The United Nations University

WIDER

World Institute for Development Economics Research

Research for Action

Research for Action 38

Emergence of Unorthodox Ownership and Governance Structures in East Asia

An Alternative Transition Path

Laixiang Sun

UNU World Institute for
Development Economics Research
(UNU/WIDER)

Research for Action 38

Emergence of Unorthodox Ownership and Governance Structures in East Asia

An Alternative Transition Path

Laixiang Sun

This study has been prepared within UNU/WIDER research on the Transition Strategies, Alternatives and Outcomes (Economic Theories and Strategies of the Transition), which is co-directed by Professor Giovanni Andrea Cornia and Professor Vladimir Popov.

UNU World Institute for Development Economics Research (UNU/WIDER)
A research and training centre of the United Nations University

UNU World Institute for Development Economics Research (UNU/WIDER) was established by the United Nations University as its first research and training centre and started work in Helsinki, Finland in 1985. The purpose of the Institute is to undertake applied research and policy analysis on structural changes affecting the developing and transitional economies, to provide a forum for the advocacy of policies leading to robust, equitable and environmentally sustainable growth, and to promote capacity strengthening and training in the field of economic and social policy making. Its work is carried out by staff researchers and visiting scholars in Helsinki and through networks of collaborating scholars and institutions around the world.

UNU World Institute for Development Economics Research (UNU/WIDER)
Katajanokanlaituri 6 B
00160 Helsinki, Finland

Camera-ready typescript prepared by Liisa Roponen at UNU/WIDER
Printed at Hakapaino Oy, Helsinki

ISSN 1239-6761
ISBN 952-9520-62-X

CONTENTS

LIST OF TABLES

FOREWORD

This Research for Action study on the *Emergence of Unorthodox Ownership and Governance Structures in East Asia: An Alternative Transition Path* is the continuation of UNU/WIDER's research on the economics of transition started in the early 1990s and expanded substantially since 1996. UNU/WIDER is currently doing three major projects on transition economies.

The first project – Economic Shocks, Social Stress and the Demographic Impact of Sudden Impoverishment – seeks to explain the recent unfavourable fertility and mortality changes observed in economies (mostly in Eastern Europe and former Soviet republics, but also elsewhere) hit by sudden economic shocks and mounting uncertainty. Our second project – Poverty, Income Distribution and Well-Being in Asia during Transition – focuses on the social consequences of reform in two different groups of Asian transition economies: i) the former Soviet Central Asian republics and Mongolia, and ii) China, Vietnam, Lao PDR, and Kampuchea. The third project – Transition Strategies: Alternatives and Outcomes – is aimed at comparing different models of transition observed so far in East European countries, the former Soviet Union, China, Mongolia and Vietnam. The emphasis of this project is not only on strategies of transition (shock therapy versus gradual reforms, etc.) but also on the outcomes of the process: we try to establish what market stereotypes are emerging in the post-socialist world (income and asset distribution, the role of the state, industrial structure and international trade specialization) and what patterns of long-term development will prevail in these countries in future.

As part of the third research project, Laixiang Sun's paper on the *Emergence of Unorthodox Ownership and Governance Structures in East Asia* examines recent patterns of development of ownership, control and governance in the state-owned enterprises (SOEs) and township and village enterprises (TVEs) in China and Vietnam. The importance of the topic is highlighted by the fact that there is an obvious gap between the orthodox property rights theory (clearly and legally enforceable property rights of firms are the basic precondition of efficiency and the proper functioning of the market economy) and the transition experience of China and Vietnam. Not only township and village enterprises with unclear ownership and control patterns had unprecedented success and became the driving force of economic growth, but even more mysteriously, state-owned enterprises – including large ones – demonstrated high efficiency and growth rates.

Treating ownership as a bundle of rights, the author makes highly instructive and illuminating comparisons between various types of SOEs (with management contracts, leasing contracts, and employee stock ownership), joint ventures, TVEs, and private firms in order to find out who is *de facto* making decisions in specific areas, how profits are being distributed, what are the budget constraints and bankruptcy provisions, and who is the 'lender of the last resort'. It is shown that the performance of different business entities depends mostly not on the formal ownership and control, but rather on the incentive structure and type of budget constraints, which is consistent with outcomes of the studies on Eastern European countries and former Soviet republics, namely with the study by Derek C. Jones on *The Determinants of Economic Performance in Transitional Economies: The Role of Ownership, Incentives and Restructuring*, which is being published by UNU/WIDER simultaneously with this paper.

I warmly recommend the reading of this study to academics, policy makers and professionals interested in the well-being and future of transition economies.

Giovanni Andrea Cornia
Director, UNU/WIDER
July 1997

ACKNOWLEDGEMENT

The author would like to thank Giovanni Andrea Cornia, Gu Xin, Jerzy Hausner, Manuel Montes, Mario Nuti, Vladimir Popov, Pekka Sutela, and Zou Liang for comments and stimulating discussions.

ABSTRACT

This paper examines the nature of the unorthodox ownership and governance structures that are emerging among firms and the way these structures are supporting the remarkable economic growth in the transition economies of East Asia, as represented in particular by China and Vietnam. These economies are embarked on a distinctive process of property rights reform that resists widespread privatization in favour of evolutionary transformation. From the perspective that organizational innovation is an adaptive recombination and ownership is a bundle of rights, this paper focuses on an evaluation of the extent and consistency of property rights reform in the state-owned enterprise sector of these economies. It reveals the features of the ownership and governance structures of Chinese township-village-enterprises and their consequences for liability and incentives and justifies the fact that private entrepreneurs are typically willing to include community authority as an ambiguous owner or shelter within the embrace of state-owned enterprises. The paper also explores the conditions which have motivated the reform, the impact of property rights structure and reform on enterprise performance, and the relationship between adaptability and accountability.

I INTRODUCTION

This paper examines the nature of the unorthodox ownership and governance structures which are emerging among firms and the way these structures are supporting the remarkable economic growth in the transition economies of East Asia, as represented in particular by China and Vietnam. These economies are embarked on a distinctive process of property rights reform that resists widespread privatization in favour of evolutionary transformation.

Following a brief description of the 'ownership puzzle' in transition economies, this paper provides a general framework for understanding property rights reform in the transition economies of East Asia (Section II). This covers issues such as the evolutionary perspective of organizations from Schumpeter to Williamson, property rights as a bundle of rights and the values of the soft-budget constraint perceived by various state-owned enterprises (SOEs). Section III examines the reform of property rights in the SOE sector in China, Vietnam and Laos and evaluates the impact of the reform on the performance of state-owned enterprises. Section IV describes the features of the ownership and governance structures of township and village enterprises in China and analyses the importance of these features for liability and incentives. Section V examines the ambiguities of property rights arrangements among private enterprises in these economies and outlines the comparative benefits and costs. Section VI presents a summary of the features of heterodox ownership and governance structures and then explores the distinction between 'ownership of the asset' and 'ownership of the firm', as well as the view that the latter is 'state-contingent ownership'.

1.1 The ownership puzzle in post-privatization economies

The privatization approach was one of the earliest consensus views on the postcommunist transition and has been a central feature of the transition in Eastern Europe and the former Soviet Union. This common sense view is believed in theoretical terms to possess the self-evidence which comes from the orthodox property rights theory. The existence of well-defined private property rights is a basic precondition for the proper functioning of a market economy.[1] As a corollary, the creation of clear and legally enforceable private property rights for firms is seen as the only way to remedy the problems associated with the soft-budget constraint and bureaucratic bargaining prevailing in the state-owned sector. The most compelling practical reason for the

---

[1] As Weitzman and Xu (1994) have pointed out, 'there is no single universally accepted statement of so-called property right theory. Most presentations of the theory are essentially verbal expositions representing a combination of philosophical thinking, empirical generalization, and reasoned theoretical assertion'. Alchian (1974), the founding father of the new property rights approach, also indicated that perceiving private property rights as the precondition of a well-functioning market economy is a belief or a proposition which is 'not yet derivable from economic theory nor fully validated by sufficient evidence' (page xiii).

privatization of state-owned enterprises is the long-lasting inefficiency of state-owned enterprises (SOEs) as a whole. By creating property owners, privatization is thus perceived as the most direct avenue for unlocking gains in economic efficiency by the placement of property under the exclusive control of private owners who are seen to be liable for the consequences of bad decisions, but entitled to the rewards of goods ones and willing to offer greater motivation for both managers and workers.

After seven years of great sacrifice along with the transition, it is now widely acknowledged that the privatization process has turned out to be much more difficult and costly than expected. Furthermore, the key outcome, the post-privatization ownership structure, has also become quite complicated and is far from having developed clear and legally enforceable private property rights. On the one hand, the privatization of former SOEs has led to a complex ownership structure involving banks, investment funds, other enterprises, state asset management agencies, and local governments in a network of cross-ownership. The resultant governance structure is characterized by insider control, representing a general strengthening of the managerial classes in nearly all these postcommunist countries. On the other hand, many of the emerging private firms are turning to the state for all kinds of financial 'rents'. Subsidies, tariff protection, legal monopolies, and redistributional regulations are still prevailing even where direct state ownership has become rare (cf., among others, Brada 1996; Frydman et al. 1996; Lavigne 1995; Stark 1996). Together, these indicate that the way to engineer post-privatization ownership and governance structures and the way to modify incentives so as to make corporate actors look to the benefits of enhanced economic efficiency rather than to the rent they can extract from the state remain a great challenge during the transition in these postcommunist countries.

1.2 Induced property rights reform in the SOE sector in East Asia

Property rights reform in the East Asian transition economies contrasts markedly with the privatization approach widespread in Eastern Europe and Russia. Although it has been officially stated that the industrial reform in East Asia involves management reform but not reform in ownership, there is much evidence demonstrating that the clarification and reassignment of various property rights among different levels of governments, between government and enterprise, and among parties within the enterprises have progressed in a piecemeal, incremental and induced fashion.

While reformers at the national level have established the broad parameters of enterprise reform, the actual outcomes have to a great extent been determined by the competition specific to localities and enterprises. Within an increasingly competitive environment, poor performance gives rise to pressure for reform, and reform improves performance. Low or declining profits lead directly to low or declining bonuses and welfare incomes, poor reputations, and so forth and thus motivate enterprise managers and employees to seek more autonomy and greater control over profits. Among local governments, particularly those at lower levels with fewer enterprises under their jurisdiction, the erosion of enterprise profits, the major source of local revenues, results in immediate fiscal distress. This distress not only destabilizes the distribution of fiscal revenues among regions and administrative levels, but also reduces the bonuses and benefits, which in turn, hurt the reputations of local officials and thus supplies a strong incentive for local governments to push enterprise reform beyond even the limits set by the central government. An additional explicit contribution of competition – one which has not been well recognized – is the fact that competition has been gradually exhausting the monopoly profits of most state-owned industries, the traditional, primary source of fiscal revenues, and has thus been forcing both central and local governments to reform SOEs, support the development of township and village enterprises (TVEs) and encourage the establishment of other types of enterprises so as to generate more revenue and create more employment.

In contrast to the unprecedented fall in output, employment and incomes following the transition in Eastern Europe and Russia, the SOE sector in the East Asian transition economies has done well relative to international standards, although it is still suffering financial troubles. In China, the real output of the SOE sector grew by 7.8 per cent per year from 1978 to 1995 despite greater competition from TVEs, joint-venture enterprises, foreign enterprises, and the international market (SSB 1995: 377; *People's Daily* 5 March 1996: 2). Moreover, the share of medium and large state-owned enterprises (over 500 employees) in total industrial output remained approximately constant (about 41 per cent), though the annual growth rate of overall industrial output was 14 per cent from 1978 to 1994 (Naughton 1995: 164-7 and 330-1; SSB 1995: 377).[2] There is increasing empirical evidence indicating that, despite the continuation of subsidies, state-owned enterprises with low profits have fallen behind in such areas as retained earnings, wages, bonuses, and access to funds (Rawski 1994), that the productivity of state-owned enterprises has risen with boosts in bonus payments and the number of contract workers (Groves et al. 1994), and that poor financial performance among enterprises located in jurisdictions experiencing financial distress generates pressure for reform and reform in turn improves performance (Jefferson, Zhao and Lu 1995).

In the case of Vietnam, SOEs in the industrial sector maintained their dominant role, and their GDP share climbed from 33 per cent in 1989 to 37 per cent in 1994 and 39 per cent in 1996 (Dodsworth et al. 1996; Mallon and Irvin 1997),[3] although several thousand loss-making SOEs were liquidated, government subsidies were eliminated, implicit subsidies through the banking system were substantially reduced, and the principle of equal taxation among state and private firms was instituted. Given the

[2] The GDP share of SOEs in China may be underestimated by a small margin, because official statistics count SOE joint ventures and shareholding companies as 'other ownership enterprises' even when most of the capital is invested by the SOEs. By the end of 1994, within the category of 'industrial enterprises with independent accounting systems', the assets of all kinds of jointly owned and shareholding enterprises accounted for 7.6 per cent of the total (SSB 1995: 53 and 384).

[3] In contrast to the classification in official Chinese statistics, SOEs and foreign joint-venture enterprises in Vietnam are counted as part of the state sector even when most of the capital is provided by the private partner. As a result the GDP share of SOEs is certainly overstated by a significant margin in the official statistics. On the other hand, the distinction between the state and private sectors has become increasingly blurred. For instance, some 700 nominal 'private' enterprises, which account for about 60 per cent of all private enterprises, are reported to belong to ministries or party organizations (Irvin 1996; Probert and Young 1995: 515).

average GDP growth rate of 7 per cent over this period, these macro-statistical data may be indicative of a remarkable surge in the performance and productivity of SOEs. With respect to micro-level evidence, a survey in January 1990 revealed that over 40 per cent of SOEs were suffering heavy losses, and only 20 per cent were thought to be operating at a profit (Kim 1994; Probert and Young 1995). By end of 1994, however, it is estimated that around 65 per cent of the 6,300 state-owned enterprises were operating at break-even or profitable levels (Doyle 1995), though among all state-owned enterprises the average profit ratios over fixed and working capital were still quite low, equal to about 7 and 11 per cent, respectively.[4]

SOE reform in Laos involved the granting of managerial autonomy to state-owned enterprises during 1988-90 and the prevalence of fixed-term leasing after 1990. During the first period, fiscal subsidies and capital transfers to state-owned enterprises were successfully discontinued, but the overdue debts accumulated by SOEs to the banking system were substantial. Fixed-term leasing, although it did not change the structure of ownership, seemed the most practical way to change the governance structure over the medium term and effectively hardened SOE budget constraints and provided much greater incentives to SOE management to improve performance (cf. Otani and Pham 1996; World Bank 1994a).

1.3 TVE miracle and TVE paradox

The greatest achievement of the Chinese reform may be the emergence of the township and village enterprises. Between 1978 and 1995, the township and village enterprises realized a real average output growth of 21 per cent per annum. In 1993, the TVE sector exceeded the state sector in terms of industrial production and employment generation. It produced 44.5 per cent of total industrial output and provided employment to 123 million people, whereas the state sector yielded 43 per cent of total industrial output and employed 102 million people (SSB 1995: 364-5 and 377).[5] The emergence of rural entrepreneurs and enterprises has not been experienced in any other country on such a large scale and at such a rapid rate. Understanding the driving forces behind this spectacular growth is of great importance to international companies and investors seeking to do business with China.

The township and village enterprises seem to possess features which are unparalleled in any organizations in the West or in other socialist economies. The residual benefit rights of TVEs are mainly enjoyed by local residents via their township or village governments. The residual control rights, including the right to appoint and remove managers, are typically possessed by community governments. TVEs do not face a soft-budget constraint, but the financial liability for each individual TVE in the case of bankruptcy is not clearly defined. Very often, the township or village governments play a decisive role in mitigating the bankruptcy costs or facilitating reorganization. This role is similar to the main bank's role in a Japanese *Keiretsu*, but the underlying ownership-

[4] Cited by Thanh (1995) from Finance Ministry of Vietnam (1994) and State Planning Commission of Vietnam (1994).

[5] In 1995, TVEs produced 55.8 per cent of China's total industrial output (SSB 1996: 389 and 403).

control structures are quite different. It seems that, as economic entities, the townships and villages, rather than individual TVEs, have unlimited liability, and this constraint in China is usually more burdensome for these entities than for a private enterprise, because the latter often employs strategic bankruptcy to avoid unlimited liability.

The conceptualization of the nature and experience of TVEs have received much attention.[6] While introducing specific insights to the analysis of the issue, each of the alternative perspectives seems to get bogged down in paradoxes. For example, 'local state corporatism' (Oi 1992 and 1995; Lin 1995), while supplying an instructive framework for understanding the mutual dependence between local governments and their enterprises, particularly TVEs, is unable to explain why county-run state enterprises, which are directly controlled by the 'headquarters' of a local state 'corporation', i.e., the county government (Oi 1995: 30-3), have been the most inefficient. Emphasis on the TVE's ownership structure as 'a product of an environment in which an authoritarian government with monopolistic political power plays a dominant role in economic life' (Chang and Wang 1994: 450) seems to contradict the contribution of decentralization and to overlook the importance of internal factors. The 'collective action' explanation (Pei 1996) and the 'cooperative culture' perspective (Weitzman and Xu 1994) are insightful in terms of an understanding of the internal factors within a village community, but they do not address the puzzle of why such action and culture did not avoid the problem of free-riders earlier, especially during the period of the communes. Together, these indicate that there is an urgent need to build up a consistent and comprehensive theoretical framework which captures the links between the unique ownership and governance structures of the TVEs and their goals, strategies and managerial behaviour in an increasingly competitive and internationally oriented environment.

1.4 Ambiguous property rights in the private sector

The overwhelming majority of privately owned enterprises in China and Vietnam are small individual or family type enterprises. However, instead of directly participating in markets on their own, most of these operate in tandem with community authorities, such as village governments, which contract with larger corporate organizations to produce certain items.

Enterprises which expand beyond the family also tend to need support from community authorities. This support comes weighted with reciprocal sharing in both residual benefit rights and residual control rights. As a result, such firms are far from representative of private-ownership as this is commonly understood. Instead, they exhibit an ambiguous property rights arrangement which involves sharing between private entrepreneurs and community authorities (Li 1996). Although such an arrangement relies on the existence of a particular community spirit and a set of ambiguous and personalized relationships that may undermine the long-term development of these enterprises, it has certainly been mutually beneficial during the transition. It permits smooth business transactions among

[6] Cf. Chang and Wang 1994; Lin 1995; Nee 1992; Oi 1992 and 1995; Pei 1996; Weitzman and Xu 1994.

relatively independent operators and supplies the sense of security needed for long-term development. At the same time, it creates additional sources of revenue for communities and administrative units and greatly facilitates the necessary administrative supervision and tax collection.

1.5 Adaptive recombination versus immediate replacement

The brief comparison offered earlier between privatization in Eastern Europe and property rights reform in East Asia suggests that, instead of thinking about institutional and organizational innovation as immediate replacements for the old ownership regimes, a more instructive perspective is to see it as a dynamic transformation process involving the disassembly and reassembly of existing institutional configurations. Using the concept of Schumpeter, organizational innovation should be thought of as the adaptive 'recombination' rendered necessary because of the urgency of finding solutions to immediate practical dilemmas (Schumpeter 1934; Nelson and Winter 1982; Kogut and Zander 1992; Stark 1994 and 1996). Thus, our emphasis should lay on transformational processes rather than on fixed outcomes. Our attention should focus on the emergence of new elements in combination with competitive and cooperative adaptations and rearrangements of existing organizational structures. The old institutional forms may be inefficient. However, through innovative recombination and the addition of some new elements, they can become productive assets, resources, and the basis for credible commitments and coordinated actions (Williamson 1991 and 1995).

Reflecting upon the transition experience, our thinking about property rights needs to depart from the Marxist practice of assuming that an 'owner' is an individual or a homogeneous monolithic group (e.g. capitalist-minded shareholders). The evolutionary experience of the developed market economies suggests that property rights are a bundle of rights which are neither indivisible nor unrestricted and that 'property can be productively disintegrated in ways such that different actors can legitimately claim rights to different aspects and capacities of the same thing' (Stark 1996: 126; see also Grey 1980; Hart 1988; Barzel 1989). Based on such a perspective, it becomes easier to understand why the transformation of property rights is typically a process of re-negotiation among a wide array of actors who are seeking to resolve their claims over a certain set of property rights.

II INNOVATIVE TRANSFORMATION AND PROPERTY RIGHTS REFORM: THEORETICAL ISSUES

2.1 Market transition as a process of innovative adaptation

In his book *What Should Economists Do?*, James Buchanan (1979: 29) emphasizes that 'a market is not competitive by assumption or by construction', but 'becomes competitive, and competitive rules come to be established as institutions emerge' to shape behaviour. Such a 'process of becoming' is bound to go far beyond any kind of rationalist design or central planning, because the process evolves from sequences of economizing behaviour, market-learning institutional evolution, technical innovation, and, particularly, a multitude of cumulative and mutually reinforcing choices by numerous actors who have diverse interests and constantly evaluate alternatives and reconsider their previous views.

The market economy in the West did not originate by blueprint. Its development is characterized by decentralized evolution, rather than conscious design. The concrete institutions operating in the West are rooted in capitalist structures and grow up through adaptive evolution. Therefore, they cannot be directly replicated in the East. The key lesson from the failure of centrally planned economies – that one cannot organize all economic processes into a grand design – may indicate that the attempt to replicate market institutions by following a rationalist design is doomed to failure as well.

The market transition in both Eastern Europe and East Asia is bound to be path dependent. As Stark (1996) points out, the notion that the transition is a passage between two equilibrium social orders overstates the coherence of social settings both before and after the hypothesized transition and conversely exaggerates the degree of social disorganization during the presumed passage period. In Eastern Europe and Russia, the collapse of the formal structures of the communist regime did not result in an institutional vacuum. Most of the previously existing organizational forms and social ties have persisted. On the other hand, for a decade before 1989, market-like transactions and reciprocal relations were already widespread inside the socialist sector, as well as in the 'second economy'. For example, supply constraints led to bargaining between supervisors and informal teams on shop-floors. At the level of management, the task of meeting planning targets required a dense network of informal ties linking enterprises and other organizations. The allocative distortions of bureaucratic planning produced the conditions for the predominantly part-time entrepreneurship of the second economies (cf. Kornai 1980; Laky 1979; Sabel and Stark 1982). In the transition process, these parallel informal structures and interfirm and interorganizational networks have played an increasingly important role in the struggle of enterprises for survival. The interaction of market-oriented structures and the earlier types of organization has favoured and will continue to favour the emergence of hybrid forms of organization.

According to Hayek (1945: 523-4), 'economic problems arise always and only in consequence of change', and 'the economic problem of society is mainly one of rapid adaptation in the particular circumstances of time and place'.

Two kinds of adaptation are distinguished in transaction cost economics: autonomous adaptation and cooperative adaptation (Williamson 1991). Autonomous adaptation represents the adaptive capacity of an organization in the market. It corresponds to the market mechanism by which producers and consumers respond autonomously to market signals in general and price changes in particular so as to maximize profits (producers) and utility (consumers). Cooperative or coordinated adaptation refers to the authority relationship (fiat) of a hierarchy. In comparison with the market mechanism, 'the use of formal organization to orchestrate coordinated adaptation to unanticipated disturbances enjoys adaptive advantages as the condition of bilateral dependence progressively builds up', but at the cost of degrading incentive intensity and adding bureaucratic inefficiency (Williamson 1991: 279). Autonomous adaptation and coordinated adaptation, together with differential incentive intensity and differential reliance on administrative control, reflect the difference between the market and hierarchy. Between the polar modes of the market and hierarchy, hybrid governance structures possess their own institutional advantages. In other words, a mode of weaker incentive intensity supported by added administrative control or, conversely, a mode of weaker administrative control supported by added incentive intensity can be optimal.

The hybrid mode of governance structures may have greater significance in transition economies than in advanced capitalist economies, because hybrid forms 'use resources and/or governance structures from more than one existing organization' (Borys and Jemison 1989: 235) and thus are capable of reducing uncertainty in interorganizational relationships involving bilateral or multilateral dependence and of supplying an elastic contract mechanism to facilitate continuity and efficient adaptation. In comparison with hybrids in advanced capitalist economies, hybrids in transition economies lack a well-specified structure of property rights. Therefore, they also lack sufficient autonomy and are faced with rapid changes and institutional uncertainty. For this reason, transitional hybrids of superior adaptive capacity are bound to be more flexible, informal and open to entrepreneurship. They must rely more on such social capital as personal ties and localism rather than on legal contracts to provide assurances that the terms of a transaction will be met by both parties (Nee 1992; Carrol, Goodstein and Gyeses 1988).

2.2 Ownership as a bundle of rights

> A property right is the liberty or permit to enjoy benefits of wealth while assuming the costs which those benefits entail. ... property rights are not physical things or events, but are abstract social relations. A property right is not a thing (Fisher 1923: 27).

Property rights are sanctioned relationships among people or organizations that arise from the existence of scarce goods, pertain to their use and are sanctioned by norms, customs and laws. An owner of property rights holds the consent of others to act in particular ways without interference by the community, provided that these actions are not prohibited in the specifications of the rights. This definition of property rights is consistent with Roman law, common law, Karl Marx's writings, and the new institutional economics (Demsetz 1967; Pejovich 1990). Within the general concept of property rights, the ownership right is the most well known category consisting of a bundle of rights. The core bundle of these rights includes the following three elements.

2.2.1 The right to utilize an asset

This component of ownership rights is often distinguished as the 'utilization right' or the 'control right'. It is also a collection of numerous specific rights, including management, decision-making and the supervision of utilization. There is a widespread division between ownership and control in modern corporations in capitalist economies and in SOEs in socialist or transition economies. In other words, the daily control of the asset is delegated by the owners to their agents or professional managers. For this reason, a residual control right, usually involving the right to appoint and remove managers and other rights beyond the content of contracts, is assumed to be the crucial dimension of ownership. Nonetheless, the separation of ownership from control is definitely a delegation of selected property rights to management. It requires the owner to create a variety of incentive schemes to assure that the management team satisfactorily performs the control functions.

2.2.2 The right to capture benefits

The right to capture benefits from the utilization specified under point 2.2.1 and the responsibility for negative outcomes such as debts and damages. This component of ownership rights is typically identified as the 'return right', involving the right to establish rules concerning the distribution of earnings. As an alternative to the notion that residual control rights should be treated as the crucial dimension of ownership, the right to collect residual returns is proposed as the key feature of ownership by Milgrom and Roberts (1990) and others (e.g. Zou 1992). Because of the fact that state socialist economies are commonly recognized as 'redistributive', distribution rights may be more relevant to property rights reform in the transition economies.

In order to clarify further the significance of the right to residual returns in the process of property rights reform in East Asia, let us consider the position of the insider entity of an SOE under the 'contract responsibility system' accepted by the entity (*quanyuan chengbao*). Taking the simplest case, the entity pays a fixed amount of taxes and profits to the local or central government in exchange for the use of government-owned assets. In this case, the residual return is made up of the income from the utilization of the assets, less all costs, including the fixed amount of taxes and profits. Thus, all the employees of the SOE, rather than the principal government, possess the right to the residual returns.

Full rights of disposal over residual returns provide the strongest automatic, spontaneous incentive to individual owners. If an owner makes successful use of his property, there will be a positive residual return that he can use autonomously. If he fails, he has to bear all the costs resulting from her mistake. That is to say, the rights of disposal over the residual returns are full if and only if the utilization of the property affects the owner's own pocket. All other individuals who collaborate in the utilization of the property without enjoying the full rights of disposal over the residual returns must be given some artificially specified incentives to assure their successful utilization of the property (Kornai 1992).

2.2.3 The right to change the form of assets

The right to change the form or substance of the asset and the right to transfer all or some of the rights specified above to others at a mutually agreed price or as a gift. This aspect of ownership is usually referred to as the 'alienation right'. It involves the decision to buy or sell the asset and defines the owner's right to effect changes in the value of the specified asset.

The alienation right includes an automatic, spontaneous incentive as well. The simplest example is offered by the situation in which the owner obtains the property by purchase and then disposes of it again by sale. Therefore, he has a direct interest in assuring a maximum increase in the net value of the property between the two transactions (Kornai 1992). The owner also has an interest in being aware of the net benefits arising from alternative choices, such as the sale of the property, the rental of the property, or the use of the property as a gift for 'reciprocation'.

Theoretically, it is evident that an infinite number of configurations of property rights is possible. The historical configurations of property rights are, nonetheless, created by social actors, shaped by struggles among various interests, and subject to changes over time and within different institutional environments. In recent years, the problems encountered in the enforcement of property rights are central in the literature of contracts, industrial organization and bureaucracies in the West, because the 'attenuation' of property rights has become increasingly significant. An attenuation of property rights is usually induced by the restrictions imposed by government regulations on asset use, on the income flows from the asset and on the freedom of an owner to transfer some portion of property rights to others (Campbell and Lindberg 1990; Walder 1994).

In contrast to the trend whereby many of the restrictions established by the state through legal provisions are attenuating property rights in the Western market economies, the process of economic reform in the transition economies of East Asia is characterized by the downward devolution of property rights in political and administrative hierarchies or the reassignment and clarification of property rights among institutions, communities and households. Economic reform in East Asia has been dominated by the devolution of selected property rights over assets – particularly a large share of utilization rights and residual claim rights – from higher to lower levels of government administration or from government authorities to enterprises, households and individuals. These specific reassignments have significantly altered the incentives for economic behaviour, the distributional pattern of subsequent income flows, the structure of political power and interests, and thus the ownership and governance structures of state-owned enterprises (cf. among others, Lin, Cai and Li 1995; Naughton 1995; Walder 1994 and 1995).

2.3 The perceived values of the soft-budget constraint differ among SOEs[7]

The metaphor of the soft-budget constraint reflects a collective expectation that there is an implicit subsidy plan of the state. In this subsidy plan, the state would cover or share part of the losses of the state-owned enterprises which are suffering from financial troubles. The amount of the subsidy would be directly related to the amount of the losses of the firm. Thus, *ex ante*, there is an expected value for the soft-budget constraint for each SOE. It has not been well-recognized that this value is perceived differently by different state-owned enterprises. The more likely a firm is to be in financial trouble and the more serious this trouble is, the higher is the value of the soft-budget constraint for the firm.

In order to understand more clearly the notion that the perceived values of the soft-budget constraint differ among SOEs in transition economies, one can distinguish three separate financial situations which can be identified as the 'virtually bankrupt' situation, the 'loss-making but solvent' situation, and the 'profitable' situation.

If a state-owned enterprise is in a profitable situation, the state bank has the right to directly withhold taxes, interest payments as well as part of the principal from the firm's bank account. Thus, if the probability is high that a firm will be profitable, the soft-budget constraint has little value for the firm. As a consequence, the firm would be more responsive to market signals, such as changes in interest rates, prices and consumer preferences, for the purpose of maximizing its expected profit, over which state-owned enterprises have been enjoying increasing control.

If an SOE is loss-making but solvent, it has made losses, but, owing to some self-financing at the investment stage, it is still able to pay back loans and interest. In this case, the position of the firm is usually stronger in terms of the bargaining process with the state bank in order to delay interest and principal payments than it would have been had the firm been in the profitable situation. The bank usually has the right to refuse additional lending to such a firm, but may have to concede part of the existing loans or interest payments so as to guarantee the survival of the firm. The firm is similarly in a stronger position to request tax exemptions from tax authorities for the interest payments. Thus, if an SOE expects to be in a loss-making but solvent situation, the value it anticipates for the soft-budget constraint will be higher and its sensibility to market signals will be less relative to a state-owned enterprise in the profitable situation.

If a state-owned enterprise is in the virtually bankrupt situation, it has lost so much that it is unable to pay off its loans and interest, and its survival depends on additional injections of loans from the state bank or on subsidies from the government. Thanks to the effective political and social constraints on bankruptcy in the SOE sector, the virtually bankrupt SOE is in the strongest position in terms of bargaining with the bank for more loans and with the government for more subsidies, even if it only seeks to pay wages and salaries. The value of the soft-budget constraint is best reflected in this situation, in which an otherwise bankrupt state-owned enterprise can do more than

[7] This subsection is mainly based on Subsection 2.3 in Zou and Sun (1996).

merely survive; it can also use its losses as a bargaining chip in order to assure new credits. If an SOE expects to be in such a situation, market signals will have the least impact on the firm's anticipated payoff, and its attention will be focused on bargaining with the state bank and the government so as to secure the flat wage and salaries of employees and to obtain new funds to finance future recovery.

The recognition of the fact that state-owned enterprises in different financial situations perceive differently the value of the soft-budget constraint is important for our understanding of the way the SOE sector can evolve out of the planned economy in an environment in which the soft-budget constraint is still widespread and the market track exists alongside the planned track. The dual-track system may be the most significant characteristic of the Asian approaches to reform. For a long time now, experts have been attacking dual pricing and other dual-track systems for encouraging arbitrage, corruption and rent-seeking, providing misleading signals to SOEs although they still enjoy the soft-budget constraint, and thus representing inefficiency. While some of these problems have surfaced during the dual-track period, it is undeniable that the majority of state-owned enterprises are indeed rationally responsive to the signals supplied by the market track, that they enjoy the rising payoff generated by market activities, and that they are evolving away from the planned track (Naughton 1995).

III PROPERTY RIGHTS REFORM IN THE SOE SECTOR: PROCESSES AND CONSEQUENCES

Because the existence of local government property rights over SOEs and the substantial downward devolution of financial power over residual revenues have played a leading role in the initiation and development of the programmes of property rights reform, it would help to introduce the features and functions of local government property rights and then to examine the process of the devolution of financial power over residual revenues from higher to lower levels of governments and the process of the reassignment of selected property rights between state-owned enterprises and their supervisory government bodies. An analysis of the performance consequences of these property rights reforms follows.

3.1 Understanding local government property rights over SOEs in East Asia

As argued in Granick (1990: 39-44), the property rights of regional governments over SOEs in China have existed at least since the early 1970s and probably since the Cultural Revolution, when a spontaneous decentralization of central authority took place against a background of chaos. The slogan 'whoever builds and manages the enterprise has the use of its output', which originated at least as early as 1966, is said to epitomize the property rights relationships of the 1970s. Remarkably, the slogan reflects a practice which is opposed to the usual treatment of the right to management as an attribute of ownership in that it indicates that ownership is an attribute of management. In the early 1970s, several thousand medium and large state-owned enterprises were transferred back to the control of local governance (Wong 1985). Moreover, during the 1970s local governments, particularly provincial governments, expressed growing enthusiasm for the creation of new state-owned enterprises under their control and the retention for local use of the output of these SOEs. As a result, the share of local fixed investment in total investment in the SOE sector rose from 14 per cent in 1969 to over 40 per cent in the second half of the 1970s.[8] A large number of small and medium state-owned enterprises were added in those years. The impossibility of incorporating these state-owned enterprises into the central planning structure led to the creation of a multi-tiered, region-based system whereby much of the responsibility for planning and coordination devolved to local governments. In this system, state-owned enterprises were categorized by their importance. Thus, key large-scale SOEs remained under the control of central planning, while planning and coordination for non-essential state-owned enterprises were left to the provincial, municipal, prefectural and county levels.

[8] In 1974, the '4-3-3 system' was officially accepted. This meant that 40 per cent of investment was to be financed and arranged directly by the central ministries and commissions and 30 per cent by local government bodies, while the remaining 30 per cent was to be co-arranged through negotiation between the central government and local governments (Zhou 1984: 143).

Before China's reform, the financial interests of local governments were weak, because monetary income during those years was of lesser importance. The ownership rights of local governments over their SOEs were exercised through the control over the distribution of marginal output at the regional level, the management of SOE operations, the material allocation within the constraint of delivery quotas for the central government, and the use of depreciation funds.

The fiscal reform in the 1980s fundamentally altered the situation through the devolution of financial property rights from higher to lower levels of government and from supervisory government bodies to enterprises. First, instead of governments appropriating all profits from their own state-owned enterprises automatically, the SOEs were to be taxed according to fixed rates. The residual income left to the SOEs served to supply automatic and spontaneous incentives to managers and workers. Second, from the tax revenue collected from their own enterprises, each level of government turned over a contractually specified amount to the next higher level of government, while retaining the residual.

Although the concrete arrangements have varied among regions and over different periods, the basic philosophy has been consistent: 'manage your revenue and expenditure by yourself' (*fenzao chifan*). This system has given local governments the incentive to exercise financial property rights more effectively over the assets they administer. The better the financial performance of the local enterprises and the more rapid the economic growth of the region, the greater the annual increase in the revenues available to government control (cf. Wong 1992; World Bank 1994b; Walder 1995). Such direct causality has pushed local governments to initiate experimental reform programmes far ahead of the central government (Zhang and Yi 1995).

The greater control over residual revenues has been accompanied by more expenditure responsibility. Local governments must strain to meet the expenditure obligations imposed by the policies of higher level governments. They must take direct responsibility for the solution of a large range of social problems arising from unemployment, housing shortages, infrastructure deficiencies, growing dissatisfaction in the consumption sector, and so on. They must also promote more rapid local economic growth so as to enhance their own negotiating position within the hierarchy.

Faced with these strong pressures, each level of local government has suffered 'revenue hunger' – although the disposable budgetary revenues available following the sharing process have significantly shifted in favour of the lower levels of government,[9] – and has been paying more attention to the generation of 'extrabudgetary revenue', which is not shared with higher levels of government. The value of extrabudgetary funds jumped

9 The best proxy for the disposable budgetary revenues available following the sharing process is real budgetary expenditure. On the basis of this proxy, the central government share of total disposable budgetary revenues fell from 54 per cent in 1980 to 40 per cent in 1991-92. At the provincial level, a similar 'decentralization trend' has been evident. For instance, in Shandong Province, the provincial share in the total for the province fell from 34 per cent in 1980 to 17 per cent in 1993. The share of cities and prefectures rose from 16 per cent to 26 per cent during the same period, while the combined share of counties and townships rose from 50 per cent to 57 per cent (Wong 1995).

from only 20 per cent of the size of the national budget in 1980 to equality with the national budget in 1991-92.[10] Before the fiscal reform, they were primarily composed of depreciation funds, which were managed by local economic authorities in the form of grants for the renovation of the capital equipment of local enterprises. The reform created new sources of extrabudgetary revenue, principally a new set of local taxes and a series of new levies on local enterprises (Wong 1992 and 1995). The extrabudgetary funds have been predominantly used as investment funds and have served to promote local industry and infrastructure (SSB 1995: 223). It is clear that the financial performance of local enterprises has a large and direct incremental impact on both the budgetary and the extrabudgetary revenues of local governments. The lower the level of government, the smaller the revenue base and the keener the competition faced by local enterprises and, therefore, the stronger the impact of the financial performance of local enterprises on local revenue.

Because they have the smallest revenue base and are confronted with the greatest pressure from rising living standard and growing competition, township and village governments have shown the strongest motivation to develop TVEs and private enterprises (Oi 1995). In turn, as the relevant political restrictions set by the central government have become more flexible, county and prefectural governments have been the most interested in the restructuring of their own most inefficient small-scale state-owned enterprises through a great diversity of bold methods, including the establishment of joint ventures with foreign investors, the introduction of employee stock ownership plans, the sale or lease of SOE assets to management and employees, the sale of SOEs to outside investors, liquidation, and equitization (*Chinese Youth* 1996: 14-20; Gu 1996; Parker and Pan 1996).[11] Municipal and provincial governments exhibit a preference for relatively moderate property rights reform. The central government usually lags behind in term of the promotion of property rights reform (Zhang and Yi 1995).

In the case of Vietnam, provincial and local governments historically enjoyed considerable economic autonomy from the central government. In pre-colonial days, the village was the basic unit of government. Even afterwards, in pre-communist days, villages sought to adapt national decrees to their particular needs, that is, 'the laws of the emperor are less than the customs of the village' (Probert and Young 1995). Under the Democratic Republic of Vietnam, from 1954 to 1975, the efforts to strengthen central control were in fact reversed because of the war in the south. Under the wartime conditions, especially after 1965 when American bombing of the north began, most of the state-owned enterprises already established in urban areas were forced to move into the mountainous regions. Local self-sufficiency in supply was clearly a critical factor for survival. This primacy of self-sufficiency led in turn to the establishment of more locally run SOEs.

---

[10] Since 1993 the extrabudgetary revenues and expenditures of state-owned enterprises and their responsible authorities have been excluded in official statistics (SSB 1995: 222). This implies that these funds are being treated as a part of the funds raised by SOEs and their responsible authorities. These are called 'off-budgetary funds' in the literature (for instance, see Wong 1995).

[11] The bold initiation of SOE reform by county and prefectural governments since the early 1990s is described in the next subsection.

The record of economic changes in Vietnam since unification has shown a cyclical pattern. The cycle begins with the efforts of the central government to impose central planning. An economic crisis follows. Meanwhile, local governments and their SOEs start to resist the central planning by 'fence breaking' and expanding market-oriented activities. These activities are tolerated by the central government to a certain extent, and, as a result, the crisis is overcome. Ironically, the economic recovery may lead to new support for the central planning model, as occurred in 1982-83. The readoption of this model induces a new economic crisis and, as a consequence, a new round of reform (Fforde and Vylder 1996; Probert and Young 1995).

In the Lao People's Democratic Republic, 'the local level is a constant objective structure of the Lao society' (Kaysone Phomvihane, the secretary-general of the Lao Communist Party, cited in Evans 1988: 31-2). Laos does not possess a unified national economy. Rather, it has a combination of a central economy and local economies. In most cases, the governments at each level are organized like sovereign governments, since there is no telecommunications between the capital and most provincial centres and more than half the road network is impassable in the rainy season. Provincial and district governments have approximately 12 departments which mirror the central government ministries. However, there are no functional or hierarchical ties between the central and local administrations in the same areas. The local administration is under the sole authority of the president of the local administrative committee. The modern sector, which plays only a marginal role in the economy, is likewise extremely fragmented. Each sectoral administration at each level of government supervises those state-owned enterprises located on its territory and in its sector. As a consequence, the Lao experience indicates that there is no scope for building socialism in a subsistence economy, and this has finally been admitted by the party. With respect to the history of Soviet Marxism-Leninism, the evolution of the economic doctrine of Lao communists appears to backtrack from war communism to the cooperative movement to the New Economic Policy and finally to primitive capitalism (cf. Bourdet 1995; Evans 1988; Funck 1993).

3.2 The reassignment of property rights in the SOE sector

3.2.1 China's first two sets of property rights reforms

Prior to the reform, the ownership rights of different levels of government over their state-owned enterprises were far more extensive than those exercised by the owner of a firm in a market economy. Through their line departments, the governments exerted direct control over all factors of production within the SOE sector. Customers, suppliers, managers, technicians, and workers all had only very limited freedom to exercise autonomous choice, because of the absence of product and factor markets and legal guarantees. The absence of choice in fact precluded the right of production factors to enter into voluntary contracts which specified rewards and obligations. If one views this causality from the opposite perspective, it can be seen that this absolute ownership implies that the creation of product and factor markets and the choice enjoyed by market participants would undermine government control and coercion. Markets disperse effective ownership and favour voluntary contracts to specify rewards and obligations.

This means that in the transition economies competitive markets have an additional function: to induce and promote property rights reform (Jefferson, Zhao and Lu 1995).

Three sets of SOE property rights reforms have been successively implemented along with 'stop-go' cycles in China. The first two have been characterized by the reassignment of selected control rights and claim rights to residual returns, whereas the third one has involved the reassignment of alienation rights as well.

The first reform effort, undertaken between 1979 and 1983, consisted of tentative steps towards an expansion of the role of financial incentives through profit retention and towards improved performance through greater enterprise autonomy. Following the initial success of experiments with the expansion of SOE autonomy at six state-owned enterprises in Sichuan Province in 1978, central government leaders in April 1979 decided to expand the autonomy of another eight in Beijing, Shanghai and Tianjin.

On 13 July 1979, five documents on the experimental reform were officially issued (System Reform Commission of China 1984). The documents specified that the state-owned enterprises selected for the experiments would have the right to retain a share of profits, enjoy a relatively higher depreciation rate, and have the right to sell any above-plan output. Although the programme as initially proposed was only for a small number of experimental SOEs, officials at various levels of government quickly saw the benefits of profit retention by their subordinate enterprises. As a result, the programme became overextended nationwide (Lin, Cai and Li 1994: 128-9; Naughton 1995: 99-100; Shirk 1993: 200-04).

In fact, the reform was very limited. The reassignment of control rights to managers involved only their participation in non-plan activities and restricted autonomy in the allocation of bonuses. Decisions about investment, technical renovation, changes in production lines, financing, and the rules for the use of the limited profits retained were still closely supervised by government officials. Within a context in which some needed financial rationalization had not been carried out, simple rules of thumb were established to determine the share of enterprise profits that could be retained. Typically, this meant that marginal retention was equal to or less than average retention.[12] Because the marginal retention rate was very low, about 12.6 per cent on average in 1980, this scheme was bound to have quite weak incentive effects. Moreover, marginal retention rates varied enormously among state-owned enterprises because of an adverse selection principle ('whipping the faster ox'): the higher the profits per worker, the lower the marginal retention rates. The most profitable firms therefore had the weakest incentives.

The second round of SOE property rights reforms was implemented between 1984 and 1988 and remained in force between 1989 and 1992. It centred on two innovations: a dual-track pricing system and the enterprise contract responsibility system. The dual-track pricing system effectively partitioned SOE inputs and outputs into planned and marketed components. Actively responding to this system, most state-owned enterprises steadily boosted their marginal sales and purchases on the markets so as to catch the

[12] In other words, if profit increases by 1 per cent, profit retention will increase by 1 per cent or less.

benefits arising from market transactions. Under the contract responsibility system, SOE managers and employees agreed to fulfil specific obligations. These typically involved targets for profits and productivity, as well as other profit-sharing rules. The targets were negotiated individually for each enterprise. In return, the state-owned enterprises obtained greater control over business operations, such as the drafting of output plans and prices, the choice of customers and suppliers, the fixing of wage and bonus differentials, and decisions on the use and allocation of retained profits and depreciation funds (Jefferson, Zhao and Lu 1995).

During the first phase of reform, expanded enterprise autonomy was seen as a method to provide planners with indirect levers to steer SOEs. Under the contract responsibility system, autonomy was increasingly seen as a way to enhance entrepreneurial responses to market-determined supply and demand signals. During this second round of reform, the marginal retention rates were significantly higher than the average retention rates, and the short-run compensations available to managers were raised. A World Bank survey of 950 state-owned enterprises nationwide found that the average profit-retention rate within the sample hovered at about 35 per cent, and the dictum 'the larger the profit, the larger the retention share' seemed to hold true for the majority of contracting arrangements for these SOEs (Jefferson, Zhao and Lu 1995). However, with only a few exceptions, profit targets were renegotiated annually because of the rapidly changing environment. As a consequence, managers had to be concerned with 'ratchet' effects, that is, an increase in the coming year's profit targets imposed on successful performers. Government entities continued to be involved in the determination of every aspect of a firm's compensation schedule. More negatively, in order to assure growth in wages and bonuses, SOE managers would boost profits in the short term by cutting depreciation allowances, underreporting operation costs, postponing necessary investment, and neglecting asset maintenance (Sun 1992).

During the second phase of reform, although the majority of virtually bankrupt state-owned enterprises (cf. Section 1.3) were not closed down by the courts under the bankruptcy law,[13] reorganization or 'consolidation' (*jianbing*) started to play an important role. The principal form of consolidation involved the takeover of the operations of loss-making enterprises by well-performing enterprises (both SOEs and TVEs). The major incentives for the takeovers included the opportunity for the consolidating enterprises to control the land occupied by the loss-making firms, to expand their labour and wage-bill quotas and to integrate the operations of the loss-making firms into their own operations. From 1987 to mid-1989, about 3,424 enterprises, most but not all of which were SOEs, were taken over by a total of 2,857 other enterprises in 27 provinces (Naughton 1995: 240). This means that 1.8 per cent of all state-owned enterprises were taken over each year. In the first half of 1992, 600 SOEs were taken over (*People's Daily* 6 August 1992: 1). For the entire year, this would work out to 1.2 per cent of all state-owned enterprises. This would not be a trivial rate of reorganization even in market economies such as Japan and the United States. Besides consolidation, loss-making SOEs also reacted to their financial difficulties by

[13] A bankruptcy law came into effect in November 1988, but by the end of 1993 only 88 SOEs had been declared bankrupt (*China Information Daily*, 22 November 1993: 2).

furloughing workers and furnishing workers with subsistence support rather than regular wages. Thus, the losses of state-owned enterprises were passed along to workers and managers in the form of lower income. At little social cost, these practices represented a radical break from the old system, which offered complete protection for state-owned enterprises and SOE employees.

3.2.2 China's recently initiated radical property rights reform

The third round of property rights reform was initiated in 1992, following the decisive push for renewed reform by Deng Xiaoping during his 'imperial tour' of South China at the beginning of that year. Since then, the international media have paid a great deal of attention to the two new stock exchanges in Shanghai and Shenzhen. Because stock exchanges are potent symbols of a capitalist economy, the establishment of stock exchanges in a socialist country like China does indicate a fundamental change. In terms of property rights reform, however, the change is more ideological than practical. The stock exchanges are still considered a government experiment. Substantial limitations have been imposed on the development of the two exchanges. The number of companies listed on the stock market is tightly controlled, and there is no guarantee that all firms satisfying the strict requirements can be listed. By 1994, fewer than 300 companies were listed on the two exchanges, and the shares of only a handful of Chinese companies were listed on stock exchanges outside the country. In any case, an overwhelming majority of the stock in the listed companies continues to be held by the government and other state institutions.[14] The few institutional investors in the stock markets are owned and administered by state banks. In short, virtually every individually listed company is securely controlled by the government or by trustworthy agents of the government. Thus, contrary to the expectations formulated in the Western media, the stock exchanges and the share system do not serve as vehicles for a significant divestment of SOEs.

Several thousand nominal joint stock corporations with unlisted shares have appeared since the mid-1980s. However, most of these are not really joint-stock companies at all. They may have issued 'shares' to insiders only for the purpose of raising capital. These shares are not coupled with any rights of ownership, and they have been treated as bonds with fixed dividends. On average, the book value of the shares accounts for only about 20 per cent of the total value of the firms (*Yearbook of China's Economic System Reform* 1992: 322).

Although these exercises have certainly been necessary for the development of capital markets, they may not represent the most important trend in the third round of property rights reform. The most radical reform was once again initiated by local governments. Faced with the renewed impulse for reform, local governments obtained a more flexible commitment from the central authority to allow experimentation with local firms. Seeing an advantage, a number of cities and provinces took the bold, radical step of

[14] For instance, 62 per cent of the share value of all the companies listed on the Shanghai Stock Exchange at the end of 1992 was held by the government, 24 per cent by 'legal entities' (predominantly other state companies), only 7 per cent by individuals resident in China, and 7 per cent by foreign capital (Li 1993). Of the shares issued in 1993, 79 per cent were held by the government and other state corporations (*Guanli Shijie* 1994).

reassigning ownership rights over state-owned enterprises selectively or fully. The most impressive reform was implemented by cities, particularly county- and prefectural-level cities.

TABLE 1
RADICAL PROPERTY RIGHTS REFORMS RECENTLY INITIATED BY LOCAL GOVERNMENTS

Location	Initiated reforms
Zhucheng City, Shandong Province	204 of the city's 274 SOEs were transferred to full employee stock ownership between 1992 and 1994. The city government received over 100 million yuan in cash through the sale.
Danzhou City, Hainan Province	Chunjiang Sugar Refinery, a large loss-making but solvent SOE, was transferred to full employee stock ownership in 1995.
Quanzhou City, Fujian Province	In 1992, China Strategic Holdings Ltd, a Hong Kong company, reorganized 41 of the city's 42 industrial SOEs into joint equity ventures in which it holds a share of over 51 per cent. It has reorganized more than 200 SOEs in China in the same way.
Dalian City [a]	All 101 SOEs in the light industry sector were taken over by China Strategic Holdings in 1993 through joint equity ventures.
Shunde City, Guangdong Province	164 SOEs, most of them small, were reorganized through a mixture of equity sales to foreigners, discounted stock offerings and management buyouts in 1994-95.
Wuhan City [a]	25 bankrupted SOEs were auctioned off. The municipal government is encouraging the foreign purchase of 30 other bankrupt SOEs.
Hangzhou City, capital of Zhejiang Province	Four SOEs producing rubber, beer, wine, and electronics equipment were taken over by China Strategic Holdings in 1993-94
Shaoguan City, Guangdong Province	Three-day trade and investment fair. In 1994, 41 SOEs were offered for sale.
Sichuan provincial government	In 1994 decided to sell 33 medium and large SOEs (each employing an average 2,300 workers) in industries such as machinery, electronics, metallurgy, and pharmaceuticals to overseas bidders.
Heilongjiang provincial government	Built 18 property rights exchange markets. The ownership of 290 enterprises was transferred through the markets (1994-95).
Shanghai [b]	
- Enterprise Exchange [c]	329 businesses, mainly TVEs, were put up for sale. SOEs are expected to follow.
- Shanghai Lantern Factory	Employee buyout in early 1994
Tianjin [b]	Bohai Beer Factory, a large bankrupt SOE, was taken over by a Hong Kong-Australian venture

Sources: *Chinese Reform* (1996: 42-3); *Chinese Youth* (1996: 14-9); Gu (1996); Naughton (1995: 300-01); Parker and Pan (1996: 121).

Notes: [a] A line-item city enjoying provincial-level status in economic matters;
[b] Provincial-level city;
[c] Electronics market.

County and prefectural state-owned enterprises have typically been the most inefficient ones. These are often too small to apply economies of scale, but too bureaucratic to be able to exploit their small size as township and village enterprises usually can. Finding a way to compensate for the rising losses of local SOEs has been the number one headache for most county and prefectural governments.

The reform measures adopted by local governments have included the sale of state-owned enterprises to insiders and outside investors, the lease of SOE assets to management and employees, and permission to foreign companies and other non-state institutions to take over local SOEs (Table 1). All these measures are still being hotly debated among central government officials and the ideological authorities of the party. It can be anticipated that the final outcome of the debate will not be determined by ideology, but by the efficiency and welfare consequences of the reforms. Moreover, in contrast to the political environment during the initial stage of the implementation of the household responsibility system, which had to be secretly undertaken by peasants in Anhui Province in 1978, the majority of the reactions during this phase of the reforms have been quite positive. For instance, despite the absence of central government recognition and encouragement, more than 6,000 visiting groups, consisting of over 80,000 local government leaders and SOE managers, have voluntarily visited Zhucheng City since 1993 to learn more about the so-called 'Zhucheng model' (*Chinese Youth* 1996: 14).

All the reforms listed in Table 1 have shown remarkable efficiency benefits and, at the same time, have not generated any substantial social costs such as notable unemployment or temporary cuts in production. This is mainly because the local governments have promoted local revenue creation, assured social stability and been able to play the leading role in the design and implementation of the reform process. The significant efficiency benefits and very limited social costs of these reforms mean that property rights reform will become widespread in the near future.

The new round of reform can be understood more clearly through an example. In Zhucheng in early 1992, there were 274 state-owned enterprises. While the average SOE had 180 employees, some employed more than 1,000 workers. At the time, 68.7 per cent of the SOEs were experiencing losses. The cumulative losses almost equalled the total net book value of all the SOEs.[15] The interest subsidies alone amounted to over 10 million yuan per year. The city government had to struggle very hard to assure the timely payment of wages.

To solve these problems, the city government proposed the implementation of a joint-stock-ownership scheme involving the government and the employees in selected state-owned enterprises. However, this proposal was voted down by the SOE employees, who exhibited a strong preference for full employee stock ownership (FESO).[16] This approach was adopted. As the original owner of the SOEs, the city government insisted that the assets of the state-owned enterprises should not be undervalued. Within the FESO framework, the minimum share each worker was required to purchase was valued

---

[15] The net book value does not seem to include the value of the land used by the SOEs.

[16] The land is still owned by the state. The FESO enterprises now rent utilization rights to the land from the state via the city government.

at 5,000 yuan, which represented about two average annual incomes for a worker in the city in 1992. Any worker deciding not to buy the minimum share would have been subject to the loss of his position. As a consequence, no worker refused to buy a share, and no extra unemployment was induced (*Chinese Youth* 1996: 14-9).

Between 1992 and 1994, 204 of the city's 274 SOEs were transferred to FESO. The city government received over 100 million yuan in cash from the sale. This money was placed in a city investment fund. By 1995 the annual interest income from the fund was exceeding the total profits from the contracts of the 204 SOEs in 1992. Moreover, all the FESO enterprises were soon profitable once more so that the fiscal revenue of the city increased very rapidly. Before long, the city government was able to invest several dozen million yuan per year into city infrastructure and city social development, thereby altering the city's fiscal status from wage provider to investor. The major function of the city government was also transformed from heavy intervention in SOE operations to a focus on the establishment of a social security network covering all enterprises in the city and other social reform issues. Meanwhile, by 1994 the average annual income per worker, including wages, bonuses and dividends, had reached 5,000 yuan, double the 1992 figure (*Chinese Youth* 1996: 14-9).

Emerging employee shareholding schemes in Eastern Europe and Russia often do not involve mechanisms or arrangements so that effective control can be exercised. Even in employee stock ownership plans in the West, the employee shares are often held in trusts run by management (Earle and Estrin 1996). No such problems have appeared in the enterprises listed in Table 1. For instance, in Zhucheng most of the original managers and deputy managers of the loss-making firms failed to be elected to the boards of directors of the successor firms. After FESO went into effect, any elected directors or managers who continued to be too 'bureaucratic' or who did not show sufficient initiative were reportedly soon being replaced by more competent candidates at general shareholder meetings.

According to the theoretical literature, in an employee-owned firm, if decisions are reached on the basis of voting weighted in line with shareholdings rather than on the basis of one worker-one vote, and more importantly, if workers can freely buy and sell their ownership shares on a competitive market and can thereby diversify their capital risk, the output and employment decisions of the firm will be identical to those taken in firms owned by external investors. To promote the emergence of a competitive market for transactions in enterprise shares for a large number of firms, including FESO, a new round of reforms would be needed in the near future, although it would consume more time and more human capital.

The central government has also revealed its willingness to support the transformation of most state-owned enterprises into stock corporations. According to the '50 Articles' approved at the Third Plenum of the 14th Central Committee in November 1993, the shares in centrally-controlled SOEs are to be held by the state in the first instance, though the intention is to distribute the shares gradually to provincial and local governments, banks, asset management companies, and other SOEs. This suggests that the central government favours cross-ownership among various government bodies and state institutions. Nonetheless, stock sales to the private sector are also to be permitted.

While SOE assets are to remain the property of the state, full legal control over SOE operations will probably be delegated to management, and management is in turn to bear full responsibility for profits and losses. Those state-owned enterprises which are virtually bankrupt will probably be allowed to go bankrupt. The '50 Articles' also encourage SOEs to institute modern management organization and methods so as to improve the use of assets.

Since 1994, a number of these reforms have been tested. Although there has been no real progress on a proposal to transform around 10,000 state-owned enterprises into corporations, a trial of some of the reforms – called 'optimizing the capital structure of the state sector' – in 50 medium and large cities appears to be proceeding well. During the first half of 1996, through capital restructuring, state assets in these cities rose by 6.6 billion yuan, 215 SOEs were taken over or merged, 131 SOEs were declared bankrupt, and the jobs of more than 500,000 workers were reorganized (*People's Daily* 10 August 1996: 1).

China's property rights reform may continue to be promoted because of the urgency of the immediate practical problems. The reforms will likely remain characterized by the application of 'learning-by-doing' methods, experimentalism and pragmatism and will be dominated by local governments. As a consequence, if there is no serious political disruption, the probability is good that economic reforms will remain compatible with economic growth and social stability.

The third set of property rights reforms has been initiated in only a relatively small number of cities which are located in coastal areas. The great majority of SOEs still suffer from the unresolved problems accompanying the second round of reform (see Section 3.2.1). Particularly due to the less favourable structural conditions and the greater fiscal dependence on the central government, the pace of reform in the vast interior regions has lagged far behind that along the coast (Raiser 1996). As a result, the value of the losses registered by state-owned enterprises had reached 61 billion yuan (about $7.4 billion) by the end of 1996. Among the 120 million SOE employees, the jobs of 20 million are thought to be unnecessary and 2.2 million receive token salaries from factories with closed production lines. The SOE sector is still characterized by over-heated capital construction, excessive production capacity, the insufficient use of facilities, redundant workers, outdated technologies, low energy efficiency, high production costs, and poor competitiveness. The reform of state-owned enterprises in the structurally weaker interior regions of the country will continue to be a major dilemma for economic policy makers (cf. *People's Daily* 2-10 March 1997).

3.2.3 Vietnam's three rounds of property rights reforms

Similar to the reform process in China, three sets of SOE property rights reforms can be identified in Vietnam. The first set of reforms was undertaken during 1979-82 and, in a somewhat altered fashion, during 1982-85. It was characterized by spontaneous 'fence breaking' at the grassroots level.

By the end of the 1970s material shortages, the threat of widespread famine and the near isolation of Vietnam from the outside world had essentially broken down the system of state allocations for subsidized inputs and of state procurement of consumer goods for rationing. SOEs had to establish horizontal contacts with each other and, more importantly, to participate in free market activities in order to solve the most acute shortages of food, inputs and spare parts. Consequently, state-owned enterprises began to swap or sell their products on the free market to earn cash so that they could fulfil their needs, likewise on the free market.

These spontaneous steps to maintain and stimulate production received some political support during the VI Party Plenum in August 1979, but there was no shift in official policy until January 1981. At that time, a government decree (No. 25-CP) recognized the fence-breaking activities and announced the launch of a 'three-plan' system. State-owned enterprises under Plan A were to use the subsidized inputs supplied by the state to reach output quotas which were set by the state. The output was also to be procured by the state. In return, Plan A state-owned enterprises were permitted to keep 50 per cent of their profits. Plan B, which could only be initiated if additional inputs were required for the production of 'list' goods subject to the state monopoly, permitted SOEs to acquire materials from non-state sources. In this case, the share of the profits which could be retained by an SOE increased to 60 per cent. Under Plan C, state-owned enterprises were permitted to produce items not in the state plan, sell them freely at negotiated prices and keep 90 per cent of the profit.

As long as an SOE had fulfilled its Plan A targets, it could engage in Plan B and Plan C activities. However, attracted by the significant benefits arising from arbitrage between the central plan requirements and the market segments, SOEs often routinely transferred state-supplied materials from Plan A to Plans B and C in order to capture the rents generated by the two-track pricing system.

It is widely accepted that the three-plan system contributed to the recovery in state industrial output in the early 1980s. Annual industrial growth rate averaged about 9 per cent during those years. Nevertheless, the recovery was most clearly marked in areas sensitive to market demand and in which domestic raw materials were readily available (cf. Fforde and Vylder 1996: 138-9; McCarty 1993; Probert and Young 1995).

The second set of reforms, undertaken during 1986-89, focused initially on macroeconomic issues such as further price liberalization, the elimination of local control mechanisms which inhibited internal trade, and the shift away from a development strategy oriented towards heavy industry. It was a bold response to the spiralling inflation and other compelling economic problems which had mainly been caused by the reassertion of the command-economy model and rural collectivization during 1982-85. SOE reform was renewed through two principal pieces of legislation: a decree (No. 217) issued in January 1988 and another document announced three months later. SOEs which were officially included in a 'new statute' could make a 'single contribution to the state budget' that took the form of taxes rather than planned output quotas. These state-owned enterprises were also given greater autonomy and were encouraged to establish market-like linkages with other enterprises and among different sectors. In addition, a profit-based accounting system was introduced. However, most large SOEs were excluded from the reform. For them, the planning apparatus remained largely intact, although they still had the opportunity to engage in above-plan production (Fforde and Vylder 1996; Probert and Young 1995).

Along with the substantial marketization, structural readjustment and increasing openness to the world market, the market share of SOEs was reduced by a large amount, even as government orders continued to fall significantly. The result was a twofold growth in inventories by 1990. At the end of 1989, fully 40 per cent of all SOEs were recording heavy losses and only about 20 per cent seemed to be operating at a profit (Thanh 1995; Probert and Young 1995). Moreover, the urgency of the SOE reform was sharpened by a new external shock, the withdrawal of Soviet aid, which in various forms had accounted for about 40 per cent of the government budget.

Under such conditions, budgetary considerations alone could force the government to cut its fiscal subsidies to the state-owned enterprises and to seek to eliminate loss-making SOEs. Thus, the third set of SOE reforms, initiated in 1989, consisted of cuts in budget subsidies for SOEs, the establishment of positive real interest rates, the shutdown of hopelessly loss-making SOEs, and the transfer of management and financial responsibilities for the SOEs to SOE managers, including full autonomy in the setting of prices, the formulation of production plans based on market demand, and investment decisions.

This round of reforms led to substantial changes in the SOE sector. Over 2,800 state-owned enterprises were liquidated, and another 3,000 were merged with viable SOEs, so that by early 1994, only about 6,500 to 7,000 SOEs remained registered with the State Planning Commission. The 800,000 layoffs which resulted were mainly absorbed by the rapidly developing non-state sector. The economic benefits of these reforms were also significant. Budget deficits were substantially reduced. The SOE sector showed a strong growth trend and maintained its GDP share despite the remarkable GDP growth rates. The profitability of SOEs was improved as well, although soft bank credit and protective entry barriers were introduced once again for some SOEs in essential industries, and there is still a considerable degree of management weakness in the SOEs (cf. Dollar 1994; Irvin 1995; Probert and Young 1995; Thanh 1995).

In parallel with the liquidation and merger of loss-making SOEs, the government announced in 1992 and 1993 an 'equitization' programme to transform a number of medium-scale, non-strategic SOEs into stock companies. However, progress has been quite slow. By mid-1995 only four SOEs had been equitized. On average, 30 per cent of the shares of the equitized SOEs are held by local governments, 40 per cent by employees, and 30 per cent by outside investors. Freeman (1996) lists nine subjective hurdles and 13 objective hurdles among the difficulties of equitization in Vietnam. Among the hurdles perhaps the most important is the fact that the design of the programme has attracted neither management, nor employees. In this case, the Zhucheng model in China might be instructive.

Since the second wave of reform, SOEs in Vietnam have benefited greatly from foreign investment in the form of joint ventures. Between 1988 and 1994, foreign investment may have accounted for a combined total of approximately 10 percentage points (one-fifth) of aggregate economic growth. In addition, foreign investment has played an important role in the transfer of technology and in offering Vietnamese more exposure to modern organizational and managerial techniques. The SOE sector has benefited more than has the private sector in these processes. Owing to their established links with policy makers, their preferential access to quotas, land and bank credits, and their relatively larger size, SOEs have been a more attractive domestic partner in joint ventures (Dodsworth et al. 1996; Mallon and Irvin 1997). Because official statistics record the output of these joint ventures as SOE output, the SOE joint ventures with foreign companies partly explain the relatively strong performance of the SOE sector.

3.2.4 SOE reform in Laos

By the end of the 1980s, the SOE sector in Laos comprised about 640 enterprises and accounted for virtually all of the modern industrial sector. SOEs employed about 16,000 workers, or around 10 per cent of the non-agricultural labour force. Roughly one-third of the SOEs in the modern industrial sector were centrally managed, while the rest, which were usually smaller, were managed by provincial and district governments. Three-quarters of the SOEs were engaged in manufacturing, and the others in construction, electricity and mining (Otani and Pham 1996).

Before 1990, the SOE reforms in Laos appeared no different than those in Vietnam (Rana 1995). The emphasis was on the granting of greater managerial autonomy to SOEs. By March 1988, almost full operating autonomy had been delegated to SOE management. SOEs were free to determine their production mix and production totals, wages and prices, and investment plans. In the meantime, subsidies and capital transfers to SOEs had been terminated. Responding to the changes, some state-owned enterprises strategically transformed their financial obligations into overdue debts to the banking system and used their autonomy to raise the cash wages of their employees.

In response to such strategic behaviour and the weak performance of the SOEs, a privatization programme was implemented in March 1991. By December 1994, 64 of the 200 or so centrally managed SOEs existing in 1989 had been privatized. Data available on 58 of these privatizations show that 78 per cent of the relevant SOEs were leased for fixed terms, 19 per cent were sold outright, and 3 per cent were hire-purchased (that is, payment in instalments). The average value of the SOEs which were leased (about $40,000) was higher than that of the SOEs which were sold (around $23,000) or that of the SOEs which were hire-purchased (about $3,000). Data available on the investors show that 42 per cent of the capital for the relevant privatizations came from domestic sources, 26 per cent from joint ventures, and 32 per cent from foreign investors. At the provincial level, the sale of SOEs, rather than leasing, seemed to play a more important role. Between 1988 and mid-1993, more than 52 SOEs managed by provincial governments were sold, and more than 29 were leased.

Why did leasing for fixed terms become prevalent in the privatization programme? The answer certainly cannot be limited to the government's reluctance to do more. Several reasons are listed by Otani and Pham (1996: 47). Leasing may be more politically acceptable than outright sales because of a concern among the public that the nation's property might be entirely sold off. Because of uncertainty about the value of SOEs and about the effectiveness of the economic reforms, the private sector may prefer the less risky option of leasing. When alternative modes of privatization are too costly, contracting out or leasing to employee collectives becomes practical. If SOEs are relatively large or require technology which is more sophisticated than the technology domestic sources are able to provide, joint ventures become more attractive.

Although fixed-term leasing has benefits over the medium run, it can cause problems in the long run. Leasing does not involve the transfer of residual control rights, and management structures are shifted only for a limited period. These two characteristics represent disincentives for long-term investment and even encourage decapitalization because, with a average lease period of 15 years, leaseholders may have only a limited horizon. From the government perspective, monitoring the leased SOEs is difficult and costly. Therefore, refinements in the leases, such as offering to lessees who have performed well the priority during future lease negotiations or competitions and other more radical reforms will be required.

4.1 The basic paradox of TVEs

In official statistics in China, 'township and village enterprise' (TVE) covers a wide range of ownership categories, including collective ownership by township and village communities, private ownership by households and groups of households, joint ownership by domestic and foreign investors, and joint ownership by domestic shareholders (Table 2). The sector does not include SOEs and enterprises owned by urban collectives, although it does include enterprises owned jointly by urban and rural enterprises.

TABLE 2
THE OUTPUT, EMPLOYMENT AND NUMBER OF RURAL ENTERPRISES IN CHINA, BY TYPE OF OWNERSHIP, 1994

		Total	Township	Village	Joint*	Household*
Output:	Value (billions yuan)	4258.85	1504.09	1382.51	111.38	476.93
	Share (%)	100.00	35.32	32.46	6.31	27.00
Employment:	Number (millions)	120.18	29.61	29.38	7.71	46.78
	Share (%)	100.00	24.64	24.45	7.30	44.00
Number:	Number (thousands)	24,945	423	1,228	901.8	18,487.2
	Share (%)	100.00	1.70	4.92	4.31	88.39

Sources: SSB (1995: 363-5); *Yearbook of China's Township and Village Enterprises* (1993).

Note: * 1992 figures. Because of the slight decline of the shares of household and jointly owned firms from 1992 to 1994, the sum of the shares of each component is slightly greater than 100.

In 1994, enterprises owned by townships (*xiang ban*) contributed 35.3 per cent to the gross output value of the TVE sector, and enterprises owned by villages (*cun ban*) were not far behind with a 32.5 per cent output share. Together, these two types of enterprises accounted for 49.1 per cent of employment in the sector and produced the dominant portion (67.8 per cent) of total output. The individual household-run enterprises accounted for 44 per cent of employment and 27 per cent of output. The shares of jointly owned private enterprises in both employment and output were quite small. These figures suggest that household enterprises tend to be much smaller in scale, but more labour intensive, than enterprises owned by township and village communities.

In the discussion which follows, TVE and TVEs are understood in the narrower sense of township and village enterprises only. The ownership characteristics of household-run enterprises and other private enterprises, as well as the close links between them and TVEs will be analysed in the next section.

The range of activities undertaken by township and village enterprises is much broader than their name implies. These activities include all 40 industrial categories appearing in Chinese statistics, as well as agriculture, construction, transportation and communications, and commerce and services. Some township and village enterprises have reached beyond China to set up joint ventures in Eastern Europe, Russia, Southeast Asia, and the US (Wong, Ma and Yang 1995). The shares of one TVE are traded on the Hong Kong Stock Exchange (*People's Daily* [overseas edition] 16 July 1996: 5).

The annual growth rate of the exports of Township and village enterprises has been above 30 per cent since the mid-1980s. Since 1992, TVE exports have accounted for over 42 per cent of the national total. TVE exports include textiles, garments, arts and crafts, chemicals, machinery, and electronics and communications equipment (*The Economist* 28 November 1992; *Yearbook of China's Township and Village Enterprises*, various years).

Township and village enterprises also vary in size. For example, in Jiangsu Province in May 1996 there were 1,172 TVEs with close to or more than 1,000 employees each. The 329 large TVE groups officially registered by the Ministry of Agriculture average 183 million yuan ($22 million) each in total assets, 300 million yuan ($36 million) each in annual sales and 32.5 million yuan ($3.9 million) in profits before taxes (*Hsingtao* 1996: A8).

There is an obvious contradiction between the outstanding performance of township and village enterprises and the outcome predicted by traditional property rights theory. As pointed out by Weitzman and Xu (1994), first, a typical TVE has no owner in the sense of traditional property rights theory. Nominally, township and village enterprises are collectively owned by all the members of a community. Moreover, these collective owners usually do not have clearly defined shares. Second, there are no residual control rights in the traditional sense. 'Owners' must wait passively to enjoy the ownership benefits, which mainly take the form of communal social investments. The 'owners' of a TVE do not have full rights to use the after-tax income, a majority of which, by law, must be used for reinvestment or for social purposes. Third, until recently at least, and in most cases, the 'owners' could not sell, inherit or otherwise transfer TVE assets. According to traditional property rights theory, township and village enterprises should therefore be relatively inefficient, and they should be privatized.

However, in reality, not only has the growth rate of TVE output been impressive in both absolute and relative terms, but the productivity of township and village enterprises has also been extraordinary. Although capital-labour ratios among TVEs are only about 25 per cent of those in the SOE sector, output-labour ratios among TVEs are about 80 per cent of those in the state sector. Various estimates place the annual growth rate of the total factor productivity of township and village enterprises at between 5 per cent and 12 per cent for more than a decade. This is outstanding relative to world standards (cf. World Bank 1996: 51; Weitzman and Xu 1994; Jefferson and Rawski 1994: 56; Woo et al. 1994). Likewise, TVEs have exhibited comparative advantages over private firms in China, and their average performance seems to be at least as effective as that of private enterprises (Nee 1992; Svejnar 1990; Pitt and Putterman 1992).

Why is this so? First, community members do possess the right to derive significant short-run and long-run benefits from TVE ownership, if , rather than merely short-run financial advantages such as dividends, 'benefits' are understood in the larger sense of job opportunities, job security, pension funds, and communal welfare programmes in housing, health care, irrigation, road construction, and other infrastructure.

Second, although the residual control rights exercised by a community government may imply a certain amount of risk of bureaucratization, the control by government over the implementation and coordination of internal reorganization or over the takeover process does sidestep the social and economic costs of bankruptcy through court action or of takeover by outsiders. This control is quite similar to that exercised by the main bank in a Japanese *Keiretsu.*

Third, because it is a fixed economic entity, the community, unlike a specific TVE, can shoulder unlimited liability. Under the pressure of intense competition, this ability can facilitate a consensus among community members, the community government and TVE management and workers to maximize profits even by means of the sacrifice of all or part of wage income. Moreover, because a community is diversified in an economic sense, it can diversify the business risk. A township or village can rather easily create several small-scale township and village enterprises in manufacturing, agriculture, commerce, construction, and transportation and then expand the size of these TVEs.

Fourth, because the community is a small society, the citizenry can participate quite directly in discussions with community leaders. This clearly contributes to the solution of the problem of monitoring the monitors and helps reduce the cost of organization.

Finally, because the community is the corporation, the responsibility contract and subcontract system can be easily arranged between the community representative assemblies and the community government, between the government and the TVEs, and within the TVEs. These contracts and subcontracts have facilitated the solution of monitoring problems within the community and within the township and village enterprises.

For the large-scale TVEs which require access to domestic and international capital markets, a further clarification of property rights may be necessary. However, this does not mean that the only alternative is the distribution of shares among individuals. The community as a collective equity holder and the community government as the executive equity holder may still possess comparative advantages. Even if each citizen becomes a shareholder, it may still be more efficient if the community government can act as the representative of local shareholders in the exercise of their residual control rights over the TVEs (Vermeer 1996).

4.2 The right to derive benefit from TVE property

The right to derive benefit from property provides a strong and spontaneous incentive to the owners of the property and thus is considered an essential dimension of ownership. From a static viewpoint, it is difficult to identify the claimants to the residual benefits of a TVE. However, from a dynamic perspective, it becomes fairly clear that the most significant benefits generated by a TVE are enjoyed by the community members via the community government (Chang and Wang 1994).

TABLE 3
THE DISTRIBUTION OF THE SALES INCOME AND PROFITS OF A FISHING GEAR ENTERPRISE, 1991

Item	Value (1,000 yuan)	Share (%)	Destination
Sales	21,560	100.0	
Total product cost [a]	17,850	82.8	
Sales tax	680	3.2	State
Value added tax	660	3.1	State
Urban construction tax	30	0.1	Town government
Administration fee	110	0.5	Town government
Profit from sales [b]	2,230	10.3	
Other revenue	20		
Other expenditures	240		
Gross profit [c]	2,010	100.0	
Enterprise fund	50	2.5	Enterprise
New product development fund	130	64.7	Enterprise
Retained profit, recycled products	20	1.0	
Loan repayments	1,510	75.1	Bank
Community expenditures	30	1.5	Town government
Education contribution	80	4.0	Town government
Taxable profit [d]	230	100.0	
Income tax	110	47.8	State
Energy and transportation fund	13	5.7	State
Budgetary regulatory fund [e]	18	7.8	State
Other levies by town government	22	9.6	Town government
Tax exemption rebate [f]	81	35.2	
Net profit [g]	148	100.0	
Profit delivery	30	20.3	Town government
Profit retention [h]	118	100.0	Enterprise
Enterprise development fund	89	75.4	Enterprise
Welfare fund	29	24.6	Enterprise

Source: Wong, Ma and Yang (1995: Tables 3.4 and 3.5).
Notes to Table 3:

(a Total product cost refers to the factory production cost (mainly material inputs and wage costs), plus the sales-related costs such as shipping, packaging, advertising and other marketing expenses

(b Profit from sales = (sales) - (total product cost) - (sales tax) - (value added tax) - (tax for urban construction) - (administrative fee).

(c Gross profit = (profit from sales) + (other revenue) - (other expenditure).

(d Taxable profit = (gross profit) - (enterprise fund) - (new product development fund) + (retained profit from recycled products) - (loan repayments) - (community expenditures) - (education contribution).

Notes to Table 3 (cont):

(e The budgetary regulatory fund is actually a sort of income tax which is set according to county government fiscal budgetary regulations.

(f The tax exemption rebate is available because the municipal government made the county in which the enterprise is located into a special economic zone.

(g Net profit = (taxable profit) - (income tax) - (energy and transportation fund) - (budgetary regulatory fund) - (other levies by the town government) + (tax exemption rebate).

(h Profit retention = (net profit) - (profit delivery) = (enterprise development fund) + (welfare fund).

For example, one might look at the distribution of the sales income and profits from a township enterprise specializing in fishing gear (Table 3). The distribution pattern is shaped by various forces, such as the regulations set by governments at different levels and the clauses of contracts negotiated between the town government and the enterprise managers. Table 3 shows clearly that the town government received revenue at every stage of enterprise operations. First, from the total sales of the enterprise, it collected 110,000 yuan as administrative fees and 30,000 yuan as taxes for the urban construction fund. Then, from the gross profit of the enterprise, it took 30,000 yuan for community outlays and 80,000 yuan for education. From the taxable profit, it received 22,000 yuan for 'other levies'. Finally, it took 30,000 for 'profit delivery' from the net profits of the enterprise. From the firm, the town government received a total of 302,000 yuan, which was equal to almost three times the profit retention (118,000 yuan) of the enterprise and a little more than the sum of the amounts accruing to the enterprise fund, the new product development fund and profit retention (298,000 yuan). Thus, a majority of the financial benefits generated by the TVE went directly to the community government.

The revenues obtained by the community government are used for at least three purposes: to establish new township and village enterprises or to subsidize loss-making but solvent TVEs, to finance communal social programmes and infrastructure projects, such as education and health care services, pension funds and the construction of roads and irrigation systems, and to support government operations, which often cover benefits enjoyed by government officials, including comfortable offices, banquets, generous travel allowances, and government cars for private use. Because most community members, including most local officials and their families, live in the same township or village for their entire lives, they can benefit from the social and economic development projects (Chang and Wang 1994: 440-1).

According to central government regulations (Ministry of Agriculture of China 1990), at least 60 per cent of the profit retained by the enterprise should go to the enterprise development fund. In the case of the fishing gear enterprise, this share was 75.4 per cent in 1991, well above the requirement. In addition, both the enterprise fund and the new product development fund, which accounted for more than 1.6 times the amount of the profit retained, were used mainly for technical innovation and the expansion of production. The development preferences of this enterprise were not particularly special. The entire sample of TVEs discussed in Wong, Ma and Yang (1995) showed similar preferences. Most of the township and village enterprises in this sample held back a portion of wages until the month before the Chinese New Year. They used these extra funds as working capital. Such practices have been observed by other researchers (e.g. Pei 1996; Byrd and Lin 1990). The explanation of TVE managers is quite concise: 'If we don't focus on technical innovation and accumulation, our factory may not survive in the near future, and our local workers may lose their jobs and wages from industrial production.' This is such a strong view that the TVE sector has taken off from scratch.

Again, the members of the local community benefit most from these development funds (Chang and Wang 1994). First, the development of township and village enterprises improves job security for the TVE workers, most of whom are community members. Second, the expansion of TVEs provides new job opportunities for other community members or their relatives in neighbouring communities. Because there is a significant surplus of labour in the agricultural sector, the increase in job opportunities means that the township and village enterprises have come to play the most important role in absorbing surplus labour and in raising the living standards of rural populations. Third, because of the participation of community governments in TVE and also in social programmes, greater TVE income also implies expanded social programmes.

4.3 The residual control rights exercised by community governments

For the purpose of understanding the extent to which community governments have exercised residual control rights over township and village enterprises, it helps to look at a larger bundle of control rights and to compare the allocation of these rights to community governments and TVEs with the allocation of such rights to governments and SOEs. Table 4 outlines the allocation of control rights along eleven dimensions for both TVEs and SOEs in 1991. The Table is based on a World Bank enterprise survey covering approximately 950 state-owned enterprises and 300 township and village enterprises.

Table 4 shows that there is no essential difference in the allocation of control rights between TVEs and SOEs, although TVEs appear to enjoy proportionally more autonomy over the majority of the items. For some residual control indicators, for instance, for the hiring and replacement of managers (Table 4, first item) or the allocation of management contracts (Table 5), there is no real appreciable difference between TVEs and SOEs. Virtually all of the state-owned enterprises and about 80 per cent of the township and village enterprises were operating under some type of management contract (Jefferson, Zhao and Lu 1995: 6).[17] Both TVEs and SOEs are severely limited in their authority to appoint upper-level managers. Such appointments are typically made by government bodies which consult little with management. This indicates that, as in the SOE sector, community governments exercise residual control rights over their TVEs. They hire and replace managers, allocate contracts for the leasing of community assets, and make the ultimate decision to open or close a TVE or shift the activities of a TVE (cf. Byrd and Lin 1990; Chang and Wang 1994; Oi 1996; Pei 1996; Wong, Ma and Yang 1995).

---

[17] Note that 'TVE' in this survey does not include household-run enterprises and other type of private enterprises. In the TVE sector, the next most popular approach to the management contract is the lease.

TABLE 4
THE ALLOCATION OF KEY DECISION RIGHTS, 1991
(in % of total respondents)*

Allocation of key decision rights		TVE	SOE
Appoint leaders:	enterprise	15.8	1.1
	consultation	24.2	17.9
	supervisory agency	60.0	80.9
Recruit employees:	enterprise	66.7	22.6
	consultation	29.8	50.0
	supervisory agency	3.5	27.4
Dismiss employees:	enterprise	72.2	62.8
	consultation	23.6	26.4
	supervisory agency	4.2	10.8
Investment decisions:	enterprise	24.5	14.4
	consultation	59.6	57.1
	supervisory agency	16.0	28.6
Set bonus level:	enterprise	54.4	62.8
	consultation	27.0	18.2
	supervisory agency	18.6	18.9
Set wage differentials:	enterprise	79.2	43.6
	consultation	11.7	19.8
	supervisory agency	9.2	43.6
Set bonus differentials:	enterprise	86.9	93.3
	consultation	8.2	4.4
	supervisory agency	5.0	2.3
Set production plan:	enterprise	57.7	28.8
	consultation	20.4	43.6
	supervisory agency	21.8	27.6
Authority to set prices:	no limit	66.6	19.6
	somewhat limited	23.3	54.1
	completely limited	10.1	26.3
Authority to choose customers:	no limit	90.2	75.1
	somewhat limited	4.9	19.8
	completely limited	4.9	5.0
Authority to choose suppliers:	no limit	90.2	71.3
	somewhat limited	6.3	24.6
	completely limited	3.5	4.2
Number of observations		282-85	915-30

Source: Jefferson, Zhao and Lu (1995: Table 1).

Note: * The first figure in each group ('enterprise') represents the percentage of respondents indicating that the enterprise makes the decision by itself; the second ('consultation') represents the percentage of firms reporting that the enterprise and the supervisory agency decide jointly, and the third ('supervisory agency') represents the percentage of firms indicating that the supervisory body makes the decision.

Based on Grossman and Hart (1986), Chang and Wang (1994: 443-6) suggest that the control rights of community governments over township and village enterprises represent an arrangement which generates more benefits at lower cost than would a similar arrangement involving community members or higher levels of government (i.e. county and above). The key resource of community members is their labour, which is abundant and easily replaceable. Pooling the financial resources of individual citizens (*jizi*) may be difficult to accomplish without the power and reputation of a community government. In addition, private citizens have almost no access to the monopoly state banking system. Together these factors imply that the exercise by community members of control rights would not have many significant benefits, whereas the costs associated with such an arrangement may be high and varied. Meanwhile, all the benefits associated with control by community governments would be lost. If higher levels of government had control over the TVEs, as they do over many SOEs, they would certainly be able to take advantage of all the benefits which community governments enjoy, but at the cost of the soft-budget constraint. Moreover, the 'agency' problem would be more serious than it is in the case of state-owned enterprises.

TABLE 5
SIGNATORIES TO MANAGEMENT CONTRACTS, 1991
(in % of total respondents)

	TVEs	SOEs
Director	24.0	66.0
Group of managers	65.0	17.0
All employees	8.0	16.0
Others	3.0	1.0
Number of observations	231	866

Source: Jefferson, Zhao and Lu (1995: Table 2).

Three critical contributions of community governments to TVEs are outlined by Chang and Wang (1994: 443-4). First, because township and village governments are part of a large government system with broad powers and because of the long tradition of authoritarian government in China, the full support of township and village government can provide community members and other TVE stakeholders with the sense of security they need to achieve long-term development. Second, township and village governments can offer managerial inputs to township and village enterprises in several ways. Because the market is in its infancy and ordinary citizens who have suitable market-oriented talents are a scare resource, township and village governments are essential in the organization of major economic and political activities within their jurisdictions. Without a market or other social mechanisms, township and village governments are often the only available local institutions with the authority to settle disputes which arise in the process of the creation of township and village enterprises. Third, township and village governments can play an essential role in gaining access to outside resources, particularly bank loans.

One might add that township and village governments have close ties with township and village corporations and in most cases function as the executive bodies of these corporations. From a dynamic perspective, these corporations bear an unlimited liability, that is, the debts of a township or village are the responsibility of the collective. It is a popular practice that, if a TVE fails and defaults on its loans, the debt is paid off by the other township and village enterprises in the community, regardless of the specifics of the contracting system (for instance, see Lin 1995; Oi 1996; Wong, Ma and Yang 1995).

The township and village governments are not only the guarantors of TVE loans, but also the executors of the collective financing and debt repayment system. This collective financing and debt repayment system represents another support for TVE growth. All the funds required for the start-up of a new TVE can be borrowed from existing township and village enterprises with the help of the township and village governments government (Wong, Ma and Yang 1995). This system also offers township and village governments the power to initiate and coordinate internal reorganizations or takeovers so that communities can avoid the social and economic costs of bankruptcy actions and of takeovers by outsiders.

4.4 Beyond the notion of property rights

In China, central, provincial, municipal, prefecture, and county governments all have sufficient authority to regulate the market through administrative methods and to be involved in credit decisions through both vertical and regional accountability ('dual coordination'). *Ex ante*, governments at the level of the county or above are directly involved in the formulation of credit plans and can direct specialized banks to make loans. *Ex post*, governments have the authority to decide whether state-owned enterprises should pay back the loans.

Township and village governments have no such authority. A township or village government cannot protect its TVEs by means of the erection of trade barriers to keep out competition, simply because the market within a community is usually too small and limited to be meaningful for the development of even one firm. Township and village governments have no access to the state banking system, because all townships and villages are historically institutionalized as part of the traditional rural sector, whereas the banking system is a part of the modern urban sector. Likewise, all staff members of state banks are registered in the urban residency registration system and have no links with the rural sector except through business dealings.

As a consequence, state banks have basically followed commercial principles in making loans to township and village enterprises. They ask township and village governments to act as guarantors of investment loans. If a township or village has a poor record in credit repayment, state banks can refuse the loan application of a community and can also withhold interest payments and some of the principal from the bank accounts of the community or its TVEs. Township and village governments understand full well that communities may be able to delay debt-repayments over the short term, but that they cannot delay them indefinitely. Meanwhile, a poor credit record implies that the community must depend on self-financing for future development and debt servicing. This is not possible even in agricultural communities, for which bank credits are needed seasonally for the purchase of agricultural inputs such as seeds, chemical fertilizers and pesticides.

Township and village corporations bear unlimited liability in a broad, dynamic sense and face constant competition. This makes township and village governments significantly different from governments at higher levels and helps one understand the comparative advantage acquired by a community which acts as a corporation and establishes small diversified industries. By acting as a corporation in the organization of collective financing and debt servicing, a community can substantially reduce the risks faced by individual TVEs and by the community as a whole. The decisive role of township and village governments in the initiation and coordination of internal reorganizations and takeovers eliminates the risk of bankruptcy actions and of takeovers by outsiders. Thus, in reaction to the belt-tightening in 1989 and 1990, several million TVEs were closed down or taken over by other TVEs (*People's Daily* [overseas edition] 23 March 1990; Rohwer 1992). Nevertheless, apparently none were declared bankrupt by the courts.[18] In contrast, the losses among SOEs soared, although only a handful of small ones went bankrupt. A 120 billion yuan credit relief operation was initiated in the fourth quarter of 1989 to write off non-performing inter-enterprise credits, mainly inter-SOE credits (Portyakov 1991).

More secure property rights, unlimited liability, and market competition together provide incentives, but also the pressure for township and village corporations to perform well. As a consequence, the contract and subcontract system or the multi-layer responsibility system is commonly adopted as a mechanism to solve internal monitoring problems. The case of Daquizhuang village, which is well summarized in Lin (1995), is an excellent example. This village is located around 50 kilometres southeast of Tianjin in the northeastern plain. The first village factory was built in 1978 with initial funding of 150,000 yuan. By 1989 the village had 117 factories in 20 industries that produced more than 300 products, and total assets were valued at 360 million yuan (about $90 million). By mid-1992, the number of village enterprises stood at 260. The entire village is organized as a corporation and since 1987 has used the name Daquizhuang Agricultural-Industrial-Commercial United Corporation.

The internal management system of this united corporation is a multi-layered, multi-responsibility system. This means that each layer is responsible for the next lower layer and to the next higher layer. The united corporation monitors only those corporations which are one level below it, including four industrial companies and other companies in commerce, agriculture, construction, science and technology development, and social services (e.g. schools and hospitals). Each company administers the units at the next lower level in a similar way.

Two specific features of the system are worth particular mention. First, the enterprises are operated not by individual corporate actors, but by corporate families. Thanks to the strict responsibility system, such an arrangement reduces internal conflicts, strengthens collective efficiency and does not lead to significant free-riding. Vital information is kept confidential vis-à-vis the external competitive environment. This enhances the competitive position of the corporation in markets. Second, while the core organizations and enterprises are uniformly local, the corporation can employ more external resources (labour, technicians and finance) and even cooperate with other enterprises. Overall

[18] According to one source, 32 bankruptcy cases reached court nationwide in 1990. This was fewer than the number in 1989. All of the cases in 1990 apparently involved only SOEs and urban collective enterprises (*China Information Daily*, 18 March 1994: 2).

authority is local. Top management has emerged from among local staff or is selected from local families. Though such an arrangement may hinder the equality of opportunity, it certainly greatly reduces the 'agency' problem.

Township and village government leaders act as supervisors within the corporation. The response to the question of who monitors these monitors is essential for organizational efficiency. One important source of inefficiency among SOEs is the fact that nobody can effectively supervise the government bureaucracies which act as the monitors. However, among TVEs the story is different.

Direct, semi-competitive elections have been held since the mid-1980s for local government officials in wealthier villages and in those villages in which TVEs represent a large segment of the economy. These villages are considered by the central government as up-to-standard demonstration villages. They accounted for about 15 per cent of the total of 900,000 villages in 1990 (O'Brien 1994: 47 and 51; *The Economist* 2 November 1996: 81-3). Village representative assemblies (*cunmin daibiao huiyi*) are also active in these demonstration villages. These assemblies can review important financial decisions made by the elected village committees, including industrial and agricultural plans, contracts, budget issues, construction decisions, the use of collective property, the allocation of relief funds, and the deployment of donated labour. In many places, the assemblies must be consulted if an outlay exceeds a certain fixed amount (O'Brien 1994: 45).

The advantages of the TVE ownership and governance structure are only relative. Many serious problems exist that may be linked to this structure. Among them, two are often pointed out. First, township and village governments are not purely economic actors. As TVEs mature, the objectives of township and village government officials are coming increasingly into conflict with those of TVE managers, although initially these two sets of objectives were quite similar (cf. Ren et al. 1990; Wang 1990). Township and village governments have assigned priority to raising employment, local prosperity and financial revenue. This could hinder the stable, long-term development of township and village enterprises. The powerful control rights of township and village governments could thus lead to unfavourable interference into TVE management. Township and village governments also seem to be shifting the responsibility for the overall development of rural communities onto TVEs. As a result, many TVEs are now also experiencing redundant employment and increasingly heavy social burdens. In this, they are becoming quite similar to SOEs in many ways (Byrd and Lin 1990: 125, 304 and 351; *China Information Daily* 2 August 1993: 2).

Second, TVE development has been closely tied to local initiative and local conditions. As a result, rural industrialization has not yet been accompanied by urbanization, and the distribution of rural industries throughout the country has been uneven and is rather disorganized. This has serious negative implications for the future development of TVEs. Many TVEs have already been restricted by the lack of infrastructure, market information and social services and by poor transportation and communication networks. At the macroeconomic level, this suggests that land use and the development of the service industry are inefficient and that there is the risk that environmental pollution may go unchecked in certain localities (Chen 1993: 207-15).

The existence of such problems means that there is a need for further clarification in TVE property rights so that the environment for TVE growth can become as favourable as possible. However, the process of clarification will probably follow an adaptive evolutionary path rather than rely on mass privatization (Vermeer 1996).

The private and household enterprise sector has experienced very dramatic growth during the reform years in China and Vietnam. For example, in industry in Vietnam the share of private and household enterprises in the total rose from 14.5 per cent in 1987 to 23.3 per cent in 1990 and 26.1 per cent in 1993, while in China the corresponding share climbed from 1.8 per cent in 1985 to 5.4 per cent in 1990 and 12.9 per cent in 1995 (Table 6).[19]

TABLE 6
PRIVATE AND HOUSEHOLD INDUSTRIAL ESTABLISHMENTS IN VIETNAM AND CHINA

	1985	1987	1989	1991	1993	1995
Vietnam						
Number (units)						
Private enterprises	--	490	1,284	959	3,322	25,000
Household enterprises	--	--	333,337	446,771	452,866	
Share in industrial output (%)	--	14.5	22.0	26.7	26.1	
China						
Number (1,000s)	3,348	5,553	6,124	6,387	7,971	
Share in industrial output (%)	1.8	3.6	4.8	6.0	8.4	12.9

Sources: Vietnam: Dodsworth et al. (1996: 45); General Statistics Office (1996); China: SSB (1991: 391), SSB (1995: 375); SSB (1996: 401).

Three types of enterprise can be distinguished in the sector: household enterprises, rural private enterprises and urban private enterprises. Household enterprises make up over 95 per cent of the total. Most of these do piecework for SOEs, TVEs and other 'corporate' organizations. This integration of public enterprises (SOEs and TVEs) and household 'workshops' on the basis of strict contracts has benefited both sides.

Private enterprises which have grown beyond family-based entities nearly always require local government support in order to obtain raw materials, land, equipment, funds, contacts, and access to regional and national markets. This support is typically supplied partly in exchange for a share in both residual benefits rights and residual control rights.

19 The official data probably do not capture all private industrial activity in either country, as data are collected only from private and household enterprises which are registered, although not all private activities are registered. In the case of China, the situation is further complicated because of the existence of the 'three fears' (*san pa*) – the fear that policy might change, the fear of public criticism, and the fear of risk – and because of tax and other preferential treatment given to TVEs. Private enterprises may therefore be registered as collectives (that is, they may 'wear the red hat'). However, this under-reporting has no significant effect on the analysis in this paper, because even a private enterprise which is registered as such is bound to require support from community authorities and in many ways will thus act like any other community enterprise.

The difference between these private enterprises and the typical private enterprise in a capitalist economy was well understood by the Central Committee of the Communist Party of China in the early years of the reform.

> Of enterprises which are currently exceeding regulation employment numbers, some have implemented systems different from private enterprises (*siren qiye*), for example, taking a certain proportion of after-tax profits to be invested in collective assets; regulating the limits of dividends and owners' income; issuing a certain amount of profit to workers, etc. These thus have elements of [a] co-operative economy to varying degrees. We should help them continue to improve, and they may be treated differently from capitalist employers (State Bureau of Industrial and Commercial Administration and Theoretical Department, *Beijing Daily* 1984).

The rural private enterprises appear more like the wider community enterprises in which township and village governments have established informal but effective proprietary interests (Young 1994). On the other hand, the ties between the urban entrepreneurs who operate private enterprises and the officials staffing state administrative, distributive and production entities appear more like patron-client relationships (Wank 1996).

A large body of literature exists on these enterprises (for instance, see Byrd and Lin 1990; Ho 1994; Liu 1992; Nee 1992; Odgaard 1990; Parris 1993). The majority of the literature is implicitly or explicitly based on an ontological commitment to a standard neo-classical typology of markets as an exchange system for perfect property rights which are enforced by law and for relatively costless transactions for the acquisition of information. Anything else is identified as a deviation, which is therefore partial, unstable and transitory.

However, if one accepts the theoretical framework of this paper (cf. Section II), institutionalization is an inherently political process because it affects the distribution among groups of the power to advance institutional preferences, and institutional change is a path-dependent process. Therefore, existing institutionalized constraints and organizational patterns are not neutral, but impose a bias in the choices of economic actors and in the outcomes of their actions. Based on this recognition, we may need to shift our attention from the ontological discussion to an investigation of the dynamic process. Concretely, we should analyse the following questions: How might one favour stable expectations for long-term investment and the development of private enterprises rather than the uncertainty which can arise from the haphazard enforcement of laws and regulations by agents of the state? Can channels for inter-regional information exchange be identified? How can social trust and morality be used to facilitate resource allocation, stable expectations and information flows? While a functioning market economy is popularly understood as a system of well-defined property rights and legal structures, an understanding of the ways in which social trust can institutionally undergird market activity would certainly generate new insights into institutional plurality in market economies.[20]

In China and Vietnam, in both of which the bureaucracy is the dominant integrative structure in the social order, the social trust embodied in a community or a patron-client relationship is not readily transferable by one actor to another community entity or relationship. This fact enhances the likelihood of ongoing future cooperation and an orientation towards mutual benefit. As a consequence, social trust in this form, like property rights, is productive. It enables actors to calculate risks and likely returns, encourages business activity by creating the reasonable expectation that others involved in the relationship will behave in a fairly predictable way, and tends to foster much more business activity than alternative forms, including the absence of this type of social trust.

This social trust links entrepreneurs with the overarching bureaucratic structure. The connection cannot be viewed simply as a localized exchange of commercial wealth for bureaucratic power. Its contribution to productivity and marketization may be much more significant. From the perspective of private entrepreneurs, the connection provides local stability in an environment characterized by central policy instabilities and ideological hostility. At the same time, it offers private entrepreneurs institutionalized access to crucial resources such as bank credits, land and key raw materials, many of which are directly or indirectly controlled by government. From the perspective of local governments and officials, the connection institutionalizes new sources of revenue to cope with the increasing expenditure and development pressure (Li 1996; Wank 1996; Wong 1995).

The major contribution of patron-client ties is stylized as the stimulation of competition, support for innovation, the reduction of uncertainty, and the facilitation of market linkages (Leff 1964; Wank 1996). This stylized contribution may be more suited for the ties between rural private enterprises and community governments.

Competition takes place among private entrepreneurs, as well as among government entities and officials. Private entrepreneurs compete against each other for bureaucratic favours that are in short supply, including business licences and dispensations from restrictions on access to the commodities which private businesses trade. The licences and dispensations are usually renewed on an annual basis, enabling annual cost adjustments. This assures that in the long run only the most productive entities can meet the payment requirements (including bribes).

Competition takes place among bureaucratic actors because bureaucratic resources are generally abundant, inducing better service even at the fringes. For instance, although the state does not authorize private companies to engage in direct foreign trade, state-owned foreign trade companies have sometimes provided a cover so that private firms

---

[20] The institutional plurality in market economies like Japan and the US has attracted the attention of social economists. For instance, because they are considered more easily adaptable to volatile markets, personal contracts are popularly employed in Japan, despite the availability of legal contracts and a legal system (Dore 1983). In the US, for the sake of saving time and costs, sales representatives often settle deals with a handshake rather than by contract (Macaulay 1963).

can engage in direct foreign trade. This has represented a practical means for coping with fluctuations in supply and demand and for beating out other state foreign trade companies (Wank 1996).

In order to stimulate and support innovation, such ties must induce reform from below. According to the 'individual business family' policy implemented in China in the late 1970s, a private firm could not expand its business beyond seven employees and beyond the use of vehicle transport. Many local governments circumvented this policy by allowing private firms to register as collectives. Without such a practice, the significance of private business in job creation, the generation of fiscal revenue and the elimination of gaps in supply and demand might not have been recognized by the state and the public by 1984 (cf. Liu 1992; Parris 1993; Wank 1996; Young 1994).

The ties between private entrepreneurs and local government entities and officials have reduced the political uncertainties which used to follow political and policy cycles. They have thereby encouraged investment and the diversification away from speculative trade and towards services and industrial production. Because private firms can use these ties to obtain the officially-mediated resources which enhance profits and security, they are motivated to develop these ties as new market channels. As a consequence, private firms have sometimes helped public units market their products, provided production inputs for them and infused capital through public-private partnerships. They have thus helped public enterprises 'grow out of the plan' (Naughton 1995; Probert and Young 1995; Wank 1996).

VI CONCLUDING REMARKS

This paper has illuminated the dynamic processes of SOE property rights reform in China, Vietnam and Laos, the comparative advantages of China's TVE ownership, governance and liability structures, and the way private enterprises in China and Vietnam expand business through social trust because of their participation in community enterprises or their patron-client ties with government entities and officials. The paper has avoided an ontological discussion focusing on a standard neo-classical typology of functioning markets in order to undertake an investigation of the dynamic development processes and the functional rationalities of unorthodox ownership and governance structures in East Asia.

Table 7 summarizes the approach of this paper in three panels. Panel 1 outlines the ownership features of major types of firms in East Asia relative to the corresponding features of large Japanese firms (J-firms) and large American corporations (A-firms). Panel 2 compares the liability and governance features of these firms. Panel 3 presents a brief remark on the performance of these firms wherein performance is valued in relative terms rather than in absolute terms.

The ownership structure may shape fundamental features of the liability and governance structure of a firm. However, it cannot fully determine the liability and governance structure. For example, SOEs with management contracts and SOEs with leasing contracts show quite similar ownership structures, but the latter have a relatively hard budget constraint and a less serious agency problem than the former, and as a consequence the latter usually perform more effectively.

The relative efficiency of different type of firms seems to be more directly and closely linked with the liability and governance structures, in which the hardness of the budget constraint, the genuine fear of bankruptcy, the effective monitoring of the monitors, and the existence of compatible incentives for management to reduce agency problems are key dimensions. Within the same general type of state ownership, the management contract system resulted in a performance which was better than that of the SOEs directly controlled by government entities. Meanwhile, the leasing contract system and joint ventures, particularly with foreign investors, have exhibited improved performance. City-run SOEs transformed into full employee stock-ownership enterprises have had impressive success in China, and the approach may be implemented nationwide, especially among medium-size SOEs in the near future.

The excellent performance of TVEs may be attributed to such factors as the compatible interests and incentives among community members, township and village governments and TVE management, the almost unlimited liability in a dynamic sense that is borne by the community as a whole, the intense competitive pressure, and the fact that township and village governments are effectively monitored by community representative assemblies, as well as by community members whether informally or formally. These liability and governance features of TVEs are mainly due to the TVE ownership structure and the marketization of the economy. Private enterprises in East Asia show hybrid features of the TVE type and of classical private firms.

For a better understanding of the plurality of ownership arrangements in East Asia, as well as in the Western capitalist economies, one might distinguish between ownership of the firm and ownership of the asset. Ownership of the asset is equivalent to the classical concept of property rights, including the right to utilize a specified asset, the right to capture benefits from the asset, and the alienation right over the asset. Ownership of the firm refers to the claim right to residual returns and the residual control right. For example, when creditors and shareholders are both the owners of the financial capital of a firm, the creditor gets contract-specified benefits (interests) from his capital and usually has no residual control right or residual benefits right. Therefore, he cannot be identified as one of the owners of the firm. In contrast, a shareholder has a claim to residual benefits, possesses a right to residual control, must bear the risks entailed in the exercise of these rights, and is generally identified as one of the owners of the firm.

Thus, we can view the firm as a nexus of contracts among various asset owners. These asset owners include not only the shareholders and creditors who are owners of the financial capital and the workers and managers who are owners of their human capital, but also certain government agents who may own or have monopoly control over specific, non-marketable institutional and social capital. The actual allocation of residual control rights and rights to residual benefits among these asset owners is dependent or contingent on the state rather than unique or deterministic. For instance, in a typical capitalist economy, the concrete ownership arrangements for a firm may consist of a partnership whereby all the members of the firm share residual benefits and residual control rights; it may consist in the hiring of labour by capital whereby capitalists exercise the residual control rights and enjoy the residual benefits, or it may consist in the employment of capital by labour whereby workers enjoy the residual control rights and the residual benefits rights. Even in a stock company the concrete ownership arrangement is contingent on the state. If the business does well, the shareholders are the owners of the company. If the company fails to repay its debts, the creditors may take it over and become the owners. If the company fails to pay the contracted wages to its employees, these would become the creditors and thus the owners with the right to exercise residual control and receive the residual benefits (Blair 1995; Hart 1995).

The basic logic behind this state-contingent ownership is the value-maximization principle of the firm, according to which the optimal ownership arrangement of the firm should match the right to residual benefits with the residual control rights. In other words, the risk-makers should be the risk-takers (Milgrom and Roberts 1992: 291-3). Taking into consideration the monitoring and agency problems which exist under conditions of asymmetric information, the allocation of partial or full ownership rights in a firm to the most important actors in the development of the firm can effectively reduce the cost of monitoring and the problem of moral hazard and thus maximize the match between the residual control rights and the right to the residual benefits.

TABLE 7
THE FEATURES OF HETERODOX OWNERSHIP AND GOVERNANCE STRUCTURES VERSUS THE J-FIRM AND THE A-FIRM *

	SOEs in the reform								
	Management contract	Leasing contract	Employee stock ownership	Joint ventures	TVEs	Private firms in East Asia	J-firm	A-firm	
Nominal owner	All citizens	All citizens	All employees	Citizens and partners	Community members	Private owners	Shareholders	Shareholders	
Control right	Government	Government	Shareholder assembly	Government and partners	TVG	Owners and local government	Workers and managers	Managers	Panel 1
Major beneficiaries	Government and citizens	Government and citizens	All employees	All three groups	Citizens and TVG	Owners and community	Workers and managers	Shareholders	
Alienation right	Government	Government	Employees and government	Government and partners	Citizen assembly and TVG	Owners and local government	All three groups	Shareholders and managers	
Budget constraint	Soft	Relatively hard	Hard	Relatively hard	Hard for whole community	Hard	Relatively hard	Relatively hard	
Subject to bankruptcy	No	Yes	Yes	Not certain	Yes, but not by court	Yes	Yes	Yes	Panel 2
Who monitors the monitors?	No-one	No-one	Shareholder assembly	Not clear	Assembly of citizen representative	Owners	Shareholders	Shareholders	
Agency problem	Most serious	Less serious	Moderate	Less serious	Moderate	Not present	Moderate	Less serious	
Average performance (relative efficiency)	Poor	Good	Excellent	Very good	Excellent	Excellent	Very good	Very good	Panel 3

* TVG = township and village government

One may conclude that the value-maximization principle will push SOEs with management contracts to seek an arrangement involving leasing, joint ventures, employee stock ownership, and other hybrid forms of the shareholding company. TVEs have their own specific ownership and governance structures, which have helped them achieve impressive comparative advantages in terms of the match of residual control rights and the right to residual benefits, the minimalization of monitoring costs and moral hazards, and the provision of incentives compatible with institutional and market conditions in transitional China. The evolution of TVE ownership and governance structures will continue and will be increasingly influenced by international competition, but this should not imply that the fundamental features of TVE ownership and governance structures will disappear in the near future. The evolution of private enterprise in East Asia will also retain unique features and will continue to follow the path of mutual benefits, although private enterprises in East Asia may begin to resemble private firms in the West.

REFERENCES

Alchian, Armen A. 1974. Foreword. In *The Economics of Property Rights* , edited by Eric G. Furubotn and Svetozar Pejovich. Cambridge, MA: Ballinger.

Barzel, Yoram. 1989. *Economic Analysis of Property Rights.* Cambridge, UK: Cambridge University Press.

Blair, Margaret. 1995. *Ownership and Control: Rethinking Corporate Governance for the 21st Century.* Washington, DC: Brookings Institute.

Borys, Bryan, and David B. Jemison. 1989. Hybrid Arrangements as Strategic Alliances: Theoretical Issues in Organizational Combinations. *Academy of Management Review* 14: 234-49.

Bourdet, Y. 1995. A Economic Evaluation of the Lao Transition Mix. *Economic Policy in Transitional Economies* 5 (1): 29-51.

Brada, Josef C. 1996. Privatization Is Transition, Or Is It? *Journal of Economic Perspectives* 10 (2): 67-86.

Buchanan, James M. 1979. *What Should Economists Do?* Indianapolis: Liberty Press.

Byrd, William, and Lin Qingsong (eds). 1990. *China's Rural Industry: Structure, Development and Reform.* New York: Oxford University Press.

Campbell, John L., and Leon N. Lindberg. 1990. Property Rights and the Organization of Economic Activity by the State. *American Sociological Review* 55 (5) October: 634-47.

Carrol, Glenn R., Jerry Goodstein, and Antal Gyeses. 1988. Organizations and the State: Effects of the Institutional Environment on Agricultural Cooperatives in Hungary. *Administrative Science Quarterly* 33: 233-56.

Chang Chun, and Wang Yijiang. 1994. The Nature of the Township-Village Enterprises'. *Journal of Comparative Economics* 19 (3): 434-52.

Chen Xiwen. 1993. *zhongguo nongcungaige: huigu yu zhanwang* (*China's Rural Reform: Review and Prospect*). Tianjin, China: Tianjin People's Press.

China Information Daily (*Zhongguo Xinxi Bao*) (various).

Chinese Reform (*Zhongguo Gaige*). 1996. No. 6 (monthly).

Chinese Youth (*Zhongguo Qingnian*). 1996. No. 2 (January) (semi-monthly).

Demsetz, Harold. 1967. Toward a Theory of Property Rights. *American Economic Review* 57 (2) May: 347-59.

Dodsworth, J. R., E. Spitaller, M. Braulke, K. H. Lee, K. Miranda, C. Mulder, H. Shishido, and K. Srinivasan. 1996. *Vietnam: Transition to a Market Economy.* IMF Occasional Papers, No. 135.

Dollar, David. 1994. Macroeconomic Management and the Transition to the Market in Vietnam. *Journal of Comparative Economics* 18 (3) June: 357-75.

Dore, Ronald. 1983. Goodwill and the Spirit of Market Capitalism. *British Journal of Sociology* 34 (4): 459-82.

Doyle, Michael. 1995. Inside State-owned Enterprises. *Vietnam Business Journal* III (3) June: 20-2.

Earle, John S., and Saul Estrin. 1996. Employee Ownership in Transition. In *Corporate Governance in Central Europe and Russia*, Vol. 2: *Insiders and the State*, edited by Roman Frydman, Cheryl W. Gray and Andrzej Rapaczynski. Budapest: Central European University Press.

Evans, Grant. 1988. *Agrarian Change in Communist Laos.* Occasional Papers, No. 85. Singapore: Institute of Southeast Asian Studies.

Fforde, Adam, and Stefan de Vylder. 1996. *From Plan to Market: The Economic Transition in Vietnam.* Oxford: Westview Press.

Finance Ministry of Vietnam. 1994. *Report of Finance Ministry of Vietnam, 1994.* Hanoi.

Fisher, I. 1923. *Elementary Principles of Economics.* New York: Macmillan.

Freeman, Nick J.1996. The Role of 'Equitization' in Vietnam's Reform of State-owned Enterprises. *Communist Economies and Economic Transformation* 8 (2) June: 217-35.

Frydman, Roman, Cheryl W. Gray, and Andrzej Rapaczynski (eds). 1996. *Corporate Governance in Central Europe and Russia*, Vol. 2: *Insiders and the State.* Budapest: Central European University Press.

Funck, Bernard. 1993. Laos: Decentralization and Economic Control. In *The Challenge of Reform in Indochina*, edited by Börje Ljunggren. Cambridge, MA: Harvard Institute for International Development, Harvard University.

General Statistics Office. 1996. *Impetus and Present Situation of Viet Nam Society and Economy after Ten Years of Doi Moi.* Hanoi: Statistical Publishing House.

Granick, David. 1990. *Chinese State Enterprises: A Regional Property Rights Analysis.* Chicago: University of Chicago Press.

Grey, Thomas. 1980. The Disintegration of Property. In *Property,* edited by J. Rolland Pennock and John W. Chapman. New York: New York University Press.

Grossman, Sanford, and Oliver Hart. 1986. The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration. *Journal of Political Economy* 94 (4) August: 691-719.

Groves, Theodore, Hong Yongmiao, John McMillan, and Barry Naughton. 1994. Autonomy and Incentives in Chinese State Enterprises. *Quarterly Journal of Economics* 109 (1): 183-209.

Gu, Edward X. 1996. 'Restructuring Chinese State-owned Enterprises by Establishing Joint Ventures with Foreign Investment. 1992-1995)'. Manuscript. Leiden, The Netherlands: Sinology Institute, University of Leiden.

Guanli Shijie (*Management World*) 1994. Report on Questionnaire Poll by the Chinese Entrepreneurial Investigation System. No. 4 (July): 141-51 (in Chinese).

Hart, Oliver. 1988. Incomplete Contracts and Theory of the Firm. *Journal of Law, Economics and Organization* 4 (1): 119-39.

Hart, Oliver. 1995. *Firms, Contracts and Financial Structure.* Oxford: Oxford University Press.

Hayek, Friedrich. 1945. The Use of Knowledge in Society. *American Economic Review* 35: 519-30.

Ho, Samuel P. S. 1994. *Rural China in Transition: Non-agricultural Development in Rural Jiangsu, 1978-1990.* Oxford: Clarendon Press.

Hsingtao. 1996. 25 June. (Hong Kong daily).

Irvin, George. 1995. Vietnam: Assessing the Achievements of *Doi Moi. Journal of Development Studies* 31 (5) June: 725-50.

______. 1996. *Some Current Economic Issues in Vietnam.* Economic Research Seminars Papers. The Hague: Institute of Social Studies.

Jefferson, Gary H., and Thomas G. Rawski. 1994. Enterprise Reform in Chinese Industry. *Journal of Economic Perspectives* 8 (2) Spring: 47-70.

Jefferson, Gary H., Jone Z. Zhao, and Lu Mai. 1995. 'Reforming Property Rights in Chinese Industry'. Manuscript. Waltham, MA: Department of Economics, Brandeis University.

Kim, T. H. 1994. *Economy of Vietnam: Reviews and Statistics.* Hanoi: Statistical Publishing House.

Kogut, Bruce, and Udo Zander. 1992. Knowledge of the Firm, Combinative Capabilities and the Publication of Technology. *Organization Science* 3 (3): 383-97.

Kornai, János. 1980. *The Economics of Shortage.* Amsterdam: North Holland.

______. 1992. *The Socialist System.* Oxford: Oxford University Press.

Laky, Teréz. 1979. Enterprises in Bargaining Position. *Acta Oeconomica* 22 (34): 226-41.

Lavigne, Marie. 1995. *The Economics of Transition: From Socialist Economy to Market Economy.* London: Macmillan.

Leff, Nathaniel H. 1964. Economic Development through Bureaucratic Corruption. *American Behavioral Scientist* 8 (3): 8-14.

Li, David D. 1996. A Theory of Ambiguous Property Rights in Transition Economies: The Case of the Chinese Non-state Sector. *Journal of Comparative Economics* 23 (1) August: 1-19.

Li Zhangzhe. 1993. 1992: An Account of Trends in China's Stock System. *Gaige* No. 3: 53-9 (in Chinese).

Lin, Justin Y., Cai Fang, and Li Zou. 1994. *zhongguo de qiji: fazhanzhanlue yu jingjigaige* (*The China Miracle: Development Strategy and Economic Reform*). Shanghai: Shanghai Sanlian Shudian and Shanghai People's Press.

______. 1995. *Why China's Economic Reforms have been Successful: Implications for Other Reforming Economies.* China Centre for Economic Research Working Papers, No. E1995002. Beijing: Peking University.

Lin Nan. 1995. Local Market Socialism: Local Corporatism in Action in Rural China. *Theory and Society* 24 (3): 301-54.

Liu Yia-Ling. 1992. Reform from Below: The Private Economy and Local Politics in the Rural Industrialization of Wenzhou. *China Quarterly* No. 130: 293-316.

Macaulay, Stewart. 1963) Non-contractual Relations in Business: A Preliminary Study. *American Sociological Review* 28: 55-67.

Mallon, Raymond, and George Irvin. 1997. *Is the Vietnamese Miracle in Trouble?* Economic Research Seminars Papers. The Hague: Institute of Social Studies.

McCarty, A. 1993. Industrial Renovation in Vietnam, 1986-91. In *Vietnam's Dilemmas and Options: The Challenge of Economic Transition in the 1990s*, edited by Mya Tan and J. L. H. Tan. Singapore: Institute of Southeast Asian Studies.

Milgrom, Paul, and John Roberts. 1990. Bargaining Costs, Influence Costs and the Organization of Economic Activity. In *Perspectives on Positive Political Economy*, edited by James Alt and Kenneth Shepsle. Cambridge, UK: Cambridge University Press.

______. 1992. *Economics, Organization and Management.* Englewood Cliffs, NJ: Prentice Hall.

Milor, Vedat (ed.). 1994. *Changing Political Economies: Privatization in Post-Communist and Reforming Communist States.* Boulder, CO, and London: Lynne Rienner Publishers.

Ministry of Agriculture of China. 1990. *zhonghua renmin gongheguo xiangcun jiti suoyou zhi qiye tiaoli* (*Regulations of Rural Collectively-owned Enterprises of the People's Republic of China*). Beijing: People's Press.

Naughton, Barry. 1995. *Growing Out of the Plan: Chinese Economic Reform 1978-1993*. Cambridge, UK: Cambridge University Press.

Nee, Victor. 1992. Organizational Dynamics of Market Transition: Hybrid Forms, Property Rights and Mixed Economy in China. *Administrative Science Quarterly* 37 (1): 1-27.

Nelson, Richard R., and Sidney G. Winter. 1982. *An Evolutionary Theory of Economic Change*. Cambridge, UK: Cambridge University Press.

O'Brien, Kevin J. 1994. Implementing Political Reform in China's Villages. *Australian Journal of Chinese Affairs* No. 32 July: 33-59.

Odgaard, Ole. 1990. Collective Control of Income Distribution: A Case Study of Private Enterprises in Sichuan Province. In *Remaking Peasant China*, edited by J. Delman, S. Østergaard and F. Christianson. Aarhus, Denmark: Aarhus University Press.

Oi, Jean C. 1992. Fiscal Reform and the Economic Foundations of Local State Corporatism in China. *World Politics* 45 October: 99-126.

______. 1995. Local State Corporatism: The Organization of Rapid Economic Growth. In *Chinese Rural Industry Takes Off: Incentives for Growth,* edited by Jean C. Oi. Berkeley, CA: University of California Press.

______. 1996. *Chinese Rural Industry Takes Off: Incentives for Growth.* Berkeley, CA: University of California Press.

Otani, Ichiro, and Chi Do Pham (eds). 1996. *The Lao People's Democratic Republic: Systemic Transformation and Adjustment.* IMF Occasional Papers, No. 137.

Parker, David, and Pan Weihwa. 1996. Reform of the State-owned Enterprises in China. *Communist Economies and Economic Transformation* 8 (1): 109-27.

Parris, Kristen. 1993. Local Initiative and National Reform: The Wenzhou Model of Development. *China Quarterly* 134 June: 242-63.

Pei Xiaolin. 1996. Township-Village Enterprises, Local Governments and Rural Communities: The Chinese Village as a Firm during Economic Transition. *Economics of Transition* 4 (1): 43-66.

Pejovich, Avetozar. 1990. *The Economics of Property Rights: Towards a Theory of Comparative Systems*. London: Kluwer Academic Publishers.

People's Daily (various). Beijing.

Pitt, Mark M., and Louis Putterman. 1992. 'Employment and Wages in Township, Village and Other Rural Enterprises'. Mimeo. Providence, RI: Brown University.

Portyakov, Vladimir. 1991. The Financial Market in China. *Far Eastern Affairs* Vol. 1991, No. 2.

Probert, Jocelyn, and S. David Young. 1995. The Vietnamese Road to Capitalism: Decentralization, de facto Privatization and the Limits to Piecemeal Reform. *Communist Economies and Economic Transformation* 7 (4) December: 499-525.

Raiser, Martin. 1996. *How Are China's State-owned Enterprises Doing in the 1990s?: Evidence from Three Interior Provinces*. Kiel Working Papers, No. 781. Kiel, Germany.

Rana, Pradumna B. 1995. Reform Strategies in Transitional Economies: Lessons from Asia'. *World Development* 23 (7): 1157-69.

Rawski, Thomas G. 1994. Progress without Privatization. In *Changing Political Economies: Privatization in Post-Communist and Reforming Communist States,* edited by Vedat Milor. Boulder, CO, and London: Lynne Rienner Publishers.

Ren Qi, Du Ying, Qiu Jicheng, and others. 1990. An Initial Analysis of TVE Survey in Ten Provinces. *Fazhan Yanjiu (Development Research)* March: 265-88. Beijing: Beijing Normal College.

Rohwer, J. 1992. Survey of China (5): Down off the Farm: A New Form of Corporate Organization has Transformed China. *The Economist* 28 November.

Sabel, Charles, and David Stark. 1982. Planning, Politics and Shop-Floor Power: Hidden Forms of Bargaining in Soviet-imposed State-Socialist Societies. *Politics and Society* 11: 439-75.

Schumpeter, Joseph A. 1934. *The Theory of Economic Development.* Cambridge, MA: Harvard University Press.

Shirk, Susan. 1993. *The Political Logic of Economic Reform in China.* Berkeley, CA: University of California Press.

Stark, David. 1994. Path Dependence and Privatization Strategies in East-Central Europe. In *Changing Political Economies: Privatization in Post-Communist and Reforming Communist States* , edited by Vedat Milor. Boulder, CO, and London: Lynne Rienner Publishers.

______. 1996. Networks of Assets, Chains of Debt: Recombinant Property in Hungary. In *Corporate Governance in Central Europe and Russia*, Vol. 2: *Insiders and the State*, edited by Roman Frydman, Cheryl W. Gray and Andrzej Rapaczynski. Budapest: Central European University Press.

State Bureau of Industrial and Commercial Administration and Theoretical Department, *Beijing Daily.* 1984. Notice of the Central Committee of the CCP Concerning Rural Work in 1984: 188-201 in Beijing Daily Press and Gongshang Press. *Geti Laodongzhe Shouce (Individual Labourers' Handbook).*

State Planning Commission of Vietnam. 1994. *Report on Re-Registration.* Hanoi.

SSB (State Statistical Bureau). 1991. *Statistical Yearbook of China, 1991.* Beijing: China Statistics Press.

______. 1993. *Statistical Yearbook of China, 1993.* Beijing: China Statistics Press.

______. 1994. *Statistical Yearbook of China, 1994.* Beijing: China Statistics Press.

______. 1995. *Statistical Yearbook of China, 1995.* Beijing: China Statistics Press.

______. 1996. *Statistical Yearbook of China*, *1996.* Beijing: China Statistics Press.

Sun Laixiang. 1992. A Survey on the Economic Efficiency of State-owned Enterprises. In *The Functioning Mechanism of China's Commodity Economy*, edited by Li Yining. Beijing: China Economy Press (in Chinese).

Svejnar, Jan. 1990. Productive Efficiency and Employment. In *China's Rural Industry: Structure, Development and Reform*, edited by William Byrd and Lin Qingsong. New York: Oxford University Press.

System Reform Commission of China. 1984. *Collected Documents of Economic System Reform, 1977-1983*. Beijing: China Financial and Economic Press (in Chinese).

Thanh, Ngo Kim. 1995. 'Public Enterprise Reform in Vietnam Transition: Problems and Policy Implications'. MA thesis. The Hague: Institute of Social Studies.

The Economist (various issues). London: The Economist Newspaper Limited.

Vermeer, Eduard B. 1996. Experiments with Rural Industrial Shareholding Cooperatives: The Case of Zhoucun District, Shandong Province'. *China Information* 10 (3/4) Winter 1995/Spring 1996: 75-107.

Walder, Andrew G. 1994. Corporate Organization and Local Government Property Rights in China. In *Changing Political Economies: Privatization in Post-Communist and Reforming Communist States*, edited by Vedat Milor. Boulder, CO, and London: Lynne Rienner Publishers.

______. 1995. Local Governments as Industrial Firms: An Organizational Analysis of China's Transitional Economy. *American Journal of Sociology* 101 (2) September: 263-301.

Wang Xiaolu. 1990. Capital Formation and Utilization. In *China's Rural Industry: Structure, Development and Reform*, edited by William Byrd and Lin. New York: Oxford University Press.

Wank, David L. 1996. The Institutional Process of Market Clientelism: Guanxi and Private Business in a South China City. *China Quarterly* 147: 820-38.

Weitzman, Martin L., and Xu Chenggang. 1994. Chinese Township-Village Enterprises as Vaguely Defined Cooperatives. *Journal of Comparative Economics* 18 (2): 121-45.

Williamson, Oliver E. 1991. Comparative Economic Organization: The Analysis of Discrete Structure Alternatives. *Administrative Science Quarterly* 36 June: 269-96.

______. 1995. The Institutions and Governance of Economic Development and Reform. *Proceedings of the World Bank Annual Conference on Development Economics, 1994*. Washington, DC: World Bank.

Wong, Christine. 1985. Material Allocation and Decentralization: Impact of the Local Sector on Industrial Reform. In *The Political Economy of Reform in Post-Mao China*, edited by Elizabeth J. Perry and Christine Wong. Cambridge, MA: Council on East Asian Studies, Harvard University.

______. 1992. Fiscal Reform and Local Industrialization. *Modern China* 18 (2): 197-227.

______. 1995. Financing Local Government in the People's Republic of China. Manila: Asian Development Bank.

Wong, John, Ma Rong, and Yang Mu. 1995. *China's Rural Enterprises: Ten Case Studies*. Singapore: Times Academic Press.

Woo, Wing T., Hai Wen, Jin Yibiao, and Fan Gang. 1994. How Successful has Chinese Enterprise Reform been?: Pitfalls in Opposite Biases and Focus. *Journal of Comparative Economics* 18 (3) June: 410-37.

World Bank. 1994a. *Lao People's Democratic Republic*. Country Economic Memorandums, No. 12554-LA. Washington, DC: World Bank.

______. 1994b. *China: Macroeconomic Stability in a Decentralized Economy*. Country Economic Memorandums. Washington, DC: World Bank.

______. 1994c. *Vietnam: Public Sector Management and Private Sector Initiatives*. Economic Reports, No. 13143-VN. Washington, DC: World Bank.

______. 1996. *World Development Report 1996: From Plan to Market*. New York: Oxford University Press.

Yearbook of China's Economic System Reform. 1992. Beijing: Gaige Press (in Chinese).

Yearbook of China's Township and Village Enterprises (various issues). Beijing: Agriculture Press (in Chinese).

Young, Susan. 1994. Ownership and Obligation in China's Rural Enterprises: Community Interests in a Non-legalistic Environment. In *Chinese Economy in Transition*, edited by Wu Yanrui and Zhang Xiaohe. Canberra: National Centre for Development Studies, Australian National University.

Zhang Houan, Bai Yihua, and Wu Zhilong. 1992. *zhongguo xiangzhen zhengquan jianshe* (*Power Construction of Chinese Towns and Townships*). Chengdu, China: Sichuan Press.

Zhang Weiying, and Yi Gang. 1995. *China's Gradual Reform: A Historical Perspective*. China Centre for Economic Research Working Papers No. E1995001. Beijing: Peking University.

Zhou Taihe (ed.). 1984. *Dangdai zhongguo de jingji tizhi gaige* (*Reform of the Economic System in Modern China*). Beijing: China Social Science Press.

Zou Liang. 1992. Ownership Structure and Efficiency: An Incentive Mechanism Approach. *Journal of Comparative Economics* 16 (3) September: 399-431.

Zou Liang, and Sun Laixiang. 1996. Interest Rate Policy and Incentives of State-owned Enterprises in the Transitional China. *Journal of Comparative Economics* 23(3) December: 292-318.

Research for Action Series RFA

RFA1 Hunger and Entitlements by Amartya Sen, January 1988 *out of print*

RFA2 Lessons of the Golden Age of Capitalism by Stephen A. Marglin, April 1988

RFA3 Conditionality: Facts, Theory and Policy by Dragoslav Avramovic, July 1989

RFA4 The World Economic and Financial Crisis by Celso Furtado, Lal Jayawardena and Masaru Yoshitomi, November 1989 *out of print*

RFA5 The Affinity between Ownership and Coordination Mechanisms. The Common Experience of Reform in Socialist Countries by János Kornai, January 1990

RFA6 Towards a Peaceful Sri Lanka. Six Introductory Seminars for University Students by Carlo Fonseka, October 1990

RFA7 Gender, Development, and Policy: Toward Equity and Empowerment by Valentine M. Moghadam, November 1990

RFA8 Foreign Resource Flows and Developing Country Growth by Lance Taylor, March 1991

RFA9 A Global Environmental Compact for Sustainable Development: Resource Requirements and Mechanisms by Lal Jayawardena, August 1991

RFA10 Privatization and Democratization in Central and Eastern Europe and the Soviet Union: The Gender Dimension edited by Valentine M. Moghadam, January 1992

RFA11 Aid and Development Policy in the 1990s by Arjun Sengupta, February 1993

RFA12 The Potential of Development Contracts and Conditionality: Towards Sustainable Development Compacts by Lal Jayawardena, February 1993 *out of print*

RFA13 Gender and the Development Process in a Changing Global Environment. Results of the UNU/WIDER Research Programme on Women and Development by Valentine M. Moghadam, July 1993

RFA14 The New Regionalism: Implications for Global Development and International Security by Björn Hettne and András Inotai, February 1994

RFA15 Economic Reform and Its Interpretations in Russia by Ruben N. Yevstigneyev and Arkady M. Voinov, May 1994

RFA16 Structural Adjustment in Africa. A Performance Review of World Bank Policies under Uncertainty in Commodity Price Trends: The Case of Ghana by Tetteh A. Kofi, June 1994 *out of print*

RFA17 Russian Transition - Chinese Reforms: A Comparative View by András Blahó, June 1994 *out of print*

RFA18 Internationalization of Finnish Firms and their Response to Global Challenges by Reijo Luostarinen, December 1994

RFA19 Impacts of Africa's Growing Debt on its Growth by Siddig A. Salih, December 1994

RFA20 Trends in International Cooperation and Net Resource Transfers to Developing Countries by Krishnalekha Sood, January 1995

RFA21 Habitat II and the Urban Economy: A Review of Recent Developments and Literature by Pii Elina Berghäll, April 1995

RFA22 Restructuring of Peripheral Villages in Northwestern Russia by Eira Varis, February 1996

RFA23 The Urban Challenge by Reino Hjerppe and Pii Elina Berghäll, March 1996

RFA24 Development, Aid and Conflict: Reflections from the Case of Rwanda by Peter Uvin, September 1996

RFA25 The Age of Humanitarian Emergencies by Raimo Väyrynen, September 1996

RFA26 Welfare Changes in China during the Economic Reforms by Lu Aiguo, September 1996

RFA27 The Banking System and Monetary Aggregates Following Financial Sector Reforms: Lessons from Indonesia by Anwar Nasution, September 1996

RFA28 Dealing with Capital Inflows: Are There Any Lessons? by Carmen M. Reinhart and Steven Dunaway, September 1996

RFA29 A Russian Puzzle: What Makes the Russian Economic Transformation a Special Case by Vladimir Popov, September 1996

RFA30 Tree Plantations in the Philippines and Thailand: Economic, Social and Environmental Evaluation by Anssi Niskanen and Olli Saastamoinen, October 1996

RFA31 Why Humanitarian Emergencies Occur: Insights from the Interface of State, Democracy and Civil Society by Claude Ake, January 1997

RFA32 Zaire after Mobutu: A Case of a Humanitarian Emergency by Kisangani N. F. Emizet, February 1997

RFA33 The Polish Alternative: Old Myths, Hard Facts and New Strategies in the Successful Transformation of the Polish Economy by Grzegorz W. Kolodko and D. Mario Nuti, March 1997

RFA34 Food Marketing Reconsidered: An Assessment of the Liberalization of Food Marketing in Sub-Saharan Africa by Pekka Seppälä, April 1997

RFA35 The Liberalization of Foreign Exchange Markets and Economic Growth in Sub-Saharan Africa by Nguyuru H. I. Lipumba, May 1997

RFA36 Political Sources of Humanitarian Emergencies by K. J. Holsti, May 1997

RFA37 The Role of Civic Organizations in the Provision of Social Services: Towards Synergy by Mark Robinson and Gordon White, July 1997

RFA38 Emergence of Unorthodox Ownership and Governance Structures in East Asia: An Alternative Transition Path by Laixiang Sun, July 1997

For price and order information, please contact the address given below.

UNU/WIDER Publications
Katajanokanlaituri 6 B
00160 Helsinki, Finland

Telephone (+358-9) 6159911
Facsimile (+358-9) 61599333
Telex 123455 unuei fi
E-mail wider@wider.unu.edu