

The Quest for the "Socialist Market Economy" in China and Vietnam

Jean-Yves Weigel (ORSTOM)

The Far East is where the success of the twofold transition from underdevelopment and socialism may be observed as showing reformist pragmatism, slow and gradual, yet whose key dates one can accept as being 1978 for China (agricultural decollectivization) and 1986 for Vietnam (ratification of the *doi moi* modernization policy). Although not identically reproduced in each country, the broad content of their reforms draws inspiration from Chinese experience as a model for leaving underdevelopment and an ideological alternative avoiding a radical break with the legacy of socialism. Political and ideological similarities exist since the same party, the same method of government, the same ideological foundations prevail in both countries; and, as the chronology of reform indicates, there are similarities in their respective administrative and fiscal reforms, revitalizing of state-owned enterprises, private sector rehabilitation and even industrial policy.

Beyond their shared Confucian roots, these similarities may be explained by a mutual rejection of abrupt and unbridled transition to the market economy and, a constant priority on the part of the State to control market-liberating forces and their resultant transformations in order to preserve the communist single-party system. Even if it was the changes on the international stage, particularly in the former Soviet bloc, that drove the State Party to embark upon a process of reform, that process is viewed as a change of direction rather than a break with the past. This reformism begs reference to the old theoretical debates on "market socialism" and the narrow road out of State socialism with its mandatory **fresh adjustments**. This is the subject of the opening section of our presentation.

By observing Chinese and Vietnamese economic life one discovers various examples of ambivalence in the economic reforms, be it in decollectivization, private sector rehabilitation, the revitalizing of state-owned enterprises or integration into the world economy. It is hard to compare them to countries that have opted for free-market capitalism in the manner of the ASEAN countries whose ideologies and practices do not suffer from the same ambiguities. The second part of our presentation concentrates on describing the ambivalence and the meaning behind it.

Without questioning the invasion of market mechanisms at every level of society, the ambivalence turns one's focus to the called-for implementation of a program incorporated into the Chinese Constitution in 1993 and announced at the last Vietnamese Communist Party Congress: the "socialist market economy", whose constituent parts remain controversial and difficult to encapsulate. Part three follows this quest for the Grail through examples selected with a view to tracing the outlines of the "socialist market economy".

The Chinese and Vietnamese successes unsettle the dominant theory of development and transition for they run counter to what the international agencies have long promoted as inherent to the only road out of socialism and underdevelopment: State withdrawal and privatization. Has "market socialism" gained a new lease of life in the Far East despite Janos Kornai's condemnation of its viability in Eastern Europe? Beyond questioning the dominant economic policies and theory, those successes introduce a handful of interpretations of the "socialist market economy" which shall conclude our presentation and open the debate.

So the overall goal of this work is to analyze the content of the twofold transition and test the “socialist market economy”: a myth or reality? Looking beyond the incorporation of social actors and into the details of bureaucratic *de*-centralism, the adaptability of enterprise paternalism, the emergence of an original welfare system and mutation of mass organizations as seen in the example set by the trade unions, does all this give body to the “socialist market economy”? The articles by Tran Thi Anh-Dao, Lu Xiabo, Gordon White and Jude Howell should enlighten the reader on the matter.

Old theoretical debates and new developments

Theorization and disputing of “market socialism”

Debate about market mechanisms in the implementation of a socialist economy began at the turn of this century. Points of discussion at the time already included the problem of the compatibility between state ownership of the means of production and efficient allocation of resources: according to Brus and Laski (1989), those responsible for initiating this debate were Bernstein and Barone.

But it was following World War II that the debate on the market's role in a socialist economy took on greater scope thanks to two categories of participants. The first worked within the Soviet system, one example being Kondratiev who led the debate on the Plan and the Market in the 1920s; the turning point when the theorizing materialized into economic policy was when the NEP enforced the restoration of market mechanisms as a temporary concession on the grounds, among others, of the immaturity of socio-economic conditions (predominance of peasant farmers and petty commodity production). The second were debating on the outside of the Soviet system, the best known author being Oscar Lange whose controversial exchanges with Ludwig von Mises and Friedrich Hayek in the 1930s represented an important point in thought on “market socialism”.

Oscar Lange is the most outstanding “market socialism” theorist. As his point of departure, he disputes Ludwig von Mises' study claiming rational economic calculation to be impossible in the absence of private ownership and the market. Lange demonstrates that a socialist economy does have the capacity to balance supply and demand; he sketches the outline of an economy where publicly-owned

enterprise maximizes profits, and the planning institution endeavors to fix equilibrium price thereby saturating the market by having simulated a market mechanism. His reasoning was in turn seriously contested by Friedrich Hayek for whom the problem with a socialist economy is not so much its theoretical capacity for fixing price equilibrium, as its method of achieving such an end in the absence of the irreplaceable indicators: the markets, competition and free enterprise.

But the majority of the pro- “market socialism” camp took Lange as their reference, even when straying from the original premise. The principal ideas of the movements gravitating around “market socialism” may be regrouped as follows: autonomy of enterprises interested in increasing profits and reducing costs, the fundamental role of price signals, specific links between centralization and decentralization, public ownership maintained as the predominant form of ownership, the acknowledged economy-coordinating role of the market in conjunction with the bureaucratic machinery. These reform movements have caused stirrings in a good many communist countries, first among them China. The writings of Sun Yefang at the end of the 1950s confirm the intensity of the debates in that country. But the countries of central and Eastern Europe have been the ones that meaningfully tested the applicability of “market socialism” from the late 1950s through to their conversion to the market economy in the 1990s.

Kornai (1992) takes stock of the European socialist and Soviet economies' attempts at reform. He sees their failure as due to the impossibility of an effective challenge to vertical enterprise dependency and the affinity between public ownership and bureaucratic coordination: enterprises have remained subject to indirect vertical control even if the horizontal control of the market has come to play a measure of a role following the reforms. But the overriding explanation for the failure is the impossibility of fighting the soft budgetary constraints resulting from the inevitable bilateral monopoly of state-owned enterprises and governments which in turn creates a regime of bargaining. Thus the problem of the public ownership of industrial enterprises has become primordial: it is only by severing the ties uniting governments and enterprise that its unsustainable corollary of a regime of bargaining and macro-economic imbalance will be eliminated.

Brus and Laski (1989) also place the issue of ownership at the center of the market socialism debate: can “market socialism” guarantee the synthesis of independent enterprise and entrepreneurial

freedom on the one hand, and the dominant position of public ownership on the other ? Chinese and Vietnamese reformers claim such a synthesis to be possible by tackling soft budgetary constraints, the vertical dependency of state-owned enterprises and, the bilateral monopoly between central government and enterprise which gives rise to a general regime of bargaining; we shall return to this later in the presentation. Efforts to do so, however, need to be counterbalanced by preserving the predominance of public ownership: that is the purpose of the latest "strategic adjustment" announced at the XVth Chinese Communist Party Congress held in September 1997: generalized shareholding, the analysis of whose details shows it to be a different concept from shareholding as it is known in western countries.

Shareholding: new trump card in the "socialist market economy"

Shareholding is expected to improve the mobilization and rational allocation of financial resources in addition to the financial and decision-making autonomy of state-owned enterprises (SOEs). But in order to do so, it needs to be accompanied by reforms through the establishment of a solid legal framework, transparent, standardized accounting and assets valuation procedures, the acceleration of social security and financial sector reforms. Past experience and the current debates offer insight into the kind of shareholding the authorities have in mind.

The idea dates back to about ten years ago in China and to the early 1990s in Vietnam. It represents another area where a gap has opened up between the two countries: by the end of 1994 China had nearly 12,000 joint-stock companies while in Vietnam there were but three; the extent of China's lead is confirmed by the fact that, starting in 1992, it set up a stock exchange in Shanghai and Shenzhen and the China Securities Regulatory Commission.

How come the development of shareholding has been so slow ? First because it has been hindered by a good many legislative and regulation-related problems. For example, China had no unified legal framework prior to passing the Company Law of December 1993, and neither did Vietnam before its Ordinance of March 1993 and Government Decree of May 1996¹; and shareholders have been further obstructed by difficulties such as a lack of legal standing of issuance

of stocks and restricted rights of ownership and conveyance of securities.

But the chief reservations seem to have come just as much from the authorities in charge of the governing and management of SOEs as from the unions and workers. The grounds of their opposition – what may be gained in terms of SOE taxation; what may be lost in terms of employees' acquired welfare benefits and job security rights; how large a share of profits may be withheld – are made all the more powerful by the absence from legal documents of any clarification as to the goals and means of privatization. A debate staged in June 1996 by the Saigon Times brought to light the various objections, in particular the SOEs' fear of being dispossessed of their managerial powers by the local authorities and taken back into the hands of central government².

The legislative framework and public statements help clarify the kind of shareholding the Chinese and Vietnamese authorities have in mind. It is in line with an industrial restructuring scheme characterized on the one hand by the encouragement of mergers and acquisitions with a view to forming conglomerates in China and "general corporations" in Vietnam, and on the other hand by something of a withdrawal on the part of the State from small- and medium-sized enterprises in order to ease its financial burden. But judging by Jiang Zemin's speech at the last Party Congress, public ownership shall prevail with shareholding introduced as a means of assuring its revitalization; this is echoed in the Vietnamese standpoint as expressed in its statutory texts and use of the term "equitization". So it is to this major principle – a constituent part of the "socialist market economy" – that the conditions of shareholding are set to be tailored: those conditions could include the State retaining a controlling interest in the capital of the companies in question, cross-shareholdings on the part of public investors, or the State keeping a "golden share". The share-out of the capital of the 4,300 SOEs converted into joint-stock companies is edifying in this regard: 78% retained by state sector or collective sector operators and the rest going to private investors, employees and foreigners in 1996³. Vietnamese legislation also contains elements along similar lines: mandatory approval by the Prime Minister, special powers for public investors, holdings of company workers restricted to 10% of the capital and, a maximum shareholding per worker amounting to no more than six times the basic monthly wage.

1 Prime Minister Ordinance N°84/TTG, March 4, 1993; Government Decree N°28/CP of May 7, 1996.

2 From "The Equitization Dilemma" in *Saigon Times*, N°253, August 1996.

3 From "Jiang's Big Bet" in *Far Eastern Economic Review*, September 25, 1997.

The apparent ambivalence of the economic reform

Growth is presented as the fruit of four policy decisions: the decollectivization of agriculture, the rehabilitation of the private sector, public sector restructuring, the integration of the national economy into the world economy. These reforms have been initiated with a chronological lapse between China and Vietnam; although the process of reform remains unfinished, one can pinpoint the fundamental Chinese reforms as having taken place in the late 1970s/early 1980s, while the Vietnamese reforming sequence basically spans the latter half of the 1980s and early 1990s.

It seems something of a paradox that what is commonly called transition-to-a-market-economy, has translated into the maintaining of public ownership in rural and urban areas alike as well as the preservation, if not reinforcement, of the public sector in industrial production. Indeed, the public (state and collective) sector currently plays a determining role in China as much as in Vietnam: by 1995, it had come to account for over 80 and 70% of their respective gross industrial output and even more than a third of Gross Domestic Product. Recent trends confirm its preservation: during the period 1990-95, its share of gross industrial output slipped from 90 to 85% in China, settling at 75% in Vietnam⁴.

There would appear to be several reasons for this. First of all, both China and Vietnam prefer to revitalize their SOEs, concomitant in China with the development of a collective sector primarily through township and village enterprises, and in Vietnam with the obsolescence of the cooperative sector. But the enduring role of public ownership may be explained a contrario by the unfinished decollectivization of land and the partial rehabilitation of the private sector – signs of the ambivalence of the economic reform. Such ambivalence is confirmed by analysis of the ways in which the Chinese and Vietnamese economies seek integration into the world economy.

Incomplete decollectivization

If one can say that collective farming in China began disappearing from 1978 onward with the introduction of the household responsibility system and

disappearance of the production squads, analyses of the land tenure system and the statutory or operational framework of Chinese township and village enterprises show the incompleteness of the decollectivization.

The two-tier land tenure system

There is a two-tier land tenure system in place whereby individual households are granted the right of land use for a period of 15 to 30 years, while the associated rights of land ownership are passed on to the village cooperative. Each household organizes and disposes of its production as it sees fit, but only after having sold a share of its output to the State, paid its share of agricultural tax and fulfilled its obligations to the village as regards contributions to the public accumulation fund and welfare fund; should a household wish to relinquish its right of use, it is granted compensation which also covers any investments it has made. The village cooperative manages the land contracts, sees to the maintenance of irrigation systems and supplies households with assistance in the form of agricultural machinery, product processing and technological information. Local governments thus use land allocation, contract management and official approval for land conveyance as a means of keeping households under supervision (Xiao-Yuan Dong, 1996). In Vietnam, the decollectivization of agricultural land really came into force in 1988, with the introduction of contracts between households and cooperatives, the latter being confined to a role of production assistance which soon faded in the face of competition from private businesses and the peasant-led initiative. The 1993 Land Law was the culmination of a series of measures intended to steer family farms toward a form of supervised autonomy in some respects similar to the Chinese situation. On one side, households are granted a 15-year right of use for annual crops with what seem to be stronger opportunities for conveyance, inheritance and renewal than in China. On another side, State control has been made possible by the declaration in the 1992 Constitution⁵ and July 1993 Land Law⁶ of the principle of indivisibility of State ownership of land; the prerogatives of those holding the right of use are limited by a lack of recognition of the private property *abusus* right in article 73 of the Land Law (Pham Van Thiet, 1996).

4 Source: China Statistical Yearbook (1995) for China, Industrial Data (1995) for Vietnam.

5 Chapter II, article 18. The laws cited in this article can be found in "Laws and Regulations on Foreign Investment in Vietnam" (1992) and in "Foreign Investment Laws of Vietnam" (1993).

6 Article 1

Decollectivization revisited : the Chinese township and village enterprises

The collective sector, to use its official title, was estimated to have accounted for 35% of China's GDP in 1996⁷; the township and village enterprises, its chief component, have been the particular mainspring of economic growth. This success, made possible by far higher labor productivity than that of the SOEs, sparked off debate on the role and originality of ownership rights in the economic transition of China (Putterman, 1995). Attention is thus focused on these enterprises. But how might one describe them ?

An administrative document⁸ offers some insight. The nominally-designated members of township and village enterprises have no right to dispose of after-tax income or to sell, convey or inherit enterprise assets. Managerial tasks may be delegated to a manager by means of a management responsibility contract; in such a case, however, the law stipulates that the assets in question remain the collective property of the enterprise's workers. The legislation governing township and village enterprises therefore limits their workers' individual rights.

A number of authors have looked into the content and meaning of the collective ownership of these enterprises. First of all, Byrd and Lin (1990) and Oi (1992) refute the idea that they are in fact private businesses masquerading under the protective label of a collective enterprise. Deng (1992) then underlines the restricting nature of the members' role as it is determined by the local governments and stresses that the financial contribution is arbitrated, if not requisitioned, by those same governments. And Weitzman and Xu (1994) for their part conclude that the local authorities are the de facto executive owners of these enterprises: the basic rights are in the hands of the local branch of the Party and the local governments; and the members of township and village enterprises are not entitled to the rights of

ownership traditionally associated with property rights theory.

Without questioning the decollectivization which has allowed for widespread responsibilities and incentives, the statutory and operational ambivalence masks the subordination of the members of township and villages enterprises in what may be likened to economic freedom on probation.

Partial rehabilitation of the private sector

As far as restoring the private sector is concerned, China once again stands at the forefront of reform. Indeed, the development of a private sector providing the inputs and markets has been a corollary of the household responsibility system established at the end of the 1970s: during the first phase of the Reform alone (1978-84) numbers of individual businesses (*getihu*)⁹ rose from 150,000 to more than 9 million. Widespread fiscal decentralization from 1985 onward did much to encourage the rapid expansion of these *getihu* and by 1995 their ranks had expanded to over 16 million¹⁰; a similar trend can be seen with regard to the more recent emergence of private enterprises (*siying qiye*¹¹ and *geti qiye*¹²) which have doubled in number to over 20 million within the space of the past ten years¹³. Despite their rapid numerical growth, however, private businesses as a whole only accounted for 15% of the gross industrial output of 1995.

Private sector rehabilitation came somewhat later in Vietnam, dating from *doi moi* at the end of 1986. It has to be said that the very partial nature of collectivization in the South post-1975 explains the maintaining of individual businesses even in the first half of the 1980s: just prior to *doi moi*, the private sector's share of gross industrial output stood at little more than 10%. The passing of the 1991 law on private companies¹⁴, provided a decisive boost as a result of which that share grew to more than a quarter in 1995, while the cooperatives saw theirs collapse¹⁵.

7 From "Jiang's Big Bet" in *Far Eastern Economic Review*, September 25, 1997.

8 The PRC Regulations of Rural Collectively-Owned Enterprises. Ministry of Agriculture. Beijing's People's Press. 1990.

9 Employing up to eight people including the owner

10 Statutory Order n° 48-LCT/HDNN8 of January 2, 1991, issued by the President of the Council of State.

11 Industrial Data, various issues 1987-1996.

12 Following the July 1991 Civil Contracts decree, three forms of collateral are recognized: mortgage on property and on land rights, cash deposits or, a third party standing surety. Cf. Appendix 6 in World Bank. 1995a, 125-126.

13 Land Law, Housing Law, Land and Urban Housing Law.

14 Statutory Order of January 2, 1991, issued by the President of the Council of State n° 48-LCT/HDNN8.

15 Industrial Data, various issues 1987-1996.

Field surveys, however, underline the confinement of the majority of individual businesses and private enterprises in both China and Vietnam to the sphere of small-scale commodity production with its shortage of capital and low levels of investment. In fact, the development of the private sector is hampered by a whole raft of political and economic measures. Those same surveys also reveal how dependent the private sector is compared to the collective sector or the state sector, the latter of which is now overwhelmingly represented by medium- or large-scale enterprises. This ambivalent development makes one wonder what lies behind the partial nature of private sector rehabilitation and the preferred revitalizing of state-owned enterprises.

The private sector: statutory vulnerability and economic constraints

Looking back at the decisions affecting the Chinese statutory framework within which China's individual businesses and private enterprises evolve – particularly after the events of June 1989, with the ensuing provisional curbs on the private sector and the development of the collective sector – we see policy fluctuations fostering a feeling of vulnerability amongst private entrepreneurs, who tend to favor short-termism in their efforts to adapt. In particular, private entrepreneurs are subjected to twofold interventionism: on the part of the local governments and the Industry and Commerce Bureau (ICB) who have between them turned the private sector into a field of confrontation. Byrd and Lin (1990) mention the fact that the local governments are more particularly favorable toward the private sector when the ideological and fiscal environment permits; only when the ideologically more presentable collective enterprises do not themselves have the means for industrial and commercial development and hence for generating tax receipts, is the emphasis shifted to the private sector. At central government level, the ICB, whose job it is to organize the market and enforce central regulations, seeks to control private entrepreneurs by, for example, promoting the setting up of the Individual Laborer's Association, conceived as a mass organization (Young, 1995).

As for Vietnam, Pham Van Thiet (1996) illustrates the vagueness of regulations and the instability affecting

private business through the example of Decree n°18 of February 13, 1995 which, in demanding that rights of land use be transformed into commercial leasing, is re-expropriating *de jure* the acquired rights of entrepreneurs and traders; this has since led the banks to refuse land deeds as collateral. More generally, if forms of collateral have been legally recognized since 1991¹⁶ and the principle of mortgage is acknowledged by three separate laws¹⁷, the procedures for collateral recovery on the other hand remain ill-defined; in particular, the absence of a clear boundary between civil contracts and economic contracts makes it a problem to identify the arbitration for cases of litigation¹⁸.

The vagueness and instability of the regulations has raised a whole host of constraints that have in turn led to the discrimination of individual and private businesses, above all in the realm of taxation and credit. An example of this discrimination would be the high interest rates applied to the private sector on account of the difficulty the banks have to make use of the collateral: rather than take legal action, banks will prefer to reschedule debts in negotiation with debtors through representatives from a People's Committee.

The dependency of the private sector

As the State Council regulations of March 1986 confirm, horizontal links have been encouraged between the various different sectors of the Chinese economy for about the past ten years. Contractual ties may take the form of sub-contracting, leasing, joint-stock ownership of enterprises, rent-out of premises. However, SOEs and to a lesser extent collective enterprises are in a dominant position compared to the private sector, as is borne out by their size and their privileged access to the factors of production; this domination is brought about through direct attachments as well as through a more indirect control of the chains of production.

Susan Young (1995) gives a number of examples of attachments between the Chinese private sector and SOEs or collective enterprises. The most common practice is that of leasing counters in state-run shops to *getibu*; another is that of the *quahu* or "hanger-on" system whereby false collective registration – actually a form of sub-contracting – may be obtained. But

16 Following the July 1991 Civil Contracts decree, three forms of collateral are recognized: mortgage on property and on land rights, cash deposits or, a third party standing surety. Cf. Appendix 6 in World Bank, 1995a, 125-126.

17 Land Law, Housing Law, Land and Urban Housing Law.

18 While lawsuits relating to civil contracts belong in the Civil Court, since July 1994 those to do with economic contracts belong in the Commercial Court whose judges are appointed by the People's Committees or by central government (Pham Van Thuyet, 1996, 581).

private entrepreneurs are offered other opportunities for public sector attachments such as the contracting and leasing out of small- or medium-scale commercial or industrial enterprises, allowing them to compensate for a lack of premises, capital and supply sources. More often than not, the contracting initiative would be taken by rural collective enterprises and may progressively work its way toward a process of privatization. As for the leasing initiative, that would primarily belong to the SOEs and urban collective sector and induce the private entrepreneur to pay an agreed rent and assume responsibility for losses.

But the dependency of the private sector may come about indirectly through the SOEs' control over the industrial production chains, to the detriment of small-scale upstream producers. The case of the Vietnamese seafood industry exposes an oligopolistic market structure highlighted by a few simple indicators such as the degree of buyer/seller concentration in each major segment of the chain, barriers to entry and exit, availability of adequate information for risk-taking and finally, price formation model-building (Weigel, 1997). This rent-seeking situation has a corrupting influence not only because it masks market imbalance and, delays essential restructuring of industry, but also because it cuts the redistribution of value added toward other operators on the chain.

Preferential revitalization of State-Owned Enterprises

In terms of industrial policy, the bulk of public means have been channeled into maintaining and revitalizing SOEs. To illustrate the point: in 1996, close to half of the 104,700 Chinese SOEs suffered losses of 35 billion renminbi which had to be compensated for in order to prevent massive bankruptcy and redundancies. Unsurprisingly, their reform was high on the agenda at the XVth Communist Party Congress in September 1997. What was judged to be the prohibitive social cost (they still employed 115 million people in China in 1995) and the lack of a short-term alternative account for the stakes of that support. It nevertheless has four purposes: the survival of loss-making companies, social measures to accompany enterprise closures, recapitalization and finally, the creation of new enterprises.

Almost two decades after the start-up of economic reforms in China and one decade since they began in Vietnam, SOEs still account for a large share of industrial production – 45 and 65% respectively¹⁹. Pointing to losses which one IMF estimate²⁰ claims afflict half of all SOEs, some authors take issue at the relative maintenance and the revitalization. Yet half of those losses are concentrated in the coal and oil industries and can be explained by continual government distortions of price structure. Naughton (1995), after introducing a classification scheme for Chinese SOEs in uncompetitive industrial sectors (petroleum, refining, gas, coal, metallurgy, electricity distribution, logging) or partially competitive sectors (tobacco, food-producing, beverages), brings out the strong profitability of certain sectors (electricity generation, steel making, cigarette production); the same analysis broadly applies to Vietnam.

Without going back over the whole lifetime of the reforms and focusing on the period 1990-95, however, SOEs have undergone some highly significant changes not only in terms of their management methods, of course, but also as regards assets valuation and numbers of employees. Reforms in this area have revitalized and even created large entities and, conversely, led to State withdrawal from small- and medium-scale firms in China and Vietnam alike.

What have been the instruments of those configurational changes ?

Deliberate discrimination in matters of investment

At first glance, the continuing erosion of the central authorities' direct control over the investment process – both by decentralizing investment decisions below certain threshold levels to local governments and, by withdrawing budgetary grants for investment financing – is leading toward the withdrawal of the State and equitable treatment for the different economic actors in both China and Vietnam alike. This erosion is concretized by the declining share of total fixed investment financed through budgetary appropriations and, conversely, the rise in financing from retained earnings of enterprises, bank loans, bond and share issues and foreign capital²¹. But deeper analysis of the investment allocation process and the distribution of fixed investment according to type of ownership, shows their privileged position: in

19 China Statistical Yearbook, 1995; Industrial Data, 1995.

20 Source: IMF, 1994 This estimate came after a new accounting system in line with international standards had been adopted in 1994.

21 In China in 1995, the share of total fixed investment financed through budgetary appropriations was 5 per cent, while retained earnings of enterprises accounted for 50 per cent and bank loans 30 per cent (China Statistical Yearbook, 1995).

1995, Chinese SOEs attracted nearly 60% of fixed investments and Vietnamese SOEs more than 70%²². It should first of all be pointed out that the SOEs of China and Vietnam alike are the chief beneficiaries of direct foreign investment since the bulk of joint-ventures involve SOEs. But their privileged position in investment matters mainly stems from interventionism in their favor on the part of the central authorities and local governments, as all investment plans require State Planning Commission approval – those conforming to both the State's mandatory investment plan and the local mandatory investment plan.

In China, this interventionism assumes two forms. The first involves the allocation of “ policy loans ”, which can come to more than half the amounts lent by certain commercial banks including the financing of working capital. The second, once the SOEs have been authorized to retain their depreciation funds as extrabudgetary funds in addition to a portion of their profits, involves the allocation of earnings retained as extrabudgetary funds which have become the main source of financing for the fixed investments of SOEs in China: large sums of money are retained within the SOE sector and managed by government bodies outside the formal banking sector²³.

In Vietnam, the Law on the Promotion of Domestic Investment passed in July 1994 provides for substantial incremental tax exemptions and rate reductions, stipulating that only companies employing a work force of more than two hundred (in rural areas) or three hundred (in urban areas) shall be eligible to apply: and the ones that fit those criteria are largely the SOEs. Insofar as the Law also stipulates that the provincial People's Committees should be in charge of applying the directives – through the drawing up of priority investment lists and the certifying of preferential treatment for the investment –, and because the Committees tend to favor SOEs, the latter thus benefit most from the Law's application.

Privileged access to credit

Despite the important role of “ own funds ” (“ enterprise retained earnings ”, raised funds, government earmarked resources), the formal banking system finances a large share of the SOEs' total fixed investment. As a rule, they are the chief

beneficiaries of the banking system, absorbing two thirds of the local domestic credit in China (IMF, 1994) and a half in Vietnam (World Bank, 1996). Privileged access to credit is linked to its end purpose and overall amount, about which we have underlined the determining influence of the central and local governments exerted via earmarked bank loans²⁴, the term and cost of the credit – given that interest rates are regulated at well below market clearing rates– and finally, its denomination (local or foreign currency-denominated).

Taking the example of Vietnam, the credit term is one of the major advantages enjoyed by SOEs: directly, as the prevalence of medium-term debt suggests, and indirectly through the scale of rescheduling they are allowed – amounting to a disguised term extension. The trends of the past five years suggest a relative increase in the volume of medium- and long-term credits granted by the state commercial banks, but this increase has above all been to the benefit of the SOEs. The past five years have also seen commercial banks becoming specialized: the Vietcombank, Incombank and joint-stock banking companies supply SOEs with medium- and long-term financing while the Agribank, for example, specializes in short-term credit for households and private agricultural businesses.

Another advantage lies in the fact that SOEs enjoy lower nominal interest rates than the private or cooperative sector. For a similar short-term credit, not only are they charged significantly lower rates, but they also absorb the bulk of medium- and long-term credits at interest rates that are paradoxically lower than short-term rates – due to their arbitrary pegging by the Central Bank of Vietnam, obviously not reflecting market risk (World Bank, 1995b). Broadly speaking, the high interest rates increase the advantage granted to SOEs, which to some extent benefit from a whole range of special dispensations. But it must be said that two trends have emerged with the fall in inflation: first, a general downturn in interest rates in late 1995/early 1996; second, a narrowing gap between short-term and long-term rates.

Finally, the last advantage rests in the SOEs' quasi-monopoly on access to foreign currency-denominated credits. Now these almost exclusively medium- and long-term loans are doubly

22 China Statistical Yearbook, 1995: Industrial Data, 1995.

23 Statistics on Fixed Asset Investment, 1995.

24 Their influence also works via the intermediary of high levels of central bank lending to the specialized banks, which acts as a means of control on the part of the People's Bank of China (PBC) and the State Bank of Vietnam over commercial bank deposits, as they can demand that funds be moved from one location to another in accordance with central government priorities.

advantageous: because their average size is larger and average interest rates are lower than on dong-denominated loans.

In Vietnam, the local currency rising against the dollar (due to a stable nominal exchange rate combined with relatively low domestic inflation) is what explains the relatively weak level of interest rates for foreign currency-denominated loans²⁵; the highly positive level of real interest rates applied to SOEs in 1995, when inflation stood at an estimated 12.7%, may be explained not only by the virtual non-existence of an inter-bank market and the predominant role played by the Central Bank of Vietnam in the availability of loanable funds²⁶, but also by the high level of the state commercial banks' gross margin due to poor efficiency. But the unequal treatment of the public sector and private sector ultimately saddles the latter with the bulk of the burden stemming from the failings of the banking system. Overall, the financing structure of the whole Vietnamese economy is such that not only do the SOEs enjoy the lion's share of the credits, but they enjoy them at preferential interest rates to boot²⁷ (World Bank, 1996).

Tax relief

Tax system reforms began in the mid-1980s in China and early 1990s in Vietnam as part of the overall reform process and search for macro-economic equilibrium, geared to building a fiscal policy infrastructure better suited to a market economy. But analysis of the tax regulations and practices once again reveals a number of characteristics and ambiguities inherited from a past of socialism and underdevelopment. Even though the reforms embraced the entire tax system, the ones best representing Chinese and Vietnamese modernization policies seem to be those concerning enterprise taxation on the one hand, and intergovernmental interrelations linked to the decentralization process on the other. In keeping with the will to preserve public ownership of the means of production, a look at enterprise taxation reveals the heterogeneity of the tax system which is flexible according to the social and economic desirability of any given enterprise.

The fundamental reform of enterprise taxation in China resides in the introduction in 1984 – and

generalization throughout the rest of the decade – of the contract responsibility system (CRS), which allows tax payment according to negotiated tax contracts rather than to a standardized tax schedule (Koo, 1990). SOEs adhering to CRS are exempted from enterprise income tax and "income adjustment tax" (and remain subject to special levies on profits); they also have the right not to declare part of their profits. In practice, both central and local governments may grant additional exemptions on top of what is provided by the contract. The CRS therefore opens up an opportunity for bargaining which will work to the advantage of medium- and large-scale industrial SOEs because of their strong negotiating power: so SOEs are therefore the main enterprises signing up to this type of contract. The ten-year spread of the contract responsibility system led to an erosion of direct taxes on SOEs as a percentage of GNP, concretizing the tax breaks they are granted (IMF, 1994).

In Vietnam, the economic actors are all subject to seven main taxes: turnover tax, profit tax, tax on natural resources, agricultural land use tax, tax on depreciation and/or capital use, export and import taxes, registration and license fees. For the first four SOEs enjoy exemptions, and the fifth may be regarded as a subsidized loan. Exporting companies are the ones exempt from turnover tax; virtually all are SOEs, and the knock-on effects disadvantage private businesses which do not as a rule possess integrated production units. Meanwhile, the impact of the very high profit tax (40 to 45%) is lessened for SOEs because they can deduct up to six months' worth of wages and social security contributions from their net profits. As for the tax on natural resources, whose rates vary between 3 and 4%, the enterprises involved in processing natural resources do not have to pay it: and the SOEs, unlike private businesses and households, are by and large the ones that integrate both the extraction and the processing of resources. Finally, the monthly tax on state-allocated capital (which includes fixed capital, working capital loans and inter-enterprise debt) resembles a disguised loan at a far lower rate of interest than what the banks would offer.

The various forms of relief for which SOEs are eligible can as much as halve their tax liability. Whereas the various regulations for supplementary taxation of private enterprises, together with the method of

25 The real effective exchange rate of the *dong* rose by 9% in 1995 (World Bank, 1995b).

26 The virtual non-existence of an inter-bank market and the predominant role played by the Central Bank of Vietnam in the availability of loanable funds enables the Central Bank to pass on instructions in the matter. It actually obtains more than half its loanable funds largely from commercial companies and joint-stock banking companies (World Bank, 1995b).

27 Overall, their share of the amount of credit has been diminishing as it slipped from 90% in 1991 to 60% in 1995 (World Bank, 1996).

presumptive taxation applicable to individual enterprises, end up imposing far higher taxes on the private sector than on the state sector (World Bank, 1995b).

Half-open to the world: two communist countries in the international division of labor

With China now the tenth biggest exporting country in the world, the success of its integration into international trade and production channels cannot be denied. It is confirmed by high Chinese exports and imports as a percentage of Gross Domestic Product; inflows of foreign direct investment (FDI) as a percentage of GDP were in excess of 4% in 1994 – another indicator of the fundamental role of foreign trade in this country's economic growth (IMF, 1994). If successive Chinese governments have long been promoting their export-driven industries (since 1979²⁸), such a promotion is much more recent in Vietnam (late 1980s/early 1990s²⁹). This head start has resulted in more settled economic and commercial practices than in Vietnam and could be said to be the major factor explaining China's greater success in attracting foreign capital: \$37 billion FDI in China in 1995 compared to \$1.4 billion in Vietnam (Lemoine, 1996; World Bank, 1996). Another two factors would be the better facilities granted to Chinese diaspora investors by China than by Vietnam, and the very low wages paid to unskilled labor in China.

A voluntarist policy to promote export-driven industries is not entirely specific to these two communist countries; rather it is broadly similar to the NICs of the Far East and South-East Asia and characterized by the maintaining of import barriers, except on imports for the exporting industries (Flatters and Harris, 1994). Hence, China's exportation structure indicates that one half of the country's exports comes from reprocessing imported goods and the other half from domestic supply (Lemoine, 1996). As far as trade policies are concerned, China and Vietnam would at first glance appear to belong to the club of South-East Asian countries: their integration into international trade and production channels similarly rests on comparative advantages in highly labor-intensive industries, which is what attracts FDI from Japan and the Chinese diaspora – chiefly Hong Kong, Singapore and Taiwan. If the mode of integration broadly resembles those of the other ASEAN nations (barring

Singapore), the problems are then the same – the limited absorption capacity of Japanese, American and European markets, intra-ASEAN competition and the arrival of newcomers (Burma, Cambodia, India, etc.) –, and the challenge is to develop and produce new, more up-market and high-value-added goods. One notices, however, that this challenge seems less crucial in the short run for China than for Vietnam, as the former's virtually inexhaustible supplies of labor limit the pay claims of low skilled workers and currently sustain the competitiveness of its highly labor-intensive industries.

But observing the economic and commercial practices linked to FDI reveals constraints that are specific to the organization of industrial output in these two countries, and which brakes their ability to produce more up-market goods and technological innovation. These constraints have two sources: an enterprise management system prioritizing the short-term and the rent-seeking situation of the large SOEs.

Reforms of the enterprise management system place conditions of profitability on SOEs and collective sector enterprises, but do not demand optimized returns on capital. Since exporting down-market goods requiring only the most rudimentary technology can guarantee minimum profitability, the contract with local or central authorities to ensure that the enterprises are governed is being honored, even though profit-making opportunities are lost for want of any real drive to produce technological innovation.

The second brake on technological innovation relates to the rent-seeking situation of a certain number of large, locally oligopolistic, SOEs explained by their control of a given chain of production: either directly through subsidiaries or indirectly through sub-contracting the collective or private sector.

Hence, SOEs in China take the lion's share of exports and the profits from the last segment of the production chain, while the collective and private sectors confined to upstream segments are responsible for but a small share of exports. In the short run, these rent-seeking situations may suppress recognition of the unavoidable need for inflows of foreign capital and know-how, which initially requires a share-out of the particular sector's profits.

28 1979: go-ahead given to foreign investment and the opening of four special zones (special tax and customs systems) in Guangdong and Fujian province; 1984: special tax and customs systems extended to fourteen coastal towns; 1986: trade centers opened up to foreign-owned companies; 1991: tax rates lowered for joint ventures.

29 Law on Foreign Investment of December 1987, amended in December 1992 and April 1993.

In Vietnam, whose more recent foreign investments policy seems somewhat less coherent, these constraints are already being punished by stagnating FDI – lower in 1996 than the previous year –, while the World Bank (1996) underlines that foreign investment has provided the primary impetus to growth there since 1990. Studies of the structuring of two branches of industry – the seafood industry (Weigel, 1997) and textiles and garments industry (Tran, 1997) – indicate that foreign investments are no longer being channeled solely into joint ventures or wholly foreign-owned enterprises, but into straight business cooperation³⁰ with SOEs; this seems to suggest that foreign investors now prefer to offer financial and technical assistance without capital acquisition, following the bad experiences of the past³¹.

Meanwhile, the communist legacy may have a positive influence on future integration into the international division of labor compared to the region's other developing countries. Standards of education are higher in China and Vietnam than in any other ASEAN country bar Singapore, opening up favorable prospects for technological leaps. Voluntarist planning experience has in the past enabled the mobilization of capital and expertise, in particular for highly capital-intensive, high technology sectors of the Chinese military-industrial complex; and that could be useful for a strategy to produce more up-market goods for export: the main problem here obviously remains one of applying the experience to the industry of today. So there we have a few more (this time positive) differences with the other emerging countries of the region ... but also some similarities between China and India that look rather ominous for ASEAN nations.

Seeking the " socialist market economy "

According to Kornai (1992), socialist economies have failed to reform toward " free-market socialism " partly because it is impossible to fight the syndrome of soft budgetary constraint stemming from the inevitable bilateral monopoly of state-owned enterprises on one side and governments on the other, in turn giving rise to a regime of bargaining. Public ownership of industrial companies is therefore a key issue: severing the ties uniting enterprise and government is the only

way to eliminate its unsustainable corollary of a regime of bargaining and macro-economic imbalance. Yet the success of the Chinese and Vietnamese economies which are overwhelmingly dominated by public ownership seems to belie Kornai's claim. Walder (1995) suggests two interlinking reasons for this refutation: the multiplicity of public owners meaning that there is not just a single public owner (the State) and, the heterogeneity of organizational characteristics rendering the twofold dependency more complex. A founding element of the " socialist market economy " would therefore be the devolution of public ownership to province, county, township or village level in particular; together with fiscal decentralization, this bureaucratic de-centralism is one of the preconditions for the economic viability of public ownership. Other such elements would be the reshaping – as opposed to destruction – of the redistributive machinery of state socialism and, an egalitarian social policy taking effect through the mutation of mass organizations, chiefly the trade unions.

Bureaucratic de-centralism: handing down the governance of enterprises

Many authors recall that industrial growth in China and Vietnam has been accompanied by the emergence of a new sector of public enterprises administered by sub-central governments since the transfer of the greater part of existing industry and the creation of new state-owned companies in the two countries alike, and of collective enterprises in China (Jefferson and Rawski, 1994; Jefferson, Rawski and Zhen, 1992). Local governments in both countries, at an interval of five years between them, have inherited the bulk of old and newly-created industries. This transference and consolidation of public ownership has been accompanied by decentralized output planning and, above all, fiscal decentralization, giving local governments the means for true industrial policy.

If China and Vietnam were both favorable terrain for economic reform, inasmuch as the central planning system had never been as consolidated as that of the Soviet Union (Shirk, 1993; Ljunggren, 1993), China is the initiator of decentralization: the first half of the 1980s was when machine-building, electronics, textiles and metallurgy enterprises began passing into local government ownership (Yasheng Huang, 1996) and, the pace of delegating tax-raising and investment

30 A contractual, non-equity, joint venture: one of the three types of investment recognized by Vietnamese foreign investment legislation.

31 For example: shifting and overlapping rules concerning taxation and authorizations, which creates unpredictable extra costs; informal exclusive input-supply agreements between suppliers and SOEs, which creates difficulties in obtaining raw materials; saturation of public services and infrastructures.

responsibilities was accelerated (Easson and Li Jinyan, 1987).

Decentralization is more recent to Vietnam, for it only became established legislationwise in July 1990 in the Law on the Organization of People's Councils and People's Committees. SOEs were given over to local institutions (People's Committees, army corps, local branches of the Communist Party) during the first half of the 1990s, accompanied, as in China, by fiscal decentralization; only 2,000 of the Vietnamese economy's 7,000 SOEs remained centrally administered, the other 5,000 locally (World Bank, 1995a).

Bureaucratic de-centralism has produced new economic authorities thanks to the transference of public enterprise governance, along with a sizable fraction of the fiscal resources. So analyzing the details of the handover was important to grasp the macro-economic stakes in the upkeep, growth and consolidation of state-owned and collective enterprises: such is the object of the article by Trinh Thi Anh-Dao which delivers comparative thoughts on regional decentralization and transition.

The constitution of new economic authorities

Local institutions now exercise power not only to set up or shut down the enterprises devolved on them, but to decide on large investments and divide out net profits. Even if ministerial bodies officially remain the legal owners of SOEs, the transference of their governance from the central State to sub-national authorities can in fact be likened to a hiving-off of the ownership of the bulk of light industry. Quite obviously, this reallocation has occurred at the expense of the central State apparatus which now controls but a small proportion of state-owned and collective enterprise.

Economic reform in China was preceded by a reshaping of the national and regional administration: from 1978 onward, the old production squads and popular townships began being replaced by new administrative bodies such as the district governments or village committees and the new territorial subdivisions (counties, townships, city districts...). The authorities heading these new echelons of administration came to inherit the running of the SOEs and collective enterprises – given over to them in the 1980s – and, assumed taxation and investment powers at echelon level. This double responsibility has heightened their motivation and their

entrepreneurial behavior, thus allowing Oi (1992) to talk of “local state corporatism”.

In Vietnam, the most visible SOE-governance tool used by local institutions (People's Committee, army corps, local branch of the Communist Party) is the board of directors³² upon which the institution in question occupies an influential place. When it is a matter of an enterprise governed by a People's Committee, the latter's instructions are also transmitted by state technical departments which are also under the supervision of the Ministries; in practice, these departments do no more than supply technical support and the People's Committee is really the one directing their action.

Fiscal decentralization : tool of the new authorities

The transference of SOE governance has been reinforced by that of responsibility for the bulk of enterprise- and household-generated tax income. By reducing tax flows toward the central treasury, fiscal decentralization has weakened its role and, by contrast, strengthened that of the provincial authorities who now handle larger tax revenues. This gives the provinces greater income and a greater responsibility for local expenditure —indicating more financial involvement, with a particular interest in the operating profits of locally-managed SOEs.

China embarked upon a process of decentralization in 1980 with a revenue-sharing arrangement established between the center and the provinces. In 1988, a fiscal contract system was adopted introducing six types of revenue-sharing for an initial three-year period; the broad lines of the prototype contract were later reproduced in the light of the difficulty of genuine tax reform with regard to central-local relations, despite the experiments carried out selectively (IMF, 1993). Two key features of this fiscal decentralization can be singled out: an absence of direct ties between the central and sub-provincial governments, making it hard for the center to elaborate fiscal and budgetary policy, and: increasing negotiation as regards the amounts of tax revenue passing between central and local governments, culminating in a drop in the national budgetary income and, more generally, in dwindling tax yields. Indeed, fiscal decentralization encourages the provinces to negotiate for lower tax levies going into the national budget and then to seek ways of raising the levies going into the coffers at local level.

32 Established by the State-Owned Enterprises Law (Order 39L/CTN of April 4th 1995, issued by the President of the Socialist Republic of Vietnam) and entitled “Management Boards and Inspection Committees”.

Real reform of the tax system in Vietnam having only begun in August 1990, along side reform of the tax authority, was finalized in 1996 with on the one hand, the passing of the National Budget Law supplanting most of the regime of bargaining between the central government and provincial People's Committees and, on the other, the Decree on the Duties and Powers of People's Councils and People's Committees, which clarifies the share-out of tax remittances and expenditure responsibilities between the central and provincial budgets. Reform of the tax authority began with the setting up in each province of a Tax Department, officially under the supervision of a General Tax Department, in turn answerable to the Ministry of Finance. This first stage saw the recentralizing of tax collection and the codification of the entire tax system³³; it was followed six months later by a regulation of tax collection³⁴ which cleared the way toward the decentralization of fiscal resources to the advantage of the provinces.

Macro-economic consequences and stakes of fiscal decentralization

Tranh Thi Anh-Dao describes the macro-economic consequences of concentrating taxation onto local bases. The first effect is a lack of independence between industrial policy and fiscal policy because the local governments accumulate ownership of enterprises and tax-raising powers; such a mix-up of kinds in turn leads to increasing numbers of arrangements and, favors attempts at corruption. Another effect is a reduction in local industry and infrastructure planning and, more generally, a consolidation of regional protectionism having negative impact, on both inter-regional capital flows and inter-regional trade along with its corollary: an integrated domestic market and industrial specialization.

One manifestation of this confluence of local responsibilities is macro-economic imbalance: decentralizing resources produces excessive investment spending on the part of local governments combined with a decentralized application of credit policy subject to local pressures, together creating a source of inflation. Administrative interventions taking place in a new investment system characterized by a shift in investment-funding from budget to bank loans, may in turn create "disintermediation": a by-product of financial system distortion due to an absence of sensitive signals from interest rates or market assets (Naughton, 1995). Another manifestation of the

confluence, however, is a deepening of the well-known imbalance between coastal and inland regions; this has driven the central authorities of China to embark upon a series of institutional reforms since 1994, suggesting a certain retuning of political and economic control (Yasheng Huang, 1996).

Looking beyond incorporation

Traditionally, the SOEs and mass organizations used to be the agencies responsible for incorporating social actors.

As far as the SOEs are concerned, macro-economic imbalances have increased the urgency of their reform as their losses are responsible for a large share of those imbalances; such a reform would currently appear to be at the heart of the issue of transition in China and has become an official "strategic adjustment" in the construction of the "socialist market economy". Under the influence of hardening budgetary constraints, the urgent need to differentiate the productive from the social functions traditionally assumed by the SOEs is top of the agenda. The articles by Xiabo Lu and Gordon White respectively present the modes of adapting enterprise paternalism and social security reforms while querying their viability and meaning.

As for mass organizations like the ACFTU (All-China Federation of Trade Unions), caught between the hammer and the anvil, they are left with no choice but to move from a status of incorporated institution to one of corporatist institution or else be outstripped by alternative labor organizations. That is the condition on which the unions will be able to fight for an egalitarian redistribution of welfare benefits — a legacy of state socialism. Jude Howell's well-documented article analyzes the mutation of the ACFTU and supplies us with the details of, and stakes in, that mutation.

The difficult transformation of the "danwei system" and the stakes involved

Xiabo Lu takes us to the heart of the *danwei*, the Chinese work unit. He describes the *danwei* system as a hierarchy of state-owned workplace units, whose employees were guaranteed a variety of perquisites: secure jobs, affordable housing, inexpensive medical care, a range of subsidies and generous retirement pensions. Its social responsibilities defined the Chinese enterprise paternalism whose foundations

33 Decree 281-HDBT of January 7th 1990, issued by the Council of Ministers.

34 Decree 22-HDBT of January 24th 1991 and regulation 203-HDBT of June 29th 1991 issued by the Council of Ministers.

have been progressively called into question since the state sector reforms began in 1984; but the proponents of the “socialist market economy” would like to see it converted and made compatible with the constraints of profitability and competitiveness, while saving the multiple functions of *dannei* (productive, social, incorporative). This is a clearly different approach from that of the Federation of Russia or the states of central Europe, which fits in with the broader objective of revitalizing state-owned enterprise.

After reviewing the historical background and institutional environment of the *dannei*, the writer goes on to describe its adaptable features being promoted by the authorities in view of the fact that enhancing the *dannei*'s relevance and vitality stands to gain them the political control of 115 million employees and, more generally, prevent massive social collapse. Xiabo Lu singles out from Chinese experience the lack of antinomy between the market economy and enterprise paternalism; certain features of the latter may be reconcilable with the constraints of profitability and competitiveness. Such a synthesis could enable certain distinctive characteristics to be retained from the legacy of state socialism, such as worker incorporation and a relatively egalitarian redistribution in the provision of basic welfare. But investigating the adaptability of *dannei* inevitably brings one back to the accepted options for the social security system, which is now more of a nodal point of the economic reforms than ever.

Questioning the emergence of a model in keeping with “market socialism” in the area of social security

Gordon White, having recalled the disastrous effects of the inconsistencies between the old welfare system and the new socio-economic conditions imposed by the market economy, goes on to present the key policy actors carrying out the reform. He shows their competing interests and perspectives at both local and central level which require them to reach a consensus, thus slowing down reformist action.

The example of pension reforms in China highlights the power struggles between the upholders of the old socialist order championed by the Ministry of Labor on the one hand, and the new “capitalist” sectors championed by the Economic Structure Reform Commission on the other. Three competing models of pension reform emerged as a result: the first, based on a compulsory pension organized by the State, is more redistributive and egalitarian; the second, is based on a semi-compulsory or optionally compulsory, supplementary occupational pension, and stresses the principle of economic efficiency; the third is based

on a purely voluntary individual pension scheme. White details the synthesis of the first two ideas as it appears in a seminal document issued by the State Council in March 1995.

Might that synthesis not be regarded as having laid the foundations for a social security model in keeping with “market socialism”? Gordon White has his doubts, for two reasons. First is that it is hard to make out a well-defined model, and that anyway, policy outcomes are shaped by the continually shifting pattern of overall structural change. Second, if one can talk about a model at all, the “East-Asian Development State” model would tend to be the reference. All hope is not lost for the followers of “market socialism”, however, as the writer foresees a conflictual and changing amalgam of three forms of welfare system, the relative importance of each varying according to the balance of political power.

The transformation of mass organizations: the case of the ACFTU

Like any other mass organization, the All-China Federation of Trade Unions is historically subordinated to the State Party which has restricted reform to the economic sphere leaving the political system as little modified as possible. The ACFTU is traditionally more of an incorporated than a corporatist institution: its members are appointed and paid by the Party with whom it shares the same organizational structure. Since the introduction of communism, however, its members have had to press for recognition of its institutional individuality, operational autonomy and greater freedom of action; Jude Howell details the pressures brought to bear particularly over the past ten years.

Because of the relaxation of residential controls resulting in the emergence of new strata of workers differentiated by income level, job security and the management practices to which they are subject, the mutation of the ACFTU has become particularly arduous. Indeed, the diversification and stratification of workers reverberates into the demands, needs and grievances it receives. Jude Howell stresses how difficult it has been for the ACFTU to adapt in order to avoid losing its members: its financial adaptation despite the rationalization of the SOEs from which it used to draw the bulk of its income; reservations about trade union action on the part of foreign firms often backed by local governments; its organizational adaptation to promote collective bargaining via debureaucratization.

Hence, in the footsteps of economic reform, the ACFTU's mutation has turned it from a constituted body into what Jude Howell calls a corporatist state institution. The ACFTU managed to have written into law, union demands of the kind raised at its XIth Congress foreshadowing the Beijing Spring of 1989; a share of those demands were taken into account in the drafting of the new July 1994 Labor Law. But ambiguous, if not conflicting, practices arise from the fact that it has a double role to play: on one side being assigned by the Party to act as a conduit for grass-roots demands to stop the independent union organizations getting out of hand; on the other being expected by its members to attend to the preservation and fair redistribution of acquired advantages.

By way of conclusion : Outline sketch of the " socialist market economy "

The growth performance of China and Vietnam does not just correspond to an orthodox raft of reforms revolving around a consolidation of ownership rights, macro-economic stability, modification of the tax system and trade liberalization, but also to a precise model of development which differs from the strategies adopted by the emerging nations of South-East Asia. This model is known to its supporters in the State Party apparatus as the " socialist market economy ", a title that has the advantage of saving appearances by echoing the Marxist ideological antecedents of " market socialism " and, hence, playing a part in legitimizing the communist single-party system.

An initial reading of the Chinese or Vietnamese " socialist market economy " would highlight its contrasts with the free-market model of other regional economies. First, its unfinished decollectivization which, aside from the issue of the amount of responsibility and incentives given to farmers and members of township and village enterprises, keeps them in a relationship of incorporation and subordination by means of ambivalent regulations and practices which work to the benefit of local governments and local Party infrastructures. Next, its partial rehabilitation of the private sector as seen in the absence of genuine institutional support and a bureaucratic reluctance to adapt the fiscal framework, in turn hindering capital accumulation on the part of households and private companies. Then, its preference for revitalizing state-owned enterprises, an expression of favoritism whose favored instruments have been a discriminatory voluntarism in investment matters, preferential access to credit and, tax relief.

Finally, a partial – or controlled – opening-up to the world economy: maintaining controls on flows of capital, goods, people and information is an element essential to current economic policy.

Claimed to be the expression of reformist voluntarism, bureaucratic de-centralism , a restructuring of the redistribution system and an egalitarian social policy would appear to be constituent parts of the " socialist market economy ". Critical analysis of their modus operandi allows us to point out what is really at stake.

Bureaucratic de-centralism is rooted in the ideological debates that gave the " socialist market economy " notion its foundations. It means the handing over of the governance of state-owned or collective enterprises which, by making public ownership viable, breathes new life into a " market socialism " at a time when socialism's reformers had already written it off. This reallocation of the rights of ownership within the state sector has to a certain extent allowed one to question the softening of budgetary constraints, the vertical dependency of state-owned enterprises, the bilateral monopoly of government and enterprise. In fact, analysis of the structure and dynamics of the production chains, reveals that the private sector and collective enterprise have been granted a concession in petty commodity production in the upstream reaches of the chains, and that high value added downstream activities have been commandeered by state-owned enterprises now largely managed by provincial levels of government. Thus might one major stake in the " socialist market economy " be outlined: the compatibility between, on the one hand, a state sector cornering a sizable share of profits and rent-seeking situations and, on the other hand, a rapidly expanding collective sector often still in a state of sub-contracting along with a shattered private sector whose potentialities for endogenous development would be limited. This compatibility presumes the viability of state-owned enterprise, which is already assured by the transference of their governance from central to local echelons, but also by their submission to hard budgetary constraints which the forthcoming generalization of public-dominated shareholding may reinforce.

Redistribution is at the heart of the socialist system. And the period prior to modernization really did see the redistributive machinery working at full steam: full employment, subsidies, social welfare, free medical care and education. Today, the picture has changed with the appearance of unemployment, limits to the subsidies system and, the separation of the social and economic functions of public sector enterprise. Close observation of this evolution allows one to perceive

that it is not so much a matter of the disappearance as the reshaping of the redistributive system; State Party legitimacy linked to the correcting of inequalities induced by the release of market forces in such a way as to keep the system within socially acceptable bounds and, make the production of those selfsame inequalities tolerable. This reshaping of the redistributive machinery – part of a proclaimed egalitarian social policy – occurs through the trade unions effectively defending the interests of workers. In the turmoil of economic reform, and in keeping with the policy and management authorities which are equally in touch with the other mass organizations, these unions must therefore work out a real way of ideological and organizational mutation.

Beyond the problematic matter of characterizing the “socialist market economy”, Chinese and Vietnamese successes raise several questions for economists. Let us mention two. The first concerns whether the model of endogenous growth is adequate for analyzing the specific nature of these countries’ economic policies; in particular, the models based on private ownership and the optimizing agents have trouble understanding the economic figures produced in China or Vietnam. The second concerns the ability of collective action to generate economic gains in matters of rights of ownership, leading economists into an investigation of the process of defining those rights; the success of Chinese township and village enterprises is a fine example of effective collective action.

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