Organizational Dynamics of Market Transition: Hybrid Forms, Property Rights, and Mixed Economy in China

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This paper underscores the importance of hybrid forms in the current market transitions in state socialism through an examination of the emergence of marketized firms and cadre-entrepreneurs in China. The paper develops a new-institutionalist analysis of the organizational dynamics that propel market transition in reforming state socialism. Under conditions of partial reform, marketized firms enjoy a transaction cost advantage over alternative governance structures. Changes in the institutional environment stemming from the spread of markets and the changing structure of property rights, however, increasingly favor private firms. Nonetheless, a mixed economy characterized by a diversity of organizational forms and a plurality of property rights will be a persistent feature of transitions from state socialism. Analysis of the interaction between government, enterprise, and market forces illustrates how the new-institutionalist perspective is applied to a dynamic model of market transition in China.•

China's transition from central planning has assumed a trajectory quite different from that of Eastern Europe and the Soviet Union. Whereas Eastern Europe and the Soviet Union rejected communism for Western-style democracies and initiated rapid state-guided transitions to market economies, China has steadfastly refused to carry out reform of its political institutions and has fixed its course to remake the economic institutions of state socialism not by revolution but by reform. As a result, China, which was perceived as innovative and daring in the 1980s, today is viewed as a bastion of communist reaction to the changes sweeping through Eastern Europe and the republics of the former Soviet Union.

Despite the political retrenchment in China, the market reforms implemented in the 1980s have lasting consequences that are not easily reversed, even with a hard-line conservative faction in control of state power. Economic reform from 1978 to 1989 brought about changes in power relationships within the state structure and in society, which in turn gave rise to new alignments of interests that champion marketization. First, fiscal and organizational reforms carried out in the 1980s led to a significant devolution of power from the central state apparatus to provincial and local governments (Tong, 1989). Despite Beijing's efforts to recentralize fiscal control, over 50 percent of the Chinese state budget is now in the hands of officials in the provinces. Second, over the years, for both private producers and industrial enterprises, dependence on vertical ties to state redistributive agencies has lessened, as market transactions have assumed greater significance (Du, 1988; Nee, 1989b, 1991; Solinger, 1989; Lardy, 1991). Here redistributive refers to the collection, storage, and redistribution of goods and services by administrative fiat in state socialism (Szelenyi, 1978). Peasant households and firms in particular have gained more autonomy as they shifted production from a near-exclusive reliance on staple food crops to more diversified commodity production for the marketplace. By contrast to the Maoist emphasis on local self-sufficiency, specialization—stimulated by

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commercialization—has brought to the marketplace a wide array of commodities, both agricultural and light industrial (Nee and Su, 1990: 9–11).

Market-oriented growth in the 1980s was centered primarily in the coastal provinces in China (Vogel, 1989), with inland regions undergoing the least change. This market-oriented growth was most pronounced in the collective and private sectors, which emerged as the most dynamic within the Chinese economy, with rural industries experiencing explosive growth through the 1980s (Byrd and Lin, 1990; Naughton, 1991). The center of gravity of the collective and private economies is in the countryside, in towns and villages, where the state initiated market reforms in 1978 and bequeathed markets the broadest license for expansion. Despite the unauthorized interference of local cadres, rural markets experienced rapid growth (Watson, 1988), largely unrestricted by formal state interventions. Following a brief recession (1989–1990), the Chinese economy resumed its high-speed growth trajectory, with industrial growth in 1991 at 12 percent. The coastal provinces of southeastern China now encompass the most rapidly growing market-driven economy in the world.

The transition economy has given birth to a new diversity in organizational forms and a plurality of property rights. The spectrum spans the continuum from the formal and hierarchical state-owned enterprises to small family-owned firms run by peasant entrepreneurs. Among the consequences of rapid market-oriented economic growth in the 1980s was the incremental transformation of collective enterprises into a hybrid organizational form—the marketized redistributive firm (hereafter, marketized firm). Marketized firms represent an intermediate property form shaped by new pressures for efficiency and flexibility in rapidly changing environments in which market forces incrementally replace the state redistributive mechanism (see Powell, 1988). Their structure of ownership is in flux. For example, when township and village governments lease collective enterprises to private operators, these firms become a mixed property form, with local government and private operators claiming property rights over them. Like hybrids in advanced capitalist economies, the hybrids of the transition economy are organizational forms that "use resources and/or governance structures from more than one existing organization" (Borys and Jemison, 1989: 235). Similarly, as in capitalist economies the advantage of hybrids in the transitional economy is their capacity to reduce uncertainty in interorganizational relationships involving bilateral dependency (Pfeffer, 1972; Pfeffer and Nowak, 1976).

Transaction cost economics explains the emergence of hybrid forms as a means to economize on transaction costs in interorganizational relationships when "parties to the transaction maintain autonomy but are bilaterally dependent to a nontrivial degree" (Williamson, 1991: 271). From the perspective of transaction cost economics, hybrids are discrete governance structures that fall between market and hierarchy and possess their own institutional logic. What distinguishes hybrids from alternative governance structures is an elastic contracting mechanism that facilitates continuity and efficient adaptation. According to Williamson (1991), the neoclassical contract regime and excuse doctrine, which relieve parties from strict enforcement, provide the institutional mechanism that backs hybrid forms. Characterized by Llewellyn (1931: 737) as "contract as framework," the neoclassical contract "almost never accurately indicates real working relations" but, instead, provides approximate guidelines and specifies the rule for appeal, should the relationship break down.

Critical to the neoclassical contract regime in market societies is the maintenance of legal autonomy based on clearly specified property rights. This provides the basis for litigation when losses incurred exceed the level specified by the excuse doctrine of the neoclassical contract. By contrast, hybrids in reforming state socialist societies lack a well-specified structure of property rights and, therefore, effective autonomy (e.g., Stark, 1989). For this reason, the socialist hybrids must rely more on personal ties than on legal contracts to provide assurances that the terms of a transaction will be met by both parties (Carroll, Goodstein, and Gyenes, 1988). The need for intense investment in personal connections *(guanxi),* stemming from having to cope with widespread uncertainties in the institutional environment, provides the impetus behind the rise of local corporatism in China.

In China at present, the marketized redistributive and private sectors sustain potent interests in market-oriented economic growth, which is often nurtured by direct links to urban centers and the world economy through subcontracting or "putting out" arrangements and joint-venture projects (Su, 1992). These interests, moreover, are often supported and articulated by local governments, which have become increasingly reliant on revenues gained from the marketized redistributive sector, as well as the private economy. The new alignment of interests structured by market forces and the institutional dynamics of partial reform has given rise to neolocalism, a form of corporatism based on a coalition between local government, the marketized firm, and private enterprise, often against the encroachment of the central state. Far from being unitary hierarchies, local government, marketized firms, and private enterprise constitute a loosely coupled coalition of interest groups, in which interests and group cohesion are continuously shifting and reconstituting themselves in new combinations according to changing environmental conditions (Pfeffer and Salancik, 1978).

Local government involvement in rural industry has been interpreted as a distortion of partial reform that undermines the efficiency goals of economic reform (Wong, 1986, 1987, 1990). The claim is that the causes of inefficiency were unwittingly transferred from central ministries down to local governments, where they were compounded by the antimarket, protectionist conservatism of local officials and the Maoist legacy of closed local economies. Although I do not disagree with salient aspects of Wong's analysis, I propose an alternative new-institutionalist analysis in which the relationship between local government and industry is viewed in corporatist terms, as an institutional arrangement that represents a solution to the problem of weak market structures and incomplete market transition. Local governments assist collective enterprises, which receive little from the state, to secure reliable access to factor resources they need, especially those in short supply. They also oversee local labor markets and appoint managers to collective enterprises not leased to private operators, serve as intermediaries in critical negotiations with banks for access to credit, fix local prices on select numbers of commodities, and approve and coordinate investment of extrabudgetary funds under their control for projects proposed by collective enterprises. Although such microinterventions by local government exert a softening effect on the firm's budget constraint, local corporatism can enhance the firm's competitiveness in domestic and world markets by offering subsidies, facilitating horizontal and vertical economic integration, providing access to credit capital, and investing in infrastructure such as schools, roads, public transportation, and other services. In short, local governments may provide the backing and resources needed by entrepreneurs to compete effectively in an economy characterized by partial reform, in which the still-dominant redistributive institutions interact with market forces in a manner that subordinates market institutions.

The transition economy, characterized by weak market structures, poorly specified property rights, and institutional uncertainty increases the relative cost of redistribution even while rendering costly market transactions (Nee, 1992). This characteristic condition of partial reform creates an institutional environment in which hybrid forms enjoy a transaction cost advantage over alternative governance structures. A continuing shift from redistribution to markets, however, induces change in the comparative costs of governance. As market institutions become more dominant in the transition economy and as the institutional foundation of a market economy is incrementally constructed, these parameter changes result in a relative increase in the cost of hybrid governance structures and reduction in the cost of transacting for private firms. The organizational dynamics of market transition, I maintain, are driven by such parameter changes in the institutional environment (North, 1986, 1990; Williamson, 1991). Key factors that explain the rapid growth of hybrid forms and private enterprise are the expanding relative scope of market institutions in coordinating the economy, changes in the structure of property rights, and the incremental shift from a redistributive to a regulatory state (Nee, 1989a). These institutional changes explain improvements in economic performance in China after the initiation of economic reform in 1978 (Nee and Su, 1990). Changes in the institutional environment account for why state-owned enterprises undergo declining economic performance, while marketized and private firms experience rapid growth.

THE INSTITUTIONAL ENVIRONMENT

Even prior to market reform, the extent of central planning in China was considerably less than in the Soviet Union and Eastern Europe. The planning process involved multiple levels of decision making, from the central ministries to the province, city, county, and township, with each level of the state structure redistributing substantial resources within its area of jurisdiction (Lyons, 1990). Only 6 percent of Chinese industrial enterprises were classified as large- or medium-scale. These state-owned enterprises formed the core of the firms directly supervised by central ministries and provincial bureaus under the central plan. Seventy-eight percent of Chinese enterprises were small-scale, labor-intensive organizations registered under collective ownership (Kueh, 1985). These and smaller state enterprises were controlled by local governments.

It might be argued that the preponderance of small firms in China's pre-reform industrial economy may account for why the Chinese industrial economy responded more favorably to economic reform than the Soviet and Eastern European economies, where the ratio of large to small industrial plants was the reverse of China's. As Lawrence and Lorsch (1967) have argued, no general organizational form is best suited for all institutional environments. Formalized and hierarchical forms of classical state socialism are well suited to a homogeneous and stable environment. But during periods of rapid change and institutional uncertainty, organizational forms that are more flexible, informal, and open to entrepreneurship exhibit superior adaptive capacity (Piore and Sabel, 1984; Storper, 1989).

The centerpieces of industrial reform in the 1980s involved the decentralization of power to the enterprise and local government, reflected most clearly in profit retention and sharing arrangements. By augmenting their decision-making power, the state sought to provide industrial enterprises with the flexibility and incentives for improving economic performance (Zhang and Zhang, 1987). Accordingly, enterprises were permitted to retain 70 percent of extrabudgetary funds, which they could invest in the plant's fixed capital or distribute to workers and staff through annual bonus plans. Simultaneously, the state transferred to local governments greater budgetary and fiscal power (CASS, 1989). Like the enterprises, local governments could retain surplus revenue after paying a negotiated share of local taxes to the central government. The aim was to overcome administrative rigidities associated with central planning and to stimulate enthusiasm on the part of local government to support and pursue market-oriented economic development. The accompanying revenue-sharing arrangements forged a virtual partnership between local government and industry.

Decollectivization of agriculture and the subsequent reform of local government raised the question of property rights over rural collective enterprises. Collective enterprises, the legacy of the Great Leap Forward industrialization drive, could not be readily disentangled from village and township governments. Neither public (state-owned) nor private, the collective firm embodies a community property form, so that, in theory, the property belongs to all who live within the jurisdiction of the local government. This left township and village governments with the strongest claim over profits from collective enterprises, which soon became their major source of revenue through taxes, levies, and revenue-sharing arrangements.

The close interorganizational relationship between collective enterprises and local government not only is based on the structure of property rights but is reinforced by bilateral dependency. First, in a shortage economy, collective enterprises, which are at the bottom of the hierarchy of industrial firms, must rely on connections provided by local government to secure needed resources and credit. Similarly, local governments became increasingly dependent on revenues from collective enterprises. Second, local corporatism economizes on transaction costs when the institutional arrangements underpinning markets are weak. In the absence of contractual law hardened by routine compliance and enforcement, marketized enterprises need political allies to go to bat for them in negotiating and enforcing contracts, especially with dominant state agencies and enterprises. Because a state-owned enterprise or foreign firm might show little compunction for strong-arm tactics and guile in direct dealings with smaller collective and private firms, it may be to the advantage of collective enterprise managers to use joint negotiations involving local authorities to enhance their negotiating position. State enterprises can be very slow in paying smaller collective firms for subcontracted parts; such debts pose severe problems for local industries in meeting current salaries and expenses. Another common complaint is the abrupt abrogation of contracts without compensation for possible losses suffered by subcontractors. Obtaining business contracts with local government backing may reduce transaction costs for state enterprises and foreign firms as well, by providing official assurance that the terms set by the contract will be fulfilled in a timely manner. In addition, a foreign or domestic firm subcontracting the production and assembly of a trademark commodity will want assurances that the collective firm will not resort to opportunism by selling excess brand-name products independent of the main firm.

Fueled by a decade of explosive growth of rural industries and by growing competition with state-owned enterprises for factor resources and markets, neolocalist governments eventually assumed an assertive stance in relation to the central government, strong enough to merit the center's attention. Public attacks on neolocalism emanated from high places. Centralists pointed to the potential for the disintegration of the national economy into thousands of fieflike county and provincial economies, each with strong autarkic tendencies. Others pointed to the problem of federalism without a constitutional framework like that of the United States, capable of holding together powerful centrifugal forces set in motion by neolocalist local governments. Fundamentally, the controversy has involved the loss of redistributive power by the central state apparatus to market institutions and local government. This is reflected in a widely circulated Central Committee document: "The power to distribute capital, foreign exchange and resources is too decentralized and the state's control seriously eroded. Enterprises and individuals have too great a share in the distribution of national income" (*People's Daily,* January 11, 1990: 1–3).

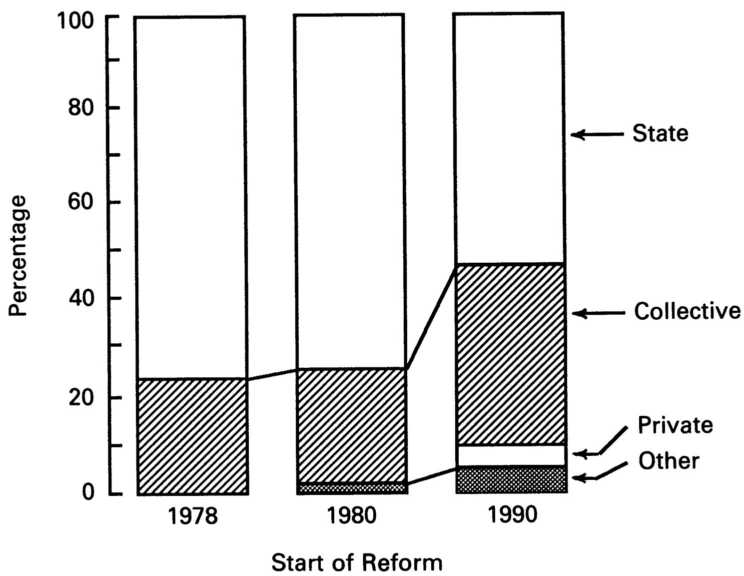
THE MARKETIZED FIRM AND CADRE-ENTREPRENEUR

In a redistributive economy, central decisions distribute goods and services through a vertical hierarchy (Polanyi, 1957). What characterizes redistribution at each level of this hierarchy is the structured centricity of economic transactions. Whether at the local, provincial, regional, or national level, the circulation of goods and services in a state socialist redistributive economy involves complex resource transfers from the firm to state agencies, which in turn allocate factor resources back to firms and distribute output to consumers. Within this system, the redistributive firm (whether a collective or a state-owned enterprise) operates as an appendage of the state, responding to commands sent down from the central ministry, provincial bureau, or local government. In the case of the marketized firm, the hierarchical centricity of the classic redistributive economy is replaced by a mixed regime characterized by increased market dependence. With the expansion of markets, horizontal market transactions increase in significance while dependence on vertical ties lessens, as the firm's survival and growth become more contingent on market exchange.

Despite the protectionist tendencies of local governments, the behavior of larger collective enterprises is oriented toward extralocal trade. Because collective enterprises fall outside the central plan, which encompasses state-owned enterprises, their growth became increasingly dependent on markets. Although collective enterprises rely on local government to gain access to resources allocated through the plan, such resources are limited. For this reason, they must turn to specialized markets to purchase many factor resources. This often involves importing outside (domestic and foreign) investments and technologies to sustain economic growth. Similarly, products produced by collective enterprises, aimed not for local consumption but for extralocal sales, are more readily sold in regional markets than absorbed by state redistributive agencies. An additional market incentive stems from state agencies fixing purchase prices at lower than market price for most commodities. Enterprises that could purchase factor resources at subsidized state prices and sell part of their products at higher market prices developed a keen interest in arbitrage. Collective enterprises quickly oriented their production to the marketplace and contributed to the rapid expansion of markets in China.

By 1990, rural enterprises (collective and private) numbered 18.4 million, employed 92 million workers, accounted for 45 percent of total industrial production, and brought in annually about $10 billion in foreign exchange. Figure 1 reveals the rapid relative growth of output from collective and private enterprises after 1978. Joint ventures with foreign firms are listed as "other." From 1978 to 1990 the output value of state enterprises declined, while that of collective and private firms grew from 23 to 45 percent of the output value of China's industrial economy. The transformation of collective enterprises to marketized firms is shown in Figure 2, which indicates that the main source of hybrid forms has been collective enterprises. Prior to reform, private firms were virtually nonexistent in the Chinese economy. Below, I

Figure 1. The structure of industrial output value.*



* Source: State Statistical Bureau (1991: 447).

compare the attributes of nonmarketized, marketized, and private firms and develop an institutional model of the dynamics of market transition in China.

Organizational Dynamics of Market Transition

Table 1 presents a typology of governance structures that identifies the characteristic features of alternative ownership forms of nonmarketized firms (NF), marketized firms (MF), and private firms (PF) under partial reform along multiple behavioral dimensions. This is an ideal-type analysis, first developed by Max Weber (1949), which contrasts empirical cases with imaginary cases representing a theoretically derived illustration of a phenomenon of interest (for recent applications, see Bonnell, 1980; Ragin and Zaret, 1983). The following discussion is based on theoretical hypotheses about the attributes of the industrial enterprise and on field research I conducted in China from March through August 1985, when I and my research assistants (principally Bertha Dong, Sijin Su, and Peng Lian) conducted semi-structured in-depth interviews with factory managers and workers in a

Figure 2. Dynamic transition model of nonmarketized firm, marketized firm, and private firm.

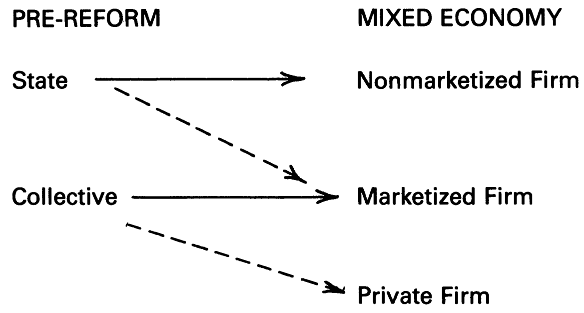


Table 1

Comparisons of Nonmarketized Firm (NF), Marketized Firm (MF), and Private Firm (PF)*

Attributes	NF	MF	PF
Enterprise autonomy	0	+	++
Neolocalist orientation	0	++	+
Soft-budget constraint	++	+	0
Efficiency	0	+	++
Access to capital	++	+	0
Access to raw material	++	+	0
Access to labor	+	++	+
Access to markets	+	++	+
Workers' compensation	+	++	+

* ++ = strong; + = semi-strong; 0 = weak.

state and a collective enterprise, local officials in 30 villages and township governments, economic bureaucrats in one county government, and 25 private entrepreneurs in Xiamen city and periurban counties. The aim of the comparative institutional analysis reported in Table 1 is to provide models of the organizational dynamics of market transition in the industrial economy of China. The models are consistent with and supported by the rich empirical studies conducted by a World Bank research team, which I read after writing this article. Readers of this article might want to consult Byrd and Lin (1990), who edited the many research reports in the World Bank study.

The last column in Table 1 indicates that private firms enjoy more formal autonomy than nonmarketized firms. However, in the absence of well-defined private property rights, private firms are vulnerable to unauthorized interference by redistributors who impose illicit levies on them, enforce regulations in a manner that may discriminate against private enterprises, and restrict the access to critical factor resources allocated by state agencies. The greater autonomy enjoyed by the private firm comes at the expense of high transaction costs (Nee and Young, 1990).

Private firms operate under hard budget constraints, as their survival depends on market performance and profitability. This has the effect of imposing the constraint of market action on investment decisions and operations. However, entry and exit are not entirely regulated by markets, as the private firm's capacity for survival and growth is also constrained by difficulty of access to capital and raw materials controlled by the redistributive sector. In a socialist redistributive economy, state banks and official sources of credit generally offer loans more on the basis of political considerations than economic ones (Walder, 1991). Private firms lack the legitimacy and necessary political backing to enjoy reliable access to capital and thus must depend on private—and often, informal—sources of credit, which are limited and are available only at substantially higher interest rates. Similarly, in a shortage economy in which state and collective firms compete for strategic raw materials, private firms may be forced out of business for lack of raw materials, despite strong market demand for their products. The only factor resource that is available to the private firm in abundance is labor; yet here, too, the firm is vulnerable to the enforcement of government regulation, which imposes limits on the number of workers private firms are permitted to hire.

Due to these restrictions on factor resources and the continuing pariah-like status of capitalists and merchants in a socialist state, private firms remain small and undercapitalized. Moreover, the pariah-like status of the private entrepreneurs encourages short-term investment decisions aimed at fast returns, liquidity, and a low rate of reinvestment in the firm's growth. To compensate for their marginal status, many private firms seek close ties with local government, often paying a "management fee" for assistance in obtaining reliable access to factor resources and political protection or registering as collective enterprises. Local authorities may be more willing to overlook violations of government regulations and tax evasion if the private firm has successfully cultivated good connections with local government, although such fees and levies increase substantially the transaction costs involved in doing business. The major constraint on the competitiveness of private enterprise, however, is the lack of clearly defined and routinely enforced private property rights.

As shown in the middle column of Table 1, marketized firms, by contrast, lack formal autonomy to the extent that local governments exercise control over them. Despite the aim of enterprise reform to provide greater decision-making power to managers, the relationship with local government renders local industries vulnerable to direct bureaucratic microinterventions that, as Kornai (1989) has argued, weaken the beneficial effects of markets on the firm's performance. Rational authorities will have an interest in promoting efficient growth to the extent they perceive that profitable enterprises provide for increased revenues. But local governments also have an interest in protecting inefficient collective enterprises from competition by restricting the flow of goods from outside. By virtue of their socialist ideology, they have an interest in seeking full employment. In their zeal to promote economic growth, local governments often find it difficult to refrain from microinterventions into the management of collective enterprises. These latter characteristics exacerbate problems of inefficiency.

But suppose local government should serve in a role analogous to that of the board of directors in the capitalist firm; then the question of autonomy appears in a different light (Oi, 1991). Just as the board of directors embodies the center of ultimate authority in the capitalist enterprise, so might local government in the case of the marketized firm. Local government provides valuable networks for the marketized firm, networks that represent the firm's social capital. Like the chief executive officer of the capitalist firm, the manager of the marketized firm is accountable to local government but remains in charge of operations.

Unlike the state enterprise, the marketized firm operates under hardened budget constraints. Although local government may attempt to protect inefficient marketized firms through market interventions, the capacity of local government to support unprofitable firms is much more limited than that of the central state. Whereas state firms make up only 6 percent of industrial enterprises, marketized firms are a legion of small-scale, low-capital operations; if any one goes under, there are many others to provide a continuing revenue base for local government. Moreover, to start up a new firm that targets a more lucrative market may not be that costly an investment. Overall, the hardened budget constraint and often intense market competition faced by the marketized firm enhances efficiency.

Under partial reform the major advantage of the marketized firm over the private firm is its better access to factor markets. Local government may actually place higher priority on assisting the marketized firm in gaining access to capital, raw material, and labor than it does state enterprises located in its jurisdiction, for the structure of property rights in collective ownership ties local government in a virtual partnership with the marketized firm, a partnership that is sealed in a common neolocalist orientation. The growth and profitability of the marketized firm have a greater and more direct impact on maximizing the revenue streams of local government than do those of either the nonmarketized or private firm. Not only do the marketized firms have access to the free market system, but they also can market their products through state supply and marketing channels. But because the collective enterprise is ancillary to state-owned enterprises in the state marketing system, local authorities often actively encourage the marketized firm to be oriented toward market competition and growth to circumvent regulatory constraints imposed by the central ministries.

Despite the policy of decentralization of decision-making power to the enterprise, nonmarketized firms depend on vertical ties to redistributive agencies from which they receive resource transfers (Walder, 1989). Likewise, their output is directed to state and municipal agencies that redistribute it under the central plan. For these reasons, managers in nonmarketized firms are less likely to share the neolocalist orientation of managers of collective enterprises. As state-owned enterprises, nonmarketized firms enjoy priority in access to raw material and investment capital allocated under the central plan. Only after they meet the production target stipulated by the plan can they produce goods for sale in the market. Thus their market access is limited and restricted by the planning mechanism. Although the supply of labor is in theory plentiful, workers are assigned to the nonmarketized firm through the planning process. Whereas marketized firms are able to hire temporary workers from nearby villages who can be laid off and returned to farm work according to the firms' needs, nonmarketized firms rely principally on permanent workers assigned by the state personnel bureau. As a result, the nonmarketized firm does not enjoy the same flexibility as does the marketized firm in regulating the size of its labor force. This results in alternating cycles of shortages and surplus in the firm's labor force. Shortages also are a recurrent problem in the firm's supply of raw materials, as these are similarly subject to bottlenecks caused by rigidities in the planning mechanism (Kornai, 1980).

In the area of workers' compensation, the salaries and bonuses of marketized firms have increased at substantially higher rates than those in the state sector. In Guangdong, which has experienced very rapid market-oriented growth for the past decade, stimulated by the Hong Kong economy, workers' salaries in the marketized sectors have increased dramatically, so that the standard of living in the Guangdong province is now the highest in the nation. Industrial output of township enterprises in Guangdong increased 345 percent and that of village enterprises by 600 percent from 1978 to 1986, while that of state enterprises grew by 210 percent; collective and private enterprises produced 43 percent of the total industrial output in 1986 (Vogel, 1989: 456). In the southeastern coastal provinces, and especially in the special economic zones, the salaries and benefits of workers in marketized firms have soared relative to workers in the nonmarketized state sector. The discrepancy in salaries of high-school-educated workers in marketized firms and university graduates with jobs in the state sector has grown so enormous that low morale has become a serious problem in elite state units. As a result, workers in the state sector are eager to transfer to the privileged marketized sector. Young people I interviewed in 1990 voiced preference for getting a job in the marketized sector after graduating from high school rather than applying for admission to a university. Popular idioms heard among the street-wise are "a surgeon makes less than a barber" and "a university professor earns less than a hotel waiter." The growth of the marketized sector thus has increased interregional and intersectoral income inequality.

If the analysis reported in Table 1 provides realistic models of behavioral differences between private, marketized, and nonmarketized firms under the conditions of partial reform, then the system will remain in dynamic transition as long as there is discrepancy between efficiency and access to capital and factor resources. State enterprises enjoy favored access to state-allocated capital and factor resources regardless of performance; they operate inefficiently, under soft-budget constraints. Private firms operating under hard-budget constraints display higher productivity through economizing on production costs, yet their access to formal sources (i.e., state-owned banks) of capital and factor resources is least favorable (see Kornai, 1990). This lack of fit between efficiency and access to resources is the underlying structural tension of partial reform, generating pressure for institutional change.

Under the conditions of partial reform, marketized firms have a distinct competitive advantage over both the private and nonmarketized firms. They operate in market environments with hardened budget constraints, are more efficient than nonmarketized firms, have better access to factor resources, offer more rapidly improving workers' compensations than either nonmarketized or private firms, enjoy more local support, and have better marketing outlets. Overall, the marketized firm displays better adaptive capacity in an economy that stands between the plan and the market because its structural location allows the marketized firm to double dip in the redistributive and market sectors of the economy.

Table 2 reports results of ideal-type analysis comparing factory directors (FD) in nonmarketized firms, cadre-entrepreneurs (CE) who manage the marketized firms, and private entrepreneurs (PE) along multiple behavioral indicators. Cadre-entrepreneurs also can include local authorities (e.g., the party secretary of a township government) not directly engaged in the management of the firm but who play a role analogous to the chairman of the board of a conglomerate firm. The overall analysis indicates that cadre-entrepreneurs are more similar to private entrepreneurs than to factory directors in nonmarketized firms. While private entrepreneurs have the greatest amount of autonomy, cadre-entrepreneurs enjoy more operational autonomy than factory directors. In part this stems from the social and spatial proximity of local government, which fosters a style of informal consultation and consensus making between managers and officials. Cadre-entrepreneurs and local officials share a common neolocalist orientation and are often willing to cooperate to further local development. The shared neolocalist orientation and greater consensus on goals have the effect of promoting solidarity and trust, which in turn allow the cadre-entrepreneur a degree of operational autonomy and, therefore, scope for entrepreneurship.

Table 2

Comparisons of Factory Director (FD), Cadre-entrepreneur (CE) and Private Entrepreneur (PE)*

Behavioral indicators	FD	CE	PE
Autonomy	0	+	++
Risk taking and innovation	0	+	++
Entrepreneurial incentive	0	+	++
Profit maximizing	0	+	++

* ++ = strong; + = semi-strong; 0 = weak.

By contrast, factory directors in nonmarketized firms behave more like bureau chiefs accountable to local government and more distant centers of power and authority. Their goal is to fulfill the planned production targets on schedule with the factor resources allocated to them. They strive to increase the allocation of resources through bargaining and lobbying efforts within the state bureaucracy (Walder, 1991). They seek to cultivate a good relationship with the party secretary in their firm and are cautious in their interpretation of policy guidelines issued by the party and state ministries, lest they jeopardize their political reputation, which remains a crucial form of capital within the nonmarketized redistributive sector of the economy. Moreover, they are careful to maintain a good relationship with workers and staff, lest they provoke the opposition of the party apparatus within the enterprise, which champions the interests of workers. As professional bureaucrats in a nonmarket environment, factory directors are risk-averse in their management of the enterprise. There is little premium placed on innovation and risk taking when the evaluative process emphasizes meeting production targets sent down from higher authorities and when access to increased allocations of capital, raw material, and labor depends on political rather than economic considerations.

Cadre-entrepreneurs, by contrast, have positive incentives for risk taking and innovation, though they are more risk-averse than private entrepreneurs, who stand to profit mightily from successful ventures (and lose greatly from failure). For cadre-entrepreneurs, success in the marketplace does not lead to enormous personal wealth, except through illicit means. Like corporate executives in capitalist corporations, cadre-entrepreneurs strive to advance their careers, to gain higher bonuses, and to expand their organizational power and influence. Faced with intense market competition and operating under hardened budget constraints, cadre-entrepreneurs know they cannot avoid taking risks and innovating without jeopardizing their firms' prospects for survival and growth. Cadre-entrepreneurs realize that the capacity of local governments to underwrite unprofitable and inefficient firms is limited, unlike that of the central state, a consideration the rash of bankruptcies of collective enterprises during the economic retrenchment (1988–1990) reinforced.

Private entrepreneurs not only have stronger proclivities for risk taking and innovation, but their profit-maximizing orientation and hard-budget constraints encourage more exacting cost-benefit calculations in their investment decisions. Because profits accrue directly to them, entrepreneurial incentives are far greater than those for cadre-entrepreneurs. They are growth-oriented, to be sure, but less so than either the cadre-entrepreneur or even the factory director, who operate under softer budget constraints. Private entrepreneurs face greater uncertainties due to the continuing instability of fundamental rules of the game involving the market economy (Nee and Young, 1990). They therefore are reluctant to make long-term investments in the growth of their enterprise because, in the absence of adequate legal protection of private property rights and possible hostility directed against them in a future political campaign, they worry about possible appropriation of their assets. Instead, they invest to gain rapid returns on their capital, emphasize liquidity, and spend their profits on conspicuous consumption such as new housing and imported luxury commodities rather than investing in fixed capital. In this sense, their behavior resembles more that of middlemen minorities (Bonacich, 1973) than that of modern capitalists (Schumpeter, 1942).

Cadre-entrepreneurs, by contrast, are more oriented toward growth than are private entrepreneurs. Though their firms operate under harder budget constraints than the nonmarketized firm, they are subsidized by local government through tax reduction arrangements, access to raw materials at below-market prices, and cheap credit. Moreover, as profits do not directly increase their personal wealth, cadre-entrepreneurs have less incentive, compared with natural owners, to economize on wages and bonuses. For this reason, the largest portion of extrabudgetary funds goes to increase salaries and bonuses or into social investments such as employee housing. Thus cadre-entrepreneurs who manage marketized firms are less discriminating in their investment decisions than private entrepreneurs and favor rapid growth as a strategy to enhance their power and prestige within the local elite.

Nonetheless, the cadre-entrepreneur is more oriented to profit making than the factory director. The local government can be likened to the major shareholder who has an interest in maximizing profitability and dividends and who expresses interest through a controlling voice on the board of directors. Whereas the factory director acts to conceal profit or absorb it in operation costs, cadre-entrepreneurs benefit from managing a profitable enterprise insofar as this maximizes the revenues of local government, increases their organizational power, and advances their careers.

The above analysis needs qualification, however, to provide for greater realism. First, it may seem to suggest that the central government does not support economic reform. This inference would be inaccurate. The economic retrenchment of 1988 to 1990 has sought to reinstitute greater reliance on redistributive mechanisms, and this has undercut some reform programs espoused by the radical reform faction; but the conservative faction in command of state power has refrained from attacking the overall objectives of economic reform. Instead, differences between the conservative and radical reform factions are based on opposing strategies for realizing these broader aims (Liu, 1989).

Ironically, the post-1988 economic retrenchment policies have probably made marketized and private enterprises even more competitive than before the current consolidation. Whereas very few state enterprises have closed down, despite inefficiency and chronic losses, in 1989, 800,000 collective enterprises, under pressure from the state's austerity policies, declared bankruptcy. Another 2.2 million either merged with other enterprises or restructured their operation. Recessionary conditions in the domestic economy have driven many collective enterprises to orient production even more to the world economy. Reflecting the speed of response to changing market conditions, export-oriented collective enterprises tripled in number in 1989 to 45,000 firms. Although the growth rate of collective enterprises slowed down from previous years, it still registered an increase in gross value of goods produced of 7.3 percent during the first six months of 1990, while state enterprises recorded negative growth rates. Even more impressive were private enterprises (*China Daily,* August 13, 1990: 13), which rebounded from the state-imposed austerity policies with a growth rate of 43.7 percent in May 1990 (*China Daily,* July 10, 1990: 4). As one local official quipped, "Township enterprises are incredibly vital. If you encourage them, they grow fast; if you try to slow them down, they still grow fast. They can always find money to invest and markets to sell. If necessary, you'll see workers taking voluntary wage cuts and making loans to their factory. They will survive." Another official remarked, "Workers and management both know that if the venture fails they will have to go back to the fields. This is a very strong incentive for cooperation between management and labor—one which state enterprises don't have" (*Far Eastern Economic Review*, September 14, 1989: 65).

Second, the model assumes that local governments support market reform. Yet this assumption probably does not hold outside of the regions that experienced rapid market-oriented growth during the 1980s, mainly the coastal provinces from Guangdong to Shanghai and rural counties near large commercial cities. In inland regions, local governments often in fact oppose market reform, harass and extort fledging private businesses, and practice protectionist measures that result in economic autarky. In these regions, local authorities seek to control market institutions and limit the extent of market reform to stem the erosion of redistributive power caused by the expansion of free markets. Because private enterprises represent alternative and potentially rival power bases, local authorities accustomed to monopolizing power may bully private entrepreneurs to keep them in line, reminiscent of the way scholar officials treated merchants in traditional China. Where local industries are unable to compete with manufactured products of the marketized and economically developed regions, rather than let their industries go under, local and provincial governments establish "inspection" stations on their borders to block the in-flow of their competitors' products.

In these regions and localities, the centralization of the economy and the enhanced regulatory and enforcement power of the central government may actually enable market institutions to penetrate conservative localist economies. This involves the promulgation and greater reliance on constitutional and civil laws that define the fundamental rules of the game and the structure of property rights and on the indirect macroeconomic regulation of the economy (Nee, 1989a). Recent examples of regulatory and legal measures pursued by the central government in an attempt to overcome malfeasance and illegal interventions by local authorities include (1) the passage in April 1990 of the Administrative Procedure Law, China's first law that enables private citizens to sue government administrations; (2) continued efforts to enforce regulations and laws that sanction officials who leverage redistributive power (e.g., control over factor markets and business licenses) in order to gain illicit private advantages; (3) upgrading the educational requirement for government officials; (4) improving legal protection for private property rights, especially for foreign investors, and intellectual property, through a new copyright law; (5) creating institutional arrangements that enable the marketization of increasing numbers of commodities (e.g., a new commodity futures market in grain); and (6) providing increased credit capital for rural enterprises. In short, recentralization of fiscal controls and regulatory power may be a needed adjustment to balance the growing power of regional and local fiefs and the threat they pose to economic integration and interregional markets (Boisot and Child, 1988).

To the extent that retrenchment results in more effective regulation of boundary transactions across the redistributive and market sectors, it provides a more sustainable basis for piecemeal, open-ended reform strategy, the hallmark of Chinese economic reform (Lin, 1989). Closing down "trading companies" operated by cadre-entrepreneurs that specialize in arbitrage between the redistributive and market sectors, in which commodities are sold for exorbitant profits on the free market, has been an important objective of economic retrenchment. Such trading companies involve illegal collusion with local authorities, aggravate the problem of corruption, and exacerbate inflation.

Further, my models assume that, although they share various characteristics, collective and private enterprises are distinct types. However, many collective firms are actually family businesses whose owners registered their firms as collective in order to gain access to factor resources, bank loans, markets, political protection, and tax subsidies and to circumvent regulatory hurdles that discriminate against private firms (Ma, 1988). In exchange, these "red hat" firms pay a percentage of their profit to local government as a "management fee." A typical "management fee" might be as high as 30 percent of the profit; yet this may represent a fair fee for services rendered by local government. By registering as collective enterprises these firms can avoid paying taxes to the central government. To the extent their profit-sharing arrangement with local government is less than their tax, "red hat" firms economize on transaction costs. However, by registering as collective enterprises, they dilute their property rights to their enterprise and become vulnerable to legal complications arising from these blurred property rights. Reflecting the increasingly blurred distinction between collective and private enterprises, rural enterprises, whether collective or private, are officially labeled "township and village enterprises" (*xiangzhen qiye*).

Illustrating the convergence of collective and private enterprises is the Wenzhou model in Zhejiang province, which has attracted attention for its reliance on developing the private economy. In fact, 64.13 percent of firms in Wenzhou are registered as collectively owned, 34.96 percent as state-owned, and only .24 percent as privately owned (State Statistical Bureau, 1987: 404). Yet the 1987 *Statistical Yearbook of China* (p. 129) reported that collective and private enterprises accounted for 56.3 and 26.7 percent, respectively, of Wenzhou's industrial production. According to Kikuchi (1988), who conducted field research in Wenzhou, family-owned businesses commonly register their firms as collective; he claims this accounts for the discrepancy between the reported statistics for registered ownership and industrial production.

The collective and private economies have undoubtedly become loosely interwoven and interact in a mutually beneficial manner, more so than either do with the state sector. The growth of the private economy stimulates the rural collective economy by providing the collective sector with both factor resources and market demand, and vice versa. Sustained interactions between these organizational forms can be expected to induce institutional isomorphism

(DiMaggio and Powell, 1983). As private firms mimic the organizational rituals and practices of collective firms, they gain greater legitimacy (Meyer and Rowan, 1977), rendering them less vulnerable to social hostility and cadre malfeasance. By contrast, state enterprises view rural enterprises as rivals that compete for scarce resources and, especially, for markets. Thus, whereas "blending" is increasingly evident in interactions between the collective and private firms, "segregating" tendencies appear to be stronger in boundary dynamics between the state and marketized sectors (Hannan and Freeman, 1989). Nonetheless, the rivalry between state-owned and rural enterprises is muted somewhat by the fact that rural enterprises, through subcontracting arrangements, now provide parts and assembly for most industrial products made by state enterprises. This may be analogous to the American corporation that complains about foreign competition while importing critical components and products.

The incremental shift in the 1980s from redistribution to increasing reliance on the market mechanism is seen in Table 3, which reports that by 1987, 65 percent of all farm and sideline products, 67 percent of consumer goods, and 40 percent of all industrial materials had their prices determined to some extent by the market. The post-reform expansion of the price-fixing role of the market is impressive in light of the fact that in 1978 the state determined the prices of 92.6 percent of farm and sideline products and 97 percent of consumer and industrial materials. Likewise, as reported in Table 4, the number of industrial products planned and distributed by the state declined from 120 to 60, and the number of raw materials distributed by the state fell from 256 to 27. Whereas in 1980 the state allocated 70 percent of industrial products, this dropped rapidly as economic reform progressed in the 1980s, so that by 1987 only 20 percent of industrial products came under the state plan.

Table 3

Change in the Scope of State Determined Prices*

	% State-determined	
	1978	**1987**
Prices for agricultural products	92.6	35.0
Prices for all manufactured products	97.0	47.0
a. Consumer products	83.0	33.0
b. Factor products	100.0	60.0

* Source: Economic Management Publisher (1988: 799).

Figure 3 charts the declining economic performance of state enterprises after 1978; when reform began. The ratio of profit to capital allocated to state enterprises declines progressively. This pattern of accelerating decline in economic performance of state enterprises is also seen when profit and tax are combined, which provides a picture of the total income generated by state enterprises. After

Table 4

Change in the Industrial Products Redistributed by the State Plan*

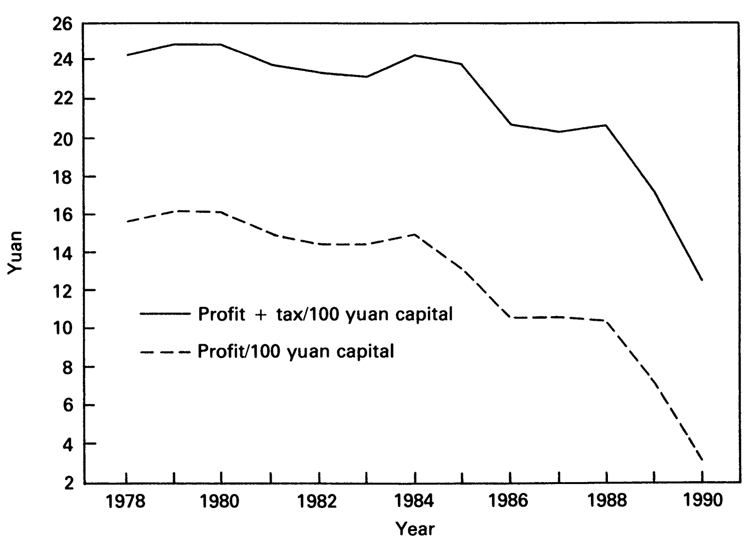
	1980	1987
No. of industrial products allocated by the central plan	120	60
No. of industrial materials allocated by the central plan	256	27
No. of commodities distributed by state commercial departments	188	22
Percent of industrial material allocated by state plan	70%	20%

* Source: Economic Management Publisher (1988: 798).

1984 profit is retained by the enterprise, while the state's share is paid as tax on profit.

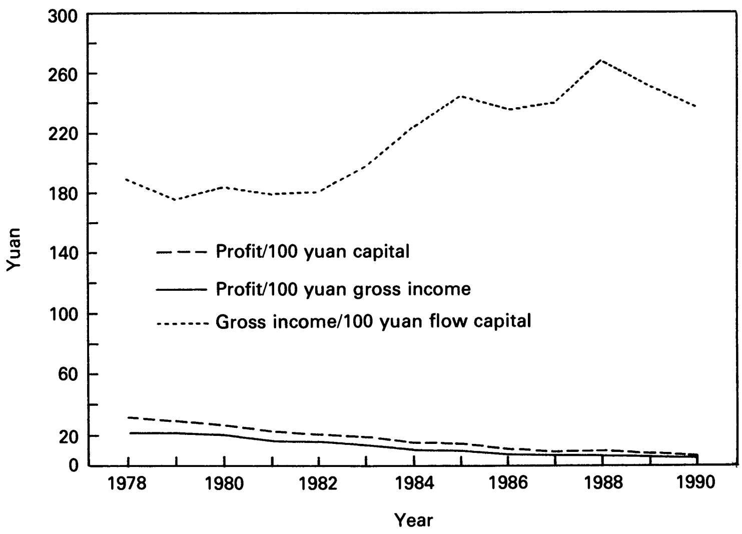
Figure 4, which traces the performance of marketized firms, reveals a perceptible decline in economic performance. Although the ratio of gross income to capital increases through most of the 1980s, there is a steady decline in the ratio of profit to capital invested and profit to gross income. This indicates that despite the impressive performance of marketized firms in the 1980s, there are limits to their continued growth. Managers of marketized firms apparently maximize on gross income, but not profits. This is consistent with the view that managers pass on profits to workers and staff through increases in wages and bonuses. Expanding markets, new economic institutions, and a changing structure of property rights are incrementally transforming the institutional environment, resulting in changes in the comparative cost of governance. Figure 5 shows the explosive growth in the number of private firms in rural industry after 1983, which includes joint-stock companies, private cooperatives, and a multitude of very small family businesses. The number of enterprises owned by township and village governments remains largely constant through

Figure 3. Economic performance of state enterprises.*



* Source: State Statistical Bureau (1991: 416).

Figure 4. Economic performance of marketized firms.*

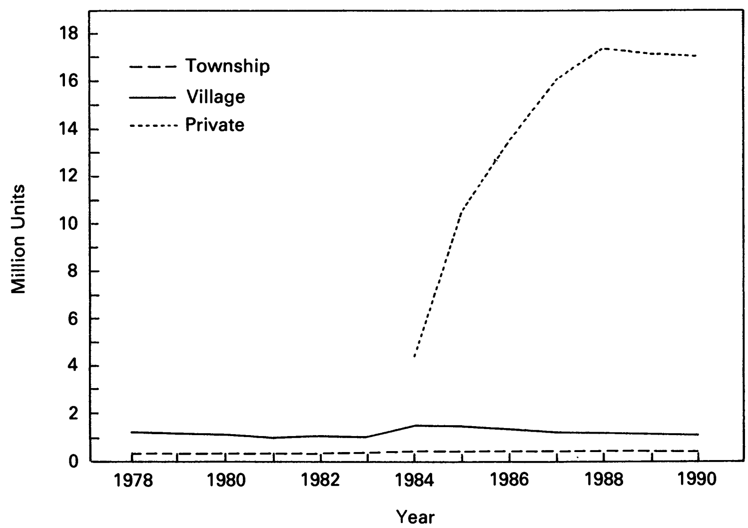


* Source: State Statistical Bureau (1991: 379).

this period. Start-up companies are virtually all private firms. Although most of these are very small family firms, many are genuine capitalist enterprises. Although the number of private firms far exceeds that of the township- and village-owned marketized firms, as Figure 6 indicates, the value of private firms' output value is less than that of the marketized firms. Yet the rate of growth of gross receipts of private enterprises is faster.

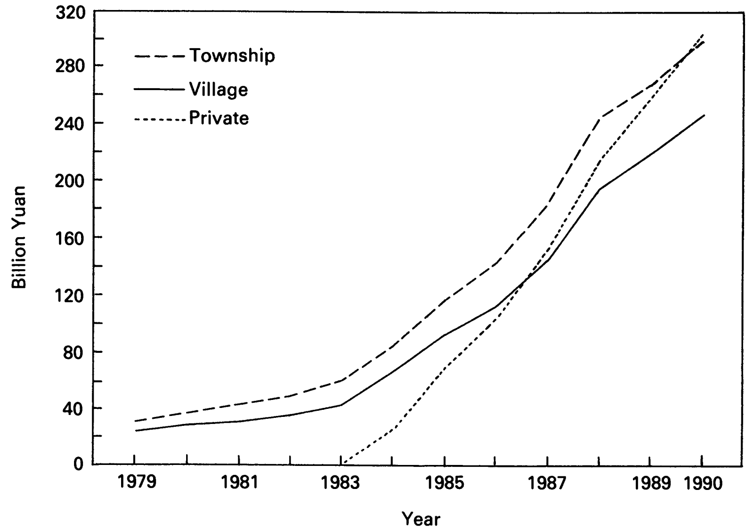
Figure 7 shows a dramatic increase in tax revenue and decline in non-tax revenue from state enterprises after 1978. Although overall, tax revenues soar following the shift to markets, by the mid-1980s the declining economic performances of state enterprises and the increasing demands of money-losing firms for subsidies transformed

Figure 5. Property forms in rural industry.*



* Source: State Statistical Bureau (1991: 377).

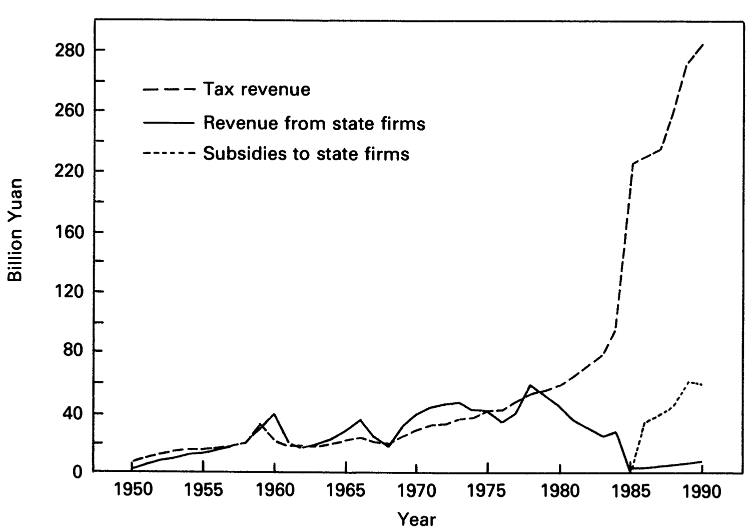
Figure 6. Value of economic transactions (industry, commerce, construction, transport) of rural enterprises.*



* Source: State Statistical Bureau (1991: 378).

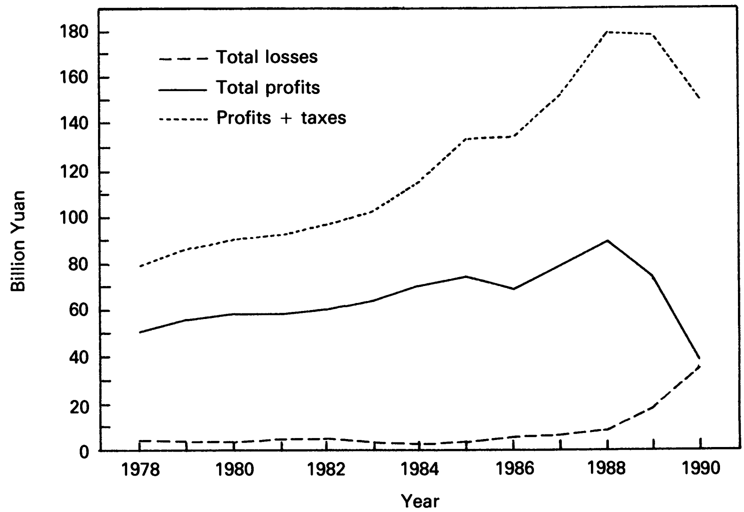
state enterprises progressively from revenue-generating assets to sources of financial liability. Figure 8 provides another view of the declining performance of state enterprises. Profitability declines progressively after 1987, while losses increase. Viewed as elements of a larger story in the transition to a hybrid market economy, figures 3 to 8 convey the extent to which parameter changes in the institutional environment affected the comparative costs of governance, resulting in changes in the relative economic performances of the state, collective, and private sectors. They show that state enterprises became a financial burden to the state just as the thriving private and hybrid sectors emerged as sources of sustained increases in revenue to the state. Despite uncertainties rooted in weak market

Figure 7. State revenues and subsidies to state enterprises.*



* Source: State Statistical Bureau (1991: 212).

Figure 8. Economic performance of state enterprises.*



* Source: State Statistical Bureau (1991: 410).

structures and property rights, the explosive increase in entry of private firms and the rapid growth of their output value relative to marketized firms and state enterprise highlight the importance of entrepreneurial incentive. The significance of sharply increasing state revenues through the 1980s should not be missed, as it explains why the Chinese state acquired a compelling interest in supporting market transition during the first decade of market reform. As North's (1981) theory of the state maintains, rulers will implement changes in the structure of property rights and lower the cost of transacting when such changes increase their overall revenue.

DISCUSSION AND CONCLUSION

Rather than conceiving of market transitions as a linear progression to capitalism, we may analyze the departures from state socialism as likely to produce hybrid market economies that reflect the persistence of the institutional centricity of their parent organizational form. The deep structures of the reform regime are likely to reproduce important features of the state socialist redistributive economy in emergent organizational forms. This is the meaning of path dependence. The emergence of the marketized redistributive sector rests on a corporatist alliance between local government and industry, which represents, in transaction cost terms, a locally efficient solution to the problem of weak market structures and incomplete institutional foundations for a market economy. For the economy as a whole, however, local corporatism may exacerbate problems of inefficient allocation inasmuch as the institutional arrangements of state socialism that cause Kornai's shortage economy persist, albeit in the guise of paternalism on the part of local government rather than the central ministry. The reliance of flexible specialization on local government support, for example, in the "third Italy" (Brusco, 1982; Piore and Sabel, 1984; Trigilia, 1986), suggests that local corporatism may well be around for a long time to come. Whether in Eastern Europe or the republics of the former Soviet Union or China, the transitions from state socialism to market economies are likely to take place over a protracted period during which a hybrid marketized sector mediates interactions between the declining redistributive and rising private economies. Rather than a single path, there are multiple paths from state socialism to a market economy in which the trajectories of transition are shaped by previous institutional forms and the politics of markets, as demonstrated in this paper, observed in Eastern Europe (Stark, 1990), and evident in the former republics of the Soviet Union.

The emergence of the hybrid marketized sector reflects a fundamental structural change that is still in progress. In China, the marketized sector is gaining ground relative to the nonmarketized sector, and the marketized coastal regions are progressing more rapidly than inland regions in levels of economic development and growth of per capita income. In 1981, the ratio between the industrial and agricultural output value of coastal and inland regions was 55.7 to 44.3. This gap in output widened to a ratio of 58.5 to 41.5 by 1988. In monetary terms, the margin increased from 85.8 billion yuan ($18.2 billion) in favor of the coastal provinces to 408.3 billion yuan ($86.7 billion) (*China Daily,* September 28, 1990: 4). The social outcome of this change has just begun to be played out.

The marketized firms pose the problem of property rights and ownership form. The partnership between local government and marketized firms entails high transaction costs. Economizing on transaction costs would require reducing bureaucratic interference in economic decisions of the enterprise. Yet the structure of property rights of collective ownership involves government in microinterventions in the firm. Although the board-of-directors analogy permits a more positive evaluation of the role of local government, there remains a crucial distinction. The board of directors of a capitalist firm does not include government officials committed to redistributing income, and intervention by directors into the enterprise's operation is constrained by custom and corporate rule. The collective ownership form, in contrast, at best places only informal constraints on continued bureaucratic microinterventions, and more importantly, it exposes the firm to political influence in investment decisions. Although marketized firms operate with hardened budget constraints, the third-party involvement of government institutes a persistent softening effect by weakening the discipline of market competition on the firm's investment decisions. These negative effects may be compensated for by the positive aspects of cooperation with government. But as the economy evolves toward increased reliance on the market mechanism and as private property forms are backed by law and the state, the higher transaction costs of interventions by local government may act increasingly as a drag on economic performance. The cost to the firm of redistributive claims imposed by local government will surely outweigh the benefits of political support when the institutional foundations of a market economy are more fully in place.

To overcome current structural imbalances in the Chinese industrial economy, further progress toward instituting a market economy is needed. Fundamentally this entails putting private property rights on an equal basis with other ownership forms, creating legal norms and regulations—and means to enforce them—that protect private property rights, and making further progress in instituting a market-clearing price structure.

One problem is providing adequate incentives for managers to assume responsibility for the growth of the capital assets of the industrial firm. As an economist observed, "In a country operating with a private ownership system, the owners of capital property (assets) will do their best to suppress wages and increase accumulation in order to attain the goal of maximum growth in value of the assets. Without this role of asset owners, there will not be a motivating force for the growth of the value of capital assets" (Wang, 1988: 44). At present, managers have little incentive to resist the political pressure of workers to seek higher salaries, bonuses, and fringe benefits. The power of the party apparatus entrenched in the firm and the influence of socialist ideology far exceed the will of managers to overcome labor costs that outrun gains in productivity. As a result, a disproportionate share of extrabudgetary investment capital has been spent in the past decade in social investments, such as constructing new housing for workers, rather than in modernizing technologically backward plant facilities. At the same time, local governments have become dependent on revenues from the marketized firm to provide funding for a wide range of activities. Despite the impressive performance of the hybrid marketized economy in the 1980s, it bears the markings of its origin. The structure of property rights of the collective enterprise is such that the social benefits of a profitable firm exceed by far private returns. The fatal flaw of the marketized firm may be that its innate tendencies are defined by the conflicting institutional logic of redistribution and market. There is still the tendency for "rush growth" and inefficient allocation of resources.

Despite a substantial increase in capital investments in the early 1990s, productivity and profits in state enterprises continue to plunge. Despite declining returns on investment, the state must pump in more capital to bail out money-losing state enterprises. As a result, the central government faces a classic budget squeeze. Insofar as the state seeks to maximize tax revenues, it favors institutional arrangements that deliver the highest returns (North, 1981). The state-owned sector has responded poorly to the central government's effort to sustain economic growth and increase revenues. By contrast, private enterprises, which were the hardest hit by the recession, recovered quickly and constitute the fastest-growing sector of the Chinese industrial economy. The organizational dynamics growing out of disparities in economic performance and access to resources among the state, collective, and private sectors is what drives market transition in China.

The East Asian development model—Japan, South Korea, and Taiwan—rested on continuous but selective state interventions (e.g., Amsden, 1985; Hamilton and Biggart, 1988). There, authoritarian states intervened in markets and firms to shape the course of development, which enabled these late-industrializing economies to mount and sustain high levels of economic growth. China's market transition bears family resemblance to the East Asian model, and economic development there may in time take a similar course (Perkins, 1986). As Biggart (1991) argued, the East Asian cultural tradition encompasses the deep structures that produce the distinctive institutional environments of East Asian market economies, which cannot be readily accounted for by neoclassical assumptions. The market has penetrated the state socialist redistributive economy and is in the process of transforming it into a hybrid market economy characterized by strong government involvement.

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