CHAPTER TWO

THE REFORM, OPENING, AND DEVELOPMENT OF CHINA’S INDUSTRIAL ECONOMY

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The thirty-year reform, opening, and development process of China’s industrial economy has largely been a process of establishing and refining the socialist market economy with Chinese characteristics. At the same time, it has also showcased to the world an industrialization process of the largest scale in human history. China’s industrial economy (the key constituent of secondary industry) is the largest of the three industrial sectors (primary, secondary, and tertiary industries) and has made the single largest contribution to China’s national economic development. In addition, it is also had the fastest pace of development and the highest degree of internationalization.

I. Reform of China’s Industrial Economy

A critical part in the reform of China’s economic system has been industrial economic reform, which is centered on enterprise reform. Industrial enterprise reform has consisted of two major components: (1) reform of state-owned enterprise, which has aimed to gradually transform state-run enterprise from production units implementing the state plan into market entities; this has involved a strategic adjustment of the state-owned economy; and (2) encouraging the development of non-state-owned enterprise, such as private (individual and otherwise) enterprise as well as foreign-funded enterprise. After thirty years of industrial reform, a balance among the “tripartite of forces” of state-owned, private, and foreign-funded enterprise has gradually taken shape.

A. The Process of Reforming State-Owned Enterprise

For thirty years, China has experienced ups and downs in state-owned enterprise reform. Based on the different objectives, theoretical bases,
and key measures of reform at different stages, the thirty-year reform process can be divided into three stages: Stage 1 (December 1978–September 1984) was a stage of reform aimed at expanding enterprise autonomy by way of delegating power and sharing profits; Stage 2 (October 1984–October 1998) was a stage of reform focused on the transformation of enterprise’ operational mechanism, characterized by the separation of ownership and management; finally, Stage 3 (November 1998-present) has been a stage of reform focused on establishing a modern enterprise system and carrying out strategic reorganization (see Figure 2.1).

1. The Stage of Reform Aimed at Expanding Enterprise Autonomy By Way of Delegating Power and Sharing Profits

The power that should have been exercised by enterprise had long been concentrated in the hands of government at all levels, thereby reducing enterprise to administrative subordinates and severely stifling the productive enthusiasm of enterprise and laborers. As a consequence, enterprise lacked vitality. In this situation, delegating power, sharing profits, and expanding enterprise autonomy were all breakthroughs in the market-oriented reform of China’s state-owned enterprise. The key initiatives introduced at this stage include power-delegating and profit-sharing schemes, the economic responsibility system, and tax-for-profit reform.

(1) Power-Delegating and Profit-Sharing Scheme

In October 1978, Sichuan selected six representative enterprises from different industries to take the lead in expanding enterprise autonomy