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A review of Chinese rural enterprises' development and a case study of regional comparison

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Abstract: Rural enterprises flourished in China from late 1970s until the end of 20th century. It is a hot topic among researchers to investigate these rural enterprises. In this thesis, I will review the main picture of Chinese rural enterprises' development and make a comparison between regions which went on different ways of developing rural enterprises.

Key words: rural enterprise, TVE, private enterprise, local community government, reform

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1. Introduction

Rural enterprises, or say, rural industry is a very special and young player in Chinese economy, especially in the last two decades of 20th century which is the transforming time of China from command economy to market economy. Before the reform, state owned enterprises (SOE) dominant China's economy, especially industry sector. There were only few manufactures in rural China which took very little proportion of economy and were strictly limited. However, 'during 1995–2000, they produced over 30% of the national totals of industrial value-added, profits, and output, and all TVEs across non-agricultural sectors created more than 15% of China's GDP' (Laixiang Sun, 2002)¹.

In China, there are mainly three categories of ownership forms, the state owned sector, collective sector and private sector (Peter Ping Li, 2005). State owned economy, usually represented by state owned enterprises (SOE), are properties of all Chinese citizens, but they were controlled by various levels of governments from central to county. Collective sector is another kind of public owned economy, they were owned by local residents. Similarly, they were controlled by local government agencies. Private sector was companies which owned and controlled by private investors. In the era of plan economy, SOEs had the dominant position of China's economy, and the later two forms of economies were not included in the central plan, they were kind of a supplement to the state owned economy. There are also other differences between them. For example, since employees of collective and private enterprises were not hired by the country, they did not have the welfare and job security which were offered by the country as employees of SOEs did, and they could be dismissed. And SOEs had the softest budget since, then collective enterprises, and private enterprises had tight budget because they had to cumulate by private capital. And the later two kinds of enterprises were hard to be financed in capital market than SOEs (Hehui Jin, Yingyi Qian, 1998).

¹ Laixiang Sun, 2002, Fading Out of Local Government Ownership: Recent Ownership Reform in

Rural enterprises are enterprises which locate in rural areas. It usually has two forms: township village enterprises (TVE) and rural private enterprises. TVE is a Chinese characteristic form of enterprise. scholars usually consider it as enterprises in rural areas which owned by local citizens and controlled by local community governments (Xiaoyuan Dong, Louis Putterman, Bulent Unel, 2006; Chun Chang, Yijiang Wang, 1994; Laixiang Sun, 2002; Hongyi Chen, Scott Rozelle, 1999; Yusheng Peng, 2001; Peter Ping Li, 2005). In 1997, China decreed its code of TVE², and the definition of TVE in the law is enterprises which are rural collective owned or invested mainly by local peasants, found in towns or villages, and take the responsibility of supporting agriculture (Chunhai Jiang, 2002). This official definition seems meets the view of scholars. It contains three points: collectively owned, in rural and village areas and supporting agriculture. Private enterprise is a classic form of enterprise, but before the reform there is nearly no private sector in China.

The most important difference between these two kinds of enterprises is that they have different ownership structure. TVEs are collectively owned, the other is privately owned. It is quite natural to think that in a competition market, private enterprises would be more efficient. However, TVEs gained great success in China, and it was the main form of rural enterprises in the early time of Chinese economy reform. That is quite an interesting topic why TVEs could be so flourished in China especially in the early years of Chinese economy transition. In fact, rather than TVE, rural enterprise itself was also a miracle since in most countries industries usually concentrate in urban areas cause such regions have bigger markets, more information, financial resources and knowledge spillover effects, and many more other advantages than rural areas. Thus, there are many researchers dedicating efforts in this field. The most popular questions are: why rural industries could develop so fast (especially comparing to SOE) in China? What are the differences between the two kinds of enterprises in rural China? TVE is

China's Township and Village Enterprises, Economic System 26, 249-269

² Code of Township-Village Enterprise of People's Republic of China, "zhonghua renmin gongheguo xiangzhen qiye fa"

quite a Chinese characteristic phenomenon since its collectively owned structure is not the most efficient in marketing economy, why it could be so successful in China.

Most questions which I will discuss later have already been solved, however, my interest is to make deeper research. There is a phenomenon that rural enterprises clustered in some certain areas. And different areas have different development patterns, some chose TVE, others chose private enterprise. My interest is to investigate the reasons of such concentration and different development patterns, and to make a comparison of different patterns. I will choose two representatives and do a case study.

Here is the structure of my thesis. In section 2, I would review the history of Chinese rural industry. From the beginning of Chinese economic reform, I will illustrate the political and economic background of the initial of rural enterprises. Then, I will describe the main picture of rural enterprises' development and investigate their characteristics of each developing period.

Section 3 is my questions and research review. I will investigate the reason of TVE's high efficiency, why different regions choose different patterns of rural industry and the reason of rural enterprises' concentration. Then, based on these researches, I would give the major question of my thesis.

Section 4 is a case study. I choose Jiangsu Province as the representative of regions which choose developing TVE prior and Zhejiang Province as representative of regions which rely on private enterprises more. I will compare them in mainly two aspects (enterprise level and government level) with some sub-questions.

Section 5 is conclusion based on the results of comparison.

2. The main picture of rural industry's development of China

2.1 Background: in what circumstance did rural enterprises emerge

China started its economy reform in 1978 from central plan mood to market mood. The main measures of the reform were diminishing central economy plan gradually, transferring the driving force of economy development to market, and allowing other ownership forms to exist beside public sector. The reform was started under a circumstance of some special conditions. Among them, the most important features were central plan and urban-rural dual system.

After People's Republic of China was established, China followed Former Soviet Union's economy system, namely, central plan economy. The biggest advantage of central plan economy is it follows states' will and concentrates resources to develop certain economy sector quickly. The main body of manufacturers was state owned enterprises (SOE) which followed central plan to operate. The owners of them were all Chinese citizen and they were controlled by governments of central, provincial or county level. They did not have the rights to decide what, how and how much to produce, as well as whom to sell. Every decision was made by government and SOEs just follow commands. In rural areas, peasants also followed central plan to produce agricultural goods. There were also other forms of ownership like collective and private economy. However, these kinds of economy were not listed in the central plan and were strictly limited in number and scale.

The major purpose of urban-rural dual system was to develop industry quickly since China was an agricultural country initially and was extremely poor. In such a system, price of agricultural goods were depressed from its real value, thus, it sacrificed agriculture and accumulated capital to develop industry. The system also took other measures. For example, the welfare and social security in rural areas were worse than in urban areas, peasants were imposed heavy taxes and were forbidden to flow to cities freely. It was illegal if they quit farming and go to urban areas for living. And they could not get a job in cities. Thus, Chinese society and economy was divided into urban and rural parts (Hehui Jin, Yingyi Qian, 1998)³.

³ Hehui Jin, Yingyi Qian, 1998, Public versus Private Ownership of Firms: Evidence from Rural

Central plan economy and urban-rural dual system gained great success in the early years of PRC. In 1976, the industry proportion in GDP was 72%. On contrast, the proportion of industry in GDP in 1949, the year that PRC was established, was 30% (Chunhai Jiang, 2002)⁴. However, there are also many drawbacks of such an economy structure. China's industrialization began since the first 'Five Years Plan' in 1953, different from developing light industry firstly as most countries doing, China chose to develop heavy industry prior. Up to 1978, heavy industry occupied 56.9% of total industry output, and the Hoffmann coefficient was 0.76 which was much higher than other developing countries in the same developing period (Chunhai Jiang, 2002). Such a pattern was not a result of market operation but a result of command economy, so the economy structure was imbalanced, people were lack of light industrial consuming goods. Even more, peasants who occupied 80% of the total population were foreclosed of the industrialization process and were much poorer than residents in urban areas.

Overall, the situation by the initial of China's economy reform could be summarized as below. Firstly, imbalanced structure, which means too much resource concentrated in heavy industry and lack of consuming goods. Secondly, stagnant labor flow results from the urban-rural dual system. Peasants were tied to farms, and since China's most population were in rural areas, there were large amount of labor surplus in the countryside. Thirdly, the development gap between urban and rural areas became bigger and bigger since government chose to sacrifice agriculture to develop industry.

Since China began its economy reform, the driving force of economy was gradually transferred from central plan to market. From my prior description, we could easily speculate that China would develop light industry to fill market demand of consuming goods, and China would liberate labor surplus in its wide rural areas. further more, Chinese 'true factor endowment' (Barry

China, the Quarterly Journal of Economics, August

⁴ Chunhai Jiang, 2002, Review of China's Township-Village Enterprises' Development, HongGuan Guanli, April

Naughton, 2007)⁵ were ‘abundant labor, limited land⁶ and scarce capital’, it is suitable to develop light industry in rural areas since China’s country has large amount of labor which meets the requirement of light industry, and light industry dose not need so much capital and so high technology, which means it would not be a problem since rural areas usually have less capital and lower technology level than cities.

2.2 The initial of rural enterprises’ development

China’s rural enterprises began to develop in late 1970s was not a coincidence. It was under some favorable conditions. China’s economy reform started in 1978. After ten years of the so called Culture revolution, China was in a situation of poor living standard, low economic growth and laggard technology and education. And the only way was reform. On the 17th convention of Communist Party of China the objective of the reform was defined as ‘to liberate and develop productivity, to modernize China, to enrich China’s citizen and to invigorate the Chinese nation’ (the report of 17th convention of CCP). That is the general circumstance which indicates that the central government wants to develop China’s economy and people’s living standard.

Then, we take a closer look at rural areas of China. There are at least three aspects of favorable conditions. In order to create employment and to increase people’s income, central government persuaded local governments’ agencies to develop rural enterprises. The first signal was in October, 1975. ‘People Daily’⁷ introduced a TVE in Henan province on the front page with a title ‘great and bright hope’ (Faqin Jiang, 2003)⁸. It could be recognized as the beginning that central government began to pay attention on this kind of enterprises beside SOE. Then in 1978, central committee of CCP issued a document to lower levels of committees which said ‘rural enterprises should have a fast development’ (Faqin Jiang, 2003). From this moment on, China

⁵ Barry Naughton (2007). *The Chinese Economy, Transitions and Growth*. The MIT Press, p217-294.

⁶ In a contest of China’s biggest population in the world

⁷ Publication of Central Committee of the Communist Party of China, spreading the voice of CCP

⁸ Faqin Jiang, 2003, A Brief Analysis of TVEs’ History of Development and Characteristics. *Journal of Capital Normal University (Social Science Edition)*, June

began its pace of developing TVEs. So we can see that the policy circumstance is favorable for rural enterprises. This is the first favorable condition.

The most important event of the reform in rural China was the generalization of the household contract responsibility system in 1982. Before that, peasants were organized in different levels and followed command to work, they could not make their own economic decisions and everything they produce should be submitted and distributed by governments. And all of them were forced to participate in agricultural work. The household contract responsibility system, however, is an institution system which allows peasants to make their own decisions. Under such a contract, peasants are organized in units of household, and they contract land and other producer goods and take certain responsibility. They can decide how they produce, and they can keep the production after submitting certain amount according to the contract. Obviously, such a system motivates peasants to produce more and more efficient. And many of them were liberated from lands since there was a too big rural population in China which could not flow to urban areas under the urban-rural dual system and were too many for agriculture. Thus, a big labor surplus was formed in rural areas. This is the second favorable condition for rural enterprises' development.

There is another very important reform measure which influences rural enterprises' development heavily. That is China's decentralized fiscal system reform (Hehui Jin, Yangyi Qian, 1998). The principle of such a system is 'self-sufficiency' (Wong, 1997) which means that local governments could keep most revenues that they make, however, they would receive few or no revenues from higher levels of governments. Compare to higher levels of governments, governments of rural community level have more difficulties in finance budget. Higher levels such as provincial governments have the economic power of controlling big SOEs which had the dominant position in economy. Nevertheless, governments of

rural community level did not have such resources. Moreover, they could not set a trade barriers to finance themselves because of their popedoms are geographically too small. Therefore, rural community governments had very narrow revenue sources. Moreover, In Jin and Qian's article (Hehui Jin, Yingyi Qian, 1998), they declared China's rural local governments have three major objectives: governmental revenue (Byrd, Gelb, 1990; Qi, 1992, 1994; Che and Qian, 1998b), non-agricultural employment (Rozelle and Boisvert, 1994) and income per capita. And these objectives are complementary to each other. However, rural China in late 1970s was in a situation of poor governments, low income and high unemployment. Rural enterprise seems could be a solution for all these problems and achieving governments' objectives of central and local levels. This is the third favorable condition.

To sum up, there are some major favorable conditions for China to develop rural enterprises in the late 1970s. One is central government started economy reform and generated a favorable policy circumstance. Then, there was a large labor surplus in rural areas and could not flow to urban areas freely under an urban-rural dual system. Finally, developing rural enterprises met the goals of local community governments. It could generate revenue and non-agricultural employment and increase people's income. Thus, rural enterprises flourished in China.

2.3 The History of rural enterprises' development in China

Up to today, rural enterprises in China have experienced 30 years' development. Scholars usually divided this 30 years period into five phases: initial phase, high growth phase, readjusting phase, the second high growth phase and reform phase (Chunhai Jiang, 2002; Faqin Jiang, 2003; Yajun Shen, 2008)⁹. And there are different characteristics in these five phases.

⁹ Yajun Shen, 2008. 30 Years of TVE: from Increasing Peasants' Income to New Rural Construction. Fujian Forum (Social Science Edition), June.

1978 to 1983 is the first phase of rural enterprises' development. Rural enterprise was transferred from so called 'Shedui'¹⁰ Enterprise' which was a kind of rural non-agricultural and collectively owned enterprise that was generated for local community service such as repairing agricultural equipments, small scale coal mining and smithy (Faqin Jiang, 2003). Although they were limited in scale and production before 1978 since policy circumstance was not suitable for them to develop, they had set a foundation for TVEs. And in this phase, there was no concept of rural enterprises, they were still called 'Shedui Enterprise'. These enterprises developed fast in this phase since policy was transferring to a favorable direction and more and more peasants were liberated from farms as a result of the generalization of household contract responsibility system. From 1978 to 1983, the total annual output value increased from 49.3 billion to 101.7 billion RMB with an average growth rate of 15.6%. Total tax they paid increased from 2.2 billion to 5.9 billion RMB with an average growth rate of 25.5%. And employment was increased from 28.3 million to 32.4 million with an average growth rate of 2.75%. However, the number of enterprises decreased from 1.5 million to 1.3million (Chunhai Jiang, 2002). A very significant characteristic of this phase is that ownership form of rural enterprises was nearly all collective (Yajun Shen, 2008). The reason could be restraint from policy. And the great inertia of decades of public ownership also led to this single ownership structure.

1984 to 1988 is the first high growth phase of rural enterprises. And the concept Township-Village enterprise was emerged first time in March 1984 by a document of central committee of CCP¹¹. According to this document, rural enterprise is '...an important force of economy and an important supplement to SOE. In 1985, China started the 7th Five Year Plan, and in the document of the central plan, central committee of CCP indicated that '...developing rural enterprise is an essential way to develop rural economy...persuading peasants to develop rural enterprise...' ¹². And in

¹⁰ 'Shedui': basal level of peasants' organization in rural China

¹¹ Central committee of CCP, Document No.4, 1984

¹² Central committee of CCP, 'the Advise of Central Committee of CCP about the 7th Five Year Plan',

1987, China started to set economy zones of rural enterprise. Lots of favorable policies were published, and TVEs entered the first high growth stage. From 1984 to 1988, total output value increased from 171 billion to 649.6 billion RMB with a growth rate of 39.9%. The number of enterprises increased from 6 million to 18.9 million with a growth rate of 37.2%. The employment increased from 52 million to 95 million. And profit increased from 18.9 billion to 55 billion RMB with a growth rate of 32.4%. (Chunhai Jiang, 2002). In this phase, private enterprises began to merge, and in 1988, only 8.42% of enterprises were collectively owned. However, this minority group still occupied 51.27% of employment and 67.54% of output value (Yajun Shen, 2008). It is clear that collective enterprises were bigger than private enterprises in scale.

In September 1988, central committee of CCP put forward a policy of 'controlling and adjusting economy order and circumstance'. Specifying to rural enterprises, the policy was 'adjusting, reforming and promoting'. The circumstance became tight especially in finance and market. The employment even decreased in 1989 and 1990. However, supported by local governments, rural enterprises still kept an output value growth rate of 25.14% which was rather high (Chunhai Jiang, 2002). Another feature was rural enterprises began to explore foreign market since domestic market was narrowing.

Rural enterprises experienced the second climax in 1992 since Deng Xiaoping¹³ said 'rural enterprise is one of the three advantages of socialism with Chinese characteristics' in his famous 'South Tour Speech'. Then, central committee of CCP issued a series of documents to lower levels governments and built a favorable environment for rural enterprises. This stage became the most flourished period of rural enterprises. From 1992 to 1996, total output value increased from 1766 billion to 6834 billion RMB with an annual growth rate of 41.86%. And the profit grew from 108 billion to 435 billion RMB with an annual growth rate of 43.62%. Tax

which generated by rural enterprises also went up from 60.5 billion to 236.6 billion RMB with an annual growth rate of 43.62% (Chunhai Jiang, 2002). In this period, the reform of ownership of TVE started. More and more firms transferred to joint stock cooperative structure. This transition process was also driven by policy since central ministry of agriculture issued a prescript to generalize cooperative ownership form. In 1994, the number of cooperative TVEs occupied 12.43% of all TVEs (Yajun Shen, 2008). This was a wave of privatization because many of these newly established cooperative enterprises were transferred from former collectively owned TVEs.

In 1997, China published its code of rural enterprise and issued some policies to diminish political and institutional obstacles of rural enterprises. However, since Asian Financial Crisis happened and rural enterprises' competition became drastic after years of high growth, the growth slowed down. The growth rate of output value during 1997 to 2002 was 8.94%, and the growth rate of profit was 6.65%. The reform of ownership went deeper. In 1997, 520 thousands of TVEs transferred their ownership structure which occupied 33.5% of total number. In 1998, roughly 80% came into reform.

Overall, we can see clearly that during last 30 years rural enterprises in China developed in a very fast pace. However, the process of rural enterprises' development was not smooth and there were two golden periods. We can also see that TVEs were changing from only collectively businesses to various forms. And a very important feature is that policy circumstance influenced rural enterprises heavily. This could be explained by China's imperfect market environment which is often mentioned as 'initial stage of market economy' in a popular Chinese saying. However, we should also notice that since economy reform went deeper and market was maturing gradually, more and more private enterprises merged in rural areas and TVEs were privatizing to fit the changing environment.

¹³ China's former premier, often being recognized as the chief designer of China's economy reform

3. Questions and research review

3.1 Questions

TVE and private enterprise were the main types of rural enterprises in China. In a view of classic economics, it is undoubtedly that TVE should be less efficient. However, TVE gained huge success in China. So my first question is why it could be so flourished in China.

Some regions of China relied more on TVE, some relies more and private enterprises, and rural enterprises seemed concentrated in some regions. How did such patterns come from? This is my second question.

There are many researches done in these two topics and the answers seemed in harmony. So I would like to answer them by literature review of others' work. Then, based on others work, I will give my assumption and to do a comparison between different regional patterns of rural enterprises.

3.2 Research review

3.2.1 Why TVE developed so fast in China

TVE is a very special characteristic of Chinese economy. Its special ownership structure seems like an intermediate product of SOE and private enterprise. And it developed so fast especially in 1980s. According to property rights theory (Alchian, Demsetz, 1972) and the agency theory (Jensen, 2000), private business should have the highest efficiency, then collective enterprise, and SOEs are the lowest efficient. In China's contest, especially in the early years of rural enterprises (late 1970s and early 1980s), however, TVEs are more efficient than SOEs and even private firms (Peter Ping Li). Peter Harrold (Peter Harrold, 1992) indicated that TVEs' output value went up with an annual growth rate of 38.2% in the period of 1982 to 1988. At the same time, SOEs only grew in a speed of 9.8%. Beside the growth rate, it is even more amazing that TVEs were developing under conditions of few state investments and loans. Why TVEs could develop in such a high speed? There have been a lot of researches done in this topic. One important point is that property rights theory and agency theory have

some assumptions and the most important one should be that all these enterprises should compete in a perfect free market. And that is obviously not the case in China's that period.

Most researches conclude reasons into two aspects. One is that TVE adapted Chinese economic and political circumstances better than SOEs and private enterprises, especially in early years of its development. From the view of economy, Chinese 'true factor endowment' (Barry Naughton, 2007) is that it is a country with abundant labor, limited land and scarce capital. SOEs which were clustered in urban areas, however, were concentrated more on heavy industry which is capital intensive. Further more, since labor was not free to flow and worker compensation was generous, labor in urban areas was expensive. TVEs, on contrast, were most focused on labor intensive industries and they paid much less salaries than SOEs. Through out 1980s, TVEs' salaries were less than 60% of SOEs (Barry Naughton, 2007). And they also paid less compensation as well as they could dismiss employees freely. More over, since China was lack of light industrial consuming goods, TVEs supplied this gap. And together with rural income's increasing, new markets were formed as well as old markets were expanded (Barry Naughton, 2007). For example, rural housing construction market was emerged and more consuming goods were needed since peasants were getting richer.

On the other hand, TVE met the political environment of China, especially in 1980s. Since state control and public ownership are two economic spines of Communist Party and it was sensitive to talk about private economy by that time (Peter Ping Li, 2005), TVE was a perfect choice in this sense (Chang, Wang, 1994; Naughton, 1994). Comparing to SOE, It could develop economy and satisfy people's demand. Comparing to private enterprises, on the other hand, it did not harm public ownership and state control. China endorsed private property rights till 1992 (Xiaoyuan Dong, Louis Putterman, Bulent Unel, 2006)¹⁴, it was relatively late since rural

¹⁴ Xiaoyuan Dong, Louis Putterman, Bulent Unel, 2006. Privatization and Firm Performance: A

enterprises had already developed for over ten years. So in the early years of rural industry, entrepreneurs usually needed a 'red hat' (Peter Ping Li, 2005) in order not to be discriminated. Beside that, in an underdeveloped market with imperfect institution and strong governmental intervene, enterprises that with a governmental background would usually get more resources such as financial support, regional monopoly position and so on. This feature could explain why there were nearly no private rural enterprises until 1984, and why 8.42% collectively owned enterprises out of the total number in 1988 could still occupied 51.27% of employment and 67.54% of output value (Yajun Shen, 2008).

The other aspect of reasons of fast growth of TVE is usually recognized as rural local governments' incentives. By integrating others' study, Jin and Qian asserted in 1998 that objectives of rural governments in China are increase of governmental revenue, non-agricultural employment and income per capita (Hehui Jin, Yingyi Qian, 1998). Further more, I would like to add increase of urbanization level and agricultural output since they are also very important achievements of local community governments. We can easily understand that TVE could be an effective way to achieve these goals even the last one, agricultural output, since collectively owned TVEs also take the responsibility of that. And because of China's decentralized fiscal system and self-sufficient principle, it would be urgent for rural community governments to develop TVE. In Jin and Qian's (1998) article, they did find evidence that TVE helped to achieve governments' objectives. Other proofs also showed that TVE submitted 30% of their profits to local community governments as well as other fees. And local governments did not have to share these revenues with higher levels. Thus, they were very fond of developing TVE and sometimes they just recycled money in TVE again to make more profits (Barry Naughton, 2007).

It is undoubtedly that collectively owned structure was a contemporary product of the early phase of economy transition. As market and institution

developed further, the inherent inefficiency of this structure would overtake its efficiency. This is the case in China since the economy reform goes deeper and deeper. In fact, in the process of TVE's development also seemed a process of privatization after 1984.

3.2.2 Ownership choice

Before 1984, there were only collective enterprises in rural areas and they were called 'Shedui Enterprise'. In 1984, the concept of rural enterprise emerged, and it was allowed to set up private and cooperative companies. Thus, there were four kinds of enterprises which were reflected in official statistics in rural China: township, village, cooperative and private enterprises. Here in this thesis, I summarize the prior two as township-village enterprises which is often recognized as TVE, and the later two as private enterprises which make sense in their non-collective ownership structure.

Since there were various ownership structures to choose, a problem rises. Why did different regions have different patterns of rural industry since the general political environment was the same? It would not be a question if the general environment was a mature and free competitive market. Cause in that case, the answer would undoubtedly be private firms according to property rights theory (Alchian, Demsetz, 1972) and the agency theory (Jensen, 2000). Similarly, in a communistic central plan economy, private enterprises would not exist. However, the situation was complicated in the transition period of Chinese economy. On one hand, private economy and market were introduced and became more and more important, on the other hand, government intervene was still very strong and competition was imperfect.

According to Jin and Qian (Hehui Jin, Yingyi Qian, 1998), rural enterprises were influenced by three aspects in the process of economy transition: influence from central government, local community governments and

underdevelopment of the market. In the first aspect, the influence could be government's willingness to develop or depress, and financial policy of expansion or tightening. So we can see that rural enterprises all over China experienced fluctuation results from policy changing as I described in former parts.

Most scholars put their attention more on the rural local governments because they thought governments at community level played a paramount role in rural enterprises' development. Li (Peter Ping Li, 2005) pointed out that local governments were more efficient than central level in developing local economy because they had 'better alignment of public and private interests and rights at the local level' and 'stronger effect of market making and market intervene at the local level'. Local governments could be a very powerful warrantor in loans in the early stage of economy transition, and they could also use their connections to SOEs to get subcontracts for rural enterprises. Further more, they could even use their political power to lower or raise the transaction costs of rural enterprises. Moreover, Peter Ping Li (Peter Ping Li, 2005) pointed out that Chinese institution system was built by underdeveloped institution and market. Beside formal one, China had another informal institution system which is called 'Guanxi'¹⁵. Since the market and the institution system were not mature, enterprises need to look for protection of their property rights and their profitability, and governments could gain benefits as well. So TVE would be more flourished in a region with a powerful local government, because the government would use its political power to support TVE since TVE is better for achieving government objectives. On contrast, private enterprises would grow faster in a region with weak local government because of its less ability to support TVE.

The third aspect of influence was underdevelopment of market. And it is also the premise of all influences from governments. If the market is mature with perfect competition, private enterprises would be dominant. And the

¹⁵ Using personal linkages to achieve objectives by black box operation

more imperfect the market is, the more advantage TVE takes. Actually, supports for TVE from government were also a phenomenon of underdeveloped market.

3.2.3 Regional concentration

It was reported that in 1988, Jiangsu, Zhejiang and Shandong, which occupied only 17% of rural population, accounted for 43% of total number of rural enterprises of China, and 50% of total output as well (Barry Naughton, 2007). This concentration derived from their adjacency to developed cities. Rural enterprises in these areas could benefit from spillover effect of cities' development in many ways, such as transportation, communication, markets technology and so on. For example, in 1980s, an estimated figure of 60%-80% of output of rural enterprises in Beijing, Shanghai and Tianjin was under the subcontracts from SOEs (Barry Naughton, 2007). Thus, rural enterprises were growing fast and local governments were interesting in investing them. Otherwise, governments were lack of incentives. And these regions adjacent to big cities were also cradles of TVE. In fact, although policies all around China were the same, TVEs flourished firstly in areas that near big developed cities.

3.2.4 Summary

Integrating theories above, we can conclude that TVE is a temporary product of Chinese transition economy. Its ownership structure was suitable for Chinese economic and political circumstances in the early years of reform.

TVEs were more likely to develop in areas where influenced heavier by central policies of bigger credit scale and more SOEs as well as nearer to big cities, and where local governments were stronger in the beginning of economy reform. On contrast, private rural enterprises favored in places where market developed better and less influence from governments.

3.3 Assumption and my aim

The theoretic bases of my thesis are: A, TVE is a contemporary product of early stage of economy transition, it flourished in a circumstance of underdeveloped market and imperfect institution and it would be replaced by private enterprises as the result of deeper reform going. B, TVEs were supported heavily by local governments since it helped to achieve their objectives. And TVE would flourish in places with stronger governments' power and nearer adjacency to big cities.

Based on my assumptions, I would like to choose two regions as representatives of different patterns of rural enterprise. And I will make comparisons in two aspects: in the view of enterprise and in the view of government. Since places which chose collectively businesses initially would have more advantages as I described before, and places which chose private enterprises would develop quicker in later phase, it would be an interesting question.

Here are my sub-questions: A, which pattern would be better for achieving governments' objectives? TVE dominant pattern or private enterprise dominant pattern? B, how different enterprises performed in different patterns? C, after a period of development, how was the outcomes of different patterns? How were enterprises performed and how was government objectives achieved?

4. Case study

4.1 Two cases: 'Southern Jiangsu Pattern' and 'Wenzhou Pattern'

4.1.1 Description

To do the comparison, I choose 'Southern Jiangsu Pattern' as representative of patterns which relied more on TVEs and 'Wenzhou Pattern' representing patterns which chose to develop private enterprises. And the representatives of each pattern are Jiangsu Province and Zhejiang Province.

Southern Jiangsu (Sunan for short) is area around Shanghai in Yangtze Delta. This area is historically and relatively more advanced in China. And

TVE flourished early in this region since it began to develop TVE in early 1970s while the collective system was still powerful (Naughton, 2007). And collectively owned enterprises played a central role in its rural economy even in the later phase of TVE's development. Because of the powerful support from local governments, enterprises here were bigger in scale and more capital-intensive. Thus, this region became the most representative of TVE's development. And then, the provincial level government of Jiangsu generalized the method in the whole province. Wenzhou is a city located in south Zhejiang Province with a distance of 300 kilometers to the south of Shanghai. Different from Southern Jiangsu, this area was historically poor and enterprises in Wenzhou were mostly begun by individuals and families. Further more, most enterprises were in labor-intensive industries and small in scale. However, enterprises in Wenzhou developed well and this model was approved and extended by Zhejiang provincial government after 1987.

4.1.2 The differences between Southern Jiangsu and Wenzhou

Since the macro economy and political environments were similar in Southern Jiangsu and Wenzhou, why did they go on different ways? This was surely not a coincidence. As I discussed in the former parts, TVE was favored in a place where is near big cities and influenced heavily by favorable policies and with a powerful local governments. Private enterprises would grow better in a place where there were less anti-market factors. After research, there are some reasons which fit very well with the theory.

Firstly, these two regions have different history and heritages. Sunan is located in a fertile delta area with developed agriculture. And it had been the richest area of China for centuries. Further more, people in Sunan have a tradition of developing industry. This area is the cradle of China's national industry in early 20th century (Chen, Xia, 1988)¹⁶. On contrast, Wenzhou is in a mountainous and barren area, and was historically poor. Lots of people here were seeking for means of livelihood out of Wenzhou in the past. This

¹⁶ Chen Jiyuan, Xia Defang, 1988, Xiangzhen Qiye Moshi Yanjiu, *the Research of TVE's Model*,

kind of history formed a commercial tradition of Wenzhou, people here are more likely to look for commercial opportunities.

Secondly, Sunan is an area adjacent to Shanghai and Nanjing and with many cities and towns inside. It had complete transportation network and vast market, and it could be affected by SOEs by subcontracts, technology and human resources. On the other hand, Wenzhou was a remote area before. It is far from big cities and it was underdeveloped itself which means it had few spillover effects on rural areas.

Thirdly, since Sunan had been a long time as a relatively developed region, the central government put lots of attention on it, such as more loan and investments. And local governments controlled more assets than Wenzhou after long periods of accumulation in the era of command economy. On contrast, not only because of its initially underdeveloped situation, but also because its location is opposite to Taiwan which means it is on military front line, central governments put less efforts on its construction. Thus, the consequence was that governments were more powerful in Sunan and weaker in Wenzhou. Objectively, Wenzhou had a more competitive market which is more suitable for private enterprises.

Finally, since the economy environment was better in Sunan, local governments there were more interested in developing TVEs than in Wenzhou. In fact, local governments in Wenzhou also tried to develop TVEs, but 'the collectives were weak and often disappeared early in the reform process' (Naughton, 2007).

To sum up, due to some objective reasons, Sunan was initially more developed and was influenced more by central government. The local governments were stronger than Wenzhou. Thus, it went on a way of developing TVEs. On the contrary, Wenzhou was initially backward and not

suitable for TVEs. However, it formed a relatively free market with less intervene from governments and was suit for private enterprises.

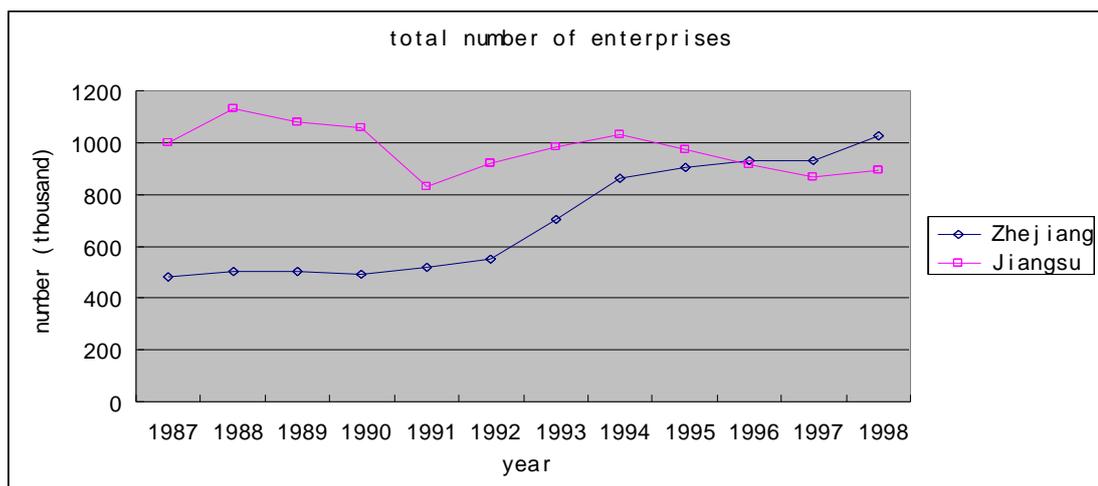
4.1.3 Research period and data resource

The research period of my thesis is 1987 to 1998. It is clear that after 1984, private enterprises began to appear on the scene. And until 1987, ‘Wenzhou Pattern’ drew enough attention and was approved by provincial government. Then it was generalized in Zhejiang. After 1996, rural enterprises entered another developing phase of privatization as I described before. It is seemed as there is a convergence between these two patterns. Although it is seemed to be natural if I end the comparison in 1996, I want to see clearly each pattern’s influence in the later period. And that is why I choose this period to investigate.

The data I use are from the year books of China’s rural enterprises and year books of Zhejiang and Jiangsu statistics. They are official statistics and the most authoritative in China.

4.2 Comparison in the aspect of enterprises

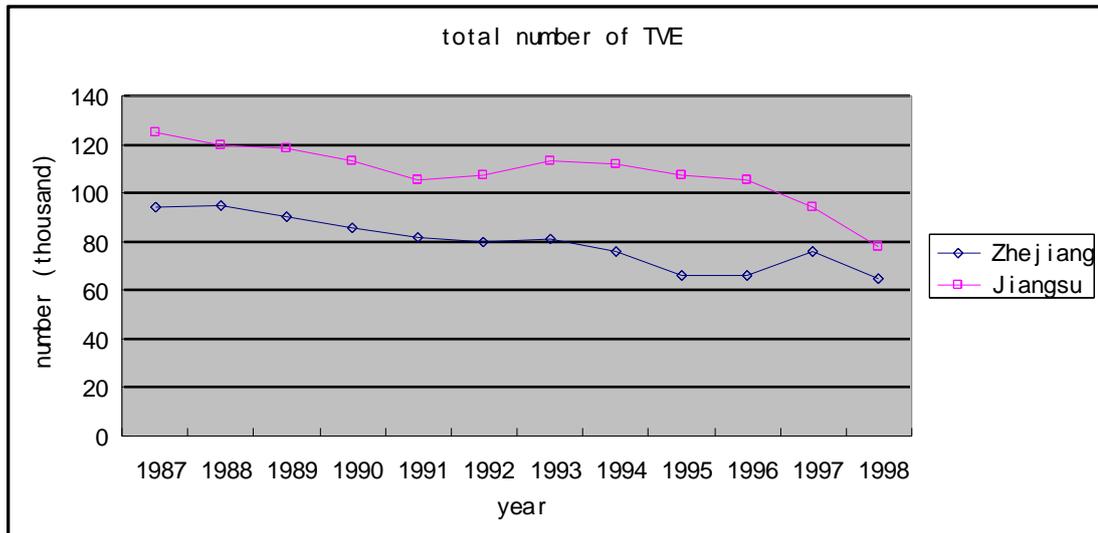
4.2.1 Comparison in number of enterprises



Graph 1

As described in graph 1, Jiangsu had more enterprises in the beginning, but was exceeded in 1996. The peak of Jiangsu was 1129.1 thousands in 1988, when was the most flourished time of TVE as I illustrated before. Then,

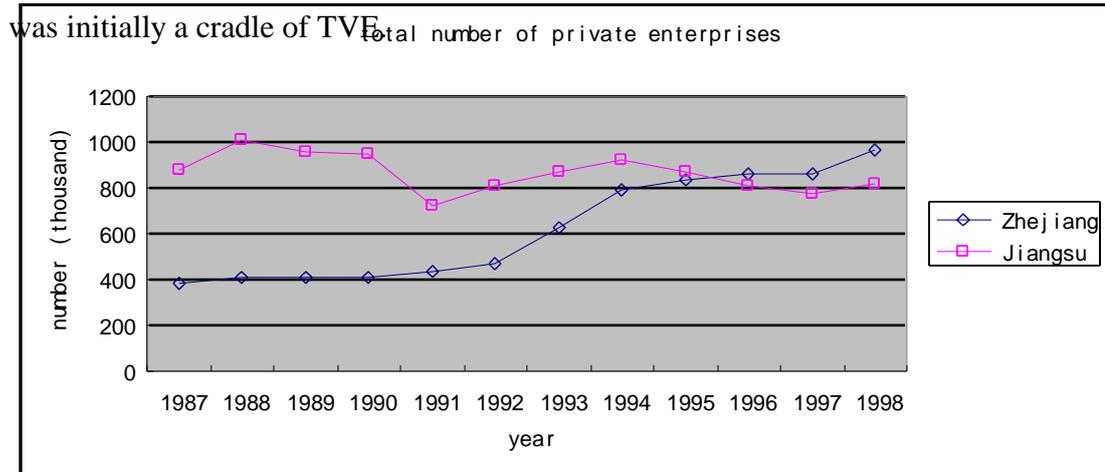
since it began the privatization in rural enterprises, the political circumstance became less favorable for TVEs, and the number of enterprises in Jiangsu went down. In 1991, it fell to the bottom. On the other hand, Zhejiang had a different picture. Through out the researching period, the number of enterprises went up steady without much up and down. Before 1992, the number kept stable although 1884 to 1988 was the golden age of TVE. The reason is that Zhejiang did not have the heritage advantages as Jiangsu as well as other favorable conditions for TVE, thus, TVE did not develop well in Zhejiang. However, in the depression time of TVE which can be seen in the graph of 1990 and 1991, number of enterprises in Zhejiang began to accelerate its growth. This is because the political circumstance became better for private enterprises which are the dominant form of firms in Zhejiang. Both Zhejiang and Jiangsu had a good performance in the period of 1992 to 1994 which was the second golden period of rural industry, but the growth rate of Zhejiang was higher than Jiangsu. The reason could be the influence from the TVEs' tradition. Then, since the market and policy environment became better and better for private companies, the number of enterprises in Zhejiang continued its growth, but it decreased in Jiangsu.



Graph 2

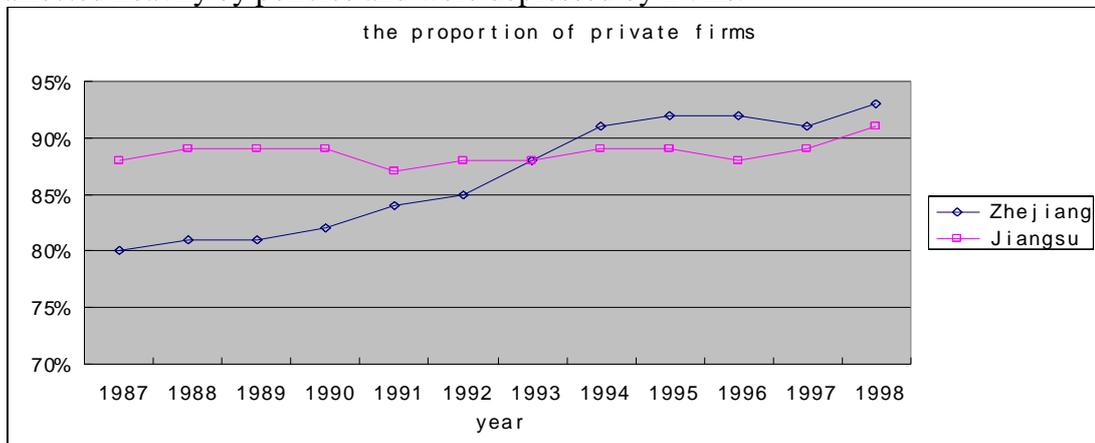
As we can see in graph 2, the numbers of TVEs in both provinces decreased roughly steadily throughout the research period except there was an unexplainable increase in Zhejiang in 1997. And it is quite clear that

Jiangsu always had more TVEs than Zhejiang. This is natural since Jiangsu



Graph 3

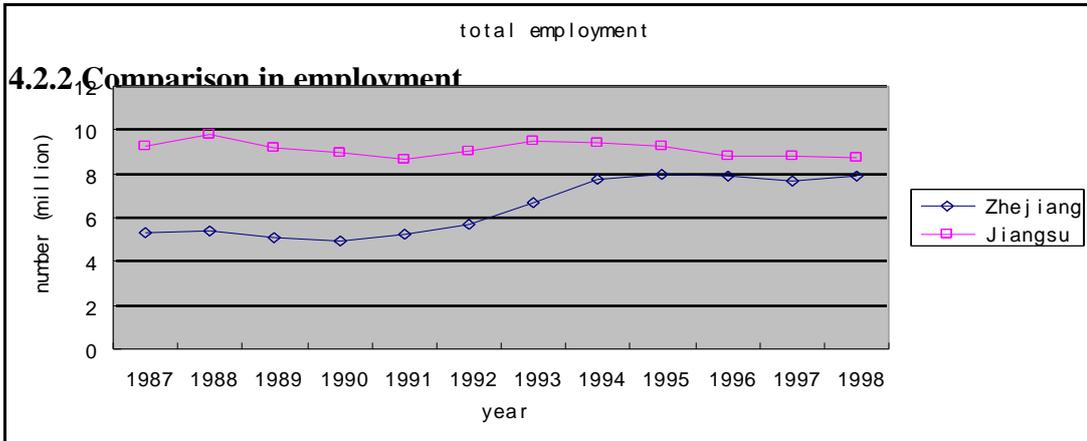
The changing trend of private enterprises' number which is described in graph 3 was quite similar with the trend of total number drew in graph 1. Jiangsu had more firms in the beginning because it was initially more advanced, but it was exceeded in 1995. And the flux of Jiangsu reflects that it was influenced heavily by political environment. For example, 1990 to 1992 was the beginning of privatization, but the number of private companies decreased in Jiangsu. This pattern reflects private firms were affected heavily by policies and were depressed by TVEs.



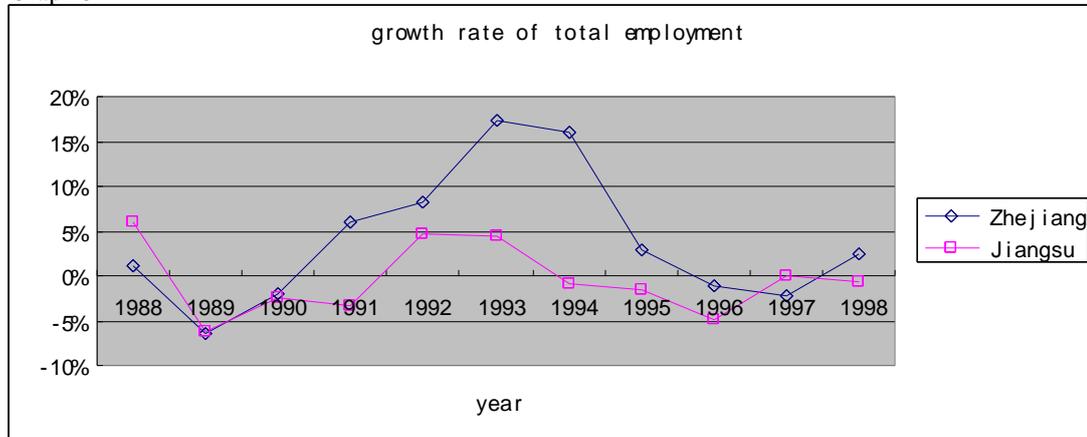
Graph 4

Take a look to graph 4, it is surprised that the Jiangsu had a higher proportion of private companies in the beginning. However, it was stable all these years and fluctuated within 88% to 91%. The figure of Zhejiang, on the other hand, increased gradually. Since the general circumstance became better and better for private businesses, why did Jiangsu has such a stable

figure? The answer would be that its tradition of TVE became an obstacle of private enterprises.

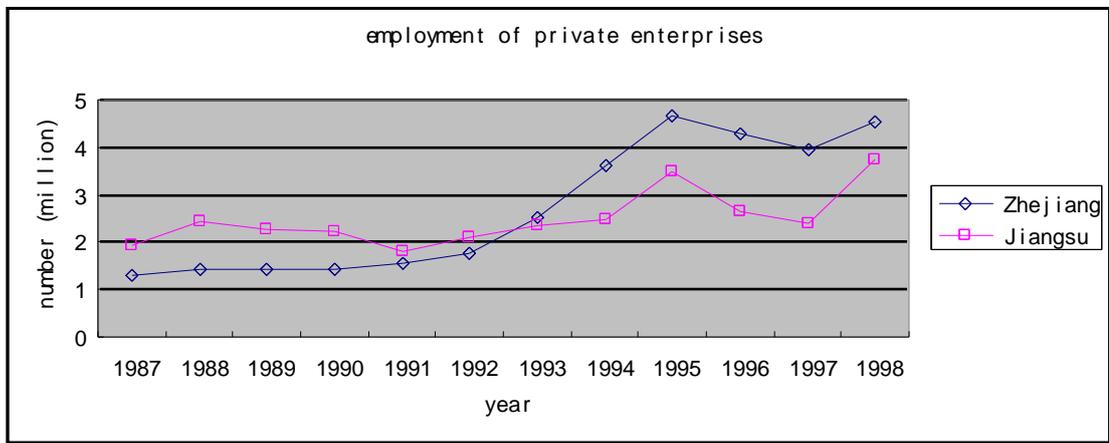


Graph 5



Graph 6

As can be seen in graph 5 and 6, rural enterprises in Jiangsu always created more employment than in Zhejiang, but the gap became smaller and smaller. The peak of Jiangsu was 9.79 million in 1988 which was the last year of the golden age of TVE. And the peak of Zhejiang was 7.95 million in 1995. If we take a look at annual growth rate, we can find that the trends are similar. They both had a positive growth in the second golden age of rural enterprises. However, after 1988, Jiangsu's growth rates were always lower than Zhejiang except 1997, and it also never exceeded 1988's figure of its own. This pattern reflects that Zhejiang had a faster growth of employment. And Jiangsu lost its advantages in the years of privatization.



Graph 7

Although Jiangsu had more employment than Zhejiang in total number throughout the researching period, employment of Zhejiang's private enterprises exceeded Jiangsu in 1993 and increased stably except 1996 and 1997, and Zhejiang had a smoother growth trend. Further more, in the year of the second golden age of rural enterprise, Zhejiang had a very better performance than Jiangsu. Finally, Zhejiang had a average annual growth rate of 12%, higher than Jiangsu's 6%.



Graph 8

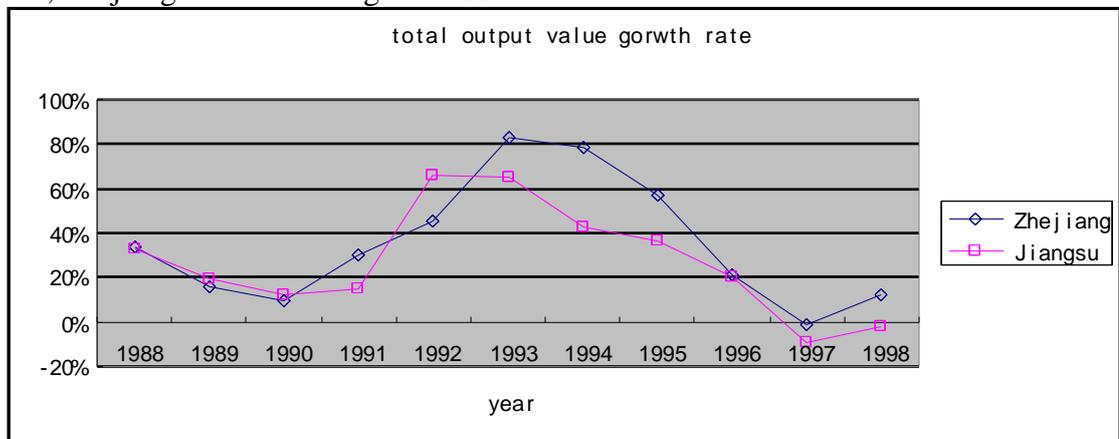
Turning to the aspect of TVEs, both employments of Zhejiang and Jiangsu went down but Jiangsu was sharper. Zhejiang had initially 4.02 million and fell to 3.35 million. Jiangsu fell from 7.30 million to 4.62 million. And in the end, Jiangsu still had more employment of TVE than private enterprises. This is another proof that Jiangsu's rural industry relied heavily on TVEs. The average annual growth rates are -4% of Jiangsu and -2% of Zhejiang.

Overall, the annual growth rate of employment of Zhejiang throughout 1987 to 1998 was 23%, and Jiangsu was -4.5%. Although Jiangsu also had increase in private firms' employment, it was not enough to compensate the decrease of TVEs'.

4.2.3 Comparison in output value

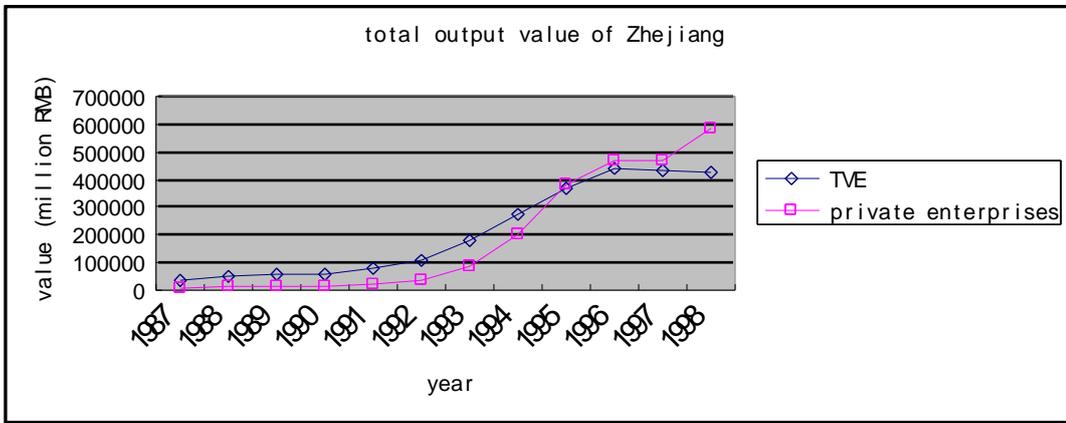
4.2.3.1 Total output value

Since Jiangsu and Zhejiang had different initial development level, I do not compare their total output value figure, but their growth rate instead. But in fact, Zhejiang exceeded Jiangsu in 1998.

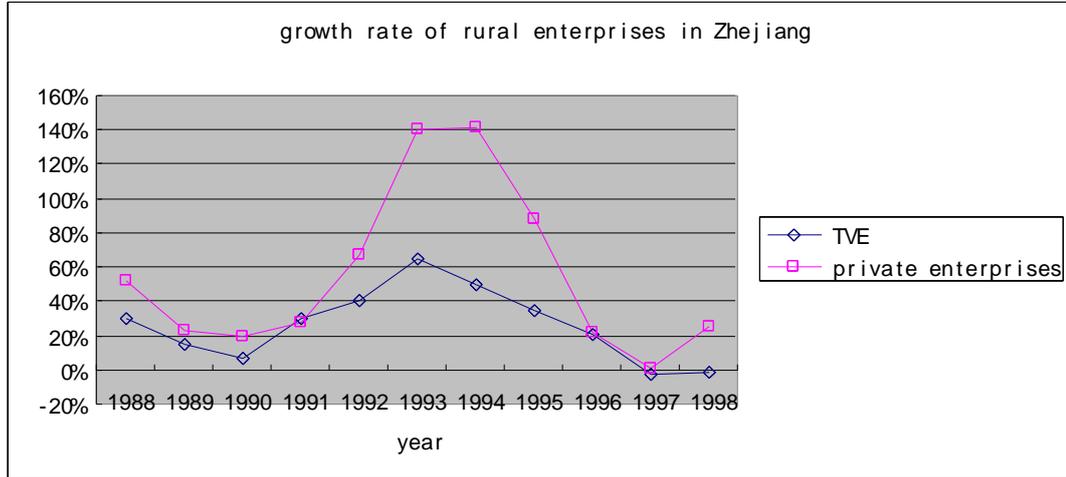


Graph 9

The average growth rate of total output value in Zhejiang was 33%, and was 25% in Jiangsu. It is also can be seem in graph 9 that Zhejiang had a higher growth trend than Jiangsu in general. And trends of both fit the description of rural enterprises' development processes in the former parts: after 1984 to 1988, there was a second high growth phase in between 1992 to 1996. The highest rate of Zhejiang was 83% in 1993, and Jiangsu was 66% in 1992. However, since the environment was better and better for private firms, Jiangsu where put more efforts on TVEs had a lower growth rate. The negative growth in 1997 was due to the Asian Financial Crisis happened in that year.



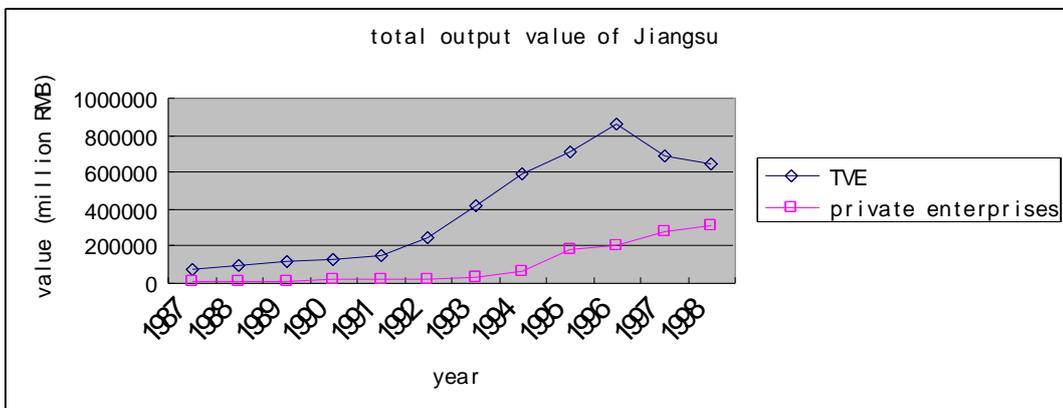
Graph 10



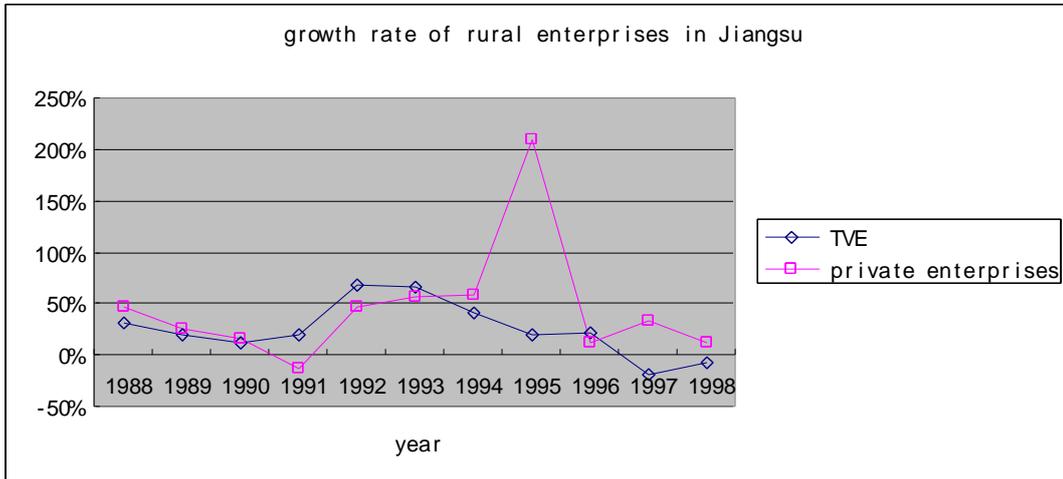
Graph 11

As graph 10 shows, in Zhejiang, TVEs had more output initially but were exceeded by private enterprises in 1995. And after 1996, the gap seemed a divergence trend. If we consider the growth rates of TVEs and private enterprises, it is more clearly that private firms always had a higher figure. It is quite easy to understand because Zhejiang followed ‘Wenzhou Pattern’ which put more efforts on private companies. After all, the average growth rate of private firms in Zhejiang throughout 1987 to 1998 was 49%, and the figure of TVEs was 24% which was also rather high.

Then, we can take a look at Jiangsu as illustrated in graph 12 and 13.



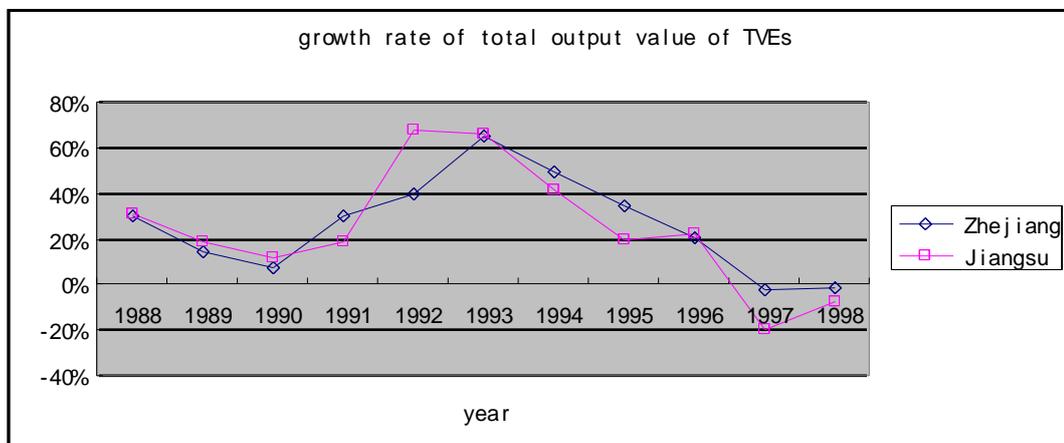
Graph 12



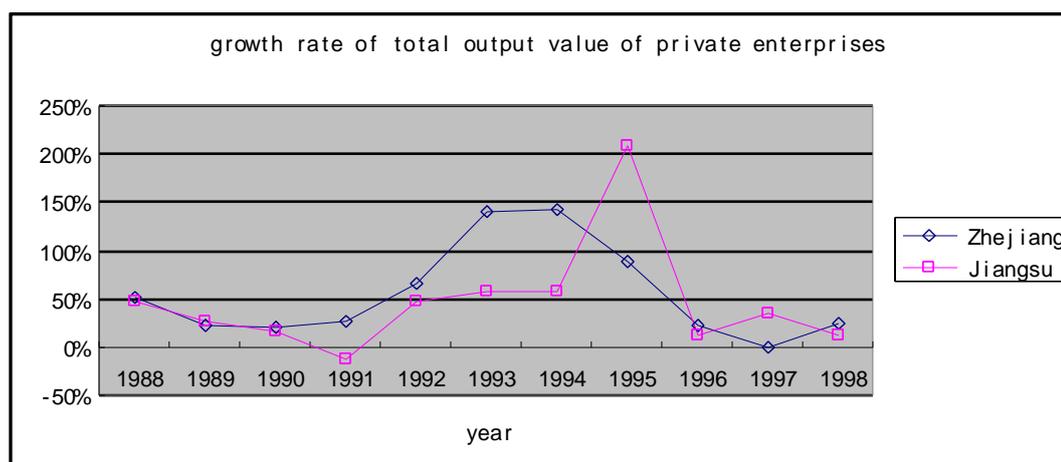
Graph13

Different from Zhejiang, private enterprises in Jiangsu never exceeded TVEs in total output value. And the gap between them even became bigger in the period before 1996 which was the time that private enterprises in Zhejiang were catching up with TVEs. After 1996, output of TVEs fell down sharply and there seemed to be a divergence. But the gap was still 332606 million RMB in 1998. If we consider the growth rates, private enterprises had an average annual figure of 38%, and the figure was 22% of TVEs. There is a very attracting point of the year 1995, when private enterprises had an unexplainable growth rate of 209%. In other years before 1995, even 1991 and 1992 when TVEs were going into a phase of privatization, TVEs grew faster. It could be seen that TVEs were very strong in Jiangsu.

We can also make comparisons between Jiangsu and Zhejiang's TVEs and private enterprises as showed in graph 14 and 15. Here, I only compare growth rates.



Graph 14

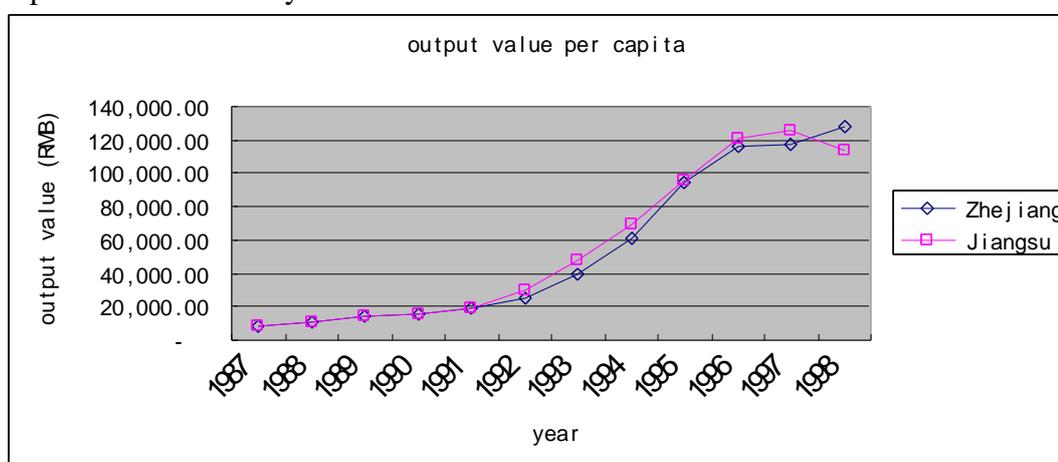


Graph 15

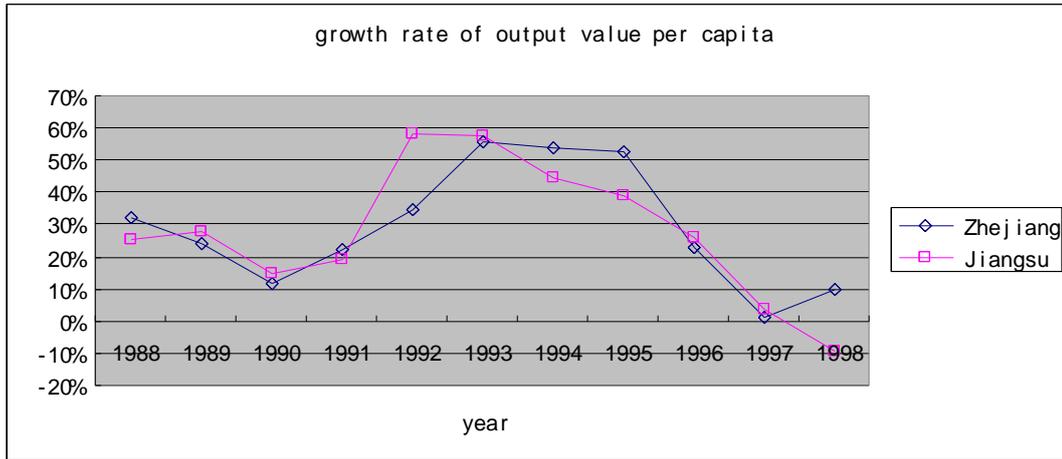
Zhejiang's TVEs had a higher annual average growth rate of 24% comparing to 22% of Jiangsu. However, there were not so much differences in the changing trends of growth rates between them. In the aspect of private firms, Zhejiang also had a higher average growth rate of 49%, and Jiangsu's figure was 38%. Beside the higher figure, we can also see in graph 15 that the curve of Zhejiang is smoother, and Jiangsu had a fluctuant curve. This pattern shows that private enterprises had a steadier development in Zhejiang.

4.2.3.2 Output value per capita

Comparing to total number, per capita figure would make more sense as it describes the efficiency. So it is a very important aspect in economic comparison. And it is my work in this section.



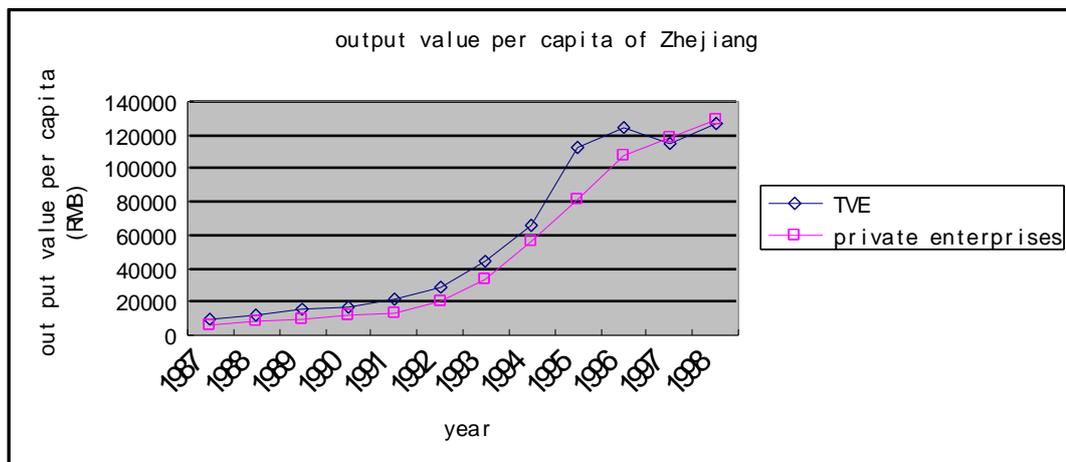
Graph 16



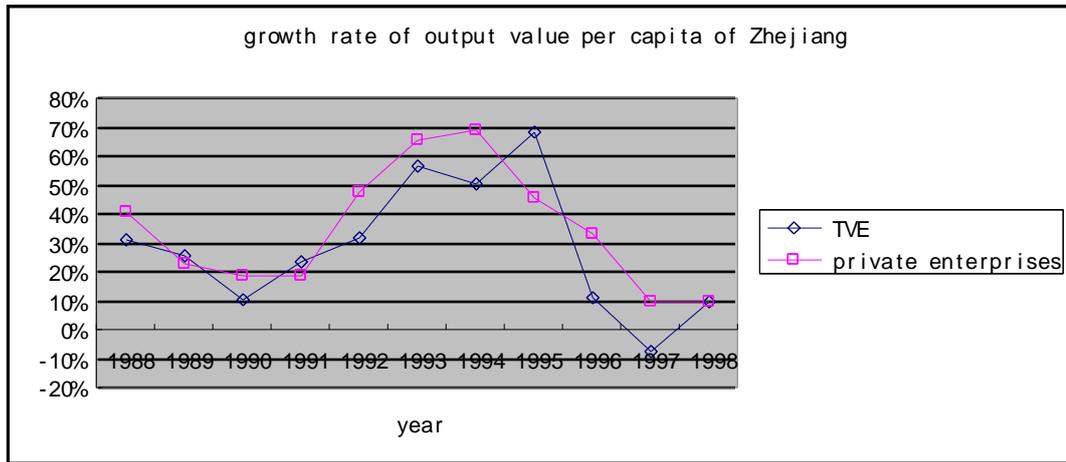
Graph 17

As we can see in graph 16 and 17, the trends of output value per capita were similar in both provinces, no matter absolute value or growth rate. From 1990 to 1997, both provinces had quick growth. Zhejiang exceeded Jiangsu in output value per capita in 1998, while Jiangsu had a negative growth that year. The peak of Zhejiang was 128.27 thousand RMB per capita in 1998, and Jiangsu's was 125.84 thousand RMB per capita in 1997. The average annual growth rate of Zhejiang was 28% which was relatively higher than Jiangsu's 26%.

Then, we can investigate two types of rural enterprises' development in both provinces.

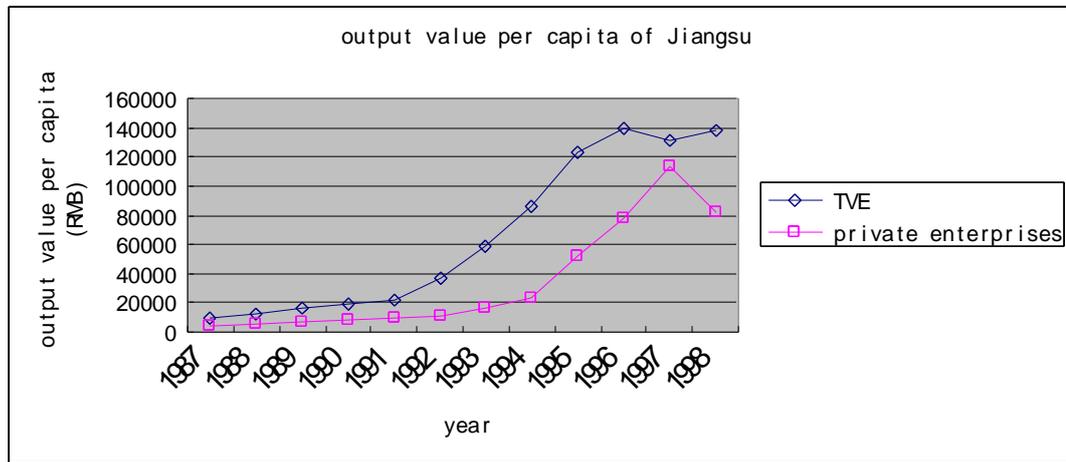


Graph 18

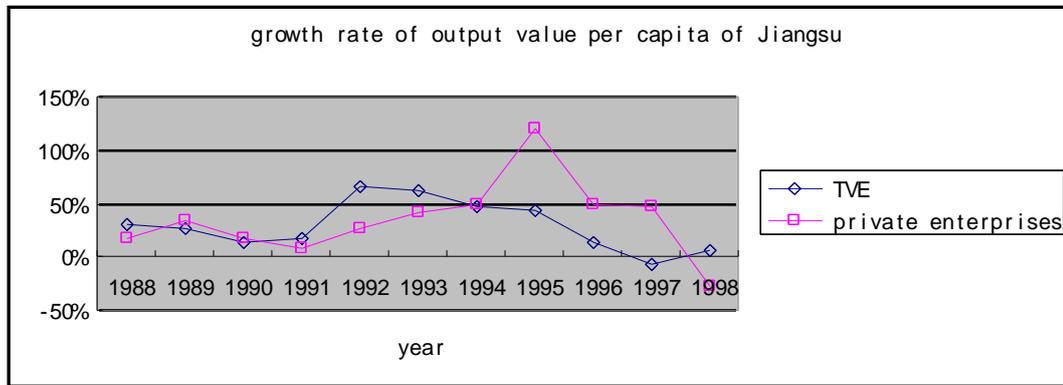


Graph 19

In general, enterprises in Zhejiang grew all the time throughout the research period except TVEs had a negative growth in 1997, and both TVEs and private enterprises peaked in 1998, with figures of 126.39 and 129.66 thousand RMB per capita respectively. The growth rates of both two types of enterprises were also similar, but private enterprises did better. The annual average growth rates of TVE was 27% and was 33% of private companies.



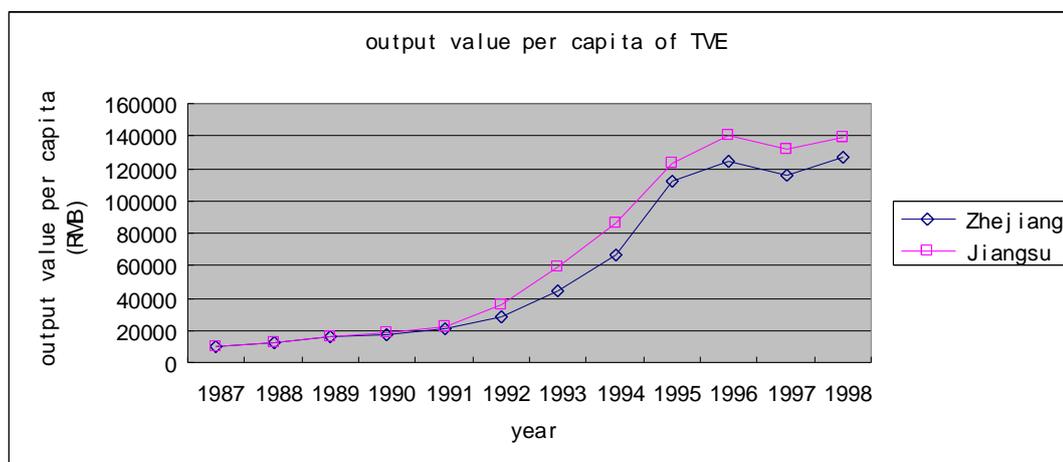
Graph 20



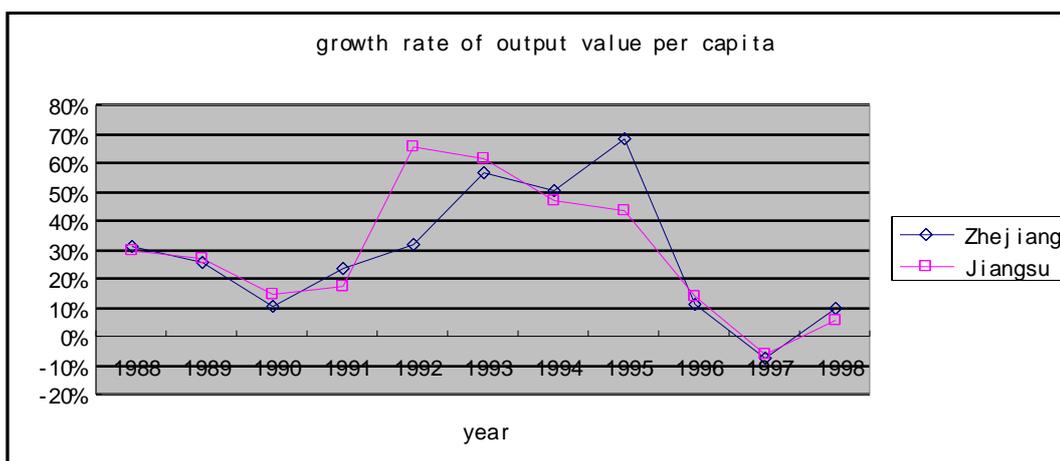
Graph 21

TVEs always had a higher output value per capita figure than private enterprises in Jiangsu, and the gap between them in period of 1992 to 1996 seemed became bigger and bigger. In 1997, TVEs had a negative growth just like in Zhejiang while private firms had a high growth, the gap became smaller. However, private firms fell sharply in 1998. In the aspect of growth rate, TVEs had a smoother pattern, and private enterprises seemed more fluctuant. From 1991 to 1994, TVEs performed better, and private companies had a higher growth between 1995 and 1997. The most attracting year was 1995, since private firms had a 120% growth in output value per capita, and that is the reason why the total output of private firms in Jiangsu grew in a more than 200% rate in that year without significant increase of firms' number and employment. Overall, private firms grew faster in the researching period with a 30% average annual rate comparing to 27% of TVEs'.

Now, take a look in the view of comparing different kinds of enterprises.



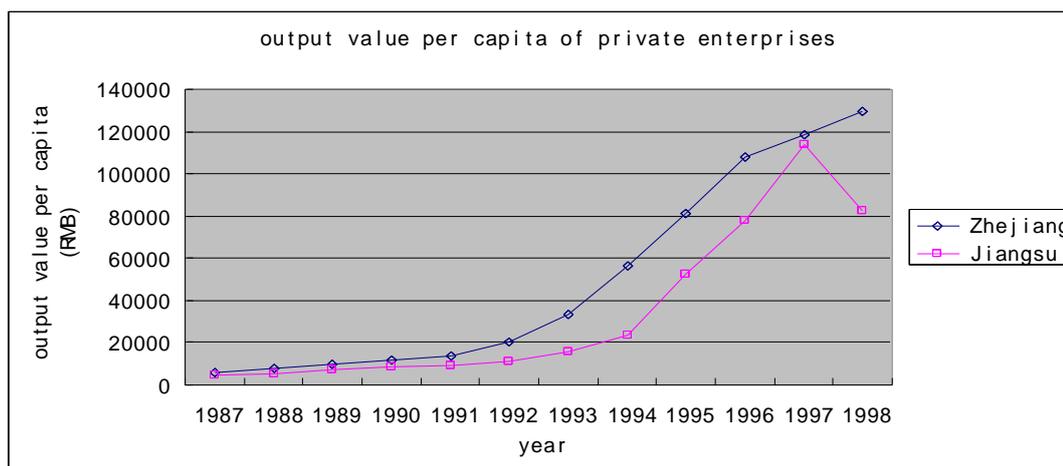
Graph 22



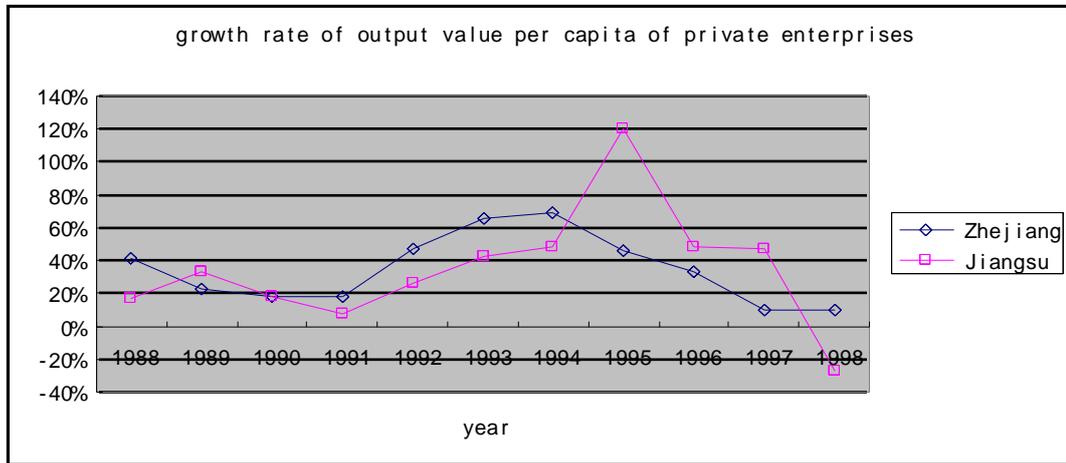
Graph 23

As showed in graph 22 and 23, TVEs in both provinces had a similar growth pattern. The average annual growth rate were both 27% in the period of 1988 to 1998. However, since Jiangsu had a initially higher figure of 9927 RMB per capita comparing to 9473 RMB of Zhejiang, the absolute gap between them became bigger. On the other hand, Jiangsu's pattern seems in the leading position of time, that could be the reason that Jiangsu's TVE were more sensitive to political change than Zhejiang's since Jiangsu was influenced heavier by government of central and local levels.

Then, we can take a look to private enterprises' perform of growth in output value per capita.



Graph 24



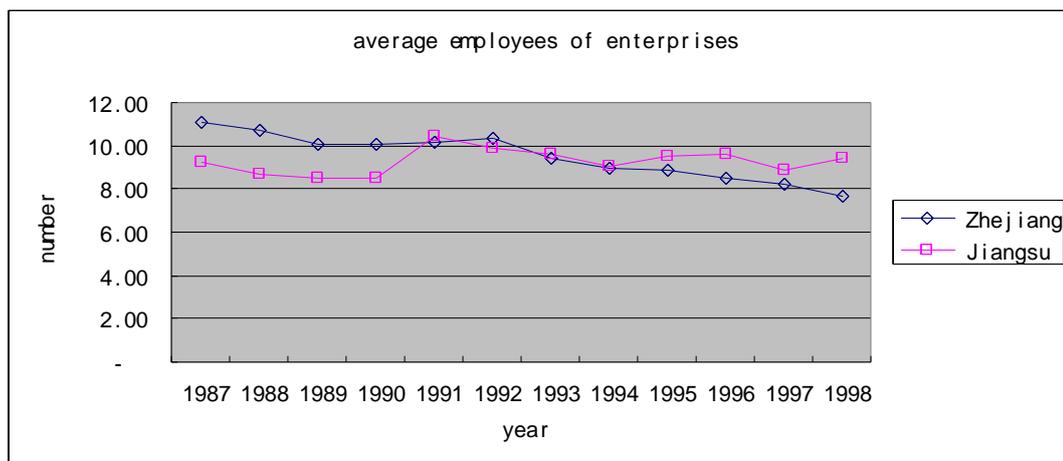
Graph 25

Private enterprises in Zhejiang had a higher figure of output value per capita initially and they always kept their leading. After 1994, Jiangsu had a strong growth especially in 1995 and narrowed the gap in 1997. However, it grew negatively in 1998 and the gap became bigger again. In general, Zhejiang’s private enterprises grew in a smoother pace and their average annual growth rate of output value per capita was 33% which was higher than 30% of Jiangsu.

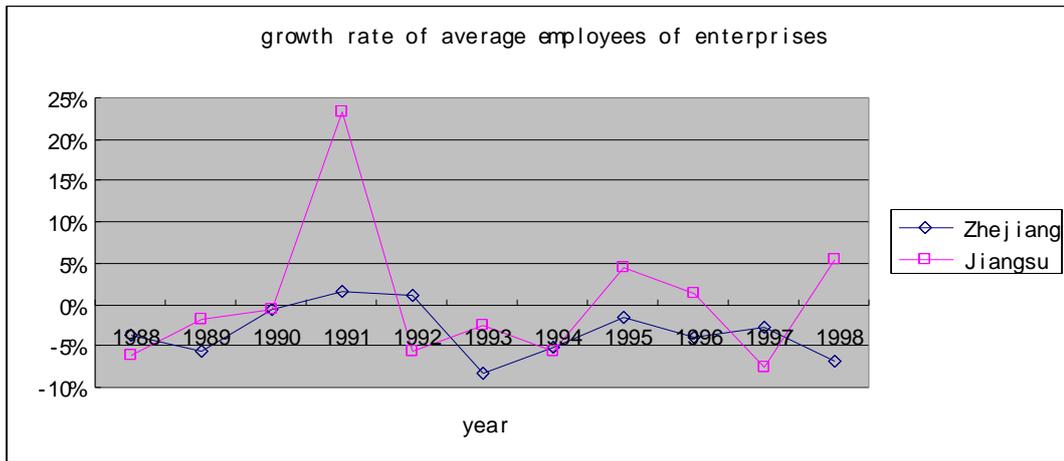
4.2.4 Comparison in enterprises’ scale

I want to compare the scales in two ways, one is comparing the average employees of enterprises, the other is comparing the average output value.

4.2.4.1 Average employees



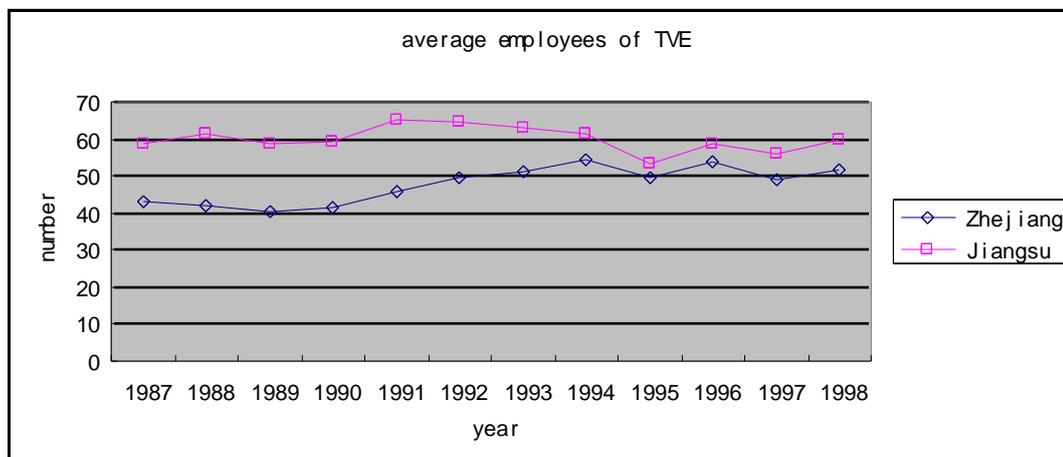
Graph 26



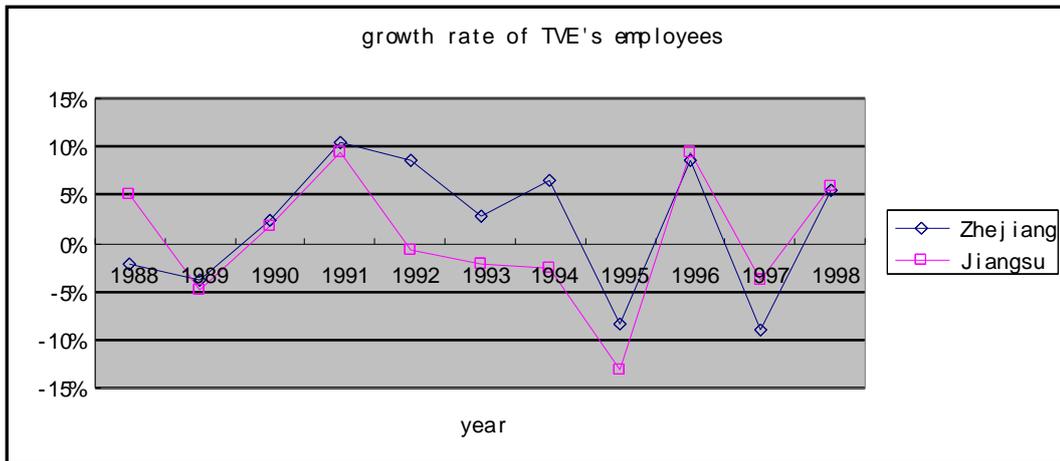
Graph 27

We can see that enterprises' average scale of Zhejiang decreased steadily in the sense of employment. Jiangsu, on the other hand, kept stable except there was a high growth in 1991. The reason for that high growth was the total number of enterprises in Jiangsu fell sharply from 1058.4 thousands in 1990 to 828.3 thousands in 1991, but the total employment only decreased for 3.4%. Considering that was the time of adjusting rural enterprises, there must be many mergers of companies. So that could explain why the average scale increased sharply in 1991. After 1991, the scale of enterprises in both provinces fluctuated over time. Overall, the annual average growth rate of Jiangsu was nearly zero in the period 1987 to 1998, and the figure was -3% in Zhejiang.

Considering TVEs always had much more employees than private firms, here I do not make comparisons between two kinds of enterprises. I only investigate how each kind of enterprises developed in different regions.

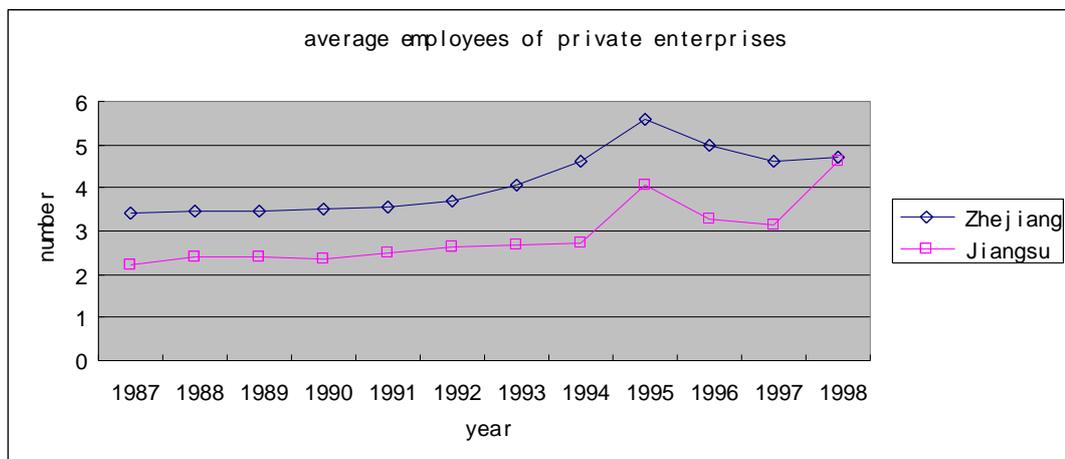


Graph 28

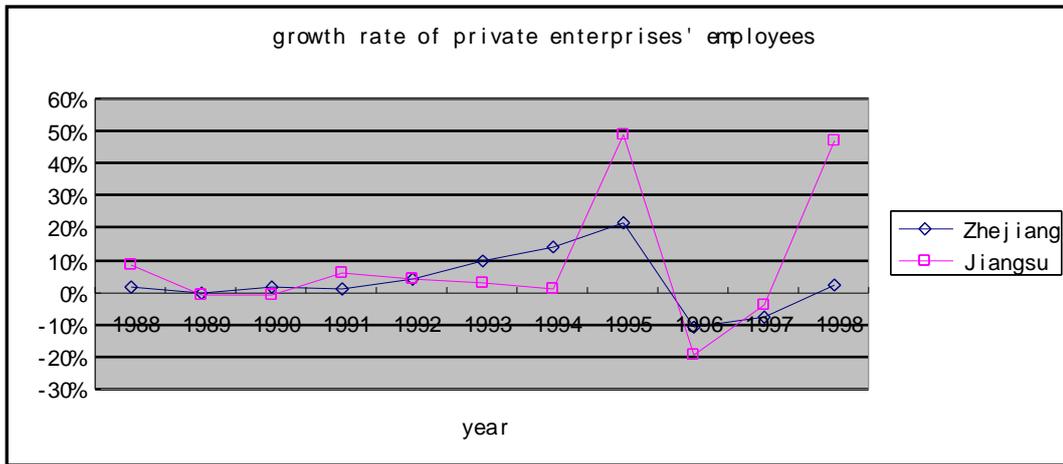


Graph 29

We can see in graph 28 and 29 that Jiangsu's TVEs always had more average number of employees than Zhejiang's, but the gap between them became smaller after 1990. The changing curves of both provinces were quite similar except Jiangsu had a sharper decrease between 1991 and 1995. Overall, the average scale of Jiangsu's TVEs throughout researching period was stable with a zero growth rate, and Zhejiang had an annual average growth rate of 2%.



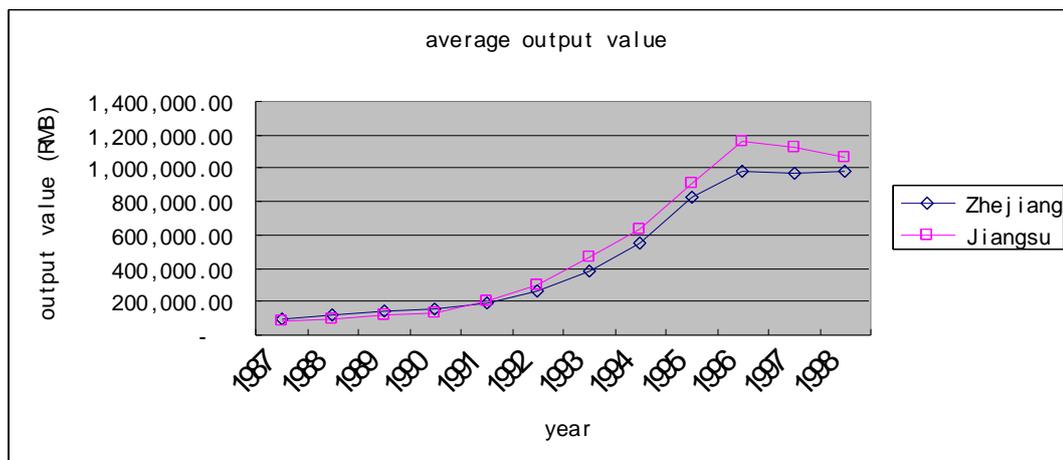
Graph 30



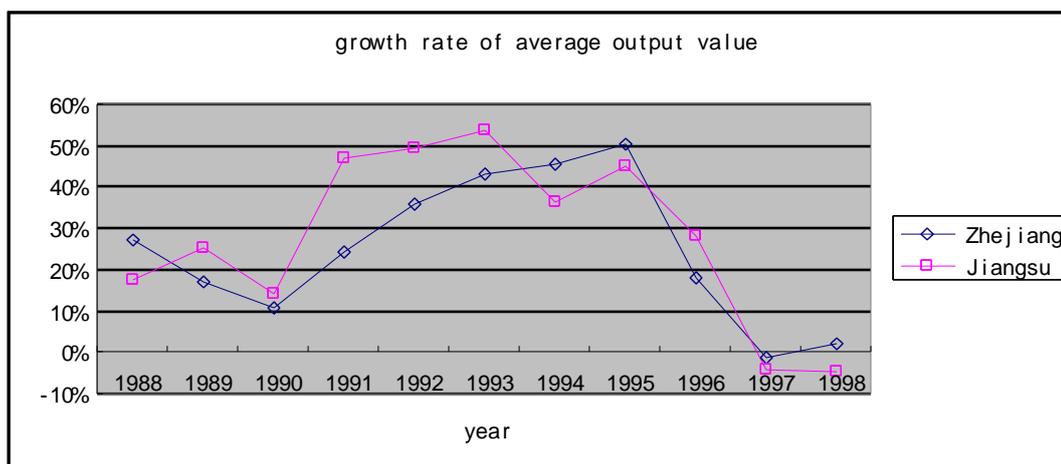
Graph 31

The average employment of each private enterprises of Jiangsu was less than Zhejiang throughout the period 1987 to 1998. But the gap narrowed greatly in 1998. And the changing trends of both provinces were similar too. There were two years must be highlighted, 1995 and 1998. In 1995, number of private enterprises in Jiangsu decreased while the total employment increased. In the mean time, number and employment of private firms in Zhejiang increased simultaneously, but employment grew faster. The reason must lied in mergers of companies. In 1998, the number of Jiangsu's TVEs fell down drastically with a decrease rate of 17%, it was due to mergers and privatization, so that is the reason why average employees of TVEs and private enterprises both went up this year. Overall, the average annual growth rates of average employees' number of private enterprises were 7% in Jiangsu and 3% in Zhejiang.

4.2.4.2 Average output value



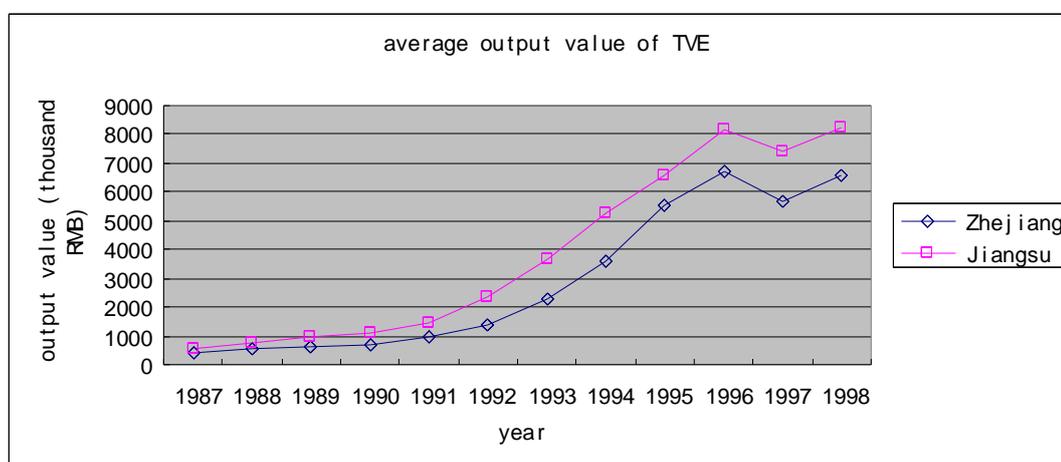
Graph 32



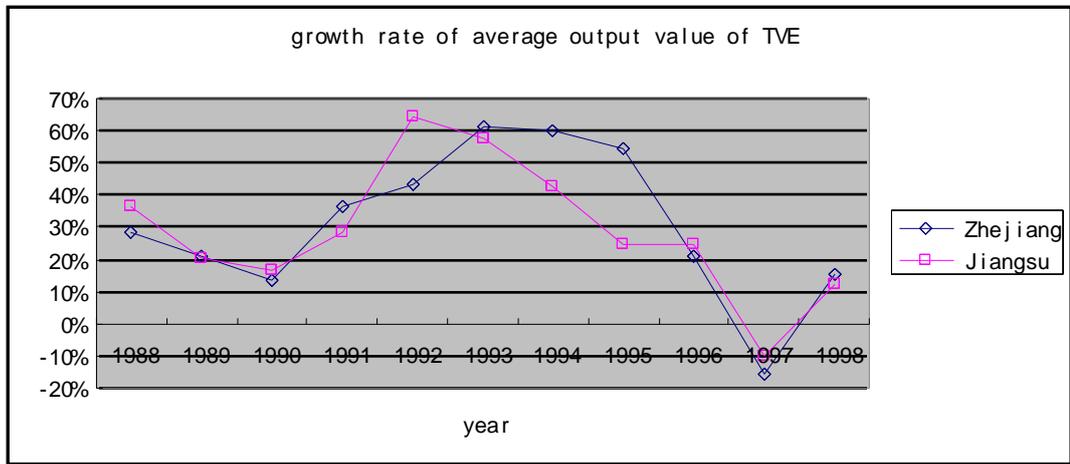
Graph 33

Both provinces had a similar starting point, and Zhejiang had a initially a little higher figure in average output value of enterprises than Jiangsu. However, Jiangsu exceeded in 1991, and extended its leading before 1997. Then, it saw a divergence. The highest growth period was 1990 to 1996, roughly the second golden age of rural industry. Overall, Jiangsu grew in a speed of 26%, a little higher than Zhejiang's 24%.

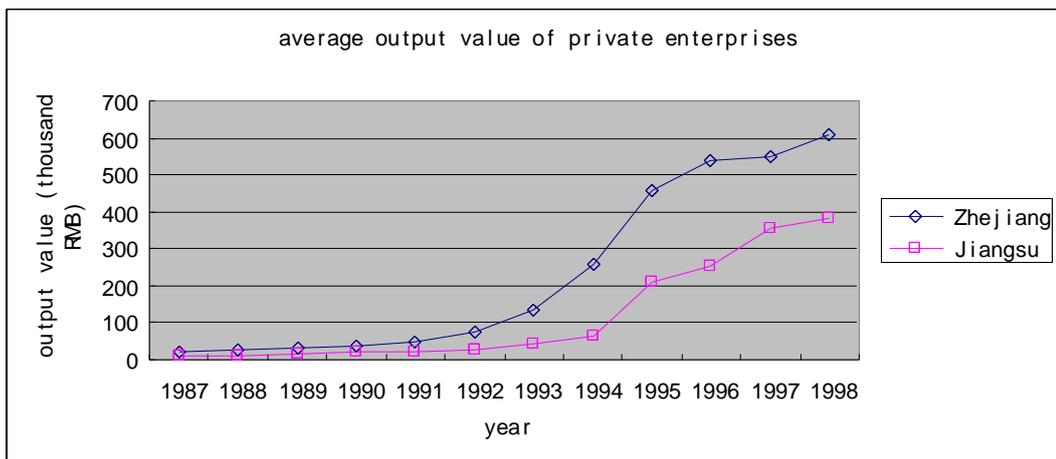
Then, take a look at TVE and private enterprises respectively.



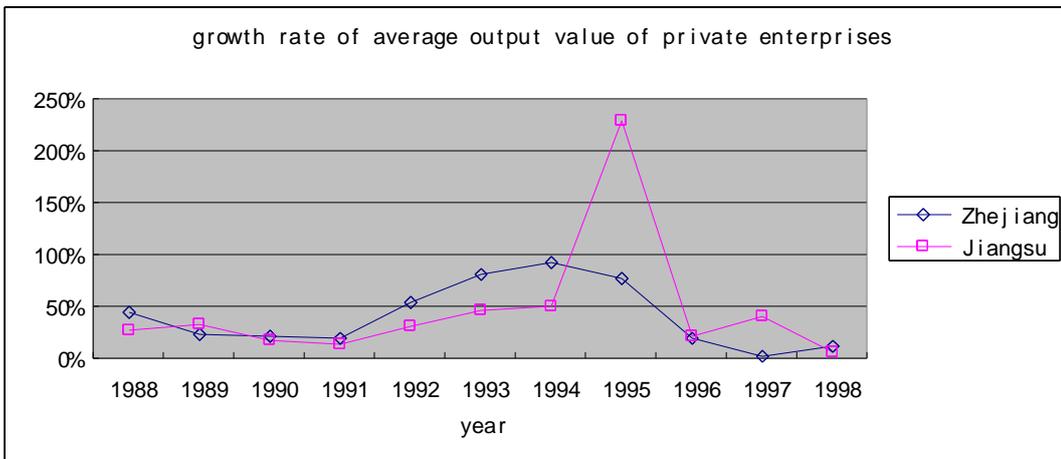
Graph 34



Graph 35
 As we can see in graph 34 and 35, the average output value of TVEs in Jiangsu was higher all over the researching period, but both provinces grew in a similar pattern. And 1990-1996 was a high growth period for TVEs. The average annual growth rate of Jiangsu was 27% which was a little lower than Zhejiang's figure of 29%.



Graph 36



Graph 37

Different from TVEs, Zhejiang's private enterprises kept leading position in output value scale in between 1987 to 1998. In most years, Zhejiang had a higher growth rate, but Jiangsu jumped its figure in 1995. After all, the average annual growth rate of Jiangsu was 39% which was 2% higher than Zhejiang.

To sum up, the results are a little surprised. No matter in comparison of average employees' number or average output value of enterprises, Zhejiang's enterprises had a bigger scale than Jiangsu in the beginning. However, Jiangsu exceeded Zhejiang in both aspects in later years. Jiangsu's growth in average employment was rather low with only 1% annual growth, but Zhejiang had a negative growth of -3%. The growth of average output value of Jiangsu was also higher than Zhejiang.

4.2.5 Summary

In this part, I made comparison in the sense of enterprises to see the development processes of TVE and private enterprises in rural China. The comparison is made in four aspects: number, employment, output value and scale of enterprises.

In the comparison of enterprises' number, the result is Zhejiang had a dramatical increase and exceeded Jiangsu in 1996. Jiangsu, on the other hand, had a negative increase throughout the period. Both province decreased their TVE's number and proportion, so the increase of number is contributed by private enterprises. Jiangsu always kept its leading in TVE's number, but it was exceeded by Zhejiang in private enterprises' number. In fact, Jiangsu reduced its private enterprises' number in the end compare to the beginning year.

In the aspect of employment, Jiangsu kept its leading in number all the time, but the gap became smaller and smaller since the average growth rate of Jiangsu was -1% and was 4% of Zhejiang. It is not surprised that Zhejiang's private enterprises had more employment than Jiangsu since Zhejiang had a

bigger increase in private companies' number, however, growth rate of TVE's employment of Jiangsu was also lower than Zhejiang with -4% comparing to -2%.

The comparison of output value is made in two parts: total output value and output value per capita. In the first part, we can see that Zhejiang had a higher average growth rate in total figure of 33% to 25% of Jiangsu. And private enterprises had a higher growth than TVE in both provinces. If we do a more detailed research, we can find that Zhejiang's private enterprises did better than Jiangsu's, and Zhejiang's TVE also did better which is a little surprised.

In the second part, Jiangsu had a higher per capita output value initially but was exceeded finally cause Zhejiang had a higher average growth rate. TVE of both provinces had a same growth rate of 27%, but private enterprises of Zhejiang always kept leading no matter in absolute output value per capita or growth rate.

The comparison of enterprise's scale is also made in two parts, one is comparing their average employees, the other is comparing their average output value. In the first part, we can find that Jiangsu roughly had no change while Zhejiang had a negative 7% average growth rate. So generally speaking, enterprises became smaller and smaller also they are bigger in the beginning. Jiangsu's private enterprises grew faster than Zhejiang, but Zhejiang always had a bigger absolute figure. This is also a proof that Zhejiang relied more on private enterprises.

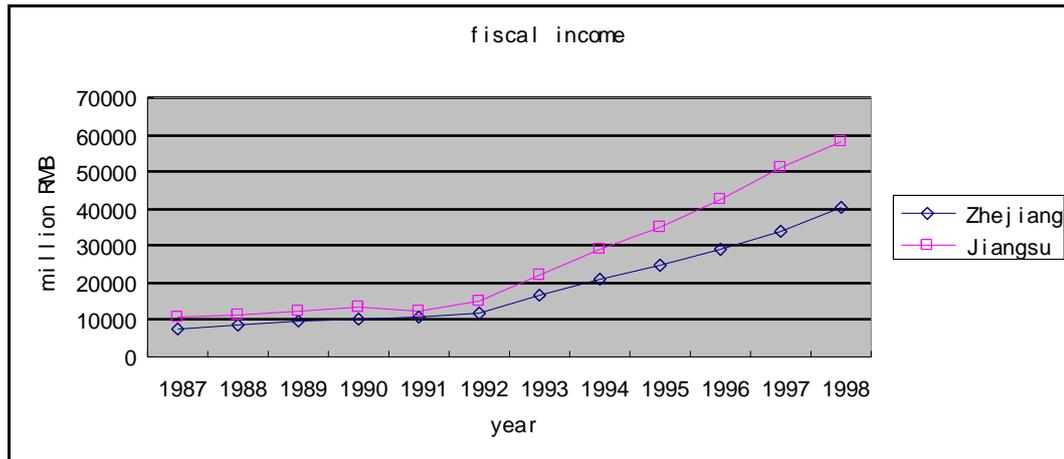
In the second part, Jiangsu exceed Zhejiang in average output value with a higher growth rate. It is quite clear that Jiangsu's enterprises had a bigger average scale than Zhejiang except private enterprises.

4.3. Comparison in governments' objectives

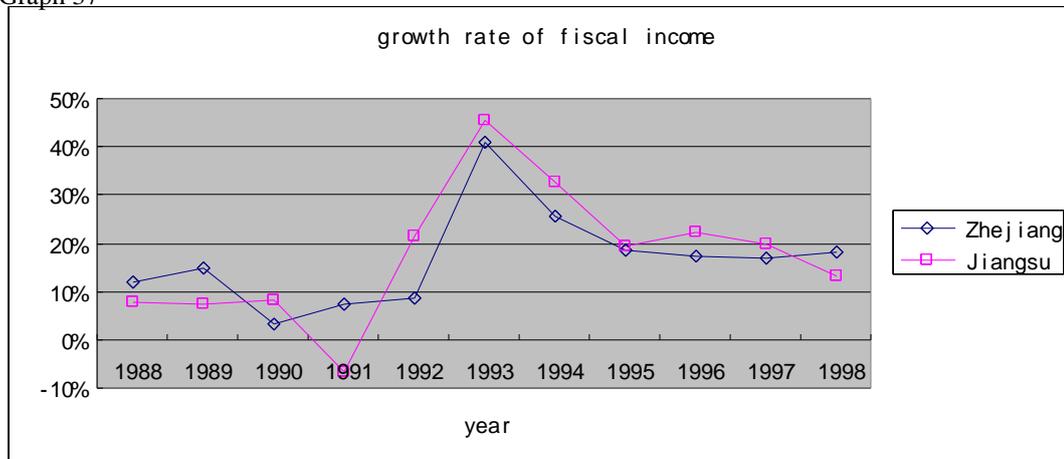
As I described in former parts, local community governments' objectives are governmental revenue, increase of income per capita, non-agricultural employment, urbanization and agriculture development. Now I make comparisons in these aspects.

4.3.1. Government revenue

4.3.1.1. Total fiscal income



Graph 37

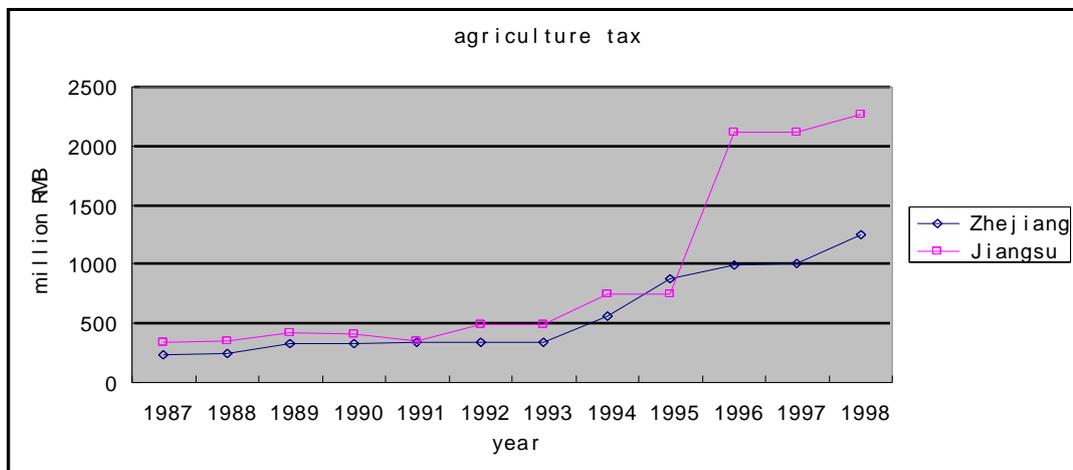


Graph 38

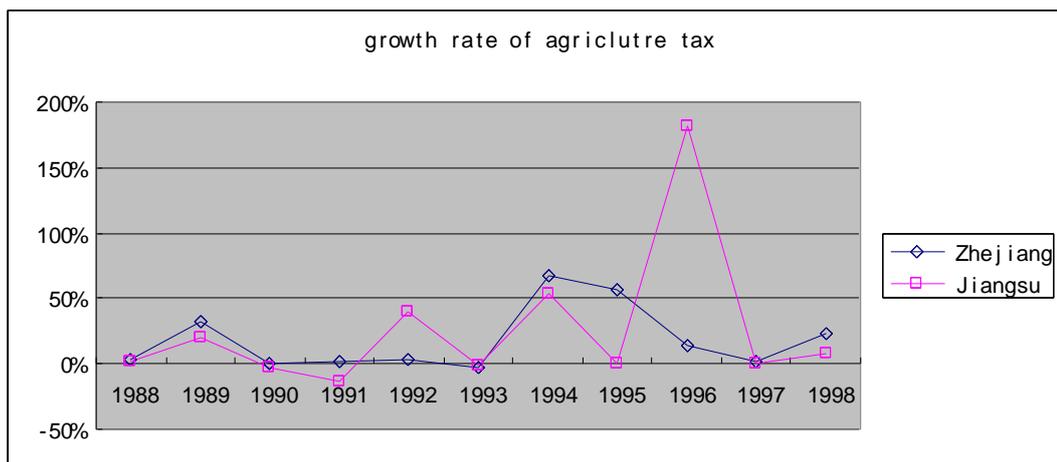
Total fiscal income in the two provinces grew in a similar pattern over 12 years. Except a negative growth of Jiangsu in 1991, both were growing throughout the researching period all other years. However, Jiangsu always had more fiscal income than Zhejiang, and the gap seemed became bigger than the beginning. In fact, the average annual growth rate of Jiangsu was 17%, a little higher than Zhejiang's 16%.

4.3.1.2. Agriculture tax income

The best way to measure the influence from rural enterprises to tax should be calculating the tax from the enterprises. However, in both Jiangsu and Zhejiang's statistic year books, the tax income were only divided into two main categories: tax from industry and service, and tax from agriculture. Since it is impossible only to compare tax from rural industry, I choose to make a comparison of agricultural tax, because agriculture tax is an important resource of rural local governments' revenue, and TVEs always took the responsibility of supporting agriculture as I described in the former parts, and the result should be that Jiangsu should have had a quicker growth of agriculture tax.



Graph 39

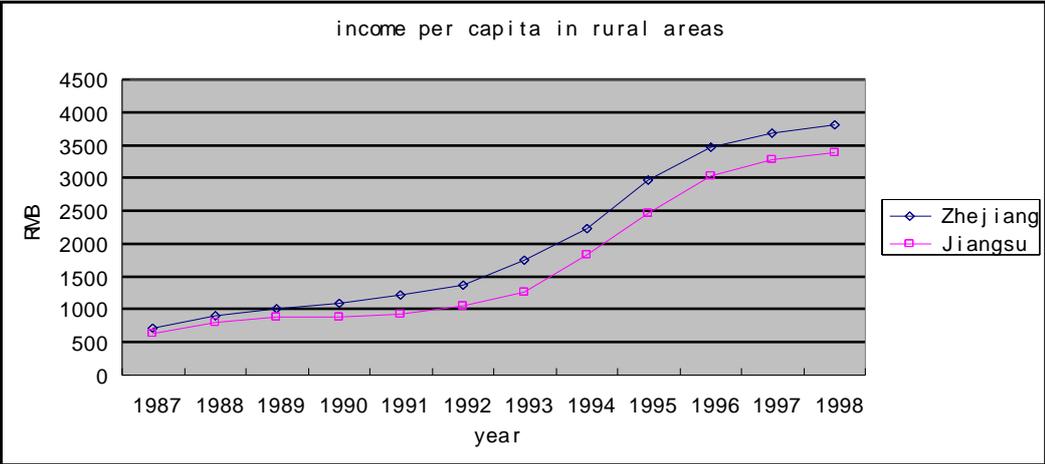


Graph 40

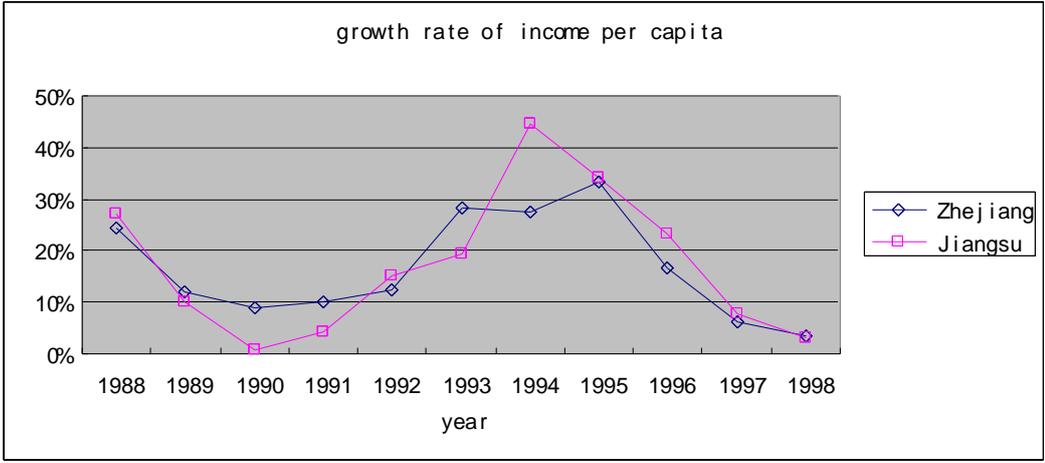
Jiangsu had more agriculture tax in general, but before 1996, the gap between Jiangsu and Zhejiang was stable. In 1996, Jiangsu had a great leap with a growth rate of 182%. However, the agriculture output of Jiangsu grew only 8% in that year. Considering that TVEs responsibility of

supporting agriculture, I found that the total output value of Jiangsu's TVEs peaked in 1996. It is quite a concrete evidence that TVEs have positive effect on governments' revenue. Overall, the average annual growth rate of agriculture tax of Jiangsu was 19%, higher than 16% of Zhejiang.

4.3.2. Income per capita in rural areas

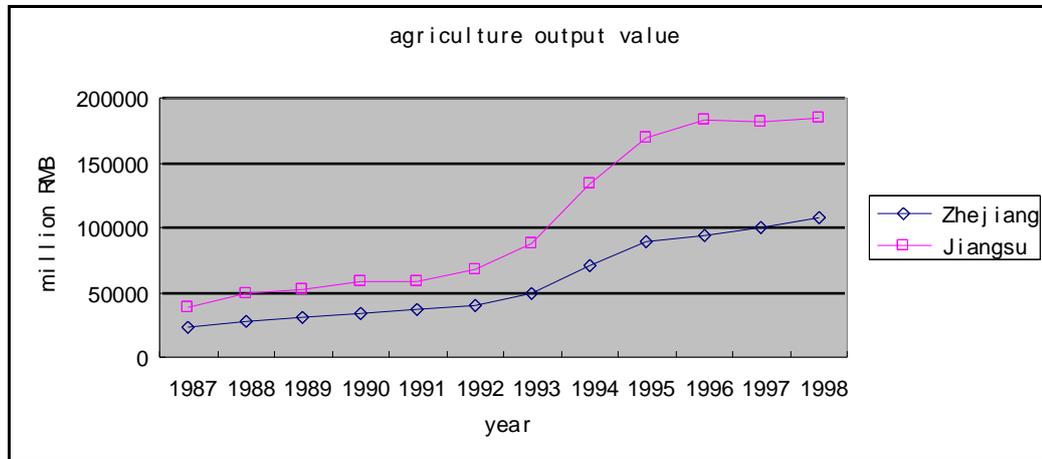


Graph 41

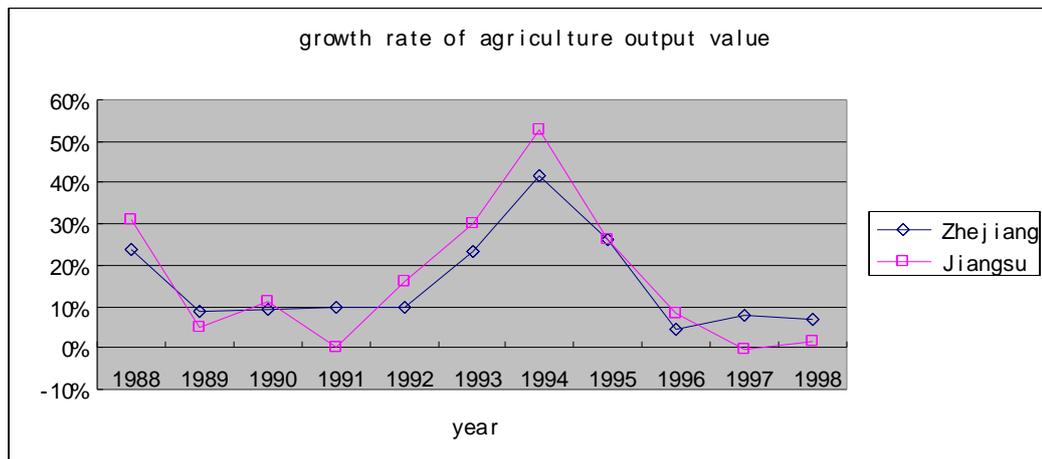


Graph 42
 Zhejiang's income per capita was higher than Jiangsu, and grew in a smoother pattern. But curves of both provinces are similar, no matter curves of absolute value or growth rates. The average annual growth rate of Jiangsu was 17%, and Zhejiang's figure was 16%.

4.3.3. Agriculture output value



Graph 43



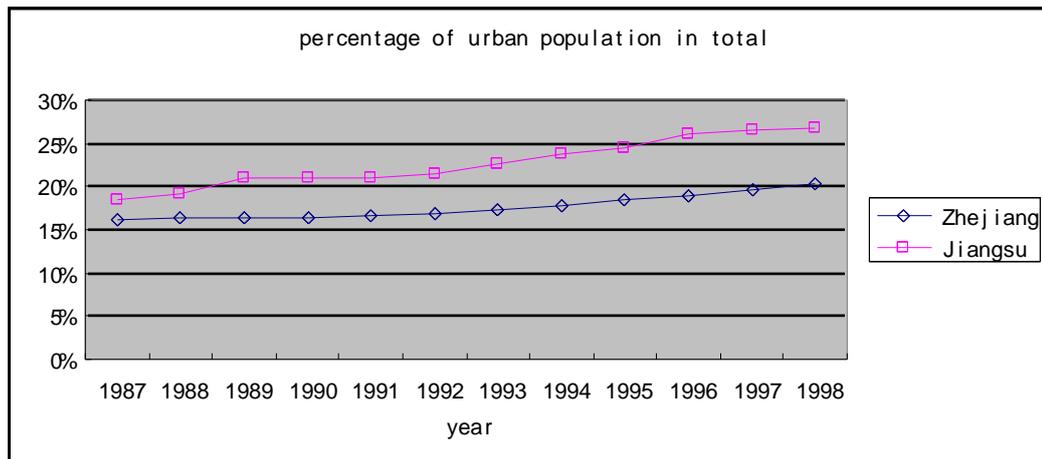
Graph 44

Agriculture output value of both provinces grew in a similar pattern again. But Jiangsu had a higher output value throughout all the researching period, and the gap between them seemed became bigger. However, they had the same average growth rate of 15%. A important point is that the highest growth period of agriculture output was 1992 to 1996, which was also the period of rural industry. And the growth rate curves of agriculture and enterprises' output value are similar. It is quite clear that rural industry has close positive correlation with agriculture. And we can also see that Jiangsu's curve of growth rate is more fluctant which indicates that TVEs had a closer relationship with agriculture.

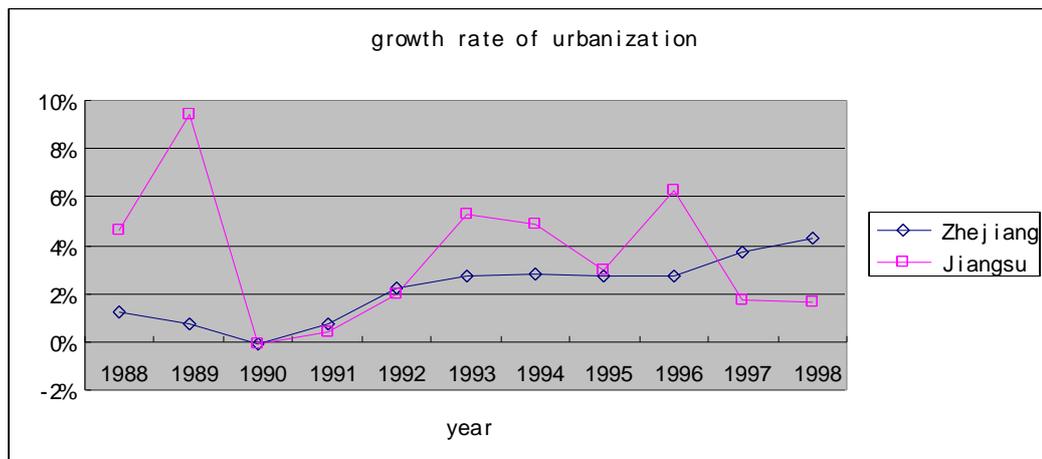
The annual average growth rates of agriculture output value per capita of both provinces were also the same, 15%.

4.3.4. Urbanization

The percentage of urban population in total is always used to measure the process of urbanization. I also do it in this way.



Graph 45



Graph 46

Jiangsu was more urbanized than Zhejiang since it was more developed in the beginning. And both provinces had a steady urbanization process. However, Zhejiang's pace was smoother. Considering the average growth rate, Jiangsu was higher than Zhejiang with figures of 4% and 2% respectively.

4.3.5. summary

In the aspect of governments' revenue, we can find that Jiangsu always had a higher figure than Zhejiang both in comparisons of total fiscal income and agriculture tax. And in general, Jiangsu's growth rate of governments' revenue was also higher than Zhejiang. It is quite easy to understand this result because of TVEs' collectively owned structure. Since local community governments always had the power to control TVEs, and they were also the virtual investors of TVEs, they can get extra benefit beside tax from TVEs. The unusual high growth of Jiangsu's agriculture tax in 1996 is hard to explain. However, since it was also the peak year of TVEs' output value of Jiangsu, it could be a evidence that TVE is a very efficient way to grow governments' revenue.

Income per capita in rural Zhejiang was higher than Jiangsu throughout the period. That was the result of Zhejiang's dependence on private enterprises in rural industry. Unlike TVEs, private enterprises did not take much burdens of governments' revenue and agriculture development, and the profit could be distributed among share holders totally. Thus, Zhejiang's income per capita in rural areas was higher. However, the growth rate of income per capita of Jiangsu was higher. That is because Jiangsu's governments did more work of redistribution of income since they had more revenue than Zhejiang.

Jiangsu did better in agriculture than Zhejiang in total output value, but they had the same average annual growth rate. It is not a surprise since Jiangsu has a better natural condition for agriculture than Zhejiang and a bigger population. It seems that the strategy of developing TVE did not had a obviously better performance in agriculture although TVEs always took the responsibility of supporting agriculture. However, TVEs did have influence on agriculture. As we can see in graph 44, agriculture growth rate of Jiangsu is more fluctuant which is in accordance with TVEs' growth.

Jiangsu was historically more urbanized than Zhejiang, and it had a faster pace than Zhejiang throughout our researching period. However, its curve is

very fluctuant which indicates that urbanization process in Jiangsu was more depend on governments' intervention.

5. Conclusion

5.1 Results of comparisons

After comparing the development processes of rural enterprises of Jiangsu and Zhejiang, we can get information as below.

A. Generally speaking, rural enterprises developed faster in Zhejiang. As can be seen in graph 47, Jiangsu performed better than Zhejiang in aspects in number of enterprises, total and per capita output value, and employment in 1987. However, all indicators of Zhejiang exceeded Jiangsu in 1998 except employment. Further more, even the gap of employment also became smaller and smaller. This pattern reflects that after 12 years' development, rural enterprises of Jiangsu trailed back of Zhejiang.

	number (thousand)	employment (million)	total output value (million RMB)	output value per capita (RMB)
1987				
Jiangsu	998.9	9.2297	81154.08	8,792.71
Zhejiang	480.5	5.34	45478.87	8,516.64
1998				
Jiangsu	892.1	8.374	951024.77	113,568.76
Zhejiang	1026.2	7.8808	1010876.03	128,270.74

Graph 47

B. Generally speaking, TVE's developed slower than private enterprises, private enterprises of Jiangsu developed slower than Zhejiang's. As graph 48 describes, the proportion of output value of Zhejiang's private enterprises in the total figure had an upward trend. Nevertheless, Jiangsu had a different pattern. In 1991 to 1994 TVE in Jiangsu developed faster than private enterprises and the proportion in total output value of private enterprises in 1994 was still lower than 1990's level. This reflects the influence of 'Southern Jiangsu pattern' to a big extent. On the other hand, this period was a very fast developing time of Zhejiang's private enterprises. And in

1995, private enterprises' output value exceeded TVE's. Private sector thus became the leading actor in rural industry.

	Jiangsu	Zhejiang
1987	11%	10%
1988	12%	18%
1989	12%	19%
1990	13%	21%
1991	10%	21%
1992	9%	24%
1993	8%	31%
1994	9%	43%
1995	21%	51%
1996	19%	51%
1997	28%	52%
1998	33%	58%

Graph 48

C. In the aspect of average enterprise scale, we can see that from an average employees' point of view, Jiangsu did not have an obvious change and Zhejiang had a downward trend. TVEs of Jiangsu did not have obvious change, but Zhejiang had an upward change. However, TVEs' scale had a downward trend after 1994 generally, and that is the historical trend of privatization. From the view of average output value we can also get this result. Since TVE of Jiangsu had a bigger scale than Zhejiang, Jiangsu would have more difficulties in ownership reform and management. Meanwhile, private enterprises in both provinces had a trend of growth in scale, it reflects that private sector had more potential. And Zhejiang's private enterprises had bigger scale, it would have better base than Jiangsu when private sector became the leading role of rural industry.

D. Concerning about output value per capita described in graph 49, we can see that Jiangsu was leading in the beginning but was exceeded in 1997, and the average growth rate of Jiangsu was also lower than Zhejiang. This result reflects the negative influence of 'Southern Jiangsu Pattern'. Considering different kinds of enterprises, the influences of ownership is more significant. TVEs of Jiangsu always kept their leading to Zhejiang, but both provinces had the same growth rate. On contrary, Zhejiang's private enterprises always had higher figure, but they also had higher growth rate.

And private enterprises of Zhejiang exceeded TVE in 1997. ‘Wenzhou Pattern’ not only made private enterprises exceeded TVE in total output value, but also made them more efficient. In general, labor productivities of private enterprises had higher growth rates in both provinces. And this could be an evidence that private sector is more energetic.

output value per capita				
		total	TVE	private enterprises
1987	Jiangsu	8,792.71	9,927.18	4,507.52
	Zhejiang	8,516.64	9,472.89	5,584.99
1998	Jiangsu	113,568.76	138,797.94	82,457.99
	Zhejiang	128,270.74	126,390.21	129,664.28
growth rate				
		total	TVE	private enterprises
	Jiangsu	28%	27%	30%
	Zhejiang	28%	27%	33%

Graph 49

E. Considering government objectives, the picture is different. Except employment, Jiangsu did better in the growth rates of fiscal income (especially agriculture tax, which is more representative of rural fiscal income), income per capita, agriculture output value and urbanization. It is quite clear that TVE really has advantages in achieving government objectives. However, we should notice that the absolute income per capita of Zhejiang was always higher than Jiangsu which came from more active private economy. And the gap of employment between Jiangsu and Zhejiang was smaller and smaller. Since employment of TVEs were decreasing, new job opportunities were created by increasing private enterprises, and Zhejiang’s number of private enterprises increased faster which is the main reason why employment grew faster in Zhejiang.

5.2 Analysis and conclusion

Based on the results of comparison, we can say that although ‘Southern Jiangsu Pattern’ and ‘Wenzhou Pattern’ have their historical background which I talked about in former parts, and TVE in Jiangsu were still better than Zhejiang’s, ‘Southern Jiangsu Pattern’ has already seemed to be out of energy since private enterprises in Zhejiang developed much better than in

Jiangsu, and that is the most important reason of Zhejiang's exceeding in most comparisons. The biggest problem of 'Southern Jiangsu Pattern' is it restrains the development of private enterprises. On one hand, TVEs absorb large amount of resource, such as talents, capital, commercial opportunities, supports from governments and so on, on the other hand, TVEs increase entry barriers of private enterprises. We can see that the number of private enterprises of Jiangsu in 1998 was even less than 1987's level. On contrast, 'Wenzhou Pattern' relies more on the market, and there are less barriers of entry which means it is easy for families to build their enterprises. Further more, drastic competition could improve productivity and occupy exterior market effectively. It could be proved by the comparison of output value per capita. Private enterprises did better than TVEs in Zhejiang, and Zhejiang's private enterprises did better than Jiangsu's.

TVE has advantages in achieving most government objectives of fiscal income, urbanization, growth of income per capita and so on. And this is the reason why governments prefer TVE, and TVE often flourish in regions with strong local governments. However, since Chinese market economy reform and privatization of TVE go deeper, TVE has already appeared out of energy and will be replaced by private enterprises in the future. However, we should not negate TVE indiscreetly. TVE is a temporary product in the early phase of Chinese economy reform and it adapted special economic and political circumstance of China in late 1970s'and 1980s' quite well. It contributed a lot in rural economy of China.

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