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The PRC Government's Policies towards the Private Economy and Private Entrepreneurs. A *Historical Review: 1949-2007*

Minglu Chen*

Introduction

When the Chinese Communist Party (CCP) came to power in 1949, its major goal was to transform China into a modern and powerful socialist nation. In economic terms, these objectives meant at that time industrialization, improvement of living standards, narrowing of income differences, and the production of modern equipment. Subject to powerful and wilful individual leaders, idealistic revolutionary beliefs, and the inexperience of the new government, the way to national modernization never proved straight-forward. Instead, it has featured many sharp turns, with interruptions, self-contradictory impulses and discontinuities. Borrowing the words of the CCP government itself, policy making has been like 'crossing the river by feeling each stone'.¹

Policy instability can actually be found in almost every aspect of the development of Communist China. Economics is one of those areas that have gone through the most significant changes in policy making. White attributes these changes to different priorities in the Chinese leadership's approach

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1. 'Mo zhe shitou guo he' ['crossing the river by feeling each stone'] is originally a Chinese proverb, meaning to doing things prudently. It was firstly used by the then vice-premier of the PRC government in a governmental report when discussing economic policy-making. Later on the proverb has been used to refer to China's economic reform. As there are not readily-available instructions from Marx and Lenin, nor successful experiences to borrow from other socialist countries, China has to 'cross the river by feeling each stones'.

to realizing their ultimate ideals.² When accounting for the changing stratification of Chinese society, White raises the concepts of the ‘managerial’ and ‘revolutionary’ tendencies of policy making in China. The ‘managerial modernizers’ give priority to economic growth, while the ‘revolutionary modernizers’ emphasize political consciousness. In the analysis of the first three decades of the history of the People’s Republic, White argues that the Chinese government’s policy changes are the result of the interaction of reality and ideology. Whenever the government changes its priority between economic growth and political consciousness, its policy changes accordingly.

White’s idea about of ‘managerial’ and ‘revolutionary’ tendencies, can be well applied to analyse the government’s policies towards a significant part of China’s economic development—the private sector. From the Mao era until the post-reform period, the Party-state’s attitude towards its private enterprises and private entrepreneurs has been ever-changing. At one time, the private sector was to be completely eradicated and private entrepreneurs were ‘class enemies’ to be ‘beaten down’. At another time, the private sector was an element of socialist economy and private entrepreneurs were partners of the Party-state. This article argues that policy-making in regards to the private sector has apparently been subject to the changing priorities of the Central leadership, switching frequently between the imperatives of managerial modernization and revolutionary modernization. When economic development was emphasized, the private sector became sought after and encouraged; when political correctness was dominant, the private sector was limited or even abandoned.

This article discusses the Central Government’s attitude towards the private economy since the establishment of the People’s Republic of China until present. Chronically, it is organized into the eras of 1949-1952, 1953-1977 and 1978-present. The periodization is adopted, according to the government’s policy-making tendencies. In the first period, the ‘managerial tendency’ dominated; the second period saw more emphasis on revolutionary ideals; and in the last period, policy making steered into economic development again.

2. Gordon White, ‘Politics and social status in China’, *Pacific Affairs*, Winter 1978-1979, Vol. 51, No. 4. pp. 561-584.

1949-1952: Economic recovery

In 1949, when the People's Republic of China (PRC) was established, the national economy was suffering from decades of warfare, namely the Anti-Japanese War from 1937 to 1945 and then several years of civil war between the Communists and the Nationalists. The new government immediately faced a near collapsed economy. War-time had resulted in fatal damage to industry and agriculture, as well as severe inflation. To make things worse, in 1950, China intervened in the Korean War, which led to a trade boycott against the new government.

These circumstances, unsurprisingly, led the Central Government to set re-establishing a more effective economy as its chief goal. The economic strategy at that stage was: 'three years of recovery, to be followed by ten years of development'.³ It was no wonder that under the leadership of a managerial modernizing tendency the Communist Party regarded the private economy as an important force not to be neglected. As soon as it came to power in 1949, the CCP immediately put the already established state-owned enterprises under its control. At the same time, the private sector remained an important element of the country's economy, contributing 63.2% of the country's general industrial production in 1949.⁴ As Mao said in 1950, the new government was facing too many obstacles. Therefore it was important to obtain support from different social groups, including individual business owners and national capitalists.⁵ In order to ease the then commonly shared fear among private entrepreneurs towards the new governing Party, high-ranking Party leaders waved their flag of friendliness repeatedly. For example, Liu Shaoqi (then Vice-President of China) said on an inspection visit of Tianjin that the private economy had positive effects (on China's economic development) and thus should be encouraged.⁶ Lin Biao (a significant military leader at this time)

3. Kellee Tsai, *Capitalism without Democracy: the Private Sector in Contemporary China*, Ithaca: Cornell University Press, 2007, p. 46.

4. The National Bureau of Statistics of China, *Zhongguo Tongji Nianjian* 1984 [Statistical Yearbook of China, 1984], Beijing: Zhongguo Statistics Publication, 1984, pp. 19

5. 'Zhongguo diqijie lici zhongyang quan hui' ['The plenums of the 7th CCP Congree'], available at: <http://cpc.people.com.cn/GB/64162/64168/64559/4527011.html> [accessed on 28/10/2008].

6. See Hu Qizhu, 'Jianguo chuqi de zhengfu yu siying gongshangjie (1949-1952)' ['Chinese Government and private industry and commerce in the first years of the PRC (1949-1952)'], *Jinyang Xuekan* [Jinyang journal], 2005 vol. 2.

also claimed in Wuhan, 'We should strongly promote, rather than limit, the development of the private economy'.⁷

During this period, the industrial production of private business was included in the Central Government's economic planning. In the *1949 Common Program of the People's Consultative Conference*, it was prescribed that the private economy would be one of the major components of the socialist economy and that the government 'shall encourage the active operation of all private economic enterprises beneficial to the national welfare and to the people's livelihood and shall assist in their development'.⁸ As for private entrepreneurs, the Party's attitude was to work with them. At this stage, capitalists were even allowed to obtain positions in the coalition government.

However, the honeymoon of the Party-state government and the private sector was not to last. Some private entrepreneurs soon learnt to take advantage of the government's favouritism and started to speculate. In 1952, the enraged Communist Party launched the 'Five Anti Movement' to eradicate the 'Five Poisons' of bribery, tax evasion, cheating on government contracts, and theft of government property and economic information. It was a political campaign targeted against those business owners who were said to have corrupted the state system. But in reality, the criteria of the 'Five Poisons' was so vague that 'anyone who ever was involved in any kind of entrepreneurial activity...could be a target of party terror' and as a result 'thousands of businessmen were put through humiliating public trials'.⁹

Unsurprisingly, radical acts in the "Five Anti Movement" led to panic among private entrepreneurs and to a declining private economy. Seeing its negative effects on industry and commerce, the government soon concluded the political campaign and adjusted its policies to support the private sector again. However, this support was not unconditional. State policy towards the private sector was to support the useful parts and limit those parts harmful to the country's economy, while the ultimate goal was to socialize the private economy and achieve state ownership. Under these guidelines, the Party

7. See Hu Qizhu, 2005.

8. 'Zhongguo Renmin Zhengzhi Xieshang Huiyi Gongtong Gangling (1949)' ['The Common Program of the Chinese People's Political Consultative Conference (1949)'], available at: <http://www.chinalawedu.com/news/15300/154/2006/4/xi6442364341172460029062-0.htm> [accessed on 28/10/2008].

9. June Grasso, Jay Corrin and Michael Kort, *Modernization and Revolution in China: From the Opium Wars to World Power*, Armonk: M.E. Sharp, 2004, p.155

started to bring private enterprises under its control, by buying out shares in, and assigning managers to, those enterprises. By doing so, the original private enterprise owners became employees in the new enterprises, working under the leadership of state-assigned managers. All these measures proved to be effective. In general, in the years from 1949 to 1952 the country saw a rapid and steady economic recovery. Undoubtedly, the private sector had played a significant part in that economy recovery.

1953-1977: Campaigns and Movements

Not long after the economy started to develop at a steady pace, concerns about political consciousness became a major issue for the Central Government and quite quickly the former revolutionary ideology subsequently became dominant. Political ideals replaced rational economic goals and remained the priority of China's policy making in the following years, on the whole, until economic reform began in the late 1970s. Even so, this was not a process without fluctuations.

In 1953, the government developed its First Five Year Plan emphasizing state ownership in the economy and centralized economic planning based on the USSR model. This signalled a great change in the Party's policies on private enterprises and its attitude to private entrepreneurs. At this stage, the Central Government thought that the private economy had now stopped playing a positive role in China's development. Instead, it was limiting production and leading to the emergence of an exploiting class, i.e. private enterprise owners. Contradictions between a planned economy and capitalist production and between workers and capitalists could not be overcome. It was therefore necessary to socialize the private sector.

The economic objectives of the Party-state were to constantly limit, reconstruct and finally eliminate private businesses, until bourgeois elements were completely removed from the socialist economy and a society without exploitation and without classes was finally realized. This marked a sharp change from protecting and supporting private enterprises. The major means utilised to achieve this goal was to transform private ownership into joint public-private ownership. In the countryside, farmers were urged to join agri-

cultural cooperatives. In the cities, private factories and shops were turned into either cooperatives or 'joint public-private' businesses. By 1956, 67.5 percent of enterprises were state owned and the rest were under a new joint ownership.¹⁰ In other words, no solely privately owned enterprises existed anymore. The government had for the first time extinguished the private sector and operated a fully socialist economy.

Not long after, the disadvantages of a centralized and planned economy started to emerge, as people were receiving lower salaries, market supply of living necessities was limited and the quality of products dropped. As a result, for a short period, a managerial modernizing tendency became dominant again. The Central Government relaxed the political environment to cope with the emerging economic problems. In 1956, Beijing started another political campaign named the 'Hundred Flowers'. In this movement, the CCP invited various views and solutions to national issues, under the slogan that 'letting a hundred flowers blossom and a hundred schools of thought contend is the policy for promoting progress in the arts and the sciences and a flourishing socialist culture in our land'. Thus during late 1956 and early 1957, the leadership was able to hear different possibilities and reflect on its policies towards the private sector. These policies suggested an alternative path to national modernization, which was more market oriented than the Soviet model.

In the short term, the leadership responded positively to the debate about the individual and the economy. Firstly, the leadership abandoned the practice of combining all private businesses into collectives, when they realised that a decreasing variety of products under the collective mode had already affected the people's daily life. Secondly, they once again confirmed the positive roles played by national capitalists in China's economic development. The government had adopted a pragmatic idea that the private sector should be encouraged to compete against the state-owned sector so as to achieve a healthier economic order. In his famous speech 'On the ten major relationships', Mao went so far as to claim that China should not only make use of its own private economy, but also borrow experiences from foreign countries. He suggested that China could import technology and managerial

10. See Barry Naughton, *The Chinese Economy: Transitions and Growth*, Cambridge: MIT Press, 2007.

skills from capitalist countries and even attract foreign investment.¹¹ These liberal economic ideas would find their echoes in China's economic reform starting in 1978. As a result of economic liberalism, there was a revival of the private sector and businesses such as ice-cream sellers, tinkers and vegetable sellers were revived.

However, the new political tendency soon proved to be inconsistent and short-lived. Mao was after all, a revolutionary rather than a managerial modernizer. Revolutionary ideals to be realized by struggling against political opponents had always been his greatest concern. He soon announced that the different ideas heard during the 'Hundred Flowers' had reached a harmful and uncontrollable level. When intellectuals started to suggest that the CCP should give up its power and more political parties should be allowed to govern the country, Mao felt threatened and immediately called a halt to the movement. From that point onwards, liberal economic policies were accused of promoting capitalism and capitalist exploiters and were abandoned. The private economic sector was discarded once again.

In order to illustrate the superiority of socialism and the excellence of the CCP's leadership, Mao Zedong pushed his policy into a dramatic new direction. The campaign of the Great Leap Forward started shortly thereafter. The Great Leap Forward was an economic and social plan initiated and led by Mao himself, carried out from 1958 to early 1962 which aimed to use China's vast population to rapidly transform mainland China from a primarily agrarian economy dominated by peasant farmers into a modern, industrialized communist society. A daring slogan raised by the government at that time was to 'overpass the UK and catch up with the USA'. However, it is generally agreed that the movement failed in its intentions, leading to the deaths of millions as well as widespread economic dislocation. It is widely regarded both inside and outside of China as an unmitigated disaster.¹²

Amidst the enthusiasm of the Great Leap Forward, the Party intended to build a highly centralized and planned economy. In rural areas, everyone was organized to join the collective unit, or "commune". In order to stimulate production, family life was neglected—collective nurseries and rest-homes

11. Mao Zedong, 'Lun shida guanxi' ['On ten major relationships'], speech made on the extended meeting of the Politburo of the CCP in 1956, available at: <http://www.marxists.org/chinese/17/marxist.org-chinese-mao-19560425.htm> [accessed on 2 November 2008].

12. See Dali Yang, *Calamity and Reform in China: State, Rural society, and Institutional Change Since the Great Leap Famine*, Stanford: Stanford University Press, 1996.

were set up to take care of children and the old. Private ownership was fully discarded. No one was allowed to organize their own farming activities. Instead, they had to work at the production team everyday, and meet a set quota. At one point, even private kitchens were prohibited, as everyone was urged to eat at the commune's dining hall. In some places, money was even outlawed. In these circumstances, the private economy was regarded as the 'tail of capitalism' to be cut off and the promotion of public ownership had become the yardstick to measure the achievements of local governments. Unsurprisingly, the once-revived private sector disappeared again.

The Great Leap Forward was followed by three years of nationwide famine, officially referred to by the PRC government as 'The Three Years Natural Disaster', caused by unrealistic policies, worsened by a series of natural disasters including floods and droughts. The widespread famine led the government to recentralize its task in an attempt to restore economic order. As always, the private sector was sought after when economic development as opposed to political correctness was being emphasised. 'Free markets—closed during the Leap—were reopened to provide an additional channel for peasants to supply food to cities and soak up purchasing power. Imports of consumer goods and market liberalization gradually stabilized prices at a new, higher level'.¹³

Very soon though, political consciousness took over once again and the development of the private economy was interrupted. In 1966, the ten year Cultural Revolution started. Unlike the Great Leap Forward, the Cultural Revolution was primarily a political movement and did not cause many changes in the government's economic policies. Nonetheless, its effect on the private sector was profound. At this stage, Mao expressed quite volubly that the private economy and indeed any kind of private activity was absolutely at odds with socialism and was thus to be completely eliminated. When the political ideology went to the extreme of such rhetoric as 'rather to have weeds of socialism than crops of capitalism'¹⁴, anything that had a little to do with the market was abandoned and all economic activity was put under a state plan. Private business owners, even those who had already been transformed into workers, were labelled as 'class enemies' to be 'struggled against' and 'beaten

13. Barry Naughton, 2007, p. 73.

14. The slogan was raised during the Culture Revolution, expressing the idea that socialism and capitalism was absolutely opposed against each other and that all activities related to a market economy should thus be attacked and resisted.

down'. The 1975 and 1978 amendments of the Constitution clearly reflected the severe situation faced by the private economy. When accounting for economic ownership structure in China, only public and collective ownerships were mentioned. The private economy had completely lost the legitimacy it had initially achieved after 1949.

1978 - Present: Reform and Opening

During 1976-1978 China saw great social changes. Mao's death saw the era in which his ideas dominated politics draw to an end, the Cultural Revolution was called to a halt and a new leadership (led by Deng Xiaoping) came into power. As much as Mao was a resolute revolutionary modernizer, Deng was a steadfast managerial modernizer, or at least had become one by the mid-1970s.¹⁵ Under his leadership, economic development was emphasized more than ever before. With Deng's support and promotion, China started a profound economic reform that has lasted until today. As a result, development of the country has been characterized by decentralization, marketization and privatization. The managerial modernizing tendency has prevailed the whole time since 1978, although some minor (particularly by comparison with the earlier period of the PRC) interruptions and fluctuations were not totally avoidable.

In December 1978, the CCP held its Third Plenum of the National Party Congress' 11th Central Committee. It is commonly regarded as a major milestone for China's development, and it was at this meeting that the Party first decided to abandon the old guideline of 'putting class struggle in command' and established a new objective of promoting national economic development. China started an era of 'reform and opening'. At the same meeting, Deng made a bold statement that (the government) should allow some areas, some enterprises and some people to get rich first.¹⁶ Considering that the CCP had always dedicated itself to achieving social equality in China, this was by

15. See David Goodman, *Deng Xiaoping and the Chinese Revolution: A Political Biography*, London: Routledge, 1994.

16. Gu Shengzu, "Liangge pingdeng" shi Shiqida feigong jingji lilun de zhongda tupo' ["The two equalities" are great breakthroughs of the 17th CCP Congress' theory on non-public economy'], *Zhongguo Jingji Shibao* [China Economic Daily] 23 Jan 2008, available at: <http://theory.people.com.cn/GB/40764/114914/114915/6811692.html> [accessed on 5/11/2008].

no means an uncourageous idea to articulate in public. Those who got rich first soon turned out to be private business owners, people from both the countryside and the cities who took advantage of the state government's new attitude towards economic development.

The initial breakthrough for the reform occurred in the countryside. Under the highly centralized Maoist economic structures, all farmers were compulsorily members of agricultural collectives, and all farming activities were organized by the collectives. Farmers were assigned a quota of goods to produce. Monetary compensation was awarded for meeting the quotas. Going beyond the quota, however, did not bring many rewards. Such a system unsurprisingly failed to stimulate production or increase the farmers' income. There was almost no market of any kind for farmers and their produce. In 1979, a group of 18 farmers from Fengyang County, Anhui Province secretly entered into individual contracts for the fields owned by their village (which was called the "production brigade" at that stage) and started their own production. They sold the food they grew beyond the quota at an unregulated price. In no time, this practice turned out to be a great success and was subsequently promoted throughout the country. This practice not only increased the country's agricultural production, but also brought about the re-emergence of free markets and individual business owners who sold products at the markets.

In urban areas, on the other hand, many educated youth who were sent 'up to the mountain and down to the countryside' to 'study from the working class' during the heights of the Cultural Revolution returned to their home cities. With more effective production, a redundant rural labour force also rushed to the cities for opportunities. However, the still recovering urban economy was not able to provide employment for everyone. To solve this problem, in April 1979, the state council made a pragmatic decision that according to the demands of the market, the returning youths should be allowed to start individual businesses to engage in repair, production and service sectors.¹⁷ If the educated youths should wish to start their own businesses, the government would provide them with favourable tax breaks, as well as help with capital, technology and business revenues.

17. See 'Geti siying jingji fazhan 30 nian' ['30 years development of individual and private economy'], *Guangxi Ribao* [Guangxi Daily], 27 August 2008, available at: <http://theory.people.com.cn/GB/49154/49155/7736314.html> [accessed on 05/11/2008].

Seeing the re-emergence of a private economy, the Party-state felt a need to defend its rationale. Not long after, a document was issued by the state government in 1981,¹⁸ which further confirmed the existence of private businesses and people engaged in these businesses. In this landmark document (hereafter referred to as *The 1981 Declaration*) in China's economic reform, individually-owned businesses were clarified as 'a necessary supplement to socialist state-owned businesses' which greatly contributed to economic development and provided employment. Although the state-owned sector dominated China's economy, individually-owned businesses would be encouraged and facilitated in order to better meet people's demands. 'For a long time, different types of ownership should coexist, which is a strategic policy rather than a temporary measure'. Apparently the government has managed to keep its word. This idea went on to inform the thinking for the following decades. Post-reform China has seen no further sharp turns in the government's attitude towards the private sector.

As for individual business owners, *The 1981 Declaration* referred to them as 'socialist labourers'. Their work was considered the same as the work of employees of state-owned and collective enterprises, and was considered a 'glorious' and indispensable part of socialist construction. The government 'should actively and rapidly abandon all the discriminatory policies regarding private economy and replace them with encouraging and supportive measures'.¹⁹ Moreover, the property of individual business owners 'should be protected by law'. Eventually, the label 'class enemies' imposed on them during the Cultural Revolution, was officially removed from this social group as they became a formal part of the socialist system.

Although *The 1981 Declaration* only addressed the individually-owned economy, its principles could well be applied to the private and foreign economies, which is exactly what transpired. They were widely adopted in governmental documents, measures, regulations and even the constitution regarding the non-state sector. For this reason, it is safe to argue that *The 1981 Declaration* has built the theoretical basis for the Party-state's future

18. The CCP Central Committee and the State Council, 'Guanyu guangkai menlu, gaohuo jingji, jie jue chengshi jiuye wenti de ruogan jue ding' ['Several decisions on finding new ways, developing economy and solving the problem of unemployment in the cities'], issued on 17 October 1981, available at: http://www.100test.com/html/330/s_330066_33.pdf [accessed on 9 Nov 2008].

19. The CCP Central Committee and the State Council, 1981.

policies on the non-state economy. In 1982, for example, the main ideas of *The 1981 Declaration* — that the individually-owned economy was a necessary supplement of the public-owned economy — were written into *The 4th Amendment of the Constitution of the People's Republic of China* for the first time. The private sector was finally legitimized in China.

In the same year, Deng Xiaoping raised his theory of 'Socialism with Chinese Characteristics'. To reinforce the validity of Marxism and to limit doubts about the legitimacy of the reform, he said, 'Planning and market forces are not the essential difference between socialism and capitalism. A planned economy is not the definition of socialism, because there is planning under capitalism; the market economy happens under socialism, too. Planning and market forces are both ways of controlling economic activity.'²⁰ Deng's speech exterminated a long held belief in the PRC that a planned economy is the essence of socialism. Reassured by the new theory, PRC entrepreneurs and officials have been able to travel a developmental road increasingly characterised by marketization and privatization.

In 1983, the government clarified the position of the private economy. Individual businesses were to be recognized as by the industries they were engaged in. In another document,²¹ the state council instructed that 'basic industries such as catering, sewing, repairing and baths may be operated by individuals'.

At the start of economic reform, the private economy only existed in terms of individually-owned businesses, i.e. people were allowed to run their own businesses but not to have employees. At that stage, 'employee' was still a controversial concept, with conservatives arguing that to employ was to exploit, and should therefore be forbidden in a socialist system. The surge of the market finally made the government loosen its constraints on employment in the private sector. In 1981, private business owners were allowed to have two 'assistants' and more successful ones could have an additional five 'apprentices'. Noticeably, the word 'employee' was still officially avoided. It was

20. 'Deng Xiaoping nan xun jianghua' ['Deng Xiaoping's speech in the southern tour'], available at: <http://cpc.people.com.cn/GB/33837/2535034.html> [accessed on 17 Feb 2009].

21. The CCP Central Committee and the State Council, 'Guanyu fanzhan chengxiang lingshou shangye fuwuye de zhishi' ['Instructions on development retail and service businesses in the cities and countryside'], issued on 5 March 1983, available at: <http://www.mbjmzx.jsol.net/zhuantibook/book08/8011236.pdf>, [accessed on 9 Nov 2008].

not until 1988 that the government finally lift its regulation on employment in private enterprises. Immediately, the private sector started to boom.

Obviously, reform and opening has remained the basic policy of the post-Mao era. But this does not mean that the conflict between political consciousness and economic development has completely ended. In the wake of the 1989 Tian'anmen Demonstrations,²² between 1989 and 1991, a short period of revolutionary modernizing followed. The Central Government leadership took up a conservative attitude towards China's 'reform and opening', focusing on political stability rather than fast economic development. The development of a private economy was once again considered equal to the development of capitalism, and there was also a concerted policy push by some conservatives calling for the halt to the revival of the private sector.

Against this background, Deng Xiaoping (who had officially resigned his last remaining leadership position in the Central Government in 1990) went south to inspect the Special Economic Zone of Shenzhen. Once there he gave a speech which reignited the push for unfettered economic development, by encouraging people to be 'more risky and more daring to make experiments in reform and opening'.²³ He declared that 'development is the only hard truth' and 'it doesn't matter if policies are labelled socialist or capitalist, as long as they foster development'. The speech proved crucial in re-establishing and reinforcing the tone and speed of China's reform. Managerial modernizers regained dominance and economic development became the country's major task once again. Reassured by his speech, many people (many of them government officials) took the risk of 'jumping into the business sea' and set up their own businesses. Since then, the private economy has blossomed in the country.

In September 1995, during The 5th Plenum of the 14th CCP Congress, the Communist Party further confirmed that 'the dominance of public ownership together with the development of various economic components' was a guideline to be followed for the long-term. Jiang Zemin (then president of the PRC) emphasized in a speech that the government would 'actively facilitate

22. They were a series of demonstrations in and near Tiananmen Square, Beijing, led by labour activists, students, and intellectuals in China between 15 April and 4 June 1989. Participants protested against corruption and cried for economic liberalization and democratic reform. The protests finally led to military repression.

23. Deng Xiaoping, 'Nanxun jianghua' ['Speech Given When Inspecting the South'], available at: <http://www.oklink.net/lzsl/dangdai/dxp01.html> [accessed on 11 Nov 2008].

the development of the state-owned and the collective economy, and at the same time allow and support private, foreign and other non-public economies....All ownership should be treated equally and fair competition should be encouraged'.²⁴ In 1997, the Party's 15th Congress further confirmed that 'the non-public economy is a significant component of China's Socialist Market Economy', and this was written into *The Fifth Amendment of the Constitution of the People's Republic of China* in 1999.²⁵ The change from 'a significant supplement' to 'a significant component' signified that the private economy had finally lost its marginal status and had been placed on an almost equal footing with its state-owned and collective counterparts.

Another big step in China's reform was to extend the reform to state-owned enterprises. Under a system of central control, the input and output prices of state-owned enterprises' were fixed, allowing them to use the difference to fund social services. Once those prices were determined by the market, most of the state-owned enterprises became extremely unprofitable, not least because they had to provide social services to their employees and they were often producing outputs that no one wanted to buy. In 1997, the State Council (the leading body of the PRC Government) released new measures, encouraging local governments to have small-sized state-owned enterprises restructured, sold or declared bankrupt.²⁶ The restructuring and selling of these state owned enterprises led to the emergence of new private business owners, as laid-off workers were encouraged to be self-employed and individuals were allowed to buy the formerly state-owned businesses.

As reform developed, the state sector decreased in scale and scope; and the private sector (along with the collective sector) boomed. According to the statistics of the first economic survey conducted by the National Statistics Bureau of China, by the end of 2004, China had altogether 179,000 state-

24. Jiang Zemin, 'Zhengque chuli shehui zhuyi xiandaihua jianshe zhong de zhongda guanxi' ['Correctly deal with important relationships in the construction of socialist modernization'], made on the closing ceremony of the 5th Plenum of the 14th CCP Congress, on 28 September 1995. Available at: <http://www.china.com.cn/chinese/archive/131722.htm> [accessed on 2 Dec 2008].

25. The National People's Congress of China, *Zhonghua Renmin Gongheguo Xianfa Xiuzheng An* ['Amendment of the Constitution of the People's Republic of China'], available at <http://www.people.com.cn/item/faguiku/xf/F01-A1050.html> [accessed on 11 Nov 2008].

26. The State Council, 'Guoyu 1997 nian guoyou qiye gaige yu fazhan gongzuo yijian de tongzhi' ['Notice on the 1997 work on state-owned enterprise reform and development', 1997, available at <http://www.mbjmzx.jsol.net/zhuanti/book/book08/8010676.pdf> [accessed on 2 Dec 2008].

owned enterprises accounting for 5.5 percent of the country's total number of enterprises; and 1,982,000 private enterprises (61 percent).²⁷ The All-China Federation of Industry and Commerce (ACFIC) forecasted in 2005 in 'An analysis on the situation of the private economy during the "Tenth Five-Year-Plan"' that by 2010 the private economy will contribute more than 75% of the country's GDP.²⁸ Moreover, the private sector has also become a major source of employment for workers laid-off from state-owned enterprises and the country's increasing surplus labour force.

In these circumstances, the Party, the government, and officials all started to attach great importance to the private sector, not least because of the decline of the state-owned economy. The Party was willing to recruit private entrepreneurs as members, in order to promote its major task of economic development, as well as not to 'shut itself off from the best supply of human resources'.²⁹ However, for some time there was no ideological justification for those who used to be regarded as exploiters of the working class to join the Party, as the Party had long claimed itself to be representing the interests of the working class. In 2000 the problem was solved. Jiang Zemin raised his 'Three Represents' Theory, which asserts that 'the Party should represent the developmental needs of the advanced social productive forces, the promotion of advanced culture, and the fundamental interests of the greatest majority of people' thereby by extension acknowledging the role of entrepreneurs as an advanced social productive force.³⁰ In his 1 July 2001 speech, Jiang said that talented people who are from other social classes (other than workers, peasants, intellectuals, soldiers and cadres) but who meet the criteria for CCP

27. The National Statistical Bureau of China, 'Diyici quanguo jingji pucha zhuyao shuju gongbao' ['A report on the major figures obtained in the first national economic survey'], available at: http://www.stats.gov.cn/zgjpc/cgfb/t2005/1206_402294807.htm [accessed on 11 Nov 2008].

28. Liu Jing, 'Quanguo Gongshanglian shoufa niandu minying jingji fazhan fenxi baogao' ['All-China Federation of Industry and Commerce published its first analysis on the development of China's private economy'] available at http://www.gov.cn/jrzq/2005-12/10/content_123447.htm [accessed on 11 Nov 2008].

29. Bruce J Dickson, *Red Capitalists in China: The Party, Private Entrepreneurs, and Prospects for Political Change*, Cambridge: Cambridge University Press, 2003, p. 38.

30. Jiang Zemin, 'Zai xinde lishi tiaojian xia women dang ruhe zuodao "Sange Daibiao"' ['How can CCP achieve the "Three Represents" under new historical circumstances'], speech made on 25 February 2000 in Guangdong Province, available at: <http://www.kxdj.com/kxdj2005/html/160/125.html> [accessed on 11 Nov 2008].

recruitment should be admitted to the Party.³¹ Private entrepreneurs were included in this extended category.

Thereafter, all major barriers to the development of the private sector have been removed. In 2005, the CCP Government issued several documents allowing private enterprises to enter the once state monopolized industries of military equipment production, railroad construction and rail services, as well as aviation, which would have been beyond imagination not only in the Mao-era, but also in the early years of economic reform. Undoubtedly, private business owners have never enjoyed a more favourable environment.

Conclusion

Since the establishment of the People's Republic of China, the country's economic policies towards its private economic sector and the government's attitude towards private entrepreneurs have altered frequently and dramatically. From a general perspective, all the changes occurred when the ideological goal of income equalization and heightened political consciousness conflicted with the pragmatic goals of industrialization and economic modernization. The Central Government would turn to the private sector when it needed to develop the national economy and to improve people's livelihood. But when feeling that the prosperity of the private economy and the existence of private entrepreneurs conflicted with its socialist ideals, the government would discard the protection previously afforded the private sector.

The situation of the private sector has been greatly improved in the post-Mao era, as economic development has become a well established task of the government. Nowadays, the private economy is playing an increasingly indispensable role in China's development. In these circumstances, the Party-state is attaching ever more importance to the private sector. The government has to depend on the private sector for ensuring employment and generating revenue. Furthermore, private enterprises are also a major source of funds for social welfare.³² Nowadays, for some officials, to establish links with private enterprises and to cultivate personal relationships with newly rich private

31. Jiang Zemin, 'Zai qingzhu jiangdang bashi zhounian dahui de jianghua' ['Speech on the 80th anniversary of CCP'], available at: <http://www.people.com.cn/GB/shizheng/16/20010702/501591.html> [accessed on 11 Nov 2008].

32. Qin Yan, *Zhongguo de Zhongchan Jieji* [China's Middle Class], Beijing: Zhongguo Jihua Chubanshe, 1999.

entrepreneurs, not only confers high status, but also provides substantial benefits. The private sector has become so important to economic development that some non-central governments and officials regard the growth of the private sector as a central agenda item in their political activities. For example, the Henan Provincial Government has stated that the development of its non-state owned sector—of which the private sector constitutes a substantial part—would be regarded as a significant goal for the development of its departments and institutions.³³

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In China, it is prohibited for a government official to own a private business, or for a private business owner to serve in the government. However, an efficient way for the Party-state to politically mobilize the private economic sector is to invite successful private entrepreneurs to become members of organizations such as the People's Congress, the People's Political Consultative Conference (PPCC), the Federation of Industry and Commerce (FIC) and so on. All of these are serving the function of conferring legitimacy on the Party-state as well as acting as transmission belts for communications between the Party-state and the rest of society and the economy. With such an identity, private entrepreneurs are able to participate in political activities. Nowadays, this is the most significant and standard means of political participation of private entrepreneurs in China'.³⁴ While the National People's Congress and local people's congresses are 'the organs through which the

33. People's Government of Henan, 'Guanyu guanche 2005(3) hao wenjian guli zhichi he yindao feigongyouzhi jingji fazhan de shishi yijian' ['Opinions regarding carrying out 2005(3) document by State Development and Reform Commission on encouraging, supporting and directing the development of non-state owned economy'], available at: <http://www.smehen.gov.cn/info/Show.aspx?id=87070> [accessed on 2 Dec 2008].

34. Mao Mingbin, 'Lue lun siying qiyezhuzhu jieceng de zhengzhi canyu fangshi ji qi tedian' ['Discussion on the means of private entrepreneurs' political participation and its features'], *Lanzhou Xuekan* [Lanzhou Academic Journal], Issue 5, 2004, p. 33-4.

people exercise state power',³⁵ the PPCC provides non-CCP party members, people with ethnic minority backgrounds, all trades and professions access to political participation,³⁶ and the FIC aims to promote the interaction between the Party-state and entrepreneurs from the non-public sector. Private entrepreneurs usually find membership in such organizations appealing, as they can not only bring them certain political power, but also provide them with a business and political network, which enables them to achieve individual wealth.

On the other hand, despite the fast expansion of the private sector and its current significance in China's economy, private entrepreneurs still have to depend on the government and local officials for the development of their businesses, as 'the imperfect market mechanism developed in China has yet to uproot the bureaucratic influence on the economy'.³⁷ Though China has been developing as a market economy for some 30 years, the traces of a planned socialist economic system can be found everywhere. Government and officials still retain influence in economic development. Though having much more freedom in comparison with state-owned enterprises, private enterprises are still restricted by laws, regulations and rules of governments and have to pay taxations and different kinds of administration fees. Moreover, different levels of government control resources, loans and some raw materials, and are an important source of business information and business contacts.³⁸ Inevitably individual official's attitudes and predispositions may determine outcomes as regulations and rules are implemented, and in a system relatively lacking in mechanisms of public accountability the personal effect may well be magnified. Consequently, in the eyes of many private entrepreneurs, a close affiliation with the Party-state and its officials is necessary. 

35. See the website of the National People's Congress of PRC, available at: <http://www.npc.gov.cn/zgrdw/english/aboutCongress/aboutCongressDetail.jsp?id=Introduction> [accessed on 12 Feb 2007].

36. See the website of the General Office, National Committee, Chinese People's Political Consultative Conference, available at: <http://www.cppcc.gov.cn/htm/jianjie/jianjie.htm> [accessed on 12 Feb 2007].

37. Ray Yep, *Manager Empowerment in China: Political Implications of Rural Industrialization in the Reform Era*, London: Routledge, 2003, p. 80.

38. Ray Yep, 2003; Bruce J Dickson, 2003.