5 Who Owns the State-Owned Enterprise?

In 1952, Yu Min (于敏, 1914–2014), a celebrated CCP-affiliated filmmaker and writer, relocated to Anshan to create propaganda films and nonfiction pieces celebrating Angang. Over the years, he penned an array of film scripts and nonfiction works, lauding heroic Angang laborers and their indomitable solidarity in triumphing over adversity. Nonetheless, in his 2005 memoirs, a nonagenarian Yu cast a somber light on the less than heroic paucity of solidarity among Angang's cadres:

> Upon my arrival in Anshan in 1952, I constantly heard about the issue of the party–government relationship (黨政關係). In every political campaign, [party] secretaries often attacked factory directors. Therefore, some people requested that the CCP City Committee to clearly define what party committee secretaries were to do and what factory directors were to do.[1]

As Yu's recollection illuminates, the governance of major Chinese state-owned enterprises (SOEs) such as Angang was mired in internecine discord between two types of leaders: SOE managers, such as factory directors, and local cadres, namely party committee secretaries. This bifurcated governance, to which Yu alluded as the "party–government relationship," epitomized two disparate control systems: central government ministries, ensconced in Beijing, and local Communist Party committees, spread across provinces and municipalities. Essentially, the "state" that was supposed to "own" enterprises such as Angang was anything but a cohesive monolith.

In the early years of the PRC, Manchuria served as a testing ground for the SOE system – the cornerstone of socialist industrialization. Unlike Shanghai, where some major private enterprises persisted, Manchuria's industrial sector was primarily dominated by SOEs such as Angang right from the start of the PRC. Many of the PRC's SOE policies were first implemented in Manchuria before being replicated nationwide. Additionally, Manchurian SOEs' difficulties and issues, such as inefficient

[1] Yu, *Yisheng shi xuesheng*, 121.

management and sectionalism, were later experienced in other regions. Angang and other Manchurian SOEs thus emerged as archetypes of Chinese SOEs.

This chapter examines the daily operations of Chinese SOEs and their relationship with local governments, using Angang as a focal point. In the early PRC, SOEs were not merely pawns of the centralized party-state; rather, they were a mixture of different political actors at national and local levels. Various organs of the CCP's party-state, especially the industrial ministries and local party committees, competed for control over SOEs. Major SOEs, which were under the jurisdiction of the PRC government in Beijing, often faced conflicts with local government authorities in their respective locations, as seen in Angang's troubled relationship with the city authority of Anshan. Despite the official centralized system, the PRC's planned economy at the ground level involved constant negotiations between different government offices and industrial enterprises, each interpreting the state policies in their own way.

This case study of a major SOE sheds light on the ground-level realities of the Chinese socialist planned economy. Early scholarship on the topic, mostly conducted by social scientists, primarily analyzed national policies and their macro-economic outcomes based on sources published by the PRC authority.[2] However, recent historical scholarship has shifted its focus toward individual enterprises and factories. Due to archival accessibility, the majority of these case studies have primarily concentrated on Shanghai and the lower Yangzi region, examining how private businesses survived the 1949 Revolution.[3] In contrast, by focusing on large-scale SOEs that constituted the core of the socialist planned economy, rather than private enterprises, this chapter demonstrates the achievements and limitations of the CCP on their own terms.

While there is existing historical scholarship on Mao-era SOEs by Chinese scholars, the majority of Chinese-language works primarily focus on the "*danwei* (單位, work unit)" system, which highlights how SOEs provided various social welfare benefits to their workers.[4] However, there is a shortage of research on the more mundane aspects of the Mao-era SOE system, such as government control, management, procurement, production, and sales. I aim to fill this gap by examining these aspects of the SOE system.

[2] For example, Ishikawa, *Chūgoku ni okeru shihon chikuseki kikō*; Perkins, *Market Control and Planning in Communist China*.

[3] Cochran and Hsieh, *The Lius of Shanghai*, 279–354; Cliver, "Surviving Socialism"; Cliver, *Red Silk*; Lin, *Dongyuan yu xiaolü*; Kajima, *Shakai shugi taiseika no Shanhai keizai*. Among the few works on SOEs from the 1950s is Bian, "Redefining the Chinese Revolution."

[4] Lin, "Cong 'danwei zhi' dao qiye shi."

This chapter explores the daily operations of industrial SOEs by focusing on Angang and its often troubled relationship with the Anshan City Government and the CCP Anshan City Committee. Through this examination, I provide new insights into the management of SOEs under the state socialist system. Social scientists have argued that the SOE system in socialist economies was characterized by *vertical* bargaining within the bureaucracy, in contrast to the *horizontal* bargaining between sellers and buyers in market economies. According to this perspective, the behavior of SOEs under state socialism was primarily motivated by their vertical relationship with superiors within the state bureaucracy, unlike private enterprises in capitalism, whose behavior was mainly determined by their horizontal relationship with customers. For example, directors of socialist factories would negotiate with officials of the industrial ministry by underreporting their true capacity or overreporting their achievements.[5] However, I complicate this picture by showing that horizontal bargaining, based on local relationships rather than hierarchical commands from the capital, also played a significant role within the socialist economic bureaucracy. While vertical bargaining was certainly important, SOEs were also engaged in various forms of horizontal negotiation with local political authorities, notably with city governments and CCP city committees.

In the PRC, SOEs are divided into large, centrally owned SOEs that belong to the PRC government in Beijing, and smaller, locally owned SOEs that belong to provincial or municipal governments. While some existing works on the PRC's SOE system acknowledged the role of local governments, they have typically focused on SOEs owned by local governments.[6] In contrast, I demonstrate that local governments and CCP committees also exert influence over centrally owned SOEs such as Angang.

In the following section, I first discuss the two lines of control on Angang: vertical control from the central government and horizontal control from local governments. The subsequent sections explore how Angang was simultaneously driven by both horizontal and vertical bargaining, by an examination of Angang's management system, fundamental construction, production, and sales.

Two Lines of Control

Contrary to the image of a monolithic socialist bureaucracy portrayed by both the CCP regime and its critics, major Chinese SOEs such as Angang were subject to two distinct lines of bureaucratic control,

[5] Kornai, *The Socialist System*, 121–124.
[6] For instance, see Wu et al., *Zhongguo guojia ziben de lishi fenxi*, 319–321.

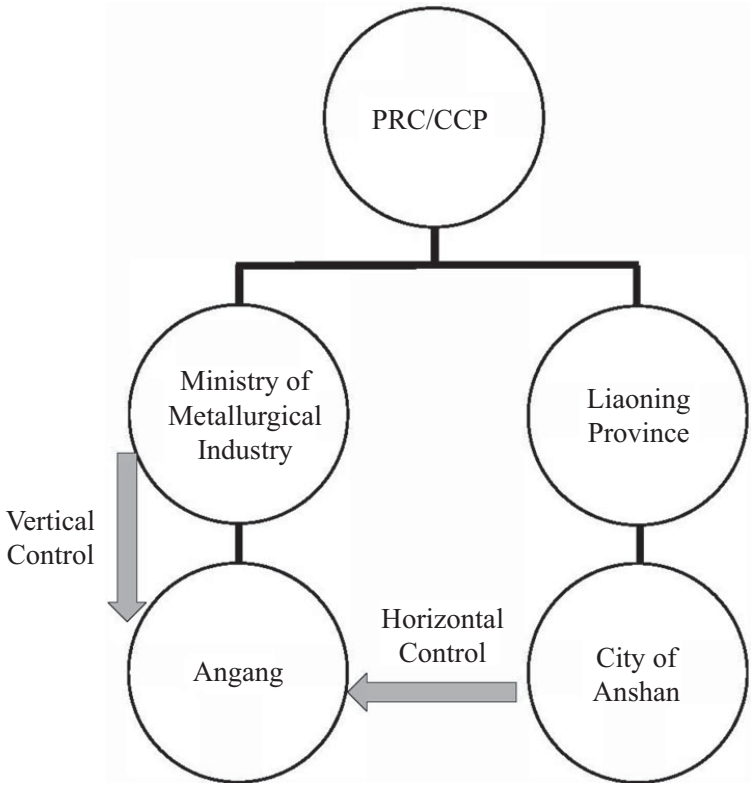

Figure 5.1 Two lines of control over Angang

influenced by the Soviet system (Figure 5.1).[7] The first system of supervision involved a *vertical*, technocratic line of command from the PRC government in Beijing. This line of command originated from the industrial ministries and the State Planning Commission in the capital, then flowed downward through the directors of the SOEs, and further extended to various levels of departments and factories within the SOEs.

The second system of control was characterized by *horizontal*, political leadership from the local Communist Party organizations. Prior to the 1949 Revolution, the CCP's support base was primarily in the countryside, and their governance style reflected a decentralized approach, where local party organizations autonomously managed taxation and other economic policies.[8]

The two lines of control within SOEs were staffed by different types of cadres. The Soviet-style vertical line of command was composed of technocratic SOE managers such as factory directors, who exercised

[7] As for the relationship between the SOEs and local Communist Party authorities in the Soviet Union, see Berliner, *Factory and Manager in the USSR*, 268–271; Gregory, *The Political Economy of Stalinism*, 129–133.

[8] Wu and Dong, eds., *Zhonghua renmin gongheguo jingji shi, 1949–1952*, 70, 83, and 123. For the CCP's local organizations prior to 1949, see Esherick, *Accidental Holy Land*.

top-down control over the operations of the factories. This system emphasized the factory managers' tight control over the operations of the factory and a specific division of labor and responsibility, with individuals assigned to positions based on their skills. In contrast, the traditional CCP-style horizontal leadership emphasized bottom-up political mobilization by local cadres, such as secretaries of CCP committees within the factories. Under this system, the CCP committee secretary mobilized workers to strive for higher goals through ideology and popular campaigns.[9] Ideally, these two systems were meant to complement each other, but in reality they often clashed.

It is important to note that not all SOEs were directly owned by the central government in Beijing. In 1952, out of the 9,517 SOEs in China, only 2,254, or 23.7 percent, were owned by the central government, while the rest belonged to local governments at various levels. However, the centrally owned SOEs accounted for 71.6 percent of the total industrial output of industrial SOEs.[10] Beijing controlled larger and more significant SOEs such as Angang, while local governments controlled smaller ones. However, even centrally owned SOEs were not solely controlled by the PRC government, as they still operated under the influence of the two different lines of control. The case of Angang exemplifies how local CCP committees exerted political influence over centrally owned SOEs.

During the first years of CCP rule, control over Angang was localized. After the CCP forces captured Anshan in February 1948 during the Civil War, the factories in the area came under the control of the CCP provincial authority of Liaodong Province (later part of Liaoning Province). Following the CCP's complete control over Manchuria in November 1948, Angang became affiliated with the CCP Manchurian regional authority headed by Gao Gang.[11]

Most of the early CCP leaders in Angang and the city of Anshan were old cadres who had joined the party before or during World War II. This convergence of leadership between Angang and Anshan facilitated localized control of Angang during the initial phase of CCP rule. The first director (經理) of Angang was a Liaoning man, Li Dazhang (李大璋, 1909–1993, Figure 5.2). He began his career in the CCP as a student activist in Shanghai while studying chemistry at a university there.

[9] My classification of the two systems builds upon Schurmann, *Ideology and Organization in Communist China*, 231–239.

[10] Wu et al., *Zhongguo guojia ziben de lishi fenxi*, 321.

[11] It was first affiliated with the Ministry of Industry of the Northeastern Administrative Committee (東北行政委員會工業部), and later with the Ministry of Industry of the Northeast People's Government (東北人民政府工業部).

Figure 5.2 Leaders of Angang and Anshan, 1950.
From left to right: Ma Bin, Hao Xiying, Yan Zhizun, and Li Dazhang
Source: "Xin Zhongguo gangtie gongye cong zheli kaishi (新中國鋼鐵工業從這裡開始)," www.sohu.com/a/145421394_760468 (accessed August 13, 2020).

During the Second Sino–Japanese War, he worked for the CCP's military industry. After returning to Manchuria in 1945, he held various posts related to economic planning, including the director of the planning section of the ministry of industry of the Northeast People's Government (東北工業部計劃處處長). After serving as the inaugural director of Angang under the CCP between 1948 and 1952, he then held senior positions at the Fushun Colliery and the Anhui provincial government.[12] In the early years of the PRC, most of Angang's leaders also held positions within the CCP Anshan City Committee. For example, Yang Chunmao, the secretary of the City Committee, also served as the supervisor (監委) of Angang. Director Li Dazhang, and Vice-Directors (副經理) Hao Xiying (郝希英, 1902–1966, Figure 5.2) and Yan Zhizun (閻志遵, 1913–1990, Figure 5.2), were also members of the Standing Committee (常委) of the City Committee.[13] This indicates that four out of the six top leaders of Angang in 1950 were also leaders of the CCP Anshan City

[12] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1986–2008*, 668–669.
[13] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 286 and 514. Zhonggong Anshan shiwei zuzhibu, *Zhongguo gongchandang Liaoning sheng Anshan shi*

Committee. In the early years, Angang and the CCP Anshan City Committee were led by the same CCP cadres who were bound together by shared experiences of war and revolution prior to 1949.

In the early years of CCP rule, while the top leaders of Angang were all CCP cadres, many middle-level managers had previously worked under the Nationalist regime. The CCP faced a shortage of technocratic personnel who were capable of serving as competent SOE managers. As a result, Angang recruited Chinese engineers and managers who had previous experience under the Nationalist and even Japanese colonial regimes. According to Japanese chemist Umene Tsunesaburō, in 1949 and 1950 the CCP appointed "uneducated, illiterate [Communist] Party cadres" as department directors in Angang, while the vice-directors of the departments often consisted of experts who had previously worked under Manchukuo or the Nationalist government. From 1951 onwards, the CCP assigned Nationalist-era experts as department directors in Angang, as long as they had no ideological problems and had joined the ranks of the CCP.[14] This shortage of properly educated cadre posed a challenge to Angang. According to a 1953 internal report, for the CCP's "old cadres (老幹部)" in leadership positions in Angang, "managing factories and coordinating production is a new job."[15]

During the early and mid-1950s, control over SOEs became increasingly centralized in the hands of Beijing, following the Soviet model. In December 1952, the PRC government established the State Planning Commission, and in 1953 it diminished the power of the Greater Administrative Regions to manage the economy, ultimately abolishing them in 1954.[16]

The policy of centralizing control over SOEs was promoted by Gao Gang. In January 1953, Angang became a central SOE directly under the PRC government, first under the Ministry of Heavy Industry, and then the Ministry of Metallurgical Industry from June 1956.[17] It may seem puzzling that Gao Gang, who had a power base in a specific region,

zuzhishi ziliao 1927–1987, 129–136. In 1951, several middle-level managers of Angang were critical of the Secretary of the CCP Anshan City Committee, Yang Chunmao, for his lack of leadership, and informed the CCP Manchuria regional authority of their criticism. As a result, the regional authority decided to transfer Yang from Anshan for a post in another location. Yang, *Zhuiqiu yu fendou*, 272–273.

[14] Record of an interview with "U-N-T-S-R" (male), October 18, 1953, *Chūkyō jijō*, sono 21 (February 24, 1954), Diplomatic Archives of the Ministry of Foreign Affairs of Japan, Postwar record, A'-4-1-1-4.

[15] "Angang peixun gongzuo jiancha zongjie baogao 鞍鋼培訓工作檢查總結報告" (August 1953), Private Collection.

[16] Wu et al., *Zhongguo guojia ziben de lishi fenxi*, 323.

[17] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 6.

advocated for administrative centralization. However, this policy made sense as Gao moved to Beijing and assumed the role of chairman of the newly founded SPC at the end of 1952. Gao also gained control over all the industrial ministries in Beijing. Given Gao Gang's command over almost the entire industry-related bureaucracy of the PRC government, the adoption of Soviet-style centralized control of SOEs by the industrial ministries would further strengthen Gao's power.

As the PRC government centralized control over SOEs, the overlap in leadership personnel between Angang and the CCP Anshan City Committee gradually diminished. In 1957, Director Yuan Zhen (袁振, 1917–2003) and Vice-Directors Yan Zhizun and Zhang Yimin (張益民, ?–2000) held seats in the Standing Committee of the CCP Anshan City Committee. However, the other eight vice-directors of Angang were not members of the CCP City Committee.[18] This means that out of the eleven leaders of Angang, only three simultaneously held leadership positions in the CCP City Committee. While Angang still maintained connections with the local party organization in terms of personnel, the density of these connections was lower compared to 1949.

Once CCP rule was established, many leaders of Angang pursued their careers within Angang or in other SOEs under the control of the Ministry of Metallurgical Industry or the ministry headquarters, following the vertical line of bureaucracy. One example is Liu Kegang, who played a role in the CCP's takeover of Anshan in 1948. This Liaoning man first developed his career in the party newspapers and financial bureaus of the CCP in Sichuan before returning to Manchuria in 1945. He took over Angang in 1948, and served as its vice-director from 1952 to 1956. Subsequently, he studied at the Northeast Engineering College (東北工學院) from 1956 to 1959. After completing his mid-career education, he worked at Baotou Iron and Steel Works (包頭鋼鐵公司) and the Ministry of Metallurgical Industry. Toward the end of his career, he held positions as the secretary of the CCP Anshan City Committee and the CCP Angang Committee in 1981–1982.[19] Liu's career progression demonstrates his rise within the vertical line of the Ministry of Metallurgical Industry, with stints in Angang and another major steel enterprise, while also having a part-time role in the city authority later in his career.

While the majority of Angang directors and vice-directors were SOE managers like Liu, some cadres still switched between careers in SOEs

[18] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 515; Zhonggong Anshan shiwei zuzhibu, *Zhongguo gongchandang Liaoning sheng Anshan shi zuzhishi ziliao 1927–1987*, 136–137.

[19] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1986–2008*, 670.

and local governments. One example is Yan Zhizun, originally from Shaanxi. He worked in CCP guerrilla forces and county-level organizations during the late 1930s and early 1940s. Between 1945 and 1949, he worked in various local CCP posts in Manchuria, before becoming the secretary of the CCP Yingkou (營口) City Committee.[20] From October 1950 to August 1958, he served as a vice-director of Angang.[21] Importantly, during his time in Angang, Yan concurrently held a position as a member of the Standing Committee of the CCP Anshan City Committee from June 1950 to July 1959.[22] After leaving his post in the CCP Anshan City Committee, he became the director and party secretary of Xiangtan Iron and Steel Works (湘潭鋼鐵公司) in Hunan before taking up roles in the Ministry of Metallurgical Industry.[23]

SOEs in the PRC, including centrally owned ones such as Angang, were subject to two distinct lines of control. While being officially owned and controlled by the Ministry of Metallurgical Industry in Beijing, Angang still faced political influence from local authorities, particularly the CCP Anshan City Committee. The influence of the CCP City Committee primarily stemmed from the party committees within Angang's individual factories. This issue of overlapping control over SOEs between central government ministries and local party committees was also observed in the Soviet Union.[24] However, the tension between the two lines of control was not critical as long as the state prioritized the vertical line of control, as was the case in the Soviet Union. During the early and mid-1950s, the PRC largely followed a Soviet-style management system that emphasized the significance of vertical control over SOEs.

The One-Chief System

Gao Gang's policy to bolster the PRC industrial ministries' vertical control over SOEs entailed the introduction of a Soviet-style management system centralizing authority within the hands of SOE managers. In 1951, the CCP Manchurian authority fortified the SOE managers' power within factories by introducing a system known as the "one-chief system (一長制)."[25] Essentially a copy of the Soviet system of *edinonachalie*, this system meant strict one-man control by SOE managers – not

[20] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1986–2008*, 670–671.
[21] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 514–515.
[22] Zhonggong Anshan shiwei zuzhibu, *Zhongguo gongchandang Liaoning sheng Anshan shi zuzhishi ziliao 1927–1987*, 129–136.
[23] Yanchi xian dang'anju, *Shaan-Gan-Ning bianqu shiqi de Yanchi dang'an shiliao huibian*, 2: 1191–1192.
[24] Berliner, *Factory and Manager in the USSR*, 268–271.
[25] Yang, *Zhuiqiu yu fendou*, 238.

party cadres – at every hierarchical level. Within each factory, the factory director oversaw the entirety of operations, including personnel matters, with all factory employees obliged to adhere to the director's command. Meanwhile, the task of the factory's party secretary was limited to organizing ideological education. The one-chief system was paired with the "responsibility system (責任制)," which partitioned work, with each worker separately responsible for their assigned segment of work. Essentially, the one-chief system, at least in theory, constituted an absolute dominion by the SOE managers over atomized individual employees within the workplace.[26]

The promotion of the one-chief system in Manchuria enabled SOE managers to wield more authority than local cadres within Angang's factories. Cai Bo (蔡博, 1924–1991), a Soviet-educated engineer from a CCP family, played a pivotal role in bringing the one-chief system to Angang.[27] As per a 1953 Ministry of Heavy Industry report, Angang's ironmaking factory established a responsibility system for the blast furnaces, nominating a singular technical expert from each furnace as the chief in command of the entire furnace.[28] According to a 1954 Soviet report, Soviet experts participated in Angang's introduction of the one-chief system at the factory level.[29]

Had the one-chief system been widely implemented, it would have substantially fortified the power of its chief proponent, Gao Gang, whose power at the time spanned Manchuria to the major economic ministries in Beijing. Around 1952 and 1953, Gao spearheaded the PRC's industrialization programs, including the First Five-Year Plan, as the chairman of the State Planning Commission. His political associates occupied high-ranking roles in industrial ministries, issuing commands and funds to Angang and other major SOEs in Manchuria, Gao's regional power base. Nationwide adoption of the one-chief system would bolster the vertical, centralized control exerted by Beijing's industrial ministries, which would in turn solidify Gao's influence in the PRC government.[30] Gao's advocacy for the one-chief system was part of his

[26] Kawai, *Chūgoku kigyō to Soren moderu*; Schurmann, *Ideology and Organization in Communist China*, 253–262. As for *edinonachalie* in the Soviet Union, see Gregory, *The Political Economy of Stalinism*, 161–165; Kuromiya, "Edinonachalie and the Soviet Industrial Manager."

[27] Yang, *Zhuiqiu yu fendou*, 262.

[28] Zhonggongye bu yanjiushi gongzuozu, "Anshan gangtie gongsi liantiechang jianli xingzheng zerenzhi de jingyan," 4.

[29] I. Arkhipov, "Osnovnye dannye o razvitii narodnogo khoziaistva KNR v 1-om kvartale 1954 g." (June 12, 1954), Rossiiskii Gosudarstvennyi Arkhiv Noveishei Istorii, f. 5, op. 28, d. 187, l. 107.

[30] Schurmann, *Ideology and Organization in Communist China*, 267–271

broader vision to inculcate a Soviet-style technocratic industrial system in China – a vision he had initiated in Manchuria. As a Soviet intelligence report observed, Gao's policy drew from his "experience of the enterprises of the Northeast."[31]

Despite Gao's ambition, however, the one-chief system didn't proliferate extensively in China, remaining largely confined to its two principal industrial heartlands: Manchuria and East China. The system faced opposition from some of the top CCP leaders as well as local cadres, who would lose their authority upon the system's implementation. In 1951, the CCP Manchurian authority drafted a resolution championing the one-chief system and reproaching party committees' meddling in SOEs. This draft, however, encountered opposition from some CCP luminaries such as Li Fuchun, Chen Yun, and Liu Shaoqi, predicated on the notion that the one-chief system was solely viable in the Northeast, and they took exception to the draft's explicit criticism of party committees. The CCP's regional authorities in East and North China similarly resisted, advocating instead for party committees' stewardship within factories.[32] On May 16, 1951, Liu Shaoqi penned a letter to Gao, elucidating that leadership by party committees was more fitting than the one-chief system, owing to the paucity of cadres possessing managerial, technological, and political knowledge.[33] Additionally, the dearth of technical and managerial experts, indispensable to the one-chief system, was palpable even in Manchuria and East China. Angang's second small-sheet mill, for instance, couldn't adhere to a Soviet expert's counsel to appoint engineers to all shift manager positions, due to the scarcity of seasoned engineers.[34]

Nonetheless, the inception of the First Five-Year Plan in 1953 intensified the urgency for the PRC government to centralize its grip on SOEs through the one-chief system. The CCP thus championed the nationwide adoption of the one-chief system under the banner of official labor unions. In May 1954, the CCP's central leadership issued directives to bolster the one-chief system.[35]

Even though the one-chief system augmented vertical oversight from Beijing within Manchuria during the early to mid-1950s, the horizontal stewardship exercised by local CCP organizations was concurrently

[31] "Dokladnaia zapiska" (June 13, 1951), Rossiiskii Gosudarstvennyi Arkhiv Sotsial'no-Politicheskoi Istorii, f. 17, op. 137, d. 723, ll. 131–132. This is a part of the comment that Li Lisan (李立三, 1899–1967) made to a Soviet agent.
[32] Wu et al., *Zhongguo guojia ziben de lishi fenxi*, 305–306.
[33] Wu and Dong, eds., *Zhonghua renmin gongheguo jingji shi, 1949–1952*, 150.
[34] *Neibu cankao* 149 (July 6, 1954), 89–90.
[35] Wu et al., *Zhongguo guojia ziben de lishi fenxi*, 307–308.

being institutionalized. For instance, the CCP Anshan City Committee held organizational sway over the smaller party committees within Angang.[36] Throughout the 1950s, they established numerous grassroots organizations (基層組織) of the CCP within various functional departments, factories, mines, schools, and clinics. By the culmination of 1957, Angang included thirty-seven party committees (黨委), forty-three general party branches (黨總支), and 487 party branches (黨支部).[37] In 1952, the City Committee created the Department of Industry and Mining (工礦部), stationed within Angang's main office, commandeering party affairs (黨務) within Angang.[38] Even during the heyday of the one-chief system, the City Committee's horizontal control persisted.

The discord between CCP organizations and factory managers in Angang was observed by Yu Min, a filmmaker and author who resided in Anshan during the 1950s to produce propaganda films and narratives about Angang. According to Yu's memoirs, he heard much about the convoluted party–government relationship within Angang. Amid the maelstrom of the CCP's political campaigns, secretaries of party committees within factories frequently berated factory directors. Additionally, party committee secretaries within Angang also wielded some sway over the company's production operations: "Annual production quotas were invariably disseminated through the line of the Party, making the party secretaries the first to bear responsibility. When the political atmosphere turned 'left,' party secretaries naturally became 'always correct'."[39] The demarcation of duties between localized party organizations and the centrally owned SOEs was unclear, leading to frequent skirmishes between local party cadres and SOE managers.

While local CCP organizations were institutionalizing the network of factory committees at all levels within SOEs, the one-chief system was impeding these committees and their secretaries from exerting strong leadership within factories, leading to rising discontent among local cadres. According to an inspection report by the Organization Department of the CCP Liaoning Provincial Committee, one Angang SOE manager stated, "even though there was no [Communist] Party in the past, they could still construct buildings." Another Angang manager

[36] A single party committee that covered the whole of Angang existed only briefly (October 1954–November 1955) before 1958. Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 286–287.

[37] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 289–290.

[38] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 287–288. The department was later renamed the Department of Industry (工業部) in 1954, and then the First Department of Industry (第一工業部) the following year.

[39] Yu, *Yisheng shi xuesheng*, 121.

didn't invite a CCP member to discuss the organization of his workplace, while allowing three former Nationalist Party members to participate. Some factory managers didn't consult with party secretaries when making decisions. According to a 1954 CCP internal report, six out of the ten Angang managers never attended party committee meetings between December 1953 and September 1954.[40] While the accuracy and prevalence of these incidents are uncertain, the fact that they were reported with concern in confidential CCP documents suggests that local CCP officials were disgruntled about factory directors in Angang disregarding party committees. The vertical and horizontal control lines over SOEs were in conflict.

Unsurprisingly, after Gao Gang's downfall and death in 1954, criticism of the one-chief system intensified, with much of it originating from local CCP organizations. During 1954 and 1955, an increasing number of articles in CCP-sponsored newspapers across China criticized the autocratic governance by SOE managers under the one-chief system and advocated for collective leadership through local cadres affiliated with party committees.[41] By early 1955, even the CCP central leadership voiced criticism of the one-chief system.[42]

The scandal involving Gao Gang also had significant repercussions for Angang. After Gao's downfall in 1954, the CCP Liaoning Provincial Committee established a work group in 1955 to investigate Gao's influence within the CCP Anshan City Committee. However, Han Tianshi (韓天石, 1914–2010), the head of the City Committee, was hesitant to cooperate. Han and other cadres faced criticism due to their association with Gao. It appears that Angang leaders had a closer connection with Gao. During the investigation, Hua Ming (華明, 1918–1968), the acting director of Angang, attempted suicide. Fortunately, he was rescued, and his life was saved.[43]

Gao's downfall and the open criticism of the one-chief system gave local CCP committees the opportunity to exert stronger leadership over SOEs, including in Manchuria. Party committees in Angang factories criticized Angang managers such as Cai Bo for implementing the one-chief system.[44]

At the same time, the CCP Anshan City Committee began to intervene more frequently in the operations of Angang. One indication of the

[40] *Neibu cankao* 272 (November 29, 1954), 384–387.
[41] Schurmann, *Ideology and Organization in Communist China*, 272–278.
[42] Wu et al., *Zhongguo guojia ziben de lishi fenxi*, 308–309.
[43] Li and Wu, eds., *Qianmo wanji hai jianren*, 1: 294–300.
[44] Yang, *Zhuiqiu yu fendou*, 279.

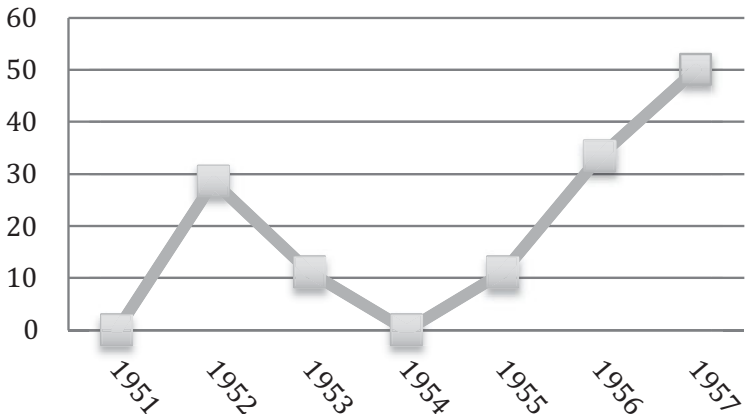

Figure 5.3 Percentage of Standing Committee meetings of the CCP Anshan City Committee which discussed Angang by year, 1951–1957
Source: Zhonggong Anshan shiwei dangshi gongzuo weiyuanhui, *Zhongguo gongchandang Anshan difang dang shi dashiji, 1927–1990*, 24–110.

growing influence of the local CCP organization was the increased frequency of discussions about Angang in the meetings of the City Committee's highest governing body, the Standing Committee.

Figure 5.3 illustrates the annual proportion of discussions concerning Angang within all Standing Committee meetings from 1951 to 1957, using data extracted from the City Committee's official historical chronology.[45] Between 1951 and 1954, Angang merited only sporadic mentions during the Standing Committee meetings – once or twice per year, or sometimes not at all. On the rare occasions when Angang did come under discussion, the Standing Committee members merely received a report from Angang's director, himself a member of the Standing Committee. However, starting in 1955, Angang's operations began to feature prominently in discussions by the Standing Committee, setting a trend that persisted until the GLF.

The local party organizations' efforts to strengthen horizontal control also manifested in the establishment of the CCP Angang Committee (中國共產黨鞍鋼委員會). Initially, no party committee encompassed the entirety of Angang. Instead, CCP committees within Angang's factories were under the aegis of the CCP Anshan City Committee. However, in November 1954, the CCP Angang Committee was established for the first time. The committee's secretary and the two vice-secretaries were appointed by the CCP Liaoning Provincial Committee, with the consent

[45] The chronology, published in 1991, records important events about the municipal committee day by day.

of the Ministry of Heavy Industry.[46] Angang's party secretary, Shen Dongli (申東黎, 1918–1967), was a Liaoning party cadre bereft of any antecedent experience with Angang or the Ministry of Heavy Industry. Originally from Liaoning, Shen had worked in Jilin City, Manchuria, after 1945. From 1950, he served as the vice-director of the CCP Anshan City Committee's organization department, before becoming the inaugural secretary of the CCP Angang Committee in November 1954.[47] The founding of the CCP Angang Committee was obviously an attempt by Liaoning Province and Anshan City to tighten their grip on Angang, while its dissolution in November 1955 perhaps stemmed from resistance from Angang and the Ministry of Heavy Industry.

Skepticism toward the one-chief system gathered steam as the CCP leaders grew increasingly disenchanted with the Soviet model. In early 1956, Mao himself cast aspersions on the system. At the Eighth Party Congress in September 1956, the CCP officially jettisoned the one-chief system in favor of a new system emphasizing decentralized control via CCP committees, dubbed "factory-director responsibility system under the leadership of the party committee (黨委領導下的廠長負責制)." This new system necessitated that SOE managers present drafts of work plans for discussion by mass organizations, helmed by local cadres. Consequently, SOE managers had to accept criticism from the workers, from below.[48] Workers' participation buttressed the local CCP committees' influence over SOEs.

The debate surrounding the one-chief system illuminated the stark contrast between two distinct paradigms of control over SOEs within the PRC planned economy. Were it executed to the letter, the one-chief system would have heralded an unmitigated dominion over SOEs through vertical lines of command radiating from Beijing, in a similar way to Moscow's grasp over Soviet SOEs. However, an audacious chorus of disapproval from some leaders in Beijing and local cadres in the provinces contested this system, confining its implementation to Manchuria and the greater Shanghai region. Furthermore, as Angang's case elucidates, the system's implementation was far from complete, even in Manchuria. The CCP Anshan City Committee persistently

[46] Zhonggong Anshan gangtie gongsi weiyuanhui zuzhibu, *Zhongguo gongchandang Anshan gangtie gongsi zuzhishi ziliao, 1948–1987*, 37.

[47] Zhonggong Shenyang shiwei dangshi yanjiushi, *Zhongguo gongchandang Shenyang difang zuzhi zhi*, 393–394. After the CCP Angang Committee was abolished, Shen held senior posts in the CCP Liaoning Provincial Committee and the CCP Shenyang City Committee.

[48] Schurmann, *Ideology and Organization in Communist China*, 284–287; Wu et al., *Zhongguo guojia ziben de lishi fenxi*, 311–312.

meddled in Angang's management. This shows a stark contrast to the Soviet Union, where the vertical ironclad chain of command from Moscow palpably eclipsed the more tenuous horizontal sway of local party committees. In the PRC, however, the dual command lines – despite their Soviet origins – engendered greater tension within the PRC due to its decentralized style of governance. This tension between vertical and horizontal leadership was also a recurring motif in the day-to-day operation of SOEs.

Fundamental Construction

Angang's Three Major Projects, detailed in Chapter 4, represented some of the most celebrated examples of what was then deemed "fundamental construction (基本建設)" – a term signifying investments earmarked for the expansion of fixed assets. A loanword from the Soviet Union's *kapital'noe stroitel'stvo*, fundamental construction typically materialized in the construction of factories, mines, and urban infrastructure. Between the summer of 1951 and early 1952 the CCP Manchurian authorities selected 364 managers and 229 technicians from Angang to prioritize fundamental construction. Concurrently, the government sent a significant number of high school and university graduates from across China to Angang.[49]

Such was the importance of Angang's fundamental construction that it catalyzed the creation of a new entity dedicated to the task. In March 1952, the CCP bifurcated Angang into two "fronts" (戰線): the production front and the fundamental construction front.[50] In January 1955, responding to the advice of a Soviet expert, the PRC Ministry of Heavy Industry restructured Angang's fundamental construction front into a new SOE named Anshan Iron and Steel Construction Company (鞍山鋼鉄建設公司, Angang-Construction).[51]

[49] "Dongbei Anshan gangtie gongsi daibiaotuan fuzeren Wen Liangxian tongzhi zai 'huanying Anshan gangtie gongsi daibiaotuan lai Shanghai weiwen dahui' shang de jianghuagao 東北鞍山鋼鐵公司代表團負責人溫良賢同志在「歡迎鞍山鋼鐵公司代表團來上海慰問大會」上的講話稿" (February 24, 1954), Shanghai Municipal Archives, A 47-2-68-68.

[50] Although the two lines were ostensibly under one company, they had their own planning, financial, and labor departments, and operated like two different enterprises. Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 1: 60.

[51] At the same time, Anshan Institute for Designing of Non-Ferrous Metallurgy (鞍山黒色冶金設計院) was also established. In March 1956, Angang-Construction was renamed Anshan General Company for Metallurgical and Chemical Construction (鞍山冶金化学建築総公司). See Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 1: 64 and 174–175. For clarity, I also refer to the company after renaming as Angang-Construction.

Fundamental construction served as a conduit for the state to channel public funds into politically pivotal SOEs, Angang being a prime example. During the First Five-Year Plan, the PRC government invested in SOEs in key sectors such as the iron and steel industry from the state coffers, often with a scant regard for economic returns. In the case of Angang, the linchpin among the early PRC's SOEs, the lion's share of its funding emanated from the "fundamental construction investment (基本建設投資)" of the PRC state budget. This largess, bestowed upon Angang between 1950 and 1957, amounted to a staggering 1,753 million yuan.[52] Angang's gross fixed assets, as of the closing of 1957, stood at 2,414 million yuan.[53] This means that at the closure of the Five-Year Plan, approximately 70 percent of Angang's assets comprised factories and mines constructed through the PRC's state budget.

Fundamental construction projects also experienced meddling by local authorities. In October 1955, the vice-secretary of the CCP Liaoning Provincial Committee lambasted the Angang-Construction cadres for their lackluster performance and sectionalism. Upon this reproof, the Angang-Construction cadres conceded that their recent failure in attaining construction targets could be attributed to a lack in ideological training rather than technological impediments.[54] Angang-Construction was thus not inoculated from the reach of local CCP organizations.

The record of Angang-Construction involves a dramatic bout of horizontal bargaining over fundamental construction between the SOE and the city administration. Angang's fundamental construction frequently clashed with the urban planning of the Anshan City Government. In 1956, Angang resolved to erect an ore-dressing plant and a sintering plant in the northern reaches of eastern Anshan. This decision, though, encountered vehement resistance from the city government, especially its Urban Construction Department and Hygiene Department. The city officials contended that a sintering plant would pollute the air by emitting an abundance of sulfur dioxide and other deleterious substances, thereby exacerbating respiratory diseases among the populace. City officials proclaimed: "Our project of building socialism must take responsibility for our future generations. We cannot harm people's long-term health to

[52] Anshan shi tongji ju, *Anshan shi guomin jingji tongji ziliao huibian (jiben jianshe pian) 1950–1957 nian*, 56–57. This unpublished source provides different numbers from published sources such as Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 1: 160.

[53] Anshan shi tongji ju, *Anshan shi guomin jingji tongji ziliao huibian (gongye pian) 1949–1958 nian*, part 2 (*di'er bufen*), 5. Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985* (2: 58) also provides the same number.

[54] *Neibu cankao* 227 (November 1, 1955), 2–6.

solve the current shortage of iron ore and avoid temporary reduction in steel production."[55] Stalemate ensued, as neither party would capitulate. Ultimately, however, the PRC government approved Angang's construction plan, while requesting it to mitigate the adverse impacts on inhabitants. With startling frankness, the author of Anshan's official city history, published in 1992, observed: "The allocation of land for this venture was a serious mistake (嚴重的失誤) for the allocation of land in the entirety of Anshan. It seriously harmed the environment and well-being of the residents of Changdian District for an extended period."[56] On this occasion, the vertical hierarchy patently outweighed the horizontal line of command, mirroring China's adaptation of the Soviet model during the First Five-Year Plan.[57]

Simultaneously, Angang-Construction's history also illuminates the convoluted and fluid relationship among Beijing, SOEs, and local authorities. Instances arose where local CCP committees bolstered Angang-Construction in negotiating with the industrial ministries in Beijing. In 1956, faced with steel and cement shortages, the Ministry of Metallurgical Industry suggested deferring several important fundamental construction projects of Angang, including the Second Rolling Mill, Half-Consequent Rolling Mill, and Coke Ovens No. 3 and 4. In a July meeting, however, Angang and Angang-Construction, in alliance with the CCP Anshan City Committee, decided to rebuff the ministry's decision.[58] The Ministry of Metallurgical Industry in Beijing endeavored to limit Angang's expansion from a wider national perspective; meanwhile, the CCP Anshan City Committee single-mindedly championed the expansion of Angang, with an eye toward bolstering the locality's industrial yield.[59] SOEs at the time forged alliances with local governments to parley with Beijing.

The challenges in supervising SOEs were also manifest in the issue of embezzlement of state coffers. State banks were tasked with monitoring SOEs' deployment of state funds for fundamental construction. From 1951 onwards, the state-owned Bank of Communications (交通銀行), which was subsequently reorganized into Chinese People's Construction

[55] *Neibu cankao* 2111 (January 22, 1957), 415–418.
[56] Anshanshi renmin zhengfu difangzhi bangongshi, *Anshan shi zhi: chengxiang jianshe juan*, 23.
[57] For a more detailed account of this episode, see Hirata, "Mao's Steeltown," 91–93.
[58] *Neibu cankao* 1951 (August 7, 1956), 58–61.
[59] This was also a case of investment hunger on the part of SOE managers who, unlike private business owners under capitalism, did not risk economic loss and bankruptcy through overproduction. Kornai, *The Socialist System*, 162.

Bank (中國人民建設銀行) in 1954, oversaw SOEs' fundamental construction funds.[60] Yet evidence suggests that oversight did not always go well. A 1955 internal CCP report revealed that Angang-Construction had committed egregious violations of financial regulations, overspending budgets by more than twenty-four million yuan during the first half of the year. With these funds, Angang-Construction executed construction projects beyond the original plans and without state approval. The bank unearthed six such instances, including the erection of new dwellings in Taiding, a residential enclave initially constructed for high-ranking Japanese managers during colonial times and subsequently occupied by local CCP leaders. Furthermore, state banks lacked effectual supervision methods. Per state regulations, Angang-Construction's equipment acquisitions outside Anshan were to be made by Construction Bank, with deposits remaining devoid of interest accrual. However, Angang-Construction's Equipment Department secretly deposited funds earmarked for acquisitions in other municipalities into alternate state bank accounts, reaping interest and evading supervision, thereby cultivating an environment rife with corruption and squandering.[61] These instances of fiscal misappropriation only rarely surface in primary sources. Nonetheless, the few extant accounts suggest the likelihood of a plethora of analogous incidents that simply remained unrecorded.

Vertical negotiations transpired not merely between the state and SOEs but also within the very fabric of the SOEs themselves. Site managers of Angang-Construction's construction sites often adopted strategies skewed toward maximizing personal interests, even at the peril of Angang's overall fundamental construction. A CCP internal report reveals that some managers intentionally deflated construction benchmarks, thereby ensuring their performance would surpass the quota in the plans and secure them bonuses. For instance, one chief covertly camouflaged portions of construction exceeding the monthly quotas, strategically attributing them to the ensuing month's ledger in a bid to reap bonuses.[62] One tactic workers deployed was deliberate underperformance to avoid future overloads. Worker Zhang of Angang-Construction reportedly counseled his peers: "Do not work too much! Last year, we got up early and went to bed late to work. This year, the quota was raised. If we work too much again, the next year's quota will be even higher."[63] Some workers misrepresented the amount of work they

[60] Wu et al., *Zhongguo guojia ziben de lishi fenxi*, 287.
[61] *Neibu cankao* 167 (July 20, 1955), 272–274. For Taiding, see Chapter 6.
[62] *Neibu cankao* 43 (February 24, 1955), 313–315.
[63] *Neibu cankao* 148 (July 5, 1954), 71–73.

completed in their reports, and managers often turned a blind eye, either to avoid conflict or due to a sheer disregard for checking workers' jobs. Conversely, some pursued overtime to earn higher salaries by undertaking unnecessary tasks.[64]

On top of this, some employees engaged in corruption. For example, Kong, a purchasing officer of Angang-Construction's Machine-Repair Factory, and several other staff bought old car parts for four million yuan from a private business. They then sold these parts to Angang-Construction for twelve million yuan. By similar means, they earned more than ninety million yuan from the company within a year. Before long, they were arrested, with Kong receiving a lifelong penance.[65]

Apart from the various forms of vertical bargaining detailed earlier, internal accounts also highlight instances of horizontal bargaining within Angang. Managers pursued their interests not solely in relation to their superiors but also amid their peers. Differing workplaces within Angang-Construction engaged in "wrangling (扯皮)," a process where each attempted to project higher productivity within their own section, regardless of its potential detriment to the overall efficiency of Angang-Construction. An instance involved the Dagushan Ore-Dressing Plant's construction site, where the metal structure installation team was instructed to assemble three spans of crane beam so that the machine installation team could install 500 tons of machinery. However, a cadre from the metal structure installation team delayed the task for 104 days. Eventually, the machine installation team's leader decided to *kowtow* to the delaying cadre. Upon receiving the *kowtow*, the cadre of the metal structure installation team accomplished the crane beam assembly with three workers within three hours.[66]

"Wrangling" was even seen as an expertise for some, becoming an essential component of a successful Angang-Construction manager's toolkit. This workplace culture influenced engineer Yang to politely advise his newly appointed superior: "To do management tasks, you must master 'wrangling.' If you cannot do 'wrangling,' you will lose." A CCP internal report's author concluded:

> Those individuals and workplaces adept in "wrangling" certainly often take advantage … the leaders became aware that the present reward system is unreasonable and that, as a matter of fact, it has encouraged individual workplaces, particularly engineering teams, to develop sectionalist mindsets.

[64] *Neibu cankao* 2162 (March 26, 1957).
[65] *Neibu cankao* 284 (December 13, 1954), 174–175.
[66] *Neibu cankao* 103 (May 6, 1955), 62–66.

Yet, they have not yet accomplished fundamental improvement, hence the "wrangling" issue has not been stopped or overcome.[67]

This piece elucidates how sectionalist behaviors such as "wrangling" served as rational strategies from the perspective of individual managers, given the incentive mechanism of SOEs at the time.

Angang's fundamental construction reveals that the socialist state's industrial investment essentially functioned as a power nexus among various central and local bureaucratic players. The relationship between SOEs and local governments often contained friction, yet occasional collaboration did occur to bolster their negotiating strength against Beijing. Within SOEs, the enterprise headquarters continuously bargained with its departments and employees at all levels. Rather than solely imposing policies in a top-down manner, the PRC state orchestrated a complex web of vertical and horizontal bargaining on the ground.

Planning and Finance

SOEs' production operated according to multitiered plans, adopting a planning process largely reminiscent of the Soviet model.[68] In Angang, the general director devised "long-term plans (長遠規劃)," spanning multiple years, which encompassed the entire operation of Angang and aligned with policies of the central, provincial, and city governments.[69]

However, this does not imply that SOEs exclusively produced items specified in economic plans and functioned merely as arms of government agencies. Specific goals embedded within long-term plans were segmented yearly by annual plans. Describing the process of formulating annual plans between 1952 and 1978, Angang's official company history reads: "in the procedure for making these plans, … control numbers and drafts were made level by level from the bottom to the top, and then they were approved level by level from the top to the bottom."[70] In essence, the drafting of annual plans commenced at individual workplaces at the lower tiers, with these preliminary drafts subsequently reviewed and integrated into a more comprehensive draft at the superior level.

Financial operations of major SOEs such as Angang formed part of the PRC state budget. While substantial investments for Angang were

[67] *Neibu cankao* 103 (May 6, 1955), 62–66.
[68] For the planning process in the Soviet Union under Stalin, see Berliner, *Factory and Manager in the USSR*, 17–20.
[69] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 19–20.
[70] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 21.

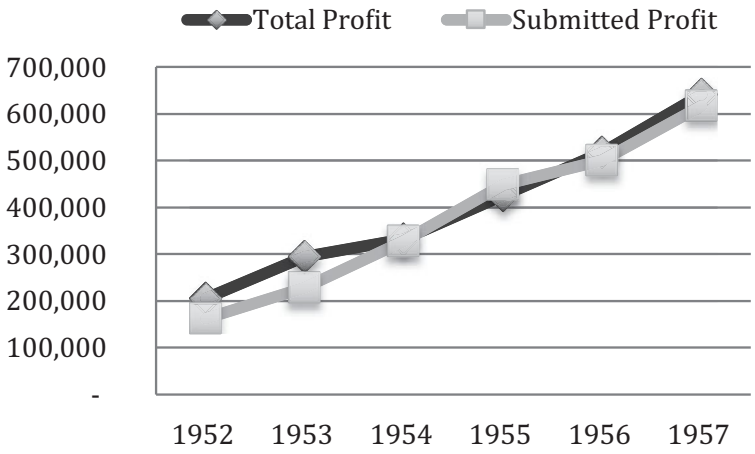

Figure 5.4 Yearly profit of Angang, 1952–1957 (thousand yuan)
Source: Anshanshi tongji ju, *Anshan shi guomin jingji tongji ziliao huibian (gongye pian) 1949–1958 nian*, part 2 (*di'er bufen*), 300.

sourced from the state budget, the state predominantly extracted its profits as well. According to the national system established in 1952, the SOEs were allowed to retain 2.5 to 5 percent of planned profits and 12 to 25 percent of profits exceeding the plan. In 1955 and 1956, the PRC government declared that the SOEs could retain 40 percent of the overplan profit.[71] The pricing of industrial products, notably strategically significant goods such as steel, was set artificially higher than market economy rates, enabling industrial SOEs to generate "profits" for contribution to the state budget.

Figure 5.4 depicts the portion of Angang's net profit extracted to the state budget as the "submitted profit (上繳利潤)." While Angang retained over 20 percent of profits in 1952 and 1953, this figure dropped to less than 4 percent from 1954 onward. Consequently, Angang, as a company, had limited motivation to optimize its profit, granted that the state provided Angang with its means of production for free while virtually appropriating all the profit generated.

That said, Angang's "net profit" as recorded might have been understated, since Angang was permitted to categorize various funds as "production costs." These encompassed "funds for major maintenance (大修理基金)," constituting 2 percent of the gross fixed asset from 1952 to

[71] Dong and Wu, eds., *Zhonghua renmin gongheguo jingjishi, 1953–1957*, 1: 437. This system was obviously a copy from the Soviet system of the "enterprise fund." See Berliner, *Factory and Manager in the USSR*, 67–70.

1965, and "funds for staff and worker welfare (職工福利基金)," amounting to 13 percent of employee salaries. The exact utilization of these funds is elusive: however, given the state's rather lax control over them, the de facto surplus Angang could employ sans state intervention might have been more substantial than statistical figures suggest.[72]

Given that profits were remitted to the state and losses would be offset by the state, SOEs were incentivized to concentrate exclusively on production volumes, disregarding profitability. According to a Japanese engineer, "the output and its cost for a factory should be coordinated, but that is not the case under the CCP. They just increase output … They seem to be unable to look at them [the output and the cost] at the same time."[73] Angang's modus operandi often maximized production at the expense of efficiency and profitability, mirroring Soviet SOEs that had scant incentives to maximize profits, as the state budget would compensate for working capital deficits.[74]

Moreover, while the PRC government grappled with Angang's moral hazard, Angang itself faced analogous dilemmas within its departments, factories, and subsidiaries. For instance, prior to 1950, Angang's financial system was centralized while production operations were decentralized. Consequently, individual units were disincentivized from economizing, fixating solely on boosting production, heedless of operational costs or demand for their products. According to a banker stationed in Angang, prior to 1950, "individual work units [within Angang] did not care about the sources of funding, or about whether it was easy to sell products. When products were stockpiled, the enterprise [Angang] took responsibility. When the funding was in shortage, the enterprise found solutions." Hence, "although most of the work units calculated losses and profits, it had little to do with their own interests."[75] Angang endeavored to have state banks monitor its production units. To counter the moral hazard of individual factories and mines, Angang adopted a more decentralized financial system. In July 1950, Angang introduced a "two-level accounting (兩級核算)" system for eighteen production units, aiming to incentivize factory and mine directors to operate their workplaces with greater efficiency. Under this system, production units under Angang were primarily financed by state banks rather than Angang itself. In the event of fund shortages, the production units had

[72] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 61.
[73] Record of an interview with "S-402" (male, 53), October 21–25, 1954, *Chūkyō jijō*, riku 517 (March 11, 1955), Diplomatic Archives of the Ministry of Foreign Affairs of Japan, Postwar record A'-4-1-1-4.
[74] Berliner, *Factory and Manager in the USSR*, 58–61.
[75] He, *Angang de yinhang xindai jiesuan gongzuo*, 10–11 (quote from 11).

to apply for short-term loans from banks, which would then scrutinize the units' operations.[76] According to the banker stationed in Angang, this novel system effectively incentivized production units to streamline their operations.[77]

Despite these efforts, however, substantial evidence suggests that Angang's operations continued to suffer from inefficiencies. For instance, even when Angang produced an enormous volume of iron and steel products, a significant portion of these were of unusable quality. For the initial five months of 1954, Angang fell short of its product quality targets. By May 1954, the volume of unusable iron products exceeded 6,400 tons, surpassing the unusable iron produced in the entirety of 1953 by 1,400 tons.[78] This issue of quality control in Angang likely vexed the CCP Anshan City Committee, inspiring at least one satirical illustration in the City Committee's official mouthpiece, *Anshan Daily* (鞍山日報). In it, two men boast of overshooting production targets, only to tumble subsequently due to the imbalance between high quantity and substandard quality (Figure 5.5).

This problem of poor-quality products from SOEs even strained China's international relations. In 1955, Angang agreed to sell 12,000 tons of products to Myanmar, initially planning to dispatch items stored in its warehouses. However, Angang soon discovered that these products were already rusted and had to produce new items, while requesting an extension for the delivery deadline.[79] In the same year, Angang failed to deliver goods ordered by Czechoslovakia and Poland, resulting in a cancellation fee.[80] It was indeed ironic that Angang's poor-quality production led to discord between China and other socialist countries, as this problem was patently widespread in socialist economies generally. For example, Soviet factories also struggled with subpar production quality, due to various factors such as high production pressure and lackluster customer response.[81]

Angang was not disciplined by profit-making incentives, knowing that it could rely on the state budget for survival. Consequently, Angang's reckless behavior led to an overzealous pursuit of quantitative production

[76] He, *Angang de yinhang xindai jiesuan gongzuo*, 11–13.
[77] He, *Angang de yinhang xindai jiesuan gongzuo*, 13.
[78] *Neibu cankao* 135 (June 18, 1954), 222–224.
[79] *Neibu cankao* 131 (June 8, 1955), 108–109. Also, inspectors of Angang checked the finished products more rigorously because it was to be sold abroad. As a result, they could only hand in much less than contracted.
[80] *Neibu cankao* 73 (March 31, 1955), 479–480. It is unclear whether Angang actually paid it.
[81] Berliner, *Factory and Manager in the USSR*, 136–159.

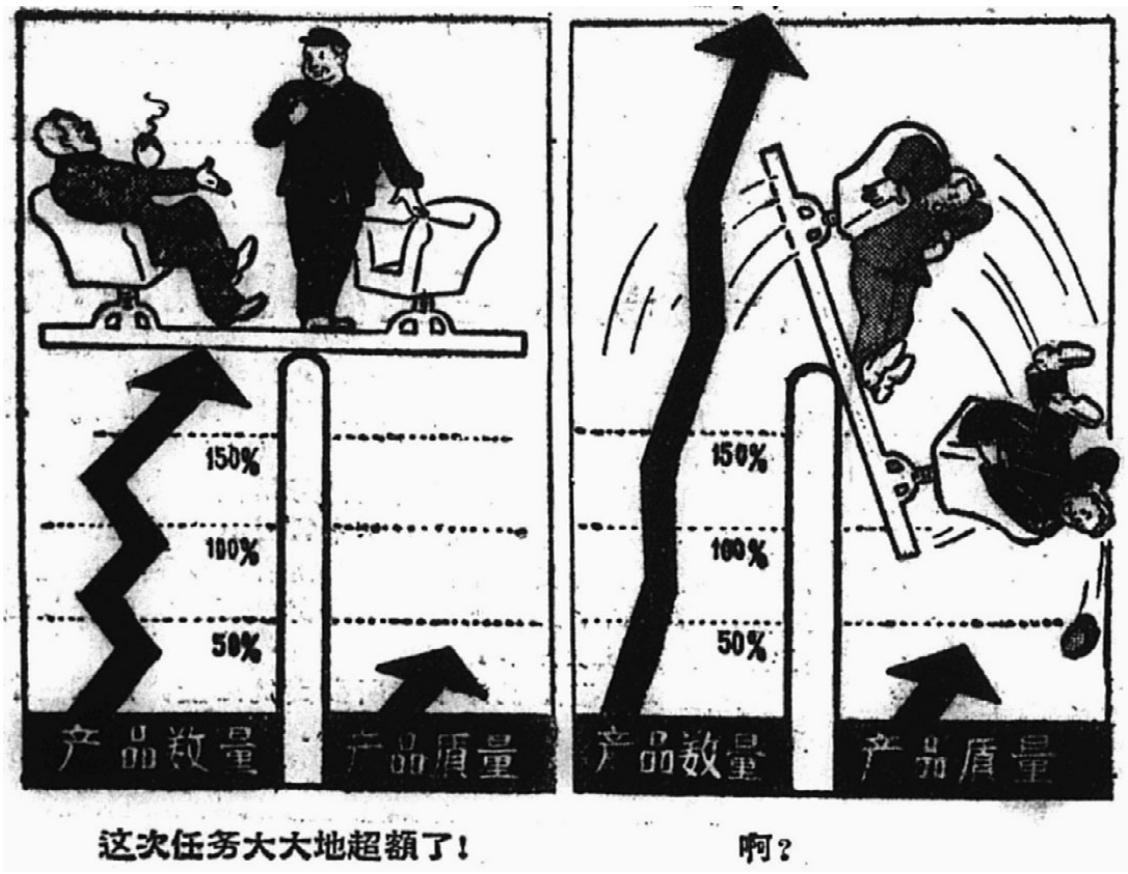

Figure 5.5 Satirical illustration on Angang's imbalance between quality and quantity, 1956
Source: *Anshan ribao* (April 21, 1956).

growth, without sufficient regard for the qualitative enhancement of its products. In their dependence on the state budget and focus on quantitative expansion, Mao-era Chinese SOEs shared parallels with SOEs in other socialist countries as well as major industrial enterprises in Japanese-occupied Manchuria.

Procurements and Sales

Under the planned economy system, goods were intended to be sold at state-set prices to customers designated by state plans. However, upon closer inspection of Angang's procurements of raw materials and sales of its products, it becomes evident that there was significant room for negotiation within this system. Industrial goods were bought and sold through not only top-down plans but also ground-level negotiations among different levels of government and various SOEs.

State planning of the allocation of goods was not entirely a top-down process; it was multilayered and involved multiple actors engaging in

negotiations. SOEs had a voice in the planning process concerning the distribution of goods. For instance, during the Five-Year Plan period, the PRC government organized "national ordering meetings (國家訂貨會議)," where Angang sent its representatives. Angang would develop resource plans before meetings and submitted them to the Ministry of Metallurgical Industry.[82]

Local governments also played a crucial role in state planning regarding the distribution of industrial products. Beginning in 1950, Angang's products were divided into three categories: "unified-allocation items (統配物資)" such as pig iron and steel, which were sold as per the State Planning Commission's plans; "ministry-controlled items (部管物資)" such as coke, which were distributed by government ministries; and "locally controlled items (地管物資)," whose sales were either decided by the enterprise itself or by local government. Even though the range of "locally controlled items" dwindled during the Five-Year Plan, it did not completely disappear.[83]

The Anshan City Government also impacted Angang's operations through business transactions, as some of Angang's business partners were local SOEs under the city government's control. After taking over Anshan in 1948, the CCP city authorities seized former Japanese-owned private enterprises and acquired some of the Chinese-owned private enterprises in the city. By the early 1950s, the Anshan city authority had restructured these former private enterprises into several local SOEs, specializing in sectors such as tractor and machine production, using iron and steel purchased from Angang.[84]

Moreover, numerous products were not even encompassed in state economic plans, and thus were transacted through negotiations between different enterprises. When it came to procuring raw materials, the plan-supplied materials accounted for only 78 percent of all the materials needed for Angang's operation. Angang, therefore, had to procure around 22 percent of the materials outside of state planning. To obtain these materials, Angang had to engage in direct negotiation with other enterprises. In 1950, for example, Angang sent staff to other Manchurian cities such as Shenyang, Changchun, Jilin, Harbin, Andong (Dandong),

[82] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 143–144. With the sources I have, it is still unclear how much weight Angang's presence in the meeting had and where these steel products were consumed.

[83] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 143.

[84] Matsumoto, "Anzan niokeru kikan sangyō no kōchiku." As discussed in Chapter 2, the largest Japanese private enterprises in Anshan had been merged with Angang under Nationalist rule.

and Dalian to secure raw materials from the markets.[85] Regarding the sale of its products, Angang sold a significant proportion of its products to other SOEs as directed by state planning, but it also sold some products directly to private businesses at market prices.[86] Despite the planned economy system, there was still some level of market-like transactions and negotiations involved in the operations of SOEs such as Angang.

During the Five-Year Plan, the state did attempt to expand its control over the distribution of goods, considerably expanding the range of the goods distributed via state planning. The number of items controlled by the central state's planning more than doubled from 227 (112 by the SPC and 115 by specialized ministries) in 1953, to 532 (231 by the SPC and 301 by ministries) in 1957. In terms of steel products, the ratio of the products distributed outside state planning fell from 35.9 percent in 1953 to 8.2 percent in 1956.[87]

Nevertheless, the PRC government was still far from exerting total control over all industrial products. Angang's rapid expansion during the First Five-Year Plan resulted in a significant increase in chemical by-products and nonstandard products, for whom Angang's Sales Department tried to find buyers. To sell these, Angang employed various strategies such as sending staff to different cities, hiring commercial companies for agency sales, and trying to establish long-term business relationships with certain customers.[88]

This trade mechanism, complementing state planning with market-like transactions, didn't always prove effective in aligning supply with demand. For instance, in the early to mid-1950s, Angang grappled with the challenge of locating enough buyers for its products. From December 1953 through February 1954, over 800 tons of Angang's seamless steel pipes remained unsold, despite the government's orchestrated price reductions. Angang's Sales Department parleyed with other industrial enterprises such as China Hardware Machine Works (中國五金機械公司), yet consensus proved difficult.[89] During the fourth quarter of 1953, 2,000 tons of naphthalene flakes and over 100,000 tons of smelting coke accumulated at Angang. Dispatching representatives to Shanghai in search of buyers yielded scant success. This quandary impelled the director of Angang's Sales Department to moot exporting the surplus

[85] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 125.
[86] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 143.
[87] Dong and Wu, eds., *Zhonghua renmin gongheguo jingjishi, 1953–1957*, 1: 435.
[88] Angang shizhi bianzuan weiyuanhui, *Angang zhi, 1916–1985*, 2: 143.
[89] *Neibu cankao* 43 (February 24, 1954), 269–270.

products to North Korea and Japan.[90] China's industrial sector was still underdeveloped, with a paucity of industrial enterprises requiring the costly metals Angang produced. Nonetheless, access to state coffers incentivized SOEs to increase production without much consideration for market demand.

Such persistent misalignment of supply and demand culminated in copious amounts of finished products stowed away in Angang's sprawling warehouses. According to an August 1954 internal CCP report, projections based on production plans and purchase orders predicted that Angang's product stockpiles would climb to roughly 100,000 tons by the year's end.[91] In August 1955, Angang was projecting a reserve of 406,000 tons of pig iron – one-fifth of its annual output – for the second half of the year.[92] Developing steel and other heavy industries yielded meager short-term profits, due to the relatively small size of Chinese industries that would use such goods. Hence, state investment was paramount in cultivating unprofitable SOEs such as Angang for the long-haul goal of industrialization.

In transactions among SOEs, broken promises were strikingly commonplace: SOEs lacked strong incentives to honor their commitments, as the PRC had virtually no contract law in place, and SOEs harbored no fear of losing customers. In 1954, Angang prepaid Dalian Motor Factory (大連起重機廠) for a machine and its transportation, with delivery slated for June. The Dalian factory, however, only dispatched the product in August.[93] Moreover, SOEs frequently fell short in meeting customers' specific requirements, such as product sizes, shapes, and types. Shenyang Heavy-Machine Factory (瀋陽重型機器廠), for instance, built a roasting machine for Angang in 1955, which failed to meet Angang's specifications.[94]

Angang's construction, production, and sales demonstrate that the planned economy under Mao was more nuanced than a simple top-down command system. Goods distribution was often handled not by the PRC government but by provincial, municipal, and even lower-level authorities. With state planning overseeing only a fraction of the goods produced and consumed by industrial enterprises, SOEs were compelled to perpetually negotiate with the state and each other to fulfill their production plans. This configuration of the Chinese socialist planned

[90] *Neibu cankao* 214 (September 12, 1953), 170–171.
[91] *Neibu cankao* 183 (August 14, 1954), 218–219.
[92] *Neibu cankao* 180 (August 4, 1955), 36–37.
[93] *Neibu cankao* 45 (February 26, 1955), 371–373.
[94] *Neibu cankao* 85 (April 14, 1955), 215–216.

economy afforded SOEs and local governments a measure of autonomy in decision-making.

State Socialism as Rules of the Game

At first blush, the term "state-owned enterprise" may conjure a rather simplistic image of a government-owned entity executing government directives. However, when we examine the day-to-day operations of these entities, SOEs reveal themselves as anything but straightforward. In actuality, SOEs navigated at least two principal lines of control: the vertical axis, descending from Beijing via factory managers, and the horizontal axis, extending from local CCP organizations through party cadres.

These two lines embodied distinct strands of revolutionary thought. Factory managers on the vertical line aimed to assert technocratic control over workplaces, echoing the Soviet model that Gao Gang endeavored to incorporate into the fledging PRC. Meanwhile, the local party cadres on the horizontal line, as generalist leaders, sought to foster solidarity with workers through popular mobilization campaigns, thereby embodying the CCP's own rural tradition, championed by Chairman Mao.

The tension between these two lines of control found its most tangible manifestation in the friction between Angang and the city of Anshan. Conventional wisdom posited that centrally owned SOEs in the early PRC – Angang being the most illustrious example – were stringently overseen by the central state authority in Beijing. But as this chapter has shown, Angang's operations were closely entwined with local power structures, particularly the CCP Anshan City Committee and the Anshan City Government. Indeed, Angang and the city of Anshan frequently found themselves at loggerheads over issues such as urban construction and factory management.[95] The local political dynamics of SOEs in Maoist China encompassed both vertical and horizontal negotiations among entities such as industrial ministries, local party authorities, and the SOEs themselves. This situation also attests to the origins of the "dual rule (雙重領導)" system in post-Mao China.[96]

[95] For the tension between Angang and the city of Anshan on the issue of urban construction, see Hirata, "Mao's Steeltown."

[96] According to the "dual rule" system, tiao-tiao (條條) lines of command link work units vertically to the central state power in Beijing, whereas kuai-kuai (塊塊) lines of command link them horizontally to local organs of power. For instance, see Schroeder, "Territorial Actors as Competitors for Power." While Schroeder writes that this system was "instituted after much debate in the decentralization drive of 1957" (p. 286), this chapter shows that its prototype already existed before 1957.

When it comes to control over Angang, its day-to-day operations went beyond the mere implementation of top-down state directives. Major SOEs such as Angang were steered through intricate negotiations between varying administrative actors, including central and local governments, SOE leaders, and middle-level managers and workers in SOEs. On the ground, the socialist planned economy established rules of the game in which disparate organizations and individuals negotiated with one another and the state.