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# The Organization of Industry in the P.R. China

## A New Start or Resort to Old Concepts?

by Wolfgang Klenner, Hamburg\*

**The Chinese have let it be known since the death of Mao Zedong and the purge of the "Gang of Four" that they would in future draw on credits from foreign governments as well as other sources to finance imports of technology. According to western conjectures China's capital requirements may be between US \$ 25 and 50 bn or even a good deal higher. Many observers have taken the view that the Chinese have thereby put all their former development principles behind them. The author of the following article was in the P.R. China about the middle of this year at the invitation of the National Planning Commission. His assessment is that the P.R. China is far from embarking on an entirely new course in its development policy.**

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The Chinese leaders set out the tasks and objectives for the next several years at the second session of the Vth People's Congress in July of this year. It was made clear on this occasion that the adoption of efficient forms of management and organization is one of the major prerequisites for the modernization of China. The inadequacy of the production results was ascribed in the main to the outcome of the attempts at organizational solutions over the last ten years. Detailed, ready-to-apply alternative solutions are however not yet available at present. Much is still under discussion or at the stage of investigation.

However, although much is still in a transitional phase, preferences for certain organizational models and industrial structures can be made out already. In distinction from the past the focus in the building-up of the economy is now on the execution under central direction of picked modern large-scale projects in relatively small numbers. The regional units of administration are not to the same extent as before under orders and authorized to set up small and medium-sized undertakings under local management at their own discretion. Instead they have to give priority to the projects of the central or nearest superior authorities in preference over investments carried out under their own responsibility<sup>1</sup>. Leading organs of the press are singling them out as having done exemplary work when they concentrate their financial, material and manpower resources on a small number of

selected key projects and slow down or even suspend the construction work on other investment projects<sup>2</sup>.

It is not only in the establishment of new enterprises that big and modern units are given preference. Alterations are being made to existing industrial structures which have also the effect of creating comprehensive units of the highest attainable technical level. This is done through closure of small enterprises, set up mainly during the Cultural Revolution, which are considered unprofitable, and through the transfer of their installations and skilled workers to larger, especially economically operating undertakings<sup>3</sup>. It is also done through the combination of regionally connected enterprises in one industry or several consecutive stages of production into unitary, horizontally or vertically integrated business complexes which are described as specialized industrial associations or else as trusts or combines<sup>4</sup>.

The entirety of these measures is expected to bring about a centralization and rationalization of production, increased efficiency of planning and a simplification of the administration<sup>5</sup>. It is also to result in balanced and more broadly coordinated technical progress, a drastic

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<sup>1</sup> Cf. Wang Shuchun: Jiben jianshe yao renzhen guanhe jizhong liliang da jianmiezhuan de fazhan, in: Jingji Yanjiu, No. 11, 1978, p.28ff.

<sup>2</sup> Cf., e. g., Guangxi ting jian huan jian 62 xiang zai jiangongcheng, in: Renmin Ribao, April 13, 1979; also: Zai qian zhong tiaozheng zai tiaozheng zhong qianjin, in: Renmin Ribao, March 24, 1979.

<sup>3</sup> Cf. Anzhao keguan jingji guiliu tiaozheng difang xiao tiechang, in: Renmin Ribao, March 22, 1979.

<sup>4</sup> Cf. Xiao L i n g: Shehui zhuyi wei shenma ye yao zuzhi tuolasi?, in: Jingji Guanli, No. 2, 1979, p.22ff.; also: Zuzhi zhuanyehua xiezuo wajue shengchan qianli, in: Renmin Ribao, March 24, 1979.

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reduction of the costs of production and wide-ranging output increases<sup>6</sup>.

Economic gains springing from the amalgamation of operational units in some industries and regions, for instance in the textile industry of Shanghai, can be pointed out already. On the other hand, problems have been encountered which must be attributed to the system of assigning operational units of one industrial association for administrative purposes to economic authorities at different administrative levels, for different regions and under different government departments. To bypass protracted modalities for the elucidation of competences for industrial associations it is proposed simply to give the trusts, combines or even big undertakings a greater measure of economic independence from the administration<sup>7</sup>.

This demand accords well with the principle enounced by the highest in the land that the methods brought to bear on the management of the economy should be more economic and less administrative. This means in practice that the economic competences of the lower regional units of administration are to be curbed while government departments and central commissions are given greater effective means of direction and control in regard to a few but decisive economic elements and the greatest possible measure of economic independence is conceded to the individual enterprises within the framework of certain predetermined plan data<sup>8</sup>. In order to give the industrial associations as much independence as possible, it is proposed that they should have the right to reject inappropriate economic plans of state authorities and to decide the production orientation and quantitative plans of subordinate units. They are also to organize sales centrally, take a direct part in export negotiations, make appointments to senior positions in the individual units and even fix the prices of certain products in the framework of general price directives issued to them<sup>9</sup>.

<sup>5</sup> Cf. Zhou M u c h a n g : Yong zhuanye gongsi yu lianhe gongsi ba qiye zuzhi qilai, in: Jingji Guanli, No. 2, 1979, p.15.

<sup>6</sup> Cf. Ye J i : Woguo liushi niandai shiban lüye gongsi de yi xie qingkuang, in: Jingji Yanjiu, No. 1, 1979, p.75ff.

<sup>7</sup> Cf. Zhou M u c h a n g : Yong zhuanye gongsi yu lianhe gongsi ba qiye zuzhi qilai, *ibid.*, p.16.

<sup>8</sup> Cf., e. g., Li C h e n g r u i , Zhang Z h u o y u a n : Guanyu gao sudu jinxing shehui zhuyi xiandaihua jianshe jigé wèntí, in: Jingji Yanjiu, No. 2, 1979, p.11.

<sup>9</sup> Cf. Zhou M u c h a n g : Yong zhuanye gongsi yu lianhe gongsi ba qiye zuzhi qilai, *ibid.*, p.16.

<sup>10</sup> Cf., e. g., Guojia jianshe xiezuo xiaozu: Daxing qiye he zhong xiao xing qiye bingju, in: Shehui zhuyi jingji lun wenxuan, Shanghai 1972, p.176ff.

<sup>11</sup> Cf. Shenma jiao "tu shebei", in: Jihua yu Tongji, No. 8, May 23, 1959, p.37.

<sup>12</sup> Cf. First Five Year Plan for Development of the National Economy of the People's Republic of China in 1953 - 1957, Peking 1956, p.38ff.

The shifts which have already taken place in the conception of the industrial setting and the changes foreshowing now permit the conclusion that a deep-reaching transformation is under way in the People's Republic of China. It seems at any rate that the long search in the internal discussion and practice for the best possible compromise between the two development alternatives<sup>10</sup> which have been presented under the key words of "big and foreign" and "small and indigenous"<sup>11</sup> has been decided in principle in favour of the former. In the West this development has sometimes been considered to constitute a radical break with the past, and the view has been expressed that it will at long last create adequate and even necessary prerequisites for the rapid modernization of the country.

In reality however the People's Republic of China is not at all embarking on a new course in its industrial policy but having recourse to measures which were already put in force during previous development phases but have been put back since. In the light of past Chinese experiences it would not be justified to appraise certain tendencies of the present industrial policy simply and without differentiation as entirely positive. It may well be that at least a partial revision will be required for economic reasons and on grounds of development policy.

\* Concepts resembling those underlying the present industrial policy were being applied in the fifties already. The predominant view in the early years of the People's Republic was that adoption of modern technologies and forms of organization from the Soviet Union and the establishment of big enterprises could enable China to produce herself in a short span of time a large part of the investment goods which she needed for her economic development<sup>12</sup>. The traditional small firms still operating in large numbers were felt to be a hindrance to rapid modernization of the Chinese economy and society. It was also argued that the business structure as it presented itself at the time of the assumption of power reflected the financial and organizational capabilities of private ownership. Enterprises would have to be combined and larger units would have to be formed in order to adjust the structure of operations to the planning and organizational requirements of a state-controlled economy.

These basic concepts of industrial policy were applied consistently: preference in the industrial development was given to modern large-scale operations, existing small firms were amalgamated or else affiliated to larger ones, and enterprises in the

same industry were combined in trusts. After the industrial policy in favour of big operational units had yielded initial results in the mid-fifties, it was subjected to a critical re-appraisal. Two aspects in particular fostered doubts in the appropriateness of the previous concept of industrial policy.

On the one hand, questions bearing on factor utilization, technology and goods supply came to the fore. It was recognized that production had risen greatly in the industries and regions in which large projects had been inaugurated and completed. The other industries and regions had been neglected internally because economic development had focused on a few large enterprises. They were therefore unable to come up to the great expectations. In the light industry production results had been especially unsatisfactory. The production of durable and other consumer goods, smaller agricultural implements and tools and the general supplies seemed inadequate.

Criticism was, secondly, called forth by events in the sphere of social or power policy which had occurred in the course of the formation of big industrial complexes and increasing economic concentration. The first reference to and comment on the concentration process is found in an article in "Xin Jianshe" (New Construction)<sup>13</sup>. It denied categorically that the existing state monopoly capitalism contained any socialist elements. To develop it further would merely increase the power of the big monopolies and advance the dominance of oppression and deceit in economic and political life. The working class must therefore rally more closely under the leadership of the Communist Party and unmask the fraudulence of monopoly organizations. Those in particular had to be unmasked who pretended to be "representatives" of the working class, wormed their way into state and monopoly organizations and aspired there at occupying the posts of departmental head, committee member, etc.

This radical and uncompromising criticism must be judged against the background of a multitude of big undertakings and trusts which had established monopolistic positions in many industries and regions in China. Their position has certainly not its equal in that of market-dominating enterprises in market-economy systems since all industrial undertakings in China are subordinate to local offices of the economic administration, government departments or else party organs which issue mandatory directives to them. On

the other hand there is no denying that as the size of the undertakings increases, internal operational processes become more complex so that scrutiny by outsiders is more difficult. Local party organizations and offices of the economic administration therefore often found themselves confronted by very large operational units formally under their control but actually beyond their reach.

The criticism of the old concentration concept was successful. Essential points of the lines of arguments from both directions were acted upon in the late fifties. The criticized "monopolistic forms of organization" were gradually dismantled. The economic decisions were in large part taken by party committees at regional administrations and not any longer by planning authorities and offices of the economic administration. Internal operational decisions were taken increasingly by party committees in the enterprise or even in the workshop concerned. For the implementation of their decisions the party committees relied in the main on cadres drawn from the workforce so as to ensure the postulated contiguity with the masses. The previous use of bureaucratic channels for the decision-making process in the economy was regarded by many as an obstacle to development, just like the bureaucratic structures of the economic administration. A "Great Leap Forward" was to be achieved by a political concept which shifts the power of decision-making to the "base".

There is no clearer indication of the change from the previous industrialization concept than the fact that the hopes for the Great Leap Forward were not based on the erection of a number of large modern undertakings with the help of the Soviet Union but on the setting-up of a multitude of smaller units by the use of China's own resources<sup>14</sup>. Hundreds of thousands of small units were from that time onwards installed in urban and rural areas with local activists, party cadres and the resident population playing a decisive part. Suitable labour-intensive technologies were applied to the exploitation of a large variety of locally available resources which would have been hardly suitable for mass production methods. There was no shortage of workers. It was easy to procure or build production premises. Tools and machines discarded by other enterprises or else implements obtained from private households were used as means of production<sup>15</sup>. Equipment shortfalls were covered by own production or purchase. Lack of finance was overcome by suitable measures. It was envisaged that more large-scale

<sup>13</sup> Zhao J i n g : Guojia longduan ziben zhuyi shihe shei de liyi?, in: Xin Jianshe, No. 7, 1958, p.41.

<sup>14</sup> Cf., e. g., Feng H u a : Rang zhong xiao xing gongye zhi hua biandi kaifang, in: Jihua Jingji, No. 4, 1958, p.29ff.

operations would still be set up but the basic concept was that small units would be established first and that these would be extended step by step. Foreign and indigenous technologies were to be put to use in China at the same time.

Little has been learnt about the place of the trusts in the period of the Great Leap Forward. It may be assumed that the organizational unity of many trusts ended in fact when the party committees of the regional administrations and the internal party committees assumed the leading role in the conduct of economic affairs.

In the early sixties the new industrialization concept, though pursued with great energy, came up against increasing resistance. Economic facts and considerations but also opposed social interests led to a collision between different views on questions bearing on the enlargement of the trusts and the relative importance of small and large enterprises as well as the role to be conceded to technology imports.

Disastrous crop failures were experienced for several years in succession. As a result there was not enough food for the industrial labour force. Technical crops needed for full utilization of the newly provided industrial capacities were also lacking. The question arose which industries and regions were to do with fewer workers and in particular whether the cuts were to be made mainly in big enterprises or in the lately created small units. It had also to be decided how the by then extremely scanty supply of raw materials was to be divided between big and small undertakings.

In the social sphere action in furtherance of the policy of the Great Leap Forward had checked the incipient process of the emergence of an industrial leadership elite in industry and also in the party and the economic administration. Revolutionary cadres and activists had seized the economic initiative. The groups which had held the leading positions before the Great Leap Forward were however still in being; their power of decision in the economy, party and administration had merely been curtailed. When it was seen in the early sixties that the expectations entertained in regard to the tremendous efforts during the Great Leap Forward could not be fulfilled, the activists witnessed a crucial weakening of their position. The former leadership elite had an opportunity to drive back local cadres and activists without any great effort.

<sup>15</sup> Cf. Ishikawa Shigeru: *National Income and Capital Formation in Mainland China – An Examination of Official Statistics*, Tokyo 1965, p.116; also, by the same author: *Choice of Techniques in Mainland China*, in: *The Developing Economics*, Preliminary Issue, No. 2, Sept.-Dec. 1962, p.23ff.

It was to be expected that the previous leading forces would attempt to resort to forms of economic organization conforming to their ideas of economic efficiency and serving their social aims. They began once more to merge enterprises in forms resembling trusts. Thought was even given to the creation of much more tightly centralized industrial organizations than the trusts of the fifties had been. Trusts were no longer to be set up under the leadership of local economic offices. Instead it was intended to form associations of enterprises on the national level and to transform the existing economic offices on the local level which had been under local people's governance into trust organizations<sup>16</sup>. One plan for instance provided for the merger in a national agricultural machinery trust of all enterprises engaged in the production or repair of agricultural machines. The national trusts established in the various industries were to be put directly under the National Economic Commission which was responsible for economic planning<sup>17</sup>.

The first steps towards the establishment of national trusts were indeed already taken in one province. Here the majority of the agricultural machinery plants were put in a comprehensive agricultural machinery trust and the lower echelons of the administration lost a large part of their influence on the agricultural machinery makers, as appears from this complaint<sup>18</sup>: "Party and government organs on the lowest level were not even allowed to ask questions. A tight rein was kept on the lowest level and the masses. The trust became a bureaucratic organ . . .". One is almost reminded of displacement competition in market economies if one reads that at the instigation of the trusts enterprises which were unwilling to join were kept short of capital, had raw material supplies cut off and saw their orders cancelled<sup>19</sup>. Criticism was also levelled at the "pursuit of a policy which amounted to the closure, elimination and amalgamation of factories"<sup>20</sup>, at "local agricultural machinery enterprises having been obstructed so as to take them over subsequently" (by trusts)<sup>21</sup> and at the intention to organize trusts according to the capitalistic principle of "big fish swallowing small fish"<sup>22</sup>.

<sup>16</sup> Cf. Nongye Jixie Jishu, No. 9, 1968; quotation based on *Selections from China Mainland Magazines (SCMM)*, No. 663, p.24.

<sup>17</sup> Cf. Nongye Jixie Jishu, August 8, 1967, No. 5, quoted from SCMM, No. 613, p.22.

<sup>18</sup> Cf. Nongye Jixie Jishu, No. 9, 1968, quoted from SCMM, No. 644, p.36.

<sup>19</sup> Cf. *ibid.*

<sup>20</sup> Cf. Nongye Jixie Jishu, No. 9, 1969, quoted from SCMM, No. 613, p.16.

<sup>21</sup> Cf. *ibid.*, p.24.

These quotations suggest that the industry concept of gradual advancement of small enterprises to turn them into big enterprises which had been applied during the Great Leap Forward had been given up completely. In the circumstances it is not surprising that foreign technologies became once more the focal point of interest. "Big, modern, complete" was again desirable<sup>23</sup>, and "the road other countries have gone" was again recommended for emulation<sup>24</sup>.

The next about-face occurred in the mid-sixties. An attempt was made in the Cultural Revolution to implement a broad design for widespread industrialization through recourse to the country's own resources and mobilization of all strata of the population for the build-up of the economy. Resembling the situation during the Great Leap Forward, local cadres and activists among the "masses" who had forced their way into leading positions in the course of fierce political clashes acted as the driving force for this development. As members of the revolutionary committees, the newly formed collective leadership organs in the enterprises and administrative bodies, they took their place by the side of the expert elite or even replaced it. It was their aim to meet whatever requirements were felt to be urgent as independently as possible by drawing on all locally available resources. Predetermined economic priorities were set to the cadres in the local administrations by central directives on the build-up of the economy. Otherwise they were given a free hand. The result was small-unit economic development in almost all rural regions.

During and after the Cultural Revolution local leaders and activists frequently laid claim to excessive leadership rights. This happened in particular when qualified specialists were relegated to quite unimportant posts so that they could not, or under the given conditions would not, put their expertise at the service of the development process. Commitment to economic development, activism and focalization on regional requirements went often hand in hand with neglect of technical rationality, cost efficiency and general economic productivity. It soon became evident what detrimental consequences ensue from small-unit industrialization orientated to regional self-sufficiency and from slighting the specialists with technical, scientific and organizational experience.

Certain adjustments, such as were described earlier, became therefore unavoidable. They are being made

<sup>22</sup> Cf. Nongye Jixie Jishu, No. 9, 1968, quoted from SCMM, No. 644, p.35.

<sup>23</sup> Cf. Nongye Jixie Jishu, No. 9, 1968, quoted from SCMM, No. 633, p.26.

now. There is however also evidence of tendencies towards a similarly overemphasized policy of concentration as observed in the early sixties, and these may, in addition to their positive effects, have some of the known negative repercussions. Regional supplies have often been found to suffer when big enterprises and trusts were favoured for the sake of high industrial productivity rates and profits while small units with unsatisfactory producing costs were closed down. Another point is that when too much importance is attached to foreign modern technologies, there will be few opportunities for the deployment of members of the population with relatively little knowledge of technical and economic matters. But to pursue development processes without them means to waste valuable development potential and to foment political discontent of the kind which in the mid-sixties led to the clashes of the Cultural Revolution.

Certain indications suggest, however, that lessons have been learnt from the experience in the sixties. For instance, some economic importance is still being attached to cooperatively managed rural industrial undertakings<sup>25</sup>. Plant closures will therefore probably be kept in limits, the more so as a considerable proportion of the smaller enterprises set up during the Cultural Revolution have not done too badly compared with large units. Efforts are also being made to suppress arbitrary administrative proceedings and the growth of bureaucracies, which did so much to create an explosive situation in the mid-sixties, by introducing flexible performance-orientated systems of works management. A step in this direction is the publication since the beginning of this year of the "Jingji Guanli" (Industrial Management) magazine which deals with, amongst other subjects, American concepts of operational organization such as the matrix organization<sup>26</sup> and the Japanese modernization policy<sup>27</sup>. It should also be remembered that the industrialization of the countryside which has been pursued energetically since the Cultural Revolution has contributed to wide dissemination of technical knowledge. Important prerequisites have thereby been created for progressive adoption of western technology imports as models for the whole country rather than for a minute stratum of specialists who alone had access to them in the past.

<sup>24</sup> Cf. *ibid.*, p.42f.

<sup>25</sup> Cf. Shen Jiyang: Da li fazhan shedui qiye de ji ge wenti, in: Jingji Yanjiu, No. 2, 1979, p.44ff.

<sup>26</sup> Cf. Ye Zhongling: Meiguo qiye zuzhi guanli de fazhan, in: Jingji Guanli, No. 1, 1979, p.55.

<sup>27</sup> Cf. Zhang Xuanshan, Qian Jiajun: Riben zhengfu zai gongye xiandaihua zhong de zuoyong, in: Jingji Guanli, No. 2, 1979, p.62ff.