



# *On the Nature and Direction of State-owned Enterprises Reform in a New Era*

Fan Yuxian, Zhang Yuesheng & Yuan Xiaoling\*

**Abstract:** State-owned enterprises (SOEs) serve as an important material and political basis for socialism with Chinese characteristics. SOEs must be reformed in accordance with Xi Jinping Thought on Socialist Economy with Chinese characteristics for a new era, which is the fundamental basis for maintaining the nature and direction of reform for SOEs. Reforms must be built on the fundamental standpoint with people at the center, and aimed at emancipating, developing and protecting productive forces based on the principles of justice and fairness, which is also the direction for Chinese SOEs reform in the new era. Adherence to the public ownership of state-owned assets in the form of value and its market-oriented management in the form of use-value is not only the objective requirement of a production mode adapting to the growth of productive forces, but also the logic of SOEs reform in the new era. Meanwhile, SOEs need to highlight the top-level designs of governmental systems in the reform process, giving effective play to the leading and guiding roles of Xi Jinping Thought on Socialist Economy with Chinese characteristics for a new era.

**Keywords:** SOEs reform; people-centered; productive forces; production mode

SOEs are the backbone force for promoting the sound development of the national economy, and the fundamental pillar of a socialist economy with Chinese characteristics, having made great historic contributions to economic and social development, scientific progress, national defense and people's livelihoods. At the Nationwide SOEs Party Building Conference, General Secretary Xi Jinping

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\* Fan Yuxian, lecturer, School of Marxism, Xi'an Jiaotong University.

Zhang Yuesheng, professor, School of Management Xin Xiang University.

Yuan Xiaoling, professor, School of Economics and Finance, Xi'an Jiaotong University.

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pointed out: “SOEs serve as a material and political foundation for socialism with Chinese characteristics. They are a pillar supporting the Party in the governance and rejuvenation of China.”<sup>①</sup> Clarifying the nature and direction of SOEs reform not only relates to the fundamental properties of our socialist economic system and market economic reform, but also guarantees the stability of leading socialist ideology. The problems to be solved in SOEs reform are not only the “economic issues of a society,” but also the “social issues of an economy.”

At present, some scholars are expressing discordant opinions on SOEs reform. In their opinions, the state-owned economy’s growing bigger and stronger is a reverse in the reform, and mirrors a monopolistic conduct that SOEs “scramble for interests with the private businesses,” running against the law of competition in the socialist market. So, they proposed that SOEs should exit from the competition or even be privatized. On a practical level, operable systems and standard designs targeted to SOEs reform have not been developed. Allowing no differentiation in the reform of different SOEs has led to all kinds of chaos, or even the phenomena such as implementing privatization in the name of “mixed-ownership reform,” loss of state assets and serious corruption, diverting SOEs from their socialist direction in the reform process.

Karl Marx once pointed out, “Theory is fulfilled in a people only insofar as it is the fulfilment of the needs of that people....It is not enough for thought to strive for realization, reality must itself strive towards thought.”<sup>②</sup> To address the issues related to SOEs reform, it is necessary to dive deep into the thoughts on a socialist economy

with Chinese characteristics for a new era, keep a firm hold on the correct reform direction, and clarify the issues such as SOEs’ nature, status and value orientation. It is required to determine the fundamental position in SOEs reform, i.e. for whom the reform shall be carried out, and ensure the compliance of the reform within the basic rules of socialist economic development. Based on the “people-centered” attitude stated in the theory on a socialist economy with Chinese characteristics for a new era towards the SOEs reform, i.e. “for whom” the SOEs reform shall be carried out, this paper digs into Marx’s theoretical connotation of “productive forces - production modes - production relations” and “economic base - superstructure,” and explains the fundamental objective, logical obedience and reform route and other essential issues of SOEs reform from the perspectives such as all-round development of productive forces, change of production modes, and adjustments to production relations and superstructure, giving theoretical answers to the actual issues facing the SOEs reform at the moment.

## 1. Theoretical basis and connotation explanation of the SOEs reform

Ultimately, the SOEs reform are to develop productive forces and address the institutional arrangements during the reforms. In his works, Marx not only discussed the dialectical unification relations between productive forces and production relations, but also pointed out that the object of study in Capital should be “to examine the capitalist mode of production, and the conditions of production and exchange corresponding to

① Xi, 2017, p.175

② Marx & Engels collected works (Vol. 1). Beijing: People’s Publishing House, 2009, p.3.

③ Marx & Engels collected works (Vol. 5). Beijing: People’s Publishing House, 2009, p.8.

that mode.”<sup>③</sup> In his letter to Pavel Vasilyevich Annenkov in 1846, Marx wrote, “With the acquisition of new productive faculties man changes his mode of production and with the mode of production he changes all the economic relations which were but the necessary relations of that particular mode of production.”<sup>①</sup> Marx’s theory on “productive forces - production mode - production relations” reveals how the production relations adapt to the development of productive forces, as well as the role of the production mode in promoting the changes of production relations, indicating that the production mode is the indispensable intermediate in the paradoxical movement of productive forces and production relations. The production mode presupposes a given level of the social productive forces and their forms of development as its historical precondition: a precondition which is itself the historical result and product of a preceding process, and from which the new mode of production proceeds as its given basis. The production mode puts into use and gives play to a certain level of productive forces through production activities on one hand, and on the other hand, regenerates the production relations among people through man’s occupation and distribution of things.<sup>②</sup> The former reflects the natural attribute of the production mode, while the latter reflects the social attribute. The mode of production in any society “does not merely constantly reproduce the material product, but also the social and economic relations, the characteristic economic forms of its creation.”<sup>③</sup> That is the dialectical relationship between the production mode and production relations.

The production mode reflects in nature the allocation of production factors and resources during production, so under certain circumstances, can be seen as the resources allocation method. Resources allocation falls into two types, i.e. general resources allocation for abstract production, and resources allocation under specific production relations. The former refers to the distribution of means of production and social labor among different departments and fields, free of constraints imposed by a specific production and shared by the social productions of all natures. For instance, the reasonable allocation of manpower and materials in production is an economic issue shared by all societies;<sup>④</sup> the latter refers to the distribution of production factors and resources among community members, with its nature hinging on the nature of the ownership of the means of production. The resources allocation in a capitalist mode of production is essentially the allocation of resources by capitalists for different purposes to realize and gain surplus value, while the resources allocation in a socialist mode of production is the allocation of production factors to realize common prosperity for the masses.

Production relations are the total of all relations “corresponding to this specific, historically determined mode of production” and “which human beings enter into during the process of social life, in the creation of their social life.”<sup>⑤</sup> They represent the pattern of ownership of the means of production and the status in production and the relations among people resulting there from. They are the social forms of the production mode, with people-to-people relations in terms

① *Marx & Engels collected works* (Vol. 27). Beijing: People’s Publishing House, 1974, p.476

② Meng, 2000 & Bao, 2005

③ *Marx & Engels collected works* (Vol. 7). Beijing: People’s Publishing House, 2009, p.987

④ Zhang, Meng & Lu, 2013, p.160

⑤ *Marx & Engels collected works* (Vol. 7). Beijing: People’s Publishing House, 2009, p.994

of ownership of means of production as their essence and core. If the production mode defines the physical attribute of resources allocation, then production relations characterize its social attribute – the interest distribution relations established based on ownership. Therefore, production relations essentially are identical to distribution relations. Their nature is finally manifested by the nature of distribution relations under a specific production mode.

The whole structure of the economic system made up of “productive forces - production mode - production relations” forms the economic foundation, while the superstructure consists of the politics, laws and other systems built on the economic base as well as the social ideology being compatible with the economic base. The production and technological development levels, resources allocation mode as well as the nature and features of specific links in production relations including production, exchange, distribution and consumption have decisive effects on all aspects of the superstructure; the social system and social ideology shaped in such a paradoxical movement, in turn, react against the economic base.

## 2. Standpoint and nature of the SOEs reform in the new era

The development and interaction processes of all factors in “productive forces - production mode - production relations” and “economic base - superstructure” ultimately depend on the class attribute of a country, or in essence answer the question of “for whom,” which is a fundamental issue facing every country in the economic development and reform practice. In a class society,

economic activities must involve the interest relations among different classes, showing a certain class nature. In the preface to *Capital*, Marx wrote, “In the domain of Political Economy, free scientific inquiry meets not merely the same enemies as in all other domains. The peculiar nature of the materials it deals with, summons as foes into the field of battle the most violent, mean and malignant passions of the human breast, the Furies of private interest.”<sup>①</sup> Thus, reform certainly has a class nature in a class society.

The Marxist noble ideal is the all-round development of human beings and freedom of personality, which is the ultimate value of socialist economic development with Chinese characteristics in the new era. China is still at the initial stage of the first phase of communist society, with the all-round development of human beings and freedom of personality still in progress.<sup>②</sup> The production at this stage will aim for common prosperity for all. “All” refers to the broad masses of the people. In the new era, “from the masses, to the masses” manifests as “taking people’s interests as the center,” i.e. standing with the working class and laboring people, and adhering to fairness and justice, which is the basic class attitude of Marxist economics, the basic value orientation of Xi Jinping Thought on Socialist Economy with Chinese characteristics for a new era, and the basic rules for the standpoint and nature of the SOEs reform.

SOEs exist in both capitalist and socialist societies, performing economic and social functions on behalf of the government. Therefore, state ownership itself does not represent an ownership of the means of production. Its nature is ultimately decided by which class finally controls the means of production. The independence of capitalist state

① Marx & Engels collected works (Vol. 5). Beijing: People’s Publishing House, 2009, p.8

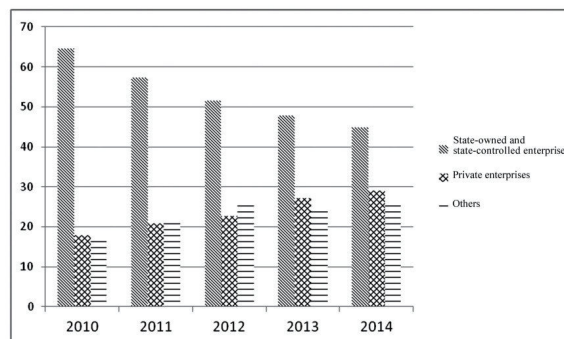
② Zhao, 2016 & Yu, 2017

power is the product of private assets occupying a dominant position, and capitalist competition. Thus, the sociality embodied by the state in exercising social and economic functions is in nature subordinate to the class nature. It ultimately serves the fundamental and long-term interests of the bourgeoisie, the owners of the means of production; while in a socialist state, the public ownership ultimately serves the fundamental interests of all the people, the owner of the means of production.<sup>①</sup>

A public economy is the form of ownership that can truly represent the interests of all the people, reflecting the strategic interests of the country and the interests of the general public; while a private economy will cause extreme disparity between the rich and the poor, going against the maintenance of public interests.

Thus, we must remain clear mind regarding the opinions alleging that SOEs “scramble for interests with the private businesses,” and SOEs shall exist from the competition or even be privatized. These opinions mistake the state-owned business capital owned by the entire population for “bureaucratic capital” in the interest of a few, and identify the private capital owned by a few with the “people-owned capital” in the interest of people, which is an incorrect understanding of the fundamental system and class attitude of the Chinese socialist economy. As the facts demonstrate, SOEs growing bigger and stronger will not “scramble for interests with the private businesses,” but serve as the fundamental guarantee for people’s interests.<sup>②</sup> In contrast with private enterprises, SOEs assume more important social responsibilities in terms of social and economic development and can better stand for the

Figure 1 Proportion of Various Enterprises in the Sales Revenue of New Products (2010–2014)



Note: The data in the figure are extracted from China Statistical Yearbook (2011–2015).

fundamental position of taking people’s interests as the center.

## 2.1 SOEs constitute the main force of national industries going global.

SOEs attach importance to technological innovation and take the leadership in “Intelligent Manufacturing in China,” some of which have finally become world-known enterprises.<sup>③</sup> Statistical data show that in 2014, 28.5% of SOEs made product innovations and 36.8% made process innovations while the corresponding proportions for private enterprises were 22.5% and 23%. Although SOEs have gradually decreased in number, their sales revenue from new products still represented a considerable share among domestic enterprises (as shown in Figure 1). Similarly, in foreign trade, the state-owned and state-controlled enterprises also occupied a remarkable share (as shown in Figure 2).

## 2.2 SOEs are the main guarantee of the people’s livelihood.

SOEs are an important source of state revenue and the public welfare revenue. In 2015 state-owned enterprises, 5% of China’s total enterprises,

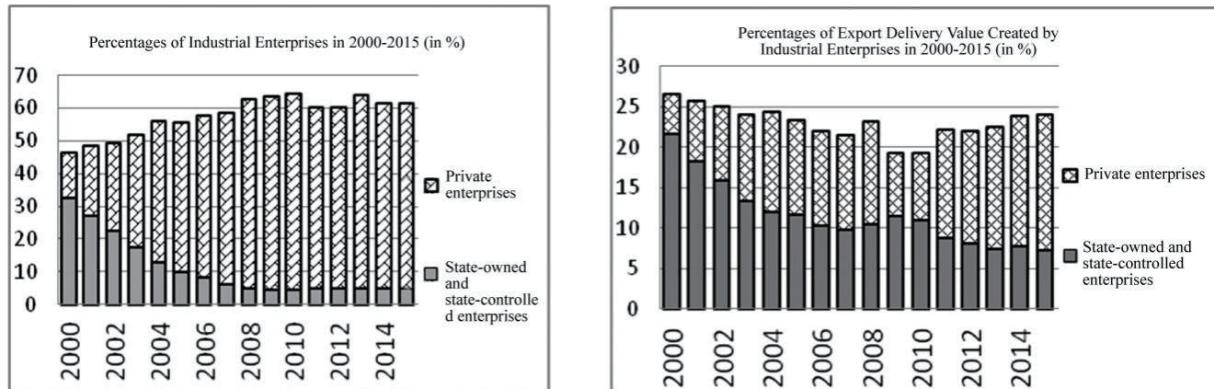
① Long & Fu, 2017

② Zhang, 2011; Zhai, 2017

③ Qi & Liu, 2015



Figure 2 Proportions of Stated-owned, State-controlled and Private Enterprises in Number and Export Delivery (2000–2015)



Note: The data in the figure are extracted from China Statistical Yearbook (2001–2016).

contributed 7.3% of export delivery value and 16.3% of total corporate tax payments; SOEs created enormous direct and indirect job opportunities for the society, effectively ensuring the welfare of employees. Statistical data showed that the average wage of SOE employees was higher than that of employees working for other types of enterprises. In 2015, the annual average wage of SOE employees was RMB 65,296, exceeding that of urban workers by RMB 3,270. SOEs' high quality products could ensure the people's livelihood and safety. SOEs' nature determines their conscience and social responsibility with which they will not do business only for profits but play a prominent role in leading industrial product quality and safety.

### 2.3 SOEs' economic activities have spillover effects on private enterprises.

In recent years, as driven by the tide of "retreating the state property while allowing market entry of private enterprises in competitive industries," China has witnessed vigorous growth of the private ownership economy during which private enterprises have gradually increased in both number and market share, even surpassing SOEs in some areas. Such rapid development of private enterprises is mainly attributed to SOEs' spillover

effect in terms of infrastructure construction and technological development. The public facilities and services provided by SOEs have saved private enterprises a lot of basic costs. In addition, SOEs' technology is typically higher than that of private enterprises. Through the flow of human resources and learning effect, private enterprises can achieve innovations and breakthroughs in technology and management with relatively low cost. Such spillover effects show how SOEs deliver benefits to all the people with their development achievements.

SOEs can objectively represent the fundamental interests of the people and in the process of deepening reform, they must be ensured to constantly do so in practice. Adherence to the leading position of the public ownership economy is to ensure that the development achievements are shared by all the people. China's basic economic system, established for the primary stage of socialism, in which public ownership plays the dominant role while diverse forms of ownership are allowed to develop side by side, is the essential basis for judging the direction and distinguishing between right and wrong regarding the reform of the socialist economic system. "China's market-oriented policy is designed to achieve the self-improvement of the

socialist system, instead of the transformation into capitalism.”<sup>①</sup>

### 3. Fundamental objective of the SOEs reform in the new era

The basic task of the SOEs reform is to promote the all-round development of socialist productive forces, and address issues such as for whom, what and how productive forces shall be developed. The development of socialist productive forces is not only to reach and exceed that of capitalist societies on the level of material production, laying a material foundation for realization of communism, but also to eliminate exploitation and polarization, and to ultimately achieve common prosperity. To develop China's socialist productive forces in the new era, it is required to promote efficiency and uphold fairness and justice, the two overarching values in the socialist value system. Both values must be satisfied at the same time, instead of pursuing one at the expense of the other. According to Branko Horvat, justice gives the reason why we need socialism, and efficiency describes how we shall construct socialism. “Efficiency” essentially refers to economic efficiency, an issue related to “development of productive forces.” “Fairness” in essence refers to institutional efficiency, an issue concerning the “emancipation and protection of productive forces.” Therefore, the development concept of socialist productive forces can be divided into three level: emancipation, development, and protection of productive forces,<sup>②</sup> which are the major components of Xi Jinping Thought on Socialist Economy with Chinese characteristics for

a new era.

To develop productive forces, it is important to first emancipate them by overcoming and eliminating obstruction, constraints and shackles on the way to creating favorable conditions for that purpose. To emancipate productive forces, it is necessary to liberate the three factors, i.e. laborers, means of production and the subject of labor, in which the liberation of laborers is to enable every economic entity to face equal opportunities in the beginning. In terms of the distribution system, besides the distribution of totally market-oriented products according to work, the equality of initial economic conditions must be ensured with the supplement of distributing ability-shaping products, such as education, health care and basic social welfare according to needs,<sup>③</sup> so that all members of society can enjoy equal economic status in the beginning. The socialist state-owned economy therefore emancipates productive forces by meeting the basic needs of the members of society.<sup>④</sup>

In a narrow sense, the development of productive forces is to promote economic efficiency, maximizing output with minimal input. This is an issue that shall be focused on during the primary stage of socialist development. The development of productive forces cannot be separated from emancipation while the latter is aimed at better promoting the former. As early as the foundation of P. R. China, the devastated national industry had been promoted by pooling resources to boost production technology and economic efficiency. During the period of reform and opening up, the productive forces were greatly emancipated by economic transformation; this is another

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① Cheng, 2015, p.1.

② Hong, 2016a & Hong, 2016b

③ Horvat, 2011, pp. 5–11

④ Wen, 2016 & Lan, 2017

breakthrough in developing productive forces, by which China has gradually become an economic power. In the new era, in face of the prominent problems such as unbalanced and inadequate development, it is required to realize one more breakthrough based on considering both fairness and efficiency, quality and benefits, which once again will be a substantive leap in the development of productive forces.

The protection of productive forces may show up as a new issue at a certain stage of the development. Ignoring this issue will lead to overburdens on nature and society from development, and sooner or later the stagnation or even regression of productive forces. Protecting productive forces is to guarantee the subjective and objective conditions for maintaining the sustainable economic development capacity, i.e. to guarantee both the current quality and future potential of production development. To protect the production development quality, we need to correctly deal with the dialectical relationship between the speed and quality of economic development while focusing on enhancing the quality of economic development. We must free ourselves from the value measurement standard of “Only GDP”, and pay attention to environmental quality, product quality, housing quality, quality-oriented education, leisure life and income disparity and other fields vital to the interests of the country and the people. To protect the production development potential, we need to correctly view the inter-generational equality between current and future development. Contemporary people’s survival and development must not sacrifice the offspring’s well-being. With advanced green-energy technology and low-power production technology, the production under socialism in the new era will help reduce the

economic dependence on non-renewable energy resources, which is the ultimate approach to protecting productive forces.

#### 4. Logic of the SOEs reform in the new era

The two resources allocation modes, planning and market-based, have been used simultaneously in Chinese SOEs reform in the new era, reflecting the inherent need of adapting a production mode to the development of productive forces and coordinating the production mode with production relations. Planning and market-based resources, as the two basic social resource allocation modes, have both abstract general and specific characteristics under a social mode of production. Speaking of the general characteristics, planning is not a resources allocation mode specific to socialism, because capitalism also needs government plans. Similarly, the market is not exclusive to capitalism, but is also needed by socialism to allocate resources. The relationship between the two modes is not of antinomy. As for the specific characteristics, the basic property and value of a social system plays a decisive role on the nature of the social resources allocation. Pursuing fairness and justice and realizing common prosperity for all people is the substantive characteristic differentiating a socialist market economy from a capitalist market economy.

The resources allocation method adopted by SOEs combines government’s macro-control with the socialist market economy, requiring the market to play a decisive role in resource allocation, and the government to better play a leading role in policy, service assurance and ultimate distribution.<sup>①</sup> The former can help promote SOEs’ economic efficiency, while the latter can better safeguard

① Pan, 2017



and improve people's livelihood and help realize socialist fairness and justice. The comprehensive application of the two allocation methods in SOEs can vitalize and harmonize society which is objectively required by and can serve as an important guarantee for the law of adapting the production mode to the overall development of productive forces. The plans formulated by SOEs are conducive to the overall layout of economic and social resources, which can pool national resources to achieve construction and technological breakthroughs in key areas. Particularly, the state-owned economy has natural advantages over private enterprises in the strategic sectors and natural monopoly industries involving the country's economic lifeline. If these sectors and industries are operated by the state-owned economy instead of private enterprises, it will be more favorable to realizing the interests of the country and the general public. To introduce market principles into SOEs on the external front, it is necessary to make SOEs competent for effective market competition by relaxing regulation, introducing competition and diversifying ownership to accelerate their innovations, promote production efficiency, preserve or increase the value of state-owned capital and "bring more benefits to the people." On the internal environment, the separation of government administration from enterprise management and the establishment of modern enterprise systems have given enterprises greater autonomy in recruitment, production, operation, product sales and pricing, better putting them in line with the market.

But some scholars argue that since independent property rights are required for both sides of a transaction in a market economy, with unclear property rights the socialist public ownership economy is incompatible with a market economy and

it is imperative for SOEs to go private if they operate according to market principles. Such theoretical logic does not distinguish the management right from ultimate ownership, both of which are elaborated in the concept of property rights. It mistakes the ownership of use value at the level of specific natural relations with that of value from the level of specific social relations. Essentially, the former is related to the production mode or resources allocation while the latter is about the production relations behind the production mode which reflects the social relations among people under a specific social system,<sup>①</sup> and is decided by the ownership nature of society. In the SOEs reform, the assignment of a modern enterprise system featuring separation of management and ownership has been adopted to transform the system focusing on "assets management" to one centered on "capital management." Enterprises have therefore been given adequate capital management rights. The essence of such a change is the transfer of use value of state-owned assets. The SOEs' assets are ultimately owned by the people, i.e. to whom the ownership of value form shall be attributed, which is an issue related to the basic economic system of society and decided by the essence of socialist production relations. That is the direction to be followed in the SOEs reform. In the SOEs reform, the state-owned assets have been owned by the people in the value form and managed in the use value form by enterprises according to market principles, manifesting the logic consistency between SOEs reform practice and Marxist economic theory in the new era.

## 5. Institutional path of the SOEs reform in the new era

The progress and change of productive forces

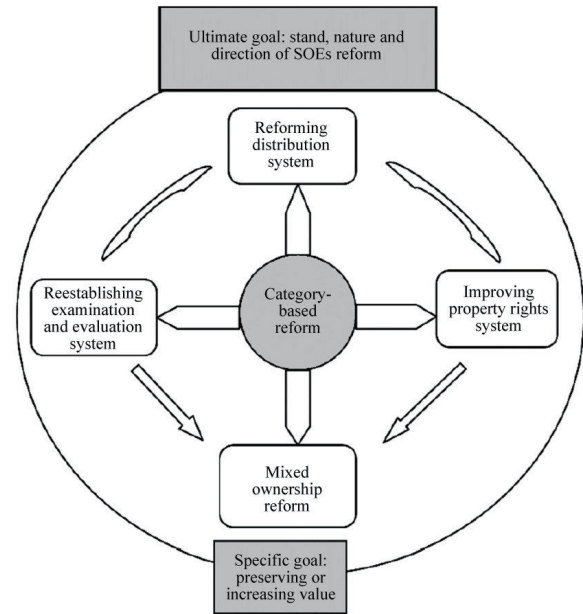
① Liao, 2011

and the production mode inevitably require matched production relations and superstructure. The major task for SOEs reform is to guide the direction of reform through the top-level design, ensuring its correct nature and direction.<sup>①</sup> The issue about SOEs reform is not about the discussion of whether the state-owned capital withdrawal is necessary, but how to achieve an efficient balance between the SOEs' two roles, i.e. market economic entity and public institution. It is about how to fully trigger their business vigor and make the state-owned assets bigger, stronger, and better thereby boosting the realization of fairness and justice. The top-level design is not only about institutional arrangements, but also the systematic and overall theoretic guidance. Based on the essence and goal of the SOEs and state-owned economy, SOEs reform is designed to outline the reform's panorama and prevent its blindness and low efficiency. More precisely, the following correlative issues shall be clarified and addressed.

### 5.1 Adhering to category-based reform as the overall guideline

“Allowing no differentiation” is not applicable to SOEs reform, due to the huge differences in SOEs' property and functions and their extensive distribution in regions and industries. In the reform practice, SOEs need to be subdivided in a scientific way. Led by the scientific classification, it is necessary to formulate criteria for category-based examinations and evaluations, and category-based reform plans for mixed ownership, improve property rights and distribution systems, and then finally achieve the goal of “preserving or increasing the value” of SOEs. These aspects constitute the institutional path of SOEs reform, of which the internal logical relation is shown in Figure 3.

Figure 3 Top-level Design and Institutional Improvement Path of SOEs Reform



### 5.2 Reestablishing the examination and evaluation system.

To serve for the national macro-economic targets, many SOEs often put the profit target in second place, or even perform their social responsibilities at the expense of deficit. Therefore, as for the enterprise examination and evaluation system, it is unreasonable to evaluate the efficiency of SOEs that take more social responsibilities through the use of conventional methods, let alone simply make a conclusion that “SOEs are less efficient than private enterprises.” Those who advocate privatization on the excuse of a highly efficient private economy and a low-efficient state-owned economy have completely overlooked the institutional efficiency manifested by SOEs in taking on social responsibilities. SOEs' efficiency shall be evaluated in a multi-dimensional and multi-level way. The one-fold evaluation often cannot

① Zhu, 2014 & Li, 2016

manifest an SOEs' real efficiency. An all-round development concept shall be adopted in evaluating SOEs' overall efficiency. The overall efficiency shall not only reflect the "individual" efficiency of SOEs as micro-business entities, but also embody the "greater self" efficiency of SOEs as national economic entities, bringing the efficiency of SOEs in protecting the interests of the country, society and masses<sup>①</sup> into the scope of examination and evaluation.

### **5.3 Improving the property rights system and market mechanisms.**

The property rights system shall be reformed to help enterprises become independent economic entities. According to the principle of separating government administration from enterprise management, the reform of the SOEs' property rights system will not only preserve the nature of socialist public ownership but also give SOEs property managing rights and make them the real market entities by ensuring the state's ownership and reinforcing the corporate right of operation.<sup>②</sup> A market mechanism shall be established at the same time. In this context, all economic entities can be endowed with a fair and reasonable market position. Especially for competitive industries, measures such as the cancellation of cross subsidization, the payment-based system for land use and open financial markets can be taken to ensure equal opportunities for SOEs and other non-SOEs in terms of resources, capital and prices, therefore property rights discrimination can be prevented.

### **5.4 Carrying forward the category-based reform of mixed ownership in a scientific way.**

Under the new situation, the reform of mixed ownership in SOEs has great significance but

also brings huge risks. On the one hand it is an important opportunity to trigger SOEs' economic and creative vigor and promote the sound, steady, high-quality development of a socialist market economy. On the other hand, the poor execution of the reform may result in great political risks such as SOEs privatization and deviating from the socialist road. Due to the lack of systematic theory study the reform is confined to the level of "handling affairs as per policies and regulations" or "all talk and no action." Due to the absence of scientific classification criteria and solutions the reform of mixed ownership in SOEs is confronted with chaos such as "allowing no differentiation" or "causing disorder in hubbub." For the mixed ownership SOEs reform in the new era, the key is to scientifically master the principle of moderate degree, adhering to the standard of improving overall efficiency under the basic premise that the dominant position of the state-owned economy stays unchanged and the state-owned capital value is preserved or increased.<sup>③</sup>

### **5.5 Forming an anti-corruption mechanism through distribution system reform.**

The SOEs reform is to realize the optimal combination of economic efficiency with fairness and justice through an institutional design. An improper institutional design may bring corruption and other serious problems to the SOEs.<sup>④</sup> The SOEs top-level institutional design is made to form a mechanism deterring officials from corruption or depriving them of reasons to become corrupt with a fair and rational distribution of corporate power and interests. Efficient supervisory mechanisms and rigorous law enforcement lay a foundation for "detering officials from corruption." The current

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① Cheng & Yan, 2017; Zong, 2011

② Zhang, 2012

③ Wang, 2017

④ Zhang & Wang, 2005; Liu, 2011

policy of capital management made by State-owned Assets Supervision and Administration Commission of the State Council(SASAC)is to efficiently supervise capital on behalf of the ultimate owner of state-owned assets and select professional managers from the market so that supervisors and the supervised can be separated effectively to ensure the effectiveness of external supervision. Rational salary distribution systems and incentive mechanisms lay a foundation for “depriving officials of the reasons to become

corrupt.” The salary distribution shall follow two principles, i.e. stimulation and restraint. The former refers to allowing and admitting differences, determining the income bracket according to an employee’s performance, properly widening the income gap, and establishing a mechanism in which employees’ position and income can go up or down to promote efficiency. The latter means the formulation of system rules and limits, preventing wide gaps in incomes and facilitating the cultivation of a fair living environment.

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