

Stability in Instability. China's TVEs and the Evolution of Property Rights

Markus Taube

For two decades economic and social stability in China's rural areas has been based on the successful evolution of township village enterprises. These enterprises, however, feature property rights structures which according to conventional property rights theory should make these enterprises highly inefficient and prone to quick dissolution. But as closer analysis indicates, exactly these ambiguous property rights structures may be the recipe for success. They constitute highly flexible best practice solutions for corporate survival in the context of rapidly changing environments in a transition economy. But as the Chinese market economy matures, these ambiguous property rights structures will nevertheless have to make way for clearly defined – stable – property rights structures. The paper introduces some hypotheses concerning the forces underlying these evolutionary processes.

Introduction

Over the past two decades in China, "township village enterprises" (TVE)¹ have made a significant contribution to the strengthening of social structures in that they have created jobs and a second (industrial) pillar in the rural areas of the Chinese economy. Paradoxically, this "stabilizing" effect appears to depend on enterprises whose property rights structures do not demonstrate a clear distribution and which, therefore, when viewed in accordance with the Property Rights Theory, are highly *unstable* (Pei 1996, Zhang 1997, Wang 2000, Chang/Wang 1994). Theoretically, unclear property rights distributions of this kind ought to result in such enterprises operating comparatively inefficiently and ultimately being forced out of the market (Demsetz 1967). However, this expectation has been contradicted by an extraordinarily high productivity of the TVEs (Byrd 1990, Perotti/Sun/Zou 1999, Weigelin-Schwiedrzik/Hauff 1999).

Thus, on the theoretical level the question arises whether one of the fundamental assertions of the Property Rights School has been disproved or whether closer investigation of the facts may clarify the apparent contradiction. On the China-specific

¹ Here I am referring to what in Chinese are known as *xiangzhen qiye*. This includes all businesses located in rural areas, which are not involved in agriculture but instead in industry or services, and which are not explicitly (and unambiguously) state or privately owned. Because this definition is so broad, it includes — where size, type of business, and organizational structure are concerned — a comparatively heterogeneous group of enterprises, which are, nonetheless, united in their unclear property rights structures through a phenomenon which will be explained in detail below.