China has embarked on a further major phase of enterprise reform in which the promotion of giant enterprises, new forms of corporate governance, entrepreneurship and internationalization all play key parts. This evolution will have an impact on foreign-invested firms in China, many of which are already in the process of re-evaluating China as an investment environment and their policies on partnership with domestic firms in that country. This chapter examines key issues for management and organizations arising within this context, first for Chinese SOEs and then for foreign firms.

This is a particularly critical time for management and organizations in China. The post-Deng Xiaoping era is witnessing fundamental institutional changes aimed at completing China’s transition to a market economy and a modern industrial society. Although this new phase of reform is guided by China’s long-term development goals, it is also directed at the more immediate need to invigorate a stagnant state enterprise sector and a banking system paralysed by a mountain of bad debt, largely owed by loss-making enterprises. The reform of enterprises and intermediary business institutions has become all the more pressing because of increasing competition within the economy, the slowing down of economic growth and the Asian financial crisis. Yet, paradoxically, the external pressures on China’s export-led growth imposed by the very same crisis could threaten the country’s ability to sustain the growth it needs to ease the pain of the transitions required by its further reforms.

China’s Ninth 5-Year Plan for the years 1996–2000 and its 15-Year Perspective Plan set out the principles and priorities for economic policy into the next century. The plans envisage transitions from a planned to a market economy and from extensive growth based on increases in inputs to intensive growth based on efficiency improvements (World Bank, 1997). The 15th Communist Party Congress, held
in September 1997, called for an accelerated reform of SOEs and identified new ownership structures as a basic requirement for achieving the desired strengthening of the economy. Zhu Rongji has announced an ambitious goal of completing the new reforms within the three years following the start of his premiership in March 1998 (Zhu, 1998). These institutional reforms, together with ongoing trends in the Chinese economy, provide the contest within which a number of key trends and issues for management and organizations in China can be identified.

This chapter begins by outlining the context of China’s long-term development aims and current economic trends. It then examines the issues for management and organizations arising within this contest, first for Chinese SOEs and, second, for foreign firms.

**CHINA’S DEVELOPMENT AIMS**

China’s development aims encompass three key transitions. The first is the transition from a predominantly rural society to an industrial society. In 1996, 50.5 per cent of China’s employment was still in agriculture, a proportion that the World Bank expects to drop to one-quarter by 2020, with services accounting for most of the corresponding increase in the non-agricultural labour force (World Bank, 1997; State Statistical Bureau, 1998). The second transition, under way since the mid-1980s and still continuing, is the move from a planned economy to a market economy. China’s objective here is officially described as the attainment of a socialist market economy with Chinese characteristics. This signifies a growing role for market forces in an economy where, however, the state will continue to play an active role in the direction of key economic sectors and in the governance of their major enterprises.

The third transition has not received as much attention from commentators as the other two. It has considerable significance, however, for the science and technology sectors where it is taking place, and for other sectors as well. This transition amounts to a selective leapfrogging from an industrial to a post-industrial society, over and above the ongoing transition from a predominantly rural society. It involves the active promotion of new science and technology enterprises in sectors such as electronics and biotechnology. Although these enterprises remain predominantly state-owned, they have benefited from an evolution in managerial autonomy and practice that enables them to