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Public sector reforms, privatisation and regimes of control in a Chinese enterprise

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Abstract

The Chinese economic reform has recently become a major focus of attention around the world. The underlying rationale for the Chinese government's privatisation and public sector reforms is the view that reformed state enterprises and privately managed firms will demonstrate superior management control and better performance, and hence encourage economic growth and employment. There are very few intensive case studies published in English journals studying whether firms privatised in China have reversed previous losses and introduced better management controls, leading to increased investment, productivity, and overall organizational effectiveness and efficiency. The researchers do not seek to deny the control problems of Chinese SOEs, but question the consequences of the new controls installed during the post-privatisation period. The paper also reveals a declining tendency in employment; altered distributions of wealth – especially to the state – and labour, and a lack of improvements in the accountability of privatised companies. Overall, the paper argues, the aims of reform policies in China, including better control, increased profitability and an improved working life for Chinese people, have not materialized. The paper calls for more research on the above issues in the Chinese context.

Keywords: Privatisation; Labour; Efficiency

1. Introduction

The Chinese economic reform has recently become a major focus of attention around the world, not only because of its unique combination of dynamic performance and unusual institutional arrangements but also because its gradualist strategy has produced real gross domestic product (GDP) growth of more than 9% per annum over the past 24 years (Wu, 1997). Currently, the Chinese economy is undergoing its third great institutional transformation of the reform period. As an important process in deregulating a centrally controlled economy, privatisation has been a significant component of the current economic reform and restructuring (Chen, Jefferson, & Singh, 1992; McMillan & Naughton, 1992). The underlying rationale for the Chinese government's privatisation and public sector reforms is the view that reformed state enterprises and privately managed firms will demonstrate superior management control and better performance, and hence encourage economic growth and employment. These issues have received enormous attention in Chinese civil society. There has been a debate among professionals and academics in China as to whether Chinese structural programmes, including public sector reforms and privatisation, promote growth or stimulate corruption, with

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insiders and government officials rigging sales for their own benefits (Green, 2003). Very few intensive case studies have been published in English journals on the contribution of these changing controls to performance changes and development goals in the context of public sector reforms and privatisation in China (Chen, 2005). This paper focuses on the above issues.

The "enterprise reform" stems predominantly from the advocacy of development economists that public sector reforms and privatisation can improve the governmental fiscal situation and the efficiency and performance of enterprises, and hence promote investment and economic growth in the long term (World Bank, 1995). Whilst the policy makers are intoxicated by the "wonderful" prospects of China's reform, some studies have shown evidence of the other extremes[1] (Jefferson, 1999; Liu, 2000; Nakagane, 2000). For example, Lang (n.d.) presented evidence to demonstrate that four private corporations "nibbled" public wealth in the process of privatising SOEs. Whilst previous studies in China have mainly focused on the financial performance of privatised companies, other issues relevant to broader reform programmes, such as the effects of ownership changes on management control, accountability and contribution to development goals, have remained under studied. This study, therefore, attempts to address this research gap in the Chinese context. This paper, drawing on Burawoy's factory regimes[2] and political economy of development, seeks to understand the effects of public sector reforms and privatisation on control transformations, performance and accountability.

The paper is structured as follows: Section 1 presents the historical background of the Chinese economic reform and the current wave of privatisation. The theoretical background is discussed in section two, which also presents a literature review on privatisation and public sector reforms. A brief delineation of the research methods is presented next, followed by a section on empirical findings from a privatised bearing company. Finally, the paper concludes by returning to the original research questions.

2. Chinese economic reforms and privatisation

China's economic reform dates back to 1978. Prior to the reform, the Chinese economy was a Soviet-type one.[3] China's economic reform process began with the Third Plenum of the 11th Central Committee of the Communist Party of China (CPC) in December 1978. The Chinese authorities recognised the problems arising from the fact that administrative authority was unduly concentrated on the central government and enterprises lacked autonomy under the planned economy. As a result, the first reform experiment, covering just six large and medium-sized SOEs in one city, Sichuan Province, was undertaken in late 1978. The principal objective of the experiment was greater productive efficiency through expanding enterprise autonomy and creating incentives. Our case study also came under the same reform programme, as will be explained later. The reform program was expanded considerably in 1984, with greater

[1] Liu (2000) testified to the higher efficiency of private firms over state enterprises, based on 195 census firm-level data for the steel industry alone. However, Jefferson (1999) argued that the declining profitability of those SOEs stems from increasingly keen competition with non-state enterprises, such as foreign and private firms, rather than from problems inherent in the SOEs themselves. Nakagane (2000) compared the profitability and efficiency of the state sector versus non-state sectors and pointed out that although public efficiency is lower than that of their non-state counterparts, the state enterprises distribute relatively more to their workers and employees. Thus, comparative studies of state enterprises versus private enterprises in China are contentious.

[2] Burawoy's work (1985) presented a historical analysis of control (factory regimes) in advanced capitalist, socialist (communist) and ex-colonial developing countries. Burawoy argues that bureaucratic despotism rather than hegemonic regimes of capitalism prevailed during communism. This is very relevant to the Chinese context, where enterprises were arms of the state and were controlled through a state central plan. However, enterprises had to bargain with the centre for resources whilst constantly improvising in the face of shortages. This led to enterprises having two sets of controls: the official central plan and less formal dealings between the enterprise and state officials. This gave rise to a core and a peripheral labour force. The core (often party members and trade union officials) managed tensions within the economic plan and curried favours from state bureaucrats and political officers, leaving peripheral workers to execute their tasks under coercive conditions (Uddin & Hopper, 2001). Burawoy also noted the gradual transformations of bureaucratic despotism into new despotic regimes, especially in poorer countries, due to the convergence of production and state politics, the ensuing conflicts, fiscal crises, and pressures from agents of international capital for market reforms. Poor countries, in a bid to improve enterprise performance, often turn to programmes of economic liberalisation based on export processing zones, privatisation, and touting the attractions of cheap, economically weak, unprotected labour to national and international capital. The new control regimes in China, we believe, are not far from becoming a new despotic regime.

[3] Before 1978, the government under Mao Zedong was based on a fusion of economics and politics: the Communist Party's monopoly of political power rested on state-ownership of the vast bulk of productive assets, the replacement of the market by centralised planning, and Party control of the careers of enterprise managers and state bureaucrats (Wu, 1997).