

Private Enterprises and China's Economic Development

Edited by
Shuanglin Lin and
Xiaodong Zhu



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Private enterprises have contributed significantly to China's recent economic growth, and will play a key role in achieving China's goal of building a comprehensively flourishing society. But how can private enterprises help China mitigate its macroeconomic problems such as unemployment, income inequality, financial disintermediation, and an unhealthy boom–bust cycle? And what are the main obstacles to private enterprise development? *Private Enterprises and China's Economic Development* answers these questions by identifying the range of cultural, political, and financial challenges confronting China's private enterprises, and assessing their performance and potential. Contributors also analyze the experiences and lessons of other countries, and propose strategies and policies to help China promote private enterprise development.

Using the most up-to-date research on private enterprises, including detailed econometric analysis and national representative data, the authors, including economists, policy-makers, and academics from the USA, China, Singapore, and Canada, comprehensively address the most important aspects of China's private enterprise development. This book will appeal to students, scholars, and policy-makers with an interest in the Chinese economy, economic growth, comparative economics, and transitional economics.

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1 Introduction and overview

Shuanglin Lin and Xiaodong Zhu

Background

Markets have existed in China for thousands of years. However, on entering the modern era, the road to a market economic system has been painfully bumpy for the Chinese. In 1957, China completed its socialist economic transformation, eliminated all private enterprises, and established state-owned and collective enterprises. In the following year, China established collective farms in rural areas. Since then, China has become a centrally planned economy dominated by a large state sector. The socialist economic system relied on political propaganda to motivate workers and managers. In 1958, China launched the “Great Leap Forward” movement in an effort to catch up with Britain and the US in a short period of time. The whole country was mobilized in a military way, and food and steel were called the two “generals” by Chairman Mao. Lakes were filled to make more land, grassland was plowed to grow crops, and woods were destroyed in an attempt to make steel in farmers’ backyards. Farmers in the people’s communes worked together and ate together without paying anything. Soon, food reserves were used up, followed by three years of bad harvest. Many people starved and died. The steel made on farmers’ backyard stoves was completely useless. To find a way out of the economic crisis, a group of pragmatic leaders in China introduced some incentive mechanisms to rural areas, such as allowing farm households to have a private plot of land to grow food for themselves, and letting a farm household have a fixed amount of land and keep the surplus after submitting a fixed amount of grain to the people’s communes. These economic reforms improved productivity dramatically, and economic prosperity came to China in the middle of the 1960s. However, these reforms were criticized by the left-wing officials as revisionism and, in 1966, Chairman Mao launched the Movement of the Great Cultural Revolution to prevent China from going on the “capitalist road.” Everyone was forced to participate in the movement. Farmers’ private plots were taken back by the communes, free farmers’ markets were forbidden, and factories in urban areas were paralyzed. Endless political struggles, insufficient incentives to work, and inappropriate and rigid planning brought the national economy to the edge of collapse in the middle of the 1970s. In 1978, China started market-oriented