

Rural Industrialization in China: Its Effect on the Interregional Imbalances and the Consequences of Privatization

Junichi ITO

The degree of spatial disparity in per capita income in rural China is surprising given the county's strong ideological commitment to equality and its powerful redistributive systems. Central to this issue is the development of township and village enterprises (TVEs) because their presence in rural areas is closely associated with the economic welfare of people residing in rural communities. Thus, analyzing the forces that give rise to economic imbalances is nearly equivalent to identifying why TVEs have developed in some regions and not in others.

Another thing that we should pay attention to with regard to rural industrialization in China is the fact that since the mid-1990s, TVEs have been privatized in the economic circumstances where market liberalization was accelerated. A series of preceding studies comes to the conclusion that a concurrence of TVE growth and the stagnation of state-owned enterprises is due to their divergence of property rights. What matters most in this context, however, is not to know how enterprise performance varies depending on their ownership structure, but to understand how it changes as a result of privatization. Needless to say, it is another story whether TVEs' productive efficiency improves in the wake of the ownership reform.

The conclusions can be summarized as follows: The spatial disparities are attributed to a variety of factors, including a) the initial impact of agro-climatic and locational conditions on agricultural growth, b) the less efficient use of TVE resources in poor areas, c) the decentralized fiscal system that requires local governments to generate most of their own fiscal revenue, and d) externalities associated with agglomeration economies. In short, the socialist regime of self-reliance that still lingers in China's rural society traps less advanced areas in poverty.

With respect to privatization, this study

draws the following conclusions. The production function analysis indicates that ownership reform is accompanied by an increase in production efficiency (see Fig. 1). It should be noted that such a gain was not achieved through the change in incentive structure inside TVEs alone. Our empirical analysis reveals that enterprises that are more foreign-market oriented record higher productivity, suggesting that market competition constitutes another ingredient behind the efficiency gain. Besides, the tax-fiscal reform in China enacted in 1994 played an important role of complementing TVE privatization institutionally by means of proletarianizing local governments. Namely, the reform gave local governments a pretext to sell out collective assets, with the result that TVE budgets became tighter, and a commitment to good performance was enhanced. It seems reasonable to conclude that these internal and external factors interacted together to bear fruit of productivity increase.

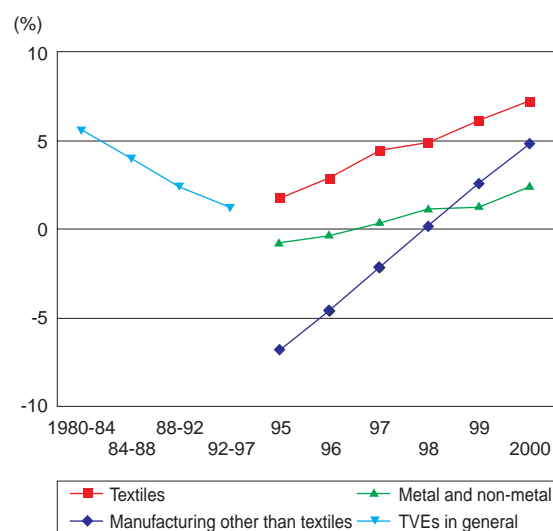


Fig. 1. TVE productivity growth

Note: Almost all enterprises in our sample changed ownership in the outset of the 1990s.

Econometric Analysis of Pastoral Management and Grassland Desertification on the Mongolian Plateau

Shunji ONIKI

1. Objectives

Problems of desertification caused by inadequate pastoral management have emerged on the Mongolian Plateau, which covers the northern part of China and Mongolia. While

pastureland in Mongolia is an open-access resource, it is virtually individualized in China. By comparing pastoral economies in the two regions, this study explores the effects of land property rights on regional overgrazing. The study also works out possible solutions to the