

Review Essay

The Making of the State Enterprise System in Modern China: The Dynamics of Institutional Change. By *Morris L. Bian*. Cambridge: Harvard University Press, 2005. xi + 331 pp. Index, notes, appendix, maps, photographs. Cloth, \$45.00. ISBN: 0-674-01717-X.

Reviewed by Man Bun Kwan

To champions of private enterprise, a state-run system has a dubious reputation as an inefficient, if not a wasteful, intrusion into the economy. Crossing such a system with a communist regime, in their view, inevitably results in the government's becoming an instrument of political tyranny. However, China, which exemplifies just such a blend of economics and politics, has a long tradition of state ownership and government operation of workshops that dates back to preindustrial times. Beginning in the sixth century BCE, if not earlier, salt and iron were produced under various forms of government control, and, until the late imperial era, the finest porcelain and silk were manufactured in government plants. Morris L. Bian's *Making of the State Enterprise System in Modern China* helps to clarify the workings of the Chinese system, especially during the Sino-Japanese War (1937–45), a critical period long ignored by economists and other social scientists who have generally considered Communist China's industrial system to be no more than a carbon copy of the Soviet model.

A succinct introduction lays out the theoretical framework. Chinese state-owned enterprise, characterized by a “bureaucratic structure, distinctive management and incentive mechanisms, and the provision of social services and welfare” (p. 1), derives not only from the Soviet model but also from other institutional resources, both exogenous and endogenous. Thus, although the evolution of the Chinese state enterprise system was both path dependent and path independent, the precise locus and mechanism of the transformation remain elusive. Finding Douglass North's economic neoinstitutionalism less than satisfying as a theory of change, Bian draws on Philip N.

Johnson-Laird's "mental model" and Thomas S. Kuhn's theory of paradigmatic change to describe the Chinese experience.¹

The book is divided into seven chapters. The first traces the development of the ordnance industry, beginning with the late Qing dynasty (1644–1911). Pressured by the rise of Western imperialism to modernize, the Manchus were unable to provide the necessary leadership; nor was privatization a feasible response, given the amount of capital and technology it would require. Instead, provincial governors, especially those on the coastal provinces, filled the gap left by the central government and led the drive for change. But as China descended into warlordism after the fall of the Manchu dynasty, neither the warlords nor the Nationalists were able to centralize the management of the country's ordnance industry and achieve self-sufficiency.

Nationalist policymakers confronted a different set of issues vis-à-vis heavy industries. Successive plans and commissions not only wavered between adopting free enterprise and imposing a controlled economy; they were also undecided about the direction heavy industry should take. Although the Japanese invasion was a disruption to their planning, it facilitated a massive expansion of state involvement in the energy sector (petroleum, coal, and electricity) in the interior provinces of Sichuan, Yunnan, Guizhou, and Lanzhou. By 1942, the National Resource Commission (NRC) and other agencies were dominating the sector, and privately owned metallurgical and machine firms were soon dwarfed by these state-controlled giants.

Bian devotes three chapters to analyzing the internal governance structure and agency issues (incentives, social benefits, and personnel management) of the state enterprises, which officials began to run as part of the government bureaucracy in the late Qing period. Officials were appointed to positions in a defined hierarchy, and they worked under formalized rules and procedures that were inspired by Confucianism. During the Republican period, however, technocrats, especially foreign-educated engineers and other professionally trained experts, began to replace traditional

¹ Douglass C. North, "Five Propositions about Institutional Change," in *Explaining Social Institutions*, eds. Jack Night and Itai Sened (Ann Arbor, 1995), 15–26; Philip N. Johnson-Laird, *Mental Models: Towards a Cognitive Science of Language, Inference, and Consciousness* (Cambridge, Mass., 1983); and Thomas S. Kuhn, *The Structure of Scientific Revolutions*, 3rd ed. (Chicago, 1996).

bureaucrats in the managerial ranks (pp. 277n3, 290n74). To promote efficiency, these technocrats introduced cost accounting, systematic use of the voucher system that had been pioneered in the United States, and a “work emulation” campaign modeled on the Soviet Union’s Stakhanovite campaign. Labor shortages and wartime dislocation also reinforced trends that had begun in the 1920s, when private and state enterprises began trying to attract workers and staff by providing welfare and other fringe benefits, such as housing, medical care, and schools. In “rationalizing” the management of these diverse activities, the Nationalists were also inspired by American theories of public administration. Operating as administrative units (*danwei*) that encompassed economic, social, and political functions, state enterprises instituted “three-in-one” management consisting of planning, execution, and assessment.

These innovations should be viewed in the context of the Nationalists’ emerging ideology (and policy) of a developmental state, the subject of the final chapter. As early as 1912, Sun Yatsen had mandated state operation of selected industries. His followers drew their inspiration from contemporary Italy, Germany, Japan, the Soviet Union, and even from Britain and the United States, which had all instituted their own partially controlled economies in response to the Great Depression. Chinese policymakers defined and redefined the boundaries between state and private enterprise and decided which basic industries were crucial to national defense and which were not. They also began to restrict the growth of large, privately owned corporations and monopolistic companies. National strength, not profit for capitalists, was their ultimate goal. At least four plans explicitly established a state-planned economic system that emphasized substitution of imports, national defense, and management of heavy industries, which left private and foreign entrepreneurs in limbo. While there were voices of dissent among academics and private entrepreneurs, the crisis of the Sino-Japanese war and the shortages of expertise and capital in the private sector rendered moot any further debate over the supremacy of the state.

With this book, Bian joins the growing ranks of revisionists challenging the post-1949 historiography that dismisses the Nationalist state-enterprise system as bureaucratic

capitalism.² Other recent studies that have revisited the subject have painted an even more complicated picture of the Republican state's involvement in the economy. Sun Yatsen's ambivalence contributed to the theoretical uncertainty.³ In practice, the line between state, public, and private enterprise was frequently blurred.⁴ Under the control of the Supreme National Defense Council, ordnance industries were run as part of the military establishment, under a strict hierarchy and with little regard for profits. However, state agencies like the NCR were also funded by profits from the compulsory purchase and exclusive export of tin, tungsten, antimony, and mercury.⁵ Enterprises held by state banks were subject to periodic audits and operated with an eye toward profitability.⁶ Government monopolies of bristle, tung oil, tobacco, alcohol, salt, sugar, and matches were instituted between 1942 and 1945 as a way to gain state revenue, encourage foreign exchange, and impose price controls. These monopolies combined state funding and official outlets with franchises operated by private merchants.⁷ Central, provincial, and

² See, for example, Jian Rui, "Guomintang guanliu ziben fazhan de gaishu" [An Outline Account of the Development of Bureaucratic Capitalism under the Nationalist Party], *Zhongguo jingjishi yanjiu* [Studies in Chinese Economic History] 3 (1986): 97–118. The revision can be traced to the translation and publication of Ishijima Toshino's "Guomintang zhengquan de kangri liliang" [The Strength of the Nationalist Government's Resistance against Japan], in *Zhongguo jin'ai jingjishi yanjiu ziliao* [Research Materials on Modern Chinese Economic History] 2 (1984): 67–97.

³ Xu Jiansheng, "Minguo Beijing, Nanjing zhengfu jingji zhengce de shixiang jichu" [Foundations of Economic Thought for the Republican Governments of Beijing and Nanjing], *Zhongguo jingjishi yanjiu* [Studies in Chinese Economic History] 3 (2003): 70–81.

⁴ Zhu Baoqin, "Lun Nanjing guominzhengfu de gongye zhengce, 1927–1937" [An Analysis of the Industrial Policy of the Nanjing Nationalist Government, 1927–1937], *Nanjing daxue xuebao* [Bulletin of Nanjing University] 1 (2000): 130–36.

⁵ A control that continued beyond 1949. See Lin Lanfang, *Ziyuan weiyuanhui de tezhong kuangchan tongzhi, 1936–1949* [NRC and the Control of Special Minerals, 1936–1949] (Taipei, 1998), 189.

⁶ Zhang Jia'ao, letter to Weng Wenhao, 9 June 1943, as cited in Li Xuetong, *Huanmie de men—Weng Wenhao yu Zhongguo zaoqi gongyehua* [A Vanished Dream: Weng Wenhao and China's Early Industrialization] (Tianjin, 2005), 188.

⁷ He Shi-mo, *Kangzhan shiqi zhuanmai shiliao* [A Documentary Collection of State Monopoly during the Sino-Japanese War, 1941–1945] (Taipei, 1992).

local governments also formed joint ventures, as did state agencies and private investors.⁸ Nor did the state sector grow at the expense of private enterprise, as the state became a minority shareholder in many private enterprises.⁹ In short, ordnance and heavy industries did not exhaust the institutional configurations of “state” enterprises.

Political concerns, turf battles, and changing personal views further complicated the rationale for state enterprise and influenced the institutional mix that eventually emerged. Chiang Kaishek seemingly cared little about industrial development, except when it affected his grip on the country.¹⁰ T.V. Soong, then head of the Chinese State Department, commented, “So what?” when an American adviser warned him against adopting “socialistic” economic planning.¹¹ In contrast, Soong’s brother-in-law and rival Kong Xiangxi, who was minister of industries, proposed a plan for ten state-owned industrial enterprises, despite his reputed opposition to state enterprise.¹² Kong’s successor, Chen Kongbo, an early advocate of a state-controlled economy, concluded, after a bruising turf battle, that the Nationalists simply did not possess the organizational strength to maintain such a system.¹³ His plan to establish a state-owned chemical plant for producing ammonium sulfate, a chemical fertilizer that could also be used as an

⁸ Zhao Xingsheng, *Chuantong jingyan yu xiandai shixiang—Nanjing guomin zhengfu shiqi de guoying gongye yanjiu* [Traditional Experience and Modern Ideal: A Study of State Industrial Enterprise under the Nanjing Nationalist Government] (Jinan, Shandong, 2004), 257–87.

⁹ For instance, the NRC acquired 47 percent of the Tien Yuen electrochemical works in 1943. See Shanghai Tianyuan huahongchang zhi bianshe waiyuanhui, compiled, *Shanghai Tianyuan huagongzhang zhi* [A Gazetteer of Tianyuan Chemical Works] (classified ed., Shanghai, 1994), 9–10.

¹⁰ Wu Taichang, “Guomindang zhengfu Ziyuan weiyuanhui nongduan huodong pingshu” [On the Activities of the Nationalist Government’s National Resource Commission], *Zhongguo jingjishi yanjiu* 3 (1986): 119–34.

¹¹ S. A. Trone, letter to T.V. Soong, 26 Apr. 1943, in box 31, “Papers of T.V. Soong,” held at the Hoover Institution. However, A. N. Young, another American adviser, opined that Soong “believed in private enterprise.” See “A. N. Young diaries,” entry dated 21 Feb. 1946, in box 117, “A. N. Young papers,” held at the Hoover Institution.

¹² Li Xuetong (2005), 112.

¹³ Chen Gongbo, “Tongzhi jingji yu zuzhi” [Controlled Economy and Organization], *Sinian congzhenglu* [Four Years in Politics] (Shanghai, 1936), 174–92.

explosive, was scrapped and turned over to private enterprise and received minimal government support.¹⁴

Similarly, the state's provision of welfare benefits and other incentives did not exhaust its array of measures for promoting productivity and reducing agency problems. As a means of social control, the NRC cultivated a "corporate" culture of public-mindedness and sincerity (*gongcheng*) by rewarding faithful service with medals of honor. To extend its reach, the commission kept a national register of engineers and other experts.¹⁵ Also during this period, and for the same reasons, the political parties (both the Nationalists and the Communists) began to infiltrate industrial enterprises (both state-owned companies and large private industries) by organizing their members into enterprise-based party branches.¹⁶ How the managers and technocrats reconciled the interests, if not the dictates, of the party with the interests of their companies is an issue worthy of further exploration.

An even bigger boost to the Nationalist state-enterprise system came in the wake of the Second World War. Seizure of thousands of enterprises owned by the Japanese and their collaborators led to a massive expansion of the state sector. Amid charges of corruption and greed, the debate over state and private enterprise flared again. Under pressure, the Nationalists began to privatize selected state companies through bidding or public offerings of their shares in the stock market.¹⁷ Property rights reemerged as an

¹⁴ Fan Xudong's privately held Yongli Chemical Industries built the plant in 1937. See Nanjing huaxue gongye (jituan) gongsi *Nanhuazhi* bianweihui, compiled in *Nanhuazhi* [A Gazetteer of Nanjing Chemical Group] (Beijing, 1994).

¹⁵ Xue Yi, *Guomin zhengfu Ziyuan weiyuanhui yanjiu* [A Study of the Nationalist Government's National Resources Commission] (Beijing, 2005), 437. Surviving dossiers can be found at the Academia Historica and in the archives of the Institute of Modern History, Academia Sinica.

¹⁶ On the *danwei* as units of social control, see Victor N. Shaw, *Social Control in China: A Study of Chinese Work Units* (Westport, Conn., 1996), pt. 2.

¹⁷ Zhang Zhongmin, "Luelun zhanhou Nanjing zhengfu guoyou qiye de guoyou gufen jianqi" [A Brief Analysis of the Nanjing Government's Divestment of State Shares in State-Owned Enterprises], in Zhang Zongmin and Lu Xingnong, eds., *Qiye fazhanzhong de zhidu bianqian* [Institutional Change in Chinese Business History] (Shanghai, 2003), 56–71.

issue for debate as various schemes of state shareholding and corporate governance were proposed and considered.¹⁸

Because the issues raised in this book continue to resonate today with the divestiture of state-owned and party-owned enterprises by the Communists in China and the Nationalist Party in Taiwan, this book is an indispensable resource for modern Chinese business and economic historians. Scholars studying the role of the state in economic development will also find it useful for purposes of comparison.

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¹⁸ The issue of property rights is revisited by Wang Rong, *Wan Qing Gongye chanquan zhidu de bianqian* [Property-Right Changes in Late Qing Industries] (Kunming, Yunnan, 2004). See also a 1947 proposal by Xu Qingfu to transfer ownership and operation of all state enterprise to a public holding commission, in box 5 (schedule B) of "T.V. Soong Papers."