

The Stone Group: State Client or Market Pathbreaker?*

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In mid-June 1989, just a couple of weeks after the Tiananmen protests were brought to a halt, a small unit of People's Liberation Army soldiers occupied the headquarters of the Stone Group Corporation, then China's premier electronics company. The troops were accompanied by a working group composed of Beijing Municipal Communist Party and government officials, who were sent to investigate charges that Stone employees had participated in the crushed student protest movement. Just days before their arrival, three of Stone's senior management, including its President, Wan Runnan, had fled China. Wan was one of 21 "black hands" named by the Communist leadership as having orchestrated the protests.¹

As news of the crackdown on Stone spread, analysts came to the conclusion that the company was doomed and, moreover, that China's leaders appeared more interested in retaining power than in continuing with economic reform. One said that Stone, with the downfall of its supposed patron Zhao Ziyang, "is in disgrace and faces break-up."² Another was convinced that "the regime . . . is now committed to closing down one third of existing private businesses."³ Wan Runnan himself, in an interview from Paris, exclaimed that "the country's economy is now on the verge of collapse" and that "the current Chinese regime cannot last until 1997."⁴ As that year came to a close, these dire forecasts had not yet been realized.

After bringing inflation under control, China's leaders in 1992 proclaimed their goal of creating a "socialist market economy," and launched a new wave of reforms concerning enterprises, finance, trade and investment. Less recognized, though, has been the continued existence and prosperity of the Stone Group. While sales slowed immediately after

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1. Wan made his way to Hong Kong by using a visa that had been issued to him weeks before to attend an electronics symposium in the colony that had actually already been held in late May. Interview No. 1. Interviews were conducted in 1994 and 1995 in the U.S., Hong Kong and China with former and current employees of Stone, its joint venture partners and the Stone Social Development Institute, and with Chinese journalists and industry analysts.

2. David Kelly, "Massacre of a Chinese company," *Australian Financial Review*, 4 October 1989, p. 13.

3. Merle Goldman, "Vengeance in China," *New York Review of Books*, 9 November 1989, p. 5.

4. Xiong Xiaoge, "Fall from the throne: China turmoil topples entrepreneur," *Electronic Business*, 30 October 1989, pp. 61-63.

4 June, business turned around soon after (see Table 1). Stone has issued several updated versions of its market-dominating word processor, invested more energy in software, printers, computers, semiconductors and other electronic products, and expanded farther afield into areas such as vitamins, furniture and finance. In May 1994, Stone celebrated its tenth anniversary with the knowledge that it had just posted record sales in 1993 of RMB 3.5 billion, sustaining it as one of China's largest high-tech firms. Though Stone is no longer considered China's premier electronics company, its continued success has surpassed most observers' expectations.

Stone's resilience has raised fundamental questions about the nature of state-society relations in the post-Mao era. As economic reforms in the 1980s expanded, a growing number of analysts spoke of a nascent civil society developing in China. Their arguments were fuelled by recent studies of China's own history as well as those of Taiwan, South Korea and Eastern Europe. Though differing in detail, proponents would probably agree that the essence of civil society is "the idea of the existence of institutionalized autonomy for social relationships and associational life, autonomy vis-à-vis the state In such a civil society individuals have identities as citizens that are independent of whatever relationships they may have with the organizations and political categories established by the state and its leaders."⁵ The emergence of outspoken intellectuals, a non-state economic sector and professional associations have been cited as evidence of a broad social and economic pluralization that was setting the foundation for democratization.⁶

Not surprisingly, this view has been challenged by scholars who have emphasized that instead of a strengthened civil society, the state has manipulated reforms to increase, or at least maintain, a strong grip on economic and social activity.⁷ Some have seen similarities in the corporatist models that have been used to describe state-society relations in other East Asian countries.⁸ Others have gone beyond the rigid hierarchi-

5. Martin K. Whyte, "Urban China: a civil society in the making?" in Arthur Lewis Rosenbaum (ed.), *State and Society in China: The Consequences of Reform* (Boulder: Westview Press, 1992), p. 77.

6. Representative works include David Strand, "Protest in Beijing: civil society and public sphere in China," *Problems of Communism*, Vol. 39 (May-June 1990), pp. 1-19; Michael Bonnin and Yves Chevrier, "The intellectual and the state: social dynamics of intellectual autonomy during the post-Mao era," *The China Quarterly*, No. 127 (September 1991), pp. 569-593; and Thomas B. Gold, "Urban private business and China's reforms," in Richard Baum (ed.), *Reform and Reaction in Post-Mao China: The Road to Tiananmen* (London: Routledge, 1991), pp. 84-103.

7. Vivienne Shue, *The Reach of the State: Sketches of the Chinese Body Politic* (Stanford: Stanford University Press, 1988).

8. David S. G. Goodman, "Collectives and connectives, capitalism and corporatism: structural change in China," *Journal of Communist Studies*, Vol. 11, No. 1 (March 1995), pp. 12-32; Margaret M. Pearson, "The Janus face of business associations in China: socialist corporatism in foreign enterprises," *The Australian Journal of Chinese Affairs*, No. 31 (January 1994), pp. 25-46; and Jonathan Unger and Anita Chan, "Corporatism in China: a developmental state in an East Asian context," in Barrett L. McCormick and Jonathan Unger (eds.), *China After Socialism: In the Footsteps of Eastern Europe or East Asia?* (Armonk, NY: M. E. Sharpe, 1996), pp. 95-129.

Table 1: Stone Group Corporation (RMB, millions)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Total sales	9.76	32.21	129.12	435.32	838.14	752.75	1,340.00	2,300.00	3,000.00	3,500.00	4,450.01	5,295.37	5,726.02
Pre-tax profits	2.16	5.82	12.60	42.15	92.97	66.31	100.60	143.27	153.29	165.77	195.00	90.63	173.03
Taxes	0.73	1.57	2.92	11.39	33.19	24.87	31.29	60.06	60.70	57.35	52.69	43.46	58.62
Net profits (post-tax)	1.43	4.25	9.68	30.76	59.78	41.44	69.31	83.21	92.59	108.42	142.31	47.17	114.41
Assets	28.73	37.50	100.10	249.17	385.98	221.90	676.28	858.06	1,194.77	1,663.25	2,404.81	4,324.02	5,125.37
Net profit to sales ratio (%)	14.65	13.20	7.50	7.07	7.13	5.51	5.17	3.62	3.09	3.10	3.20	0.89	2.00
Employees (year-end)	94	175	367	774	1,156	1,853	1,517	1,867	3,100	3,500	3,500	3,700	3,800

Source:
Stone Group Corporation.

cal pattern of corporatism to argue that state and society in fact are merging. The pervasiveness of clientelism⁹ has resulted in the creation of a "single blended class" of bureaucrats and merchants who have become reliant on the other for key resources. Thus, "what appears as a liberation of society has actually . . . been an incorporation of society, *albeit under grossly altered terms*."¹⁰ Given that businesses have seen their interests in the status quo, they have not supported radical political change. Hence, these analysts have believed that national-level democratization is unlikely.

Stone has been at the heart of this debate, with advocates of both sides citing it to buttress their respective claims. Within a few years of its founding, Chinese commentators began to describe it as a new breed of company that the rest of China should emulate.¹¹ Many Western industry analysts concurred. Central to these analyses was the view that Stone was an autonomous business whose success had been determined by the marketplace and not by Party cadres and state bureaucrats.¹² Stone's entrepreneurial spirit, embodied in its corporate culture, technological achievements and risk-taking strategy, heralded a new era for Chinese business. There is no doubt that Stone has viewed itself in this camp. One manager reportedly rejected the idea that it had special connections, noting that "if Stone had a background (*beijing*), there would not be a Stone today," implying that it would have fallen with its apparent supporters such as Hu Yaobang and Zhao Ziyang.¹³ Some at Stone also consciously saw the company's business and social activism as helping to create an enlightened "propertied class" (*youchan jieji*) and a civil society which would restrain the government's power.¹⁴

Critics, on the other hand, have seen in Stone the signs of corporatism and patron-client ties that suggest the seeds of civil society have been

9. Clientelism involves a sustained pattern of reciprocal (and usually illicit) exchange involving clearly understood rights and obligations between two parties of unequal status. Andrew J. Nathan, "A factional model for CCP politics," *The China Quarterly*, No. 53 (January/March 1973), pp. 37-42; Andrew G. Walder, *Communist Neo-Traditionalism: Work and Authority in Chinese Industry* (Berkeley: University of California Press, 1986).

10. Dorothy J. Solinger, "Urban entrepreneurs and the state: the merger of state and society," in Rosenbaum, *State and Society in China*, p. 124 (emphasis added). Also see David L. Wank, "Private business, bureaucracy, and political alliance in a Chinese city," *Australian Journal of Chinese Affairs*, No. 33 (January 1995), pp. 55-71. Margaret M. Pearson emphasizes both corporatism and clientelism in *China's New Business Elite: The Political Consequences of Economic Reform* (Berkeley: University of California Press, 1997).

11. Perhaps the first such report is Qin Xiaoli, "High-tech dreams find home on 'computer street,'" *China Daily (Business Weekly)*, 26 June 1985. Also see Ma Yunong, "Guannian youshi: Sitong chengongde shouyao yinsu" ("Conceptual superiority: the chief factor in Stone's success"), *Guangming ribao (Enlightenment Daily)*, 22 December 1986.

12. One even called Wan Runnan, one of Stone's founders, "the Steve Wozniak of China," a reference to the co-founder of Apple Computer Co. Another compared him to Acer's Stan Shih. Al Furst, "High tech in China: the new private sector," *Electronic Business*, Vol. 14, No. 16 (15 August 1988), pp. 28-32; also see Dori Jones Yang, "Can Chinese computers survive in the wild west?" *Business Week*, 26 December 1988, p. 70; and Richard P. Suttmeier, "Laying corporate foundations for China's high-tech future," *China Business Review*, Vol. 15, No. 4 (July-August 1988), p. 24.

13. Interview No. 2.

14. Interviews No. 3 and 4.

uprooted before they have had a chance to sprout. They have pointed to its registration as a collective (as opposed to private) enterprise, and its apparent close ties to elites which has given it access to resources and protection from political opponents not available to the average entrepreneur.¹⁵

A review of Stone's founding, its emergence as a national electronics conglomerate, its travails during 1989 and its re-emergence since then yield four interrelated conclusions. First, Stone was privately initiated and had operational autonomy throughout its existence. Secondly, it was the recipient of state assistance, both indirectly from policies geared to the electronics industry and non-state firms as a whole, and directly through firm-specific measures. There are also some signs of personal links to the state and its representatives, particularly in Stone's early years. However, the state aid seems most consistent with an activist industrial policy and not simply due to government patrons' support of a business client. (Stone was also intermittently singled out by state opponents, and some state policies suited its competitors.) Thirdly, while Stone certainly benefited from this support (and suffered from this opposition), when seen in the context of an increasingly competitive electronics industry, Stone's own business strategy was far more important in its successes and failures than state intervention – whether industrial policy or clientelism. State aid made an impact in so far as it was consistent with broader market trends which Stone sought to exploit. That is, the state's activities followed rather than led the market.¹⁶ And fourthly, Stone's business behaviour, its distinct identity, and the growing importance of its horizontal links within its profession and with society at large point to the emergence of a civil society that is neither directed by nor narrowly serves the interests of the state. While much of the debate over civil society in China has been about the future likelihood of democracy, Stone's history implies that socio-economic pluralization has already led to far-reaching, even if less visible, political change.

Founding

Though the most famous of China's non-state high-tech firms, Stone was by no means the first. That honour, at least in Beijing, belongs to Cathay Silicon Valley (*huaxia xigu*), a firm founded in 1983 by Chen Chunxian, a research fellow in the Chinese Academy of Science's (CAS) Institute of Physics. Chen opened a door that was soon passed through by other researchers at CAS and area universities who were fed up with

15. Solinger, "Urban entrepreneurs," pp. 132–34; David Kelly and He Baogang, "Emergent civil society and the intellectual in modern China," in Robert F. Miller (ed.), *The Development of Civil Society in Communist Systems* (Sydney: Allen and Unwin, 1992), pp. 29–30; and Denis Fred Simon, "China's drive to close the technological gap," *The China Quarterly*, No. 119 (September 1989), pp. 626–27.

16. The distinction is made by Robert Wade, "Industrial policy in East Asia: does it lead or follow the market?" in Gary Gereffi and Donald L. Wyman (eds.), *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia* (Princeton: Princeton University Press, 1990), pp. 231–266.

working on out-dated equipment for meagre wages in an atmosphere that stymied creative energies. Eleven similar sci-tech firms opened in Beijing's Haidian district in 1983, followed by 40 in 1984.¹⁷

Though the number of founders cited has been as high as ten, it appears that four people initiated Stone: Wan Runnan, president until June 1989, Shen Guojun, currently chairman of the board, Gong Ke, and Liu Haiping. (The latter two left Stone by 1986, though Gong Ke returned in 1992.) Wan Runnan, who had received the most attention, studied construction engineering at Qinghua in the mid-1960s. There, he became a political counsellor, a system set up by Qinghua president Jiang Nanxiang to promote its brightest students and which, perhaps unintentionally, helped them build bonds that would last beyond their school days. Several of Stone's other upper management, including Duan Yongji and Zhu Xiduo, also attended Qinghua in the 1960s. Wan also met his first wife, Liu Tao, daughter of Liu Shaoqi, at Qinghua.¹⁸ Their marriage, though, was brief, ending in 1970. Wan was then sent to the countryside, where he worked on the railways and taught middle school. During this time he met his second wife, Li Yu, daughter of Li' Chang.¹⁹ Li Chang was probably helpful in getting Wan a position in CAS's Computer Centre in 1976, where he eventually rose to become director. In early 1984 he met a visiting delegation from IBM at the Great Hall of the People, and then helped IBM train ministry-level personnel.²⁰ This contact with the world's leading computer company provided the inspiration for Wan to set up his own firm.

At the same time, Shen Guojun, a Beijing University graduate who had met Wan at CAS, had been asked by his superiors in early 1984 to run the Kehai Company, a new firm that belonged to CAS. Shen agreed, but he and Wan really wanted to start a firm completely independent of CAS, not just a spin-off that took financing and instructions from their old bosses. Shen and Wan were next introduced to Liu Haiping, who was then working at Beijing's No. 3 Computer Factory, by their common friend Yin Fusheng. Finally, Liu recruited a co-worker Gong Ke to join them.

Once they decided to leave their original work units and form a company, they still needed capital and a work site. Here, Wan's old connections paid off. Another fellow Qinghua classmate, Jia Chunwang, who was then party secretary for Haidian (and who later became Minister

17. Ricky Tung, "The Chungkuantsun New Technology Development Zone: Mainland China's Silicon Valley," *Issues and Studies*, Vol. 24, No. 12 (December 1988), pp. 49–50.

18. She was part of a group of "conservative" Red Guards who tried unsuccessfully to protect Qinghua president Jiang from being deposed by the more radical Red Guards led by Kuai Dafu. Cheng Li, "University networks and the rise of Qinghua graduates in China's leadership," *The Australian Journal of Chinese Affairs*, No. 32 (July 1994), pp. 1–30.

19. Li Chang was a secretary of the Communist Youth League before 1949, then became president of the Harbin Industrial University; in 1964 he became Qinghua's vice-president. Towards the end of the Cultural Revolution, he became Party secretary at CAS, then head of the Central Committee Organization Department, and finally the secretary of the Central Discipline and Inspection Commission.

20. Solinger, "Urban entrepreneurs," p. 132.

of State Security), sent the group to see Li Wenyuan, the head of Haidian's Sijiqing township, formerly a model commune. Li arranged for the company to receive an RMB 20,000 loan from the township as start-up funds and an office in his younger brother's electronic parts factory as their place of business. (The loan was paid back in 1985.)²¹ On 16 May 1984, Stone Emerging Industries Company (*Sitong xinxing chanye gongsi*)²² registered with the Haidian district government as a collective, but unlike most collectives Stone did not receive any government investment or have an administrative "parent unit" (*guahao danwei*) that it had to report to or that oversaw its business. Stone was thus categorized as a *minban jiti qiye* (people-run collective enterprise).²³ The designation did not alter its ownership status (individuals usually can hold no more than 49 per cent of a collective's ownership), but it did provide it with a greater degree of autonomy than ordinary collectives.²⁴ Theoretically, the company could have launched itself as an "individual enterprise" (*getihu*), but it would have been limited to only seven employees, a number it would surpass within weeks. Since larger privately-owned enterprises were not officially sanctioned until 1988, Stone had little choice but to "wear a red hat" in order to operate.²⁵

21. Interview No. 3. Li Wenyuan also served briefly as Stone's first chairman of the board, though he probably did not have any real responsibilities. In addition, his younger brother, Li Wenjun, the head of the factory in which Stone had its first office, joined the company by 1985 and eventually became a member of the board of directors; Xia Mang, "Shi nian feng yu lu nan wang gu ren qing" ("A windy and rainy 10-year road, difficult to forget feelings for old friends"), *Sitongren* (Stoner), No. 180 (30 May 1994), pp. 8–9.

22. The company's Chinese name is derived from the Chinese phrase, "extend in all directions" (*sitong bada*). Wan Runnan once said that the English name, Stone, was chosen because it reflected the Chinese saying, "When you go out into the dark night, the first thing you must do is throw out a stone to see where the road is." More recently, he said that he liked the name because it also fit with the phrase used to describe China's reforms, "feel the stones to cross the river" (*mozhe shitou guo he*). Furst, "High tech in China," p. 32; Interview No. 4.

23. Although the designation *minban* has been used to describe private, foreign-invested and collective enterprises, it most often is applied to those collectives whose assets came from outside the state or were transferred from the state through contracting, leasing or shareholding arrangements, and who are managed by individuals outside the state. Hu Deping, vice-chair of the All-China Federation of Industry and Commerce, once wrote that Stone was a "people-owned, people-run, and people-operated collective enterprise" (*minyou minban minying jiti qiye*). This distinguishes it from collectives that are "government-owned but people-run" (*guanyou minban*), "government-owned and government-run" (*guanyou guanban*), and "jointly owned and run by the government and people" (*guanmin gongyou gongban*). Since there is no clear legal distinction in terms of ownership between the various types of collectives, the most definitive de facto meaning of *minban* may be non-governmental, a common alternative translation for the term. Marc Abramson, "Minban science firms in China," *China Exchange News*, Vol. 17, No. 4 (December 1989), pp. 12–17; Hu Deping, "Dui 'Sitong' de zhongxin zhuyuan" ("Heartfelt wishes to 'Stone'"), *Zhonghua gongshang shibao* (*China Business Times*), 16 May 1994, p. 2; Huang Rutong, "A summary of views on the issues involved in a people-run economy," *Jingjixue dongtai* (*Economic Dynamics*), No. 9 (18 September 1994), pp. 36–39, cited in *Joint Publications Research Service-CAR-94-057*; Solinger, "Urban entrepreneurs," p. 133.

24. This is perhaps why some have mistakenly identified Stone as privately-owned. Craig Calhoun, *Neither Gods nor Emperors: Students and the Struggle for Democracy in China* (Berkeley: University of California Press, 1994), p. 10; and Thomas Gold, "Urban private business," p. 97.

25. Susan Young, *Private Business and Economic Reform in China* (Armonk, NY: M. E. Sharpe, 1995), pp. 105–107.

With some funds and an office, the group next needed a product. The Chinese military and government research institutes had devoted a great deal of energy since the 1950s to developing computers, but they had only moderate success with computers that performed computational functions.²⁶ And although the leadership had allowed sci-tech workers to start up their own firms, they saw this mainly as a way to solve the unemployment problem. By the early 1980s, the government had only begun to consider a broader strategy for an electronics industry, at first focusing almost solely on basic research for products such as semiconductors.²⁷ Even when the Minister of Electronics Industry, Jiang Zemin, in September 1984 recognized the need to develop application-oriented products, he stressed that China's computer industry should be self-sufficient.²⁸ It would not be until 1987 that the government came up with a broad plan to turn scientific breakthroughs into commercial applications, but even then, the primary focus was still on state-owned enterprises.²⁹

With no guidance from above, Stone went its own way and turned its back on the old stagnant system. One area where China had made little headway was in the representation of Chinese characters for printing or word processing. The vast majority of Chinese documents were still produced on cumbersome mechanical typewriters or typeset by hand. Wang Jizhi, who had worked on the character problem while at the Ministry of Post and Telecommunications' Automation Research Institute, joined Stone soon after its formation. The company's first break came by serendipity when Wang attended an exhibition of foreign electronics products. There, he met executives from Mitsui, one of Japan's largest trading companies.³⁰ Wang and several other Stone employees developed software in eight days to enable a Brother dot-matrix printer, for which Mitsui was the sales representative, to print out Chinese characters. With a loan from the Agricultural Bank of China (a friend at the bank helped secure the loan), Stone then purchased the printers from Mitsui, installed the software, and sold them to the Kehai Company and to end users in ministries and research institutes. Another state-owned enterprise had begun a similar project three months before Stone did, but

26. Otto W. Witzell and J. K. Lee Smith, *Closing the Gap: Computer Development in the People's Republic of China* (Boulder: Westview Press, 1989); Jeff X. Zhang and Yan Wang, *The Emerging Market of China's Computer Industry* (Westport, CN: Quorum Books, 1995).

27. In a 1983 speech while deputy director of a research institute under the Ministry of the Electronics Industry, Li Tieying emphasized that China's electronics industry depended on basic research at universities and institutes. Li Tieying, "To build a 'silicon river' – a strategic proposal for China to advance into the age of microelectronics," *EDP China Report*, Vol. 3 (29 June 1985), pp. 233–37.

28. Jiang Zemin, "Minister on how to speed up the development of China's computer industry," *EDP China Report*, 15 November 1984, pp. 8–12.

29. Denis Fred Simon, "China's drive to close the technological gap: S&T reform and the imperative to catch up," *The China Quarterly*, No. 119 (September 1989), pp. 598–630.

30. John G. Roberts, *Mitsui: Three Centuries of Japanese Business* (New York: John Weatherhill Inc., 1973).

it soon became bogged down in reports and proposals and went nowhere.³¹

This project laid the foundation for future products by providing the company with needed capital as well as managerial and technical experience. In 1985 Stone moved out of the factory's conference room and into a storefront in Zhongguancun, an area in Haidian surrounded by dozens of universities and research institutes. Not coincidentally, this is also where earlier *minban* firms, like Cathay Silicon Valley, had begun to congregate. While going to an upstart seemed risky for the average worker who cherished his iron rice bowl in a state firm, by 1985 Stone's ranks had swelled to over 170.

However, not everyone was happy with Stone's success. Angry that collectives could outperform state-owned enterprises, Hu Qiaomu dispatched a team from the Central Discipline and Inspection Commission to investigate Stone and two other firms' pricing schemes as well as their use of foreign exchange. They hoped to find something to put Stone out of business.³² This appears to have been the first time Stone came to the attention of any of China's senior political leadership. At a meeting of Stone managers around this time, someone raised the possibility of finding an "influential backer" (*houtai*) to help keep the company out of political trouble. However, everyone soon realized that if this path were chosen, Stone would be controlled by an outsider. Instead, the participants agreed it should remain a "maverick" (*yema*) and operate on its own.³³ It is unclear if there was any intervention by reformers in China's elite on Stone's behalf, but protests probably did come from Haidian district authorities who depended on the likes of Stone to boost their district's economy and image. Regardless, the investigation turned up empty-handed and ended in early 1986.

Emergence (1985–88)

The questions of Stone's autonomy and the nature and significance of state intervention took on added dimensions during the period of the company's rise as a national powerhouse in the electronics industry. In addition, the issue of whether Stone existed within an emerging civil society gained salience for the first time.

From pebble to boulder. Entering its second year, Stone had already displayed its talents and was rewarded with growing sales and profits. However, if the company was to continue to prosper it would have to develop more products. The success of Stone's printers led the company in the direction of word processing and the broader sector of office automation.

31. Fu Cairu (ed.), *Sitong yu Sitong wenhua (Stone and Stone Culture)* (Beijing: People's Daily Publishing House, 1992), p. 47; Interviews No. 3, 4 and 15.

32. Interview No. 4; Joel Kotkin, "Red Guards' new revolt as capitalists," *Los Angeles Times*, 12 June 1988, p. V-2.

33. Interviews No. 5 and 6.

In early 1985 Wang Jizhi and several other Stone employees went to Japan to work with Mitsui for further research into programming the input and output processes of Chinese characters. By early 1986 they had come up with a solution. With the technical issues solved, the larger problem of commercialization arose. In the three hours it took to fly from Beijing to Tokyo, Wan Runnan convinced a Mitsui official of the wisdom of forming a long-term alliance between the two firms. While hesitant, Mitsui soon agreed to a technical co-operation project to market Chinese-English word processors in China, believing that the deal would be an "entrance ticket" into the still largely-closed Chinese market.³⁴

With a potentially market-dominating product well within its grasp, Stone began to re-evaluate its organizational structure. By early 1986 three other Stone companies had formed, including Xinjiang Stone, the first outside the capital. However, the companies were legally separate and engaged in overlapping activities. As then constituted, Stone could not pool its resources or increase its economies of scale. However, to its benefit, just at that time, the Chinese government was entertaining the notion of allowing companies to form horizontal economic links across regions.³⁵ In May 1986 Stone's management set up a holding company, registering the Beijing Haidian Stone Group Company with the Haidian District Commercial Bureau. (Stone removed "Haidian" and "Beijing" from its name in 1987 and 1993 respectively.) As a result, all subsidiaries, six by then, came under the group's centralized management, a crucial step that would facilitate greater economies of scale and specialization.

Stone began plans to market its new word processor within weeks after forming the group. At first, the hardware for the word processor was designed and built in Japan under Mitsui's direction by several Japanese firms. The hardware was then shipped to China where the Stone-designed software was loaded. The development of the MS-2400 word processor (the "M" stands for Mitsui, the "S" for Stone) and the creation of a group structure were part of Stone's plan to turn the company from a local retailer to a national wholesaler with hundreds of distributors. Sales of the MS-2400 took off immediately. To increase interest, Stone regularly provided demonstrations.³⁶ It followed up sales with user training and established service centres to repair malfunctioning equipment. Within two months, Stone sold over 7,000 word processors, with 2,000 of them exported to Hong Kong, Singapore and Japan.³⁷ Total company sales for 1986 surpassed RMB 100 million, ten times more than

34. Interview No. 7.

35. "Guowuyuan guanyu jinyibu tuidong hengxiang jingji lianhe ruogan wentide guiding" ("State Council regulation on some problems concerning further promoting horizontal economic alliances"), 23 March 1986, text carried in *Jingji gaige (Economic Reform)*, No. 2 (April 1986), pp. 4-7.

36. For example, sales representatives would take notes at government meetings and show the reports to impressed officials as the meetings adjourned. Previously it might be days before summaries were prepared. Interview No. 8.

37. "Stone Group Corporation in Beijing aims high," p. 141.

in 1984, and the second highest of any computer company in the country.³⁸

Based on this success, in May 1987 Stone and Mitsui formed a joint venture located in Beijing, the Stone Office Equipment Technology Company (SOTEC), dedicated to the assembly, marketing, sales and service of word processors. Though Mitsui contributed the financing (US\$1 million), Stone was given 75 per cent ownership because of its contribution of technology, talent and land. Later that year, Stone came out with another word processor, the MS-2401, which could type 200 characters per minute and was compatible with IBM personal computers.³⁹

Though the MS-series and its related parts and accessories were Stone's main products during this period, the company also branched out into computer equipment and software. For example it designed a desktop publishing system in 1988, which was successful initially but faltered after another company introduced a better quality product. Stone also began to distribute foreign firms' products, including printers and plotters, through its many subsidiaries.

As Stone's sales rose, the difficulty of setting up more regional sales subsidiaries and signing up more distributors fell correspondingly. Local governments eager to develop their economies set up their own technology development zones and offered tax holidays and other incentives to high-tech firms. By the end of 1989, Stone had almost 1,900 employees working in 19 subsidiaries around the country and in Hong Kong, Australia and the United States.⁴⁰ It had also signed up hundreds of secondary agents throughout the country to distribute its products. While this fast growth posed some control problems for management, particularly later, by 1988 Stone had captured 80 per cent of the domestic word processor market, a share it would maintain until the mid-1990s. By 1988 Stone had finished its second year as China's largest high-tech *minban* firm, having generated over RMB 830 million in total sales. In just a few short years it had grown from an idea in the minds of a few people to an internationally recognized firm with roots in most of China's major cities and provinces.

Questions of state intervention. Stone's business tactics and strategy were clearly of pre-eminent importance in its rise to prominence during the late 1980s. That said, it would be incorrect to argue that the government had no role whatsoever in aiding Stone's path. During this period, the government adopted various policies for high-tech industries and the non-state sector and adopted certain measures which specifically benefited Stone. In addition to being allowed to form a group in 1986, Stone was given permission to form a finance company in 1987, thereby removing barriers to intra-company financial management. And less than

38. *Stoner*, No. 33 (18 June 1987), p. 3.

39. China's Entrepreneurs (2nd of series): "Stone's Wan spells time: efficiency, fortune, success," Xinhua News Agency, 31 March 1988.

40. By this time, fewer than 40% of Stone's employees worked in Beijing. *Stoner*, No. 92-93 (22 January 1990), pp. 6-7.

a year later the Beijing municipal government set up the 100 square kilometre Beijing Experimental Zone for the Development of New Technology Industries (BEZ), which incorporated the area of Zhongguancun where Stone and other high-tech firms were located. The BEZ provided high-tech firms generous tax deals, freedom to recruit and fire personnel, greater access to bank loans, and export incentives.⁴¹ In addition, throughout this period, the government maintained high tariff and non-tariff barriers to protect Chinese firms from foreign competition.

The measures directed at Stone are consistent with the government's overall economic policies and are not on their own proof of clientelism. Allowing companies to form groups and finance companies was part of the government's attempt to allow firms to experiment with new forms of organization that facilitated improved efficiency. While Stone was one of the earliest to take these steps, many other enterprises soon followed suit.⁴² Since Rui Xingwen and Wen Jiabao, allies of Zhao Ziyang, visited Stone before issuing their recommendation in favour of the BEZ, one might conclude that the BEZ was a gift to that company.⁴³ But the BEZ also benefited Stone's competitors. And by enticing new entrants into the market, the BEZ may have even hurt Stone over the long term. High tariffs existed long before Stone; in fact, Stone was an advocate of reduced tariffs and greater competition.⁴⁴ Two observers have reported that Stone used connections to gain access to soft loans and cheap inputs.⁴⁵ While there was evidence it relied on connections to obtain loans during its founding, this writer was unable to find specific instances of this in later years. One difficulty with the claim of undue access to cheap inputs is that the vast majority of parts for Stone's products were imported. Then, perhaps Stone used connections to gain access to foreign exchange, one might ask. Again, this is possible, but the available evidence suggests that Stone faced a heavy burden in this regard because it had to buy foreign exchange on the open market rather than at favourable rates from the Bank of China. One company manager estimated that by 1988, SOTEC spent US\$3 million per month in foreign exchange to import the hardware necessary for its word processors.⁴⁶

Government measures taken to help the industry and Stone in particular were "enabling measures."⁴⁷ They provided Stone with greater oppor-

41. Tung, "The Chungkuantsun," pp. 64–66.

42. The author has been unable to find data on the exact number of enterprise groups nation-wide, but anecdotal evidence suggest that by the mid-1990s they numbered in the thousands. Stone was one of three enterprise groups allowed to form finance companies in 1987. By 1995, 65 enterprise groups had formed their own finance companies. *China Financial Outlook* (Beijing: China Financial Publishing House, 1996), p. 35.

43. Zhao had previously publicly praised Stone and Wan Runnan in the *Beijing Talent Weekly*, cited in *Stoner*, No. 23 (20 February 1987), p. 1.

44. Wan Runnan, "Ye tan 'baohu'" ("Also discussing 'protection'"), speech delivered at the National Debate on Information Technology Development Policy, August 1986, text carried in *Stoner*, No. 9 (8 August 1986), p. 2–4.

45. Kelly and He, "Emergent civil society," p. 29.

46. *Asian Wall Street Journal*, 7 June 1988, pp. 1, 6.

47. Thomas G. Rawski, "Implications of China's reform experience," *The China Quarterly*, No. 144 (December 1995), p. 1152.

tunity to pursue its business, but did not guarantee success. Further, Stone received none of the financial investment or technical assistance that the government provided its state-owned enterprise competitors. Thus, the great majority of those interviewed concurred that government policies were significant during this period, but they were of secondary importance to Stone's development.⁴⁸

"*Becoming China's IBM.*" An important source of Stone's early notoriety was its carefully cultivated corporate culture (*qiye wenhua*). Chinese companies were introduced to the concept⁴⁹ in the early 1980s through translations of foreign works, such as Thomas Peters and Robert Waterman's *In Search of Excellence* (1982), William Ouchi's *Theory Z* (1981), and Richard Pascale's *The Art of Japanese Management* (1981). Enterprises began to experiment with this new tool, but for most corporate culture simply became another propaganda technique for spreading the worn out practices of the past.⁵⁰

Stone's managers not only were exposed to writings on the topic, they also had direct contact with foreign firms whose cultures they could adapt to their own situation. The first move in this direction came in 1985 when Wan Runnan set Stone's long-term goal as "becoming China's IBM."⁵¹ The rationale of this choice was not simply to copy the practices of the world's then-dominant computer company, but rather to establish a lofty vision, no matter how attainable, towards which to work. In fact, the essence of Stone's corporate culture was derived from contemporary Chinese experience. In particular, it was a critique of traditional Chinese culture, Communist central planning and the management practices of state-owned enterprises.

"Stone Culture" was transmitted to employees, known as "Stoners" (*sitongren*), through speeches, training classes, social events and the company's in-house publication, *Stoner*.⁵² Its core norms addressed Stone's relationship with the state and the market, and internally among employees.⁵³ First, Stone held dear its financial and institutional autonomy from the state, and regularly invoked the mantra that the company followed the "four selfs" (*sizi*): "self-raise funds" (*zichou zijin*), "freely associate" (*ziyou zuhe*), "self-manage" (*zizhu jingying*), and "respon-

48. Interviews No. 1, 2, 3, 4, 15 and 16.

49. Corporate culture includes the shared values, symbols, rituals and standard operating procedures of a company. Terrence E. Deal and Allan A. Kennedy, *Corporate Cultures: The Rites and Rituals of Corporate Life* (Reading, MA: Addison-Wesley, 1982).

50. Zhang Dazhong (ed.), *Shichang jingji yu qiye wenhua* (*The Market Economy and Corporate Culture*) (Beijing: Beijing University Press, May 1993).

51. Hai Ning, Ming Ming, Xiao Dan and Huang Yong, "Mubiao: Zhongguode IBM: fangwen Beijing Sitong jituan gongsi zongjingli Wan Runnan" ("Goal: China's IBM: an interview with the Beijing Stone Group's Chairman Wan Runnan"), *Zhongguo keji bao* (*China Sci-Tech News*), 28 November 1986, p. 1; Interview No. 15.

52. The term is most likely derived from the Japanese experience, where companies promote "Mitsui People" or "Mitsubishi People." *Stoner* first appeared in June 1986. By 1994, it had a circulation of several thousand; most were given to company employees, but some were sent to other domestic companies.

53. Unless noted, information on Stone Culture is from Fu, *Stone and Stone Culture*.

sibility for one's own profits and losses" (*zifu yingkui*). The second point, welcoming the role of competition in determining the company's fate, was a corollary of the first. Management continuously admonished its employees and outside observers that making a profit was a worthy goal in and of itself and that the only way to do so was to please the customer. The best incentive to get workers and firms to be concerned with the market was, as Stone put it, to replace the iron rice bowl (*tiefanwan*) with the clay rice bowl (*nifanwan*).⁵⁴ Whereas those with iron rice bowls survived regardless of performance, firms like Stone had assiduously to maintain and strengthen their bowl, lest all its contents leak out or the bowl break altogether.

Thirdly, in contrast to traditional Chinese culture and the Communist system's minimization, or even negation, of the individual, Stone Culture emphasized that respect for people as individuals was the key to making Stoners productive. Stone's task was to help every person "realize themselves" (*ziwo shixian*) by giving them both a high degree of responsibility and adequate opportunity to fulfil their goals. Hence, the phrase, "the higher [Stoners] can flip, the thicker the mat [the company] will lay [for them]." And although Stone made no bones about wanting to make profits, the company suggested that individuals set a higher goal for themselves: "money is enticing, but only missions have a cohesive force." Finally, Stone Culture also promoted the importance of democratic decision-making within the company.

It appears that during Stone's early years, many of Stone Culture's ideals were realized in practice. As applied to internal operations Stone Culture took shape in various policies: annual employee contracts that specified both employee and employer responsibilities; a graduated salary scale that was higher than state-owned enterprises' and based on the combined performance of an employee, his department and the company as a whole; the opportunity for rapid advancement and mobility among different departments; and regular dialogue meetings between management and employees. In addition to these policy structures, Stone's atmosphere reportedly contrasted starkly with that of other enterprises. According to one source, no one among management smoked during meetings, and everyone liked to wear dark Western suits and leather shoes. Gossip, usually rampant in Chinese offices and factories, was reportedly kept to a minimum. And finally, Stoners were encouraged to focus on their own responsibilities instead of criticizing others. Thus many felt there was a sense of "utopia" at Stone – an idea that they were doing something historic. "There was a strong desire to do a good job and not waste the company's money."⁵⁵ A strong sign of concordance between the ideals of Stone Culture and reality was a mid-1987 poll in which over 90 per cent of employees said they were satisfied at Stone.⁵⁶

54. Interview No. 15.

55. Interview No. 3.

56. Interview No. 9. Another source cites an early 1987 poll showing "that 80% of the staff feel they are the masters of the company; 90% have job satisfaction in their work." "Stone Group Corporation in Beijing aims high," p. 141.

The consequence of imbuing Stone with a corporate culture was that it signified the existence of an identity that was distinct from state-owned enterprises and independent of government and Party influence. Stone Culture embodied and legitimized open competition, the role of the market, making profits, and respect for individuals.

Playing a public role. Just as significant as the ideas themselves was the fact that Stone was a proponent of them beyond the company walls. It both consistently advocated radical economic reform (and at times political reform) and participated in activities that led to the development of horizontal links within the business community and between Stone and society at large, all of which point to an emerging civil society.

As Stone's sales grew, the attention paid to its business acumen and corporate culture by the national (and later, international) media grew.⁵⁷ And as its reputation spread, the company was increasingly invited to meetings and conferences concerning China's economic reforms. Some were hosted by government agencies,⁵⁸ but just as many were held by professional associations and other non-official organizations.⁵⁹ At every opportunity, Stone trumpeted its own experience and, by inference or intention, sang the praises of market competition and reduced direct government intervention in companies.⁶⁰ It pushed for greater management autonomy for state-owned enterprises, clarification of property rights through corporatization, direct access by enterprises to foreign firms, permission for enterprises to engage in financial activities and the right of enterprises to set up business associations to protect their interests.⁶¹

The last proposal also reflected Stone's own behaviour. It joined a variety of associations, and in some cases Wan Runnan assumed leadership positions in these bodies. Stone joined the International Public Relations Association (*Guoji gonggong guanxi xiehui*), the Chinese Information Processing Association (*Zhongwen xinxi chuli xiehui*) and the Computer Users Association (*Jisuanji yonghu xiehui*). But perhaps more

57. Unlike model economic units, such as Daqing or Dazhai, there was no concerted media campaign directed from above about Stone. Nor did Stone receive any of the financial or administrative input from the state given to those models.

58. These included the State Council, the State Science and Technology Commission, the Commission on Restructuring of the Economic System, and the Ministry of Electronics Industry, which from March 1988 to March 1993 was merged with the Ministry of Machine Building and known as the Ministry of Machine Building and Electronics.

59. These included the All-China Federation of Industry and Commerce (*gongshanglian*), the China Non-Governmental Science and Technology Entrepreneurs Association (*Zhongguo minban keji shiyejia xiehui*), the China Association for Science and Technology, the National Triangle Entrepreneurs Club (*Quanguo sanjiao qiyejia julebu*), and the Electronics Avenue Entrepreneurs Salon (*Dianzi yitiaojie qiyejia shalong*).

60. Wan Runnan, "Tansuo zhongde sikao: zai quanguo minban keji shiyejia zuotanhui shangde fayan zhaiyao" ("Thoughts during exploration: an abstract of a speech to a conference of the National Non-Governmental Science and Technology Entrepreneurs Association"). *Enlightenment Daily*, 12 February 1987, p. 2.

61. See n. 44 and "Nine-point proposal for enlivening large enterprises," *Renmin ribao* (*People's Daily*), 11 February 1988.

significant was the China Non-Governmental Science and Technology Entrepreneurs Association. Established in May 1987, its 10,000 members were primarily consulting organizations,⁶² but it probably included a large number of *minban* manufacturing enterprises as well. By 1988, Wan Runnan was its vice-chairman and a member of its standing committee. None of these associations appear to have been “transmission belts” used by the government or Party to monitor business; rather they served a role of increasing horizontal communication by offering a setting for companies to learn about each other, exchange opinions and gain advice.

In the late 1980s Stone also went beyond the business community to engage in various public relations efforts as a way to improve its image as a company devoted to improving the quality of life for Chinese beyond its company doors. Its philanthropy included donations to art museums and flood victims, and gifts of word processors to middle schools. It also began co-sponsoring a computer programming competition in 1989 for middle and high school students. The top ten participants were chosen as “Stone Stars” and guaranteed jobs at Stone after they graduated from college.⁶³

The most controversial aspect of Stone’s participation in the public realm was its establishment of a think-tank, the Stone Social Development Institute (*Sitong shehui fazhan yanjiusuo*, or SSDI), in October 1988. By this time, several private research institutes had formed in China, but SSDI was unusual in that it was directly associated with a *minban* enterprise.⁶⁴ SSDI was the brainchild of Wan Runnan and Cao Siyuan. Cao was best known for work on bankruptcy reform, hence his monikers “Mr Bankruptcy” and “China’s first lobbyist.” But once the bankruptcy law was passed in 1986, he turned his attention to political reform, in particular the role of the National People’s Congress. Wan and Cao were introduced by Zhou Duo,⁶⁵ after Wan saw Cao give a speech advocating reform on the NPC that was broadcast on national television in March 1988.⁶⁶ The two soon agreed to form a think-tank, with Cao as its director, that would conduct research on the broad spectrum of China’s reforms and would not be involved in the company’s affairs. Nor would the company get involved in the think-tank’s affairs

62. Gordon White, *Riding the Tiger: The Politics of Economic Reform in Post-Mao China* (Stanford: Stanford University Press, 1993), pp. 226–27.

63. Fu, *Stone and Stone Culture*; Interview No. 10.

64. Bonnin and Chevrier, “The intellectual and the state.” Goldman, *Sowing the Seeds of Democracy in China*.

65. Zhou and Cao were both students of Yu Guangyuan while at the Chinese Academy of Social Sciences, as was another Stone manager Cao Wuqi. Cao Siyuan studied political economy in CASS’s Graduate Institute from 1979 to 1982, and Zhou was in the Institute of Marxism-Leninism-Mao Zedong Thought. Until 1988 Cao Siyuan worked in various parts of the State Council; his last position, which began in 1986, was as a researcher in the Commission for Restructuring the Economy (*Tigaiwu*). Zhou was a sociologist at Beijing University before he became director of the Stone Group’s Comprehensive Planning Department.

66. The speech, “An appeal for the NPC’s sessions to be open to the public” (*Wei renda pangtingzhi er huyu*), was actually taped two months earlier.

beyond providing funding (RMB 90,000) and hiring its employees as a formality.⁶⁷

Upon registering with the Haidian district's Commission on Science and Technology,⁶⁸ SSDI began operations with a staff of four; it also took on several guest scholars.⁶⁹ Cao's interest in political reform soon became SSDI's primary focus. While head of SSDI, he published 30 articles criticizing China's political system and argued that constitutional reform was of paramount importance.⁷⁰ Cao paid particular attention to the role of the NPC, suggesting that a "socialist parliamentary democracy" would both strengthen citizens' rights and stabilize Chinese politics.⁷¹ In addition to his prolific pen, Cao and the other SSDI members regularly attended conferences and met in informal salons. SSDI also hosted its own meetings, the most prominent being the Conference on Constitutional Reform Theory (*xiugai xianfa lilun huiyi*). This was held at the National Beijing Library on 26 March 1989, and two members of the NPC's Standing Committee were among those present. One source holds that the meeting would not have been held had SSDI been part of a government agency.

Stone's social activism was motivated by both the desire to improve its public image and a sense of social responsibility. Engaging in public relations signalled the weight Stone placed on relationships outside the state and created another direct link between the company and Chinese society at large. SSDI was a concrete example of Stone's genuine concern with issues outside the confines of its business.⁷² As the student protests grew in the spring of 1989, several of Stone's management and those at SSDI became directly involved. Little did they know the consequences that participation would have for them and the entire company.

The Irony of 4 June

4 June saved Stone. Although the crackdown caused some short-term anxiety and exacerbated some more in-depth problems, its initial unin-

67. Wan at first asked Cao Siyuan to be a consultant to Stone, but knowing he was no longer welcomed at the Commission because of his increasingly radical views, Cao made the initial suggestion to form the think-tank, which Wan accepted. Interview No. 11.

68. In December 1988, Cao also registered the think-tank under another name, the Siyuan Bankruptcy and Mergers Consultancy, with the Beijing Municipal Industry and Commerce Executive Management Bureau (*gongshang xingzheng guanliju*). In wearing two hats, SSDI was seen to be engaged in non-profit research, whereas the consultancy was interested in making a profit. The two, though, were in fact the same entity. Interview No. 11.

69. The four staff consisted of Cao, Li Xiangzheng, Gong Zhizhong and Zhao Qing. Li was interested in various formulas for cross strait reunification, and Gong was interested in bankruptcy and mergers. Zhao Qing was an administrative assistant. Zhou Duo was one of the guest scholars (*kezuo yanjiuyuan*), in addition to his full-time position at Stone.

70. SSDI also started a journal in early 1989, *National Affairs Research* (*Guoshi yanjiu tongxun*), but published only one issue.

71. For example, see his "A thousand li journey is started by taking the first step – third discussion on building socialist parliamentary democracy," *Shijie jingji daobao* (*World Economic Herald*), 28 November 1988, p. 7, cited in Foreign Broadcast Information Service, *China Daily Report* (hereafter FBIS-CHI), 15 December 1988, pp. 15–18.

72. Stone also contributed funds to the *World Economic Herald*, a Shanghai-based newspaper that carried bold discussions of political and economic reform before being shut down in April 1989.

tended impact was that it kept the company together. Just months before the protests began, Stone had begun a process of transferring its assets from the headquarters to a new subsidiary, Stone New Technology, by issuing stock to its management and employees. Some sources explained the move as a concerted attempt by all of Stone's management formally to privatize the company so that they could reap the fruits of their labour by being the owners of shares in the company. But others charged that the move was part of an effort by Wan Runnan to wrestle Stone away from the others and form his own "family company" (*jiazu gongsi*).⁷³ By early 1989, relations within the inner circle had deteriorated to the point where there was the very real possibility that the management would divide Stone's assets among themselves (to the extent possible, given its ownership status) and close the company's doors.⁷⁴ 4 June and Wan Runnan's subsequent departure ended the internal feuding. But before the remaining management could re-focus on the business of business, they had to deal with the immediate fall-out of the protest movement and the increased scrutiny from central authorities.

Party accusations of Stone for the most part appear accurate and revolved around the activities of Wan, Zhou Duo, Cao Siyuan and several others.⁷⁵ First, Stone donated money and equipment (mobile phones, loudspeakers and printing equipment) worth over RMB 200,000 to the students. Secondly, Stone offices were used as a conduit for contacts between the students and overseas political forces. Thirdly, Wan and Cao acted as advisers to the students. Ironically, after the declaration of martial law both Wan and Cao pressed the students to take a moderate approach and withdraw from the square. Fourthly, Cao Siyuan and the others at SSDI worked with former *Renmin ribao* editor Hu Jiwei to collect enough signatures to convene an emergency meeting of the NPC. Cao, who had successfully lobbied members of the NPC Standing Committee for passage of the bankruptcy law, had the phone numbers and addresses of the members.⁷⁶ And finally, Zhou Duo staged a hunger strike (with Liu Xiaobo, Hou Dejian and Gao Xin) on Tiananmen Square in the days leading up to 4 June.

The breadth of Stone's apparent involvement has not been revealed to have been duplicated by any other company. Yet what is most striking is the relative laxity of the Party's reaction, which carried far more bark than bite. Cao Siyuan was arrested on 3 June and the other SSDI members were rounded up by the end of the month, as was Zhou Duo. However they were held in a location away from common criminals and had relatively comfortable quarters.⁷⁷ Moreover, they were all released within a year. As for the company, the only business-related sanction was

73. Wan's wife, father and younger brother were employees at the time. His younger brother, whose surname is Chu, was still on the board of directors as of 1997.

74. Interviews No. 1, 2 and 3.

75. "Wan Runnan – 'Entrepreneur' bent on subverting the government," *Beijing Review*, No. 25 (18–24 June 1990), pp. 23–25.

76. Interview No. 6.

77. *Ibid.*

the brief freezing of two of its twenty-plus bank accounts.⁷⁸ The investigation team sent in mid-June 1989 minimized Stone's complicity and placed the blame squarely on the shoulders of Wan Runnan. Far from thorough, it occupied the headquarters but did not investigate activities at the vast majority of sites around the country. And the team concluded that only 1.9 per cent of Stone employees (less than 30 people) participated in the movement, a reportedly smaller proportion than among State Council organs.⁷⁹

Not only was Stone not shut down but it was allowed to escape with only cosmetic concessions. As a start, the company drew a line between itself and Wan Runnan, just as children did between themselves and their parents during the Cultural Revolution. Within a few weeks, Stone's board of directors dismissed Wan from all his positions in the company, and over the next few months, various Stone managers distanced the company from his behaviour.⁸⁰ Co-founder Shen Guojun, who was reportedly opposed to Stone's involvement in the protests, replaced Wan as company president.⁸¹ In an interview, Shen emphasized that the "government has made a clear-cut difference in attitude towards the few people who took part in the rebellion and towards the enterprise itself."⁸² In addition, the company severed its relationship with SSDI and pledged to refrain from politics.⁸³ Relatedly, in their public comments and in *Stoner*, the management adopted the language of the government in describing the protest movement.⁸⁴ Finally, the company upgraded its Party organization. Formerly, Stone had a Party branch, with Wan Runnan as its leader. However, it remained dormant throughout the company's first five years, never having held a political study session. In December 1989, Stone formed a Party committee – the first *minban* company in the BEZ to do so – and made an outsider, Ma Mingzhu, both the committee's secretary and a member of the board of directors.⁸⁵

The Party's moderate pressure briefly had a negative impact on Stone's business. Several banks suspended their loans to Stone for fear the company would be shut down. And a proposed joint venture between

78. *Stoner*, No. 92-93 (22 January 1990), pp. 6-7.

79. Shen Hungfei, "Some recent information about the Stone Company," *Wen Wei Po* [*Wenhui bao*], 20 August 1989, p. 1, cited in FBIS-CHI, 29 August 1989, pp. 14-15.

80. "'Solemn Statement' by Beijing Stone Enterprise Group," *Renmin ribao*, 10 February 1990, p. 7, cited in FBIS-CHI, 14 February 1990, p. 11. After stopping briefly in Hong Kong in 1989, Wan moved to France. There, he helped establish the Front for a Democratic China, serving as its secretary general and then as chairman. Apart from politics, Wan has also managed a venture capital organization that specializes in high-technology products.

81. Interview No. 2.

82. *Beijing Review*, No. 1 (1-7 January 1990), pp. 22-23, cited in FBIS-CHI, 5 January 1990, pp. 39-40.

83. In late June 1989, one company official said that "business at the Stone Group continues as usual . . . As a company, the Stone Group is no longer involved in politics." "Beijing Stone Group struggles for survival," *China Informatics*, 30 June 1989, pp. 196-97.

84. Commentator, "Womende renwu: renzhen xuexi, tigao renshi, chaqing wenti, duohui sunshi" ("Our assignment: earnestly study, raise understanding, investigate and eliminate problems, and recover losses"), *Stoner*, No. 81 (18 July 1989), pp. 1-2; Shen Guojun, "Xinnian xianci" ("New Year's greeting"), *Stoner*, No. 91 (5 January 1989), pp. 1-2.

85. *Stoner*, No. 92-93 (22 January 1990), pp. 1-2.

Stone, Mitsui and Yunnan Electronic Equipment Factory to manufacture minicomputers was shelved.⁸⁶ Sales in the summer months were down significantly from 1988, and for the year sales and profits fell about 10 and 30 per cent respectively. Despite these disappointing figures, however, not all was so dire. Mitsui never showed any sign of abandoning its core relationship with Stone.⁸⁷ While sales had slipped in Beijing, they were less affected in the subsidiaries outside the capital, demonstrating that Stone's products were still in demand.

It appears that officials on the scene, bureaucrats in the Beijing municipality and national leaders were affected by different, yet complementary, dynamics which all pointed towards a light slap on the wrist for Stone. One source notes that the investigation team's leader was never zealous about ferreting out protestors. Another member was much more fervent when he arrived, but as time passed he slowly began to admire Stone.⁸⁸ The biggest turncoat, though, was Ma Mingzhu, who was supposedly inserted to be the Party watchdog in late 1989. Ma had entered the Communist Party in 1965, but prior to joining Stone he never held a Party post. It became apparent to many that his loyalties quickly shifted to Stone. Though he has been criticized for his lack of business acumen (his portfolio was strengthening the company's corporate culture), one senior manager praised him in this way: "Without Mr Ma, there would be no Stone."⁸⁹

The investigation team's actions seem consistent with the views of Hu Zhaoguang, head of the BEZ and a reformer. He naturally would have wanted to protect the largest company under his jurisdiction and perhaps told the investigation team to go easy. He clearly advocated distancing Stone from Wan Runnan, once noting: "One of our guiding ideas is to separate individual leaders from the company and to separate individual actions from the enterprise."⁹⁰ In addition, it is quite likely that officials in the many localities where Stone had subsidiaries favoured leniency because of Stone's importance to their economies.

The attitude of national Party leaders was probably affected by two factors. First, participation in the movement was played down in enterprises and government agencies throughout the country. If the Party had earnestly ferreted out every activist or sympathizer, its ranks would surely have been depleted. Moreover, recognition of widespread participation would have been an admission of decreased legitimacy. Secondly, and of

86. Shen Hungfei, "Some recent information"; "Beijing Stone Group struggles for survival."

87. Throughout the summer, Mitsui kept in daily contact with Stone to ensure its investments were safe. Interviews No. 7 and 12. In May Stone released another word processor, the MS-2403, then the only word processor that could alternate freely between complicated and simplified Chinese characters as well as handle ten foreign languages. A second facility built in Shenzhen to increase manufacturing capacity for its word processors began production as scheduled in July. Mitsui and Stone also continued plans to make power supply units and related computer peripherals.

88. Interview No. 6.

89. Interview No. 14.

90. Chen Daofu and Meng Jian, "News from Stone," *Jingji ribao (Economics Daily)*, 7 March 1990, p. 1, cited in FBIS-CHI, 6 April 1990, pp. 32-33.

specific import to Stone's case, as steadfast as conservatives were in their efforts to maintain a grip on political power, their differences with liberals on economics were a matter of pace and degree, not kind. Given Stone's eminent status, its closure would have signalled a turn away from reforms entirely, which perhaps would have made some foreign businesses reconsider their investments in China. National leaders could have shut down Stone, but the costs of doing so had risen considerably by 1989. Thus, former Beijing mayor and Party chief Chen Xitong is quoted to have said at the time: "A Stone without Wan Runnan is better than a Stone with Wan Runnan."⁹¹

Rather than the state tightening its grip on the company, Stone managed to keep its autonomy by making modest adjustments. The final irony of the interregnum is that even though the company avoided the high hand of conservatives, by 1990 Stone found itself in a more precarious situation than the year before.

The 1990s: Adapting to Changing Circumstances

As the fall-out from 4 June receded, it soon became apparent that Stone's greatest challenges came not from the political realm but from the marketplace. Entering the 1990s, the global electronics market had changed radically from when Stone had sold its first word processor just four years earlier. The computer made the leap from primarily being a "number cruncher" and record keeper to being a creative and management tool for homes and offices. Just as quickly as the computer was becoming a global product, the dedicated word processor was becoming obsolete.

As noted earlier, the Chinese government's electronics policy in the 1980s was extremely vague and ephemeral. At various points the government staked out a position for Chinese industry, only to retreat later. This pattern continued into the 1990s. The government had wanted state-owned enterprises (SOEs) to dominate the most advanced areas of the industry and to let other companies focus on lower-end consumer products. But when SOEs proved incapable of competing in semiconductors and mainframes, the government abandoned its long-held goal of self reliance, and instead admitted that Chinese companies should focus on low-end components and applications and use the income from exports to finance the imports of high-end technologies.⁹²

Stone was soon squeezed from two sides. In an attempt to attract technology and gain entry to the GATT, the Chinese government moderately lowered various barriers to trade and investment, thus giving greater access to foreign firms to China's emerging information technology market. As a result, the world's premier information technology manufac-

91. Interview No. 2.

92. Even though the government has not given up on its semiconductor industry, it has emphasized less sophisticated integrated circuits such as memory chips. Saiman Hui and Hilary B. McKown, "China computes," *China Business Review*, Vol. 20, No. 5 (September–October 1993), pp. 14–20.

turers rushed to set up offices in China and ply their wares.⁹³ On the other side were state-owned enterprises who were the primary beneficiaries of the government's evolving policies.⁹⁴ Though increased management autonomy was central to the improved performance of SOEs, their revival in the 1990s in part reflected their close links with the state apparatus, especially relative to *minban* firms like Stone. Beijing Founder Electronics (*Beida fangzheng*), which became a leading producer of Chinese publishing and word processing software, owed much of its growth to the financial and technical support it drew from Beijing University and its related research institutes. This is what Founder President Yan Maoxun politely referred to as the "one university, two systems" model.⁹⁵ Another Chinese giant, the China Great Wall Computer Group (*Changcheng*) was a descendent of the Ministry of Electronics Industry.⁹⁶ Though somewhat less attached to its patron, the Legend Group (*Lianxiang*) was born out of the Chinese Academy of Sciences.

"*The second creation.*" In 1990 and 1991 Stone still focused on its core business. It issued a new edition of the MS-series word processors, which it largely designed and manufactured.⁹⁷ It also agreed to a deal with Fujitsu and Mitsui to produce printer heads for the MS-series. As a result, total group sales and profits rebounded, leaving Stone still China's largest computer company.⁹⁸

Despite these outer signs of progress, the company was not well positioned to handle the coming wave of computers that would sweep into China. Stone had only made marginal attempts to diversify toward computers and software, and without much success. Behind this inability to anticipate market shifts and quickly change directions lay a deeper crisis within the company. In a pattern reminiscent of the battle between China's central authorities and provincial officials, group headquarters sometimes had difficulty in getting its subsidiaries to follow its orders. Though still far smaller than its state-owned and foreign competitors,

93. Saiman Hui and Hilary B. McKown, "Working out the bugs," *China Business Review*, Vol. 20, No. 5 (September–October 1993), pp. 21–24.

94. In early 1994, the State Council issued an "outline" of an industrial policy and identified electronics as a "pillar industry" that would garner increased state investment and support. When Hu Qili, the Minister of the Electronics Industry, announced the names of six large electronics groups that would "receive special attention," neither Stone nor any other *minban* firm was among them. Support for the same state-owned firms was reaffirmed in early 1997. "Outline of state industrial policy in the nineties," Xinhua News Agency, 22 June 1994, cited in FBIS-CHI, 27 June 1994, pp. 44–50; "Big enterprises lead in electronic industry," Xinhua News Agency, 23 January 1995, cited in FBIS-CHI, 24 January 1995, p. 61; *Zhongguo xinwen she*, 22 January 1997, available on-line from *World News Connection*.

95. "Peking University founder group rides R&D wave to success," *China Informatics*, Vol. 12 (15 April 1994), pp. 77–81.

96. When founded in December 1986, Great Wall was composed of 58 existing state-owned enterprises, five universities and four R&D institutes that together employed 50,000 workers, including 15,000 engineers and technicians. "Great Wall Computer Group Corporation inaugurated in Beijing," *EDP China Report*, Vol. 5 (30 December 1986), pp. 49–50.

97. Interview No. 8.

98. *Stoner*, No. 135, p. 1; Tai Ming Cheung, "Stone keeps on rolling," *Far Eastern Economic Review*, Vol. 142, No. 41 (13 October 1988), pp. 100–101.

some at Stone began speaking of a “big company disease” that had infected the company because of its rapid growth.⁹⁹

Such rigidity led to another battle among management. Duan Yongji, who had joined Stone weeks after it formed and later ran the word processor plant, laid most of the blame at the feet of Shen Guojun. By the latter half of 1991, Duan persuaded Shen and the rest of the board of directors to let him take over the reins of the company. But the change of leadership was not smooth, again because of internal disenchantment. Within less than a year, upset at Duan’s supposedly imperious management style, the board revolted. While Duan was in Japan on business, the board sent out a fax to its subsidiaries and its key partners announcing that Duan had been replaced. Once he found out about the “coup,” Duan returned and within a week amazingly persuaded most of the board members to rescind their decision; another fax went out re-setting things as they had been. Dubbed the “6-11 disturbance” (in reference to the date of the second fax, 11 June 1992), those who had led the attack resigned. While Duan was able to retain power, many suspect that his reputation among the employees was irrecoverably damaged, and that scars from the power struggle continued to linger long afterwards.¹⁰⁰

Despite the wounds from the incident, under Duan the company moved in a clear direction, which by 1993 would be called “the Second Creation” (*erci chuangye*), in the hope that Stone would be able to reclaim its former heights amid the changing environment. The core strategy, known as “Walking with Giants” (*yu juren tongxing*), centred around intensifying product diversification through co-operation with foreign firms. Stone hoped that its growing size and diversification would allow it to withstand the blows of increased competition long enough to improve its own technological capacities by absorbing foreign technology and marketing knowhow.

In addition to continuing efforts to improve its word processors (the company released a notebook version in 1994), Stone diversified into various aspects of information technology, including printers, software, personal computers, diskettes and integrated circuits. In each area the company was first a dealer for products of foreign firms,¹⁰¹ then went on to form joint ventures to assemble and then manufacture components or finished products. In addition to the printer factory with Fujitsu and Mitsui, Stone also set up two software joint ventures, one with Mitsui and another with Hong Kong’s Lifang Investment Limited. The latter issued several versions of a Chinese version of Microsoft’s Windows operating system and marketed its own Internet browser. In late

99. A few Stone subsidiaries’ managers, most of whom were local hires (not dispatched from Beijing), stole company assets. Others happily sold Stone products when its reputation was high, but when times were tough or when computers looked more profitable they wanted to sell products that competed directly with those made by Stone. Yi Chuan, “Jingyi ‘da qiye bing’” (“Be on guard against ‘big company disease’”), *Stoner*, No. 89 (2 December 1989), pp. 1–2.

100. Interviews No. 1, 2, 7, 12 and 14.

101. Stone sold printers produced by Okidata, Epson, Canon, Hewlett Packard, and Hamada; software from Lotus and Microsoft; and PCs from AT&T and Compaq.

1994, Stone and Compaq began producing PCs in Shenzhen, Compaq's first-ever foreign joint-venture production.¹⁰² And in early 1996 Stone signed an agreement with Mitsui and Mitsubishi Electric to manufacture semiconductors in Beijing.¹⁰³ By mid-1997, 18 of the Stone Group's 52 subsidiaries were production joint ventures.

Stone also diversified beyond information technology into other areas of electronics, including oscilloscopes, fluorescent light ballasts, satellite dishes, generators, power supplies and lighting fixtures as both distributor and joint venture partner. It also invested heavily in designing and manufacturing electronic cash registers. Not stopping at electronics, it branched out, often with a foreign partner, farther afield into pharmaceuticals, chocolate, real estate and securities. For a while, Stone even had its own taxi company.

Supplemental industrial policy. While the government continued to focus on supporting its own, Stone was not entirely overlooked. It received loans through the Torch Plan and participated in various aspects of the Golden Bridge Projects, two prominent government initiatives aimed at developing and utilizing high technology.¹⁰⁴ Stone also joined a consortium that has a contract to produce cash registers that calculate the value-added tax for the Golden Taxation Project, a programme aimed at improving compliance through upgrading the tax authorities' technology. And it also became involved in the Gold Card Project, a plan to establish a nationally unified financial network for credit and debit cards.¹⁰⁵ Finally, in mid-1992 Stone received approval from the BEZ to begin the process of allowing one of its subsidiaries to corporatize.¹⁰⁶ The plan was realized in August 1993 when Stone's Hong Kong subsidiary, Stone Electronic Technology (SET), listed on the Hong Kong stock exchange, publicly issuing 150 million shares.¹⁰⁷ Unlike the two dozen or so PRC state-owned firms that listed directly on the exchange through so-called H-shares and which required approval from the State Council's China Securities Regulatory Commission (CSRC), Stone bypassed this labyrinth

102. Scott Kennedy, "Reaching into all corners," *China Business Review*, Vol. 22, No. 1 (January–February 1995), pp. 43–44.

103. Wu Yunhe, "Stone Agrees Microchip Deal," *China Daily*, 19 March 1996, p. 5. Teaming up with foreign partners has been a common strategy for many of China's larger companies. For example, by early 1997 Great Wall had three joint ventures with IBM and one with Intel. Dexter Roberts, "Going toe to toe with Big Blue and Compaq," *Business Week*, 14 April 1997, p. 58. On the growing importance of such alliances, for both established multi-nationals and newer East Asian firms, see Barry Naughton (ed.), *The China Circle: Economics and Technology in the PRC, Taiwan, and Hong Kong* (Washington, D.C.: Brookings Institution Press, 1997).

104. Stone Group Corporation brochure, 1996, p. 5.

105. Li Ning, "Minister Hu calls for modern electronic information processing industry," *Beijing Review*, No. 8 (20–26 February 1995), pp. 12–17. For a review of these and other government initiatives, see Wang Bian, "Information industry in China – its present and future," *China Information*, Vol. 4, No. 2 (February 1997), pp. 17–19.

106. *Stoner*, No. 139 (30 July 1992), p. 1.

107. SET had previously issued 450 million shares internally. Of the total 600 million shares, the Stone Group held 348 million (58%); Mitsui was the second largest shareholder, with 12 million shares (2%). For Stone's own account and excerpts from various newspapers, see *Stoner*, No. 163 (15 August 1993), pp. 1–5.

to become one of a growing number of “red chips” that listed in Hong Kong through a local subsidiary.¹⁰⁸ While formal PRC approval was not required, the CRSC did not object to Stone’s plans.¹⁰⁹

As with most of the earlier measures directed at Stone, these deals fit with government policies aimed at assisting the growth of China’s own electronics industry. Stone’s development of key technology seemed to warrant its obtaining the various deals and could not simply be chalked up to clientelist links. While Stone was among some of the earliest Chinese companies to list in Hong Kong, it was soon followed by many more, including rivals Founder and Legend.¹¹⁰ And just as in the 1980s, the company was still denied access to cheap foreign exchange from the Bank of China.¹¹¹

But despite Stone’s efforts and supplementary government assistance, its overall performance in the 1990s was somewhat mixed. On the one hand, it developed close links with several world technology leaders. This not only pushed up sales and profits but also helped its own innovative abilities, particularly in software, cash registers and printers. On the other hand, Stone exhibited several weaknesses. As computers swept through China, demand for word processors first stagnated and then fell. Stone had the misfortune of dominating a dwindling market. Whereas word processors accounted for a majority of Stone’s sales into the early 1990s, their share dropped to 11 per cent by 1995. Since Stone imported many of its inputs from Japan, the strengthened yen increased operating costs. The venture with Compaq, which originally looked promising, hit hard times in 1995 as price wars forced Stone to sell the PCs at a loss to stay competitive.¹¹² Conversely, in 1996, the yen weakened, start-up costs from the Compaq deal were absorbed while output increased, and sales of other products grew. Not surprisingly, profits for the entire group rose steadily until 1994, then fell 67 per cent in 1995, before recovering in 1996. Profits of the chief subsidiary SET, for which computer sales made up a larger portion of income than for the group as a whole, dropped 80

108. To meet the demands of Hong Kong authorities, Stone placed many of its subsidiaries under SET in order to demonstrate that it had adequate assets in the colony. One international investment firm defines red chips as “companies with either extensive earnings exposure in the PRC or as listed vehicles of the PRC parent ministries or companies.” “Red chip overview – ‘The mainlanders are coming!’,” *Asia Watch* (Hong Kong: Bear Stearns Asian Research, 2 December 1996).

109. Interview No. 17.

110. Red chips began listing in Hong Kong in 1991, and by late 1996, about 70 red chips, including 23 H-share firms, were listed on the Hong Kong exchange. “‘Red chips’ boom as political handover approaches,” Canada China Business Council homepage (www.ccbc.com), 6 January 1997; and Kathy Chen, “Staking a claim on the future,” *Asian Wall Street Journal Weekly*, 9 December 1996, p. 2B.

111. In 1992 Stone obtained 61% of its foreign exchange through swap centres, 25% through exports and 14% through word processor sales in foreign currencies to firms inside China with surplus foreign exchange. *Stone Electronic Technology Limited New Issue Prospectus* (Hong Kong: Stone Electronics Technology, 30 July 1993), pp. 6–7.

112. In 1996, of 2.1 million PCs sold in the PRC, Legend had a 6.9% share, placing it second just behind IBM (6.9%); Great Wall had a 2.3% share. No figures are available for Stone alone, but Compaq’s market share of 6.3% probably includes PCs sold by its manufacturing joint venture with Stone. Jim Erickson, “Making of a legend,” *Asiaweek*, Vol. 23, No. 23 (13 June 1997), p. 50.

per cent in 1995, but then similarly rebounded in 1996. More broadly, profit margins have steadily eroded over the years as China's electronics market has become more competitive (see Tables 1 and 2).

The above discussion detailing Stone's internal problems, its changing business strategy and the industry's growing competitiveness is important because it reveals how Stone's development since 4 June, both positive and negative, was determined primarily by its own reading of the industry and its relative ability (or inability) to respond to new challenges, and only secondarily by government intervention. Its ventures with foreign and domestic partners grew first and foremost out of Stone's relationship with Mitsui and its other industry contacts.¹¹³ Though local and national officials regularly appeared on stage at press conferences announcing the deals, they were in large part observers, not matchmakers.

An identity crisis. Another reflection of Stone's precarious situation was the difficulty management had in sustaining enthusiasm among its employees for the company's corporate culture, though this certainly was not for lack of effort. Activities dedicated to building enthusiasm for the corporate culture among the rank and file proliferated. Despite such attempts, survey after survey revealed employee disenchantment with management and the company's overall direction. A September 1992 poll of 300 employees found that only 27 per cent believed that Stone Culture had any significance, only 41 per cent of respondents thought management had made the employees feel like the company was theirs, and only 50 per cent said they planned to stay at Stone for a long time. Less than a year later, 90 per cent of Stoners said that there was a gap between the ideal Stone Culture and reality. An early 1995 survey that found 46 per cent believed that increased communication between employees and management would not be of any use indicated that employee disgruntlement was not just a short-term problem.¹¹⁴ One tangible sign of this malaise was higher turnover, as technicians and managers, many with doctorates, left to join its competitors.¹¹⁵

The sources of the cynicism and brain drain were the internal management disputes and the emergence of hundreds of other domestic and international firms that were intent on capturing China's market. No longer a trailblazer, Stone not only had to share the stage with others, but

113. Interview No. 1.

114. Ding Ding, 'Sitongren renxin muzhongde Sitong jijing ruhe?' ('What actually are Stoners' popular feeling of Stone?'), *Stoner*, No. 143 (30 September 1992), pp. 4–5. Wu Yan, '“Sitongren” qing nin chumou huace' ('“Stoner” please give counsel'), *Stoner*, No. 159 (15 June 1993), p. 10. 'Jiekai nide gaitou, wenjuan jieguo: Sitong jiben shengren yuangong tiaozhan' ('Open your lid, survey results: Stone basically meets workers' challenge'), *Stoner*, No. 195 (15 January 1995), pp. 2–3.

115. Pamela Yatsko, 'Employer's paradise,' *Far Eastern Economic Review*, Vol. 157, No. 39 (29 September 1994), p. 69. Growing turnover at Stone and other high-tech *minban* firms, due in part to the relative attractiveness of foreign-invested enterprises, raises doubts about whether Chinese firms have maintained a dependency relationship over their workers. Corinna-Barbara Francis, 'Reproduction of *danwei* institutional features in the context of China's market economy: the case of Haidian district's high-tech sector,' *The China Quarterly*, No. 147 (September 1996), pp. 839–859.

Table 2: Stone Electronic Technology Limited (HK\$, millions)

	1990	1991	1992	1993	1994	1995	1996
Turnover (sales minus sales tax)	983.25	1,309.23	1,240.67	1,324.89	1,462.19	1,595.93	1,509.99
Pre-tax profits	63.17	84.56	83.79	89.81	89.93	19.96	41.14
Taxes	8.47	11.85	11.79	14.95	14.50	6.26	8.60
Net profits (post-tax)	54.70	72.71	72.00	74.85	75.42	13.70	32.54
Fixed assets	—	—	76.24	132.41	160.16	150.81	278.53
Net profit to turnover ratio (%)	5.56	5.55	5.80	5.65	5.16	0.86	2.15

Note:

Since 1993 Stone Electronic Technology Limited has been the Stone Group's chief subsidiary and in turn has formally been the parent company for most of the Group's subsidiaries, which numbered 52 in 1997. Data for 1990-92 were compiled by SET as estimates of what SET's financial position would have been had the reorganization been in effect during those years.

Source:

Stone Electronic Technology Ltd.

was often shoved aside by competitors. Moreover, diversification left Stone looking more like a miniature Japanese keiretsu or Korean chaebol than IBM, its long-time symbolic ideal. With the word processor's decline, the company no longer had an identifiable core product. Stone's identity crisis confirms in a backhanded way that its economic well-being and sense of identity derived from its place in the market and not its relationship with the state.

An attenuated public role? While Stone's business fortunes chiefly reflected market forces, there were at least outward signs that the company had stepped back from the independent political and social activism it displayed in the 1980s. After Cao Siyuan was released from detention in 1990, Stone refused his request for financial support to help SSDI start anew.¹¹⁶ Zhou Duo was also not welcome back.¹¹⁷ In mid-1992 officials from across the political spectrum began touring Stone again and appeared on stage to show their support for the company's various business deals. In addition, in March 1992 the Chairman of the Board, Shen Goujun, became a deputy to the Beijing Municipal People's Congress. Two years later President Duan Yongji became a member of the Beijing Committee of the Chinese People's Political Consultative Congress, and in March 1996 he was elevated to its national committee, all of which suggests that Stone had returned to the good graces of China's political elite.

While these symbolic developments imply that Stone became a quiescent firm that was simply interested in not rocking the boat, on more substantive matters the company maintained and expanded its ties with other firms in its industry and with society more broadly. *Stoner's* pages still contained numerous articles supporting radical economic reform, particularly corporatization.¹¹⁸ Stone still attended symposia concerning the reforms hosted by various government bureaucracies. The company also continued to participate in the same associations it entered prior to 1989, and it joined several others as well, including the All-China Federation of Industry and Commerce,¹¹⁹ the Beijing Municipal Associ-

116. Not to be deterred, Cao continued his work on economic reform. Since SSDI's registration was never formally revoked, he occasionally referred to his single operation as both the Siyuan Merger and Bankruptcy Consultancy and SSDI. By the mid-1990s, he had over 20 employees, and Cao re-emerged as a national authority on bankruptcy. Interviews No. 6 and 11. Also see Willy Wo-Lap Lam, "'Bankruptcy Cao' plays the national percentage game," *South China Morning Post International Weekly*, 1 March 1997, p. Business 3.

117. Zhou Duo, "Neige xuexingde liming" ("That bloody dawn"), *Zhongguo zhi chun* (*China Spring*), June-July 1993, pp. 23-24. The company did, though, hire two of SSDI's members soon after their release. Li Xiangzheng first worked directly for Duan Yongji and then was editor of *Stoner*; Gong Zhizhong joined Stone's legal department.

118. Ding Chuankuan, "Gufenzhi yu Sitong changyuan fazhan" ("Stock system and Stone's long-range development"), *Stoner*, No. 137 (30 June 1992), p. 3.

119. This voluntary association is open to individuals and to state-owned, foreign-invested and private enterprises. Recent research has shown the Federation to be largely autonomous of state direction and to be a strong advocate of enterprises' interests, largely because of the financial support of its members. See Jonathan Unger, "Bridges': private business, the Chinese government and the rise of new associations," *The China Quarterly*, No. 147 (September 1996), pp. 795-819; and Anita Chan, "The changing ruling elite and political

ation for Building Corporate Culture and the Software Business Alliance, China's first non-governmental organization charged with protecting the intellectual property rights of software producers.¹²⁰ Duan Yongji assumed leadership positions in associations once occupied by Wan Runnan.¹²¹

Stone also expanded its public relations activities. In addition to its annual Stone Stars contest, it stepped up donations of funds and computer equipment to Chinese middle school students and to China's participants in the annual international Science Olympics.¹²² It donated over RMB 1 million to the August 1 Middle School in Haidian and over another RMB 2 million to Project Hope, a national programme run by the China Youth Development Foundation aimed at helping children in poor areas receive an education.¹²³ Altogether, between 1989 and 1996 Stone donated approximately RMB 6.5 million to causes that support education, reduce poverty or aid disaster victims.¹²⁴

In the 1990s other non-state enterprises joined Stone in making donations, often through a growing number of foundations, to support various social causes.¹²⁵ While the government has closely regulated philanthropy, its growth among non-state firms in China signalled a relative increase in the legitimacy of ties between the business community and society at large.¹²⁶

State Client or Market Pathbreaker?

While politics has no doubt affected the course of economic change, the converse has also been true: socio-economic change and the characteristics of an industry have had political consequences. This review of Stone's founding and development has attempted to demonstrate the impact that the growth of competitive markets in China has had on the evolution of Stone's relationship with the Chinese state and, by inference, its impact on China's broader political economy.

footnote continued

opposition in China," in Garry Rodan (ed.), *Political Oppositions in Industrializing Asia* (London: Routledge, 1996), pp. 161-187.

120. *China Report*, Vol. 13 (March 1995), p. 54.

121. By mid-1992, Duan was the standing vice-chairman of the China Non-Governmental Science and Technology Entrepreneurs Association.

122. "Sitong quanti tongren wei Aolinpike zhili jingsai yongyue juanzi" ("All of Stone colleagues donate funds for Olympic intelligence contest"), *Stoner*, No. 142 (4 September 1992), pp. 1-2; *Stoner*, No. 203 (30 August 1995), pp. 2-3.

123. Stone Group brochure, 1994; *Stoner*, No. 154 (30 March 1993), p. 3; *Stoner*, No. 187 (15 September 1994), p. 2; *Stoner*, No. 194 (30 December 1994), p. 1.

124. Correspondence with Stone Group, November 1996.

125. Between April 1994 and March 1995, 2,600 entrepreneurs had donated RMB 367 million through Project Glory. Irene So, "Firms back poorer areas," *South China Morning Post*, 25 March 1995, p. 8, cited in FBIS-CHI, 27 March 1995, pp. 70-71.

126. Zhang Ye, "Foundations in China: a survey report," in Tadashi Yamamoto (ed.), *Emerging Civil Society in the Asia Pacific Community: Nongovernmental Underpinnings of the Emerging Asia Pacific Regional Community* (Singapore: Institute of Southeast Asian Studies; Tokyo: Joint Center for International Exchange, 1995), pp. 523-531.

Stone's operational autonomy was clear from its inception. The impetus for starting it came from a group of scientists. The state never made any pretence of trying to intervene in the management of employees, investment in R&D, choice of products, selection of joint venture partners or the establishment of subsidiaries inside or outside China. Listing its subsidiary in Hong Kong may have also indirectly clarified Stone's ownership. A large number of shares in SET, some as stock options, were given to management and employees throughout the company. By April 1994, two-thirds of Stone employees held shares in SET.¹²⁷ The Stone Group still could not be sold outright, but the issuance of stock created a direct link between the company's performance and the wealth of its employees. Though Stone remained a collective, its functional ownership increasingly rested with its management and employees.¹²⁸

While there were signs of undue favouritism in Stone's founding, the vast majority of government ties to Stone appears most consistent with industrial policy and not clientelism. The benefits the company received had already been provided to some of its SOE competitors or were soon after extended more broadly to both state- and non-state firms. The clearest exceptions were the initial loans and office space, but even there, the loans were repaid on time and did not place Stone under the sway of government officials. Clientelism implies a reciprocal exchange relationship in which both the patron and client gain from the exchange. In Stone's case, except for the brief employment of Li Wenyan, there was no indication that state officials received monetary or political benefits in return for its supposed "favours." Co-operation did not lead to co-optation. Rather than being a quiescent supporter of the state, Stone pushed its own agenda, to the point that it advocated a thoroughgoing restructuring of the entire political system. Over the course of its history, there was little correlation between Stone's position on political issues and the amount of the state's economic aid, suggesting that such support was based on economic, not political, criteria.

The large majority of those interviewed, including Stone employees, its chief business partners, Chinese journalists and industry analysts, agreed that Stone's own efforts, and not links to the state, mattered most in determining its successes and failures.¹²⁹ The state's electronics policies were quite fragmentary and fluctuating, making government aid a thin reed on which to depend. As noted earlier, government actions served as "enabling measures" that removed barriers to Stone's entry into markets

127. Lu Liqin and Wang Shuqi, "Kouwen xiandai qiye liniande shijian" ("Inquiring into the practice of the modern enterprise concept"), *China Business Times*, 27 May 1994, p. 5.

128. Functional ownership implies substantive control over a company's assets, the ability to receive returns generated by those assets, and the responsibility for bearing the risks associated with possession and control of those assets. Margaret M. Blair, "Corporate 'ownership'," *Brookings Review*, Vol. 13, No. 1 (Winter 1995), pp. 16–19. Stone holds that since the state has no equity investment in the company, if liquidated, only Stone employees would be entitled to any surplus assets. *Stone Electronic Technology Limited New Issue Prospectus*, p. 136.

129. One source from a competitor thought that Stone probably used connections to sell its products, though he could not cite a specific example. Correspondence, August 1994.

and reduced its transaction costs.¹³⁰ Without developing printer software, Stone would never have survived infancy, without developing a word processor, a distribution network and a marketing strategy, the company would not have expanded into a national conglomerate, and without broadening its ties with foreign partners, it would not have continued to prosper in the 1990s.

While it would obviously be incorrect to deny that nurturing ties with officials is irrelevant in China – or anywhere for that matter – the significance of such links has been circumscribed by the growth of competitive markets. Whereas clientelism could, and often did, determine economic outcomes during the Maoist era, sinking or swimming in industries such as electronics during the post-Mao era has increasingly depended on firms' technological and marketing prowess. If this were not the case, state firms such as Founder and Great Wall would not have needed to revamp their approach to business, and likewise, enterprise restructuring would not be so widely seen as the linchpin of economic reform.

The importance with which Stone ascribed to meeting the demands of the market was not only central to its business strategy but also a key element that pushed it to develop its own unique corporate culture and establish horizontal links within its industry and with others beyond the state. Disenchanted with the stultifying rigidity of the state apparatus, Stone's founders consciously sought to imbue their firm with an ethos centred on independence, respect for the individual and welcoming competition. In its first few years of existence, Stone was able to draw a clear line between itself on the one hand and the state and state-owned enterprises on the other. Further, Stone's creation of SSDI, its regular voice in public forums for radical economic reform, its participation in various associations that served the interests of their members,¹³¹ and its philanthropy proved to be a rich and important web of "associational life and social relationships" not dominated by the state. These horizontal ties far outweighed its vertical ties to the state, and taken together with Stone's autonomous identity they give some evidence to the existence of an emerging civil society in China.

Quite often civil society has been viewed as significant only in regard to democratization. As China looked less likely to democratize, scepticism over the strength of its civil society rose. Such a view is misguided

130. The relative paucity of financial and technical assistance that the government gave firms like Stone contrasts strikingly with South Korean, Taiwanese and Japanese governments' efforts to aid priority firms in the same sector. Robert Wade, *Governing the Market: Economic Theory and the Role of the Government in East Asian Industrialization* (Princeton: Princeton University Press 1990); Jung-en Woo, *Race to the Swift: State and Finance in Korean Industrialization* (New York: Columbia University Press, 1991); and Marie Anghodoguy, *Computers Inc.: Japan's Challenge to IBM* (Cambridge, MA: Harvard University Council on East Asia Studies, 1989).

131. These associations did not act to guide Stone's business choices; nor did they encapsulate the range of its relations with the government. Thus Stone's history does not fit neatly into a corporatist framework.

primarily because it places far too much of a burden on the shoulders of businesses and civil society more broadly. Democratization is contingent on a whole range of factors of which civil society is only one. Regardless of whether China democratizes, it is worth recognizing that socio-economic change has already deeply affected state–society relations. It is inadequate to say that the Chinese state has been consultative, as if it were fully in control of where China is heading. Rather, the state has become increasingly responsive, though often in a haphazard manner, to broader market forces and to the views and pressures of non-state actors. The choices made by Stone and other firms, within and outside China, have had a great impact on how the Chinese government has defined, and just as often redefined, its priorities and which methods it has adopted to achieve these priorities.¹³² Stone's success, its corporate culture and its establishment of horizontal links beyond the state seriously challenged the government's monopolies of both products and ideas. Regardless of intent, the impact of Stone's behaviour – and of firms like it – went far beyond what the state could have originally expected. 4 June did little to change these dynamics. That date was less a dividing line than an interregnum sandwiched in between two periods of growing pluralization.

While one firm can certainly not speak for a single sector, let alone an entire country, Stone in some ways is a critical case that encapsulates a broad spectrum of themes central to understanding post-Mao China's socio-economic and political transformations. The electronics industry has received a disproportionate amount of investment and attention at both the local and national levels. Several of China's current Politburo members have been Electronics Industry Minister or on leading groups that set electronics policy. In addition, Beijing has been designated one of the focuses of China's electronics industry. Further, the vast majority of Chinese companies have operated in obscurity, far from the headlines. And finally, very few firms in China have grown from a handful of people into a national conglomerate within a few years. Amazingly, in spite of the myriad forces pushing it into the arms of the state, Stone maintained its independence and became enmeshed in a network of business and social ties that situated it squarely within a civil society. Given such a conclusion, one is left to ponder the condition of the rest of China if even a supposed state client turned out to be a market pathbreaker.

132. China's recent experience differs markedly from the "developmental state" model used to describe late industrialization in East Asia. For the model and a critique, see Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Stanford: Stanford University Press, 1982); Daniel I. Okimoto, *Between MITI and the Market: Japanese Industrial Policy for High Technology* (Stanford: Stanford University Press, 1989).