

Township and Village Enterprises (TVEs):
Role in China's Post-Reform Development

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DECLARATION

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CERTIFICATE

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ACRONYMS

<i>CBE</i>	<i>Collective Commune and Brigade Enterprise</i>
<i>COE</i>	<i>Collective Owned Enterprise</i>
<i>ETDZs</i>	<i>Economic and Technological Development Zones</i>
<i>FDI</i>	<i>Foreign Direct Investment</i>
<i>HCRS</i>	<i>Household Contract Responsibility System</i>
<i>HF</i>	<i>Household Farm</i>
<i>OEAs</i>	<i>Open Economic Areas</i>
<i>SEZs</i>	<i>Special Economic Zones</i>
<i>SOE</i>	<i>State Owned Enterprise</i>
<i>TVEs</i>	<i>Township and Village Enterprises</i>
<i>TVG</i>	<i>Township and Village Government</i>

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Chapter 1

INTRODUCTION

Since 1978, economic reforms have transformed the economic institutions in China and this has been one of the causes of the economic growth and development. These economic institutions includes 'state owned enterprises' (SOE), 'collectively owned enterprises' (COE) and 'private owned enterprises'. Both State ownership and collective ownership can be considered as analogous to public ownership. The firms under State ownership are nominally owned by all Chinese citizens but controlled by government agencies from centre. Firms under collective ownership are owned by all residents of a local community but controlled by the local community government. 'Township and village enterprises' (TVEs) are the dominant part of COEs and in a broad sense, refer to local community enterprises in rural China engaged in non-agricultural productions. It is these institutions on which there has been substantial research done because of the uniqueness of their contribution to national growth and development, unlike in other developing and developed countries where urban industrialization has been the basis of growth and development. Chinese growth and development policies were different in the sense that it was these institutions which accounted for the growth, based on rural agricultural development and rural industrialization. But the study of all these institutions would be too vast, so my study will only cover the TVEs.

If we look at China's high growth and transition from a planned to a market economy, then there are three stylized facts: first, the launch of reforms in 1978, second, the record of very high growth in the manufacturing sector and third, the mushrooming of TVEs across China. It is generally accepted that the reforms of 1978 created the conditions for high growth in the manufacturing sector. But what is not clear is whether the simultaneous occurrence of high growth in the manufacturing sector and the growth of TVEs is a coincidence or not. This thesis argues that there is a relation between growth of the manufacturing sector and the growth of TVEs and shows how the growth and development of TVE has

contributed to the rise of the manufacturing sector. The thesis seeks to address the following question and objectives:

- What are the features of TVEs and their development that explain their role as the driving force behind China's high growth and transition from a planned to a market economy?
- How successful have the TVE been in terms of their numbers, employment and value-added?
- How has the geographical distribution of TVEs contributed to the regional disparities?

1.1. The Institutional Background

One of the basic problems that China was facing before the reform was inadequate industrialization, or broad-based economic development. So in order to tackle the problem, as early as 1958-59 China opted for the 'great leap forward' strategy, in which the collectivization movement was speeded up so as to have single giant commune. But as a matter of fact, the establishment of large communes with public ownership of farm land and other means of production did not prove very successful. And hence it could be said that establishing advanced cooperatives on the Soviet Model was not successful in China. The reasons for the failure could be far too much concentration of labor force and pooling of vast areas of land under uniform management which stifled the peasants' enthusiasm. And this situation was worsened by the Cultural Revolution from 1966 to 1976.

So, ever since the death of Mao in 1976, things changed under Deng Xiaoping. For good or bad, Deng's concept of development differed from that of the Mao's in a drastic way. His ideas were reportedly based on both the actual condition and the principal of Marxism – Leninism and Mao Zedong's thoughts. Hence with the new leader came economic reform, involving departure from central planning in the industrial sector, and adoption of elements of a market economy, through decentralization, marketization, and property rights reform at the enterprise level.

The idea behind such reform was to concentrate more on the efficiency¹ aspect rather than on the equity which Mao had been emphasizing with the rural development based on central planning. Hence, in order to attain the desired efficiency level, the Chinese central government devolved control and ownership of state enterprises to lower levels of government and granted local governments the right, in the form of fiscal contracts or tax farming, to derive residual income from the enterprises under their jurisdictions. The ‘open door policy’ mostly benefited the coastal region, where special economic zones were established. And also, one of the key features of the Chinese marketization process was a ‘dual track system’ in which market transactions and bureaucratic allocations coexisted with the gap between them slowly reducing over time so that the whole economic system is market determined rather than led by the State.

1.2. What are Township and Village Enterprises (TVEs)

TVEs in China are unique phenomena in the sense that the emergence of rural entrepreneurs in this form has not been experienced in any other country on such a large scale and at such a rapid pace. Their roots can be traced back to the late 1950s, but their development was not truly noticed and acknowledged until the late 1970s, when China began to carry out the reforms. This makes it important to examine what TVEs are and how TVEs came into being. The question as to what is a TVE or a clear definition of a TVE is a matter of great conflict because the concept of TVE contains an ownership dimension, a management dimension and a locational dimension. Most TVE industrial output is produced by firms that are controlled by local township and village governments. Despite the “collective” label, TVEs themselves were never wholly worker cooperatives. This is because the Law governing TVEs in China do not exclude privately owned enterprises from that definition which function under a ‘red cap’². In fact, in a circular issued by the State

¹ Efficiency means maximization of current output of goods and services with the available factors of production and with adequate provision of resources for future growth.

² In a hostile political climate before and after the reform, with unfavourable policies for private property, the private firms took political shelter from local officials and accessed resources by registering as TVEs.

Council of China in 1984, it was explicitly stated that “TVEs include four types of enterprises: enterprises owned by townships; enterprises owned by villages; cooperatives formed by groups of rural residents; and private family businesses”.

The second question as to how TVEs came into existence goes back to the time when Mao used land reform as a stepping stone for the collectivization of the whole economy. This Collectivization gave the State control over production processes and the daily lives of farmers. All production decisions flowed from the top, with people who were from outside the family and the village deciding what to grow, how to grow, and how much to grow. And for the first time in Chinese history, the state controlled farm management decisions by taking the power away from family heads. Because of all these farmers lost the incentive to work and productivity dropped drastically. It also gave rise to a new institution called the *baochan daohu* or household farm (HF).

1.3. The Rise of the Household Farm

The introduction to TVE formation cannot be complete without a brief introduction to the household farm (HF) or *Baochan daohu*, as it is said that TVEs were a direct consequence of HFs. That is, HFs gave birth to TVEs which grew in terms of production and productivity, this slowly challenged the role that State enterprises were suppose to play at national level, for the growth and development of the Chinese economy.

The origin of HFs in various forms can be traced back to long before 1978. The HFs came into existence only because, the weaknesses in production management under the government which left the requirements of the people unmet. This led to spread of HFs illegally and because of which in 1978 the resolution of the Third Plenary Session of the Eleventh Party Congress insisted that HF activities be tagged as an illegal practice. But in spite of this the HFs continued to flourish, because of the tolerance of some pragmatic leaders. It was in that very year that Party Secretary Zhao Ziyang and Wan Li in Sichuan and Anhui allowed local initiatives to farm uncultivated land, fix specialized contracts and task rates and contract production to

work groups. All this shifted the production decision from the State to the household and this became the key source for the most important transformation in rural China. This increased the farmers' enthusiasm and led to rapid increase in their productivity. Despite central opposition the 'household contract farm' spread across China. The HF used every means to achieve a higher level of production and obtain a satisfactory proportion of its output for its own private consumption after providing for the State's share. Through a range of illegitimate means, farmers effectively created a new institution within a couple of years. First, HFs have widened from simple contracting to a rich diversity of adaptive forms. Second, they have expanded from use for particular crops to cover all farming activities. Third, they have grown from giving farmers limited incentives to granting farmers with almost complete freedom in making economic decisions. Four, they have spread from limited, poor areas to all over the country. Finally, they have changed from being a short-term solution to immediate management problems into institutionalized organizational forms³. And their efforts finally paid off in the late 1970s and came above ground in 1982, when Deng Xiaoping eventually accepted this alternative to "peasant" evolutionary collectivism. He named it the "household production responsibility system" in order to avoid using the term "de-collectivization,"

The rural industrial take off did not begin until the HF enabled the family head to resume economic decision-making. Family farming rationalized labor and the use of technology, leading to an increase in productivity both per hectare and per worker. Once the family paid its taxes in grain, the cadres could no longer prevent farmers from engaging in non-agricultural work. Moreover restrictions on rural migration into urban factory jobs pushed farmers to set up their own factories. This is how rural industrialization started taking its initial steps to become the basis for a large pool of rural industries. There are many ways through which the HF contributed to the successes of TVE but we can sum them up in the following four important points. First, the rapid increase in agricultural productivity in HFs released huge surplus labor to be absorbed. Second, the booming markets put funds in the hands of farmers to start businesses. Third, HFs enabled farmers to control labor allocation. Fourth, as farmers were not allowed to be employed in state owned factories, they

³ Watson (1983)

had to fall back on their own devices for industrial employment. It is through this process that rural industrialization took off in the early 1980s.

1.4. Summary of Literature

The unique context of China's transition to a market economy is the product of a distinctive cultural, social, political, and economic system. This makes China's experience an excellent place to test the theories that are built on the evidence of the developed market economies in the West⁴. More importantly, the success of China has been a puzzle and challenge to various conventional theories, ranging from the theories of the firm and property rights to those on the political and institutional basis for economic development. The most important factors that have played a major role are institutional reform and the introduction of private property rights. It is these two factors which has been major point of contention and debate over a period till date. With respect to these two points, TVEs are a standing example. As mentioned earlier, the concept of TVE contains an ownership dimension, a management dimension and a locational dimension. The question as to who are the actual owners is not clearly answered. Are the owners the people of the community or the workers or the 'township and village governments' (TVG)? And also what is not clear whether management is being looked after by the TVG or by the independent managers recruited for the purpose. And finally there is the location aspect because TVEs are no more restricted to the township and village level. They are found everywhere, including urban and sub-urban areas. Finally, the clear definition of property rights is the major issue with respect to collectively owned enterprise (especially TVEs). So this summary survey of the literature looks at material relating to institution formation and private property rights.

1.4.1. Institution Formation

It is the mainstream theories' belief that formation of new institutions and institutional change or the rise of institutional entrepreneurship is an outcome of

⁴ Peter Ping Li (2005)

political leadership, articulated ideology, planned mobilization and formal organization. But these arguments regarding institution building have been challenged by China's 'household farms' and 'township-village enterprises', which are institutions created by millions of ignorant farmers via spontaneous, unorganized, leaderless, non-ideological, and apolitical local experiments⁵. The Chinese experience, shows how elite-based institutional theorizing is not always true and call for a balanced research agenda that is sensitive to contextual differences and embraces non-elite agency.

TVE formation cannot be associated or linked to some already existing institutions. What is needed is a new set of ideas concepts which explain its existence. It cannot be studied in isolation nor for a particular period of time, like some have done. TVEs are a product of evolution over periods and analyses of their emergence need to take into consideration the social, political and economic influences on TVE formation. This is because TVE development is not the outcome of any carefully designed policy or plan by the government. Nor is it the product of experiments conducted by the government. TVEs are the product of mass movement by the farmers who, out of desperation of their economic condition started setting up HFs and then TVEs, without having anything to do with the government. And also the government policy regarding the HFs and TVEs were not favourable initially, and the government had gone to the extent of banning them. But the policy changed from tolerance to encouragement during the 1980s, and the success of TVEs also influenced to an extent, experiments with 'contract responsibility system' in state owned enterprises (SOEs).

Writers such as Zucker who had introduced the 'great collective theory' States that 'collective actors, especially those that are formally organized, are the primary source of institutional patterns and of changes in those patterns'. But TVEs as collective organizations did not start off with the conscious organized 'collectives' as argued by some of the writers. Neither were there any theorized models or slogans, nor mass gatherings or boardroom meetings led by leaders or activists.

⁵ Zhichang Zhu (2008)

There are also some theorists on institution formation who believe that such institutions can be formed or changed only by the elite entrepreneurs. "The whole affair is projected as a top-down exercise: only the elites, not the masses, can change the rules and hence institutions"⁶. The 'social movement' theorists also insist that 'the ... theoretical tradition to encourage work on the organizational dynamics of collective action has been the political process model'⁷. But if we look at the Chinese peasant movement, it has been a bottom-up movement, initiated by the peasant. Documented evidence reveals that TVEs were created chiefly by millions of unknown farmers via a massive movement, a quiet revolution that is spontaneous, unorganized, leaderless, non-ideological and apolitical. And all these views on institution formation appear to be contradicting the grounds on which the TVEs are said to have been formed.

1.4.2. Private Property Rights

There is a group of economists who believe that institutions with clearly-defined property rights are a precondition for economic prosperity. This would also mean that in the absence of well defined private ownership, firms will tend to operate badly, and any system without well defined property rights will tend to perform badly. According to them existence of well-defined private property rights is a basic precondition for the proper functioning of an economy as a whole. Ambiguous ownership rights which blur incentives and erode monitoring capabilities, increases the potential for inefficiency, and eventually results in organizational slack. Part of the purpose of this exercise is to test to what degree this theory of private property rights stands true.

"Well defined property rights" typically include the following three basic elements: (i) to every property is assigned a well defined owner(s) with exclusive rights of ownership; (ii) the owner of the property has the right to the residual income

⁶ Zhichang Zhu (2008)

⁷ Zhichang Zhu (2008)

accruing to the assets; and (iii) the owner has the right to control or determine use of the existing assets, to restructure the property, and to sell or lease it. Therefore, according to the property rights theorists, one should find striking differences in efficiency between the firms across different ownership categories in China. If we apply their arguments about property rights and performance to the Chinese manufacturing industry, the SOEs should have the lowest efficiency, since they are owned and controlled by the government. Secondly, we have the private owned enterprises, whose performance should be the best of all since ownership is well defined. And finally we have the unique set of enterprises which lie in between these two, which are the 'collectively owned enterprises' and according to their norms the performance of these units should also lie in between. But there is ample evidence to show that 'collective enterprises' have matched or even exceeded private firms in terms of total factor productivity⁸ (See chapter 3). So the hypothesis that the firm or industry with clear private property right should have a better performance is false.

TVEs are collective enterprise at the rural level that is widely accepted as "vaguely defined cooperatives" that perform extremely well despite not being governed by well defined private property rights in the standard or conventional sense. And it is also on the basis of these "vaguely defined cooperatives" that China's economy over many decades has thrived. Moreover, the nature of China's private property rights has undergone huge change over a period of time. While it is moving to the direction of the standard property right, this has been influenced by the TVEs which have changed their ownership over a period of time. The cooperatives which started as the commune brigades where the ownership was basically by the people of the country, controlled by government agencies, has now changed to the extent that individuals not only have a share in the firms earnings but also have the right to participate in the management of the firms. Liu Zhenyu (1999) found that 80 percent of rural collectives had undergone restructuring⁹. Large and important local firms typically become shareholding cooperatives, with local government agencies holding controlling blocks of shares. The restructuring of smaller firms involves numerous options, some resulting in private control.

⁸ Peter Ping Li (2005)

⁹ Gary H. Jefferson and Thomas G. Rawski (2000)

This dissertation will include three main chapters (excluding introduction and conclusion) which basically answer the three questions stated earlier. The first (chapter two) will examine the response to the main question of the historical factors explaining TVE growth which also elaborates on the three stylized facts about China's economy in transition. The second (chapter three) will have an analytical interpretation of TVE performance in terms of growth of number of enterprises, gross output value, employment and value added. The third (chapter four) discusses the geographical distribution of TVEs across the regions and the change over time and analyzes how the spread of TVEs has contributed to China's problem of regional disparities. Chapter five provides a conclusion on an overall view. All details regarding the sources and, definition of data are in the appendix.

Chapter 2

HISTORICAL FACTORS EXPLAINING TVE'S PERFORMANCE

2.1. Introduction

Development has the implication of a gradual unfolding or a passing through stages, each of which prepares for the next. But the question remains, as to how these stages should unfold or how can this development be best brought about, that is, what mechanism most surely will lead to growth and development. Of course there are a variety of approaches to this problem, but the one which has the greatest claim to the orthodox position is the view that development will be facilitated by doing nothing, by letting things alone: “laissez faire”. This view grows out of the model of competitive market capitalism. In that model, free choices are expected to overcome scarcity and to result in progress through automatic adjustments ensured by free exchange of markets. The forces of competition ensure that the economy produces those goods which people desire and that maximum output is produced in the most efficient manner. And the other model, which is based on an exact opposite belief, argues that markets tend to fail and emphasizes the need for intervention by the government to correct for market failure. China's approach is in keeping with the latter view, as right from the inception of communist rule, the government has a very high degree of interference in every aspect of life, and that includes not only economic and political but also in social aspects. The most basic fundamental questions as to what to produce, how much to produce and for whom to produce, are decided centrally by the government. Centralization has always played an important role, though there is some degree of decentralization taking place after the reform.

China's economic model has always involved interference in nature. Though we can say that the degree of the control has reduced over time, it has always been the case that the Chinese government attempted interference in some form. This can be seen in every stage of development of the Chinese economy and in every institution behind China's growth. The initial collectivization (1950s) gave the State control

over production processes and the daily lives of farmers. It was for the first time in Chinese history, the State wrested farm management decision, taking power from family heads. All production decisions flowed from the top and farmers' were told what to produce, how much to produce, and how to produce.

After the reform things changed to some extent, with 'decentralization' and 'private property rights', but in some form or the other State always tend to have control over every aspect of the economic process. The most important question that arises in this context relates to the factors explaining China's rapid economic growth, especially with respect to TVE. Is it the government's intervention and control that is producing such efficiency¹⁰ or is there some other factor that accounts for such progress? There is no doubt about the fact that government intervention facilitates growth, but there are definitely other factors which are making government intervention possible. There are the historical factors which have been put in place before the reform which make improbable things possible under the new regime.

This chapter highlights three stylized facts about China's economy that are of relevance here: China's economic reform, the performance of its manufacturing sector and the performance of TVEs. The objective behind this chapter and the following chapter is to address the hypothesis that there was an extremely significant role played by the TVEs in ensuring China's impressive performance in the manufacturing sector. The first section to this chapter talks about the reforms. It basically introduces the policies adopted during the reform period like: decentralization, introduction of property rights, marketization and liberalization policy. The chapter also highlights variations in the manner in which these concepts have been implemented in the Chinese context. Take for example the case of the private property right which had never existed before the reform: this took a different form of cooperative ownership under the village and township committee, with the location of the ownership right still not very clear. Similar is the case with the decentralization of management which too looks not very clear as we can see the existence of a dual track system in which market transactions and bureaucratic

¹⁰ Efficiency here means maximization of current output of goods and services with the available factors of production and with adequate provision of resources for future growth

allocations coexist. The Second section would include the performance of the manufacture sector after the reform. And the Third section will have a brief discussion on the performance of TVEs. And the final section addresses the historical factors explaining TVE performance which will be discussed in detail with respect to 'rural industrialization', 'the structural legacy', 'advantages that TVE enjoy under State control' and the 'role of incentive factors'. The purpose of these are to show how the success of TVEs was grounded way before the reform and how these historical factors had a great role to play for the success of TVEs even after the reform.

2.2. China's Economic Reforms

In the Political Report to the Eleventh National Congress of the Communist Party of China, on August 12, 1977, Hua Gua Guofeng announced that the mission for the last quarter of the twentieth century is: "to bring into full play all positive factors inside and outside the Party at home and abroad,.. and make China a great, powerful and modern socialist country before the end of the century." In order to accomplish this mission, China adopted political and economic reforms, reinstated policies that were condemned as "capitalist" and "revisionist" during the years of the Cultural Revolution and introduced the Four Modernizations program which emphasized development and progress in science and technology, industry, agriculture, and defence. The aim of the Four Modernizations was to bring China's economy to the "first ranks of the world" by the year 2000¹¹.

The economic reform process, which was directed towards improvement of growth, productivity and exports, was gradual and partial with regard to decentralization, introduction of private property rights and liberalization, which slowly shifted the economy towards a market-based system. The initiative of the government was focused increasingly on innovation, cost reduction, privatization and further deregulation. China's reforms have been undertaken in three main stages after Deng's political ascendancy in 1978. The first phase, 1979-82, focussed mainly on rural liberalization, the second phase of reform opened the economy to international trade and capital flows around 1979 and the third phase of reform involved diversification

¹¹ Rosalie L. Tung

of ownership patterns around 1984, with the unveiling of the 'Provisional Regulations on the Expansion of Self-Management Powers in State Enterprises'¹². The result of all these have been an impressive acceleration of growth.

2.2.1. Decentralization

Post-Mao reform significantly changed the relationship between central and local governments and between local governments and their enterprises. This happened through "decentralization reforms" which involved the devolution of decision-making powers from the central government to various levels of the local governments. It was basically a change in the managerial system and of the ownership structure. This is obviously different from the centralized system represented by the SOE where the State decides on the distribution of expenditure and income from the State. And the typical example to illustrate this initiative would be the TVE, wherein both managerial and fiscal decentralization has taken place.

It is said that there were three stages in the decentralization of the Chinese State industrial sector. The first stage was from 1979 to 1982, when administrative decentralization, particularly fiscal decentralization was introduced, which enabled local governments to retain and allocate more of the tax revenues collected instead of paying them over to the central government, and to levy surcharges, fees and various duties on collective, individual and private enterprises for extra-budgetary funds. This way the local governments at various levels were given greater autonomy in making decisions concerning local economic development. This autonomy stimulated growth of the non-State sectors and the development of various heterodox and spontaneous measures that expanded the ambit of market forces and the space for the growth of the non-State sectors. Examples of this included start-up funds, lower taxes on TVEs, preferential policies and flexible measures to motivate overseas investors to establish the foreign-funded enterprises which, in turn, developed the local economy.

The second stage of the decentralization program was from 1982 to 1989 when SOEs started operating under the 'contract responsibility system.' Unofficially, the contract responsibility started way before this date. Under the contract responsibility

¹² Jeffrey Sachs and Wing Thye Woo (1994)

system the households sign contracts with the collective for a certain area of farm land, forests, orchard, fish ponds, or pasture land, or for poultry farming, pig raising, running a processing workshop or transport business or trading with the basic means of production remaining under public ownership. The households are asked to hand over part of their products and income to the collective, while the collective economic organizations control and guide their activities.

The third stage of the decentralization program started off from 1993 with Corporatization. Corporatization is becoming a widely accepted idea and form of ownership reform of the state sector and is not only on the policy agenda but is no longer a subject of political criticism. More and more State enterprises and TVEs are being sold to, or merged with, non-state companies. The consequence of this is that the numbers of SOEs and TVEs have fallen after 1994.

2.2.2. Property Right

Property Rights underlying different types of enterprises in China is one of the most controversial element of the China's economic structure. These property rights comprise of many different kinds and degrees of control over property, including full ownership, a variety of rights of use, access, decision and/or disposal, as defined by laws, custom, contracts or internal organisational rules¹³. It is actually the decentralization of public enterprises that has greatly contributed to the development of a property rights market, though the property rights are still ambiguous with regard to collective enterprises such as TVEs. The three major types of enterprises in China, such as SOEs, 'collective owned enterprises' (COE) and 'privately owned enterprises' have great variation in the ownership, control and management of the enterprise. And most important of all, the nature of the 'private property rights' given to these enterprises are changing over the time with more, relaxation of norms and corporatization taking place.

TVEs are collectively owned by all the residents of a local community, but such ownership is mandatory and by default, rather than voluntarily and deliberately chosen, because the ownership comes automatically with local residency without

¹³ Carl Riskin, (2008)

any cost. But this type of ownership does not guarantee all the rights. For example, the major portion of the profit generated by TVEs is used for the local administrative budget and not distributed among the owners. But according to 'private property rights' the owner is supposed to be the claimant to the residual of TVE incomes, which in this case is not the community. This means that the local residents can only receive the benefits of TVEs in the form of general communal welfare. So the question as to who are the actual owners of the TVE, is it the workers of the TVE, or the managers(s), or is it the residents of the community, has become a complex issue. It is because of these complexities attached to the property right that we have a unique and vague defined property structure in China. Not only are the property rights vaguely defined but with the passage of time the definition of property rights has greatly changed, with legalization of shareholding form of ownership.

While the shareholding experiment had been first introduced in 1993, it was only until the restructuring initiatives of 1997-98 that shareholding conversion became a broad-based initiative involving the conversion of large numbers of both SOEs and COEs. While formal privatization has been ruled out for ideological reasons, the shareholding experiment was widely viewed as a covert mandate for privatization. From 1997 to 2001, the number of registered State-owned enterprises declined by nearly one half. According to Fan Gang (2002), "preliminary provincial data indicate that in some regions more than 70 percent of small SOEs have been privatized or restructured". This conversion of state-owned enterprises was not limited to small-sized enterprises. Furthermore, the conversion process was extended to collective-owned enterprises, including the TVE sector that had earlier been celebrated for its competitive performance. And growing incidence of spontaneous privatization through all means by local governments has increasingly sanctioned the conversion of TVEs to shareholding enterprises. Large and important local firms typically became shareholding cooperatives, with local government agencies holding, controlling blocks of shares. And also restructuring of smaller firms involves numerous options, some resulting in private control.

As we see the property rights in rural industries are being redefined and redistributed among members of local communities. Most important of all, knowledge about the market economy is rapidly growing and China's market-oriented reform has become

irreversible. And the degree of private property has also increased to the extent that the legal authority for asset disposition by shareholding firms appears to rest primarily with the shareholders. As Article 182 of China's Company Law also states that "merger or break-up of companies should be discussed and decided by the shareholders' meeting".

2.2.3 Marketization

The post-Mao decentralization occurred in parallel with a marketization process that gradually shifted Chinese industry from a planned system to a market-driven one. It is through this marketization process that the performance of the industrial sector changed tremendously. The most important of all the changes in marketization was the experiment with the 'dual track system' and the 'open door policy'. Under the 'dual track' the market transactions and bureaucratic allocations coexisted. This happened when the absolute volume of industrial goods allocated through planning remained fixed, and the share of economic activities carried out in the market sector expanded as the economy grew. Whereas in the case of the 'open door policy', the inflow of capital and outflow of domestically produced goods increased and this increased the overall production of the manufacturing sector. We shall look in detail at these policies.

Dual Track System

In addition to the TVEs, the most famous example of a gradualist, experimental institutional arrangement in China was the 'dual track system'. Under this system two methods of market function existed simultaneously such as: dual pricing and output, dual ownership and dual exchange rates. In a way, the State continued control the SOEs while permitting growth of a new non-State sector largely outside of State control. Although some countries in Eastern Europe and the former Soviet Union tried a similar course during the 1980s, their two-track approach failed¹⁴. The success of China's 'dual track system' may be attributed to the way the reform unfolded or the balancing act performed by the government. The balancing act consisted in specific ways of combining the old system (of culture and ideology) with the new system which is more market oriented, so that direct efforts of

¹⁴ Jeffrey Sachs and Wing Thye Woo (1994)

shrinking the old system are not always necessary. This can happen if and only if the new sector develops fast enough to outpace the old sector. If, however, the new sector cannot be established without moving resources from the old sector, then political reform must come first before any real economic reform (cutting subsidies to the SOEs, for instance) can be undertaken. If we look at the transition of China's economy over time, the new systems have always outpaced the old. This can be seen with the ownership reform that has taken place especially with TVEs, where the role and ownership of local government are about to end¹⁵. Same thing applies to the dual track system as discussed below.

The dual price and output system started with the 'household contract responsibility system' (HCRS) which allowed farm households to lease land from the State and sell their output on a two-track basis: a fixed quota at State-set prices to official procurement agencies and the remaining output at freely determined prices in agricultural markets. And even TVEs were part of the two-track policy. The enterprises were permitted to sell at market prices the output produced above their plan quotas. Hence products were divided into market transaction and bureaucratic allocation quotas. With the progress of time State procurement prices were also raised to ease the financial strain on an impoverished rural sector whose real consumption had been stagnant for more than a decade. And also the TVGs were increasingly allowed to establish TVEs for the production and sale of industrial goods outside the central plan. Hence the State continued with its control of state enterprises while permitting growth of a new non-State sector largely outside of State control. When convergence of the two tracks finally took place, the food products sold at officially fixed prices accounted for less than 15% of total consumption and the free market prices were about twice the official prices¹⁶.

The success of dual-track transition depends mainly on the success of the new track. If the growth rate of the new sector is higher than that of the old sector, then the old system will, in the long run, shrink to the extent where all economic activities are covered by the market mechanism. In other words, if the old system stops expanding and everything else grows, a dual-track transition will end in the space of one

¹⁵ Laixiang Sun, (2002)

¹⁶ Gang, Fan (1994)

generation, without explicit reform actions having been taken against the old system.

Open Door Policy

With the change of regime followed shifts of policy, which included the new objectives of growth and development for the Chinese Economy. The realization of these objectives could not wholly depend on internal resources but needed the backing of the resources and technology from the outside world. With this came the second phase of reform which opened the economy to international trade and capital. Market opening began around 1979, with the devaluation of the highly overvalued exchange rate and establishment of a retention system for foreign exchange for exporting firms¹⁷. Trade liberalization proceeded gradually throughout the 1980s: further devaluations of the exchange rate, increased rights of exporting firms to hold foreign exchange, creation of special economic zones in the coastal regions, increased scope for foreign direct investment, and finally the establishment of a rudimentary foreign exchange market (in so-called swap centers) at the end of the 1980s.

The several aspects of China's broader economic environment strongly affected the outcome of partial and gradual industrial reforms. The 'open door policy' opened China's coastal provinces to foreign trade, investment, and an influx of new technologies, financial, managerial initiatives, and foreign exchange, from Hong Kong, Taiwan, and throughout the Asia-Pacific region. So the 'open door policy' allowed establishment of Sino-foreign joint ventures from 1979, and wholly foreign-owned enterprises after 1986. As China opened up its economy to foreign investors, foreign direct investment in the industrial sector grew steadily after 1985. By 1989 Hong Kong accounted for over 60% of cumulated foreign investment in China¹⁸. Moreover, roughly 70% of China's overall trade leaves through Hong Kong. Slowly China's coastal regions had outstripped interior regions in economic growth¹⁹.

2.3. Performance of Industrial Sector

¹⁷ Jeffrey Sachs and Wing Thye Woo (1994)

¹⁸ Chen (1991)

¹⁹ Jeffrey Sachs and Wing Thye Woo (1994)

Analysis of data over a period of time is always a problem if the time duration is long, because with the passage of time new variables emerge and continue to play an important role which leads to changes in presentation of the data. China is no exception. In the case of Chinese data provided by the Statistical Bureau of China, there have been changes in the definition of terms, some new items have been introduced or there is consolidation of data. This does not permit us to compare data for a long period of time; hence we analyze the data for the periods when the methodology was broadly similar. It is because of this problem that the analytical interpretation of data regarding the number of enterprises and the gross industrial output value of TVEs will be discussed with respect to two phases. Another major problem associated with the data interpretation is the availability of data for the whole time period of relevance to this thesis. The data with respect to the number of enterprises are only available after the year 1991, the data from 1978 would make interpretation more complete since the research is concerned with the effect of the reforms. But the data for the gross output value which will be more defining is available from 1978 onwards (the detailed information about the source of data and definitions for all chapters are available in the appendix).

With the limited availability of data we first examine industrial performance in terms of number of enterprise under different ownership and then move on to talk about the gross industrial output value.

2.3.1. Performance of Industrial Sector in Terms of Number of Enterprises

The first phase consists of the period from 1991 to 1999, and these industrial statistics are based on types of ownership. The second phase will be the period from 1999 to 2007, and will have all State-owned industrial enterprises and those non-State industrial enterprises with annual sales of over 5 million Yuan. This is what makes a huge difference in terms of data and makes it difficult to undertake an analysis for the period for which the data is available.

Starting off with the performance of industrial enterprise as whole (see **Table 2.1**), the number of enterprise has fallen from 8.08 million in the year 1991 to 7.93 million in the year 1999 (first phase). This amounts to a fall of around 2 percent over this period. But the moment we move to the next time period (second phase) from

1999 to 2007, the picture changes completely. Now it is during this period that the definition of enterprises covered has changed from the ownership based to size based. Only those industrial enterprises with annual sales over 5 million Yuan have been accounted for in the period. With this change, the number of enterprise shows good progress. The number of enterprises (under new definition) which was standing at 162,033 units (see **Table 2.2**) in the year 1999 moves to a very high level at 336,768 units in the year 2007. This implies a rise of 108 per cent or more than doubling of the number of enterprises. Now there could be lot of implications that could be drawn from such a pattern where in the first phase the number of enterprise has decreased by a small percentage and in the following phase the number of enterprise has doubled. This could be explained if we look more closely at the composition of the ownership of the whole industry.

If we break up the first phase into 1991 to 1994 and 1994 to 1999, then we see that during the first half the number of enterprises has been growing steadily till the year 1994. The percentage growth from 1991 to 1994 is 24 per cent and from 1994 to 1999 there has been a fall by 21 per cent. The reason for this could be that since the first phase includes all types of enterprise irrespective of size, there would be more reasons for enterprises being bankrupted, or over taken by some other enterprise. These reasons make sense because there are instances during the period where many SOEs and TVEs have gone bankrupted and been absorbed by other private organizations.

The Figure below (see **Figure 2.1**) shows that right from the beginning the 'individual owned enterprises' in urban and rural areas has dominated the whole composition of the industry with a 79 per cent share. This is could be the number of enterprises are based on ownership and not according the size. The liberal policies followed after the reforms could have led to the mushrooming of new private enterprises in rural and urban areas. And the interesting fact displayed by Figure no 2.1 is also the composition of the enterprises with collective owned enterprises constituting the second highest (with 20%) in terms of number of enterprises, whereas State owned enterprises constitute only of 1 percent. When we look at the Figure for the year 1999, this composition has remained much the same over the

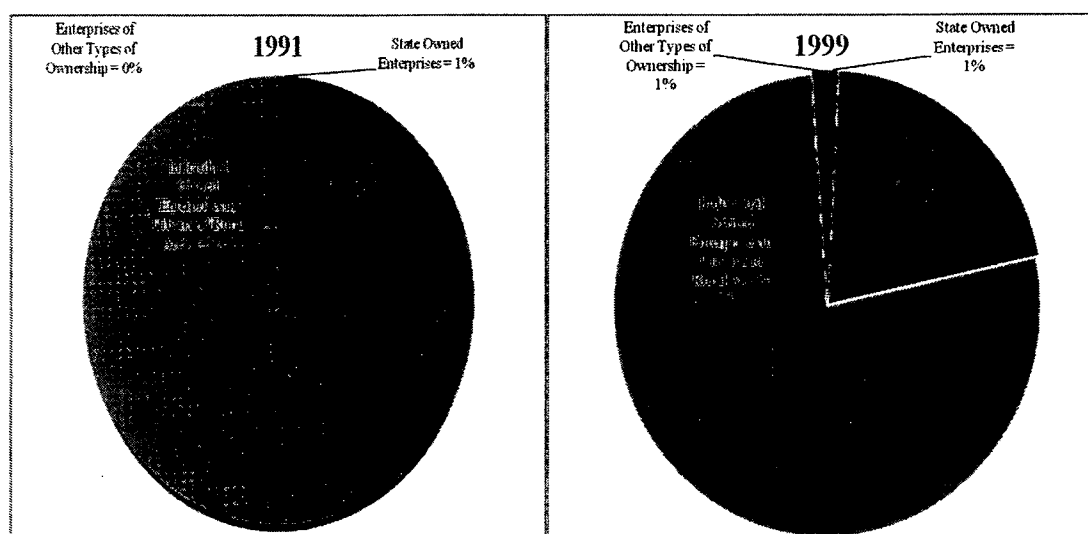


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period. All these shows the dominant presence of small enterprises because of which there is not much change visible.

Now what cannot be seen in this Figure and continues to play an import role in the Chinese economy is the growth of ‘enterprises of other types’. If we look (see Table 2.1) at ‘enterprise of other types of ownership’, they happen to increase from 10,800 units in the year 1991 to 91,800 units in the year 1999 which is really huge. Since, the percentage share is very small, it has failed to have any impact on the Figure but things will take a complete different turn for the following decades with the coming up of different forms of enterprises with different degrees of private ownership, management and control. The reason for such a huge increase in the growth of ‘enterprises of other types’ is again the liberal policy which was continuously followed because of which number of enterprises such as: ‘joint ownership enterprises’, ‘limited liability corporations’, ‘share holding enterprises’, ‘private enterprises’, ‘enterprises funded by entrepreneurs from Hong Kong, Macao and Taiwan’ and ‘foreign funded enterprises’ were slowly increasing their presence in the manufacturing industry. All these are the effect of corporatization, privatization, and creation of joint ventures of different type of enterprise under state owned enterprises and collective enterprises, starting from the year 1993. This continues to be a widely accepted form of ownership reform.

Figure 2.1: Number of Enterprises under Different Forms of Ownership (Phase I)



Source: From appendix, Table 2.1

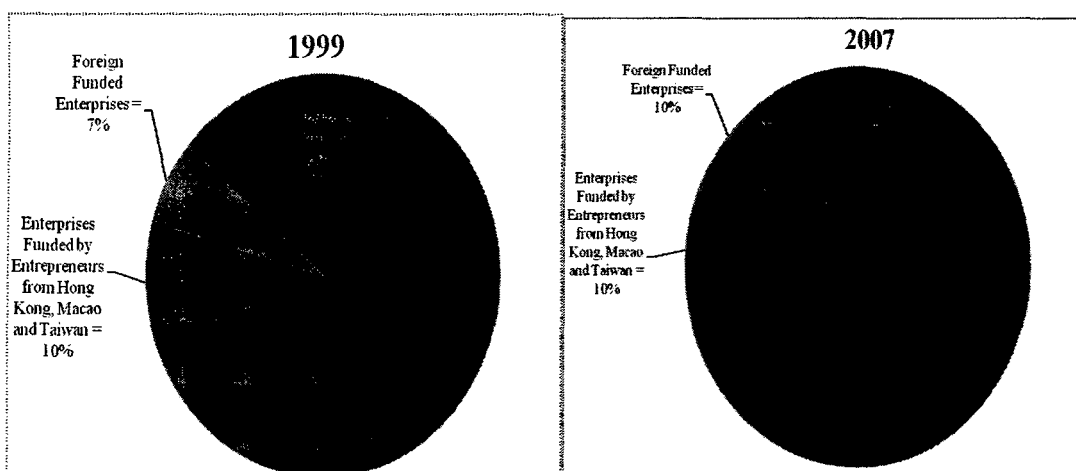
The data for the second phase takes into consideration only those enterprises with sales value of above 5 million Yuan. During this phase, the overall number of enterprise under the new definition of industries for the second phase (1999-2007) has doubled (see **Table 2.2**). This clearly proves an important point that the industries are moving towards increasing their size through privatization because in the first phase when all the types of industries are included irrespective of size there is hardly any change by the end of the decade. And also since the manufacturing industry is dominated by TVEs and TVEs by their nature are small in size, expanding across the region. The growth in terms of number of TVE had also reached stagnation by 1994 but the growth in terms of productivity was still high. By the end of 1990s, there were larger number of corporatizations, amalgamations, and joint venture creations. And all this could explain the reason for such a high growth in the number of enterprises since smaller units that are left out of the data could be amalgamating and getting bigger and bigger, which will obviously leave us with such growth in number of enterprises. Second, the degree of variation in the size of enterprise towards the end of the period for both phases could be the outcome of other reasons.

Now the question arises as to what types of enterprises are contributing to such high growth in terms of number. It is very interesting to see that (see **Table 2.2**) the number of all the traditional enterprises such as SOEs, COEs, 'cooperative enterprises' and 'joint ownership enterprises' have really fallen drastically. For example SOEs which were 50,651 in number in the year 1999 came down to 10,074 in the year 2007. This amounts to a fall of 80 percent and very similar patterns are seen with respect to COEs and 'cooperative enterprises' which were 42,585 and 10,149 in number in the year 1999, which came down to 13,032 and 5,880 respectively in the year 2007. And these declines amount to 69.40 percent and 42 percent for COEs and 'cooperative enterprises' respectively. However, it would be too early to draw the conclusion that traditional enterprises performed poorly, or it would be wrong to do so. First, the fall in the number of these traditional enterprises could be the outcome of restructuring of enterprises which has actually led to an increase in the number of enterprises in newer forms. Second, performance in terms of gross output value would provide us with a more appropriate guide to their

performance, which will be discussed in the following section. And what has substituted for these declines, so as to have an overall increase in the number of enterprises is the rise of new forms of ownership, such as ‘limited liability corporations’, ‘share holding enterprises’, ‘private enterprises’, ‘enterprises funded by entrepreneurs from Hong Kong, Macao and Taiwan’ and ‘foreign funded enterprises’. Out of these enterprises, the private form of enterprise has exponentially grown, which is followed by ‘limited liability corporations’ (449%), which has registered a fourfold increase. And also the foreign funded enterprises and enterprises funded by entrepreneurs from Hong Kong, Macao and Taiwan enterprises have also grown significantly by 221 per cent and 102 per cent respectively over the second phase.

These increases in foreign funded enterprises and enterprises funded by entrepreneurs from Hong Kong, Macao and Taiwan enterprises have some effect on the reduction of share of domestic funded enterprises as can be seen from the Figure below (**Figure 2.1**). A fall of 3 per cent of share of domestic funded enterprise has been absorbed by the ‘foreign funded enterprises’ whose shares have increased from 7 per cent to 10 percent. Whereas the shares of ‘enterprises funded by the entrepreneurs from Hong Kong, Macao and Taiwan’ have remained the same. The consequence of the ‘open door policy’ can be seen here with ‘enterprises funded by the entrepreneurs from Hong Kong, Macao and Taiwan’ having increased by 102 per cent and ‘foreign funded enterprises’ by 222 per cent for the period 1999-2007.

Figure 2.2: Number of Enterprises under Different Forms of Ownership (Phase II)

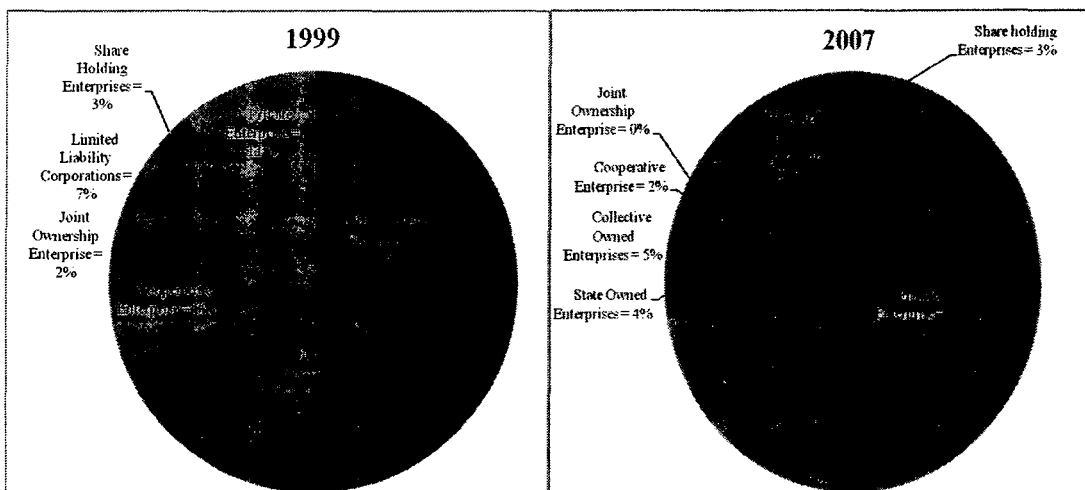


Source: From appendix, Table 2.2

So the question arises as to what caused the size of the manufacturing industry to double when there is only small percentage change in share of the domestic funded enterprises and foreign funded enterprises. The answer lies in the change in the composition enterprises within the domestic funded enterprises.

Figure 2.3 provides us with the answer and it also reveals a very unique pattern in the change of composition of number of enterprises. ‘Private enterprises’ have been able to hugely impact on the composition of enterprises. Their share was just 11 per cent in the year 1999 but it increased to 66 per cent in the year 2007 because of which the dominant share holders in the year 1999, such as SOEs and COEs whose shares were 38 and 32 per cent have come down to 4 and 5 per cent respectively in the year 2007. And another important change is seen in share of the ‘limited liability corporations’ which was just 7 per cent, but climbed up to 20 per cent in the year 2007. All these change shows how dynamic the industrial sector has been in terms of number of enterprises and composition of enterprises after the reform.

Figure 2.3: Number of Enterprises in the Domestic Funded Enterprises (Phase II)



Source: From appendix, Table 2.2

There are factors which could explain to some extent the pattern of growth in this type of ownership. The reason for private enterprises dominating in terms of numerical “performance” is the liberal policies followed by the government. Before the reform and also initially after the reform private ownership was discouraged and discriminated against in terms of every aspect of the business, be it resources, loans or regulation. But things started to change with conditions being more favourable for

private players resulting in their rapid expansion. Also the SOEs and COEs were substantially restructured through different degrees of privatization; this too has greatly contributed to the change in the composition of domestic funded enterprise in the second phase. This can be justified in terms of the great debate with regard to Management Buy Outs (discussed later in this chapter). In the case of Management Buy Outs, the managers of the TVEs and SOEs are slowly purchasing the enterprises, with the help of the TVG and decline in the role of the TVG.

2.3.2. Performance of Industrial Sector in Terms Gross Output Value

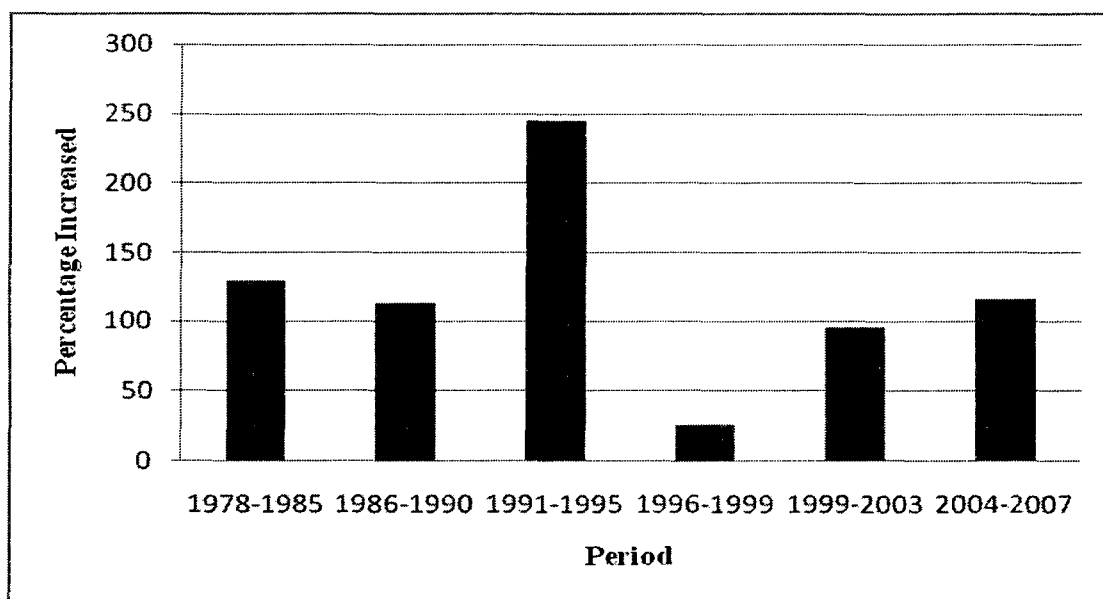
The performance of industrial sector only in terms of growth in number of enterprises would not provide us with the total picture. A clearer indicator of performance of the industrial sector would be the gross industrial output for the period from 1978 to 2000. It would also be useful to look at the rise in the gross output value of units under different forms of ownership. And we will also check how they compare with the rise and fall of number of enterprises under different ownership categories.

The statistical yearbook defines gross industrial output value as “the total volume of final industrial products produced and industrial services provided during a given period.” The gross industrial output (at current price) for the manufacturing sector (see **Table 2.3**) has been progressing steadily after the reform. The output which was only 4,237 hundred million Yuan for the year 1978 has gone up to 126,111 hundred million Yuan for the year 1999. And there has been a very steady rise over the period with an average growth of 15 per cent every year (see **Table 2.4**). An interesting feature is that this trend differed from with the trend with respect to the number of enterprises. We had basically no change in the number of enterprises over the period 1991 to 1999, but when we look at the period 1978 to 1999 in terms of the gross output value of enterprises, we have a steadily increasing trend.

Now for the better understanding, we divided the data for the gross output value (**Table 2.3**) into 4 periods, with each period having an equal span of years. When we look at the performance of total gross output value for the different periods for the

manufacturing sector, (see Table 2.3 or Figure 2.4) there seems to have been a significant rise for the each period during both phases. Over 1978 to 2007 there seems to have been an increase of more than 100 percent on average per period. Of these periods, the 3rd (1991-1995) had the highest increase of nearly 250 per cent and the following period (1996-1999) had the lowest of around 26 per cent. Whereas for the rest of the periods the increase was more or less 100 per cent. This performance of the industrial sector underlies the commonly quoted achievement of China's industrial sector. We return to these figures in greater detail in the following chapter.

Figure 2.4: Percentage Increase in Total Gross Output Value



Source: From appendix, Table 2.3

2.4. Performance of Township and Village Enterprises

We now turn to the performance of TVEs in particular, the third of the stylized fact about China's transitional economy that we referred to. Since the very beginning (before reform) the Central Government's development effort was focused more on heavy industry, with capital and technology coming substantially from Russia. In this period the government's initiative towards the development of rural industry did not make much difference. In fact, the State's attitude toward TVEs had not been very supportive as the concept of TVEs went against the government's ideology. So the government did everything to discourage this form of enterprise. They first banned all enterprise other than SOEs, and when they were not successful they tried

to stop TVEs from obtaining raw materials from the markets. But the very disequilibria created by the State's neglect of rural industrialization, by focusing on labor-intensive agriculture and SOEs with high productivity, capital-intensive technology, created the opportunities that commune and brigade enterprises (CBEs) and TVEs took advantage of. As suggested by economists like Joseph Schumpeter and Albert Hirschman, economic dynamism is a response to imbalances, not a result of perfectly balanced development²⁰. It was under this environment of imbalances, that TVEs started to grow and flourish in opposition to the State's plans and objectives.

This was of course not an easy path. The effort was totally non-governmental, with HFs and TVEs not being built by consciously organized 'collectives'. There were no "theorized models or slogans, no mass gatherings or boardroom meetings, no appointed, selected or self-claimed leaders/activists, let alone formal organizations to design and promote household farm and township and village enterprises. Rather, documented evidence reveals that household farm and township and village enterprises were created chiefly by millions of unknown farmers via a massive movement, a quiet revolution that is spontaneous, unorganized, leaderless, non-ideological and apolitical.²¹" It was only after some exceptional performance of certain TVEs and the failure of the SOEs to meet the productivity level that made government show some interest in TVEs. And with the reform and the decentralization of management and ownership a new type of enterprise came into being whose performance knew no bounds.

TVEs performance in manufacturing industry has widely been regarded as the success story in the history of China's economy. In the words of Weitzman and Xu (1994) "the Chinese model, with a central role being played by TVEs as the dominant form of non-State enterprise is enormously successful." Jefferson (1993) writes that "the rapid growth of China's TVE sector has been critical to the success of that country's transition to a market economy." In 1978, the rural share of China's industrial production was 7 percent; by 1992, it had touched 50 percent, with an

²⁰ Louis Putterman (1997)

²¹ Zhichang Zhu (2008)

average annual increase of 26 percent throughout the 1980s²², with much of the contribution coming from TVEs, which constituted one of the most dynamic sectors in the Chinese economy. Further facts about the performance of the TVEs and their contribution to the industrial sector will be provided in Chapter 3.

2.5. Historical Factors Contributing to the Rise of TVEs

The pre-reform strategy of Mao was partly overshadowed by the adverse weather conditions which lasted for three years (the worst in a century), the pullout of the Soviet advisers, and the disincentives faced by peasants arising out of the extreme Great Leap Forward policies. All of these combined, first reduced agricultural output in 1959-60, including of the commercial crops which fed light industry. Adverse condition then affected heavy industry, as the Soviet advisers withdrew with their blueprints. By late 1960 and early 1961, the economy had been damaged so severely that national output declined by around 20-25 per cent. These outcomes clouded the positive aspects of the pre-reform policies initiated by the Mao regime. The post-reform performance of TVEs has been associated with reforms initiated by the Deng regime, with little role being given to the historical foundations laid by Mao. In actual fact the reform only facilitated the performance of these enterprises that were founded on the Maoist legacy. Therefore, it is the purpose of this section to show how these historical factors had a great role to play in the TVEs' performance.

There are few historical facts that made TVEs unique institutions. First and most important of all was the policy of rural industrialization, which played a primary role. Second, was the origin in the collectives and the communes of the structure, ownership, management, and governance of TVEs, which facilitated the performance of the TVEs? Third, there were the advantages that TVEs enjoyed under State control. Finally, there were the incentives that TVE managers, TVGs and workers enjoyed.

2.5.1. Rural Industrialization

The key to understanding the specific role of the TVEs in the transition is not to focus on how these enterprises are managed, but on why the TVE sector could

²² Byrd & Lin, (1990)

expand so rapidly at the very beginning of the transition. The reason is that rural industrialization started way before the reform. Only a few writers have clarified the misreading that the reforms were the source of the success of the TVEs. TVEs were actually built partly on one of the legacies of the 1950s - collective commune and brigade enterprises (CBE) set up to serve rural areas, restricted by state policies to concentrate on a narrow range of products, i.e., 'five smalls industries.' The period of collectivization was very intense with the first five-year plan focusing solely on collectivization and nationalization of urban and rural means of production. As Louis Putterman (1997) correctly puts it, "enterprises owned by townships and villages are direct "descendants" of those formerly owned by communes and brigades, with the initial transition in many cases being a matter of a change of name only."

Actually rural industrialization happened immediately after the failure of earlier strategy which was more based on the investment in heavy industry. Hence what followed next was an attempt at industrial decentralization which meant moving industry out of the metropolis to smaller urban centres and, to a much smaller extent, to rural communities. But in China's case it was an also attempt to shift the industrial base to the rural areas, because of which we see the rise of a growing number of non-metropolitan cities and towns which have much of the facilities that major cities have. At that time, rural industrialization was a function of both demand and availability of local resources, where it is generally easier to influence the former than the latter. Jon Sigurdson has nicely put the functionality of the rural industrialization into a model involving backward-linkage and forward-linkage industries.

Backward-linkage industries basically produce agricultural inputs and consumer goods. The backward-linkage industries require local human resources but are initially very dependent on external technological and financial resources. This is because rural industries with backward linkages to agriculture usually cannot be introduced or grow until there are changes in agricultural technology which then creates the demand for industrial output. The forward-linkage industries are mainly based on locally available physical and human resources. And forward-linkage industries are also often dependent on supplies arising from increased agricultural

production. Furthermore, the demand for many industrial products in the backward-linkage industries will be limited until there is a general increase in the purchasing power or the locality. And this is of course, in most places, at least initially, almost totally dependent on increases in agricultural productivity. And also the forward-linkage industries will also be dependent on the performance of the agriculture. In sum, rural industrialization can progress only gradually and must be closely integrated with the overall planning of the localities.

By the end of 1960, the economy was in a better position to support agriculture both with the output of large-scale industry in the urban areas and with tens of thousands of small, indigenous industries throughout the countryside. Basically the effort was redirected from the mobilization of traditional inputs (labor, natural fertilizers, draft animals, traditional tools) to the production of modern inputs such as chemical fertilizers, insecticides and pesticides, small hydroelectric plants, electric motors, rice trans-planters, tractors, trucks, and seed-improvement technology. The agricultural task of the 1960s was, in short, to industrialize and modernize the rural areas. And these local industries are not only run by the county but also by the communes and production brigades. At the county level, the aim of national policy for every county is to have the 'Five Small Industries': iron and steel, cement, chemical fertilizers, energy (coal, electricity), and machinery. Such complete sets were established in one-half of the 2,100 counties by 1971²³.

It is with the performance and spread of these small industries over a period of time that the State began to acknowledge them and recognize them as TVEs. Since most TVEs are 'collective', publicly owned enterprises based in the rural areas, they are unique because in no other transitional economy has public ownership played such a dynamic role. In fact, with rapid growth, TVEs have outperformed the SOEs in terms of their share in total industrial output produced. It is through these collectives that China presents the unusual picture of an economy that has made a transition to a primarily market economy. Ironically in other transitional economies the process is often called 'privatization from below,' while in China the same entry process has relied primarily on 'collectives'.

²³ Naville Maxwell (1975)

A fundamental aspect of China's development strategy had been the attempt to narrow the gap between country and city, peasant and worker, by taking industry into the countryside rather than bringing labor from the countryside into urban industry. Because of this, rural industrialization is leading to urbanization of rural areas. Traditionally the urbanization process in developing countries has been dominated by rural-urban migration and the growth of existing (mainly large) cities. However, China's experience after the reform shows that urbanization can also be achieved by the transformation of rural areas. And such transformation of rural areas has mainly been driven by two forces, the development of township and village enterprises and the inflow of foreign investment. This transformation of rural areas leads to the development of small towns which can be equated with urbanization. These towns can link up to the cities and village and encourage production that avoids the evils of the big city. Moreover, as Chinese scholars point out, in China "small towns had the characteristics of both the cities and the countryside and of industry and agriculture. Some of them had been gradually developed into new kinds of medium sized and small cities. The growth of small towns had changed the relationship between cities and the countryside and had enabled rural enterprises to concentrate in small towns." And these towns have grown from 2600 in the year 1980 to 20,000 in 1993 and stabilized at 19,000 in 1995²⁴.

2.5.2. Structural Legacy: Collectivization

The structural legacy also plays a very important role in the China's case. And as we know that the TVEs were built partly on one of the legacy of the 1950's collective commune and brigade enterprises (CBE) set up with some concessions in terms of ownership, governance and control. Until the reform, CBEs were actually part of the State plan: 'what they produced and how they were run ... were not that different from State firms in their overall organization and subordination to government authorities'²⁵. Surprisingly with reform, collective owned enterprise still seems to be having no precise legal definition in China, leading to some uncertainty about ultimate property rights. And this particular feature gives a de facto right to the

²⁴ Cited in Sanjeev Kumar, (2002)

²⁵ Naughton, B., (1994)

government to take care of this enterprise. Government interference comes in the form of governance by TVGs. And it is these local governors who hire TVE managers, to look after the needs and technicalities of TVEs functionality in their day to day life. We also have a field research report which reads: "it is very common to see that the basic rights (of TVEs) are in the hands of the Party and (communal) government apparatus, i.e. TVEs are not genuine cooperative enterprises. A significant portion of the net profit (of TVEs) is used for the administrative budget of TVE governments." So this means that the local residents possess no 'right of membership' in TVEs, nor do TVE workers possess any rights to participate in TVE management.

So the question remains as to who are the owners of the TVE: is it the workers of the TVE, or the managers(s), or is it the residents of the community? Obviously the answer is not clear - each party is and is not an owner because a typical TVE is a collectively-owned enterprise. Some people (Chen (2000), for example) describe the property rights of a collective TVE as "two-tier principal-agent proxy relations": the community residents, as the nominal owners, delegate the control rights and residual benefits distribution rights to the TVG and the TVG delegates at least part of the control rights to the local entrepreneurs. So this requires us to look into the theoretical aspects of property rights.

One of the crudest ways to define the property rights is to examine who are the residual claimants to the net profit? And the significant portion of TVEs' net profit is used for the administrative budget and takes the form of communal social investment, which is shared by everyone in the community. So none of the nominal owners or the executive owner has the exclusive rights of ownership associated with traditional property rights theory. There is no residual claimant in the traditional sense. So the nominal owners and rest of the community members wait passively to receive or to enjoy the benefits, of which the major part is not in monetary form but in the form of communal social investment, which is shared by everyone in the community. So we see the amount of the benefit and the form of the benefit which the collective 'owners' can get are determined by the community government and

the manager of the firm which comes in the form of government expenditure and investment.

One of the advantages of having such a structure is that wage costs are lower in TVEs as compared with the foreign-invested firms. The cost advantage of collectives over State firms is because of the structure of the TVE. The TVE assets are non-sellable, non-transferable, and non-heritable both for the nominal 'owners' and for the executive 'owner'. An inside individual will automatically lose his or her nominal 'ownership' if he or she leaves the community and an outside individual will automatically gain 'ownership' by marriage to a community member. The very nature of community does away with the extra burden of pensions, taxes, redundant workers, fringe benefits, and welfare responsibilities assigned to state firms, especially compared with TVEs. The extra cost burdens are large and, in some cases, growing rapidly. For example, state enterprises are obliged to pay retirement benefits out of current income.

2.5.3. Advantage that TVE Enjoyed Under the State Control

There is no doubt about the privileges enjoyed by TVEs under the Central government when they benefited from decades of anti-capitalist propaganda and efforts to eliminate the private sector altogether. During that time the private sector units bore considerable social stigma and were afraid of being labelled as selfish or exploiters. There was discrimination in treatment of private enterprise, in terms of taxes, access to resources, license and many others. They paid taxes at a rate 250% higher than the collective TVEs²⁶. They had to obtain bank loans from the government bureau in charge of the TVEs, not directly from the banks. They paid the market rate for electricity, while the collective TVEs paid the low, government – regulated price. Otherwise they had to generate their own electricity at a cost twice as high as the market rate. These were the reasons that made the survival of the private enterprise very difficult and discouraged any further privatization. And also this was also the reason that there were many private enterprises which were registered as TVEs in order to avoid such harassment and also to avail the benefits

²⁶ Chun Chang and Yijiang Wang (1994)

enjoyed by the TVEs. It was only after the reform that things began to change, when the economy was moving towards market economy, along with State control.

If we look at China's financial sector, it is mainly composed of State-owned banks and the private banking sector is still largely undeveloped with underground banks and informal lenders²⁷. As a matter of policy, state banks and Credit Cooperatives at township level discriminate against private enterprise. Surveys from different sources have identified major obstacles to access to financial capital for the private sector. A survey of 100²⁸ leading private entrepreneurs reported that 56% of the entrepreneurs considered access to financial capital as the biggest problem facing their firms. Discriminations against private TVEs²⁹ are also confirmed by the existing TVE literature. As Chang and Wang (1994) describe, "without the approval of the government, citizens are often denied access to resources required to accomplish any major project. Establishing and operating a TVE is no exception". By contrast, a collective TVE is more effective to acquire financial resources. In the case of a joint ownership TVE, the TVG, as a partner, extensively devotes its social and political connections into procurement activities for credits. The existing literature (such as Byrd and Lin 1990) has documented that due to the political backing from the TVG collective TVEs receive much more favorable bank treatments than private TVEs. A field study of private TVE entrepreneurs and State bank officials in Southern China (Susan Whiting, 2001) shows that the private TVE owners interviewed were unanimous in the view that collective TVEs receive preferential treatments from state banks such as easier access to bank loans at lower costs for longer loan periods, while most bank officials confirmed state banks' non-support policy towards private TVEs. Although, in principle, State banks do not support private TVEs, in practice, credit policy towards private TVEs are not quite clear-cut. In areas with strong private TVE sectors, local banks choose not to refuse loans to private TVEs but rather to impose much stricter loan requirements than for collective TVEs. Those requirements usually include specific licenses issued by

²⁷ Zhou Lu (2008)

²⁸ Zhou Lu (2008)

²⁹ Private TVE would mean enterprise registered as TVE but owned privately. They are basically private enterprise and this is also called wearing 'red cap', as discussed before.

local governments and a loan guarantor of either local governments or government-controlled TVEs. Private TVEs make payments to the local governments under the name of "management fee" for loan-procurement assistance. As of 1990, collective TVEs produced 66.8% of the TVE sector's total output and receive 93.6% of the total bank loans to TVEs. Private TVEs accounted for 33.2% in output but only 6.4% in bank loans³⁰.

2.5.4. Incentive Factor

Mao's ultimate attempt transform the economy from socialist to communist distribution or from "each according to his ability, to each according to his need" resulted in failure because of low productivity. The concept of egalitarianism demotivated workers and this made it difficult to achieve the required production. So with the drastic failure on the economic front during the 1960s, things started to take a different turn. Decentralization was slowly starting to take place, with household farms growing at a great speed with greater productivity. The reason behind the success was that the State no longer decided all aspects relating to production, and households were allowed to earn as much as possible so long as they met the required quota. With this SOEs and TVEs started to catch up with this concept. And the productivity drastically increased, the moment people were allowed to grow, control and manage on their own and also were paid according to the work they put in. Hence the concept of incentives became more prominent. The government slowly set up a system where incentives would be provided for those who worked at all levels of production. The TVE was set up in such a way that though the whole community owned the enterprise, but it was run by the government centrally. They recruited TVG personnel, who were paid according to the performance of the TVEs, in terms of allowance, bonus, perk etc. While the workers were also not left out of this scheme, they were paid in terms of education, good health, and technical training.

Thus there is sufficient evidence to support the role that historical factors played in the process of the TVE's transition to modernization. These factors were grounded way before the reform and the reforms basically facilitated the performance of the

³⁰ Zhou Lu (2008)

TVEs. The rural industrialization, structural legacy, advantages that TVEs enjoyed under the State control and incentive factors has all made an immense difference to the performance of the TVEs. But the government's preferential policies towards the coastal region with the opening of the economy have slowly changed the role that rural industrialization was playing. TVE's also have changed over the period, with the TVG's role slowly being substituted by that of professional managers. Hence with changing need, the change in structure of TVE and privatization of TVEs in different forms, the role of TVE's has been subordinated to the huge private enterprise and corporation.

Chapter 3

ANALYSIS OF TVEs PERFORMANCE

3.1. Introduction

This chapter is concerned with contribution of TVEs' performance to the growth of manufacturing in China. TVE performance can be analyzed in terms of productivity, total profit, retained profits, taxes paid, number of TVEs, gross output, employment, exports and value-added. But our intention here is not just to look at TVEs' performance but also into the contribution to the growth of the manufacturing sector. So this chapter looks at TVE performance in terms of productivity, number of TVEs, gross output value share, employment generation, and value-added. And the objective of this analysis is to show how TVEs have been the driving force behind China's transition from a planned to a market economy.

3.2. Productivity

Productivity is used here in the conventional sense, as maximization of current output of goods and services with the available factors of productions. And this becomes an important indicator of the performance of different types of enterprises. As mentioned earlier, there are a group of economists who believe that enterprises with clearly-defined property rights are the preconditions for economic prosperity. In particular, an absence of well defined private ownership is seen to adversely affect performance leading to low productivity. According to this perspective firms that are owned and controlled by domestic or foreign entities or individuals as sole proprietorships, private partnerships, and private shareholding corporations, would outperform enterprises characterized by any other form of ownership (such as SOEs and COEs). Since TVEs are characterized by a form of collective ownership, in which the structure of the enterprise is such that the ownership and right to residual earnings (the defining elements of private property right) are not clearly outlined, their performance too is expected result in low productivity.

All these claims prove to be false when we compare the performance of different forms of enterprise in China. According to several surveys conducted by different scholars (see **Table 3.1**), the collective sector, especially the TVE sector, has a higher level of productivity than that of the State sector, and also higher when compared to private sector in most surveys. Furthermore, the collective sector consistently had the highest productivity growth among the three sectors. As a result of its high productivity, enterprises in the collective sector, especially the TVEs, have contributed greatly to the economy and economic growth in China since 1978.

Now the question arises as to what explains this high level of productivity of TVE's. First, to some, (Chang and Wang, 1994; Naughton, 1994) this performance results because TVEs serve as the second-best corporate governance solution. They argue that the Chinese State supports TVEs because they do not violate the ideology of the Communist Party. This is very true because even though TVEs are not owned by the centre, like the SOEs which are wholly owned by the State, they have been accepted as the best way to develop the economy efficiently without jeopardizing public ownership and State control. Second, the efficiency of TVEs has been driven by the policies of political decentralization and economic deregulation after the reform. With liberalization of regulation, there has been space for the emergence of private property rights in TVEs over a period of time. This has moved the TVEs in new directions, towards corporatization, joint venture ownership with private and foreign firms and merger and amalgamation with other giant enterprises. All these have contributed greatly to their development as well as that of the Chinese economy.

Most of the TVE literature believes that since TVEs are majority controlled by the 'township and village government' (TVG), the success of TVEs has also a lot to do with the performance of the TVGs. As discussed in previous chapter, incentive structured TVEs act as one of the basis for efficient performance. Also we saw how the presence of TVGs in management provides a lot of benefits and support from the government in terms of important inputs such as: resources, capital, loans etc. Also over a period of time, as the size of and number of collective TVEs grow, the multiple responsibilities of TVGs make it necessary to delegate some of the control rights to some professional managers. This has also facilitated the performance of

the TVE with the recruitment of skilled, professional managers with sound technical knowledge.

3.3. Number of Township and Village Enterprises

The increase in the number of TVEs is one of the indicators of the growth of the TVE sector, but this could not be sufficient as the size of the TVE sector would matter more in terms of output and employment generation. Also we have seen evidence of corporatization, creation of jointly owned enterprises and mergers and amalgamations, taking place over a period of time. Nevertheless we will still look into the TVE sector's growth in terms of enterprises, to get some idea as to how TVEs have grown or spread over the period of time. As far as the data is concerned, the Yearbook of National Bureau of Statistics of China provides us with a chapter on agriculture, which has data on number of TVEs from the year 1978 to 2002 and also with distribution by number of enterprises under different ownership (see **Table 3.2**) and in different sectors (see **Table 3.3**).

Looking into the TVE's growth in terms of number of enterprise for the period after reform till 2002, (see **Table 3.2 & Figure 3.1**) we get to see a very unique movement in the number of TVEs. The data provided in the table includes only enterprises at township and village level for 1978-1983, and it's only after 1984, all types of township and village enterprises are included. The data shows a huge jump in the number of enterprises from 1.52 million in the year 1978 to 12.23 million in the year 1985, which amounts to an increment of 702 per cent. Of course we cannot attribute such a huge increase in the number of enterprises to the exclusion of certain TVEs. Such a great change in the number of TVEs has to be attributed to the 'household contract responsibility system' (HCRS), initiated in the year 1982. Under this system SOEs started operating under the contract responsibility system which encouraged setting up small production brigades.

As compared with the 1978-85 period, between 1983 and 1994, the number of TVEs has grown steadily and thereafter the numbers tend to fall slowly. Surprisingly to a large degree, the growth of the TVE was neither planned nor anticipated. Such businesses neither received funding nor technological aid from the central government, like the SOEs did, in the beginning. However, they were also free of the

extensive regulation by the central government typically associated with State businesses, which gave the TVE the independence to decide as to what to produce, and also enjoy greater benefit from the outcome which acted as an incentive to work. Such performance greatly relieved the government, which was burdened by the failure of many SOEs, which were seen as the form of enterprise that would guarantee self sufficiency.

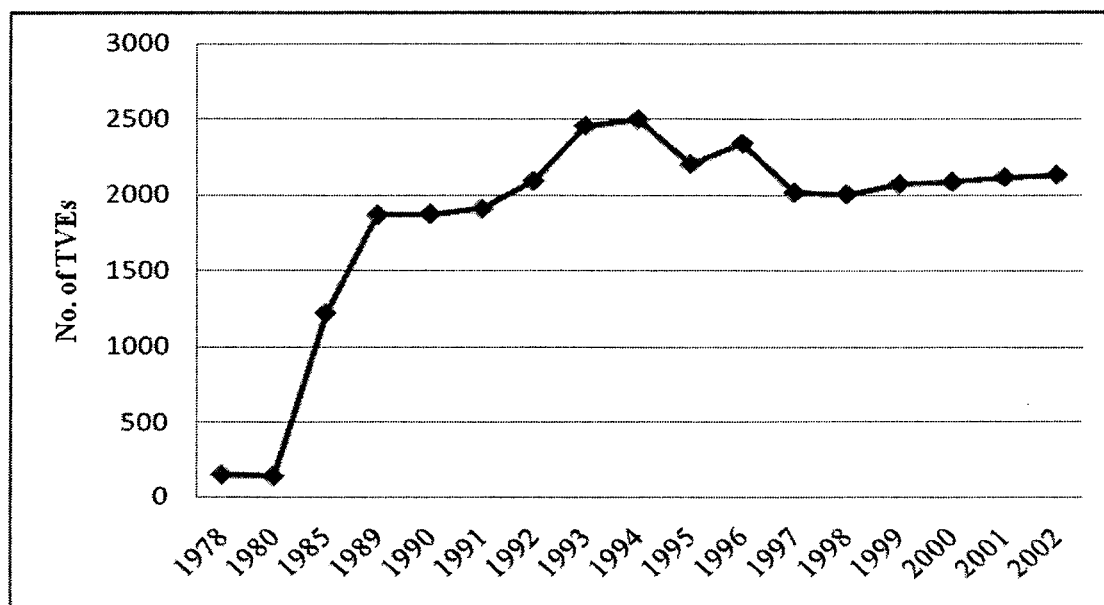
In **Figure 3.1** we see that after 1994, there is little change in the number of TVEs. This is no evidence of the underperformance of TVE's, because there are lot of things that could explain such a trend. A very interesting argument has been presented by Jefferson and Rawski, who claim that enterprise reform has an endogenous effect on private property. According to them, a consequence of the increase in number of enterprise there has been growing competition, which erodes financial and fixed surpluses. Low or declining profits, in turn, reinforce the resolve of managers to seek more autonomy, and strengthen governance, while legitimizing their claim for the enterprise to capture a large share of total profit. An outcome of such competition has also been a trend towards mergers, amalgamation and corporatization.

Of the increase in competition could come from four different sources. Firstly it could come from rural industrial development, in the decades prior to reform. These delivered rural entrepreneurs who came in enormous numbers in the form of household farms or small entrepreneurs, in hundreds of counties and thousands of production brigades. As deregulation advanced they burst into markets that they had coveted for years. These enterprises then evolved to become TVEs or cooperative enterprises. And this growth of TVEs continued after the reform until 1994 (see **Figure 3.1**). Second, the success of TVEs has enforced a structural change in the SOE sector which has improved their performance. Their significant share in production also adds to the competition. Third, competition was advanced by the new entrants were into defence-related sectors, who not only produced defence products but also expanded into civilian industries and started producing domestic consumption goods. By the early 1990s at least two-thirds of output that came from defence-related enterprises consisted of civilian products (Blasko 1994). And finally, China's southern regions, especially the coastal regions, in which enterprises

expanded by taking advantage of the new open door policy to promote industrial growth with the aid of capital, skill, and commercial contacts from overseas Chinese also add to the competition.

Consistent with outstanding performance, TVEs are subject to hard budget constraints. Because of the evidence of competition and hard budget constraints on the TVEs, in 1989 about one sixth (three million) of TVEs went bankrupt, or were taken over by other TVEs. As a result of hard budget constraints, in 1990 the loss making TVE accounted for 7.5% of all TVEs, with this figure dropping to 4.6% in 1991³¹. This could also act as one of the reason for the fall of number of enterprise after 1994.

Figure 3.1: Number of Township and Village Enterprises (Unit: 10,000)



Source: From appendix, Table 3.2

3.3.1. Number of TVEs under Different Forms of Ownership

Now we move from an analysis of trends in the number of TVEs to an examination of changes in terms of ownership. The statistics on the distribution of number of

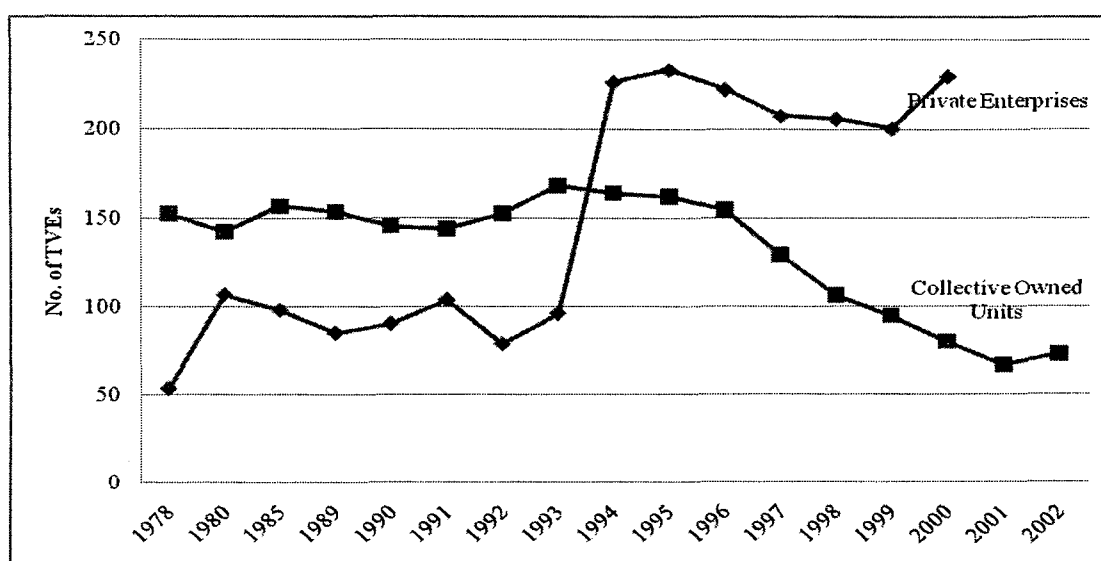
³¹ M. Weitzman and C. Xu (1994)

enterprise under different ownership very clearly demonstrate how reforms have brought about such change.

The fact that TVEs under the ownership of ‘self employed individuals’ stood at a record 10.123 million in the year 1985 (**Figure 3.2**), could in a way be the outcome of ‘household contract responsibility system’ (HCRS), and also the liberal policies of work under the reformed collective system which allowed the households to devote more time and energy towards their own private owned land. The increase in ‘self employed individuals’ continued to increase at a steady pace until the year 1994. In that year enterprises run by the ‘self-employed’ constituted 87 per cent of the total number of enterprises. By the end of 2002 the number of enterprises owned by ‘self employed individuals’ had come down to 18.30 million, but still constituted 86 per cent of the total number of TVEs.

Turning to the TVEs which are collectively owned, we observe unusual trends over the period from 1978 to 2002. The number of TVEs under such ownership initially increased till the year 1994-1995 and then decreased thereafter. This trend is partly explained by the trend towards management buyouts and corporatization that began in 1993.

Figure 3.2: Number of TVEs under Different forms of Ownership (Unit: 10,000)



Source: From appendix, Table 3.2

The **Figure 3.2** shows how the numbers of TVEs under the collective ownership and private ownership have slowly deviated from the year 1994 and the gap has increased over time. There are many factors which account for this; first TVE debt has constantly been increasing over time. Second the increasing debt and competition led to losses in many TVEs which began to mount slowly after the mid-1980s. For instance, the losses from the village-level TVE sector shot up from merely 300 million Yuan in 1985 to 1.2 billion Yuan in 1990, and then increased further, to 4.2 billion Yuan in 1995³². Third, the increasing conflict of interest between local officials and TVE managers has hampered the performance of TVE by the excessive intrusion by local officials into the affairs of TVEs. Fourthly, there has been an intensification of the privatization of small and medium SOEs, the conversion of TVEs into share-holding co-operatives and the removal of ‘red caps’ protecting pseudo-TVEs. As we have seen there is not much growth in the total number of TVEs after the year 1994 (**Table 3.2**) when the number was 24.95 million units. This number eventually came down to 21.33 million units in the year 2002. This fall in the total number of TVEs can be attributed to fall in the number of ‘collectively owned units’. It was in the year 1993 that the share holding experiment was also first introduced, which gather momentum thereafter. This too could be a reason for the fall in the number of ‘collectively owned units’ and ultimately the fall in the total number of TVE’s from year 1994. ‘Privately owned enterprises’ have shown a similar trend as in the case of the ‘collectively owned units, but the fall in their number was not as drastic.

3.3.2. Number of Township and Village Enterprises in Different Sectors

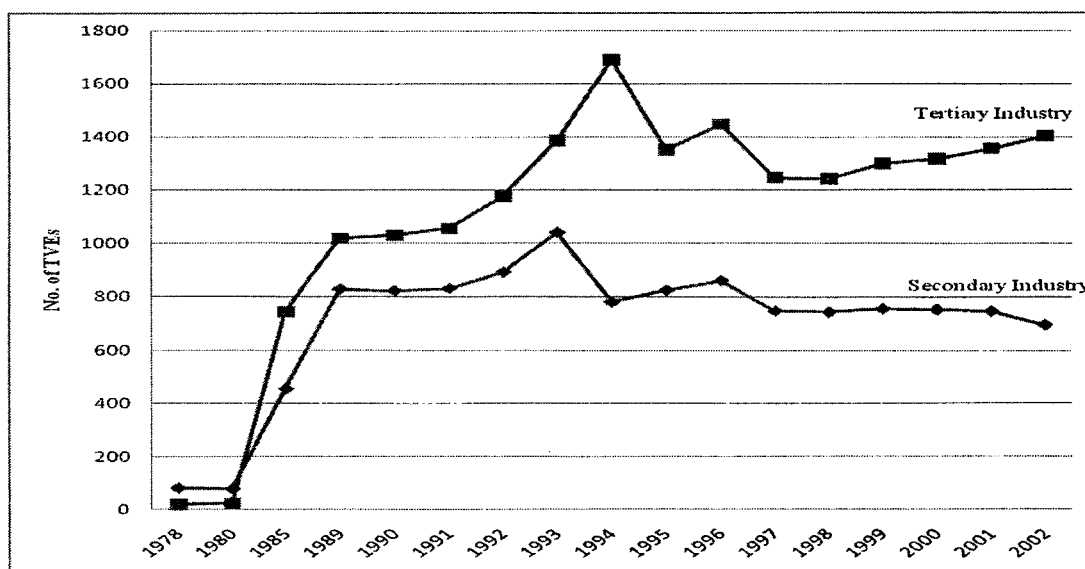
The China Statistical Yearbook shows that every year since the early 1980s, agricultural land has been used for building more and more TVEs. This is because the rural collectives own the land. This has affected the distribution of TVEs among the Primary (agriculture), Secondary (industry and construction) and Tertiary (transportation and commerce and other services) sector. The tertiary sector which accounted for a very small number of units in the year 1978 recorded a rise since

³² Cited in Peter Ping Li (2005)

1980 and also came to account for the largest share of the total number of TVE since then (see **Table 3.3**). The next important sector is the Secondary sector, in which industry holds the largest share. The interesting pattern seen from the table is the fall in the number of primary sector TVEs right from the start of the reform. The number of enterprises has come down from 494,600 in the year 1978 to 127,400 unit in 2001. This could mean a shift in the occupational pattern in the villages and towns towards industry and service sector. The Secondary sector which accounted for 840.7 thousand enterprises in the year 1978 registered an increase to 4578.3 thousand in the year 1985 which actually amounts to an increase of 440%. The Tertiary sector too performed equally well, starting at 188.9 thousand units in the year 1978 and rising to 7422.5 thousand in the year 1985.

But this process seemed to have lost momentum. In 1985, the Tertiary Sector accounted for 61% of the total number of TVEs and this rose to 66% in the year 2002. During this period since year 1995, what is also interesting to see is that in the Tertiary Sector it is actually 'commerce and other services' that dominated the entire sector. Further, the Transportation Sector has grown at a very steady pace and continues to hold a good share of the total number of enterprises in the Tertiary Sector.

The Figure below (**Figure 3.3**) shows that when we compare the growth of the Tertiary and Secondary sectors, their size tend to diverge slowly, with the gap between them getting wider and wider with the passage of time.

Figure 3.3: Number of TVEs under Different Sectors**(Unit: 10,000)**

Source: From appendix, Table 3.3

3.4. Gross Output Value of Township and Village Enterprises

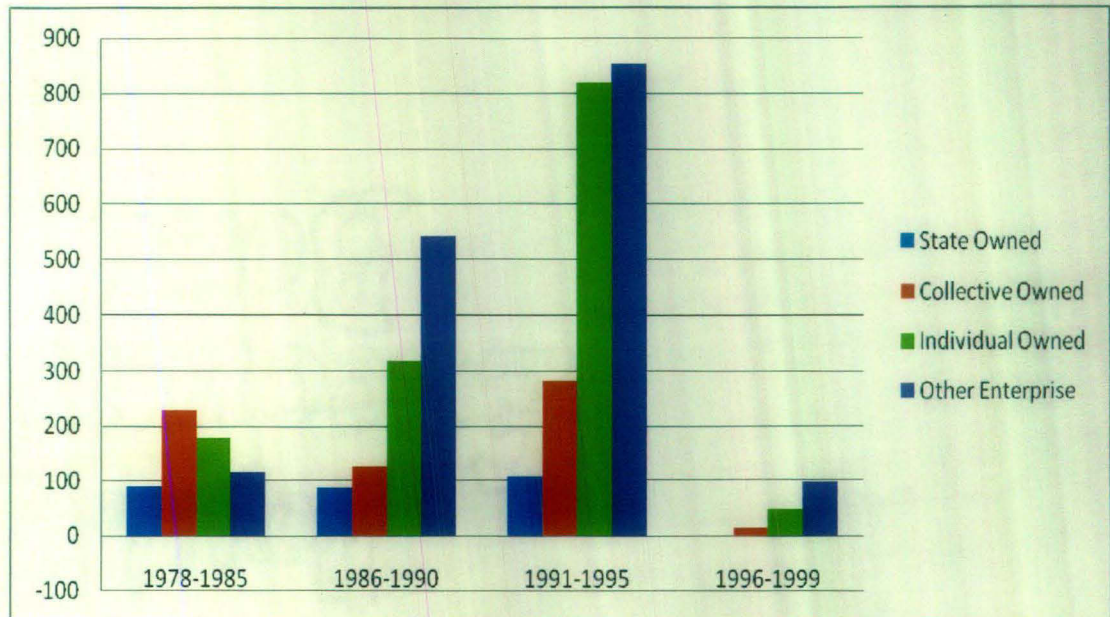
The main objective of this chapter is to examine the contribution of TVE's to the manufacturing industry. In the previous chapter we have already looked at the performance exhibited by the manufacturing sector and the TVEs in terms of gross output value. This section is an extension of that, where the role of TVE in the manufacturing industry in terms of output and its comparative performance relative to other enterprises is discussed in detail. But the data for gross output values, specifically for TVEs, are only available for some initial years. Hence, for this section we treat the performance of 'collective owned enterprises' as a group as being indicative of the performance of TVEs. There are two reasons why this may be justified. First TVEs are by nature collectively owned enterprises. Second, a stronger reason would be that, for the limited period for which the data for TVEs is available in terms of value of gross output, the share of TVEs in the total number of collective enterprises is higher than 50 per cent and this is also true in terms of number of enterprises. This composition is displayed for the period 1991-1996 (see Table 3.4). Further, the share of TVE's for year 1995 and 1996 are more than 70 per cent, whereas the share of 'cooperative enterprises' are only 6.35 per cent and 8.63 per

cent respectively. Since TVEs account for the largest share in the COEs, this section will look into the performance of COEs in terms of gross output value and treat as indicative of TVE's performance. This is why we will be looking in detail at the performance of collectively owned enterprises between the years 1978 and 2007.

The performance of different types of enterprise in terms of gross output value for these years is provided in **Tables 3.5** and **3.6**. **Table 3.5** relating to the period 1978 to 1999 contains data for manufacturing industry under four broad groupings: SOEs, COEs, 'individually owned enterprises' and 'privately owned enterprises'. The data for this table are based on ownership, and all data irrespective of size are taken into consideration. And to simplify the analysis, the data for this period is divided into four periods. **Table 3.6** provides us data for the remaining period i.e. 1999-2007, which additional to ownership forms covered in the earlier table also provides data for other private enterprises such as: cooperative enterprises, joint ownership enterprises, limited liability corporations, share holding enterprises and foreign funded enterprises. The data for this table consists of all enterprise whose annual sale value is more than 5 million Yuan.

Table 3.5 (and Figure 3.4) shows that during the 1st period (1978-1985) the traditional enterprises such as SOEs and COEs registered increases in output value of 92 per cent and 229 per cent respectively immediately after the reform. Privately owned enterprises ('individually owned enterprises' and 'enterprises of other type of ownership') have also equally performed well over the same period. During the 2nd period (1986-1990), while traditional enterprises were growing at about 100 per cent, the privately owned enterprises have outperformed them by growing at 318 per cent and 542 per cent for 'individually owned' and 'other enterprises' respectively. And these growth rates registered by privately owned enterprises have further shot-up by more than 800 per cent for both types of enterprises during the 3rd period (1991-1995). Finally, during the 4th period (1996-1999), the growth rates for all the enterprises have unexpectedly fallen below 100 per cent.

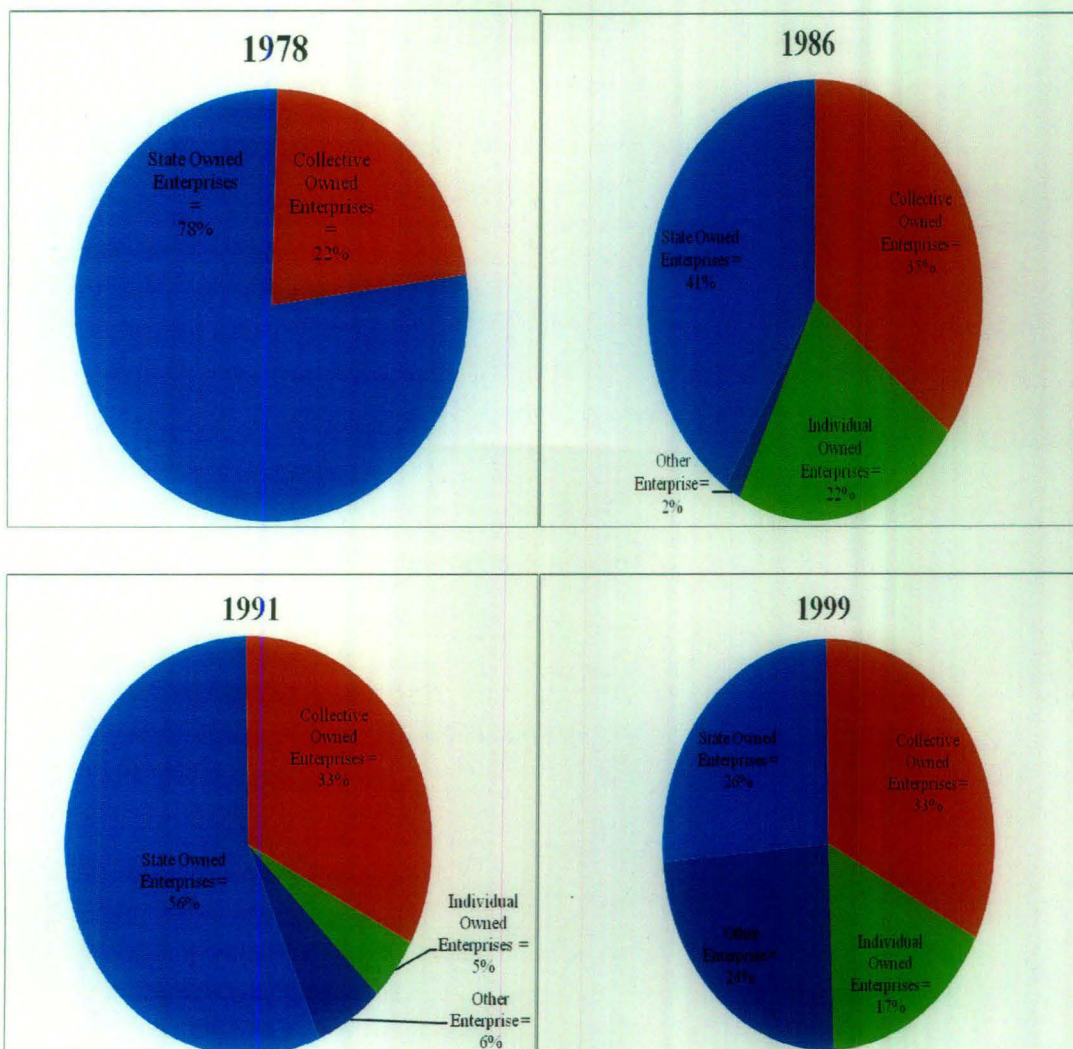
Figure 3.4: Percentage Increase in Gross Output Value under Different Forms of Ownership



Source: From appendix, Table 3.5

The Figure below (see **Figure 3.5**) shows the share of each type of enterprise and how these have changed over the year 1978, 1991 and 1999. The pie Figures for the year 1978 and 1999 show that, there has not been any drastic change in the share structure. The SOEs had been the dominant share holder with 78 per cent and ‘collective owned enterprise’ with 22 per cent in the beginning of the reform. The Figures for the year 1986 and 1991 show some change in the composition. The SOE share has come down to around 50 per cent whereas COE share has gone up to around 30 per cent from 22 per cent. However, things takes a complete different turn when we look at the pie Figure for 1999, with the share of traditional enterprises such as ‘state owned enterprise’ and ‘collective owned enterprise’ share coming down to 26 per cent and 33 per cent respectively by that year. On the other hand the ‘individually owned enterprises’ and ‘enterprises of other types of ownership’ which together had a 11 per cent share have seen increase to 18 per cent and 26 per cent respectively in the year 1999. All these are an outcome of different forms of privatization taking place after the reform. And we get to see new enterprises holding reasonable share (**Table 3.6**).

Figure 3.5: Gross Output Value under Different Ownership

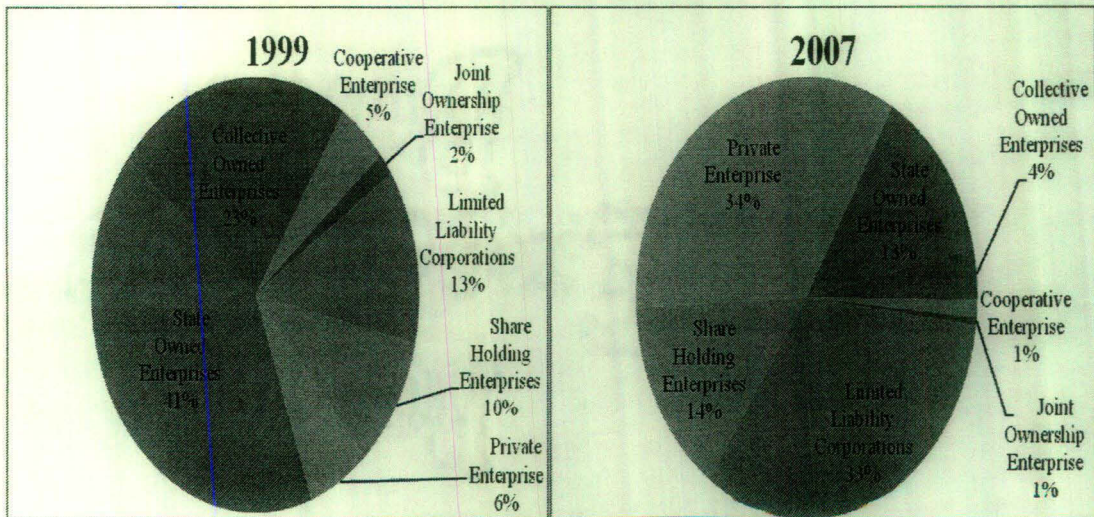


Source: From appendix, Table 3.5

Table 3.6 (relating to the period 1999 to 2007) looks at all enterprises based on size rather than on the ownership. While in the earlier Figures and tables there was a category such as ‘other enterprises’, now these enterprises have been broken down into: ‘cooperative enterprises’, ‘joint ownership enterprises’, ‘limited liability corporations’, ‘share holding enterprises’ and ‘private enterprises’. As expected, the traditional enterprises initially account for a good proportion of the total gross output value (see **Figure 3.6**). COEs holds 23 per cent and SOEs 41 per cent, while the rest is held by the other enterprises. But by the end of 2007, the share of the collectively owned enterprises has completely gone down to 4 per cent from 23 per cent in eight years time and the SOE share has fallen to 13 per cent. What has happened, as discussed in earlier chapter, is that the newer forms of private ownership have taken

over the most of their shares. And out of these the 'private enterprises' have come out of nowhere and ended up with share of 34 per cent and also same things goes with the 'limited liability corporations' and 'share holding enterprises'.

Figure 3.6: Gross Output Value under Domestic Funded Enterprises



Source: From appendix, Table 3.6

The performance of COEs may not suggest that they are disappearing, but what we need to note is that within two decades after the start of China's economic reform in the late 1970s, collective ownership dominated the TVE sector and has been the leading engine of the country's rapid economic growth. By 1994, the COEs had taken over the position of SOEs as the largest contributor to China's industrial output. The COE sector's contribution to the country's gross industrial output reached a level of nearly 40 per cent in 1998 compared to only 22 per cent in 1978 (see Table 3.5).

3.5. Employment Generation by Township and Village Enterprises

The problems of unemployment have always been one of the biggest problems for an economy which is in transition. So in the transition period, there is always a tendency for the rural population to move towards the urban industrialized areas. And this has been the case for the most of the developed countries which had passed through the phase of transition. During the emergence of capitalism in Western

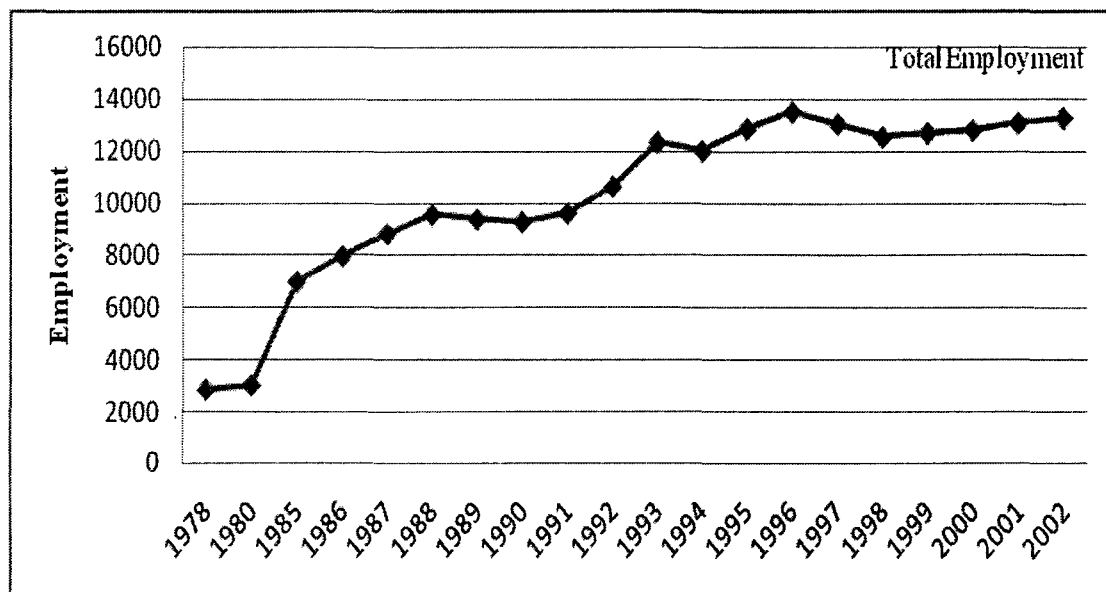
Europe and elsewhere, we witnessed ruination and pauperization of the small peasants and the surplus labour so created emigrated into the cities. The influx of migrants into the cities of England during the Industrial Revolution is well documented. These migrants in search of employment in towns and cities often became lawless and English law cruelly dealt with them. And China's experience, tells a similar story.

Regional disparities have been one of the main reasons for the migration of rural population to the urban cities in China's case. The problems of regional disparities (which will be discussed in greater detail in the following chapter) have been experienced by China since the time when they were colonized by the western imperialists. So rural migration has always been the problem for China. So to tackle this problem, since 1950, labor migration in China has been controlled by the central government, mainly to prevent peasants from immigrating to urban areas. The core of the controls lies in the 1958 Regulation on the Registration of Households (*hukou system*), which requires every household to register its place of residence, and to gain permission for any change in residence. Official permissions for changes in residence are strictly limited. During the period until the early 1980s, migration without permission was extremely difficult and was punished if not obeyed.

The story took a different turn after the reform. The Chinese government has taken a series of new regulations, allowing temporary residence for workers without a local hukou registration. Because of this unregistered migration has become somewhat easier after the reform. But the problem of rural migration has also been greatly reduced by rural industrialization. The impressive employment generating capacity of rural enterprises has reduced the rural population's dependency on agricultural income and also on migration as a source of income. And over the time, the shares of non-agricultural activities as sources of income have steadily increased. Obviously, the migration problem would have been worse if rural enterprises did not employ a substantial section of the rural surplus labor force. It can be regarded as a great achievement that TVEs absorbed a large part of rural labor in 1980s. It has been seen as a breakthrough in the migration of rural labor.

The rural surplus labour found employment not only in rural industries but also in other diversified economic activities such as poultry farming, pig raising, etc. As we can see from the **Figure 3.7** the number of persons employed by TVEs has been increasing by leaps and bounds. It stood at 28.27 million people in the year 1978 and this rose to 130.50 million people in the year 1997. After 1997, there is not much of employment generation under TVEs and the figure touched 132.87 million in 2002.

Figure 3.7: Number of People Employed under TVEs (Unit: 10,000)

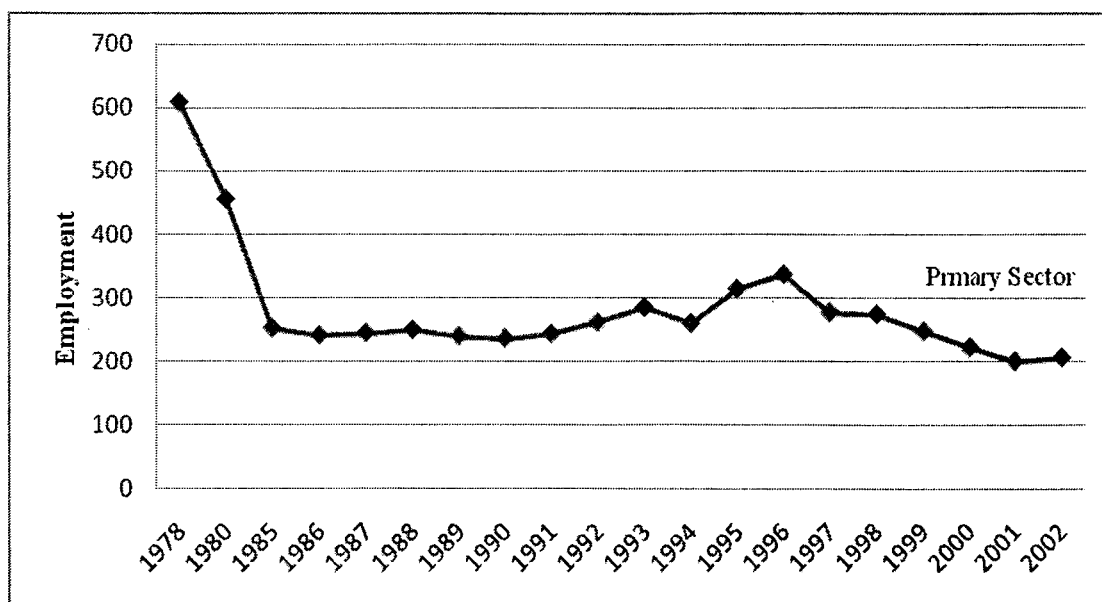


Source: From appendix, Table 3.7

Now in order to make the analysis complete, let us look at performance in terms of number of people employed under the different sectors. In the primary sector the employment has drastically dropped immediately after the reform till 1980 (see **Figure 3.8**), but there after that the number of people employed in the agricultural sector has more or less remained stagnant. This trend goes along with the one we analyzed in the previous section in terms of gross output value for the township enterprises in the Primary sector.

Figure 3.8: No. of People employed in the Primary Sector

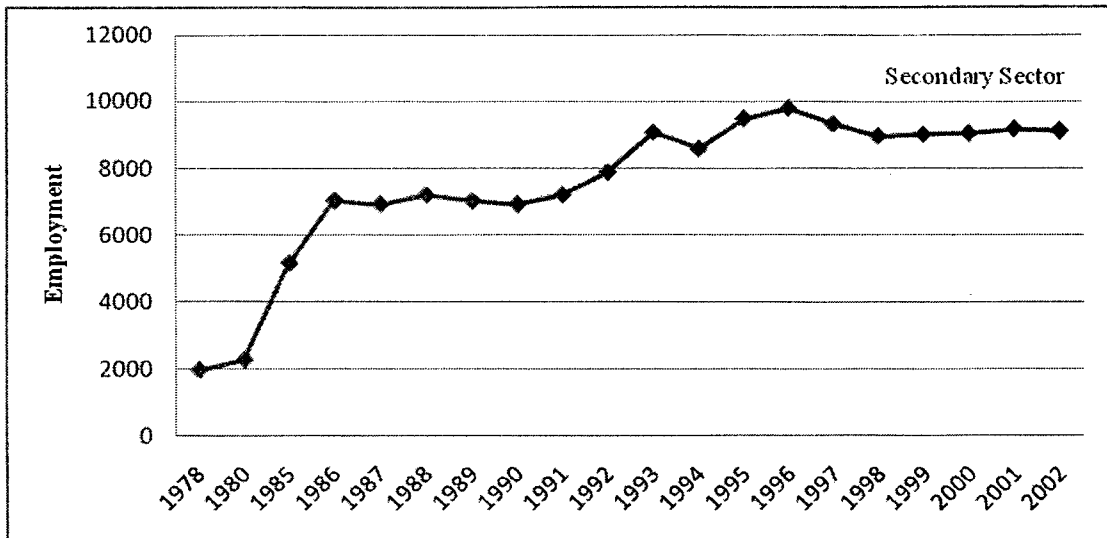
(Unit: 10,000)



Source: From appendix, Table 3.7

It is said that TVE's played a great role in generation of employment under the environment of a strict migration policy and an under-performing agricultural sector. The decline in the number of people employed in the agricultural sector has been substantially matched by those absorbed by the manufacturing industry, as we can see that the number of people employed in the Secondary Sector after the reform drastically increases. After year-end 1986 there is gradual rise in number employed generation and this trend continues for the rest of the time period (see Figure 3.9). By year-end 2002 there are 91.28 million people employed in the Secondary Sector where as there are only 2.05 million people employed in the Primary Sector.

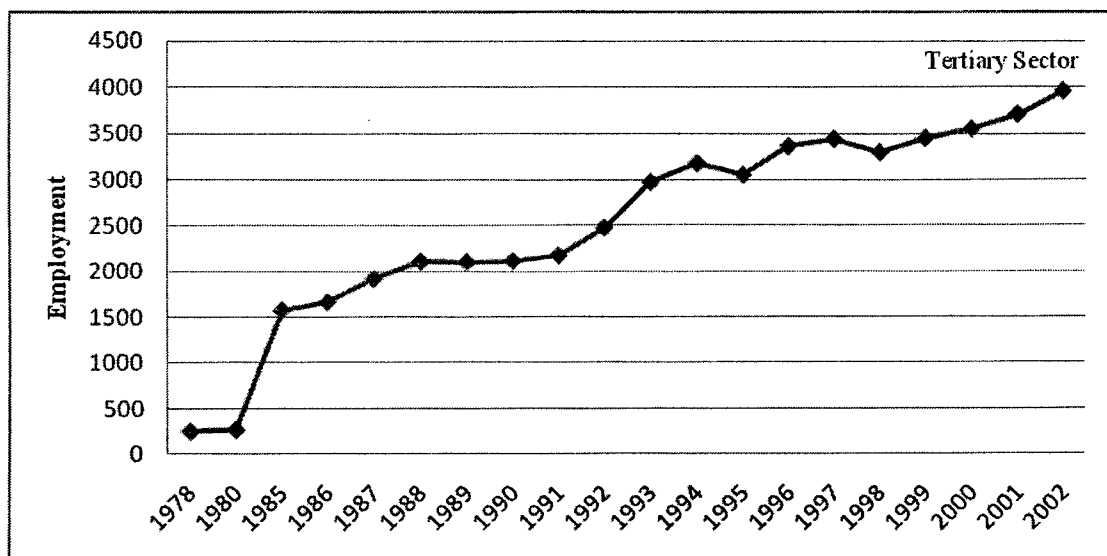
Figure 3.9: Number of People Employed in Secondary Sector (Unit: 10,000)



Source: From appendix, Table 3.7

A very similar trend as in the Secondary Sector can be seen with respect to the Tertiary Sector but the the magnitude of change is not as great as the one in the Secondary Sector (see Figure 3.10). The number of people employed in the Tertiary Sector stood at 8.62 million by year-end 2002.

Figure 3.10: Number of People Employed in Manufacturing Industry

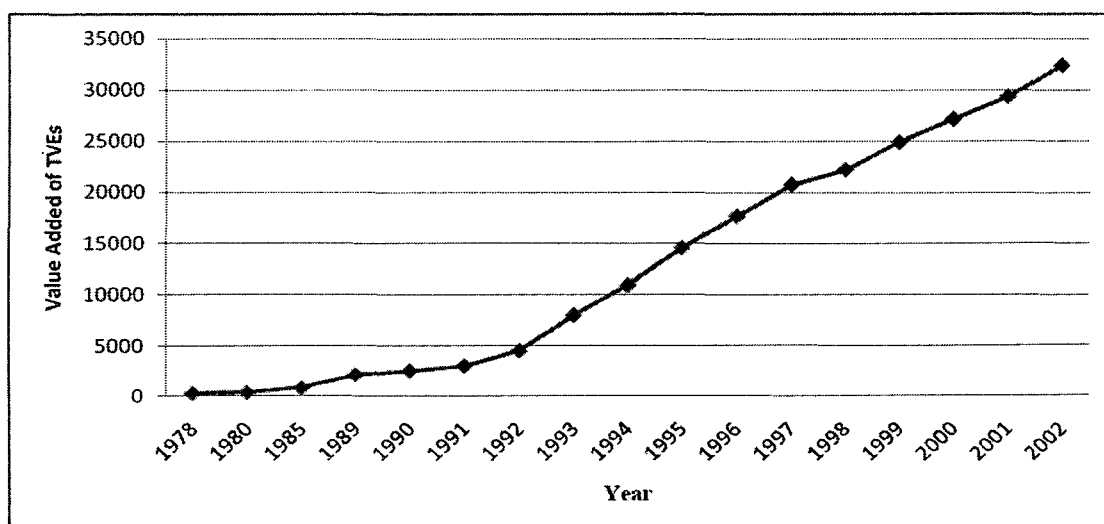


Source: From appendix, Table 3.7

3.6. Value-added by Township and Village Enterprises

So far we have looked into the contribution of TVE to the manufacturing sector in the area of productivity, number of enterprises, gross output value and employment. There is no doubt about importance of these indicators in determining the role that TVEs played, but what will also add to this study will be an analysis of value added by TVEs. The Statistical Yearbook defines value-added in industry as “the final results of industrial production of industrial enterprises in money terms during the reference period.” It can also simply be defined as the excess of value of output produced over the value of materials and services purchased from the other production units. Value added also represents the contribution of a production unit to the market value of the product produced by the enterprise. Value-added is one of the important determinants of the contribution of TVE as a whole. In the case of overall value-added, (see **Figure 3.11**) there has been a steady rise from the very beginning of the reform and till the year 2002.

Figure 3.11: Total Value-added of TVEs (Unit: 100,000,000 Yuan)

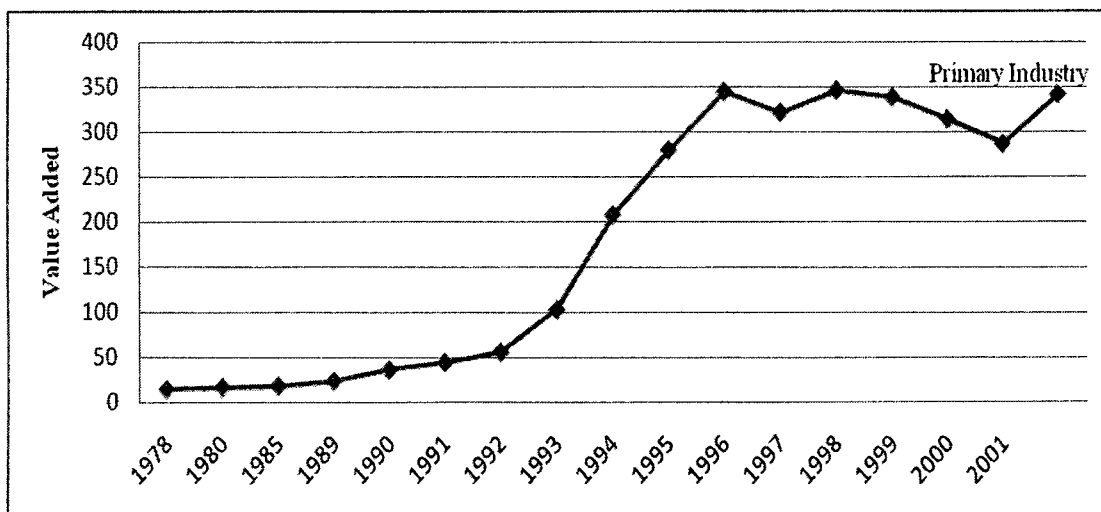


Source: From appendix, Table 3.8

The data for the value-added of TVEs can be analyzed in terms of the contribution of different sectors. The purpose of this analysis is to compare the performance of different sectors, especially the Secondary Sector. The contribution of value-added by different enterprises is provided with their respective Figures. The performance of value-added for Primary Industry shows erratic behavior (see **Figure 3.12**). It has a

very gradual rise initially after the reform and thereafter from year 1992 it starts to accelerate and then finally remains stable after year 1996. This trend is completely different when compared with the other two sectors.

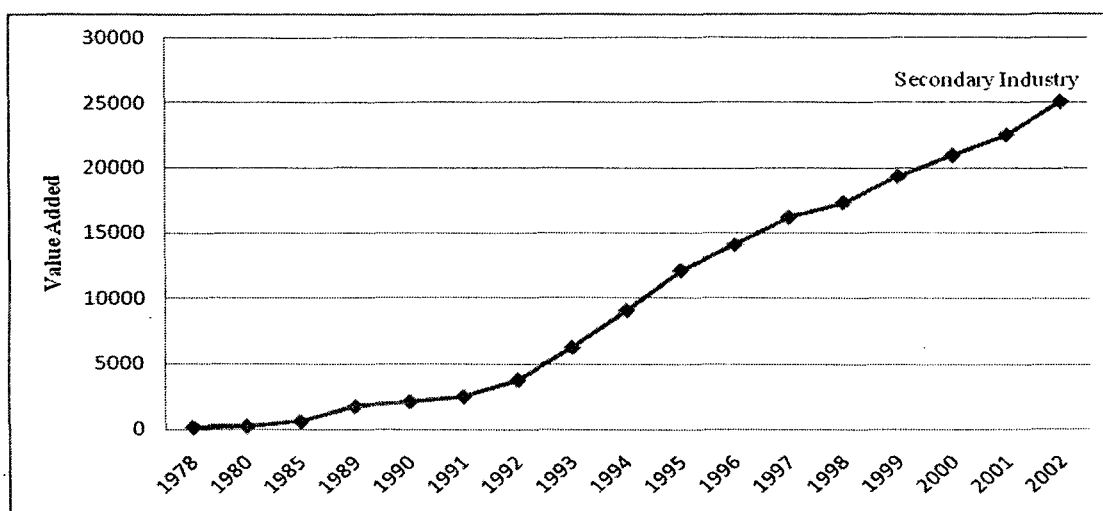
Figure 3.12: Value-added in Primary Industry (Unit: 100,000,000 Yuan)



Source: From appendix, Table 3.8

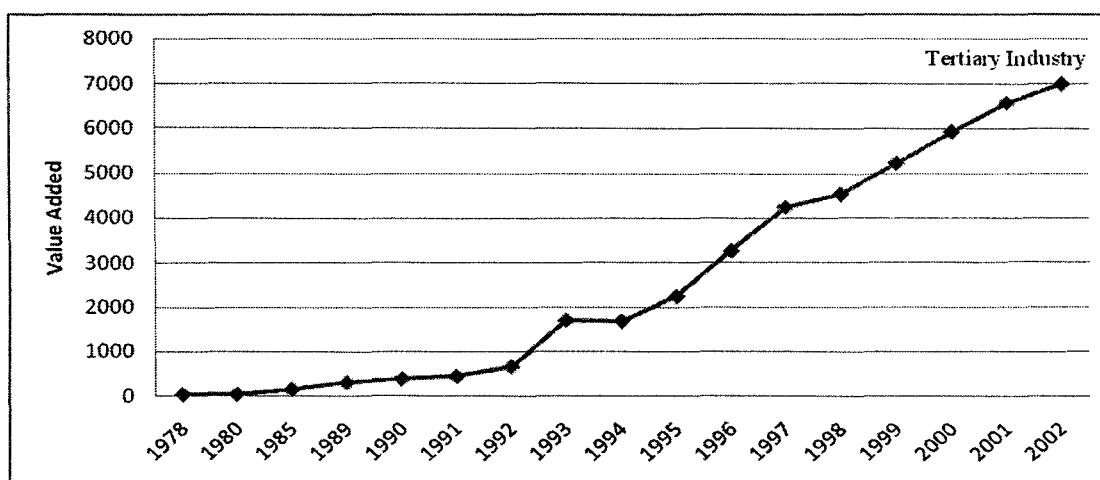
The pattern for the Secondary and Tertiary Sectors (see Figure 3.13 & Figure 3.14) is very much the same. They have grown continuously throughout the period from 1978 to 2002. What differentiates these two sectors is the magnitude of change. The Secondary Sector accounts for the largest proportion of value-added to the total, which is followed by the Tertiary Sector and then the Primary Sector. It contributed 172.12 hundred million Yuan accounting for 83 per cent in the year 1978 and this increased enormously to 25,061 hundred million Yuan in the year 2002, accounting for 74 per cent of the total value-added.

Figure 3.13: Value Added in Secondary Industry (Unit: 100,000,000 Yuan)



Source: From appendix, Table 3.8

Figure 3.14: Value Added in Tertiary Industry (Unit: 100,000,000 Yuan)



Source: From appendix, Table 3.8

3.7. Conclusion

Studies of the performance of the TVEs and their contribution to manufacturing sector has been extensive in the areas of productivity, numbers of TVEs, gross output value, employment and value added. And there were enough evidences to prove the TVE's performance and the role that it played in the manufacturing sector. Different studies have also shown how the productivity of TVEs had been better than that of SOEs and private enterprises. And these arguments hold true when we look at the data related to growth in terms of number of enterprise, gross output value and value added.

Chapter 4

THE DISTRIBUTION OF TVES ACROSS GEOGRAPHICAL REGIONS AND TIME

4.1. Introduction

Regional disparities are one of the most fundamental problems faced by the developing and under-developed countries. Yet, their emergence is seen as a natural tendency in transitional countries resorting to liberalization as a means to development and growth. This idea is inbuilt in many neoclassical models that also predict a process of convergence in the future. These models discourage government interference in neglected areas or encourage emphasis on richer areas, because of which there is always a tendency to concentrate new economic activities in regions or places where the factors of production are most abundantly available and means of transportation are easily accessible. China is no exception. If we look back to history, when China was ruled by foreigners, the sole purpose of colonization appears to be exploitation of natural resources and control of its leading sectors, which have been variously estimated at between one-third and one half of total modern industry. Most of these industries were confined to the coastal regions, oriented towards export markets with few links to the domestic economy and centered preponderantly in light industry. The result was that in year 1949 coastal areas with 10 percent of the land produce had 77 per cent of factory output value³³. So basically the purpose of this chapter is to look into regional disparities of China and how TVEs are contributing over a time to this chronic problem.

In order to correct the disparities that China was left with, Mao devised "corrective" strategies aimed at diverting resources from the coast to the interior. In the First Five-Year- Plan (1953-1957), more than one half of the total industrial investment was in the interior regions³⁴. The investment was financed through heavy taxation of the developed provinces, while poor provinces were allowed to retain most of their revenues and even receive subsidies from the state (Lardy 1975). But this strategy was not successful because of the failure of the Great Leap Forward (1958) which

³³ Mark Selden

³⁴ Cited in C. Cindy Fan (1995)

led to famine (1959-1961) and was followed by the Cultural Revolution (1966). Finally the Vietnam War deteriorated relations with the Soviet Union and the United States. But all this did not end Mao's determination to correct the inequalities. The next plan that China relied was on a model of resource allocation known as the "Third-Front" (*san xian*). The model was clearly defence-oriented: avoiding the vulnerable large coastal cities (First-Front) and their adjacent areas (Second-Front), this model advocated the construction of industries, especially large capital projects such as iron and steel and military machinery, in interior (Third-Front) locations that were less vulnerable to foreign attacks³⁵. These Third-Front industrial projects tended furthermore to be located in inaccessible sites such as lowlands surrounded by mountains, a practice that gave rise to the expression *shan, san, dong* which may be translated as "in mountains, in dispersion, in caves."³⁶

Both strategies of First Five Year Plan and the Third-Front which diverted investment from eastern coastal cities to the interior did not turn out to be very successful. The interior regions of course had abundant energy and mineral resources, but they were poor in technology and human resources and distant from the main markets in the east. Third-Front projects were also more costly and inefficient, located as they were in remote sites lacking in infrastructure and agglomeration economies. Yet, after thirty years, Mao's pro-interior regional policy could not produce the desired results, with the coastal region still producing some 60 percent of China's industrial output. Other studies conclude that uneven regional development had not changed substantially under Mao, despite the regime's spatially biased investment policy.

With the death of Mao, the extent of regional disparities went from bad to worse under Deng Xiaoping. He initiated a change in ideology, from socialism to a tailored "socialism with Chinese characteristics," or even so-called "market socialism." In the era of "market socialism" the government's policy of correcting the regional disparities was diluted and the government's attention shifted to the richer areas.

³⁵ Naughton (1994)

³⁶ C. Cindy Fan (1995)

4.2. Disparities in Terms of Number of TVEs

China's Year Book is only available from the year 1996, which gives us the distribution of TVEs in terms of number across different provinces from 1995. But this does not limit us from analyzing the role of TVEs in the regional disparities. With the help of other data available, we try to figure out the direction of movement of TVE location.

If we return to **Table 3.2** of chapter 3, we would note that the rise in the number of TVEs started immediately after the reforms and continued till it reached a maximum in the year 1994. Thereafter the number of TVEs remained more or less stagnant. Basically the number of TVEs rose from 1.52 million units in the year 1980 to 24.95 million units (see **Table 3.2**) in the year 1994, which would mean an increase of 23.43 million over 14 years. Where were these new TVEs located?

The physical area of China has been divided into thirty one provinces and an analysis of each province for geographical distribution of TVEs across the provinces will be quite difficult task. For better understanding, the data has been divided regionally into six regions according to their proximity. Basically region 1 falls in the north, *region 2* in the north east and *region 3*, *region 4* and *region 5* in the coastal area. We examine the data for two time periods: one from 1995 to 1998 and the other from 1998 to 2002.

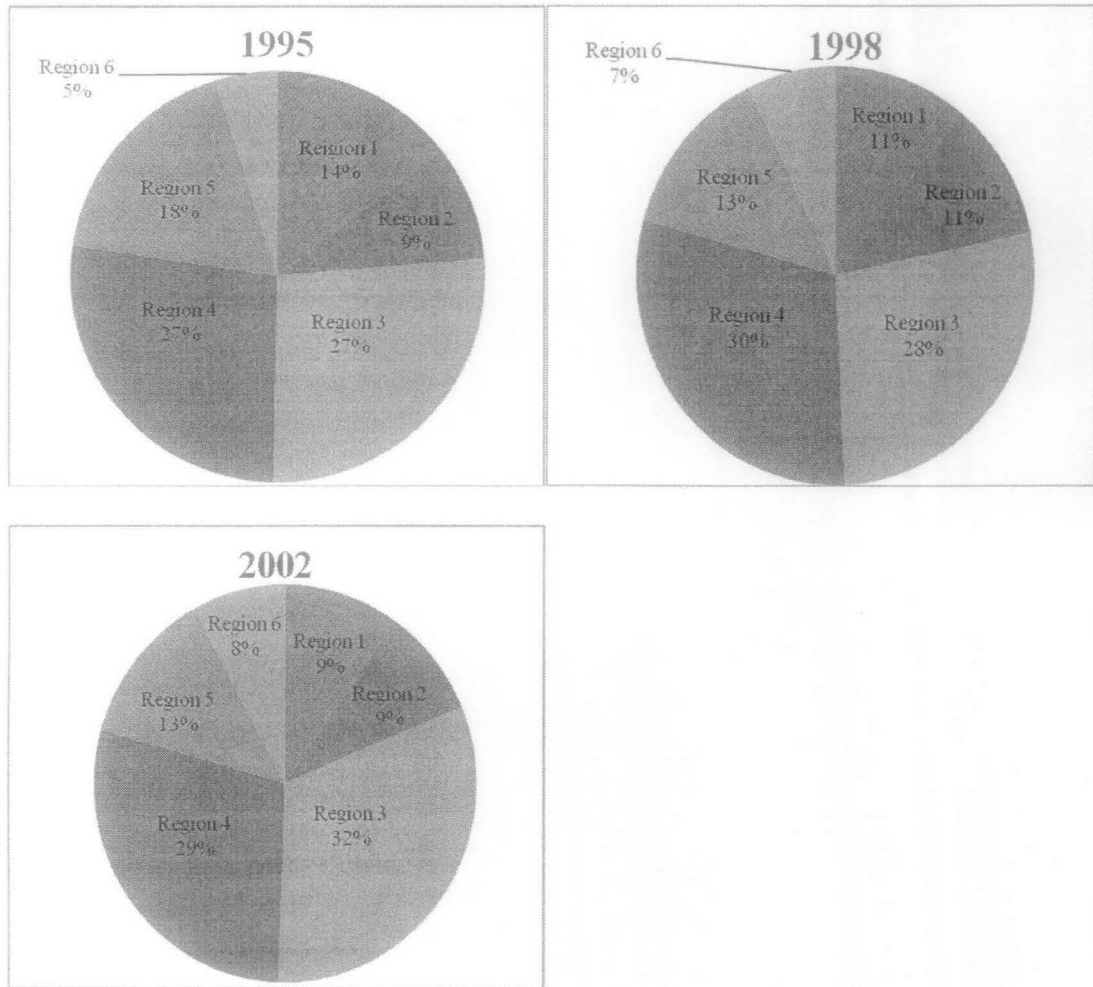
At the beginning of the year 1995 (see **Figure 4.1** or **Table 4.1**), *region 3* and *region 4* with nearly 27 per cent each dominated the distribution of TVEs by region. They were followed by *region 5* with 18 per cent. *Region 6* had the lowest proportion of TVEs with just 5 per cent, while *regions 2* and *1* accounted for 10 percent and 15 percent respectively. And when we move three years down the line, there is very little change in the composition. The coastal regions (*region 3* and *region 4*) have a slightly increased in their share and along with these we have *region 2* with similar change in terms of composition.

But if we look at the growth of TVEs in terms of number during the period 1995-1998 then there had been a fall in total number of TVEs by 9 per cent. This fall was largely in *regions 1*, *2* and *5*, which recorded decline in number of 32, 11 and 30 per

cent respectively. On the other hand, there had been only small fall in number of enterprises in *region 3* and even a small rise in *region 4*. *Region 6* had recorded a sharp rise of 36 per cent, but this was not significant because of the region's small share in the total number of enterprises. Thus, till 1998, the distribution of TVEs did not contribute much to the regional disparities. One reason could be that the growth in the number of TVEs had been stagnant ever since 1994 resulting in little change in the distribution of TVEs across the different regions. Even the coastal regions did not experience much change in terms of the number of TVEs.

The pattern seen during the first period (1995-1998) continues in the second period (1998-2002). When we examine the distribution of TVEs in the year 2002, there has not been so much change in the pattern to suggest that TVEs have contributed to the regional disparities. *Region 3* with 32 per cent in the year 2002 has taken the lead with an increase of 4 percentage points over the period; whereas *region 4* accounted for 29 per cent with hardly any change. With respect to the other regions also there no great change in percentage distribution. Also the number of TVEs in *region 3* has been growing at 21 per cent during the period 1998-2002. *Regions 1, 2* and *5* have recorded negative growth rates, and their share in number of TVEs has come down to 10%, 9% and 13% respectively. Though *region 6* recorded an increase of 56 percent in number of enterprises, the percentage share of this province is only 8 in the year 2002. The shares of most of the regions had fallen by small margin and this change had been matched by a rise in the share of *region 3*, which now accounted for the maximum share of 32 per cent. The provinces in *region 3* basically constitute of those falling in the coastal region except Jiangxi. And it is only Jiangxi province in *region 3* that had recorded a huge decline of 34 percent in the number of enterprises.

Figure 4.1: Share of Number of TVEs in Different Regions



Source: From appendix Table 4.1

4.3. Disparities in Terms of Employment Generation

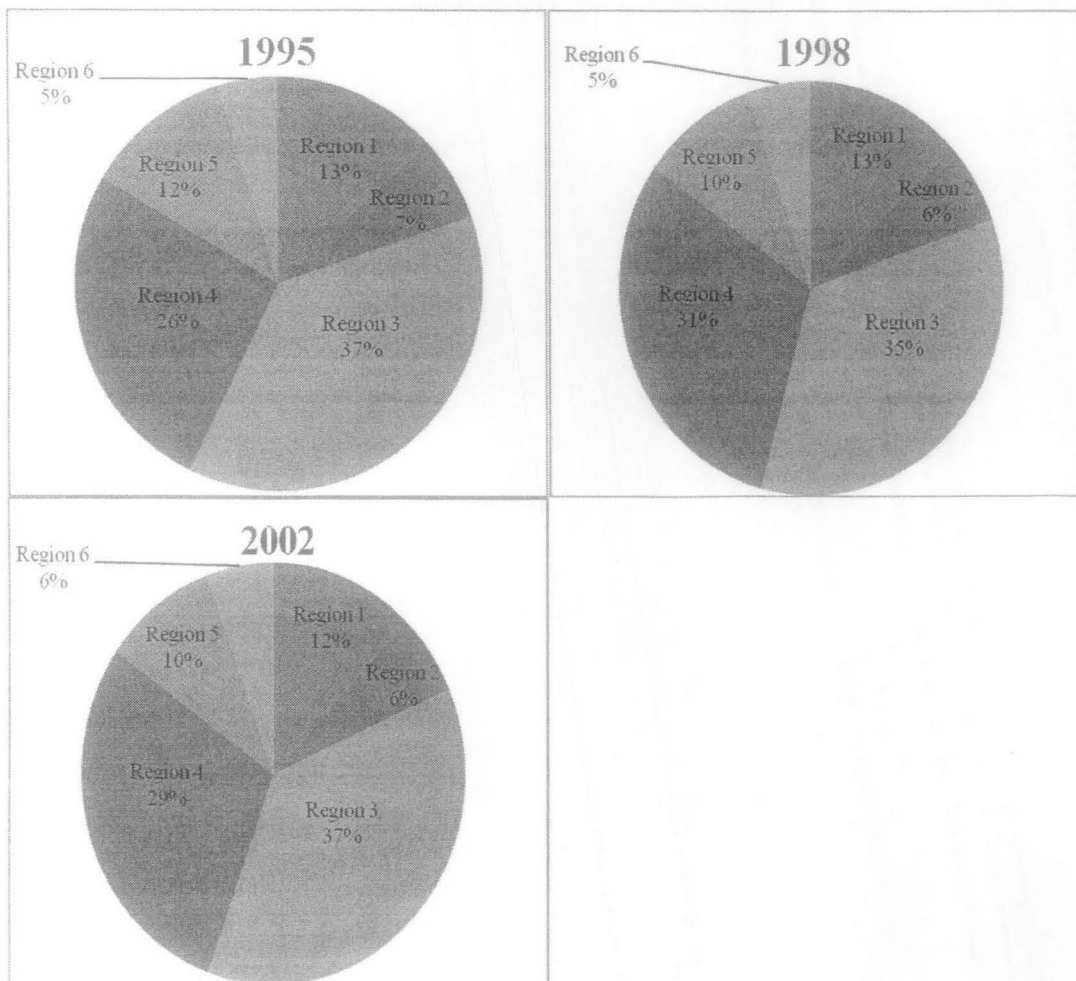
As noted earlier, the evidence on the distribution of TVEs in terms of number across different regions is not sufficient to assess whether the concentration of TVEs has led to regional disparities. The case for widening regional disparities because of TVEs' distribution will be substantiated if it is supported by some other indicator such as employment generation. There could be concentration in terms of number of enterprises but the size of the enterprises could be small in terms of employment and output. And TVEs by nature are small in size. This necessitates an examination of the employment in TVEs.

Figure 4.2 shows that there is not much difference from the picture provided by the distribution of TVEs in terms of number of enterprises. The coastal regions (*region 3*

and *region 4*) account for a dominant share of the number of people employed with 37 and 26 per cent respectively and nothing much changes by the year 1998, when they account for 35 and 31 per cent respectively. Even in the year 2002, their shares are more or less the same with *region 3* having a share of 37 per cent and *region 4* a share of 29 per cent. The similarity holds for the other regions such as: *region 1*, *region 2*, *region 5* and *region 6*.

But in terms of percentage change (see **Table 4.4**) in the number of people employed it seems that the *regions 3, 4, 5, and 6* are the ones recording a reasonable amount of change. *Region 3* initially recorded a decrease of 10 per cent during the period 1995-1998 and then an increase of 15 per cent in the period 1998-2002. On the other hand, *region 4* recorded an initial increase of 13 per cent during the period 1995-1998 and a further increase of 3 per cent during 1995-2002.

Figure 4.2: Share of Employment Generation by TVEs in different regions



Source: From appendix Table 4.3

Thus, there has not been much change in the regional disparities over time. This is true not only in terms of number of TVEs but also in terms of employment. Basically between the years 1995 to 2002 the situation with regard to regional disparities generated by TVE distribution had not worsened.

Even though the data available for the period 1995 to 2002 shows little or no worsening of regional disparities, it is true that the situation prevailing in the year 1995 had actually been an outcome of TVE growth in certain parts of the country. The huge growth in the number of TVEs between 1978 and 1994 had not resulted in a low level of regional inequality, even though it is said that the establishment of rural enterprises tends to correct regional imbalances. Thus, it can be said that the concentration of TVEs in the eastern regions demonstrates that, while the movement of the population from low productivity agriculture sector to the relatively high productivity industrial sector occurred, this has also resulted in the widening regional income gap in China immediately after the reform.

4.4. Factor Contributing to the Regional Disparities: ‘*some go first into prosperity*’

As mention earlier, since reform, China’s policy towards economic growth, emphasized efficiency³⁷ more than egalitarianism. The strategy of economic development in China after reform assumed that inequality of income was necessary to provide incentives for investment. It favored certain sections of society and areas where there were scopes of growth with the hope that ultimately the benefits of growth will ‘trickle down’ where on these grounds some areas and individuals had been allowed to grow rich first. This view led to priority being given to the development of the eastern coast with the introduction of special economic zones (SEZs). In the SEZ, local governments had considerable latitude to grant special privileges to exporting firms such as the right to import their intermediate inputs without duty, as well as the right to retain some or all of the resulting foreign exchange earnings. Foreign investment was also encouraged. Import duties were cut, the exchange rate was devalued, and freedom to foreign investment extended, though many restrictions remained as a part of the government’s industrial

³⁷ Efficiency means maximization of current output of goods and services with the available factors of production and with adequate provision of resources for future growth.

promotion strategy. Starting from 1980, China established four SEZ in two provinces, Guangdong and Fujian³⁸. This was followed by opening up of fourteen coastal port cities in eight provinces which were allowed to establish Economic and technological development zones (ETDZs) and the promotion of three delta areas as open economic areas (OEAs) in May 1995³⁹. Because of all these, the volume of FDI utilized annually in China has exceeded US \$ 40 million during the period 1996-1999.

4.5. Conclusion

The tendency for regional disparities has got a lot to do with the government's strategies for the future growth or the failure to correct the already existing disparities. In the case of China, it's the latter; the exploitation during the colonial period had already sowed the seed of disparities. Mao's attempt to correct these disparities with the help of First Five-Year- Plan (1953-1957) and the "Third-Front" policy was a failure. The post-Mao economic strategies also accentuated the problem further. Though, rural industrialization was given importance and succeeded, there was nothing that was curing the problem of regional disparities.

While the neoclassical theories on convergence have been influential guides for China's new regional policy, the Chinese experience since 1978 affords no evidence for the inverted-U trajectory of first increase and then decrease in regional development. Neoclassical theories are, in the first instance, built upon an assumption of high factor mobility which does not apply in China. Second, neoclassical theories' concern with the flows of factors of production virtually excludes the role of the State which in socialist China (during both the Maoist and post-Mao periods) has been the chief determinant of regional allocation of investment. During the Maoist regime, the state achieved some degree of balanced development via centralized fiscal management and direct state investment in interior provinces. When confronted by the pressing need for economic development, post-Mao leaders refined these priorities and opted for efficiency over equity. This change in state priorities was the fundamental driving force behind the new pattern of uneven regional development.

³⁸ Tianlun Jian, Jeffrey D. Sachs and Andrew M. Warner (1996)

³⁹ Kumar, Sanjeev (2002)

Chapter 5

CONCLUSION

China was built by people not machines. The literature about the greatness of China's corporations and the marvelous corporate environment that exists in China is at times misleading. This is because before corporations were set up, people have established household farms and township and village enterprises across the nation. The whole evolution of China's economy can be summed up with the adage that "development is both a break from the past as well as continuation of it to a higher stage".

As we have seen TVE's are not the direct product of the liberal policies followed after the reform, though there is no doubt about the fact that these policies facilitated the performance of the TVE's. TVEs are actually built on the legacies of the 1950s – the 'collective commune and brigade enterprises' (CBEs) set up to serve as one of the means for rural industrialization. The TVEs' structures are the structural legacy of CBEs which are based on the community ownership. They work hard to receive benefits according to the work they put in and a major part of the residual is used up for the communal social investment which is shared by everyone in the community. The structure also permitted government intervention through the TVG. And it's because of this unique structure that TVEs received support from the government in terms of privileges, incentives, facilities of different kinds of which some were close to that given to the SOEs.

TVEs are, as noted by some, a form of socialism which exists not at the national level but at community, village, and town levels. They reached places that were neglected by the central government and were the one the major instruments behind the rural industrialization. But though they may have started with rural industrialization, the success of these institutions has gone beyond the rural areas. It has touched the cities, created new towns, and sub-urban areas and attracted the interest of foreign investors. And the true driving forces behind the success of TVEs are millions of farmers. TVEs were initiated by farmers before 1978, who worked in the face of consistent uncertainty and hostility from 'above', and induced the powerful State to make favorable choices. Though the elites may have played a role, that role was hardly a leading, entrepreneurial one.

APPENDIX

Data Description and Tables

This appendix describes data sources, methods in generating the data, explains variable used and the tables for the respective chapters.

1. Sources of Data

Data on township enterprises (TVE's) are collected through comprehensive reporting system and reported level by level, which based on National Township Enterprises Reporting System formulated by Ministry of Agriculture, approved by National Bureau of Statistics and provided by Township Enterprises Bureau of Ministry of Agriculture.

The data to industries are provided by Chapter on Industry by China Statistical Yearbook, National Bureau of Statistics of China. My data covers from the time after the reform, i.e. 1978 and the limit to the other end depends upon the availability of the data. The industrial statistics covers all industrial enterprises within the territory (excluding Hong Kong, Macao and Taiwan) but after 1999 it also covers data of 'enterprises with funds from Hong Kong, Macao and Taiwan' and 'foreign funded enterprises'. Before 1997, the industrial statistics was based on types of ownership, consisting of following six parts:

1. Industrial enterprises at and above county level with independent accounting system and production units with dependant accounting system,
2. Village industrial enterprise
3. Urban joint industrial enterprises
4. Rural joint industrial enterprise
5. Urban individual industrial enterprises and
6. Rural industrial enterprises (village industrial enterprises were not included in this part before 1984).

Since 1998, the coverage of industrial statistics was changed from types of ownership to the size of enterprises. Data cover the all state-owned industrial enterprises and those non-state-owned industrial enterprises with annual sales over 5

million Yuan. The shortened description is all state-owned industrial enterprises and non-state enterprises above designated size.

2. Industrial Statistics

The Industrial statistics include following categories of enterprise according to their registration and also their definition as per the National Bureau of Statistics of China.

2.1. State-owned Enterprises (SOE)

State-owned Enterprises refer to industrial enterprises where the means of production or income are owned by the state. Joint state-private industries and private industries, which existed before 1957, have been transformed into state industries. Statistics on these enterprises has been included in the state owned industries since 1957 when separation of data was no longer necessary.

2.2. Collective-owned Enterprises (COE)

Collective-owned Enterprises refer to industrial enterprises where the means of production are owned collectively, including urban and rural enterprises invested by collectives and some enterprises which were formerly owned privately but have been registered in industrial and commercial administration agency as collective units through raising fund from the public. Collective owned enterprise broadly includes: township enterprises, village enterprise and cooperative enterprises

2.3. Joint-operation Enterprises

Joint-operation enterprises refer to economic units that are established by joint investment by two or more corporate enterprises or institutions of the same or different types of ownership on voluntary, equal and mutual-beneficial basis. They include:

- a) State-owned joint-operation enterprises (joint operation between state-owned enterprises)
- b) Collective joint-operation enterprises (joint operation between collective enterprises and

c) State-collective joint-operation enterprises (joint operation between state and collective enterprises).

2.4. Limited Liability Corporations

Limited Liability Corporations refer to economic units registered in accordance with the Regulation of the People's Republic of China on the Management of Registration of Corporations, with capitals from 2 to 49 investors, each investor bears limited liability to the corporation depending on his/her holding of shares, and the corporation bears liability to its debt to the maximum of its total assets.

2.5. Share-holding Cooperative Enterprise

Share-holding Cooperative Enterprises refer to economic units set up on cooperative basis, with funding partly from members of the enterprise and partly from outside investment where the operation and management is decided by the members who also participate in the production, and the distribution of income is based both on work (labour input) and on shares (capital input).

2.6. Private Enterprises

Private Enterprises refer to economic units invested or controlled (by holding the majority of the shares) by natural persons who hire labors for profit-making activities. Included in this category are private limited liability corporations, private share-holding corporations Ltd., private partnership enterprises and private sole investment enterprises registered in accordance with the Corporation Law, Partnership Enterprise Law and Tentative Regulation on Private Enterprises.

2.7. Enterprises with Funds from Hong Kong, Macao and Taiwan

Enterprises with Funds from Hong Kong, Macao and Taiwan refers to all industrial enterprises registered as the joint-venture, cooperative, sole (exclusive) investment industrial enterprises and limited liability corporations with funds from Hong Kong, Macao and Taiwan.

2.8. Foreign Funded Enterprises

Foreign Funded Enterprises refers to all industrial enterprises registered as the joint-venture, cooperative, sole (exclusive) investment industrial enterprises and limited liability corporations with foreign funds.

2.9. Gross Industrial Output Value

Gross industrial output value is the total volume of final industrial products produced and industrial services provided during a given period. It reflects the total achievements and overall scale of industrial production during a given period.

Principles for calculation: Statistics on industrial production follow the principle that all products produced by the enterprises and accepted during the reference period are to be included no matter whether they are sold or not during the reference period.

Determination of final products follow the principle that all products that are included in the calculation of gross industrial output value are the final products of the enterprise which have been accepted through quality check and require no further processing. If an enterprise has intermediate (semi-finished) products to sell, these intermediate products are considered as the final products of the enterprise.

Gross industrial output value is calculated following the principle of factory approach, i.e. industrial enterprise is used as the basic accounting unit in calculating the gross industrial output value. By this approach, value of the same product is not to be double counted, and the output value of different workshops (branch factories) should not be added. However, this approach does not exclude the possibility of double counting between enterprises.

3. Agricultural Statistics

Enterprises covered in the agriculture statistics in the Yearbook include following categories by their registration and also their definition as per the National Bureau of Statistics of China.

3.1. Township Enterprises (TVE)

Township Enterprises which will be referred to as Township and Village Enterprise (TVE) a common accepted name. Township Enterprises (TVE) refer to collective economic organization in rural areas or various enterprises bearing the responsibilities of supporting the agricultural sector in town (including related village), which mainly invested by farmers. The share of rural economic organizations or farmers should account for over 50%, if it were below 50%, it should play the leading role or hold the share. Those enterprises include: township enterprises, village enterprises, joint-household enterprises, household (private, individual) enterprises; and also the joint venture enterprises with various ownerships among above-mentioned enterprises, or with state-owned enterprises, urban collective enterprises, private enterprises and foreign funded.

Different types of Township Enterprises

- Collective owned Units
- Private Enterprises
- Self Employed Enterprises

3.2. Value-added

Value-added of Industry refers to the final results of industrial production of industrial enterprises in money terms during the reference period. Industrial value-added can be calculated by two approaches: the production approach, i.e. gross industrial output value minus intermediate input plus value-added tax, and the income approach, i.e. income for various factors used in the course of production, including depreciation of fixed assets, remuneration of laborers, net of production tax, and operating surplus. Value-added of industry in the Yearbook is calculated by production approach as following:

Value-added of industry = gross industrial output – industrial intermediate input + value-added tax.

4. TABLES

Table 2.1: Number of Industrial Enterprises (1991-1999)

(10,000 units)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	1991-99
No. of Industrial Enterprises	807.96	861.21	991.16	1001.71	734.15	798.65	792.29	797.5	792.99	-1.85%
State Owned Enterprises	10.47	10.33	10.47	10.22	11.8	11.38	9.86	6.47	6.13	-41.45%
Collective Owned Enterprises	157.72	164.06	180.36	186.3	147.5	159.18	177.23	179.78	165.92	5.20%
Individual Owned Enterprises	638.67	685.4	797.12	800.74	568.82	621.07	597.47	603.38	612.68	-4.10%
Enterprises of Other Types of Ownership	1.08	1.42	3.21	4.45	6.03	7.02	7.73	8.57	9.18	750%

Source: China Statistical Yearbook, National Bureau of Statistics of China

Table 2.2: Number of Industrial Enterprises (1999-2007)

	1999	2000	2001	2002	2003	2004 ⁴⁰	2005	2006	2007	1999-2007
No. of Industrial Enterprises	162033	162885	171256	181557	196222		1375263	301961	336768	107.84%
Domestic Funded Enterprises	135196	134440	139833	147091	157641		1269098	241089	269312	99.20%
• State Owned Enterprises	50651	42426	34530	29449	23228		25339	14555	10074	-80.11%
• Collective Owned Enterprises	42585	37841	31018	27477	22478		141772	14203	13032	-69.40%
• Cooperative Enterprise	10149	10852	10864	10193	9283		50097	6313	5880	-42.06%
• Joint Ownership Enterprise	2771	2510	2234	1964	1689		6547	1075	999	-63.95%
• Limited Liability Corporations	9714	13215	18956	22486	26583.94		102392	47081	53326	449%
• Share holding Enterprises	4480	5086	5692	5998	18017.06		17427	7210	7782	73.70%
• Private Enterprises	14601	22128	36218	49176	67607		902647	149736	177080	1112.80%
Enterprises Funded by Entrepreneurs from Hong Kong, Macao and Taiwan	15783	16490	18257	19546	17425.62		54910	29181	31949	102.43%
Foreign Funded Enterprises	11054	11955	13166	14920	26932.18		51255	31691	35507	221.21%

Source: China Statistical Yearbook, National Bureau of Statistics of China

⁴⁰ The data for the year 2004 is under different definition, hence not included in the table

Table 2.4: Indices of gross output value of industry**Preceding year = 100**

Based on comparable prices

Year	Total	State-Owned	Collective-Owned	Individual-Owned	Other
1978	113.55	114.44	110.58		
1979	108.81	108.88	108.57		
1980	109.27	105.61	119.24		
1981	104.29	102.53	109.01	234.57	131.60
1982	107.82	107.05	109.54	178.95	127.73
1983	111.19	109.39	115.53	220.59	133.90
1984	116.28	108.92	134.85	197.47	156.81
1985	121.39	112.94	132.69	1189.60	139.54
1986	111.67	106.18	117.97	167.57	134.16
1987	117.69	111.30	123.24	156.59	166.39
1988	120.79	112.61	128.16	147.34	161.53
1989	108.54	103.86	110.48	123.77	142.68
1990	107.76	102.96	109.02	121.11	139.33
1991	114.77	108.62	118.40	125.29	150.11
1992	124.70	112.40	133.30	147.00	164.80
1993	127.30	105.70	135.00	166.20	192.50
1994	124.20	106.50	124.90	156.30	174.30
1995	120.30	108.20	115.20	151.50	137
1996	116.59	105.13	120.88	120.00	123.77

Source: China Statistical Yearbook, National Bureau of Statistics of China

Table 3.1: Relative efficiency of various ownership statuses

Empirical Evidence	POE Efficiency	COE/TVE Efficiency	SOE Efficiency
Zhang et al., 2001			
• Technical Efficiency	66.78	68.77	55.34
Jefferson et al., 2000			
• TFP	3.2	3.1	1.9
Dong and Putterman, 1997			
• TFP		13.3 – 20.9% higher than that of POE	
Jefferson et al., 2000			
• TFP Growth in 1988-1992	2.11	3.13	2.11
• TFP Growth in 1992-1996	3.14	4.29	-1.11
Zhang and Parker, 2002			
• TFP Growth in 1990s	11.0	20.8	9.8

Note: POE refers to Private-Owned-Enterprises; COE refers to Collective-Owned Enterprises; SOE refers to State Owned Enterprises; technical efficiency is a measure of efficiency in terms of the difference between the real output and the potential output based on a stochastic production frontier model; TFP stands for total Factor Productivity as a measure of efficiency in terms of the real output over all the inputs used in production.

Source: Peter Ping Li (2005)

Table 3.2: Number of TVEs under Different Ownership (Unit: 10,000)

Year	Number of Township Enterprise	Collective Owned Units	Private Enterprises	Self Employed Individuals
1978	152.43	152.43		
1980	142.47	142.47		
1985	1222.50	156.90	53.30	1012.30
1989	1868.63	153.51	106.94	1608.18
1990	1873.44	145.39	97.88	1630.17
1991	1908.74	144.23	84.90	1679.61
1992	2091.96	152.72	90.18	1849.06
1993	2452.93	168.52	103.85	2180.55
1994	2494.47	164.10	78.64	2251.73
1995	2202.67	162.02	96.02	1944.63
1996	2336.33	154.89	226.42	1955.02
1997	2014.86	129.19	233.24	1652.43
1998	2003.94	106.58	222.20	1675.15
1999	2070.89	94.98	207.58	1769.23
2000	2084.66	80.21	206.06	1798.39
2001	2115.54	66.88	200.71	1847.95
2002	2132.69	73.15	229.79	1829.74

Source: China Statistical Yearbook, National Bureau of Statistics of China

Table 3.3: Number of TVEs under Different Industry**Unit: 10,000**

Region	No. of Township Enterprise	Primary Industry	Secondary Industry		Tertiary Industry	
			Industry	Transport		
1978	152.43	49.46	84.07	79.40	18.89	5.51
1980	142.47	37.83	80.86	75.78	23.77	8.94
1985	1222.50	22.42	457.83	398.54	742.25	274.37
1989	1868.63	22.68	829.02	736.47	1016.93	379.88
1990	1873.44	22.36	822.50	732.04	1028.57	389.37
1991	1908.74	23.10	831.51	742.67	1054.13	400.86
1992	2091.96	24.92	892.31	793.82	1174.73	436.95
1993	2452.93	27.91	1040.14	918.44	1384.88	486.40
1994	2494.47	24.64	781.57	698.58	1688.25	369.11
1995	2202.67	27.77	824.91	718.16	1349.99	495.17
1996	2336.33	28.94	861.02	756.43	1446.27	546.49
1997	2014.86	21.46	748.15	665.57	1245.25	417.08
1998	2003.94	18.92	744.10	661.96	1240.92	414.82
1999	2070.89	16.51	756.06	673.51	1298.31	412.66
2000	2084.66	15.12	753.53	674.01	1316.01	412.52
2001	2115.54	12.74	748.43	672.17	1354.37	412.86
2002	2132.69	32.17	697.43	627.68	1403.09	380.13

Source: China Statistical Yearbook, National Bureau of Statistics of China

Table 3.4: Gross Output Value of Industry**(Unit: 100 million Yuan)**

	1991	1992	1993	1994	1995	1996	1997	1998
Gross Industrial Output	26625	34599	48402	70176	91894	99595	113733	119048
Collective Owned Enterprises (COE)	8783	12135	16464	26472	33623	39232	43347	45730
• Township Enterprises	2401	3534	5374	8102	11932	11730	n.a.	n.a.
• Village Enterprises	2347	3632	5163	9658	11847	15900	17940	n.a.
• Cooperative Enterprises	569	870	1322	2611	2134	3387	4669	n.a.
% of TVE to COE	54.06	59.05	64	67.10	70.72	70.43		
% of Cooperative Enterprise to COE	6.5	7.2	8.0	9.9	6.35	8.63		

Source: China Statistical Yearbook, National Bureau of Statistics of China

Table 3.5: Gross Output Value of Industry (Unit: 100 million Yuan)

Figures in this table are at current prices

Year	Total	State Owned	Collective Owned	Individual Owned	Other Enterprise
1978	4237	3289	948	----	---
1980	5154	3916	1213	1	24
1985	9716	6302	3117	180	117
1s Period: 1978-1985 % Increased	129.31%	91.61%	228.80%	180%	117%
1986	11194	6971	3752	309	163
1987	13813	8250	4782	502	279
1988	18224	10351	6587	791	495
1989	22017	12343	7858	1058	758
1990	23924	13064	8523	1290	1047
2nd Period: 1986-1990 % Increased	113.72%	87.41%	127.16%	317.48%	542.33%
1991	26625	14955	8783	1287	1600
1992	34599	17824	12135	2006	2634
1993	48402	22725	16464	3861	5352
1994	70176	26201	26472	7082	10421
1995	91894	31220	33623	11821	15231
3rd Period: 1991-1995 % Increased	245.14%	108.76%	282.82%	818.50%	851.94%
1996	99595	36173	39232	15420	16582
1997	113733	35968	43347	20376	20982
1998	119048	33621	45730	20372	27270
1999	126111	35571	44607	22928	32962
4th Period: 1996-1999 % Increased	26.62%	-1.66%	13.70%	48.69%	98.78%

Source: China Statistical Yearbook, National Bureau of Statistics of China

- a) Figures for 1949-1957 of other ownership refer to state and private joint ownership enterprises and private ownership enterprises.
- b) Figures for state-owned industrial output value exclude 460 billion Yuan earned by state-owned holding company.

Table 3.6: Gross Industrial Output Value by Ownership (1999-2007)**(100 million Yuan)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	1999-2007
Gross Industrial Output Value	72707.04	85673.66	95448.98	110776.48	142271	187220.7	222315.93	316588.96	405177	457.2734%
Domestic Funded Enterprises	53752.81	62209.11	68228.08	78317.2	97913.4		155178.16	216512.45	277548	416.3414%
• State Owned Enterprises	22215.89	20156.29	17229.19	17271.09	18479.4		23519.12	30728.16	36387	-28.1613%
• Collective Owned Enterprises	12414.11	11907.92	10052.49	9618.95	9458.43	10586.4	9819.04	9174.88	10170	-18.0771%
• Cooperative Enterprise	2594.62	2897.26	2994.96	3202.94	3250.9	3943.2	3396.73	3079.27	3561	37.24553%
• Joint Ownership Enterprise	903.65	900.55	850.76	941.90	948.67		1033.43	1305.63	1583	75.17844%
• Limited Liability Corporations	7027.24	10926.38	15535.43	20069.77	26583.94		44042.82	70813.61	90336	1185.512%
• Share Holding Enterprises	5247.08	10090.29	12698.34	14119.03	18017.06		23120.80	33597.46	40159	665.359%
• Private Enterprises	3244.56	5220.36	8760.89	12950.86	20980.23	30898.6	49705.23	67239.81	94023	2797.86%
Enterprises Funded by Entrepreneurs from Hong Kong, Macao and Taiwan	8994.00	10574.30	11847.18	13668.81	17425.62		24386.41	33759.78	42418	371.6255%
Foreign Funded Enterprises	9960.23	12890.25	15373.72	18790.47	26932.18		42751.35	66316.73	85211	755.5124%

Table 3.7: Employment of Township Enterprise at the Year-end (unit: 10,000)

Year	Enterprises	Primary Sector	Secondary Sector		Tertiary Sector	
			Industry	Transportation		
1978	2826.56	608.42	1969.97	1734.36	248.16	103.83
1980	2999.68	456.07	2276.97	1942.30	266.63	113.56
1985	6979.00	252.38	5150.50	4136.65	1576.11	516.45
1986	7937.1	240.8	7027.83	4762.0	1664.1	541.3
1987	8805.2	244.2	6918.54	5266.7	1920.3	623.1
1988	9545.5	250.0	7200.29	5703.4	2107.3	684.2
1989	9366.8	239.30	7027.83	5624.10	2099.65	699.37
1990	9264.75	236.06	6918.54	5571.69	2110.15	711.22
1991	9613.63	243.17	7200.29	742.67	2170.17	400.86
1992	10624.71	261.82	7888.82	6336.40	2474.07	799.74
1993	12345.31	285.36	9086.49	7259.56	2973.46	931.45
1994	12017.47	260.46	8583.55	6961.51	3173.46	725.59
1995	12862.06	313.52	9497.24	7564.72	3051.30	952.03
1996	13508.29	336.00	9808.98	7860.14	3363.31	1062.32
1997	13050.42	276.96	9335.58	7634.87	3437.88	922.67
1998	12536.55	273.91	8967.98	7334.23	3294.65	886.34
1999	12704.09	247.38	9008.78	7395.32	3447.93	885.72
2000	12819.57	222.04	9047.82	7466.73	3549.71	898.49
2001	13085.58	200.03	9179.52	7615.11	3706.03	902.69
2002	13287.71	205.37	9127.98	7667.61	3954.36	861.62

Source: China Statistical Yearbook, National Bureau of Statistics of China

Table 3.8: Value Added in TVEs under Different Sectors

Year	Value-added of TVEs	Primary Industry	Secondary Industry	Tertiary Industry		
				Industry	Industry	Transport
1978	208.32	15.37	172.12	159.55	20.83	9.04
1980	285.31	17.41	242.68	218.18	25.23	12.74
1985	772.31	18.62	614.00	518.08	139.69	45.20
1989	2083.16	24.39	1767.84	1562.17	290.93	108.74
1990	2504.32	36.72	2095.93	1855.40	371.66	166.08
1991	2972.15	44.58	2500.59	2227.15	426.98	181.30
1992	4485.34	56.48	3780.32	3350.14	648.54	272.32
1993	8006.83	103.03	6222.64	5935.74	1681.17	480.54
1994	10928.03	207.63	9048.41	8086.74	1671.99	601.04
1995	14595.23	279.82	12085.40	10804.04	2230.01	804.17
1996	17659.30	344.69	14064.77	12627.66	3249.85	1145.99
1997	20740.32	321.81	16182.93	14517.99	4235.59	1272.67
1998	22186.46	346.16	17311.30	15530.27	4529.00	1361.41
1999	24882.56	338.65	19318.73	17374.11	5225.18	1509.45
2000	27156.23	313.85	20913.20	18812.41	5929.17	1657.65
2001	29356.39	286.62	22508.18	20314.66	6561.58	1821.91
2002	32385.80	341.77	25060.81	22773.03	6983.22	1809.46

Source: China Statistical Yearbook, National Bureau of Statistics of China

Table 4.1: Distribution of No. of TVEs across Province and time Unit: 10,000

Region/Year	1995	1996	1997	1998	2002	1995-2002 % Increased
National Total	2202.7	2336.3	2014.9	2003.9	2132.69	-3.2%
REGION 1						
• Beijing	6.3	7.7	4.5	7.9	13.40	112.69%
• Tianjin	7.6	9.7	9.8	11.6	12.34	62.36%
• Hebei	179.2	181.3	86.0	85.4	105.36	-41.2%
• Shanxi	70.9	82.9	79.8	32.3	37.04	-47.75%
• Inner Mongolia	59.0	71.6	76.4	84.1	38.43	-34.86%
TOTAL	323	353.2	256.1	221.3	206.57	-36.05%
% to National Total	14.66%	15.12%	12.71%	11.04%	9.69%	
REGION 2						
• Liaoning	74.0	80.2	83.0	89.7	107.93	45.85%
• Jilin	65.8	70.3	73.9	69.7	56.73	-13.78%
• Heilongjiang	62.5	76.8	9.9	21.6	26.21	-58.06%
TOTAL	202.3	227.3	96.8	181	190.87	-5.65%
% to National Total	9.19%	9.73	4.80	9.03	8.95%	
REGION 3						
• Shanghai	1.6	1.6	3.3	2.9	5.11	219.37%
• Jiangsu	92.4	91.4	86.5	89.2	95.10	2.92%
• Zhejiang	90.2	92.9	93.3	102.6	107.32	18.98%
• Anhui	60.7	70.1	75.3	67.6	77.11	27.03%
• Fujian	66.7	72.7	74.4	77.6	78.78	18.11%
• Jiangxi	106.2	82.0	78.1	70.1	70.11	-33.99%
• Shandong	175.2	178.3	175.5	150.8	241.77	37.99
TOTAL	593	589	586.4	560.8	675.3	13.88%
% to National Total	26.92%	25.21%	29.10%	27.99%	31.66%	
REGION 4						
• Henan	89.5	131.5	21.0	86.9	125.22	39.91%
• Hubei	146.8	159.8	164.6	83.8	99.37	-32.30%
• Hunan	185.0	200.4	204.4	214.9	154.83	-16.31%
• Guangdong	144.7	145.0	85.2	140.3	136.55	-5.63%
• Guangxi	26.5	87.8	87.2	80.6	89.57	238%
• Hainan	9.6	13.0	1.2	3.4	4.48	-53.33%
TOTAL	602.1	737.5	563.6	609.9	610.02	1.31%
% to National Total	27.33%	31.57%	27.97%	30.44%	28.60%	

REGION 5						
• Chongqing	n.a	n.a	36.1	9.1	10.18	
• Sichuan	252.4	148.9	112.9	121.2	151.48	39.98%
• Guizhou	22.2	25.1	19.6	30.0	43.18	94.50%
• Yunnan	85.0	96.5	108.7	114.7	76.41	-10.10%
• Tibet	n.a	0.1	n.a	n.a	0.13	
TOTAL	395.6	270.6	177.3	275	271.2	-31.45%
% to National Total	17.96%	11.58%	13.76%	13.72	12.72%	
REGION 6						
• Shaanxi	72.2	82.0	82.6	83.3	87.88	21.71%
• Gansu	34.0	35.8	37.5	20.1	24.89	-26.79%
• Qinghai	1.4	0.9	1.2	5.2	5.56	297.14%
• Ningxia	0.6	11.9	11.7	12.2	15.00	2400%
• Xinjiang	n.a	28.3	31.3	26.9	35.20	
TOTAL	108.2	158.9	164.3	147.7	168.53	55.75%
% to National Total	4.91%	6.80%	8.15%	7.37%	7.90%	

Source: China Statistical Yearbook, National Bureau of Statistics of China

Table 4.2: Distribution of No. of TVEs across Region and Time

Unit: 10,000

Region/Year	1995	1996	1997	1998	2002	1995-1998	1998-2002
						% Increase	% Increase
National Total	2202.7	2336.3	2014.9	2003.9	2132.69	-9.03%	6.423%
REGION 1	323	353.2	256.1	221.3	206.57	-31.49	-6.66
% to National Total	14.66%	15.12%	12.71%	11.04%	9.69%		
REGION 2	202.3	227.3	96.8	181	190.87	-10.53	5.45
% to National Total	9.19%	15.12%	12.71%	11.04%	8.95%		
REGION 3	593	589	586.4	560.8	675.3	-5.43	20.42
% to National Total	26.92%	25.21%	29.10%	27.99%	31.66%		
REGION 4	602.1	737.5	563.6	609.9	610.02	1.30	0.02
% to National Total	27.33%	31.57%	28%	30.43%	28.60%		
REGION 5	395.6	270.6	177.3	275	271.2	-30.49	-1.38
% to National Total	17.96%	11.58%	13.76%	13.72	12.72%		
REGION 6	108.2	158.9	164.3	147.7	168.53	36.51	14.10
% to National Total	4.91%	6.80%	8.15%	7.37%	7.90%		

Source: China Statistical Yearbook, National Bureau of Statistics of China

Table 4.3: No. of People Employed in TVEs across Province and Time

Unit: 10,000

Region/Year	1995	1996	1997	1998	2002
National Total	12862.1	13508.3	13050.4	12536.5	13287.71
Region 1					
• Beijing	98.7	101.2	89.0	92.4	113.58
• Tianjin	104.7	113.7	120.5	115.4	130.60
• Hebei	852.0	911.5	749.8	750.6	886.15
• Shanxi	407.3	438.2	457.4	318.2	319.10
• Inner Mongolia	224.0	275.5	315.8	368.0	188.82
TOTAL	1686.7	1840.1	1732.5	1644.6	1638.25
% To National Total	13.11%	13.62%	13.28%	13.12%	12.33%
Region 2					
• Liaoning	434.2	445.0	432.6	425.9	487.45
• Jilin	213.8	225.1	235.5	239.9	202.72
• Heilongjiang	209.5	259.6	107.8	144.8	153.00
TOTAL	857.5	929.7	775.9	810.6	843.17
% To National Total	6.67%	6.88%	5.95%	6.47%	6.35%
Region 3					
• Shanghai	139.9	136.2	147.0	145.1	173.19
• Jiangsu	924.7	879.5	879.5	837.4	972.28
• Zhejiang	795.7	786.4	768.6	788.2	993.64
• Anhui	595.0	795.5	826.3	566.6	502.03
• Fujian	471.0	493.2	596.6	510.4	575.23
• Jiangxi	440.1	308.8	309.7	303.2	330.84
• Shandong	1439.8	1369.6	1242.8	1198.5	1447.29
TOTAL	4806.2	4769.2	4770.5	4349.4	4994.5
% To National Total	37.37%	35.30%	36.56%	34.70%	37.59%
Region 4					
• Henan	716.0	941.0	728.5	768.8	938.94
• Hubei	663.6	747.9	807.7	629.8	647.90
• Hunan	722.6	828.5	832.1	877.2	779.62
• Guangdong	1072.1	1118.6	1005.9	1172.7	1178.60
• Guangxi	182.8	382.1	408.0	369.4	374.00
• Hainan	37.9	48.4	18.2	25.4	29.69
TOTAL	3395	4066.50	3800.4	3843.3	3948.75
% To National Total	26.40%	30.10%	29.12%	30.66%	29.71%
Region 5					
• Chongqing	n.a	n.a	210.2	135.6	162.27
• Sichuan	1150.7	766.9	556.2	571.1	665.81
• Guizhou	85.7	94.0	92.1	122.0	172.11
• Yunnan	273.4	324.1	371.8	395.3	301.13
• Tibet	n.a	1.9	n.a	n.a	2.40
TOTAL	1,509.8	1186.9	1230.3	1224	1303.72
% To National Total	11.74%	8.79%	9.43%	9.76%	9.8%
Region 6					
• Shaanxi	329.0	368.0	372.2	380.9	400.83
• Gansu	204.3	217.1	225.9	143.2	176.98
• Qinghai	9.3	9.1	11.7	21.7	24.78
• Ningxia	14.3	43.3	45.8	47.7	53.70
• Xinjiang	50.0	78.2	85.2	71.2	86.67
TOTAL	606.9	715.7	740.8	664.7	742.96
% To National Total	4.71%	5.30%	5.49%	5.30%	5.59%

Source: China Statistical Yearbook, National Bureau of Statistics of China

Table 4.4: No. of People Employed in TVEs across Province and Time Unit: 10,000

Region/Year	1995	1996	1997	1998	2002	1995-1998	1998-2002
National Total	12862.1	13508.3	13050.4	12536.5	13287.71	% Increase	% Increase
Region 1	1686.7	1840.1	1732.5	1644.6	1638.25	-2.50	-0.39
% to National Total	13.11%	13.62%	13.28%	13.12%	12.33%		
Region 2	857.5	929.7	775.9	810.6	843.17	-5.50	4.02
% to National Total	6.67%	6.88%	5.95%	6.47%	6.35%		
Region 3	4806.2	4769.2	4770.5	4349.4	4994.5	-9.50	14.83
% to National Total	37.37%	35.30%	36.56%	34.70%	37.59%		
Region 4	3395	4066.50	3800.4	3843.3	3948.75	13.21	2.74
% to National Total	26.40%	30.10%	29.12%	30.66%	29.71%		
Region 5	1509.8	1186.9	1230.3	1224	1303.72	-18.30	6.51
% to National Total	11.74%	8.79%	9.43%	9.76%	9.8%		
Region 6	606.9	715.7	740.8	664.7	742.96	9.52	11.77
% to National Total	4.71%	5.30%	5.49%	5.30%	5.59%		

Source: China Statistical Yearbook, National Bureau of Statistics of China

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