



Chih-jou Jay Chen, *Transforming Rural China : How Local Institutions Shape Property Rights in China*

London and New York, RoutledgeCurzon, 2004, 232 p.

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NOTE DE L'ÉDITEUR

Translated from the French original by Jonathan Hall

- 1 As his title indicates, the author sets out to provide a sociological explanation for the development of property rights in rural China, based on investigations carried out in two areas characterised by quite different paths of development followed by their rural enterprises. The work falls into three sections. The introductory chapter puts forward a brief theoretical analysis of institutions, making a distinction between economic institutions founded on rational economic agents seeking greater efficiency on the one hand, and social institutions embracing a far wider range of concerns, including customs, social networks, personal relations, kinship etc., on the other. The author stresses the importance of a sociological approach integrating all these social factors, in order to understand the development of rural China. In his view, the differences between the social institutions in the different regions will lead to disparities in their economic organisation and property rights.
- 2 To illustrate this point, the main body of the work (Parts One and Two) is devoted to two case studies of the development of rural enterprises, one in the Yangtse delta (southern Jiangsu and the suburbs of Shanghai) and the other in south-eastern Fujian. Part One moves on (in chapters two to four) to provide a striking analysis, richly supported by numerous tables of economic statistics, photographs and anecdotes of the development of ownership rights in the collective rural enterprises in the Yangtse delta. From the late 1970s until the early 1990s, this region's rural development was

marked by the prosperity of the collective enterprises, led in the first instance by local government. As is clear from the ten case studies conducted in the villages around Shanghai, the local administrations had at their disposal the financial, human and political resources which enabled them to play a crucial role in all the important activities of the collective enterprises, such as mobilising the initial capital investment, providing raw materials, guaranteeing bank loans, and seeking opportunities for co-operation or partnership with urban state enterprises. However, from the mid-1990s onwards, when the property rights reforms took effect, these collective enterprises went into irreversible decline.

- 3 These institutional changes took place in two stages. During the first stage (1997-1998), the small and medium collective enterprises were sold to private entrepreneurs, at a time when the creation and development of private enterprises were being encouraged by every level of government. The second stage affected the large enterprises. They were transformed into companies whose shares were at first jointly owned by the collectives and the private entrepreneurs, who then bought them all up. The experience of Shuang village (southern Jiangsu) shows how these procedures led to the collectively-owned assets being gradually transferred to small village elites, each headed by the former village secretary. In the absence of public share offers, the collective enterprises were effectively sold to these privileged elites at knock-down prices, to the detriment of the collectives. As a result, the economic power of the local governments was weakened after privatisation, while the economic and the political powers of the local cadres were strengthened.
- 4 Part Two (chapters five and six) traces the history of rural development in southern Fujian, which had been an underdeveloped agricultural area before the reforms. Because it had a weak and less interventionist government, its private entrepreneurs played a major role in the local economy, which from the end of the 1970s was dominated by them. Unlike the system of control from the top, which typified the Yangtse delta, the relationship between local government and private enterprises in southern Fujian could be described as an alliance based on mutual dependency. The private enterprises paid management fees to the local administrations in exchange for certain services. Until the early 1990s these enterprises, which were mostly family-owned firms or co-operatives run by relatives and friends, were officially registered as collective enterprises. Because of this, the subsequent privatisation process consisted in simply changing their official status, so that these *de jure* collective enterprises became registered as private ones—a procedure popularly known as “removing the red hat”. In due course, these family enterprises grew larger, through self-financing, mergers, and the acquisition or creation of companies through share issues. According to the author, this particular form of development depended on family loyalty and the clan spirit, which are particularly strong in this area, as their large network of overseas relatives, and the local administrations’ laissez-faire policies. In Chapter Seven, he draws the conclusion that the development of property rights in China’s rural regions is deeply rooted in such local social institutions.
- 5 Although the history of rural development in these two regions is certainly interesting, it is regrettable that there is no truly comparative analysis, which might have provided more evidence for the determining role of local social institutions in the development of property rights. Furthermore, the fact that the two regions in question are both within the developed coastal region makes it difficult to generalise from their analysis

to the whole of China, and to gain an overall understanding of the rural transformations at the national level. Finally, this work presents privatisation as an external factor imposed on local governments and collective enterprises, whereas in reality it was a rational response to institutional changes in the economy. Of particular importance here was the emergence of the market system, since it destroyed the advantages of collective ownership and left the collective enterprises unable to confront the new situation. Lack of attention to these changes prevents a proper understanding of the reasons behind the privatisation of the collective enterprises, and it leads the author to overstate the impact of the social institutions upon the changes in property rights. Despite these caveats, Chih-jou Jay Chen's recourse to a sociological approach opens new perspectives for research into the development of property rights as they affect China's rural enterprises.