews the state's several stances toward and connections with private business, exploring how and why the state (and its officialdom) moved from a place where it was/they were building expectations of backing off to instead becoming actors in a drama of re-entry and resurrected dominance.

I proceed as follows: I begin with a brief explanation for the decision to privatize in the first place: the simple answer here is about a new cash hunger, stirred up by starvation for lucre over decades of radical socialism. This statement must be qualified, however, in that this was a hunger that required (and continues to require) an ideological whitewash for reasons given below. I go on to trace the historical policy process relating to the state's move to divest (so to speak) as that process unfolded, from 1979 onward, and outline the institutional steps involved, or, one might say, the shifting preferred forms for "restructuring" state enterprises that state policy formalized along the way. In the process, I highlight the material allure and incentives the program of state withdrawal presented and the similar motives that drove the various players—political elite and their families, local governments and their officials and managers, and entrepreneurs (the members of the new so-called "private sector")—into the game of converting public property.

Secondly, I consider the ideational dimensions behind the evolution of ownership transition, both in terms of the rationale China's official belief system provided for that transformation, but also in terms of the restraints and roadblocks that ideological system placed in the path of privatisation. Put otherwise, ideology--the Marxist/Communist/socialist/Maoist doctrine that remains, at least in rhetoric, the state ideology of the People's Republic of China (PRC)--served at once as apologia, allowing and underwriting the movement of privatisation, and yet also acted as obstacle obstructing that very movement. The regime's stated credo, when sufficiently twisted about, thus both supplied the *legitimisation* for the novel challenge of undoing (at least some of) the practice of Chinese state socialism, and yet that same dogma *dictated the limits* that to date have kept the economy from fully marketizing or from wholly opening itself to nonstate players. The third section addresses the material barriers that stand in the way of further, actual privatisation.

Fourth, I depict the current outcome as a sort of strange concoction that at one moment *causes*, drives and motivates, but at another *results* and issues from, the course of the state stepping back: This is an alliance of businesspeople and politicians that existed in some quarters from the start of liberalizing the economy after 1979, but that has only become more intense and more lucrative over the years. This is a collaboration that frequently permits egregious corruption and for which one--whether businessperson or politician or both--of these parties often eventually must take the blame and suffer the punishment when exposed. Here I also refer to the "blur" and "blend" of ownership systems that the products of privatisation frequently display. Corruption usually lurks within these alliances. My material comes from a wide range of secondary literature, including some of my own early work.

**Why Privatize? Cause, Process, Changing Forms, Beneficiaries**

*Why Privatize? The Motives of the Players*

Once the decisionmakers in Beijing determined at the end of 1978 to turn away from the Maoist mode of development—which had dictated relative autarky, big pushes for growth spurred by disruptive "mass movements," and anti-materialism—and to cast economic modernisation as the key engine of policy, a series of retreats unraveled with respect to the realm of non-state activity that, over a span of stages, allowed for more and more market activity to be practiced. The most critical reason behind this decision was *the need at all levels for funds, along with a belief that providing individual and group incentives--and thereby stirring up people's initiative to find ways to earn their own income--would generate income at the micro level while developing the nation*.

But as the leadership recognized that granting small groups (in agriculture), and then individual entrepreneurs (in commerce) some margin for money making (even if overlaid with qualifications—though fewer and fewer of these as the years passed and as actors grabbed at opportunities to go a bit further than official regulations decreed (Solinger 1984b; Solinger 1985))--the whole thing gradually spun away from control.

Still, even if officialdom seemed to be giving in to something they had not yet decreed, the impetus for the venture was not undermined. For pushes forward from below achieved what the policymakers truly intended: This was to activate the economy, to spur productivity, and to make China and its people wealthy, all on the understanding that an inducement to profit on the small scale would, with time, spell growth for country-at-large. What happened simultaneously, however, was that the authorisation to "get rich" for some soon became a fetish for funds, a craving for capital, and a degree of competition that made the socialist-era rivalry between the state and the private economy pale into pettiness (Solinger 1984a: Chs. One and Four). Indeed, it would not be incorrect to claim that for every actor in the new marketplace, the impetus to join in came from a hunger for cash.

This phenomenon, this choice to go for wealth, is recounted in every scholarly treatment in the English-language literature that details the move toward marketisation and privatisation. For instance, already in the 1980s and 1990s, the fees and any profits that accrued to local cadres from entrepreneurs' dealings meant income for official coffers, in addition to providing cash that those in charge could skim off for themselves (Wank 1999: 68). By the time of the 1989 Tiananmen upheaval, a prominent grievance among the populace was the raging corruption of the political elite at all strata, made possible by the copious flow of cash. Companies, created in the hordes in the early 1990s, enabled their official creators to rake in wealth as they converted public assets into money of their own (Li 2013: 2).

In 1997, when the Fifteenth Party Congress called for downsizing and "letting go" of the smaller and medium-sized state-owned firms, the purpose was to absolve the government from having to go on subsidising losers, thereby saving it investment funds (Batson 2014: 7). For as early as the mid-1990s, when somewhere over half of the smaller enterprises had already been released to private owners, it was known that as much as ninety percent of the loss making concerns were small ones, and some sixty percent of those at that scale were operating at a loss (Cao, Qian and Weingast 1999: 105, 107). So, good riddance to them!

District and subdistrict levels of government, stuck in a state of funding shortage, were desperate for any revenue that could be found beyond their budgets, and so created new nonstate business entities with the express goal of gaining income (Duckett 1998: 42, 44-45). Too, public institutions (*shiye danwei*) were ordered to find their own sources of financing, which they did by retailing their services by means of newly constructed commercialized auxiliary units (Lin and Zhang 2011: 208). For all such entities in what had become a competitive marketplace, debts, pension obligations, higher taxes than earlier and prices whose certainty they could no longer count upon drove an urge for cash acquisition outside state channels (Duckett 1998: 137, 145-49).

At the urban level, local authorities, evaluated on the basis of how much growth and revenue they can generate, figured they could enhance their own chance for promotion should they hand over their less profitable state firms to these enterprises' managers; in addition, managers bought off local officials to get this chance at ownership (Zeng and Tsai 2011: 47, 68; Oi 2005: 116; Cao, Qian and Weingast 1999: 121; Ding 1999: 39; Nee and Opper 2012: 229; Oi 2005: 116); Putterman 1995: 1052; Whiting 2001: 173; Young 1995: 103-04).

Central-level politicians and their families--all the way up to the kin of the Premier, have benefited handsomely from their access to secret shares in shareholding companies built up to draw in new sources of funding, as Western reporters have uncovered in the recent few years. In some cases the figures involved reveal enormous stakes, even to as much as two to three billion dollars (Barboza 2012; Barboza 2013; Barboza and LaFraniere 2012; Barboza, Silver-Greenberg and Protess 2013). As Xueliang Ding explained over a decade ago, officials of senior rank found it easy to get hold of shares at low cost in the form of dividends and profits (Ding 1999: 36). In the extreme form, as Walder and Oi have characterized the convention, politicians "hollow out" public property, fostering a "competitive private sector" that has its "roots in state agencies" (Walder and Oi 1999: 17, 19). There are also cases of leading officials simultaneously becoming managers (Duckett 1998: 136), as they take state-owned enterprises as their own "tools" for making money (Demick 2013).

Those outside the state who have managed to build up their own private wealth are often sought out by the party. In the 1980s and yet more so after party General Secretary Jiang Zemin formally welcomed private entrepreneurs as party members in 2001 as representatives of the "advanced productive forces," they have been coopted into political office at all levels of the polity (Gold 1991: 93; Dickson 2003; Dickson 2008; Chen and Dickson 2012; McGregor 2010: Ch. Two). Similarly, what are now private ventures that once belonged to the state have slipped into managers' hands and become their own possessions, whether via buyouts, shareholding, diversion, stealing, stripping or start-ups (Ding 1999; Ding 2000).

For the regime as a whole, urban private business seemed to promise policymakers solutions to the serious scarcity of urban jobs as of the late 1970s, and to the long-silenced demands of the public for daily-use commodities and services. But most importantly, privatisation and the opportunity to join a new private sector augured an increase in the tax take that the  state could garner, vital to a regime bent on modernisation and economic revival (Gold 1990: 158, 162). As early as the mid-1980s firms short on cash were permitted to convert to share-holding entities for the express purpose of getting access to outside funding, a motive the state sustained for years to come (Ma 1989: 385; Oi 2011: 15).

Similarly, when stock markets were expanded in and after the 1997 party congress, again the intention was to draw in capital that could relieve the state firms' financial problems (Ma 2008: 202); in putting factories' and other firms' shares out for sale, a major reason was to raise funds for a state-run social security fund (which effort, however, never provided much in the way of results) (Ma 2008: 202,212). And in the period after 2000, firms "spun off" more profitable assets precisely in order to create outfits that could make money, free of the losses and heavy dependence on subsidies dragging down the firm as a whole (Oi 2005: 115; Oi and Han 2011: 33). In cities with a large stock of deficit-laden plants, those units consumed or occupied resources such as land, credit, raw materials and personnel, all of which could, it was reasoned, be better managed and utilized once the firms were removed from the state's payroll (Zeng and Tsai 2011: 63).

In short, all of those participating in the business of privatisation were in it for one and the same reason, and that was for revenue generation, in one form or another (Lin and Zhang 1999: 207). As Susan Whiting termed it, cadres responded to a chance to make good on the "revenue imperative" whose fulfilment was now within their grasp even as decentralisation of responsibilities hit localities with new fiscal demands (Whiting 2001: 123, 173; Young 1995: 23-24, 141).

*The Tortured Decisional Process*

Given what was pretty much a naked grab for capital and profits, how did a leadership steeped in socialist dogma for decades manage to pull this off? As Andrew Walder and Jean Oi have characterized the path of privatisation in the PRC, it entailed a "gradual reassessment of specific property rights" (Walder and Oi 1999: 6). And yet, the process was in fact more tortuous and cautious than that statement suggests. The backdrop fashioned by Marxist-cum-Maoist ideology, which attached a slur to the very term "private," led even the most progressive among the leadership sometimes to wince even as it positioned the leftists in their midst regularly to throw obstacles in the course. This unease caused shoots of ambivalence and at times hostility to slow the course of undoing a state ownership system whose construction went back to the earliest days of the regime (Whiting 2001: 122-23).

Indeed, in the state constitutions of 1973 and 1978, private business was decreed to be at best something to tolerate and control for the short term, but ultimately to be guided to collectivist socialist stage (Young 1995: 14). Initial steps came quite gingerly. The March 1978 meeting of the Fifth National People's Congress did offer legitimacy to individual private enterprise (Gold 1991: 84), and June 1981 State Council regulations on the urban individual economy approved the private sector (as did the Reassessment of Party History of that same month). Moreover, the State Council in July that year promised protection to "individual" businesspeople, and the state Constitution of 1982 did credit that part of the economy as being "a complement to the socialist public economy." Nonetheless, no more than seven people could be hired to assist in any business for nearly a decade (Young 1995: 16-17; Gold 1990: 162-64).

Beginning in 1979, early intimations of a loosening of the state-run economy emerged, with innovations including a contract responsibility system for state-owned enterprise managers, and, a few years later, a timid corporatisation (or share-holding) plan in industry in several major cities (Ding 1999: 33). At the same time, some rural firms that were yet called "collectives" were actually run by private households (Putterman 1995: 1048-1051), and petty capitalist small-scale entrepreneurs began openly running shops and restaurants and peddling (Osburg 2013: 5-6). Officials started creating their own companies, a form of enterprise that has been labeled "'hidden privatisation" (Lin and Zhang 1999: 203). Meanwhile, those with life-time employment in the state sector dared by the mid-1980s to take up a practice titled "*tingxin liuzhi,*" whereby they retained their place in the work unit while venturing outside to do their own business (Gold 1990: 172).

Even as private firms and their proprietors were subjected to restrictions, hostility and uncertainty at the base, central decisionmakers did--little by little--open the gates: in 1984 the party's Central Document No. 1 pointed to the benefits that private enterprises bestowed on the reform program;two years later the State Council promoted liaisons among ownership sectors (Young 1995: 106, 97). In 1987, following upon Central Party Document No. 5 (1986) (Whiting 2001: 136), then-party General Secretary Zhao Ziyang informed the Thirteenth Party Congress that the country was still in the "primary stage of socialism," thereby justifying the presence of private firms so long as they stimulated the productive forces. In the following year the state constitution was revised to read that the private sector was fully legitimate (Whiting 2001: 137). At this point, entrepreneurs were given the go-ahead to hire more than seven employees in a business form labeled "private (*siying*)," as opposed to the earlier-approved, smaller "individual" (*geti*) firms. On a bigger scale, over the next half dozen years, medium and larger firms in the tens of thousands dove into the process of forming corporations and issuing shares (Ding 1999: 33).

Had not the 1989 Tiananmen disaster intervened, robbing Zhao of his position, things would likely have progressed smoothly in this direction. But Zhao's fall provided the conservatives among the policy elite with an opportunity to cast a black shadow upon what they (rightly) saw as capitalistic experimentation going on, and a wholesale debate over the proper handling of the ownership issue in a socialist state ensued (Young 1995: 153; Ding 1999: 34 mentions another such discussion in the mid-1990s). The pall over privateering was not removed until paramount leader Deng Xiaoping revived the trend with his southern trip (*nanxun*) of 1992. One outcome of this switch back to leniency was a new Company Law in 1994, which set up a framework to diversify ownership and permitted non-state possession of up to as much as sixty-five percent of an enterprise (Naughton 2007: 314; Ma 1998: 388).

But perhaps equally significantly, almost immediately after the *nanxun*, the rapidly mushrooming privately-owned entities that had been given a giant push became a competitive force for the state sector, leading it into mounting losses (Naughton 1992; Cao, Qian and Weingast 1999: 122). It was in this climate of intractable deficit that, in 1996, the leadership determined to “grasp”/hold onto the larger state firms, while abandoning the medium and especially the smaller among the state’s enterprises (*zhua da, fang xiao*) (Ding 1999: 34), a policy endorsed by the 1997 Fifteenth Party Congress (Zeng and Tsai 2011: 42).

That Congress not only spelt the death knell for untold thousands of failing firms; it also constituted the starting gun for a leap to form new private firms--sometimes as spin-offs from old state enterprises, sometimes through mergers, other times from scratch, and most often in the form of shareholding and mixed ownership entities---on an enormous scale (Oi and Han 2011: 22; Batson 2014: 8; Ding 1999: 32). That meeting also authorized a huge uptick in the numbers of so-termed “joint-stock companies” (Naughton 2007: 302). In all, there emerged a situation in which the majority of state-owned enterprises became either corporatised or privatised by the end of the century (Oi and Han 2011: 19). But, while probably literally all of the largest ones were in some fashion “restructured,” that generally meant that the state kept its ownership by holding onto the greatest number of the shares per firm (*ibid.,* 31), a trick that enabled officialdom to claim that the system remained “socialist in nature” (Ma 1998: 385).

The rush to reorganise was such that, in 2003, the creation of a State-owned Assets Supervision and Administration Commission (SASAC) (Ma 2008:207; Batson 2014: 1; Naughton 2007:324; Zeng and Tsai 2011:39) was soon deemed essential for protecting the value of 113 critical centrally-managed firms against the loss of state assets. Following the formation of this body, “the government [became] extremely reluctant to allow any state-owned enterprise, large or small, central or local, to shut down or change ownership” (Batson 2014: 2, 10-11).

Movement forward remained stalled under the reign of Hu Jintao and Wen Jiabao (2003-2013), a period when a popular sobriquet signaled a state inclination to let "the state advance and the private withdraw" (*guojin mintui*), according to which loans and land and licenses were showered on the state's firms while the private sector was neglected or slighted. This was a stasis interrupted, finally, with the November 2013 Eighteenth Party Congress.

Though the meeting's Communique exhibited the old ambivalence and hesitation in calling for the nation to "persist in the dominant role of the public ownership system..and [to] incessantly strengthen the vitality and influence of the state-owned economy,"a follow-up Resolution a few days later carried a distinctly different tone. Its credo—while emphasizing state and public ownership, also demanded a generalized protection for property rights and an endorsement of and "unwavering encouragement," plus a call to "support and guide" the non-public realm for its "important role in supporting growth, innovation, employment, and fiscal income" (CCP Central Committee 2013). Most crucially, this document mandated giving the market a "decisive role in resource allocation," a command which, if honored in the implementation, would fundamentally alter the favoritism toward the state's firms that had for years undermined access of all sorts for the private owners (Kroeber 2013).

*Changing Forms and Multiple Pathways of Privatisation*

The hesitancy and opposition accompanying the privatisation process has meant that for over three and a half decades the landscape of ownership witnessed the appearance of numerous efforts at--and myriad shapes of--turning state-owned property into what has, after all, been just partially private ownership (Walder and Oi 1999: 9-10; Oi 2005, 121-35). Both firm managers from the wholly state-owned era and local officials (sometimes separately, sometimes in collaboration) may have been the primary players, but at least officially the state (usually at the local level) has had to approve all conversions (Oi 2005: 123; Oi 2011: 6).

As a rule, those with the power over and closeness to assets have been able to shift state capital into their own hands, by means of what Xueliang Ding has called "self-privatisation" and what Barry Naughton refers to as "insider privatisation" (Ding 2000: 25; Naughton 2007: 289, 324). In addition, but probably not as prominently, there have been brand new enterprises begun from scratch. What has emerged has been differentiated by varied economic environments at the grass roots and also in terms of the ownership sector being revamped (Oi 2011: 10; Oi 2005: 199). Briefly below I review the forms these ventures have taken.

Beginning with a late 1970s experiment to spark the initiative of urban firm mangers, the "contract responsibility system" granted those in charge of the plants the right to retain portions of the profits. This trial, however, soon morphed into an opportunity for management to strip off the assets of their firms for their own private benefit (Cao, Qian and Weingast 1999: 121). A second type of process also emerged as the product of an official go-ahead: as noted above, as early as the mid-1980s the central government permitted officials to create their own companies, a tactic invigorated in the early 1990s, when, in the interest of stirring up fresh economic activity, the central government actively encouraged officialdom to "jump into the sea" (*xiahai*) (Duckett 1998: 43). Around the same time public service units (*shiye danwei*) were urged to earn income by converting their service departments into retail commercial units operating by profit (Lin and Zhang 1999: 208; Duckett 1998).

Such ventures have been described as "parasites on state firms" (Ding 2000:18), amounting to a kind of "hidden privatisation" as they surreptitiously fed extra profits back into the agencies that formed them (Lin and Zhang 1999: 203-04). By the mid-1990s, this strategy was supplemented by pure management buyouts

(Naughton 2007: 106). Recognized as illicit with the coming of the SASAC in 2003, such purchases were officially banned, but likely persisted nonetheless (Batson 2014: 11).

Also beginning from the mid-1980s but gathering steam and shooting upwards in numbers thereafter (with a hiatus during the bleak three-year period subsequent to the Tiananmen debacle) has been the practice of shareholding (in which the firm becomes either a limited liability or a joint stock company) (Whiting 2001: 147; Young 1995: 154; Oi 2005: 121-22). Forms range from a model in which an enterprise's own managers and workers become the shareholders (*gufen hezuozhi,* shareholding cooperatives; labeled stock cooperatives by Cao, Qian and Weingast 1999: 110-11) to stock companies that allow outsiders to the firm—whether individuals or so-called "legal persons," i.e., other enterprises--to buy shares (Huang 2008: 16). Often the local state continues to retain a portion of ownership and receives returns in the form of dividends; indeed, as with leasing out state firms in the mid-1980s (Young 1995: 101), where the state held a majority share, it could be questioned whether privatisation has occurred at all (Oi 2011: 10).

Leasing—whereby the leaser pays fixed rentals to the state (Walder and Oi 1999: 9-10)--stock markets, which by the late 1990s involved listing firms on both domestic and, in a limited number of cases, international markets (Naughton 2007: 468), and spin-offs (noted above, in which profitable portions of old state firms are released to the market free of socialist-era encumbrances) (Oi 2005: 115, 129-30) constitute other frequently utilized styles of shifting once-state assets to hands that are at least partially private, generally for the explicit purpose of taking in new funds. All three of these forms saw their entry into the Chinese economy in the mid- to late-1980s (Solinger 1989; Ma 2008: 199), but took off with much more vigor by the 1990s, again with a short period of discontinuity after 1989. In most of these instances, ongoing state sway to varying degrees diminished the true content of privatisation.

It was only in the wealthy coastal community of Wenzhou, Zhejiang and, later, throughout the Yangzi Delta, that a bottom-up evolution--developed by local innovation through networks of entrepreneurs, and expanded via subcontracting and webs of suppliers—grew up, as genuine privately fostered start-ups. This pattern, later imitated in Jiangsu and Shanghai, assisted by local governments, was an outcome of local historical culture and private initiative (Nee and Opper 2012: 41-55, 71).

Additionally, it was mainly in the countryside that privatisation took off in the industrial sector (Walder and Oi 1999: 7, 11). In many ways decollectivisation turned family farms into tiny-scale private businesses, despite that farmers lacked final rights to their output. Also, some of the so-labeled "town and village enterprises" of the 1990s constituted at least "de facto privatisation" (Putterman 1995: 1048, 1051). And Yasheng Huang has researched great reams of banking records demonstrating that throughout the 1980s "private-sector liberalisation in rural China went far and deep," thanks to permissive and facilitating policies of the regime, a program that, however, saw a reverse in the 1990s. (Huang 2008: 4).

## Ideology: Apologia and Obstacles

### *Apologia*

Thus, the halting and imperfect style of the privatisation program to date can be credited in large part to obstacles thrown in its path by ideological exigencies even as, theoretically, socialism's very justification lies in its service in promoting production. Thus, an irony at the core of privatisation has its root in Marxism. For the program—and all of its participants—joined in the undertaking expressly to accelerate the advancement of the productive forces, formally held to be a central objective of the socialist stage of development (Young 1995: 19). But these agents made this move not just for that reason alone. It was obvious to every player--whether top leader, local official, enterprise manager or private entrepreneur—that the underlying purpose and the nearly certain outcome would be enrichment not just for the country and their city, but for their firm and their family, and for themselves.

Herein lies a central paradox within the principles of socialist theory: in order to reach the philosophically imagined endpoint of history in Marx's theory, communism, society and its actors must pass through a phase during which, empirically, it becomes possible for the proactive to skim off the wealth as it is created. There are also defenders of the faith who counter those beneficiaries. But the extent to which ideologues fight to hold back the privatisation endeavor because they feel their own material foundation is under threat, as against the degree to which they are motivated just by doctrine alone, is often difficult to untangle.

Here then is a conundrum—there is a serious question as to how much the ideology itself is a motivating force for defiance and how much it is a mere cover for the preservation of material position. Related to this puzzle, the very word "privatisation" cannot officially be uttered, whether verbally or in print. In its stead,"restructuring" and "ownership transformation" (Zeng and Tsai 2011: 42; Naughton 2007: 106) have been substituted, perhaps to keep the naysayers at bay; too, shareholding was implemented without formally admitting that it amounted, at least in part, to a step along a path toward private ownership (Ma 1998: 393; Ma 2008: 199).[4] In the same vein, for years after the economy began its course of liberalisation, especially in the countryside, what were in fact owners of privately-owned and operated enterprises were able, for a fee to local cadres, to hide behind either collective or public titles as a shield, winning them a designation of wearers of "red hats" (Bruun 1993: 132; Wank 1999: 33; Walder and Oi 1999: 13; Whiting 2001: 135, 145-46).

At the outset of the turn to using productivity and its companion, economic development, as the number one criterion for legitimizing the state, policymakers enunciated an argument similar to one advanced in the late 1950s (Solinger 1984a: 268-69). This was that, given the backdrop of state control and the comparatively tiny scale of the private sector, it would not constitute a threat to the socialist state (Young 1995: 103). Indeed, the sector's revival, it was assumed, would remain safely within limits (Gold 1991: 89).

Later, however, as business outside the bounds of the state blossomed and thrived, the Thirteenth Party Congress of 1987 came up with a doctrinal justification for it. This, as noted earlier, specified that private operations be acknowledged as appropriate, as the country was yet situated in the "primary stage of socialism." For during that era, whatever could augment the forces of production should be sanctioned, a position articulated by Deng Xiaoping several years before (Gold 1990: 164). That same rationale remains to this day.

Thus, even now—despite three and a half decades of state-sponsored undoing of the state-owned, socialist economy—the country's constitution continues to proclaim that, "The basis of the socialist economic system of the People's Republic of China is socialist public ownership of the means of production," thereby providing an ideological justification for the Communist Party's oversight and control, an approach that has been termed the "ideologisation of the economy" (Hu 2013; Kroeber 2013). Indeed, right up to the present, the manifesto issued at the party's third plenum of its Eighteenth Central Committee in November 2013 spoke of "the great banner of socialism with Chinese characteristics," which had to be embraced unfailingly; Marxism and Mao Zedong thought were yet appealed to as the wellsprings of foundational principles (Yu 2013). So in this period ideology serves both as the spur that pushes producers and businesspeople to make money, yet again as the whip that—when such activity makes these people disproportionately rich, and when it entails them falling into corruption--beats them for doing so.

*Ideology:The Obstacles*

So even as ideology serves as foundation, alibi, rationalisation, and booster of the private sector (as well as of the privatisation of the state's property), that same system of belief can at once be the basis for belittling, attacking, and obstructing that part of the economy and the process that produced it. In short, for some, ideology is a stick with which to beat business competitors and political rivals. Adding oil to the flames, alongside the mistreatment of private business have gone priorities, special preferences and policy tilts toward the public enterprises (Wank 1999: 33).

Right from the start of the nod to entrepreneurship ambiguities in pronouncements and frequent switches in implementation, plus blatant hostility from some local administrators and cadres, marked the execution (Bruun 1993:110, 113-22, 132; Young 1995: Chs. Three, Four, and Six; Whiting 2001: 143, 162). In one extreme case a 1986 local decision clamped down income tax rates as high as eighty percent on the firms, apparently expressly to shut off the further growth of the extant ones (Whiting 2001: 147). At its worst this was a situation reminiscent of—if considerably less harsh than--the treatment of the private sector in the time of Mao (Solinger 1984a: Ch. Four).

During particular campaigns, when the political climate grew particularly antagonistic--such as during the movement against "bourgeois liberalisation" in 1987 and especially after the 1989 Tiananmen crackdown (when businesspeople were officially barred from the Party)--verbal assaults at party conventions on reformers for countenancing the exorbitant incomes, flagrant corruption and exploding inequality spawned by nonstate business[5]--were paired with discriminatory behaviors, excessive fees, and various forms of exclusion (Gold 1990: 167; Gold 1991: 84, 93; Ma 1998: 393; Whiting 2001: 137, 138, ).

At best, the nonstate sector was simply ignored, as prejudice against it persisted, well into the 1990s (Naughton 2007: 300; Huang 2008: ix, xvi, 4; Nee and Opper 2012: 61). Often enough, though, it could be that the opportunities private operations present for payoffs motivate what poses as ideological attacks, as when competition for sales between ownership sectors grows fierce, or when businesspeople attempt to evade their taxes, or when the wealthier among the entrepreneurs present their local officials with chances for extortion (Whiting 2001: 143; Bruun 1993: 14, 122-24, 136, 182, 196).

In addition there is a political dimension behind the assaults. In the period surrounding the taking down of former Politburo member and Chongqing party chief Bo Xilai, untold numbers of left-leaning members of the elite and of the populace who had censured the vast income gaps between social classes emanating from openings to those outside the state's economy and they had to be placated. This was attempted by curbs on full privatisation (Lim and Blanchard 2013). Indeed, at the time of the Fall 2013 plenum of the Eighteenth Central Committee one commentator wrote of a "tug of war between reform and anti-reform forces" that was considered decisive for shifting allocation to the market (Yu 2013).

Both Jean Oi and John Osburg have insightfully commented on the politics of privatisation. "Political constraints," Oi observed, "have resulted in significant restructuring but relatively little genuine privatisation" (Oi 2005: 116-17). And Osburg remarked, similarly, "Nor has privatisation and the retreat of the state resulted simply in the `liberation' of entrepreneurial forces." Oi focuses on the ongoing power of political constraints, especially, she argues, officialdom's agenda of preserving the allegiance of workers vulnerable to layoffs if the state were to abandon them in a transfer of ownership; Osburg looks to "the dictates of moral economies based on kinship, bureaucratic hierarchies and ideals of interpersonal morality" to account for the failure of state-connected individuals to allow the market to operate freely (Osburg 2013: 77-78). These factors combine with concerns for "national defense" (of all kinds)--and with the politics of elite conflict and survival--to render ideology often a convenient whitewash for the substantial economic revamping that is in fact underway.

**Material Impediments: State "Interests"**

The aim of defending the realm is used to justify the government's ongoing direction of the economy, despite the years of rapid reassignment of property rights (actual, if not always in name) from the late 1990s up to about 2003. Accordingly, all the way to the present, it has remained onerous and even at times prohibitive for private businesses to acquire loans, land, resources, tax breaks, and licenses, in other words, all the wherewithal of entry. Besides, into 2014 participation in protected sectors has been reserved as monopolies for state firms (Batson 2014: 4-5). [6] These industries are national defense, electricity, oil and petrochemicals, aviation, telecommunications, coal, and shipping, and often also railways, and tobacco products, plus the so-called "pillar industries" (equipment manufacturing, automatic manufacturing, electronics, construction, steel, nonferrous metals, chemicals, surveying and scientific research)--that is, all the "key sectors" tied to national security and to the "lifelines" of the economy. All these sacrosanct spaces have been specially set aside for investment just by operators in the public realm, supposedly as a means of safeguarding the nation's fortifications.

The government in addition keeps a hold over the prices of what is turned out in these trades, along with controlling the appointments of directors and managers in the firms, and, perhaps most significantly, allocating inputs and reserving bank loans for these sectors (Nathan and Scobell 2012: 258-29; Krober 2013; Batson 2014: 1; Oi 2005: 123; Godemont 2013: 5). Several observers have even noted a mounting tendency in recent years according to which "state ownership increasingly is concentrated in large, capital-intensive firms" (Naughton 2007: 304; Golley 2013: 193). And these phenomena of power assertion go on at local levels as well as at the cap of country (Nee and Opper 2012: 241).

Never mind that the lack of competition, plus the low-cost, privileged conditions under which the state firms labour, tended to drive down their productivity while the funds the state fed into them often managed to foster new indebtedness (Kroeber 2013). Their backing by state banks encouraged questionable ventures while the state-affiliated managers and bureaucrats who stand behind them hassled enterprises attempting to thrive outside the state. This has gone on to the point that desperate private business managers, forced to turn to non-bank lenders operating in a shadowy realm, have been driven to bankruptcy by the exorbitant interest rates such outfits demand (Chen 2013: 13). Meanwhile, the official supporters of the "key sectors" have stonewalled further reform for years (Ma 1998: 396);Godemont 2013: 5; Naughton 2007: 468). In short, what has been castigated as "vested interests" by critics both within China and among foreign observers—an amorphous grouping populated by heads of ministries and of state firms who gained their wealth by manipulating public monopolies to their own benefit--have fought to sustain what they claim are the state's interests (Anderlini 2013; Orlik 2013; Sisci 2014).

## Concoction, Blur, and Corruption

*Coalitions for Cash*

It is not simply the entrenched engagement of much of the regime's officialdom (the "vested interests")—and its opposition—within the state sector that stymied forward movement on the reform agenda for yearsi. The beneficiaries of the status quo partake in complex networks of officials, people in business, state firm managers, and, in some cases, police and gangsters who work together to preserve their own take (Osburg 2013: 3, 34, 86, 104-11; Moses 2013).

This interpersonal concoction has inspired a bevy of appellations, including "statist crony-capitalism" (a term coined inside China by intellectuals) and "wicked coalition" (Li 2013, 10, 11); "Sino-capitalism," a connection bred of "co-dependent institutional hybridisation" (McNally 2012: 749, 750); there are also references to the "symbiotic transactions" that link wealth and power (Wank 1999: 68; Solinger 1992: 123). As I wrote well over 20 years ago, this relationship comprises "a stratum of people exclusively pursuing business who are inextricably entangled with cadredom and an official class increasingly corroded by commercialism..both are 'entrepreneurs'" (Solinger 1992: 123-24).

Pathways associating these two social strata are constructed ones, including "personal ties," socio-cultural institutions," specifically *guanxi,* fictive kinship, membership in the Communist Party (often offered to the successful firms' bosses: "It was not us who approached the government," recount Nee and Opper (Wank 1999: 30; McNally 2012: 752; Osburg 2013: 79; Nee and Opper 2012: 239). Frequently the affiliations are "buried, intentionally opaque," such as when the capitalist invites the official onto the board of his outfit or “gifts shares” in his firm to the political figure, thereby joining formally the variously-based fortunes of the two sides (Osburg 2014).

However accomplished, such goods as contracts, loans, land-use rights, and bidding opportunities for public assets slip easily into the hands of private entrepreneurs—not to mention the more intangible valuables such as protection, security and status--as bribes and rents are traded back and forth (Young 1995: 112; Wank 1999:88; Nee and Opper 2102: 241-47; Osburg 2013: 32, 79). As Ding has explained, “administrative officials and managers..create private property for themselves” (Ding 1999: 39).

This bond has been present from the earliest days of economic reform, at a time when bureaucratic power still had heavy-handed control over the young market economy-in-formation. Anyone hoping to get into that market was compelled to pay fees or extend some portion of his/her profits in order to use public assets (Wank 1999: 29, 68). Thus, in those days, gaining the favor of a cadre was absolutely requisite to going into business successfully (Young 1995: 155; Bruun 1993:133; Nee and Opper 2012: 233). The powers to soften the rules and to provide the requisite resources for auspicious commercial life were in those days concentrated under cadres’ control, and the prospective business proprietor had little choice but to develop good dealings with these caretakers. In those days, “Some locals suggest that handling `social relations’..is even more important than skills in doing business,” Bruun reports (Bruun: 1993: 199).

But the omnifariousness and omnipresence of that affiliation has if anything only escalated with time. By the mid-1990s, capitalists sporting official connects were able to make good at a much higher rate than were those without (Osburg 2013: 7); Osburg goes on to remark that even following the official seal of approval granted them by Jiang Zemin after 2001, entrepreneurs continued to have to rely on the state to do well (*Ibid.* ,8-9). Nee and Opper relate that, the "great majority of the entrepreneurs" in their 2006 sample boasted a "strong reliance on personal connections" in their intercourse with governmental authorities (Nee and Opper 2012: 238-39).

And as of 2012, Golley, quoting the journalist Keith Bradshear, refers to "the 145,000 state-owned enterprises with deep ties to the Communist Party elite" (Golley 2013: 193). Famously, a big-time operator, Xu Ming, derived access to land, licenses and capital by way of feeding "millions of money in bribes to Bo Xilai and his family"; the funds went to elaborate trips and more for the Bos. Other relevant ingratiating behaviors performed by the moneyed include caring for parents of major politicos and underwriting the tuition for their offspring (Barboza 2013).

Several analysts have pointed to the increasing indispensability of official liaison for those in business as their concerns expand: "Once you are big, then you must have good relationships with the government," quote Nee and Opper (Nee and Opper 2012: 239); Osburg too confirmed that when firms get sizable enough to go public, diversify, and require large amounts of land and capital, "ties to the state become quite important" (Osburg 2014).

These sources agree that such associations are critical particularly in the highly regulated sectors, namely real estate, construction, banking, foreign trade and mining, and not so much in manufacturing and retail; Osburg indicates that one cannot manage to enter the regulated sectors at all without the official nod and handshake (Nee and Opper 2012: 247, 257; Osburg 2014). While these attachments are generally seen as nefarious, surely much of what goes under the label of "development" could not take place in the China of today without them.

The mix of marketer, state firm manager and officialdom is mirrored in the blur of boundaries between state and private sectoral enterprises, and in the frequent blending of ownership categories that so often are found within the selfsame economic entity. It appears that it is not even possible to separate out a distinct private sector because of this interconnectedness (Huang 2008: 8; Naughton 2007: 301). The research of Oi elaborates how the two segments of the overall economy are combined and coexist within firms, whether through leaseholding, shareholding, spin-offs of profitable portions of failing firms, and in enterprise groups (Oi 2011: 5-6; Oi 2005: 133).

Interestingly, the Resolution of the 2013 Eighteenth Central Committee's third plenum explicitly affirmed a "mixed ownership system," indeed, even urged that it be "vigorously developed." The document envisioned an economy that "overlaps or mutually blends state-owned capital, collective capital, non-public capital, etc.," celebrating such a structure as "an important real form of the basic economic system." It must be noted, though, that even as the decision goes on to nod to the need to support the "healthy development of the non-public economy," its discourse hews to the socialist tenet that such a pattern is one that [primarily] "benefits the enlargement of the function of state-owned capital, maintaining and increasing its value and raising competitiveness" (CCP Central Committee 2013).

*Corruption--and its Consequences*

In China, the roots of corruption—the use of public office for private gains (Lin and Zhang 2011: 204)--are entwined with age-old habits and expectations of gift transfers, entertainment exchanges and a moral sense of acting properly (Yang 1994). As quoted by journalist James Areddy, Xinhua news agency couched the situation thusly: "Behind each corrupt official lurks a business big shot" (Areddy 2013).

In the 1980s, those setting up their own firms frequently drew upon nepotism as well as corruption (Bruun 1993: 133); Putterman, reviewing those years and the early 1990s, found that state entities' resources were "turned to the profit of bureaucrats" (Putterman 1995: 1048). But it is clear that the new progressively greater openness and flexibility of the economy after 1980 only added energy to what were normal behaviors in China historically. The phenomenon of bargaining power for financial gains, though usually, when exposed, becomes the target of public outrage, can produce varying outcomes, some negative for the larger economy, but others relatively harmless and even generating growth (Sun 1994: Chs. Two and Three; Wedeman 2012: 5-10).

The pervasiveness and intensification with time of off-the-books trafficking has not necessarily rendered it politically safe. For those holding power can easily enough find their ways of settling accounts with commercial competitors or political enemies. In the early reform days, when entrepreneurs were barred from the state's allocational conduits and credit lines, they perforce had to turn to informal or "black" markets, but could then fall victim to charges of vice and crime (Whiting 2001: 17). This same syndrome persists today.

So up to the current time, such unfortunates' firms can be closed down, their tools of the trade confiscated. In the past few years, for instance, imprisonment and even execution have been real possibilities for non-state bankers (Jacobs 2013; *South China Morning* Post 2013). And, perilously for private practitioners who have connived with cadres, corruption was already so rampant by the 1990s that the fall of a politician usually spelt the arrest of his partners in graft and squeeze. The Xu Ming mentioned above, after growing unlimitedly wealthy, fell into custody in August 2013 as the Bo Xilai case came to a head (Barboza 2013).

In the same vein, as an attack on former Communist Party Politburo Standing Committee member Zhou Yongkang was rolling forward, party anticorruption officials investigated company executives tied to him, including some from the China

National Petroleum Corporation, where Zhou was general manager in the 1990s (Buckley and Ansfield 2014). For as he gathered power, President of China and party General Secretary Xi Jinping used a campaign against corruption as “a weapon in factional infighting” to bring down Zhou and his affiliates in the oil sector and in the province of Sichuan, where Zhou had been Party Secretary (Wedeman 2014).

**Conclusion**

In sum, the Chinese state, still strong in so many ways, is caught in a web in which the two crucial components of its legitimacy—both of which can be whitewashed with reference to Marxism—compete for pride of place. One credits economic performance with promoting the productive forces, as socialism is meant to do; the other sustains the value of state (as against private) ownership that Marx, Mao, indeed all leaders of the PRC have lionized. Complicating the matter further, both the ideology and the material, invested interests surrounding public property are yet poised and powerful enough to proscribe the private sector, even as its practitioners, in consort with politicians, plow ahead.

Every element of this essay bears out these truths, whether the pivotal hunger for funds, the shifting forms allowed for business over time, the utility of the ideational as both apologia and as foundation for fashioning obstacles, the material investments that put up barriers to entrepreneurs and the concocted partnerships, blend of property types and corruption that both feed Chinese’s prosperity while also threatening its health—all of these elements fit into this pattern of uneasy coexistence between older ideologic dogma and newer commercialistic praxis.

**ENDNOTES**

[1] Nee and Opper 2012: 231 report a decline from 113,000 state firms in 1996 to just 31,000 in 2004, with the numbers working in them dropping from 110 million to 64 million.
[2] Oi and Han, however, note that according to the Information Office of the State Council on General Information on Reform and Development of Central SOEs and Development of State-Owned Assets Management System Reform, as of December 19, 2006, the revenue in the "core businesses of the central state-owned enterprises" had increased by seventy-nine percent, total profits by 140 percent, and returns on assets ten percent since 2004 (Oi and Han 2011: 19-20).
[3] Non-state firms' average return on assets was "above nine percent" from 2009 to the end of 2013, in Batson 2014: 9.
[4] Turning state-owned enterprises into shareholding enterprises in the 1990s amounted to creating a channel for state assets to be transferred to private owners. But, since most of the new entities were limited liability companies, this was not a major breakthrough in ownership form (Ma 1998: 379-80).
[5] At the 1997 Fifteenth Party Congress, the shareholding system fell under assault for spelling privatisation, a process held to subvert Marxist public ownership (Naughton 2007: 393).
[6] In his first press conference in March 2013, newly named Premier Li Keqiang did promise opening the railway, energy and financial sectors to enable smoother entry for private capital (Anderlini 2013). But later that year the call for related reforms had to be reiterated.

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