OFFICE MEMORANDUM

DATE August 9, 1986

TO Mr. R. W. Anderson (Acting Chief, AEACH)

FROM William Byrd (AEACH)

EXTENSION 74917


1. In accordance with Terms of Reference dated June 18, 1986, a mission consisting of myself, Josephine Woo, Jan Svejnar (consultant), and Christine Wong (consultant) visited China on June 23-July 25, as part of the Collaborative Research Project on Chinese Collective Industry. This project is being conducted jointly by the World Bank and the Institute of Economics of the Chinese Academy of Social Sciences (CASS), with other Chinese research organizations also participating.\footnote{These include the Rural Development Research Institute (affiliated with the Rural Development Center under the State Council), the Economic Reform Research Institute under the Economic Reform Commission, and Beijing University.}

Financial support for the project is being provided by REPAC, the China Division, and the Ford Foundation. The main focus of the project is China's township and village industrial enterprises, including a variety of collective and private forms of ownership.

Target Areas for Fieldwork

2. This mission was the first of two involving fieldwork and data gathering in China. The mission visited two preselected target areas in addition to holding discussions in Beijing. One of the target areas, Wuxi County in Jiangsu Province, is in a very rich agricultural area and is probably the most industrially developed of China's counties. It is also a county which to a considerable extent has preserved the traditional (pre-1978) mode of organization and supervision for township and village enterprises. Private industrial firms have remained undeveloped and at the fringes of the industrial system (though Wuxi authorities claimed that they did not place any special restrictions on private enterprises). Wuxi has been relatively slow to introduce economic reforms in agriculture as well.

3. Jieshou County in Anhui Province, by contrast, is only roughly average in terms of rural per-capita income and rural industrialization. Local authorities have encouraged the development of private industrial enterprises (both individually owned firms and partnerships), however, and many substantial private concerns have emerged, some
employing as many as 60-80 workers and with several hundred thousand yuan worth of assets. Jieshou was also one of the first counties in China to implement the production responsibility system in agriculture, in 1979-80. In some of the poorer, more remote townships, when the land was divided among the peasants, township and village enterprises were sold off or contracted to individuals, resulting in large-scale privatization in the non-agricultural as well as the agricultural sphere. Jieshou has also been more liberal than other areas in allowing rural-urban movements of entrepreneurs, capital, and labor. Finally, Jieshou appears to have a fairly active market for land, with land prices rising sharply in recent years.

4. The two counties visited thus provide striking and valuable contrasts in a number of important aspects. Given that two other counties are to be seen during the second fieldwork mission and that additional information is being gathered from other sources, the project should have an adequately representative data base to work with.

Information Gathering

5. The mission had extensive discussions with county and township authorities in both Wuxi and Jieshou and held detailed interviews with roughly 30 industrial enterprises in each county. The CASS team also met separately with other enterprises in both counties. Complete interview notes are being prepared for all meetings. The other main form of information gathering was distribution of five different kinds of forms, three for enterprises, one for workers, and one for township authorities.

6. The enterprise questionnaires include: (a) a detailed quantitative questionnaire requesting statistical information for a number of years; (b) an enterprise survey questionnaire (to be filled out by the leading cadre of the enterprise together or by a deputy director); and (c) an enterprise director’s questionnaire. About 110 enterprises (30 in Wuxi, 60 in Jieshou, and 20 in Taihe County which lies next to Jieshou) filled out these forms. A workers’ survey questionnaire was distributed to stratified random samples of workers in some enterprises (among those which were part of the sample and filled out the other forms). The sample size for the workers’ survey questionnaire was 473 for Wuxi County and 297 for Jieshou (where enterprises are much smaller on average), for a total of 770 observations. Finally, a questionnaire for township authorities was sent out to all townships and towns in Wuxi and, Jieshou. Response was incomplete, but about 60% of the townships and towns in each county returned usable questionnaires, for a sample size of roughly 40.

7. For all the different questionnaires distributed, the CASS team made a determined effort to ensure that questions were understood and properly responded to. Completed questionnaires were checked and if necessary returned to the enterprise concerned for additional data. As a result the information obtained through the questionnaires is relatively reliable, and should provide a good foundation for analysis.
Cooperation with Chinese Counterparts

8. More generally, a very good working relationship between the World Bank and CASS teams was established during the mission. A large, very unusual group of people was assembled for the project on the Chinese side, virtually all of them in their 30s and from a variety of different organizations. Their common interest is a desire to make reforms work, accompanied by a recognition that it is necessary to learn about the actual situation in the field rather than merely making normative prescriptions.

9. The CASS team was very responsive to our suggestions as to how to conduct the work and to our information requests. As a result, it was possible to obtain a much larger volume of reliable information than is normally possible on Bank missions. For example, in response to our suggestions CASS undertook to base the distribution of the workers’ survey questionnaire on stratified random samples of workers of different types (ordinary, apprentice, technical) by enterprise. This was not an easy task under Chinese conditions, yet it was accomplished. Moreover, interviewees tended to be much more forthcoming when responding to questions posed by a mixed group of Chinese and World Bank researchers.

10. Finally, in important respects the design and scope of the work has been shaped by the CASS team, which is unusual even compared to other collaborative projects involving China. The enterprise director’s questionnaire and the township questionnaire, for instance, were added at the initiative of CASS and initially designed by CASS. CASS also took the initiative in expanding the enterprise sample size for the first mission from 20 enterprises (10 in each target area) to over 100. This was particularly helpful in the case of Jieshou County, where oversampling was necessary to make sure there is adequate representation of enterprises with numerous different forms of ownership.

Initial Impressions

11. While substantive conclusions must await analysis of the survey data collected and the results of the second fieldwork mission to China, some initial, tentative observations can be made.

12. Role of the Market. In the first place, China’s nonstate enterprises and particularly its township and village industries function primarily in a market environment with regard to current inputs and outputs. Production planning, supply allocations through the plan, and sales or procurement planning have become virtually insignificant determinants of the activities of TVEs. The bulk of TVE products are sold on open markets (many at market-determined prices), and most inputs also are freely bought on markets at market-determined prices. Often when TVEs refer to their products being included in the state plan, what this means is that some government commercial agency has made regular, large-scale orders for the products, often also providing low-priced inputs in exchange. But this is far cry from mandatory production planning.
13. The major exception to this general pattern in Wuxi is electricity, but even for electricity additional supplies often can be obtained by paying very high prices (as high as Y 0.50/kWh in some cases). In Jieshou electricity supplies are not nearly as tight as in Wuxi, and moreover many of the enterprises are smaller and hence have no limitation on their electricity supply. Most electricity supplies in Jieshou continue to be delivered at the state price, in contrast with the situation in Wuxi.

14. The Role of the Local Government. Another observation of the mission was that local government authorities tend to be highly supportive of the development of TVEs, even of private enterprises in at least some areas. In Wuxi, the county itself had very few county-run state enterprises, so TVEs (of the traditional form) accounted for the bulk of county industrial output. In this situation the county focused great effort on supporting the traditional TVEs which were already developed and creating new enterprises in the same mould, while not promoting the development of county-run state enterprises on the one hand or private enterprises on the other.

15. In Jieshou, on the other hand, county-run state enterprises account for a larger proportion of gross value of industrial output, and moreover the traditional TVEs were not a great success in the prereform period. In this situation government authorities strongly supported the emergence and rapid growth of private enterprises. This was done most importantly by relaxing previous restrictions on the establishment of such enterprises and their access to bank credit, but also by "administrative support and protection" on the part of county officials. Many private enterprises in the early stagesook on the name of a collective in order to facilitate such help and particularly financial support, but there are now also a number of substantial enterprises which are private in name as well fact, and which appear to get equal if not priority access to financial resources.

16. Entry. Still another impression from both counties but particularly from Jieshou was that government-imposed restrictions on entry into different fields by TVEs play a very minor role in determining their growth potential and subsectoral/industrial distribution. In Jieshou the authorities claimed that only in one industry, cigarettes, are TVEs prevented from establishing factories (this is in line with a strict national policy to prevent the proliferation of small, inefficient cigarette factories attracted by the high profitability of cigarette manufacture). In all other industries, including even the alcoholic beverage industry, new private TVEs can be set up, so long as they demonstrate they can handle the technology, quality requirements, etc. In Wuxi, township authorities are similarly not very restricted in their freedom to set up new enterprises of traditional TVE type, though new private enterprises are held back by concerns about electricity consumption, pollution control regulations, etc.

17. Competition. The lack of control over entry means that administratively imposed entry barriers have not been used as a means of
restricting competition by and among TVEs. County and township govern-
ments probably take into account the extent to which the market is
"occupied" in their investment decisions and particularly decisions on
whether to finance the establishment of new enterprises. But even so,
it is possible to have numerous township-run enterprises competing
vigorously with each other within a single county, with no apparent
control exerted by the county over entry by new township-run enter-
prises. In Wuxi, for example, the market for soft drinks has become
saturated, with 16 producers in Wuxi County alone and numerous others in
Wuxi City and other nearby counties. Yet no controls were imposed over
new entry as the market was becoming saturated, or even now.

18. Another general impression was that protection from outside
competition, at least in the case of TVEs and their products, is beyond
the means of local governments to achieve, even if they desire to do
so. This means that impediments to effective competition from outside
the local area also are relatively weak. One good example is a manufac-
turer of glazed tiles for buildings in Jieshou. It faced severe competi-
tion from a factory in Fujian Province, which offered lower prices and
good delivery terms. When asked whether the local government could not
simply prevent construction firms from buying from the Fujian producer,
the enterprise manager replied that this was impossible, and that parti-
cularly after the responsibility system in construction was introduced,
construction units would buy only on the most competitive terms. In the
end, the Jieshou tile manufacturer was forced to respond by offering a
lower price and even better delivery terms than the Fujian competitor.

19. Local authorities may have somewhat greater success in pre-
venting goods in short supply from being "exported" to other areas,
because it is easier to monitor and control the transactions of one or a
few producers than those of the numerous customers and potential custo-
mers for a product. Jieshou authorities stated that this year they are
"exporting" grain and fertilizer in this manner, because the state is
putting renewed emphasis on achieving grain output targets. Neverthe-
less, "export" through secondary trading is very hard to prevent, and on
the road through Henan Province from Jieshou to Zhengzhou we saw bags of
fertilizer made in Anhui being transported on the road. In any case,
the implications of "export controls" for competition are different from
and much less direct than those of "import controls".

20. Cooperative Ownership. Still another, very important impres-
sion, which would have to be confirmed by later investigations, is that
there is a general lack of concern for the precise form of nonstate
ownership, and particularly as between true private ownership (with
hired labor) and various possible forms of cooperative ownership. Thus
ownership patterns for enterprises tend to cluster around the two ends
of some form of state or quasi-state ownership (the traditional TVE
form, which really amounts to government ownership, by the government of
an extremely small "state") and private ownership as conventionally
understood (an individual or small group of partners running a concern,
which if it relies primarily on hired labor is akin to a capitalist
firm).
21. Some people on the CASS team went so far as to question whether it is possible at all in China to have cooperative forms of ownership. They argued that for cultural reasons, there would always be a tendency for partnerships to fragment or at least end up with one dominant owner. This would be even more true in a situation where all workers are nominally owners of the enterprise. Members of a cooperative would tend to want to set up enterprises of their own if given the slightest chance, making partnerships and cooperative firms transitory and unstable, particularly if they achieve a certain degree of success. This line of reasoning has important implications and should be pursued, though it is more in the field of sociology than of economics.

22. Tipping Toward a Private Economy. Related to the possible cultural/social bias against cooperative forms of ownership and management is the idea, suggested by the experience of Jieshou County, that the more backward rural areas are "tipping" in the sense that they are inexorably moving in the direction of a nonagricultural economy with a large share of private ownership. Only the areas that because of their natural advantages were able to achieve a certain degree of development in the prereform period under the traditional TVE system have held onto more "collective" forms of ownership.

23. The logic of the shift toward private ownership in a place like Jieshou is straightforward, though the rapidity of the movement in this particular county may reflect more liberal attitudes and policies on the part of local government. In the first place, the lack of successful development of TVEs in the prereform period meant that the volume of internally generated funds available for reinvestment and under control of township or village authorities was limited. Moreover, large-scale privatization of the unsuccessful traditional TVEs occurred when the production responsibility system was instituted. The lack of success of traditional TVEs also would tend to discourage external provision of funds, most notably the banking system, from bankrolling large new investments. These factors of course were self-reinforcing, in that they limited not only current but potential future development of traditional TVEs.

24. In this kind of situation, local authorities may have felt that the only way to achieve rural industrial development was through encouraging private enterprises. Once private enterprises reached a certain degree of acceptability and financial success, their development may have become self-sustaining. In Jieshou, banks appear to be very willing to lend to the more successful private enterprises, because they are good credit risks as well as due to local policies encouraging private firms. While other areas may not have been as forceful in promoting private enterprise development as Jieshou County, the same tendencies could be at work.

25. Thus the mission's initial findings have borne out part of the Chinese conventional wisdom on TVE development: private enterprises flourish in the backward regions, while the more developed areas main-
tain a more "collective" pattern. But the reasons behind this have little to do with the conventional explanation that a greater degree of development allows and indeed implies greater socialization in production. Instead, the causation appears to have been much more negative: in backward areas the traditional TVE system had little credibility and more important insufficient resources to generate self-sustained growth. As a result people had a preference for setting up private enterprises, and authorities with an interest in promoting economic growth saw private enterprises as a convenient, less costly means of doing this.

26. Wage System. Striking feature of TVEs in both Wuxi and Jieshou is the prevalence of piece-rate wages, or a variant of piece rates very similar to the old workpoint system used in collective distribution before the production responsibility system was introduced. This has important implications for individual incentives and income distribution, and sharply distinguishes TVEs from the state sector, where experiments with piece rates by and large have not been successful.

27. In Wuxi, TVEs use something close to a workpoint system. The "value" of different types of work output (usually stated in the form of number of standard "shifts" which a certain amount of product or processing work is equivalent to) is calculated, and workers are awarded the appropriate number of shifts in accordance with their actual work output. Monthly wages are advances against year-end distribution; at the year-end settlement, the value of a shift is determined by some combination of enterprise output value and profits (practice varies across townships). If the value of a shift were determined by enterprise net profits after tax, then this method would be exactly the same as the workpoint system in collective agricultural distribution.

28. In Jieshou most enterprises use straight piece rates, giving workers a stipulated amount of money per unit of work output (sometimes also specified in terms of number of "shifts"). There may be a year-end bonus, but it is usually small, and in many enterprises it only applies to managerial personnel (who in private enterprises may also be the enterprise's owners). The key difference between the two methods is that in Wuxi workers are at least in principle partial residual claimants on enterprise net profits, while in a pure piece-rate system, they are not.

29. Based on discussions with the CASS team, it appears that what we observed in Wuxi and Jieshou is the typical pattern -- most TVEs use piece rates or a recognizable variant of them. One question that arises immediately is why piece-rate wages appear to work well in China's TVEs, while they have not been successful in state-owned enterprises or more generally in private enterprises in other countries. A number of possible explanations can be advanced:

(a) Much TVE industrial production activity, particularly in Jieshou, still involves relatively simple one-stage process-
ing, where work output is relatively easy to measure. This makes piece rates more feasible than in the case of more advanced, complex industrial processes. However, this hypothesis clearly does not apply to many of Wuxi's larger, technologically advanced enterprises. In any case it explains why piece rates may be technically more feasible than in other situations, not why they were actually chosen over other methods.

(b) Another important factor is the close relationship to the traditional workpoint system in agriculture. In Wuxi the connection is direct, but more generally, peasants turned into industrial workers may be most comfortable with a distribution system where rewards are directly tied to their work and which is similar to the method they used previously in agriculture.

(c) The collective nature of TVEs and the implicit rights of workers in these enterprises may also play an important role in permitting use of piece-rate wages, but this is hard to gauge because it is based on largely unspoken, perhaps even customary (i.e. built up before the late 1970s) attitudes and practices. If perceptions of workers' rights mean that arbitrary and narrowly profit-oriented reductions in piece rates or increases in norms for piece work are simply not viable options for management, a major source of contention in piece-rate systems in other countries is removed. It also means that with improvements in technology and production processes, wage rates will tend to rise more than they would in a labor market situation.

30. Regardless of the reasons behind their acceptability, piece rate wages in China's TVEs clearly provide very strong individual incentives for harder work and willingness to work long hours if necessary. Thus their introduction, which appears to have coincided largely with the implementation of the production responsibility system in agriculture, probably provides a partial explanation for the impressive growth performance of China's TVEs since the early 1980s.

31. Factor Mobility. Considerable rigidity in factor movements was evident in both Wuxi and Jieshou. In Wuxi there has been some movement of labor in from other parts of China to do menial and difficult tasks (for instance, working in a brick factory or in heavy construction jobs). Wages paid appear to be relatively high, but permanent inflows of labor from other areas are not permitted. The large amounts of capital generated in Wuxi TVEs (after tax) for the most part remain within the township. The flows of capital that occur are actually from more backward areas to Wuxi rather than the opposite direction.

32. In Jieshou, rural-urban population flows are permitted to a greater extent than in other areas, and 6,000 people have moved into Jieshou town and had their registration changed from rural to long-term urban status (the total population of the town -- urban registration
households only -- is 43,000). There are probably another 10,000 or so people living in Jieshou town who have rural household registration. Moreover, there is an active market in urban and rural land, and agricultural land on the town’s fringes has been urbanized at a rapid rate in recent years.

33. On the other hand, there is evidence of labor immobility in the more remote rural areas of the county, with more local people going to work in the coal mines of Shanxi than to the much nearer Jieshou town. Also, there appears to be no flow of capital from urban to rural areas to take advantages of much lower wage rates in the latter. On the contrary, both capital and peasant entrepreneurs are moving from the countryside to the town to set up factories, buy land and apartments, etc.

34. Tax System. Tax collection from TVEs is still characterized by widespread exemptions and a great degree of ad-hocism, despite efforts in recent years to increase effective tax rates for TVEs. For the smaller enterprises, tax quotas are assessed based on an investigation by tax officials, and that amount is collected regardless of the enterprise’s actual volume of business. For larger enterprises, exemptions are still freely given to new enterprises and even for enterprises in trouble or those that happen to have high investment requirements in a particular year. It remains to be seen to what extent new measures being proposed and taken in 1986 will regularize and “harden” the TVE tax system.

35. Statistics. There are some major weaknesses in the statistical information on TVEs. Perhaps the most severe problems is that the smaller enterprises below the brigade level do not report their output value in constant prices. As a result the Statistical Bureau uses the same figure for their output value in current and constant prices. Given recent price inflation and the fact that the prices of most TVE output are market determined, a certain portion of the spectacular growth of TVE output in recent years represents nominal rather than real growth.

36. TVE statistical reports are gathered through a number of channels. The Township and Village Enterprise Bureau under the Ministry of Agriculture and at the local level collects statistics on TVEs, which are probably the most complete though not necessarily the most reliable. The Statistical Bureau through its industrial statistics system collects detailed reports from township but not lower-level enterprises. The Industrial and Commercial Administrative Management Bureau also has information on TVEs from their registration applications. But this is incomplete particularly with respect to smaller enterprises, many of which are unregistered. Tax Bureaus and banks also have some financial information, but this is distorted because of the use to which it is put.
Reasons for Rapid Growth and Good Performance of TVEs

37. The mission was able to shed some light on the crucial issue of why TVEs were able to grow so rapidly and achieve great success during the period since 1978. Some hypotheses advanced earlier (see Project Proposal) can be discounted, while others are supported by the evidence gathered so far. Some new hypotheses also must be added to the list.

38. Growing out of the Small Enterprise Niche. The viewpoint that TVEs in the past few years have been simply "growing into their niche" is rejected by the evidence from Wuxi. In 1978 the majority of Wuxi enterprises could perhaps still be viewed in this light, with over 70% of output consisting of subcontracting for urban industries. But by 1984 if not earlier, the picture had changed greatly, with subcontracting for urban industries accounting for only 21% of total output.2/ Thus in the last five years Wuxi's TVEs have been growing out of their niche rather than into it. Though in backward areas much recent growth of TVEs may involve filling a previously empty niche, there is nothing to prevent the more successful TVEs from breaking out of the small enterprise pattern and becoming substantial, independent producers in their own right. Some Wuxi TVEs successfully compete with state enterprises and account for a large share of the national market for their product.

39. In a place like Jieshou, TVEs have a long way to go before they become successful national competitors. Nevertheless, based on present trends it appears that private enterprises will be among the first to break out of the small enterprise niche, and again, there are no explicit policies to prevent such enterprises from becoming large.

40. Tax Advantages. One hypothesis which could not be rejected based on the mission's experience is that TVE development has depended heavily on special tax treatment. In the past new TVEs were exempted from both direct and indirect taxes for as long as three years, and in any case the profit tax rate for TVEs was a flat 20%, much lower than the profit tax rate for urban collectives (which is graduated and has a maximum rate of 55%) or for state enterprises (55% plus an enterprise-specific adjustment tax). Additional tax exemptions appear to have been freely granted to enterprises in trouble, or even sometimes those with ambitious investment programs and hence great need of investment funds. At the local level the value of tax exemptions granted to TVEs has been substantial, but unfortunately no national figures or estimates on the value of tax exemptions to TVEs are available.

2/ Since these two percentages are from different sources, they may not be entirely comparable. Nevertheless, the magnitude of the change indicates that there must have been a substantial real decline in the share of output that consists of subcontracting.
41. The Production Responsibility System in Agriculture. Though not on the original list of possible explanatory factors, this clearly played a very important role, which probably varied substantially in different areas. In Wuxi the production responsibility system (PRS) was implemented late and was not accompanied by major changes in the traditional TVE system. Nevertheless, it had important benefits for the latter, including most prominently the release of surplus labor from agriculture just at the point when labor was probably beginning to constrain TVE expansion, and perhaps even more important its linkage to the change in the TVE wage system.

42. The PRS appears to have been closely linked to the demise of triple cropping with its high costs and high labor requirements. The return to double-cropping allowed many peasants to leave agriculture (except for brief periods during the peak season), without a commensurate loss in agricultural production and apparently no loss in net income (because of the reduction in average cost of production due to getting rid of the high-cost, relatively low yield crop).

43. Before the PRS, in Wuxi TVE wages were for the most part paid not to the individual workers but instead directly to their production teams. In this way the bulk of TVE wages went into the general "pot" of collective distribution. This method prevented actual TVE wages from getting far out of line with average rural incomes, but it generated a whole set of problems and disincentives. The individual reward for greater effort was extremely diluted, since it not only had to be shared with fellow workers (who at least could be monitored by each other) but also by all the members of the production team a worker happened to belong to. There could also be considerable inequities between average wages received by different workers in the same factory, since these depended mainly on the income level of each worker's production team. The general source of these and other problems was that the "membership" of the enterprises in terms of involvement in production and other economic activities (enterprise workers and managers) was greatly different from the membership in terms of sharing in enterprise net income (the members of all workers' production teams, which in the case of large enterprises might mean most of the residents of the township considered).

44. With the PRS, the old system was no longer tenable since there was very little if any collective distribution left, so a change to payment of workplace-type wages to enterprise employees occurred. This got rid of the problem of distorted membership groups mentioned above, and made the enterprises into something more like cooperative firms, in terms of income distribution if not in terms of operations and management. The combination of the shift to individual wage payments and the use of individual payment related to actual work generated very strong incentives which may to a considerable extent explain better performance and acceleration in growth in the 1980s.

45. In Jieshou, the role of the PRS was somewhat different but also very important. It appears that TVE wages were paid directly to
individuals all along (though TVE workers had to turn over part of their wages to their production teams in order to receive collective distribution in kind). The PMS did involve release of surplus labor from agricultural activities, but these people could not be absorbed in nonagricultural activities as easily as in WuXi. Perhaps more important was the role of the PMS in precipitating widespread privatization of non-agricultural firms and assets, as was already mentioned. This in turn further reduced the base of traditional TVE industries and weakened the potential for their subsequent development. Thus the PMS may have provided an initial impetus for private enterprise development.

Next Stages of Work

46. Follow-up on First Mission. The first priority is to complete the detailed write-ups of interview notes (some of which have already been done in the field), and to enter the data gathered into the computer. These tasks hopefully will be completed by the end of August. At the same time, hypotheses and lines of questioning for data analysis will be developed, based on the impressions from the interviews and on general institutional information obtained.

47. Though at this point it is not anticipated that any major "intermediate product" for the project will be prepared, some preliminary tests of hypotheses will be made with the data from the first two target areas. In view of the difficulty of obtaining different data sets for generation and testing of hypotheses, a "mixed" method will probably be used, along the following lines: Hypotheses will be generated based on interview information, public sources of information, data from a test distribution of questionnaires by CASS in Yuanping, Shanxi Province, and reports done (without questionnaires) by Chinese institutions on TVEs in Wenzhou, Zhejiang Province and in Fujian Province. Then these hypotheses will be tested with the data from the first two target areas. Depending on how these tests work out, the hypotheses could be further tested with the data from the second set of target areas, or alternatively, new hypotheses could be developed. This approach probably maximizes the use of information from both missions.

48. International Trip. Plans for the international trip by the CASS team also were firming up during the mission. The three principal economists of the CASS team would leave China roughly on October 15-20 for a trip of 3-4 weeks duration to the following places: India (Bombay area), Yugoslavia (Ljubljana), Italy (Rome or Bologna), England (London), the USA (Boston, Ithaca, Washington, and the San Francisco area), and Hong Kong. In each country visited, the CASS team would interview at least two enterprises and would hold discussions with academics, research institutions, and (where applicable) related government agencies. In Washington there would be a seminar at which the CASS team's experience on the international trip, its relevance for the China component of the project and for Chinese policy reforms, and the progress of the China component and data analysis would be discussed.
49. In preparation for the CASS team’s trip, some background materials are being prepared and consultants have been identified to do the necessary background work and to accompany the CASS team on its interviews. For India, the primary consultant would be Rabindranath, Professor of Sociology at Delhi University; for Yugoslavia Professor Janos Pramikar of the University of Ljubljana and the International Institute of Public Management; for Italy Professor Derek Jones of Hamilton College; and for England Virginie Perotin of the London School of Economics. In Hong Kong it is hoped that the Chinese University of Hong Kong will be able to serve as host.

50. Due to additional funding provided by the Ford Foundation and some economization on costs, it will be possible for five other members of the CASS team to participate in the US and Hong Kong portion of the international trip. This will permit younger, more junior members of the team, who otherwise would have little chance to travel abroad, to become involved in the international component of the project. In line with this development, the US portion of the trip has been lengthened and broadened to include more visits to enterprises and more discussions with academic institutions, including some with China interests as well as those involved in research on cooperative firms in other countries.

51. Second Fieldwork Mission to China. It was agreed during the mission that the second fieldwork mission to China would begin around the middle of February 1987 (two weeks after the Spring Festival). The two target areas to be visited include a county in the Pearl River Delta in Guangdong Province, which makes considerable use of foreign and Overseas Chinese capital to support TVE development, and Shangrao County in Jiangxi Province, which is relatively poor and backward and where TVEs have not developed as rapidly as elsewhere.

52. International Conference. Some tentative plans for the conference were discussed during the mission, but it was agreed that detailed arrangements would be considered later. It is still hoped that the conference can be held at the end of August 1987 or in September, but this means a very tight schedule for writing conference papers and having them translated.

cc: Messrs. Yanai, Linn, Merghoub (o/r), Levy (AEA); Colaco, Sud (AEP); Lim, Khanna (AEP); Tidrick (CPD); Gelb (IND); Bvejnar (CON); Mss. Wishimizu (IND); Woo (AEA); Wong (CON)

AEACH Staff

WByrd (W-GH569)
Some Hypotheses on the Operation of NSEs in China.
December 1986

Very little has been known of the organisation and workings of the NSE's, and of the reasons for the rapid growth of the sector. Indeed, this lack of knowledge on the "reforming" of the Chinese industrial sector was why the project on the NSEs was developed. It also implies that aspects of the sector which would be common knowledge for industrial sectors of other countries are unclear. This suggests that the set of hypotheses regarding the sector is potentially wider than the corresponding set for many other countries, where basic structural characteristics are, so to speak, taken for granted.

Therefore, we can divide the many issues concerning the sector into four groups:

(1) Broad characteristics of the sector and of those working in it relative to those of the overall Chinese economy and its workforce, or relative to state industry.

(2) Their external environments. What are the relationships of the NSE firms with township and village governments, banks and the materials supply system?

(3) The management, pay and incentive systems of the NSEs (what might be termed their internal working environments). Are they similar or different across the various types of firms, and do they resemble those found outside China in capitalist firms, cooperatives or in the state enterprises?

(4) The determinants of productive efficiency of the enterprises and of their patterns of factor use. This set of hypotheses takes as given the characteristics considered in the first three groups. It centers around the production function for the firms, taking into account that under certain systems of ownership, pay and management, profit maximisation might not be the sole objective or indeed, not an objective at all.

(1) Broad Characteristics of the Sector.

The NSEs are typically medium-sized, rapidly growing firms.

Their labor forces are young and relatively highly educated.

Capital intensity is far lower than in the state enterprises.

Labor intensity (in terms of yuan output per worker) is comparable.
Pays is considerably lower than in state enterprises.

Profit rates are high (above 10 percent of total assets).

There are considerable interregional differences between dominant NSE types. These reflect the stage of China's reforms relative to the period of local NSE expansion. In particular, pool-capital firms are most prominent in the most recently industrialising areas.

The NSEs supply a major part of total income to their townships and villages; they are not a seasonal appendage to an agricultural economy.

The information needed to test these propositions will be available for the NSEs from the quantitative and qualitative questionnaires and interviews (see questionnaires). There is not so focused an information base available for the state firms; however, indications are available from a number of studies and we are exploring the possibility of obtaining access to the results of a recent survey made by the Chinese for the state firms along similar lines.

A preliminary look at the first questionnaire results seems to support these propositions.

(2). The External Environment of the NSE's

NSEs regardles of their form of ownership and supervision operate largely in a market economy for their outputs and nonfactor inputs. Most inputs and outputs are transacted outside of directive planning, through the market mechanism.

NSEs, again irrespective of their ownership, tend to do most of their marketing themselves. Reliance on the state commercial system for marketing or on subcontracting for state enterprises is relatively limited.

The degree to which NSEs are subject to price controls on the output side varies by industry, but the bulk of NSEs are not severely constrained by output price controls.

Local government intervention in enterprise decisions on the size of the workforce and on new hiring is much greater in the case of individual and joint household firms. Such government intervention includes comprehensive assignment of new entrants into the labor force in Wuxi.

In localities where collective industrial firms are not well developed like Jishang, sizeable private (individual and joint household) enterprises are not discriminated against by banks, local fiscal authorities, and other providers of investment funds. Where collective industrialization is firmly entrenched (e.g. Wuxi) private firms may be discriminated against in the provision of capital.
Though the markets in which NSEs operate vary greatly in terms of geographical coverage and identify of competitors, these markets are generally competitive, sometimes fiercely so. In particular, protection of particular NSEs' local markets by local government authorities does not occur.

Data to address such issues will come from from the surveys and from interviews.

(3). The Internal Structure and Organisation of the NSEs.

NSEs fall broadly into two types: township or village, and pooled capital.

For the former, capital is provided mainly by local government. A large part of surplus is returned to local government which performs a risk-sharing function; the rest, after bonuses, is reinvested.

NSEs retained profits depend more on gross profits (the two are more closely correlated) than do state enterprise (SE) retained profits. This is an indication that NSEs may have a "harder" budget constraint than SEs. Within the NSE sector, such linkage between gross and retained profits is greatest in the genuinely private firms, least in the community-controlled firms of the Wuxi model.

The phenomenon of genuine worker equity ownership of enterprises is virtually never observed, except in very small concerns just started up by worker-founders; in larger private firms owners (and possibly workers as well) prefer to raise debt capital from the workers rather than share capital.

The phenomenon of private enterprises disguising their ownership as collectives (which was common in Jieshou) is highly correlated with date of founding, with enterprises established since the early 1980s much less likely to do this. Openly private ownership of sizeable firms is now accepted.

In Wuxi the wage system involves a large dose of profit-sharing, at the same time with government intervention to prevent excessively large interenterprise wage differentials. In Jieshou pure piece rate wages are in vogue, with the alternative being time rates. In either case, explicit profit sharing is absent. Therefore the extent of implicit profit-sharing may be deduced from relationships between average pay and profits adjusted to take into account the deviation of pay from sample-average levels.

Labor relations are better on the pooled-capital firms because of the voluntary nature of the employment contract. Fewer workers on such firms wish to quit.
However, given the limited labor mobility characteristic of China, the NEEs tend towards the Japanese model of long-term employment; workers expect to stay with their firms. Therefore they are not opposed to the reinvestment of most surplus.

Managers are changed largely on the criterion of enterprise profitability, rather than on other considerations such as how many workers can be employed.

In none of the types of firms do workers exert any significant degree of management responsibility; they are not "cooperatives" in this sense. Managers are appointed by local government or the "owners". They make all decisions except for the broadest strategic ones where local government may be involved.

However, in all types of firms bonuses based on both individual performance and profitability are a considerable part of total labor costs, and this is recognized to provide an important incentive.

Pay differentials are considerably larger, both between individuals within individual firms and between enterprises, than is characteristic of China. The workforce is strongly supportive of efforts to raise productivity.

Data to test these propositions is being collected through quantitative and qualitative questionnaires (attached). A very preliminary look at first results in Attachment ... supports most of them.

Insofar as these propositions are valid, they point to an enterprise incentive structure not unlike that of the Japanese firms or the John Lewis Partnership in the UK, or indeed, capitalist firms which have low staff turnover and extensive profit-sharing schemes (Ouchi's so-called Z-firms in the United States). Such firms have been shown to be capable of excellent performance in market economies and to have good growth potential.

(4). Organisation and Performance: The NEEs' Production Functions

This set of hypotheses is dealt with in the second part of this Attachment, that by Jan Svejnar.
A Methodological Framework for Evaluating Performance of Chinese Nonstate Enterprises (CNEs)

Jan Svejnar
Cornell University

1. Introduction

The aim of this paper is to (a) provide a theoretical framework for conceptualizing the behavior of CNEs and generating predictions (hypotheses) about their performance, (b) outline the methodology for testing these hypotheses with data from a four-province stratified random sample of CNEs, and (c) indicate the types of comparisons with firms in other countries that can be drawn from the present study. The paper hence addresses the main comments of the World Bank referee report of February 18, 1986, which identified the "absence of an apparent analytical framework" as an important area of concern.

The paper builds on Alan Gelb’s paper which outlines the basic "stylized facts" about the behavior of the CNEs. Section 2 of the paper identifies the criteria for analyzing performance, describes a general model of CNE behavior and derives testable hypotheses. Section 3 outlines the empirical methodology and indicates which results can be compared to findings from other countries.

Before discussing the analytical aspects of the project, it is worth noting that from the International (comparative) standpoint, the CNE sector occupies a rather special position in that it combines known features from various other settings with aspects that are strictly indigenous. Briefly,
the operation of small-to-medium-sized enterprises in a labor surplus economy under strong communal influence resembles the Yugoslav context, where small private firms operate alongside the larger labor-managed enterprises. The rapid growth of CNEs in recent years resembles that of the Italian and French producer cooperatives which have also captured unexploited parts of the market and now successfully compete with established firms. The emphasis on profit-sharing parallels that found (to a lesser extent) in western cooperatives and the role of local authorities in starting enterprises displays some resemblance to the Yugoslav system.

However, the extreme emphasis on individual incentives and the resulting wide income differentials among workers within the same skill group are unheard of in most Yugoslav and western firms. The ease of entry of firms within the communally sponsored system also contrasts markedly with the problems faced by the Yugoslavs in a similar context. Both the Yugoslav firms and the CNEs have output growth as one of their principal objectives, yet the CNEs have so far not developed into the giant corporations often seen in Yugoslavia or Eastern Europe. Finally, the reliance on local technology distinguishes the CNEs from both the Yugoslav and western firms.

2. Performance Criteria, Model of CNE Behavior and Testable Hypotheses

This section presents a relatively rigorous framework for analyzing CNE behavior and it therefore supplements the description of more informal investigations that was contained in the original proposal to REPAC. Needless to say, both types of analysis are useful and they are highly complementary. The present emphasis on the former type is motivated by the fact that (a) the collected data are of sufficiently high quality to lend themselves to relatively sophisticated hypothesis testing and (b) an outline of this type of analysis was requested by the World Bank referee report of February 18.
2.a. Performance Criteria

While the aim of the study is to assess numerous aspects of CNE performance, within the hypothesis testing framework we propose to focus on the determinants of productive and allocative efficiency, output growth, and wages (earnings). These four areas of enterprise performance are interrelated, they are important for understanding the operation of the CNE sector and its future potential, and they can be analyzed quantitatively with the collected data. The econometric findings can be supplemented with qualitative information gathered during the enterprise interviews so as to arrive at balanced conclusions and policy recommendations. The general model of CNE behavior, outlined in the next subsection, provides testable hypotheses (predictions) which are oriented toward the four performance criteria.

2.b. Model of CNE Behavior

Productive Efficiency and Output Growth

In view of the rapid growth of the CNE sector and the serious problems of wastage and production inefficiencies found in the Chinese state enterprises, the identification of the sources of productive efficiency (total factor productivity) and output growth in CNEs is of paramount importance. The available evidence suggests that productive efficiency and enterprise growth depend on both external (environmental) and internal (organizational) factors. The analytical approach which we propose incorporates these features into a traditional production function framework so that enterprise output \( Q \) depends not only on the usual inputs \( X \) but also on environmental and organizational variables \( Z \) which affect effort, quality of work, and organizational efficiency:

\[
Q = Q(X, Z)^2
\]
Depending on the institutional setting, the variables in vector \( Z \) may be exogenous or subject to enterprise choice. For example, the extent to which workers own enterprise capital (shares) may influence their effort (shirking), yet the decision on the extent of worker ownership may rest with local authorities (as is the case in Wuxi) or to a large extent with the individual CNEs themselves (as in Jieshou). The change in \( X \) and \( Z \) overtime of course determines total output growth and the aim of our analysis will be to examine the degree to which different factors have contributed to the impressive growth performance of most CNEs.

Much of the success of the CNEs is due to the decentralizing reforms of the late 1970s. To the extent that the sampled enterprises existed before 1978 and furnished data for this earlier period, it will be possible to test the hypothesis that the new package of incentives introduced in the late 1970s was more conducive to extensive and/or intensive growth than the previous system. In particular, we will try to assess whether the implementation of the production responsibility system (PRS) indeed brought about (a) a major increase in surplus labor and CNE employment in counties such as Wuxi (but not Jieshou), (b) greater productive efficiency of CNEs in counties such as Wuxi, where it resulted in the abolition of collective and introduction of individual remuneration, and (c) greater productive efficiency of CNEs in counties such as Jieshou, where it precipitated widespread privatization of firms and assets. The hypothesized positive effects of these reforms hence operated through both the \( X \) and \( Z \) variables of equation (1). The exact econometric methodology for measuring these effects is outlined in Section 3.

Most of the collected data of course relate to the period of early to mid 1980s, when the reform measures were already under way but their implementation still varied from one setting to another. Our data reflect this diversity of environmental and internal organization and permit us to
test a number of hypotheses about the effects of these factors on productivity.

The first set of hypotheses relates to the degree of enterprise autonomy from the township and village authorities. In our framework, autonomy is an environmental variable which is not directly measurable. However, it can be closely approximated by a number of measurable variables such as the percentage of capital owned by the local government, percentage of total profit appropriated by the local authorities, and the control by the local authorities over the selection of enterprise directors, wage scales, total wage bill, employment, etc. The direction of the overall effect of greater autonomy on output, is difficult to predict a priori. On the one hand, greater autonomy is likely to provide superior material and psychological incentives for workers and managers, and hence result in higher productive efficiency (i.e. a greater effect of $Z$ on $Q$, holding $X$ constant). On the other hand, a "close affiliation" of a firm with the local authorities may result in a better access to financial capital, advanced technology, scarce inputs, and distant product markets. In counties such as Wuxi, where local government strives to provide many of these crucial services to the township and village enterprises, the rate of growth of inputs ($X$), technological change and consequently output growth may be faster in the less than the more autonomous enterprises. In addition, if the local government serves as an effective risk pooling (insuring) institution, then small autonomous firms may exhibit a suboptimal degree of risk taking and hence long-term growth. Our empirical strategy in this context is to use proxies for different forms of enterprise autonomy from local authorities (financial, decisionmaking, etc.) and to assess their individual effects on $Q$ through their influence on $Z$ and $X$, respectively. The underlying econometric methodology is outlined in Section 3.
Within the realm of internal organization, the main hypotheses to be tested with respect to productive efficiency relate to capital ownership, control over decisions, and the form of labor remuneration. The sampled firms span the entire spectrum of forms of equity ownership (local government, private, cooperative by workers, and various intermediate cases) and control over managerial decisionmaking (local government appointed managers, private owners or their agents, workers or their agents). Moreover, they also display a significant variation in the form of worker compensation. Most compensation schemes are heavily oriented toward individual incentives (piece rates), although in counties like Wuxi the schemes also contain a significant element of profitsharing and varying government control over the individual rate and profitsharing parameters.

The western countries have recently witnessed a major debate on whether worker ownership of enterprise assets, workers' control over managerial decisions and a profitsharing form of labor remuneration lead to a superior productive performance than the traditional system of private ownership with owner-appointed managers and hired labor. In the Chinese context this debate of course extends to local government participation in ownership and decisionmaking. Once again, a multitude of conflicting effects prevents the formulation of unambiguous theoretical predictions and empirical testing is needed to establish the direction of the dominant effects.

In general, the arguments for private ownership and managerial approach to internal organization stress that managerial input is crucial for the firm's productive efficiency and that shirking by managers (induced by worker participation in management) would have serious negative productivity effects. Property rights writers such as Alchian and Demsetz (1972) and Jensen and Meckling (1979) also claim that (group) profitsharing would lead to shirking by workers. The argument is that group incentive schemes such as
profitsharing give each worker only a small fraction of any additional profit arising from his own effort — hence the incentive to enjoy the full benefit of shirking or on-the-job leisure [see also Meade (1972)]. The ownership of a firm's assets by its workers is also regarded as an example of an inefficient portfolio distribution by risk-averse individuals. A firm reflecting this ownership pattern will exhibit a lower risk-taking propensity and on average also lower productivity than a firm owned by fully diversified shareholders [see Jay (1977) and Meade (1982)].

The arguments for cooperative schemes in which workers participate in management, ownership of enterprise assets and in profit emphasize the gains from superior information-processing and conflict resolution, better morale and greater effort due to the material and nonmaterial incentives inherent in these schemes, as well as cost reduction brought about by the smaller need for monitoring and supervision [see e.g. Vanek (1970), Samuelson (1977), and Levin (1982)].

Local government participation in ownership and control may have the beneficial effects mentioned earlier, but it may also bring about the usual negative incentive effects associated with public ownership. Yet, in the CNE context the government control is almost never complete and it is usually combined with strong individual (piece rate) or group (profitsharing) incentives for workers and managers. In the empirical investigation we will therefore examine the various (combinations of) ownership, control and remuneration schemes and assess which ones are conducive to productive efficiency. We will also try to assess whether some schemes (e.g. government control) are more conducive to extensive growth (faster growth of inputs) while others (e.g. private ownership) dominate in terms of productive efficiency (intensive growth) but suffer from inadequate input supplies and possibly suboptimal scale of operation.
Allocative Efficiency and Wages

In addition to examining how much output different CNEs can produce from a given set of inputs (productive efficiency), we also propose to analyze the patterns of resource allocation (relative and absolute factor use) and labor remuneration in these firms. This investigation is warranted by the widely reported misallocation of resources in the state enterprises and the urgent need to employ productively the sizeable and growing Chinese labor force. In addition, the diverse structure of control in the various CNEs suggests that the criteria for resource allocation will vary across these firms. From the standpoint of public policy, it is therefore important to understand better the various allocative patterns exhibited by different firms in this rapidly growing sector.

The usual social welfare criteria imply that the optimal overall resource allocation is that which ensures that the marginal product of any given input 1 ($Q_{x_1}$) is identical in all uses. Within the competitive capitalist framework, this is in theory achieved because the price ($P_{x_1}$) of any given input 1 is uniform, clears the market, and profit maximizing firms all employ $x_1$ up to the point where its marginal product equals this market clearing price ($Q_{x_1} = P_{x_1}$). For any technology [given by equation (1)] it then follows that the rate of technical substitution and hence factor proportions are determined by relative input prices ($Q_{x_1}/Q_{x_j} = P_{x_1}/P_{x_j}$).

In practice, when the prices are not market clearing, the profit maximizing behavior generally does not lead to a socially optimal resource allocation. Similarly, when the firm's objective deviates from strict profit maximization, its resource allocation may depart from the socially optimal
norm and the extent of misallocation varies positively with the extent of market imperfections in the economy.

A conceptually convenient way to generate testable predictions in this context is to use an enterprise objective function which incorporates the objectives of all the relevant decisionmakers (local government, managers, workers, and private owners) and allows the power (weight) of each decisionmaker in the overall objective function to vary across institutional settings. The nonsymmetric Nash cooperative solution provides a framework in which such analysis can be carried out [see Kalai (1977), Roth (1979), Svejnar (1982, 1986) and Svejnar and Smith (1984)]. Letting $U_G$, $U_M$, $U_L$, and $U_p$ be the objective functions of local government, managers, workers and private owners, respectively, the prototypical CNE can be thought of as maximizing an objective function $U$ given by:

$$U = \gamma_G U_G + \gamma_M U_M + \gamma_L U_L + \gamma_P U_P,$$

where $\gamma_G$, $\gamma_M$, $\gamma_L$, and $\gamma_P$ are the weights (coefficients of power) that each decisionmaker (group) has in the firm. These coefficients can be normalized to sum up to unity ($\gamma_G + \gamma_M + \gamma_L + \gamma_P = 1$) and individually they can vary between zero and unity ($0 \leq \gamma_G, \gamma_M, \gamma_L, \gamma_P \leq 1$). This framework is flexible enough to nest all possible combinations of decisionmaking schemes as well as the usual extreme cases. For example, a private profit maximizing firm would display $\gamma_P = 1$ ($\gamma_G = \gamma_M = \gamma_L = 0$) and $U_p = \text{profit}$, while a government-run firm is supposed to maximize a mixture of profit and employment would be characterized by $\gamma_G = 1$ ($\gamma_M = \gamma_L = \gamma_P = 0$) and $U_G = U_G(\text{profit, employment})$. 
In the CNE context, it is clear that the influence (γ) of different decisionmakers varies across counties and that their objectives also tend to differ from one setting to another. In counties such as Wuxi, where private firms are virtually nonexistent, it is likely that γ_p = 0. In contrast, in counties such as Jieshou the role of private entrepreneurs is substantial and γ_p is often positive and quite large. Analogously, in counties such as Wuxi, where surplus labor is close to being all absorbed, the objective of the local government reflects more long-term profitability and income growth than employment maximization. Yet, in counties with severe underemployment problems, the local government's objective is likely to focus on employment generation.

For purposes of empirical testing, one must specify the objective functions of the relevant decisionmakers and substitute them into equation (2). The resulting expression identifies the CNE objective function in terms of observable variables (such as profit, employment and worker income) and estimable parameters (γs) which reflect the weight given to each of these variables. In principle, one can then express the enterprise objective function in the form:

\[ U = U(\text{profit}, \text{employment}, \text{wages}, \text{etc.}), \]  

where the exact functional form depends on the parametrization of the underlying objective functions \( U_G, U_M, U_L, \) and \( U_P. \)

As a simple example, consider the case when the local government, managers and/or private owners are interested only in maximizing profit:

\[ \pi = P_Q d - P_K K - P_L L, \]  

where \( P_Q \) is the output price, \( P_K \) and \( P_L \) are the price of capital and wage (labor income), respectively, and capital (K) and labor (L) are the only inputs. In this case \( U_G = U_M = U_P = \pi \) and the weight given to
this objective is $\gamma = \gamma_G + \gamma_M + \gamma_P$. If the workers in the community are interested in maximizing their expected income, then $U_L = L(P_L - P^a_L)$, where $P^a_L$ is the reservation wage, and the CNE is acting as if maximizing $^5$

$$U = U^\gamma = \frac{\gamma}{\gamma_L} = (P^Q - P^K - P^L) \Gamma_L^\gamma [L(P^L - P^L)]^{1-\gamma}.$$  \hspace{1cm} (4)

The resulting conditions for resource allocation indicate that this CNE will use capital to the point where its marginal value product equals its price $(P^Q - P^K)$ and labor to the point where its marginal value product equals the reservation (rather than the actual) wage $(P^Q_L = P^a_L)$. If $P^a_L$ are the market clearing Input prices, then the CNE allocates resources efficiently and identically to a profit maximizing counterpart. However, if $P^a_L$ for instance exceeds the wage that would result in full employment, then the CNE uses too little labor from the social welfare standpoint. Moreover, should workers maximize income rather than expected income, then $P^Q_L = P_L$ and, if $P_L > P^a_L$, the CNE uses too little labor even if $P^a_L$ is the equilibrium market clearing wage.

The important prediction (hypothesis) which is generated by a model such as that in equation (4) is that the observed wage depends on the reservation wage, workers' power, and profit per worker:

$$P_L = P^a_L + (1-\gamma) \frac{P^Q - P^K - P^PL^*}{L^*}, \hspace{1cm} (5)$$

where $L^*$ is the level of employment corresponding to $P^Q_L = P^a_L$. The hypothesis of equation (5) is very precise and, needless to say, competing hypotheses can be generated by building different institutional features into the model of equation (4).
$P^R_L$ and $\gamma_s$ are of course unobservable variables but they reflect important institutional features that we plan to capture in our analysis. The reservation wage $P^R_L$ will for instance vary positively with the tightness of the labor market and workers' job security — features which vary widely across counties and types of COEs. $P^R_L$ can also be expected to vary positively with various alternative wages that the workers in a given firm or county may face. Similarly, workers' influence $\gamma_L = (1-\gamma_s)$ can be expected to vary across counties and types of COEs, with the highest value of $\gamma_L$ presumably being in worker cooperatives located in counties with greatest enterprise autonomy.

In general, the types of hypotheses that we can generate and test from various descriptions of objectives and environmental features within the framework of equations such as (2) - (5) relate to the determinants of a) employment b) capital and other input use c) wages or labor income.

Estimates of the determinants of these variables in different types of COEs and counties (institutional settings) will then permit us to draw conclusions about factors that affect income distribution and factor allocation. In particular, we plan to estimate reduced-form input demand and wage equations of the form

$$L = L(P_L, P^R_L, \gamma_s, P_Q, P_K, Z)$$

$$K = K(P_L, P^R_L, \gamma_s, P_A, P_K, Z)$$

$$P_L = P_L(P^R_L, \gamma_s, P_A, P_K, Z),$$

(6)
where \( \tilde{Z} \) are the exogenous elements of vector \( Z \) from equation (1). (\( \tilde{Z} \) enters equation (6) because the CNEs pursue their objectives subject to the production possibilities.)

The coefficient estimates from equations (6) will of course lend themselves to hypothesis testing about differences in wages and input use in different types of CNEs and institutional settings. Moreover, these detected differences in input use will explain differences in the level of Inputs (\( X \)) in equation (1) and hence provide a link from the tests of allocative behavior to those of output growth. Similarly, by containing the exogenous elements (\( Z \)) of the \( Z \) vector on their right hand sides, equations (6) reflect the link from the hypothesis about productive efficiency in equation (1) to those about input use and income distribution in equations (2) - (6).

As the above general framework and specific examples indicate, the proposed methodology provides sufficient flexibility to accommodate the great variety of enterprise and environmental features that are found in the CNE sector and which we can identify within the collected data set. It is also oriented toward a set of interrelated hypotheses which have considerable relevance for the formulation of an optimal policy \textit{vis-à-vis} the CNE sector.

3. Empirical Methodology and Comparative Perspective

Since the detailed nature of the collected data is evident from the questionnaires that were submitted with the original proposal, the present section focuses on the econometric methodology and the comparisons that can be drawn with other counties.

Within the production function framework of equation (1), we plan to make use of the cross-section \textit{cum} time series \textit{nature of the data and estimate a relatively general translog function of the form}^6
\[ \ln Q_{lt} = a_0 + a_1 \ln X_{lt} + a_2 \ln Z_{lt} + a_3 (\ln X_{lt})^2 \\
+ a_4 (\ln Z_{lt})^2 + a_5 \ln X_{lt} \ln Z_{lt} \]

We will then test various restrictions, such as that the effect of \( Z \) is Hicks-neutral (\( a_5 = 0 \)) or that a Cobb-Douglas specification dominates trans-log (\( a_3 = a_4 = a_1 = 0 \)). Moreover, we plan to assess the relative merits of fixed versus random effects models for different types of hypothesis testing. To the extent that some elements of \( X \) and \( Z \) are endogenous, we will use instrumental variables to overcome the bias inherent in the ordinary least squares (OLS) method.

Estimates of this type are already available for Yugoslav labor-managed firms [Prasnikar, Svejnar and Klinedinst (1986)], Italian, French and British producer cooperatives [Jones and Svejnar (1985), Defourney, Estrin and Jones (1985) and Estrin, Jones and Svejnar (1987)], West German partnerships (Cable and Fitzroy (1980)) and codetermined firms [Svejnar (1982b)], and the U.S. unionized firms [Brown and Medoff (1978) and Freeman and Medoff (1985)]. By the time the results of the present study are obtained, estimates will also be available for U.S. firms with varying degrees of worker participation in management, ownership and profit (Conte and Svejnar). The analysis of determinants of productive efficiency of CMEs can therefore be placed in a broad comparative perspective.

The input use and wage equations of the type given in system (6) will first be estimated in a loglinear form and then in other functional forms corresponding to different specifications of equation (2). Depending on the type of hypothesis to be tested, these equations can be estimated individually by OLS or jointly by the GLS method. The international comparison in this area can be based on studies for Yugoslav labor-managed firms [Estrin and
Svejnar (1985) and Svejnar and Tutu (1994)), British unionized firms [Oswald (1982)], the U.S. unionized firms [Macurdy and Pencavel (1986), Brown and Ashenfelter (1986), and Svejnar (1994)], and Israeli unionized and union-owned firms [Ben-Ner and Estrin (1985)]. These studies are more heterogeneous in nature and often focus on a narrower type of firms (e.g. unionized ones). Nevertheless, they should provide a valuable yardstick for an international comparison geared toward public policy.
Footnotes

1. The "stylized facts" identified in this section are clearly tentative. They will be supplemented with additional information gathered during the second data gathering mission in 1987.

2. This framework builds on the work of Brown and Medoff (1978), Jones and Svejnar (1985), and Prasnikar, Svejnar and Klinedinst (1986).


5. See Svejnar (1986) for details of this derivation.

6. Note that vectors X and Z are for simplicity treated as scalars here. The actual formulation will take into account the more complex form inherent in X and Z being vectors.
Bibliography


Attachment 3

CHINA: SOME RESULTS OF A FIRST LOOK AT THE DATA FROM THE NONSTATE ENTERPRISE AND WORKER QUESTIONNAIRES.

Alan Gelb, December 1986

The Enterprise Quantitative Questionnaire and the Workers' Survey Questionnaire have so far been administered in two areas of China. The quantitative survey covered 32 firms in Wuxi county and 37 in Jieshou county. The workers survey covered stratified random samples (including ordinary workers, technical personnel, and managerial personnel) in 14 Wuxi firms (total of 473 workers) and in 15 Jieshou enterprises (total of 297 workers).

So far, it has only been possible to obtain a first look at the resulting data, but this allows some impressions of the NSE sector and of the individuals who work in them. The observations here are therefore very preliminary, and represent an interpretation of the data rather than a statistical analysis. Therefore they are for the most part not stated in hypothesis form, although the connection of many with the hypotheses of Attachment 2(1) are clear.

General Background

Wuxi and Jieshou counties are known to be rather different: the project design incorporates interregional differences. Wuxi is more industrially advanced and richer, and the NSE sector is much more firmly based in the system of local government administration. This is partly because it developed at an earlier stage of China's reform process. Industrialisation in Jieshou is more recent, and would therefore be expected to reflect later evolution in China's policies towards increasing individual incentives. Wuxi's firms compete with other firms in a broad Chinese market; those of Jieshou are more oriented toward serving mainly their local markets. Such differences would be expected to be reflected in responses to the questionnaires.

From the quantitative questionnaires it is apparent that growth rates of the NSEs have indeed been high, in the range of 40-50 percent per year over the last few years. The Wuxi enterprises are all township- or village-owned firms (that is, owned by local government); those in Jieshou include a number of pooled-capital firms (partnership-type ventures in principle independent of government).
Size

The Wuxi firms are on average larger (Table 1), and their worker/sales ratios are lower. They also work a greater number of days per year, probably due to less seasonal agroprocessing.

Table 1

<table>
<thead>
<tr>
<th></th>
<th>Wuxi</th>
<th>Jieshou</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average sales (million yuan)</td>
<td>8.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Average workforce (persons)</td>
<td>350</td>
<td>100</td>
</tr>
<tr>
<td>Workers/sales index</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Average work days/year</td>
<td>340</td>
<td>290</td>
</tr>
</tbody>
</table>

Finance and Investment

Using only data for 1985 and normalising on sales, we may construct a stylised income statement for representative firms in Wuxi and Jieshou; see Table 2.

Table 2

<table>
<thead>
<tr>
<th></th>
<th>Wuxi</th>
<th>Jieshou</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross sales in 1985</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Composition of sales:

<table>
<thead>
<tr>
<th></th>
<th>Wuxi</th>
<th>Jieshou</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on sales</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Factory costs (incl. depreciation)</td>
<td>80</td>
<td>81</td>
</tr>
<tr>
<td>Net pretax profit</td>
<td>15</td>
<td>14</td>
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Composition of profits:

<table>
<thead>
<tr>
<th></th>
<th>Wuxi</th>
<th>Jieshou</th>
</tr>
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<tbody>
<tr>
<td>Enterprise profit tax</td>
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<td>2</td>
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<tr>
<td>Net post-tax profit</td>
<td>12</td>
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Composition of after-tax profits:

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<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Profit to township/village</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Profit Retained</td>
<td>7</td>
<td>11</td>
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<tr>
<td>Investment in fixed assets</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>Fixed assets (original value)</td>
<td>27</td>
<td>48</td>
</tr>
<tr>
<td>Physical working capital</td>
<td>21</td>
<td>24</td>
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<tr>
<td>Total</td>
<td>48</td>
<td>72</td>
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<tr>
<td>Investment/Fixed assets (%)</td>
<td>37</td>
<td>17</td>
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<tr>
<td>Net pretax profit/assets (%)</td>
<td>31</td>
<td>19</td>
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<tr>
<td>Sales/assets (%)</td>
<td>208</td>
<td>139</td>
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The current exchange rate is about Y3.7 to US $1. At the end of 1985 it was Y3.20 to US $1.
The first main difference indicated between the counties by these data is the greater share of profit in Wuxi which goes to the local government. The ownership form influences division of surplus.

Retained profits seem to be lower in Wuxi, per unit of sales, than in Jieshou. However, the Wuxi firms are considerably more productive, per unit of capital, than those of Jieshou, and consequently, their levels of investment are greater per unit of capital stock. As the Wuxi firms have higher output/labor ratios as well, this seems to indicate scale economies, technological superiority, or greater X-efficiency. The fruits of this are captured partly by local government through profit-sharing and partly by workers through higher pay (see below).

**Efficiency Indicators**

Wuxi firms typically add more value than those in Jieshou as indicated by a lower percentage of material in total factory costs; see Table 3.

<table>
<thead>
<tr>
<th></th>
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<td>Percentage of:</td>
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<tr>
<td>Materials</td>
<td>75</td>
<td>80</td>
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<td>Fuel</td>
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<td>3</td>
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<tr>
<td>Labor</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Shop operating cost</td>
<td>11</td>
<td>9</td>
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</table>

The last category, shop operating costs, includes depreciation, interest on loans (the firms seem to have outstanding bank loans of about 17% of sales) and a component of management fees and labor costs. The range of variation in these variables is quite wide, and the data need to be carefully checked before proceeding much further.

**Relationship of Pay to Profitability**

One interesting set of hypotheses involves the relationship between profitability and pay. The worker survey data suggest that the range of pay is quite wide (see below) and this raises the issue of income distribution in the NSE sector. Theoretical analyses suggest that one of the outcomes of a "cooperative" economy with limited interfirm labor mobility would be the emergence of considerable income differentials between members of more and those of less successful firms. In the Chinese context of low labor mobility, the distributional issue is raised quite sharply.
A full analysis will investigate the extent to which pay differences are due to variations (a) between regions and localities, (b) between firms in a region, and (c) within firms. For now, we consider the more limited question of differences in average levels of total pay per worker, and the relationship of these differences to the profitability of their respective firms. It must be stressed that the following comments are based on a very quick look at uncleaned data and are provided to help make more concrete some of the types of hypotheses which should be tested, like the following:

1. Average pay is related to pretax profitability expressed as profits/capital stock.

2. Average pay relates to profitability expressed as profits/sales. This may be used as an indicator if returns on capital inputs are not commonly computed.

3. Average pay is determined by the size of the firm

4. Average pay is determined by ex-ante profitability, where this is measured by adjusting observed profits by the extent to which labor payments exceed or fall short of what they would have been were workers to be paid the cross-firm average. The argument here is that labor payments might have already absorbed potentially high profits, leaving little relationship between them and observed profits.

Data suggest that there is indeed a significant relationship between average pay and profits/capital stock in Wuxi. Regression coefficients indicate that pay rises by 1.5 percent for every 10 percentage points rise in the profit rate. There is no clear picture in Jieshou. This is consistent with (though not necessarily related to) the large number of private enterprises in Jieshou, which may not engage in extensive profit-sharing. [However many possible explanations for this phenomenon need to be sorted out.]

The relationship is stronger with adjusted profitability: for a 10 percentage point rise in this, pay rises by 5 percent in Wuxi. This is also true of the relationship between pay and profits/sales. For every 10 percentage rise in the profit rate as so computed, pay goes up by 5 percent.

There is no clear relationship between pay levels and size, as manifested, for example, by total profits.

There is therefore some indication that pay and profits or adjusted profits are indeed linked in the NSE sector.
Workers’ Survey Data

Respondents are young, typically 25 in Wuxi and 22 in Jieshou, and relatively well educated. A higher proportion are ordinary workers in Jieshou, as more advanced Wuxi has a higher proportion of technical and managerial personnel. They live in semi-nuclear families of about 5, with over three being adult earners between the ages of 15 and 60.

They consider their level of income per head to be somewhat above the local average, especially in Jieshou. Most are local, only a few indicate that their origins are far away. About 60 percent are male.

Wages, bonuses and labor insurance are seen as the most important forms of remuneration. The dispersion of pay is quite wide. In Wuxi pay averages about 1600, with a range of 600-3000, in Jieshou 1000 with a range 250-1500.

However, in the opinion of respondents, pay differences within their firms, either between workers and managers or workers and technicians, are not unduly great.

In both locations workers perceive a close link between profitability and pay.

Factory pay is important; it is normally the major source of household income. Although the firms are more likely to be urban in Jieshou, there is also more involvement with agricultural production on a seasonal basis in this area. Two household members may work, at times, on the land.

The different nature of the firms is reflected in the workings of the labor market. Fifty six percent of workers in Wuxi were administratively assigned to their firms by the local government, but only 15 percent in Jieshou, where reliance on relatives and acquaintances was a much more common means of obtaining a job.

This has some effects on labor relations. By and large the respondents express themselves to be pleased by pay and working conditions and labor relations are good, but they seem to be better in Jieshou. It is harder to quit the firm in Wuxi, and more workers would like to transfer out of their firms.

But in both areas, the employment contract is considered to be a long-term one. Very few workers expect to stay with their firms for less than 5 years. They consider it possible that they might lose their jobs, but unlikely.

Interestingly, trade unions are widely supported to protect workers’ rights.
The long-term identification of workers, communities and firms appears to have an impact on attitudes. Asked about the best use of profits, workers overwhelmingly supported reinvestment for growth.

All indications are that the enterprises are managed from the "top down" rather than collectively by the workforce. Yet workers feel strongly that it is their duty to encourage fellow workers and to castigate slackers.

There is more pressure to distribute profits in Wuxi, perhaps because workers are less voluntarily attached to their firms. In both counties, however, there seems to be a high degree of enterprise paternalism; when in trouble, workers consult their managers first and other members of the community next.

If workers left their firms, what would they do? In Wuxi, they would look for a job in a state enterprise or another collective firm. In Jieshou, quite a number would like to start their own firm, or join a partnership. In Wuxi, only 7 percent of workers (using a weighted sum of priority responses) would use their savings to buy stocks in firms or start or join one; savings would be used for housing or consumer goods or be placed in a bank account. In Jieshou, 40 percent of the responses indicate willingness to play an active entrepreneurial role. The different nature of the prevailing form of ownership seems to have an impact on entrepreneurship.
Note on Attachments 4(2)-4(6):

Since these questionnaires were designed jointly by the Chinese and World Bank teams, some of the questions and wordings reflect Chinese interests and priorities, and may be somewhat peripheral to the topics the World Bank team wishes to focus on. On the other hand, Chinese involvement in this phase of work was highly beneficial because the wording and style of all questions were put in a way that would be easily understood and related to by respondents. This is particularly important in the case of the Workers' Survey Questionnaire (Attachment 4(2)). Experience in Wuxi and Jieshou Counties has shown that these questionnaires do elicit meaningful responses and provide very useful data.
<table>
<thead>
<tr>
<th>Name of Enterprise</th>
<th>Abbreviated</th>
<th>Interview</th>
<th>Quantitative</th>
<th>Director's</th>
<th>Workers'</th>
<th>Technical</th>
<th>Township</th>
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<tbody>
<tr>
<td>1. Shanghai Canning Factory</td>
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<td>x</td>
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<td>x</td>
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<td>x</td>
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<td>x</td>
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<td>x</td>
<td>x</td>
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<td>x</td>
<td>x</td>
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<td>x</td>
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<td>3</td>
<td>x</td>
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<td>GBC</td>
<td>Candy</td>
<td>-</td>
<td>13</td>
<td>x</td>
<td>x</td>
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<td>Furniture</td>
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<td>76</td>
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<td>Paper</td>
<td>2.94</td>
<td>25</td>
<td>x</td>
<td>x</td>
<td>-</td>
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<td>WCO</td>
<td>Grain</td>
<td>2.22</td>
<td>14</td>
<td>x</td>
<td>x</td>
<td>-</td>
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<tr>
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<td>JCB</td>
<td>Beverage</td>
<td>-</td>
<td>17</td>
<td>x</td>
<td>x</td>
<td>-</td>
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<td>JCF</td>
<td>Food</td>
<td>2.2</td>
<td>9</td>
<td>x</td>
<td>x</td>
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<td>Paper</td>
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<td>22</td>
<td>x</td>
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<td>Ool</td>
<td>-</td>
<td>21</td>
<td>x</td>
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<td>4</td>
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<td>Kait</td>
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<td>Electronics</td>
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<td>Food</td>
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<td>27</td>
<td>x</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>21 Jiexian Chen 非Del and Mutton Processing Factory</td>
<td>JCD</td>
<td>Mutton</td>
<td>-</td>
<td>25</td>
<td>x</td>
<td>x</td>
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<tr>
<td>22 Jiexian Chen 非Del Leather Factory</td>
<td>JCD</td>
<td>Leather</td>
<td>2.04</td>
<td>22</td>
<td>x</td>
<td>x</td>
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</tr>
<tr>
<td>23 Jiexian Chen Light Industrial Machinery Factory</td>
<td>JCLIM</td>
<td>Machinery</td>
<td>2.21</td>
<td>56</td>
<td>x</td>
<td>x</td>
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</tr>
<tr>
<td>24 Jiexian Chen Chemical Medicine Factory</td>
<td>JCC</td>
<td>Medicine</td>
<td>-</td>
<td>27</td>
<td>x</td>
<td>x</td>
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</tr>
<tr>
<td>25 Jiexian Chen No. 1 Plastic Factory</td>
<td>JCP</td>
<td>Plastic</td>
<td>-</td>
<td>3</td>
<td>x</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>26 Jiexian Chen Lixinghe Paper Mill</td>
<td>JCP</td>
<td>Paper</td>
<td>2.38</td>
<td>12</td>
<td>x</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>27 Jiexian Chen Plastic Products Factory</td>
<td>JCP</td>
<td>Plastic</td>
<td>2.12</td>
<td>18</td>
<td>x</td>
<td>x</td>
<td>32</td>
</tr>
<tr>
<td>28 Jiexian Chen Plastic Color Printing Factory</td>
<td>JCP</td>
<td>Printing</td>
<td>2.39</td>
<td>11</td>
<td>x</td>
<td>x</td>
<td>23</td>
</tr>
<tr>
<td>29 Jiexian Chen Shengui Food Factory</td>
<td>JCP</td>
<td>Food</td>
<td>2.1</td>
<td>29</td>
<td>x</td>
<td>x</td>
<td>44</td>
</tr>
<tr>
<td>30 Jiexian Chen Guang Da Food Factory</td>
<td>JCP</td>
<td>General</td>
<td>-</td>
<td>35</td>
<td>x</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>31 Jiexian Chen Arcylic Factory</td>
<td>JCA</td>
<td>Arcylic</td>
<td>2.73</td>
<td>5</td>
<td>x</td>
<td>x</td>
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<td>32 Jiexian Chen Shoe Factory</td>
<td>JCS</td>
<td>Shoe</td>
<td>-</td>
<td>20</td>
<td>x</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>33 Jiexian Chen Shang Zhi Factory</td>
<td>JCS</td>
<td>Shang Zhi</td>
<td>2.45</td>
<td>56</td>
<td>x</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>34 Jiexian Chen Guang Yuan Food Factory</td>
<td>JCP</td>
<td>Guang Yuan</td>
<td>2.45</td>
<td>56</td>
<td>x</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>35 Jiexian Chen Guang Da Food Factory</td>
<td>JCP</td>
<td>Guang Da</td>
<td>2.1</td>
<td>29</td>
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<td>x</td>
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<tr>
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<td>Shang Zhi</td>
<td>-</td>
<td>35</td>
<td>x</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>37 Jiexian Chen Guang Yuan Food Factory</td>
<td>JCP</td>
<td>Guang Yuan</td>
<td>2.45</td>
<td>56</td>
<td>x</td>
<td>x</td>
<td>-</td>
</tr>
<tr>
<td>38 Jiexian Chen Shang Zhi Factory</td>
<td>JCS</td>
<td>Shang Zhi</td>
<td>-</td>
<td>35</td>
<td>x</td>
<td>x</td>
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</tr>
<tr>
<td>39 Jiexian Chen Guang Yuan Food Factory</td>
<td>JCP</td>
<td>Guang Yuan</td>
<td>2.45</td>
<td>56</td>
<td>x</td>
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<tr>
<td>40 Jiexian Chen Guang Yuan Food Factory</td>
<td>JCP</td>
<td>Guang Yuan</td>
<td>2.45</td>
<td>56</td>
<td>x</td>
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<tr>
<td>41 Jiexian Chen Guang Yuan Food Factory</td>
<td>JCP</td>
<td>Guang Yuan</td>
<td>2.45</td>
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</table>
China's Township and Village Enterprises
Employees Questionnaire

Joint Study Group for China's Township and Village Enterprises
March, 1986
Greetings! We would like you to give us a little of your valuable time and help us complete the study project of "Economic Structure of China's Township and Village Enterprises." This study is conducted jointly by the Institute of Economics of the Chinese Academy of Social Sciences and the World Bank under the direct guidance of the Rural Development Institute of the State Council and with the close cooperation of the Institute of China's Economic Structural Reform and the assistance of the Beijing Social Survey Institute.

Township and village enterprises in China have witnessed tremendous development in the past few years and already occupy an important position in the national economy. At present, however, the development has encountered much difficulty. A great many problems concerning the operational and management structure remain to be studied and solved. The nationwide study we are conducting is to address these problems and pave the way for the smooth development of township and village enterprises. As a leader or a member of your enterprise, you are eminently qualified to speak on the questions under study. Please put down the answers and your true thinking and views. We will fully respect your views. (There is no question of right or wrong to the answers you give and we will keep all answers confidential, so please feel free to express them.) Your views and suggestions will provide important assistance to the study of and the decisions to be made on urban and rural economic structural reform. We sincerely hope to have your support and assistance.
Here’s wishing you greater success in your enterprise.

Thank you.

Joint Study Group for
China’s Township and Village Enterprises
March 1986
Notes on filling the questionnaire:

(1) Please make "✓" mark in the ___ next to the item fitting your situation or your views or write in the blanks. We hope you will answer every one of the questions.

(2) If an item does not list any answer or view fitting your situation, please write down your specific situation or views under "Other" or in any blank space and put a "✓" mark beside it.

(3) Do not fill in the blanks on the right side of the page. It is for computer use.
1. Your age: ___
   (1) ___
(2) Sex: 1. Male ___ 2. Female ___
   (2) ___
(3) Your education level: 1. Never went to school ___
   2. 4-year primary school ___
   3. 6-year primary school ___
   4. Junior middle school (secondary technical school) ___
   5. Senior middle school (secondary specialized, senior middle vocational school) ___
   6. College or university or above ___
   7. TV college, evening college, vocational college ___
   (3) ___
(4) You have attended at your own expense various study and training courses for a total of ___ years.
   You have attended at your own expense various literacy, technical and training courses for a total of ___ years.
   (4) ___
(5) You have worked in this factory for ___ years.
   (5) ___
(6) You have engaged in non-agricultural production (including work in this factory) for a total of ___ years.
   (6) ___
(7) You have worked in ___ different units since taking up non-agricultural production.
   (7) ___
(8) Your job in this factory is:
   (1) Worker ___
   (2) Shift or group leader ___
   (3) Operational personnel ___
   (4) Technical personnel ___
   (5) Ordinary staff ___
   (6) Middle-level staff ___
   (8) ___
(9) Your family consists of ____ persons (who are financially not separated from the family).

(10) Of which ____ are under 15 and ____ are over 60.

(11) Your family contracts for a total of ____ mu of land, (including forest land and water surface)

As of now:
1. All this land is still worked by your family.
2. The greater part is worked by your family, the smaller part subcontracted to others.
3. The smaller part is worked by your family, the greater part subcontracted to others.
4. All has been subcontracted to others.
5. Other (please specify).

(12) ____ members of your family (including yourself) are engaged in non-agricultural labor.

(13) Your home is ____ li from the factory.

(14) Where were you working before joining this enterprise?

1. Home village
2. Home township but not home village
3. Home county but not home township
4. Another county
5. Another province

(15) Please divide your total family income into the following five groups and list them in the order of income size:

1. Factory wages
2. Farming income
3. Sidelines income
4. Commercial or service trades
5. Other (please specify)

<table>
<thead>
<tr>
<th>First</th>
<th>Second</th>
<th>Third</th>
<th>Fourth</th>
<th>Fifth</th>
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</thead>
</table>

- 6 -
(16) Do you engage in farm production in addition to working in the factory?
   1. Regularly
   2. Irregularly (busy seasons)
   3. Never

(17) In your village or town, you consider your per capita family income as:
   1. Very high  2. Upper middle  3. Middle  4. Low

(18) Your factory income (including wages, bonuses and other income) in 1985 was approximately ______ yuan.

(19) Your highest monthly income for 1985 was ______ yuan and your lowest monthly income for 1985 was ______ yuan.

(20) During 1985 you generally worked ______ days a week and ______ months for the whole year.

(21) What type of remuneration do you receive from the factory?
   1. Time wage
   2. Piece rate wage
   3. Fixed wage
   4. Floating wage
   5. Village (township) work points
   6. Factory work points
   7. Work points plus wage
   8. Profit dividend and share dividend
   9. Other (please specify)

(22) Is your income related to the size of factory profit?
   1. Not related
   2. Not closely related
   3. Quite closely related
   4. Very closely related

(23) In your opinion, the wage differences between the workers in your factory are:
1. Very great  
2. Relatively great  
3. Relatively small  
4. Virtually no difference  

(24) In your opinion, the wage difference between the workers in your factory should be:  

(25) In your opinion, the wage difference in your factory are due mainly to (select one):  
1. Age  
2. Seniority  
3. Education level  
4. Type of work  
5. Work volume  
6. Relationship with leaders  
7. Technical level  
8. Other (please specify)  

(26) In your opinion, the wage differences between the workers and the leaders in your factory is  
1. Very great  
2. Relatively great  
3. Relatively small  
4. Virtually none  

(27) In your opinion, the wage differences between the workers and the technical personnel in your factory is  
1. Very great  
2. Relatively great  
3. Relatively small  
4. Virtually none  

(28) Measured against the volume of work you put in, are you satisfied with your wage remuneration?  
1. Very satisfied  
2. Basically satisfied  
3. Not very satisfied  
4. Most dissatisfied
III. Do you wish to leave your factory?  
(29)  
1. Yes ___  (If so, do not answer (32))  
2. No ___  (If so, do not answer (30 and 31))  

(30) Why do you wish to leave your factory? (Select 3 answers and list them in order of importance)  

<table>
<thead>
<tr>
<th>First</th>
<th>Second</th>
<th>Third</th>
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</tbody>
</table>

1. Not interested in present job  
2. Too far from home  
3. Income too low  
4. Poor working relationships  
5. Dissatisfied with leaders  
6. No career development  
7. Getting tired, wish to change work environment  
8. Other (please specify)  

(31) Do you think your wish to leave your factory can be realized in the near future (within one or two years)?  
(31)  
1. Extremely difficult ____  
2. Relatively difficult ____  
3. Not very difficult ____  
4. Can be realized ____  

(32) If you do not wish to leave your factory, please list three of the given reasons in order of importance:  

<table>
<thead>
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<th>First</th>
<th>Second</th>
<th>Third</th>
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<tbody>
<tr>
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</tbody>
</table>

- 9 -
<table>
<thead>
<tr>
<th>1. Present work consistent with my interests</th>
<th>2. Income is high</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Good working relationship here</td>
<td>4. Satisfied with the leaders</td>
</tr>
<tr>
<td>5. Unable to find a better work place</td>
<td>6. Possibility of career development</td>
</tr>
<tr>
<td>7. No particular reason, do not feel like moving</td>
<td>8. Other</td>
</tr>
</tbody>
</table>

(33) How long do you actually plan to stay in this enterprise?  
1. Less than a year  
2. 1–3 years  
3. 3–5 years  
4. Over 5 years  

(34) Is it possible for you to lose your job in this factory?  
1. Very possible  
2. Not very possible  
3. Not possible  

(35) If you leave this factory, where would you like to be transferred?  
1. State enterprise  
2. Collective enterprise  
3. Individually pooled resources enterprise  
4. Go back to farming  
5. Set up own enterprise  
6. Commercial or service trades  
7. Other (please specify)  

(36) Do you plan to set up a factory on your own or with partners?  
1. Yes  
2. No  
3. Undecided  

(37) If income from farming is higher than as factory worker, you wish to be a  
1. Farmer  
2. Worker  

(38) If state factories in big cities formally recruit workers but offer wages lower than your present wage, will you go?
1. Yes  
2. No  
3. Undecided

(39) Some people think workers in township and village enterprises hold a lower social status than workers in state factories. Do you agree with this view?

1. Very much agree  
2. Quite agree  
3. Not quite agree  
4. Do not agree

IV.

(40) Are the items of remuneration and benefits listed below very important to you?

<table>
<thead>
<tr>
<th></th>
<th>Not available in this factory</th>
<th>Very important</th>
<th>Relatively important</th>
<th>Not important</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Wage</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Housing allocation or subsidy</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3. Medical subsidy</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>4. Labor insurance</td>
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<td></td>
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<tr>
<td>5. Pension</td>
<td></td>
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<tr>
<td>6. Guaranteed employment for your children in the same factory</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>7. Factory subsidy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Bonus</td>
<td></td>
<td></td>
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</tbody>
</table>

(41) Who in your factory decides on the following matters?

- 11 -
<table>
<thead>
<tr>
<th>Actual</th>
<th>Your Wish</th>
</tr>
</thead>
<tbody>
<tr>
<td>District, township</td>
<td>Enterprise leaders</td>
</tr>
<tr>
<td>Factory workers</td>
<td>Government organs</td>
</tr>
<tr>
<td>Don't know</td>
<td></td>
</tr>
</tbody>
</table>

1. Appoint and dismiss enterprise leaders
2. Recruit workers
3. Dismiss (or fire) workers
4. Wage and bonus
5. Work assignment in factory
6. New product development
7. New investments
8. Use of profit retention
(42) If your factory sells stocks to its workers, will you buy?
   1. Will buy a large number ______
   2. Will buy a small number ______
   3. Will not buy ______

(43) What is your opinion of the management quality of your factory?
   1. Very good ______
   2. Relatively good ______
   3. Not very good ______
   4. Very poor ______

(44) How did you come to work in this factory?
   1. Arranged by commune or brigade ______
   2. Through examination ______
   3. Through own effort ______
   4. Through resource pooling ______
   5. Through introduction by other individual ______

(45) If your factory sustains serious losses and you have only one of the two options listed below, which one would you choose?
   1. Stay on at half the original wage payment ______
   2. Leave and look for another job ______

(46) Best use of factory profit:
   1. The greater part for increasing personal income ______
   2. The greater part for expanding the enterprise ______
   3. The greater part for building up township or village ______
   4. Other (please specify) ______

(47) Do you believe that there should be trade unions in township and village enterprises?
   1. Very necessary ______
   2. Necessary ______
   2. Not too necessary ______
   3. Not necessary ______

(48) What do you believe should be the principal role of trade union? (Select two in order of importance)

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- 13 -
1. Work for workers' economic benefits.
2. Assist factory leadership in promoting production.
3. Protect workers' rights.
4. Enrich workers' spare-time cultural life.
5. Give workers political and ideological education.

(49) How would you describe the relationship between leaders and rank and file in your factory? 
(select one)
1. Serious antagonism
2. Frequent conflicts
3. Few conflicts
4. Very harmonious

(50) What do you wish to gain from your job? 
(List four in order of importance)

<table>
<thead>
<tr>
<th>First</th>
<th>Second</th>
<th>Third</th>
<th>Fourth</th>
</tr>
</thead>
</table>
| 1. Good working conditions
2. Good working relationships
3. Personal growth opportunities
4. Income
5. Leaders' care and concern for workers
6. Job security
7. Factory development
8. Participate in factory decision-making and management
9. Be praised and cited

(51) Which of the following categories do you regard as within the scope of your work? (Make a mark beside categories you consider relevant)
1. Fulfill work assigned to me
2. Obey leaders' instructions
3. Cooperate with others
4. Put forth you own views on factory operation and management
5. Be innovative in work

(52) Sometimes there are people in your workplace who do not try to do a good job of their work. What is your reaction to this phenomenon? (Select one)
1. I do not care ______  
2. It is not good but that's the leaders' business, not mine ______  
3. It is not good and I want very much to tell them so ______  
4. It is very bad and I have told them so ______

(53) When you are in trouble, who are the first ones you go to for help? ______
1. Family ______  
2. Relatives ______  
3. Friends ______  
4. Colleagues ______  
5. Factory leaders ______  
6. Responsible persons in village or township ______  
7. Other (please specify) ______

(54) Outside work hours, you and your colleagues ______
1. Have little contact ______  
2. Have relatively little contact ______  
3. Have frequent contacts ______

(55) Which of the following things you try hardest to avoid? (Select one) ______
1. Things violating morals and conscience ______  
2. Things that put people around you in awkward situations ______  
3. Things that harm family reputation ______  
4. Things punishable by law ______  
5. Things that harm your own reputation ______

(56) Please tell us about two of your closest friends. You need not write down their names. (If the relationship is both relative and colleague, make ✔ marks for both categories) ______
<table>
<thead>
<tr>
<th>He (she) is your</th>
<th>He (she) and your</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schoolmate</td>
<td>Colleague</td>
</tr>
<tr>
<td>Friend 1</td>
<td></td>
</tr>
<tr>
<td>Friend 2</td>
<td></td>
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</table>

(57) If you have money to spare, what will you do with it? (List three in order of importance)

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<thead>
<tr>
<th>First</th>
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<tbody>
<tr>
<td>1. Deposit in bank for old age protection</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Deposit in bank for wedding expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Buy high-grade consumer goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Buy capital goods for farming and side occupations</td>
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<td></td>
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<tr>
<td>5. Build house, buy building materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Buy stocks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Deposit in bank, no specific purpose</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Set up private business</td>
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<td></td>
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<tr>
<td>9. Invest and form partnership with others</td>
<td></td>
<td></td>
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<tr>
<td>10. Other</td>
<td></td>
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</tr>
</tbody>
</table>

(58) How do you feel about the future prospects of your factory?

| 1. Very optimistic |
| 2. Optimistic |
| 3. Not very optimistic |
| 4. Not at all optimistic |

(59) In your opinion, the state's policies toward township and village enterprises will

| 1. Not change for a long period of time. |
| 2. Not change for a short period of time. |
| 3. Very possibly change in the near future. |

(60) __________
(61) __________
(62) __________
China: Quantitative Questionnaire for Township and Village Enterprises

Prepared by:
Joint Survey Mission on Chinese Township and Village Enterprises
March 1986
Greetings! We would like you to give us a little of your valuable time and help us complete the study project of "Economic Structure of China's Township and Village Enterprises." This study is conducted jointly by the Institute of Economics of the Chinese Academy of Social Sciences and the World Bank under the direct guidance of the Rural Development Institute of the State Council and with the close cooperation of the Institute of China's Economic Structural Reform and the assistance of the Beijing Social Survey Institute.

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Here's wishing you greater success in your enterprise.

Thank you.

Joint Study Group for
China's Township and Village Enterprises
March 1986
Notes on filling the questionnaire:

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(2) If an item does not list any answer or view fitting your situation, please write down your specific situation or views under "Other" or in any blank space and put a "✓" mark beside it.

(3) Do not fill in the blanks on the right side of the page. It is for computer use.
I. Basic situation:

1.1 Name of enterprise: ____________________________

1.2 Time when plant was set up: _____(month)_____ (year)

1.3 Plant location: ____ (Village) _____ (Township/Town),
____ (County), ____ (Municipality/Prefecture),
_____ Province

1.4 Ownership type (choose one from below and fill in the blank):

(1) set up by township; set up by town; set up by village;
collectively-owned (collective enterprises should choose from here);

(2) enterprise jointly run by (commune) members (explain how many
people or households have joined in and their respective
status);

(3) owned by individuals

(4) other forms (Explain what type. If a joint venture, give the
names of units that have put up capital, their overseeing
departments, and their ownership)

1.5 Name of department overseeing the enterprise: ____________________________

1.6 Mode of operation:

(1) Is it operation by contracting? ____________________________

(2) If yes, indicate below what type of contracting:

a. contracting by the enterprise as a collective

b. contracting by part of the personnel inside the
enterprise

c. contracting by the plant director or manager
individually

d. other form of contracting (please specify)

(3) What are the conditions for contracting? (Please give
detailed answer)

__________________________

__________________________

__________________________

- 2 -
(4) If no contracting is instituted, has some form of responsibility system been introduced? (Please give detailed answer)

1.7 In the case of enterprises under cooperative management, please indicate:

(1) If income is shared on the basis of the size of holdings _____;

(2) If yes, what form of income distribution given below is followed:
   a. distributed according to a fixed dividend rate (annual rate: _____);
   b. distributed according to a variable dividend rate (highest rate is _____; lowest rate is _____); please explain how rate is determined _____
   c. what percentage of profit is distributed: _____%; on what basis is such a determination made: _____

(3) Has the enterprise received funds from staff and workers or from other individuals that are not counted as shares invested:

(4) If yes, what form of (profit) distribution is followed:
   a. following a fixed interest rate?
   b. following a variable interest rate (the highest rate being: _____; the lowest rate being: _____)
   Please explain how this interest rate is determined: _____
   c. what percentage does this part of distribution have in total profit: _____
   On what basis has this percentage been determined: _____

- 3 -
1.8 major products in your enterprise (please list them in order of importance):

In 1980 (or in the first year in which plant started operation):
(1) 
(2) 
(3) 
(4) 
(5) 

Now:
(1) 
(2) 
(3) 
(4) 
(5) 

1.9 If change has occurred in the makeup of major products, please give the time such changes took place and the causes of change:
### II. Output and Sales (in Y)

<table>
<thead>
<tr>
<th></th>
<th>Quantity</th>
<th>Major Client</th>
<th>Major Place of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1970 '75 '78 '80 '81 '82 '83 '84 '85</td>
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<tr>
<td><strong>2.1 Total industrial output value (in 1980 constant price)</strong></td>
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<td><strong>2.2 Total industrial output value (in current price)</strong></td>
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<tr>
<td><strong>2.3 Net industrial output value (in current price)</strong></td>
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<td><strong>2.4 Output of major products</strong></td>
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<td>(6)</td>
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<tr>
<td><strong>2.5 Output value of major products (in current price)</strong></td>
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<td>(1)</td>
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<td>(6)</td>
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</table>

*For 2.1, use 1970 constant price for all years prior to 1980; but also give the 1980 figures based on 1970 constant price.

*Unless otherwise specified, you are requested to give all data covering 1980 through 1985. In the case of items with*, also fill in the data for the years 1970, 1975, and 1978. If data are incomplete in those cases, give the data for other years to the extent possible. Also, fill in the "unit of count" that indicates product quantity under "remarks."
<table>
<thead>
<tr>
<th>Name of Product</th>
<th>Major Client (Name of Buying Unit)</th>
<th>Nature of Unit</th>
<th>Place of Sales</th>
<th>Is it Planned Purchase</th>
<th>As % of Total Sales of the Product</th>
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</thead>
<tbody>
<tr>
<td>Product I:</td>
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<td>b</td>
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<td>Product II:</td>
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<tr>
<td>Product III:</td>
<td>a</td>
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<td>c</td>
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</tbody>
</table>

Note: "Nature of Unit" refers to: (1) State commerce, foreign trade, supply and marketing co-ops, or supply units; (2) urban state-owned or collective enterprises; (3) township and village enterprises; (4) collective or individual commercial units; (5) self-marketing by enterprise; and (6) other (please specify):
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<tbody>
<tr>
<td>3.1 Revenues from product sales</td>
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<td>3.2 Taxes on sales</td>
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<td>3.3 Factory cost of product sales</td>
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<td>3.4 Expenses of product sales</td>
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<td>3.5 Technology transfer fee</td>
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<td>3.6 Administrative fee remitted</td>
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<td>3.7 Extra-operational income</td>
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<td>3.8 Extra-operational expenditure</td>
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<td>3.9 Total profit (+), or net loss (-)</td>
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<td>3.10 Enterprise income tax</td>
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<td>3.11 Retentions for all funds (please list the funds separately)</td>
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<td>3.12 Difference between actual wage and standard wage</td>
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<td>3.13 Net profit</td>
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<td>3.14 profit turned over to township or village (please specify)</td>
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</table>
### Table 2

<table>
<thead>
<tr>
<th>3.15 Total amount of profit retained by the enterprise:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of which: (1) used as increased working capital</td>
</tr>
<tr>
<td>(2) used as increased revamping and development fund</td>
</tr>
<tr>
<td>(3) used as increased collective benefit fund</td>
</tr>
<tr>
<td>(4) used as increased incentive fund (of which: distributed as bonus)</td>
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<td>(5) Other uses (give specifics)</td>
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</table>

|------|------|------|------|------|

**Note:** In the table above (3.1 - 3.15), whenever the words "please specify" occur, specifics regarding an item are expected. You could use the "remarks" column or the blank space there is for each item to fill in the details.

### IV. Enterprise's annual investment (current-year amount)

<table>
<thead>
<tr>
<th>4.1 Investment in fixed assets, total of which:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) for buying production equipment</td>
</tr>
<tr>
<td>(2) for constructing plant buildings and facilities</td>
</tr>
<tr>
<td>(3) for staff and worker housing</td>
</tr>
<tr>
<td>(4) other collective benefit facilities</td>
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<tr>
<td>(5) Investments made outside (please specify)</td>
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<td>(6) Investments in rural construction (please specify)</td>
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- 8 -
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<tr>
<td>5.1 Original value of fixed assets (year-end amount)</td>
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<td>(1) Productive fixed assets</td>
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<td>(2) Staff and worker housing</td>
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<td>(3) Other collective benefit facilities (please specify)</td>
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</table>

5.2 Net fixed assets value (year-end amount)

5.3 Fixed working capital (year-end amount) (of which:)
| (1) Raw and processed material |      |      |      |      |      |      |      |      |      |         |
| (2) Products being manufactured and deferred expenses |      |      |      |      |      |      |      |      |      |         |
| (3) Finished products and products shipped out |      |      |      |      |      |      |      |      |      |         |
| (4) Other (please specify) |      |      |      |      |      |      |      |      |      |         |

5.4 Fixed working capital -- avg. annual amount

5.5 Non-fixed working capital (year-end amount) (of which:
| (1) Cash |      |      |      |      |      |      |      |      |      |         |
| (2) Deposits in banks, credit co-ops |      |      |      |      |      |      |      |      |      |         |
| (3) Receivables of which: receivables for products sold |      |      |      |      |      |      |      |      |      |         |
| (4) Other (please specify) |      |      |      |      |      |      |      |      |      |         |
### Table 2

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<tr>
<td>5.7 Land used by plant (mu)</td>
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<td>5.8 Floor space of plant buildings (m²)</td>
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<td>5.9 Land user fee payment:</td>
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<td>a. No compensation:</td>
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<td>b. Land purchased:</td>
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<td>c. Land leased:</td>
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<td>d. Land accompanied by laborers:</td>
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<td>e. Land invested as shares:</td>
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### VI. Source of Fund (in Y)

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<tbody>
<tr>
<td>(1) Fixed Fund</td>
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<td>(2) Working Fund</td>
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| 6.2 State support fund (please specify) |      |      |      |      |      |      |      |      |      |         |
| 6.3 Depreciation |      |      |      |      |      |      |      |      |      |         |
| 6.4 Loans from banks, credit co-ops |      |      |      |      |      |      |      |      |      |         |
| Of which: (1) Working capital loans |      |      |      |      |      |      |      |      |      |         |
| (2) Fixed capital loans |      |      |      |      |      |      |      |      |      |         |

| 6.5 Borrowings from concerned departments (please list separately) |      |      |      |      |      |      |      |      |      |         |
| Of which: (1) Revolving fund from (state) finance dep't |      |      |      |      |      |      |      |      |      |         |
| (2) |      |      |      |      |      |      |      |      |      |         |
| (3) |      |      |      |      |      |      |      |      |      |         |

- 10 -
6.6 Total share capitalization (please give details)
   (1) Held by township/village collectives
   (2) Held by government departments
   (3) Held by state enterprises
   (4) Held by other township/village enterprises
   (5) Held by managers in the plant
   (6) Held by workers in the plant
   (7) Other

6.7 Wage payable
   Of which:
   (1) Wage paid to those who switched teams
   (2) Wage paid to employees in plant

6.8 Payables
   Of which:
   (1) Purchases payable
   (2) Taxes payable
   (3) Adm. fee payable
   (4) Other (please specify)

6.9 Special funds
   Of which:
   (1) Upgrading and development fund
   (2) Benefits fund
   (3) Incentives Fund
   (4) State support allocations
   (5) Enterprise Fund

6.10 Other sources of fund (please specify)
6.11 Sources of fund, total:
### VII. Labor and Wages

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<tbody>
<tr>
<td>(Annual avg. number of laborers)</td>
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<td>7.2 Total labor force (year-end number)</td>
<td>of whom:</td>
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<td>(1) Regular workers</td>
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<tr>
<td>(2) Temporary workers</td>
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<td>&quot;</td>
<td>&quot;</td>
<td>&quot;</td>
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<tr>
<td>(3) Seasonal workers</td>
<td>&quot;</td>
<td>&quot;</td>
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<td>&quot;</td>
<td>&quot;</td>
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<tr>
<td>(4) Technicians</td>
<td>&quot;</td>
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<td>&quot;</td>
<td>&quot;</td>
<td>&quot;</td>
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<td>&quot;</td>
</tr>
<tr>
<td>(5) Managerial personnel</td>
<td>Of whom: Plant, shop, and office responsible persons; purchasing and marketing personnel</td>
<td>&quot;</td>
<td>&quot;</td>
<td>&quot;</td>
<td>&quot;</td>
<td>&quot;</td>
<td>&quot;</td>
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</tr>
</tbody>
</table>

#### 7.3 Month in which number of workers was highest

#### 7.4 Month in which number of workers was lowest

#### 7.5 Avg. monthly income per person

- Of which: (1) Basic wage and piece wage
- (2) Bonuses
- (3) Other (please specify)

#### 7.6 Avg. monthly income per worker

- Y
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>7.7 Highest avg. monthly income per worker</td>
<td>&quot;</td>
</tr>
<tr>
<td>7.8 Lowest avg. monthly income per worker</td>
<td>&quot;</td>
</tr>
<tr>
<td>7.9 Highest avg. monthly income for plant leading personnel</td>
<td>&quot;</td>
</tr>
<tr>
<td>7.10 Avg. monthly income for purchasing and marketing personnel</td>
<td>&quot;</td>
</tr>
<tr>
<td>7.11 Avg. monthly income for technicians</td>
<td>&quot;</td>
</tr>
<tr>
<td>7.12 Avg. monthly income for local farm laborers</td>
<td>&quot;</td>
</tr>
</tbody>
</table>

Note 1: "Technicians" and "managerial personnel" in the table refer to those employees whose concern is mainly management or a technical job. Those who do two or more jobs at the same time should be classified on the basis of their main type of activity.

2. "Average monthly income" is the total annual income of an entire category of workers divided by the number of persons there are in that category and then by the months of the year. Total annual income includes bonuses and other incomes.
### VIII. Types of Personnel

(Unit of Count: Person)

<table>
<thead>
<tr>
<th>Total</th>
<th>No. of persons by education</th>
<th>No. of persons by place of origin (where born)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>College</td>
<td>Secondary School</td>
</tr>
<tr>
<td></td>
<td>(1) Workers</td>
<td>(2) Technicians</td>
</tr>
</tbody>
</table>

8.1 Among all current staff and workers:

(1) Workers

(2) Technicians

(3) Managerial personnel

Suppl. 8.2 Retirees and (job-related) disabled persons supported by enterprise, 1985 total: ___ persons. Total pension paid was: ___

### IX. Productive Equipment Status in 1985

<table>
<thead>
<tr>
<th>Equipment Grouped by Factory Manufacture Date</th>
<th>Grouped by Condition When Purchased</th>
<th>Grouped by Channel of Purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total ’80s ’70s ’60s ’50s Before ’49</td>
<td>New</td>
<td>Used</td>
</tr>
</tbody>
</table>

9.1 Production equipment: total number of units

1. (1)

2. (2)

3. (3)

4. (4)

5. (5)
<table>
<thead>
<tr>
<th>X. Workdays</th>
<th>Unit</th>
<th>1980</th>
<th>1984</th>
<th>1985</th>
<th>Busiest month</th>
<th>Slackest month</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.1 Hours in a work day</td>
<td>Hr.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.2 No. of work days in a year</td>
<td>Day</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.3 Actual no. of work days</td>
<td>&quot;</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>10.4 No. of work days in the busiest month</td>
<td>&quot;</td>
<td></td>
<td></td>
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<tr>
<td>10.5 No. of work days in the slackest month</td>
<td>&quot;</td>
<td></td>
<td></td>
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<tr>
<td>10.6 No. of days when work was stopped</td>
<td>&quot;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>of which due to:</td>
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<td></td>
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<tr>
<td>(1) Shortage of material</td>
<td>&quot;</td>
<td></td>
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<td></td>
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<tr>
<td>(2) Power outage</td>
<td>&quot;</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>(3) No fuel</td>
<td>&quot;</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>(4) Stagnant sales of products</td>
<td>&quot;</td>
<td></td>
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<tr>
<td>(5) Production restrictions set by the state</td>
<td>&quot;</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>(6) Equipment overhaul</td>
<td>&quot;</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>(7) Busy farming season</td>
<td>&quot;</td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>(8) Other reasons</td>
<td>&quot;</td>
<td></td>
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</tbody>
</table>
## XII. Production Cost

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<tr>
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<th></th>
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</thead>
<tbody>
<tr>
<td>11.1 Annual Factory cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>(1) Raw and processed material</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Fuel and power</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>(3) Wage and add-ons</td>
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<tr>
<td>(4) Loss from product rejects</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>(5) Shop operating cost and enterprise management cost</td>
<td></td>
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<td></td>
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<tr>
<td>Of that: Loan interest payments and depreciation and overhaul</td>
<td></td>
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<tr>
<td>(6) Other production costs (please specify)</td>
<td></td>
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</tbody>
</table>

## XII. Unit Cost of Major Products in Your Enterprise (In Y)

<table>
<thead>
<tr>
<th>Name of Product</th>
<th>1980 or 1st year after plant went into operation</th>
<th>1984</th>
<th>1985</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.1 Raw and processed material</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.2 Fuel and labor</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.3 Wage and add-ons</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.4 Loss from product rejects</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>12.5 Shop operating cost</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>12.6 Enterprise management cost</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>12.7 Other production costs (please specify)</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>12.8 Factory cost</td>
<td></td>
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</tbody>
</table>
Questionnaire
for
Township and Village Government Leaders

Joint Study Group for China's Township and Village Enterprises
March 1986
Note: This questionnaire should be filled jointly by township (town) head, township Party secretary, and head of the Township Economic Committee or head of the Office of Township and Village Industries.
1. The total population of your township numbers __________, of which rural population numbers ______ and urban population __________.

The total work force numbers __________, of which agricultural work force numbers __________, non-agricultural work force __________. There are __________ mu of cultivated land. The 1985 gross social product amounted to __________ and the gross industrial product (not including building, transportation and commerce) amounted to __________. Gross revenue for the whole year was __________ and net revenue __________.

(Please put down 1985 figures.)

2. Does your township have mineral resources? Yes __. No __.

If yes, the main resources are (please name specific types) (1) __________, (2) __________, (3) __________. Their respective industrial reserves are (1) __________, (2) __________, (3) __________. The township has __________ mu of forests and __________ mu of water surface.

3. Please fill Table 1 according to actual situation:
Table 1: 1985 Data of Township & Village Enterprises of Different Forms of Ownership

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Town-ship Owned</th>
<th>Village-Owned</th>
<th>Brigade-Owned</th>
<th>Fooled-Capital Owned</th>
<th>Individually-Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Number of Enterprise Staff and Workers</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Of which: Technical Personnel</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Supply-and-Marketing Personnel</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Total Assets of Enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which: Fixed Assets</td>
<td></td>
<td></td>
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<tr>
<td>Area of Land Occupied by Enterprises (mu)</td>
<td></td>
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<td></td>
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<tr>
<td>Gross Output Value of Enterprises</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Tax Remittance of Enterprises</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Net Profit of Enterprises</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Funds Withheld by Township</td>
<td></td>
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<td></td>
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<tr>
<td>Government</td>
<td></td>
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</tbody>
</table>
4. From 1983 to 1985, which type of enterprise in your township grew fastest in terms of output value (please mark one)? (1) Township-owned (2) Village-owned (3) Brigade-owned (4) Jointly-owned with pooled capital (5) Individually-owned. Which type of enterprise grew fastest in terms of numbers of employees hired? (1) Township-owned (2) Village-owned (3) Brigade-owned (4) Jointly-owned with pooled capital (5) Individually-owned. Of the five types of enterprises mentioned above, which three types have the most promising future (please list sequentially according to your estimate)? First ___________ Second ___________ Third ___________.

5. Please fill Tables 2 and 3 with actual figures.

Table 2: Annual Output Value Structure of Township & Village Enterprises (RMB/Y)

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<thead>
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</thead>
<tbody>
<tr>
<td>Agriculture</td>
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<tr>
<td>Building</td>
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<tr>
<td>Transportation</td>
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<tr>
<td>Commerce</td>
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- 5 -
Table 3: Annual Labor Input Structure of Township & Village Enterprises

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</thead>
<tbody>
<tr>
<td>Industry</td>
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<td></td>
</tr>
<tr>
<td>Agriculture</td>
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<tr>
<td>Building</td>
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<tr>
<td>Transportation</td>
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<tr>
<td>Commerce</td>
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</table>

6. Please fill Tables 4 and 5 with actual figures.

Table 4: Annual Output Value Structure of Township & Village Industry

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Extraction</td>
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</tr>
<tr>
<td>Industries</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Building Materials</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Machinery</td>
<td></td>
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<tr>
<td>Chemicals</td>
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<tr>
<td>Textiles</td>
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<tr>
<td>Foodstuffs</td>
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</tr>
<tr>
<td>Electronics</td>
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<tr>
<td>Other</td>
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</tbody>
</table>

RMBY

Table 5: Annual Labor Input Structure of Township & Village Industrial Enterprises

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<tr>
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<tbody>
<tr>
<td>Extraction</td>
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<tr>
<td>Industries</td>
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<tr>
<td>Building Materials</td>
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<tr>
<td>Machinery</td>
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<td>Chemicals</td>
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<td>Textiles</td>
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<tr>
<td>Foodstuffs</td>
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<tr>
<td>Electronics</td>
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<tr>
<td>Other</td>
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</tbody>
</table>

- 6 -
7. In your opinion, what are the main objectives motivating the township government to develop township and village enterprises (please list three in order of importance)? (1) Employment for the township's surplus rural labor (2) To increase township revenue (3) to rid the township of backwardness (4) To improve the local people's living standards (5) To raise the township government's prestige among the people (6) To fulfill the task of quadrupling output value assigned by higher level (7) To build the township into an advanced township. First ______ Second ______ Third ______.

8. To fulfill the objectives described above, in the last three years the township has provided assistance mainly to which types of enterprises (please list two in order of size of assistance)? (1) Township-owned (2) Village-owned (3) Brigade-owned (4) Jointly-owned with pooled capital (5) Individually-owned. First ______ Second ______

9. To fulfill the objectives described above, measures taken in the last two years have been (please list three in order of importance): (1) Establish new enterprises (2) Assist old enterprises to increase machinery, equipment and workforce (3) Assist existing enterprises to seek wider markets (4) Assist existing enterprises to solve needs of raw materials and electric power (5) Assist existing enterprises to solve technical problems (6) Strengthen management of enterprises and institute new rules and regulations. First ______ Second ______ Third ______.

10. Aside from Office of Township and Village Enterprises, are there
any other special organizations serving township and village enterprises (please \checkmark one)? (1) Yes. (2) No. If yes, these are organizations (1) responsible for marketing products (2) responsible for transportation (3) responsible for organizing technical consultation and training (4) responsible for collecting economic and commodity information (5) other__________________.

In nature, they are (1) administrative (2) operational.

11. Can your township government allocate any of the following categories independently? (1) Electric power (2) Energy (3) Raw Materials (4) Funds (5) Product marketing (6) Transportation. If yes, which categories (please \checkmark). The sources of these materials and funds are (1) allocation by county government or above at average prices (2) allocation by county government or above at prices higher than average prices but lower than market prices (3) allocation by county government or above at market prices (4) exchanges with locally produced farm, sideline or mineral products (5) purchases through acquaintances. Are these materials and funds allocated on an equal basis to the five types of enterprises (town, village, brigade, pooled-capital, individual) in each trade? (Please \checkmark) (1) Yes. (2) No. If not, they are allocated mainly to which type of enterprises (please \checkmark)? (1) Township-owned (2) Village-owned (3) Brigade-owned (4) Jointly-owned with pooled capital (5) Individually-owned. In allocating to enterprises of the same trade, allocation is based mainly on (please \checkmark) (1) base allocation figures of previous year (2) more profit remittance, more allocation (3) equal allocation (4) more allocation to those with good operational performance to encourage more profit remittance (5) more allocation to those with poor
operational performance to prevent them from closing down and enable them to remit profit.

12. In pushing for the development of township and village enterprises, what are the main difficulties encountered by the township government? (Please list four in order of actual situation.)

1. Insufficient sources of capital
2. Lack of suitable technologies and qualified managers
3. Shortage of raw materials
4. Shortage of necessary equipment
5. Lack of transportation
6. Shortage of electric power
7. Higher-level policies not suitable for local conditions
8. Unstable policies
9. Excessive tax burden
10. Market information unavailable
11. Too many different forms of ownership leading to numerous and complex problems making it difficult to determine the scope of management
12. Other

First
Second
Third
Fourth

13. What do you think should be the township government's responsibilities toward township and village enterprises? (Please list four in order of actual situation.)

1. Mediate personnel issues between enterprises
2. Mediate economic disputes between enterprises
3. Mediate disputes between local cadres and people
4. Assist enterprises in addressing capital needs
5. Assist enterprises in freeing up various channels
6. Assist enterprises in addressing energy and raw material needs
7. Assist enterprises in product marketing and transportation
8. Assist enterprises in improving operations and management
9. Draw up long-term plans for enterprises
10. Furnish enterprises with all kinds of economic and technical information
11. Other

First
Second
Third
Fourth

- 9 -
14. What do you think should be the enterprise's responsibilities toward the township government? (Please list three in order of actual situation.) (1) Ensure township government's revenue (2) Fulfill the production tasks assigned by the township government (3) Share the work to build up the township and villages (4) Contribute to the welfare of the township (5) Primarily ensure the development of your own enterprise (6) Provide opportunities for shifting surplus labor in your township (7) Support the stabilization and development of agricultural production (8) Other (please specify)________. First____ Second____ Third____.

15. How many of your township and village enterprises practice personnel management in each of the following ways?

1. Township/village government appoints factory director:
   - factory director organizes the leading group:
   - leading group of the enterprise:

2. Township/village government appoints the entire:

3. Staff and workers collectively contract for the enterprise, democratic election:

4. All principal cadres of the enterprise appointed through recruitment:

5. Other:

16. When administering township enterprises, which three of the following categories of work does the township government spend the most time and effort on? (Please list in order of actual situation.) (1) Appointment of enterprise leading group (2) Investment in expanding production (3) Investment in modernizing fixed assets (4) Total wage increase (5) Raising wage levels (6) Issuing bonuses (7) Benefits expenditure (8) Increase or

- 10 -
dismissal of work force (9) Price setting (10) Assignment of production or output value plan (11) Product marketing (12) Purchase of raw materials (13) Regular remittance of quotas profit to township government (14) Full payment of various charges to township government (15) Regular tax remittance to county government. First ____ Second, ____ Third _____.

17. Under which of the following circumstances does the township government decide to close down an enterprise? (Please ✓ one.) (1) Enterprise unable to remit normal profit (2) Enterprise unable to remit profit (3) Enterprise sustains losses but still able to pay wages (4) Enterprise sustains losses and needs township government to pay workers wages for it.

18. Please give the 1985 figures of your township government's expenditure and revenue.

<table>
<thead>
<tr>
<th>Activity</th>
<th>% of township government's total expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Establish new enterprises</td>
<td></td>
</tr>
<tr>
<td>2. Modernize old enterprises</td>
<td></td>
</tr>
<tr>
<td>3. Financial subsidies to loss-sustaining</td>
<td></td>
</tr>
<tr>
<td>enterprises</td>
<td></td>
</tr>
<tr>
<td>4. Develop education and other cultural</td>
<td></td>
</tr>
<tr>
<td>undertakings</td>
<td></td>
</tr>
<tr>
<td>5. Assist poor villages and households</td>
<td></td>
</tr>
<tr>
<td>6. Capital construction in farm land and</td>
<td></td>
</tr>
<tr>
<td>water conservation</td>
<td></td>
</tr>
<tr>
<td>7. Subsidize farming to stabilize farm</td>
<td></td>
</tr>
<tr>
<td>production</td>
<td></td>
</tr>
</tbody>
</table>

- 11 -
8. Bonuses and subsidies for township government staff
9. Maintain and improve transportation and communications in local township
10. Erect office buildings, procure articles of use, and other office expenditure of township government

<table>
<thead>
<tr>
<th>% of township government's revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Profit remittance from township &amp; village enterprises</td>
</tr>
<tr>
<td>Of which: Profit remittance from industrial enterprises</td>
</tr>
<tr>
<td>2. Charges for managing township &amp; village enterprises</td>
</tr>
<tr>
<td>3. Other charges for managing township &amp; village enterprises</td>
</tr>
<tr>
<td>4. Fund withdrawn for assisting enterprises</td>
</tr>
<tr>
<td>5. Funds remitted by township &amp; village enterprises</td>
</tr>
<tr>
<td>6. Funds withdrawn for assisting enterprises (sic)</td>
</tr>
<tr>
<td>7. Agricultural revenue</td>
</tr>
<tr>
<td>8. Other</td>
</tr>
</tbody>
</table>

19. In your opinion, what are the advantages and disadvantages of developing township/village enterprises, pooled-capital enterprises and individual enterprises respectively (Please list two of each)?
### (1) Township/village enterprises

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Support from township/village government</td>
<td>1. Tendency to eat from &quot;the big pot&quot;</td>
</tr>
<tr>
<td>2. Relatively complete rules and regulations</td>
<td>2. Personnel appointments tend to be inflexible</td>
</tr>
<tr>
<td>3. Relatively stable political foundation</td>
<td>3. Lack flexibility in operations</td>
</tr>
<tr>
<td>4. Relatively free-flowing external channels</td>
<td>4. Many financial burdens which affect development</td>
</tr>
<tr>
<td>5. Other (please specify)</td>
<td>5. Other (please specify)</td>
</tr>
</tbody>
</table>

First: __________  
Second: __________

### (2) Pooled-capital enterprises

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Greater enthusiasm and initiative on the part of capital contributors</td>
<td>1. More prone to having disputes over responsibilities, authorities and interests between capital contributors</td>
</tr>
<tr>
<td>2. Flexible forms of operation</td>
<td>2. Lack financial backer, unable to withstand risks</td>
</tr>
<tr>
<td>3. Clear-cut economic relationships between people within enterprises</td>
<td>3. Tendency toward short-term behavior, no long-term considerations</td>
</tr>
<tr>
<td>4. Fewer financial burdens, easier to move ahead</td>
<td>4. Lack ability to judge reliability of economic information, more prone to rush into action</td>
</tr>
<tr>
<td>5. More ready to accept new technologies</td>
<td>5. Tendency to use enterprise income for member family consumption</td>
</tr>
<tr>
<td>6. Other (please specify)</td>
<td>6. Other (please specify)</td>
</tr>
</tbody>
</table>

First: __________  
Second: __________

- 13 -
### Individual enterprises

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Can take full advantage of family help</td>
<td>1. More prone to close down due to insufficient capital</td>
</tr>
<tr>
<td>2. Very flexible forms of operation</td>
<td>2. Relationship with local villagers difficult to handle</td>
</tr>
<tr>
<td>3. No personnel issues between enterprises</td>
<td>3. Difficult to establish external channels</td>
</tr>
<tr>
<td>4. Family rules can effectively take the place of enterprise rules and regulations</td>
<td>4. Lack stable political foundation</td>
</tr>
<tr>
<td>5. Other (please specify)</td>
<td>5. Tendency toward family consumption</td>
</tr>
<tr>
<td></td>
<td>6. Other (please specify)</td>
</tr>
</tbody>
</table>

First______

Second______

---

Viewing the advantages described above as a whole, which type of enterprise do you think has the most promising future? (Please ✓ your choice)

<table>
<thead>
<tr>
<th>Township/village enterp.</th>
<th>Relatively Promising</th>
<th>Least Promising</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pooled-capital enterp.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual enterprises</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

20. What are your views of these types of enterprises regarding the following aspects (Please ✓ your choices)?

- 14 -
21. How many enterprises outside the township have lateral economic ties with the local township and village enterprises?

(1) ____ county-run enterprises outside the township
(2) ____ state and collective enterprises outside the township but in the same county
(3) ____ state and collective enterprises outside the township but in the same province
(4) ____ state and collective enterprises outside the province
(5) ____ overseas enterprises

The main forms of lateral economic ties with enterprises outside the township are (please list four in order of actual situation): (1) Joint operation (2) Service with charge (3) Cooperation in production (4) Contracted purchases and sales (5) Cooperation of specialized enterprises (6) Hiring of qualified personnel (7) Comprehensive importation

First____ Second____ Third____ Fourth____
22. As township head, what kind of enterprise leader do you consider to be the finest? (Please check)

(1) One who remits the most profit to township treasury
(2) One who is best able to expand the enterprise and add to its assets
(3) One who best understands the practical difficulties of the township government
(4) One who best complies with township government leadership
(5) One who has the greatest support of his staff and workers
(6) One who works hardest and is most honest in performing his official duties
(7) Other (please specify)
China: Questionnaire for Directors of Township and Village Enterprises

Prepared by:
Joint Survey Mission on Chinese Township and Village Enterprise
March 1986
Greetings! We would like you to give us a little of your valuable time and help us complete the study project of “Economic Structure of China’s Township and Village Enterprises.” This study is conducted jointly by the Institute of Economics of the Chinese Academy of Social Sciences and the World Bank under the direct guidance of the Rural Development Institute of the State Council and with the close cooperation of the Institute of China’s Economic Structural Reform and the assistance of the Beijing Social Survey Institute.

Township and village enterprises in China have witnessed tremendous development in the past few years and already occupy an important position in the national economy. At present, however, the development has encountered much difficulty. A great many problems concerning the operational and management structure remain to be studied and solved. The nationwide study we are conducting is to address these problems and pave the way for the smooth development of township and village enterprises. As a leader or a member of your enterprise, you are eminently qualified to speak on the questions under study. Please put down the answers and your true thinking and views. We will fully respect your views. (There is no question of right or wrong to the answers you give and we will keep all answers confidential, so please feel free to express them.) Your views and suggestions will provide important assistance to the study of and the decisions to be made on urban and rural economic structural reform. We sincerely hope to have your support and assistance.
Here's wishing you greater success in your enterprise.

Thank you.

Joint Study Group for
China's Township and Village Enterprises
March 1986
Notes on filling the questionnaire:

(1) Please make "✓" mark in the ___ next to the item fitting your situation or your views or write in the blanks. We hope you will answer every one of the questions.

(2) If an item does not list any answer or view fitting your situation, please write down your specific situation or views under "Other" or in any blank space and put a "✓" mark beside it.

(3) Do not fill in the blanks on the right side of the page. It is for computer use.
1. Respondent’s sex: (male) __ (female). Age: ___. How many people are there in your family? ___. Is there anyone in your father’s generation who worked in this plant? How many? ___. Relatives of yours in your own generation have worked in this plant. ___. Relatives of yours belonging to a younger generation have worked in this plant.

2. Your education: (1) College or university; (2) senior middle school (or secondary technical); (3) junior middle school; (4) primary school; (5) no education. (Please put a tick ✓ on the appropriate number. For example: ✓ (3). Same below).

3. The full name of your enterprise is: ____________________________

4. What did you do before you came to work in this plant (from age 16 onward; please fill in the following table):

<table>
<thead>
<tr>
<th>Type of Work</th>
<th>Farming</th>
<th>In Army</th>
<th>As</th>
<th>Supply &amp; Marketing</th>
<th>In</th>
<th>As Technician</th>
<th>As rural Cadre</th>
<th>Director of Commune Ent.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(from ___ to ___)</td>
<td>No of Years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Work</th>
<th>As Cadre in Commune Ent.</th>
<th>Director of State Ent.</th>
<th>As Cadre in State Ent.</th>
<th>Teacher in Locally-Funded School</th>
</tr>
</thead>
<tbody>
<tr>
<td>(from ___ to ___)</td>
<td>No of Years</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5. You have been working in this plant for ___ years now. Of that, you worked as Director for ___ years, and worked as another type of cadre for ___ years.

6. You became the director through the following procedure:

   (1) Appointed by township/village government: ___
   (2) Democratically elected, on basis of collective contracting: ___
   (3) Individual contracting: ___
   (4) Self recommendation: ___
   (5) Your own investment, so appointed by self: ___
   (6) Selected and appointed by the shareholders: ___
   (7) Other: ___
7. Is there a limited term of office for you as director? (1) Yes; (2) No. 
   If yes, how many years: 

8. What are the incentives for you to want to be director? (Choose 3 from 
   below, and list them in order of importance): 
   No. 1: ______  No. 2: ______  No. 3: ______ 
   (1) high social prestige  (2) high economic status  (3) interested 
   in the work  (4) a sense of social responsibility  (5) will have 
   more freedom  (6) taking transfer orders from the authorities  (7) 
   Other (Please specify) 

9. As director, do you have the authority to fire workers? (1) Yes; (2) No. 
   If you do, how many workers have you fired in the past year? . 
   Those workers were fired for the following reasons: (Choose 2 
   below, in order of importance) No. 1: ______  No. 2: ______ . 
   (1) refusing to observe labor discipline  (2) wrecking enterprise 
   property  (3) low competence; could not fulfill production targets 
   again and again  (4) constantly griping for a raise and 
   preferential treatment  (5) always quarreling with supervisors 
   (6) committing misdemeanors in society  (7) couldn’t get along 
   with other workers  (8) other: (Please specify) 
   In your enterprise, are there other workers who committed the same 
   types of offences to the same degree as you described above, or 
   who had even worse behavior? (1) Yes; (2) No. If yes, how 
   many: . 

10. Is there a Party branch secretary in your enterprise? (1) Yes; (2) No. 
    If yes, has he/she taken a hand in your enterprise’s production and 
    business operations? (1) Yes; (2) No. 
    If yes, what form did it assume? (Choose one below) 
    (1) Division of responsibilities with other members in the leadership 
    setup; 
    (2) involved in all kinds of operations in the enterprise; 
    (3) 

11. As director, do you have the authority to appoint or remove leading 
    members of the plant (excepting Party secretary)? (1) Yes; (2) No. 
    If yes, how many cadres have you removed since becoming director? . 
    How many cadres have you appointed .
12. In your enterprise, do you have the authority to determine the pay scale for each staff member/worker? Yes; No. Do you have the authority to determine each individual's bonus size? Yes; No. If no in both cases, by whom are wage and bonus determined:

(1) by township/village government (2) jointly by township/village government and the enterprise (3) by the leadership group in the enterprise (4) by others

In your enterprise, the highest pay (to staff and workers) is ____ yuan; the lowest pay is ____ yuan. Those who receive the highest pay account for ____% of the workforce; those who receive the lowest pay account for ____%. The average pay is ____ yuan. Compared with enterprises of the same type in the locality, such a pay level is (1) rather high; (2) about the same as others; and (3) comparatively low.

13. In your enterprise, who wields the authority as regards using funds to expand production scale; upgrading and revamping; and developing new products? (Indicate the appropriate ones in the following blanks by using a tick):

<table>
<thead>
<tr>
<th>Expansion</th>
<th>Upgrading</th>
<th>Developing New Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Township/village government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Joint decision by T/V government and enterprise</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Shareholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Leadership group in enterprise</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. The director individually</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Staff-Workers Congress</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Other</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

14. Who generally determines the price of your products?

(1) township/village government (2) jointly by township/village government and enterprise itself (3) shareholders (4) leadership group in enterprise (5) the director himself/herself (6) staff-workers congress (7) other:

15. As director, who do you think you are mainly responsible to? (Choose 2 below, answer in order of importance)

No. 1: ___  No. 2: ___

(1) township government or villagers' committee (2) staff and workers in your enterprise (3) the people in the township or the village (4) you yourself (5) a certain responsible person in the township/village (6) the state (7) the shareholders (8) other:

- 4 -
16. (Directors of individually-run enterprises need not answer this one) As director, if your enterprise, as compared with other township/village enterprises in the area, suffer serious reductions in output value or profit, would you be penalized in a substantive way? (1) Yes; (2) No. If yes, what kind (choose one below)?

   (1) reduction in salary (2) elimination of bonus (3) removal from your post as director (4) fired from the enterprise (5) other: ______

As far as you know, how would the penalty be determined?

   (1) set down in black and white in regulations (2) decided by the township/village government depending on the circumstances (3) collectively decided by the leadership group in the enterprise (4) by the staff-workers congress sessions (5) by other: ______

17. As director, if you should uncover gambling, thievery, and other hooliganism among the staff and workers, do you think you have the responsibility to take disciplinary action? (1) Yes; (2) No.

As director, if you find out that workers in your plant are having disputes with people outside, do you think it is your duty to mediate?

   (1) Yes ______; (2) No ______.

If you have workers from out of town (or county), do you think you have the duty to mediate when they have disputes with the local workers?

   (1) Yes ______; (2) No ______.

In your view, do the duties described above fall within your responsibilities as a plant director? (1) Yes ______; (2) No ______.

18. Among the abilities and qualities listed below, which do you think you possess to a larger measure than all the rest of the people in the enterprise? (Name 5, and list them in order of importance)

   1st place: ______ 2nd place: ______ 3rd place: ______
   4th place: ______ 5th place: ______

   (1) productive knowledge and techniques (2) managerial capability (3) have many contacts (4) understand the market (5) creativity (6) can use the more capable persons (7) ability to express oneself (8) decision-making ability (9) sense of responsibility and drive (10) ability to learn on one's own (11) resourcefulness (12) adherence to principles (13) sense of democracy (14) sense of competition (15) other: ______

19. As director, how would you re-arrange the following operational objectives in order of importance and urgency (use the following table and put in the appropriate number in each blank — 1 being the most important and 10 being the least important)?
<table>
<thead>
<tr>
<th>Item</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Going after maximum profit</td>
<td>6.</td>
</tr>
<tr>
<td>Expanding employment for the township/village</td>
<td>7.</td>
</tr>
<tr>
<td>Promoting prosperity in the township/village</td>
<td>8.</td>
</tr>
<tr>
<td>enterprise</td>
<td></td>
</tr>
<tr>
<td>Raising workers’ average income</td>
<td>10.</td>
</tr>
<tr>
<td>Other:</td>
<td></td>
</tr>
</tbody>
</table>

20. To fulfill these objectives, you gave personal attention to work in the following areas in accordance with the priorities indicated above (use the same numbering system in your answer): ___ the finances of the enterprise; ___ staff and worker training; ___ improving the rules and regulations to be followed; ___ supply of raw and processed materials; ___ supply of power and energy; ___ product marketing; ___ enlarging capital supply; ___ production supervision and evaluation; ___ coordinating and communicating with government departments; ___ expanding fixed assets; ___ developing new products; ___ raising product quality; ___ other.

21. What do you think are the main problems in our country’s policies towards township and village enterprises? (Choose 3 and list them in order of importance)  

   1st place: ___  2nd place: ___  3rd place: ___  

   (1) inconsistencies in the policies instituted by different levels of government; (2) contradictions in the policies instituted by the supervising government departments; (3) instability; (4) policy and the practices of the concerned departments are two different things; (5) when policies are formulated, the enterprises are not informed in a timely manner; (6) policies do not accord with local conditions; (7) other

22. In your current operations, what are the main difficulties you meet with? (Choose 4)  

   1st place: ___  2nd place: ___  3rd place: ___  4th place: ___
(1) policy problems (2) not enough bonus (3) insufficient power and energy supply (4) shortage of raw and processed material (5) insufficient technical manpower (6) inadequacy of economic laws and regulations (7) products cannot open markets (8) the enterprise's decision-making system is not working well (9) its directing system is not working well (10) enterprise does not coordinate well with government departments (11) other

In your view, the most serious obstacles to future enterprise development are: (choose 3 below)

1st place: ___ 2nd place: ___ 3rd place: ___

(1) contraction of market (2) contraction and shortage of capital (3) not enough land (4) a labor shortage (5) failure to acquire more advanced technology (6) government intervention (7) ambiguity and instability in policies (8) tight supply of energy and materials (9) other

23. As director, in the event that your enterprise faces pressures (such as losses, stagnant sales, serious shortage of capital and materials, etc.) and has to cut back on production scale, what responses are you inclined to use: (1) laying off part of the work force (2) no lay-off, but will lower the average pay level (3) shutting down the plant (4) asking for subsidies from township/village government

24. In your view, simply because of your geographic location, you have already encountered unfavorable factors in your operations (choose 3 below): 1st place: ___ 2nd place: ___ 3rd place: ___. (1) increase in transport cost; (2) no guarantee in the supply of power and energy; (3) slow in getting data and information; (4) maintenance and repair of equipment is difficult; (5) the needed technicians and skilled workers are hard to recruit; (6) too much administrative intervention by local government; (7) all staff and workers are from this locality so personnel management is difficult; (8) other

25. In your view, simply because of your present location, your operations have already benefited (chose 3 below): 1st place ___ 2nd place: ___ 3rd place ___. (1) land requisition is not difficult (2) enterprise may get protection from local government (3) can get support from local masses (4) easy to set up the necessary contact and get into channels by which problems may be solved (5) the urgently needed capital is easy to get (6) need not consider such problems as welfare, housing, unemployment, etc. (7) other

26. Comparing the two above, you think your enterprise at the present location is really (1) more favorable than unfavorable; (2) more unfavorable than favorable; (3) other: ___
27. The channel of your capital supply since the plant was set up (please list in order of importance — in terms of source of supply and the percentage of each being used):

<table>
<thead>
<tr>
<th>Item</th>
<th>No.</th>
<th>Item</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation from township/village government</td>
<td>1.</td>
<td>Credit raised from the public</td>
<td>5.</td>
</tr>
<tr>
<td>Loans from agri. bank or credit co-op</td>
<td>2.</td>
<td>Overseas Chinese investment; foreign capital</td>
<td>6.</td>
</tr>
<tr>
<td>Capital pooled by peasants</td>
<td>3.</td>
<td>Funded by other government units</td>
<td>7.</td>
</tr>
<tr>
<td>Capital brought in by staff and workers</td>
<td>4.</td>
<td>Your personal investment</td>
<td>8.</td>
</tr>
</tbody>
</table>

28. The channel of supply of the raw and processed materials you use since your enterprise was set up (Please use the same numbering system above):

<table>
<thead>
<tr>
<th>Item</th>
<th>No.</th>
<th>Item</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocated by planning dep't</td>
<td>1.</td>
<td>Bought from local open market</td>
<td>4.</td>
</tr>
<tr>
<td>Bought from local state-run market</td>
<td>2.</td>
<td>Bought from open market in other provinces</td>
<td>5.</td>
</tr>
<tr>
<td>Bought from state-run market in other provinces</td>
<td>3.</td>
<td>Materials exchange - set up together with other enterprises</td>
<td>6.</td>
</tr>
</tbody>
</table>

Of the above, the materials purchased at state-quoted price account for %, while those purchased at floating market price account for %. On average, the latter is % higher than the former.

29. In 1984 and 1985, there was an average of days of work stoppage. Of these, days of work stoppage were due to holidays; days were due to short supply of power and energy; days were due to late supply of raws and processed materials; days were due to shortage of capital; days were due to stagnant sales of products; and days were due to other causes (please specify: ). For your enterprise, the busiest month(s) is/are (list two months at most), and the slackest month(s) is/are . In the busiest month(s), you had staff members and workers; in the slackest month(s), you had staff members and workers. On average, you had staff members and workers a year.
30. In your operations, how do you rate this saying: "Without Guangxi and without pulling strings, the enterprise could not move a step"? It is (1) entirely true; (2) largely true; (3) true; (4) not entirely true; (5) basically untrue; (6) not at all true.

31. To your knowledge, in the matter of supply and marketing, the other enterprises in your area have resorted to informal means. And this is: (1) a very frequent occurrence; (2) a relatively frequent occurrence; (3) an occurrence that is found now and then; (4) an infrequent occurrence; (5) a rare occurrence; (6) a non-existent occurrence.

32. Have you ever tried to market your products in other localities? (1) Yes ____; (2) No ____.

You have tried in ____ (how many) provinces. The farthest one (from your enterprise) is ____ Province. The products marketed in other provinces account for ____% of your total output.

Have you ever worked to produce fittings or replacement parts for other enterprises? (1) Yes ____; (2) No ____.

If yes, what ____% did this have in your total output? Did the enterprises that purchased these parts from you supply you with raw materials? (1) Yes ____; (2) No ____. Did they furnish the needed technology? (1) Yes ____; (2) No ____. Did they supply the needed fund? (1) Yes ____; No _____. How were such operational relationships set up? (Choose from the ways listed below)

(1) We sent people out to make contact (2) they sent people over to negotiate with us (3) contact established through a friend (4) other

33. Compared with state-owned enterprises, in what respects do you think you have obviously been discriminated against? (Choose 3 below)

1st place: ____  2nd place: ____  3rd place: ____

(1) in power and energy (2) in the supply of raw and processed materials (3) in availability of capital (4) in the provision of machinery and equipment (5) in tax matters (6) in the levying of administrative fees — apart from taxes (7) availability of market for products (8) in the supply of technical manpower (9) restrictions on the selection of certain product orientations (10) Other

34. In spite of these discriminations, township and village enterprises have still been able to rapidly develop. What do you think the main reasons are (choose 3 below)?

1st place: ____  2nd place: ____  3rd place: ____
It is because in these enterprises (as compared with state-owned enterprises): (1) labor is less expensive (2) sources of funding are more varied (3) ways purchases and marketing are done are more flexible (4) responses to new technology and new inventions are quicker (5) responsibilities, powers, and benefits are more clearly defined (6) staff and workers have higher enthusiasm for work (7) enterprises are smaller; therefore, easier to switch lines of production (8) fewer benefits to be paid, so there is less financial demand on the enterprise (9) other

35. As director, you know more about similar plants in the following geographic area:

(1) those in your own township (2) those in your own county (3) those in your prefecture (4) those in your province (5) nationwide

The competition the products of such plants have with those of yours on the market is: (1) extremely fierce (2) very fierce (3) relatively fierce (4) not very fierce (5) not much competition at all (6) not clear

36. Among the overseeing departments at the county level listed below, which one(s) is(are) the most helpful in resolving problems for you?

(1) the township and village enterprise bureau (2) industry and commerce administrative bureau (3) the tax bureau (4) the agricultural bank (5) the planning commission (6) the economic commission (7) the law courts (8) other

With which department are you on the most harmonious terms: (fill in one of the numbers above)

With which department are you on the least harmonious terms: __________

37. Who determines how profit in your enterprise is to be distributed?

(1) township/village government (2) township/village government plus the leadership group in the enterprise (3) the shareholders (4) you yourself (5) township/village government and the staff and workers in the enterprise (6) the enterprise leadership group (7) other

As far as you know, is your distribution method the same as that in similar enterprises locally? (1) no difference whatsoever (2) basically the same (3) not quite the same (4) very different (5) not clear

In your view, who benefits the most from your form of distribution? (1) the township/village finance department has increased its revenue (2) the enterprise itself has expanded (3) the income level of staff and workers has been raised (4) the shareholders have gained (5) other
38. If you should receive some follow-up funding, what will your investment choice(s) be?
   (1) would spend most of the funds to enlarge recruitment of workers (2) would spend part to purchase more equipment and part to recruit more workers (3) would mainly use the fund to buy equipment (4) other
   If you choose (3) above, your main objectives are (choose 2 below and list them in order of importance):
   1st place: ________ 2nd place: ________
   (1) to increase output (2) to raise quality (3) to increase variety, so as to attract consumers (4) to improve labor conditions (5) to acquire advanced technology (6) to switch production (7) to reduce consumption of energy and material (8) other

39. In your view, is there exploitation in enterprises funded by the peasants collectively, or by joint households, or by individuals that employ more than 10 workers? (1) yes, there is exploitation: (2) no, there is no exploitation: (3) other: ________

40. As director, do you think the township/village enterprise will have a future in the next ten or twenty years? (1) will have a future (2) will have no future (3) not clear. Which type of enterprises will have the brightest future? (1) those run by the township (2) those run by the village (3) those funded with capital pooled by the peasants (4) those run by individuals.

41. In your view, what problems can the development of township and village enterprises resolve (choose 4 below and list them in order of importance)?
   1st place: ________ 2nd place: ________ 3rd place: ________ 4th place: ________
   (1) can find employment for rural surplus labor (2) can help reduce the differences between city and country (3) can help quicken the pace of regional development (4) can help raise revenue for the state (5) will open a new road for rural systemic reform (6) will bring boom to the market (7) will help boost the national economy (8) will help raise the peasants’ income (9) other

42. In your view, what problems could the development of township and village enterprises bring (choose 4 below and list them in order of importance)?
   1st place: ________ 2nd place: ________ 3rd place: ________ 4th place: ________
(1) irrationality in the makeup of energy and material allocation (2) the pattern of industries will be too dispersed; there would be no economies of scale (3) ineffectual administrative control at the grassroots level in the rural areas (4) will cause a number of state enterprises to shut down and cause more unemployment in the cities (5) will bring more fake goods and counterfeits to the market (6) will aggravate tax evasion and cheating (7) will bring more imbalance to the development of the vast rural areas (8) will cause a new polarization of the rich and the poor (9) other

Finally, if you have more comments and suggestions, please write them down in the space provided below:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

Please accept our thanks for your kind cooperation!
China's Township and Village Enterprises

Questionnaire

Joint Study Group for China's Township and Village Enterprises

March 1986
Greetings! We would like you to give us a little of your valuable time and help us complete the study project of "Economic Structure of China's Township and Village Enterprises." This study is conducted jointly by the Institute of Economics of the Chinese Academy of Social Sciences and the World Bank under the direct guidance of the Rural Development Institute of the State Council and with the close cooperation of the Institute of China's Economic Structural Reform and the assistance of the Beijing Social Survey Institute.

Township and village enterprises in China have witnessed tremendous development in the past few years and already occupy an important position in the national economy. At present, however, the development has encountered much difficulty. A great many problems concerning the operational and management structure remain to be studied and solved. The nationwide study we are conducting is to address these problems and pave the way for the smooth development of township and village enterprises. As a leader or a member of your enterprise, you are eminently qualified to speak on the questions under study. Please put down the answers and your true thinking and views. We will fully respect your views. (There is no question of right or wrong to the answers you give and we will keep all answers confidential, so please feel free to express them.) Your views and suggestions will provide important assistance to the study of and the decisions to be made on urban and rural economic structural reform. We sincerely hope to have your support and assistance.
Here's wishing you greater success in your enterprise.

Thank you.

Joint Study Group for
China's Township and Village Enterprises
March 1986
Notes on filling the questionnaire:

(1) Please make "✓" mark in the blank next to the item fitting your situation or your views or write in the blanks. We hope you will answer every one of the questions.

(2) If an item does not list any answer or view fitting your situation, please write down your specific situation or views under "Other" or in any blank space and put a "✓" mark beside it.

(3) Do not fill in the blanks on the right side of the page. It is for computer use.
Note: This questionnaire should be filled jointly by enterprise leader, accountant and statistician.
1. Name of enterprise: ________________________  
2. Date of establishment: ________________________  
3. Location (county) ________________________  
   Location (township or town) ________________________  
4. Type of enterprise (please ✓):  
   1. Township-owned  
   2. Town-owned  
   3. Village-owned  
   4. Production Team-owned  
   5. Joint households-owned  
   6. Family-owned  
   7. Individually-owned  
   8. Other (please specify)  
5. Major products and activities: (list at most three): ________________________  
6. How does your enterprise director come into office  
   (1) Administrative appointment by township government  
   (2) Democratic election by enterprise staff and workers  
   (3) Self-recommendation  
   (4) Appointment by enterprise shareholders or owners  
   (5) Contracted by individual  
   (6) Election by shareholders  
   (Please make ✓ mark beside appropriate answer)  
7. Leadership setup in your factory:  
   (1) Enterprise director is concurrently Party secretary  
   (2) Enterprise director and Party secretary are separate  
   (3) Only enterprise director, no Party secretary  
   (4) Other (please specify)  
   (Method of answer same as above)  
8. Did your enterprise go through examination and approval procedure at the time of establishment?  
   If so, your approval agency is  
   (1) County supervising industrial bureau  
   (2) County industrial and commercial administrative bureau
(3) Township government  
(4) Village government  
(5) Other (please specify)  

(If more than one approval agency, please ✔ all)  
The approval of ________ (agency) is crucial to the establishment of your enterprise.  

9. In your view, the principal motive or purpose of the establishment of your enterprise is to:  

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(1) Provide employment and opportunities for shifting rural labor  
(2) Increase income and improve living standards of rural people  
(3) Exploit undeveloped resources and build up the local area  
(4) Ease the shortage of raw materials and energy in local agricultural and industrial production  
(5) Increase total output value and achieve quadrupling targets as quickly as possible  
(6) Increase local (township or village) government revenue.  

10. At the time of establishment, your principal source of capital was:  

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(1) Allocation by county government or above  
(2) Allocation by township or village government  
(3) Loan from local bank or credit co-op  
(4) Pooling of private capital  
(5) Investment by other enterprises  
(6) Loan from out-of-town bank or enterprises  
(7) Other (please specify)  

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<td>1 of 1985 capital</td>
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11. **At the time of establishment, the source of land was:**

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(1) Acquisition made with government organ as intermediate
(2) Direct purchase by enterprise
(3) Land converted into shares
(4) Leasing
(5) Use without charge
(6) Labor comes with land
(7) Combination of above forms (please specify)

(METHOD OF ANSWER SAME AS ABOVE)

12. **At the time of establishment, the source of labor was**

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(1) Allocation by township (town) or village government
(2) Labor comes with capital or land
(3) Recruitment with government organ as intermediate
(4) Direct recruitment by enterprise
(5) With cooperation from relatives and friends
(6) Other (please specify)

(METHOD OF ANSWER SAME AS ABOVE)

13. **If your enterprise had sustained serious operational loss in the recent five years, in 1980, 1981, 1982, 1983, 1984, 1985 (please circle the loss-sustaining years and put mark over the year of greatest loss) and answer the following questions. If there was no loss in any of the years, please answer from 17 on.**
Main reason for loss:

(1) Raw material or energy not guaranteed
(2) No market for products
(3) Lack of necessary capital
(4) Unable to solve technical problems
(5) Unable to obtain necessary equipment
(6) Other (please specify)

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Note: Please list reason in order of importance.

The loss-sustaining period was:

(1) Less than 3 months
(2) 3 to 6 months
(3) 6 to 12 months
(4) Over 12 months

(Please ✓ actual period)

The loss level was:

(1) Unable to pay taxes as stipulated
(2) Unable to make loan repayments
(3) Unable to make assessed payments
(4) Unable to make wage payments to workers and staff
(5) Unable to make procurement payments as due

(Please ✓ actual level)

The principal measures your enterprise took to resolve losses were (No-loss enterprise: has not __, has ____ taken the following measures):

(1) Make changes in major products
(2) Strengthen marketing
(3) Improve processing technologies of original products
(4) Seek new sources of capital
(5) Cut back on workforce
(6) Reduce staff and workers wages
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(Please list in order of importance)

In taking these measures you

1. Relied entirely on yourselves
2. Received assistance from local township or village government
3. Received assistance from other local enterprises
4. Received assistance from state enterprises
5. Received assistance from county government and above
6. Other (please specify)

(Please circle one)

14. The principal parts of the annual plan of your enterprise are based on:

1. Plan handed down by county government and above
2. Plan handed down by township or village government
3. Orders for processing materials supplied by users or orders from other enterprises
4. Assessment of market demand or self-marketed base figures of previous year

(Please list in order of output value)

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<td>% of planned 1985 output value</td>
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15. The sources of the principal raw materials used by your enterprise are:

1. Allocations by county government or above
2. Allocations by township or village government
3. Materials supplied by users for processing

- 7 -
(4) Purchased on means-of-production market at high market prices
(5) Multiple exchanges of materials or compensatory trade
(6) Other (please specify) __________________________

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<td>% of materials purchase cost for 1985</td>
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(Method of answer same as above)

Source of electric power is:
(1) Allocations by county government or above
(2) Commissioned through multiple exchanges of other materials or consumer goods
(3) Purchased at high market prices
(4) Enterprise's own generating units
(5) Other (please specify) __________________________

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<td>% of electric power used in 1985</td>
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(Method of answer same as above)

In your opinion, the reason for increases in the number of procurement personnel and the rise in their wages is:
(1) Production expansion
(2) Increases or changes in products
(3) Raw materials shortage
(4) Energy shortage
(5) Other (please specify) __________________________

- 8 -
17. Compared with 1984, the 1985 amount of capital used for goods in stock in your enterprise had

(1) Increased  (2) Not changed  (3) Decreased

(Please select appropriate answer)

In your opinion, the reason for the increase (or decrease) of capital used for goods in stock is:

(1) Decrease (or increase) of government planned purchases
(2) Decrease (or increase) in purchases by ordering units
(3) Decrease (or increase) in commissioned sales by commercial units
(4) Greater (or less) difficulty in self-marketing by the enterprise
(5) Other (please specify)

(Please list in order of importance)

---

18. The prices of your major products are:

(1) Fixed prices set by county price bureau or above
(2) Floating prices set by county price bureau or above
(3) Negotiated between enterprise and ordering unit
(4) Set by the enterprise autonomously
(5) Set with intervention by township or village government
(6) Other (please specify)

---

(Number of answer same as above)
19. Compared with 1984, the 1985 product sales prices in your enterprise had (1) gone up (2) not changed (3) fallen. If prices were lowered than in 1984, the principal reason was:

(1) Lower government prices for the same products  
(2) Lower cost of enterprise wages or raw materials  
(3) Reduction in taxes, charges or assessed expenses  
(4) Lower market prices for the same products  
(5) Sales expansion and efforts to win new accounts  
(6) Exchanges for raw materials and energy

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(Please list reason in order of importance)

20. If in 1985 your product sales prices were set lower than market prices, the main reason was:

(1) To expand sales and win new buyers  
(2) To exchange for raw materials and energy  
(3) To stabilize relationship with buyers  
(4) Government organs were the buyers or intermediates for buyers  
(5) Other (please specify)

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(Method of answer same as above)

21. The setting of product sales prices in your enterprise is based mainly on:

(1) Enterprise production cost  
(2) Market demand  
(3) References to government list prices  
(4) Capital, cost or wage profit rate  
(5) Other (Please specify)

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(Method of answer same as above)
22. Compared with 1984, the 1985 pure profit in your enterprise had (1) increased (2) not changed (decreased). If the 1985 pure profit had increased (or decreased), the main reason, in addition to increase (or decrease) in output value, was:

(1) Falls (or rises) in raw materials or energy prices
(2) Reduction (or rise) of wages and bonuses has been rather slow (or fast)
(3) Reduction or exemption (or increases) of industrial and commercial taxes or income tax
(4) Reduction (or increases) in various expenditures or assessed expenditures

(Please ✓ one reason you consider most important)

23. Compared with 1984, the 1985 retained profit in your enterprise had:

(1) Increased (2) Not changed (3) Decreased

If your 1985 retained profit had increased (or decreased), then in addition to increases (or decreases) in output value, the reason was:

(1) Increases (or decreases) in ¥100 output value
(2) Reduction (or increases) in township or village government management expenditure
(3) Reduction (or increases) in assessed expenditure assigned by township or village government
(4) Changes in profit retention stipulation

(Please ✓ the most important reason)

24. In your enterprise, profit retained is decided:

(1) By township or village government
(2) Through negotiation between township or village government at beginning of year
(3) By the enterprise but subject to approval by higher level
(4) By the enterprise but need not be approved by higher level
(5) Other (please specify)

(Method of answer same as above)

25. As you see it, the rule of enterprise profit distribution with participation by township (town) or village government is based on:
26. In your enterprise, the number of staff and workers is
(1) insufficient (2) about right (3) too many (Please □)

If insufficient, the main reason is:
(1) Township or village government does not allow increased recruitment
(2) Wages too low to attract recruitment
(3) Working conditions too poor to attract recruitment
(4) Unable to recruit suitable people in local village even with higher wages

(Please □ the category you consider the most important)

If too many, the main reason is:
(1) Township or village government does not allow cut back in recruitment
(2) Enterprise not willing or not in a position to cut back in recruitment
(3) Cut back in recruitment will not result in better financial benefits to staff and workers
(4) Cut back in recruitment will not benefit enterprise profit-making

(Method of answer same as above)

27. If your enterprise lack personnel, the type of personnel you lack are:
(1) Managerial cadres
(2) Technical personnel
(3) Supply and marketing personnel
(4) Accountant or statisticians
(5) Production workers
28. Compared with 1984, the wages or bonuses in your enterprise for 1985 had (1) risen (2) not changed (3) fallen

If wages or bonuses had risen (or fallen), the main reason was:

(1) Unified arrangements by township or village government
(2) Enterprise profit retention increased (or decreased)
(3) Staff and workers overtime increased (or decreased)
(4) Pressure of wage increases in other enterprises
(5) Pressure of increased consumer prices in local area

(Please list in order of importance)

29. At the time the staff and workers enter your enterprise, their wages are decided:

(1) By township or village government
(2) Through negotiations between township or village government and the enterprise
(3) By the enterprise but subject to approval by township (village) government
(4) By the enterprise and need no approval by township or village government
(5) Other (please specify)

(Please mark the important category)

30. Depreciation funds of fixed assets in your enterprise are

(1) Submitted in entirety to township or village government
(2) Submitted in part to township or village government
(3) Retained in entirety by the enterprise

If all or a part of the depreciation funds is retained by the enterprise, they are used for
(1) Modernizing out-of-date equipment and machinery
(2) Renovating plant buildings or build new ones
(3) Buying new equipment and machinery while keeping old ones
The use of your depreciation funds is decided by
(1) Township or village government
(2) Yourself but subject to approval by township or village
government
(3) Yourself entirely

31. Investment in or modernization of your fixed assets
is decided:
(1) By county government
(2) By township government
(3) Jointly by township government and enterprise
(4) Enterprise itself but subject to approval by
township (village) government
(5) Other (please specify) __________

32. The main source of capital you used for investment or
modernization in the last three years was:
(1) Your own funds or retained depreciation funds
(2) Allocation by township government
(3) Bank or credit co-op loans
(4) Funds raised through various means
(5) Allocation by county government or above
(6) Foreign or overseas Chinese capital

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<td>% of investment of last 3 years</td>
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(Please list in order of amount)

33. The reason you do not wish to invest your capital
in other enterprises but entirely in your own
enterprise is to:
(1) Expand production
(2) Improve quality and increase products and
variety
(3) Lower cost
34. If you had invested in other enterprises before, the purpose and motivation of the investments were to:

(1) Market products
(2) Establish materials and energy bases
(3) Generate higher profits
(4) Control other enterprises

(Please list in order of importance)

35. To you the easiest source of capital is:

(1) County government allocations
(2) Bank loans
(3) Credit co-op loans
(4) Stock solicitation
(5) Private loans
(6) Fund raising
(7) Loans from other enterprises

(Please list in order of importance)

In obtaining the capital described above, which source requires the highest cost, which source requires the most complicated procedures.
36. In your opinion, the agency most difficult to deal with is:
   (1) Finance Bureau or tax bureau
   (2) Bank
   (3) Supervising bureau
   (4) Township or village government
   (5) Industrial and commercial administrative bureau
   (6) Other (please specify)

37. When establishing your enterprise, the most difficult link to get past was:
   (1) Township or village government
   (2) Industrial and commercial administrative bureau
   (3) County or township enterprise bureau
   (4) Bank
   (5) Other (please specify)

38. When establishing your enterprise, the biggest difficulty to overcome was to:
   (1) Seek market for your product
   (2) Obtain raw materials
   (3) Obtain electric power
   (4) Obtain workers
   (5) Obtain equipment
   (6) Obtain land
   (7) Obtain capital
   (8) Acquire production technology

   (Please ✓ one category)
39. The principal operational objective of your enterprise at present is to:

(1) Provide employment for local residents
(2) Increase income and improve the living standards of local residents
(3) Develop local resources and promote community prosperity
(4) Ease local shortage of raw materials and energy for production

(Please ✓ one category)

40. The form of wages in your enterprise is:

(1) Fixed time wage
(2) Piece rate wage
(3) Internal workpoint system
(4) Same workpoint system as used for farm workers

(Please ✓ one category)

The form of auxiliary wages is:

(1) Auxiliary piece rate wage
(2) Bonus
(3) Year-end dividend
(4) Other (please specify)________________________

(Please ✓ one category)
中国乡镇企业

数量调查表

中国乡镇企业联合考察团

一九八六年三月
同志们，

您好！占用您宝贵的时间，您和我们共同完成这项“中国乡镇企业经济体制”的课题。调查由中央社会科学研究、世界银行合作、国办公室发展研究部、中国经济体制改革研究部的密切配合以及北京社会事务调查部的协助下进行的。

乡企业近几年在中国得到了很大的发展，并已在国民经济中占有相当重要的地位。但是，当前乡镇企业的发展具有较大的困难，它在经济管理上还存在很多问题有待于研究和解决。我们这项全国范围的调查就是为了了解这些问题，为今后乡镇企业的顺利发展奠定基础。作为一个企业的领导，作为企业的员工，您对调查要求的各项问题有着很好的发言权，请将您自己的真实情况和想法提供给我们，我们将充分尊重您的想法。问卷中的答案无需对错，是对您的真实情况的反映。您的意见和建议将对经济体制的深化改革和决策提供重要的帮助，我们诚挚地希望得到您的支持和帮助。

祝企业在新的努力工作中取得更大的成就！谢谢！

中国乡镇企业联合考察团
1986年3月

填表说明：本表请由企业领导及企业会计、统计员共同填写。
一、基本情况

1. 企业名称

2. 建厂日期

3. 企业所在地

4. 企业所有制（选一种并填下面空格内）
   ①市（区）、镇办、村办、集体企业（集体企业选其中一种）
   ②全民合营企业（说明有多人或多少户参加，参加者的身份）

5. 企业主管单位名称

6. 企业经营方式
   ①是否实行承包经营？
   ②如果是，请在下列承包形式中勾出一种：
      a. 企业集体承包
      b. 企业内部部分人承包
      c. 厂长或经理个人承包
      d. 其他承包形式（请具体说明）

   ③承包条件是什么？（请详细说明）

   ④如未实行承包，是否实行某种形式的责任制？（请详细说明）

7. 对于联合经营的企业请说明：
   ①是否按股份分享收入？
   ②如果是，是按下面哪种形式分配：
      a. 按固定的股息率分配（年股息率是）
      b. 按变动的股息率分配（最高股息率，最低股息率）
      c. 利润中用于股份分配的比例是多少，是根据什么决定的？
d. 其他形式，请具体说明

① 企业是否从职工或其他个人得到非股份资金
② 如有，按哪种形式分配，按固定的比例分配
a. 说明利息率 根据什么决定
b. 按变动的利息率（最高 最低 ）
③ 利润中用于这一部分借款分配的比例是多少
根据什么决定
d. 其他形式，请具体说明

1. 8 本企业主要产品（按重要程度顺序排列）
1989 年（或建厂第一年） 现在

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<tbody>
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<td>1</td>
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</tbody>
</table>

1. 9 如果主要产品发生变化，请说明变化的时间和原因；

二、生产和销售 单位：元

<table>
<thead>
<tr>
<th>数量</th>
<th>主要产品</th>
<th>主要销售</th>
<th>备注</th>
</tr>
</thead>
<tbody>
<tr>
<td># 2.1 工业总产值(按生产年不变价)</td>
<td></td>
<td></td>
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<tr>
<td># 2.2 工业总产值(按当年价格)</td>
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<tr>
<td># 2.3 工业总产值(按当年价格)</td>
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</tbody>
</table>

第 2.1 项，80 年以内的百分比数字可用 70 年不变价，但请在此列内列出
70 年不变价的 80 年数字；

# 2.4 主要产品产量

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<tr>
<th>1</th>
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<tbody>
<tr>
<td>4</td>
<td>5</td>
<td>6</td>
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</tbody>
</table>

2
### 2.5 主要产品产值（按当年价格）

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<td>⑤</td>
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注：表中有关数字，按年分类填写。如表未规定，可将产品分类填写。如果有关数字不全，请尽量将其他能够提供的年份数字全部填出。请将产品名称的单位放在相应的备注中。

### 2.6 1985年主要产品销售对象和销售地点

<table>
<thead>
<tr>
<th>产品名称</th>
<th>主要销售对象（单位名称）</th>
<th>销售对象性质和销售地点是否计划收购</th>
<th>占本产品销是的比重（%）</th>
</tr>
</thead>
<tbody>
<tr>
<td>产品一</td>
<td>a b c</td>
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<tr>
<td>产品二</td>
<td>a b c</td>
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<tr>
<td>产品三</td>
<td>a b c</td>
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</tbody>
</table>

注：销售对象性质和销售对象分类包括：
1. 国营商业、外贸、供销社、物资部门
2. 城市供销社、集体企业
3. 乡镇企业
4. 集体、个体商业组织
5. 企业自销
6. 其他形式（请说明）

### 三、利润 单位：元

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<td>3.1 产品销售收入</td>
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<td>3.2 销售利润</td>
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<td>3.3 产品销售利润</td>
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<td>3.4 产品销售费用</td>
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<td>3.5 技术转让费</td>
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<td>3.6 交管理费用</td>
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<td>7 营业外收入</td>
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<td>8 营业外支出</td>
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<td>9 利润总额 (十) 或亏损总额 (—)</td>
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<td>3</td>
<td>10 费用总表</td>
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<td>3</td>
<td>11 各项基金 (请分项注明)</td>
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<td>3</td>
<td>12 实际工筹与标准工筹之差</td>
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<td>3</td>
<td>13 企业税</td>
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<td>3</td>
<td>14 上交农村的税 (请说明)</td>
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单位：元

<table>
<thead>
<tr>
<th>3</th>
<th>15 企业税利总额</th>
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<tbody>
<tr>
<td>3</td>
<td>其中： (1) 增加流动资金</td>
</tr>
<tr>
<td>3</td>
<td>(2) 增加更新设备基金</td>
</tr>
<tr>
<td>3</td>
<td>(3) 增加集体福利基金</td>
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<tr>
<td>3</td>
<td>(4) 增加基本基金 (其中, 红利分配)</td>
</tr>
<tr>
<td>3</td>
<td>(5) 其他用途 (请详细说明)</td>
</tr>
</tbody>
</table>

注：本表以表(从3.1至13.5) 中凡注有“(请说明)”的项目，均应在“备注”栏中尽量详细注明该项的具体内容，项目栏中留有空格的，请分项填在空格内。

### 四、企业年度投资（当年发生额）

单位：元

<table>
<thead>
<tr>
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<th>1 固定资产投资总额</th>
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<tr>
<td>4</td>
<td>其中： (1) 增设生产设备</td>
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<td>4</td>
<td>(2) 厂房建设</td>
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<td>4</td>
<td>(3) 职工住房</td>
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<td>4</td>
<td>(4) 其他集体福利设施</td>
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<tr>
<td>4</td>
<td>(5) 对外单位的投资 (请说明)</td>
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<tr>
<td>4</td>
<td>(6) 用于乡村建设的投资 (请说明)</td>
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### (表一)

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<tbody>
<tr>
<td>5.1 固定资产原值 (年末数)</td>
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<td>③其他集体福利设施</td>
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<td>5.2 固定资产净值 (年末数)</td>
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<td>5.3 定额流动资金 (年末余额)</td>
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<td>其中：</td>
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<td>②银行、信用社存款</td>
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<td>③应收账款</td>
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<td>其中：</td>
<td>应收销货款</td>
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<td>④其他 (请说明)</td>
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<td>5.4 定额流动资金平均余额</td>
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<td>5.5 非定额流动资金 (年末余额)</td>
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<td>②银行、信用社存款</td>
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<td>应收销货款</td>
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5.6 资金占用总额 (元) | | | | | | | | |
5.7 企业占地面积 (亩) | | | | | | | | |
5.8 企业建筑面积(平方米) | | | | | | | | |

### 5.9 土地使用形式

a. 允许占用 ____ 亩；
b. 实际占用 ____ 亩，每亩 ____ 元；
c. 租用 ____ 亩，每亩每年 ____ 元；
d. 土地变更 ____ 亩，变更人数 ____ 人，其他条件 ____ ；
e. 土地折股 ____ 亩，每亩折股 ____ 元；
f. 其他 (请说明) ____ ；
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<tr>
<td>6・1</td>
<td>乡村基金</td>
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<td>6・2</td>
<td>国家扶持基金（请说明）</td>
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</table>

注1：本表中技术员和管理人员是指企业中专业技术人员和管理工作人员，兼职者按其主要担任的工作统计。

注2：本表中年平均收入是由该人员从企业取得的全部年收入（包括奖金和其他收入在内）按人数平均得出。
<table>
<thead>
<tr>
<th>八. 企业人员分类 单位：人</th>
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<tbody>
<tr>
<td>总计</td>
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<tr>
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<td>②技术人员中</td>
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<td>③管理人员中</td>
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附：8・2 1985年企业负担的退休、工伤残人员总数__人。 1985年退休人员总数__人。

<table>
<thead>
<tr>
<th>九. 1985年企业生产设备状况</th>
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<tr>
<td>按设备出厂年限分组</td>
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<td>合计</td>
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<td>9 • 1 生产设备总数</td>
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<th>十. 生产工时</th>
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<td>单位</td>
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<td>10・1 每日制度工时</td>
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<td>10・3 全年实际工作日</td>
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<td>10・4 最忙月份工作日</td>
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<td>10・5 最闲月份工作日</td>
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(续表一)

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十一、生产成本

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十二、本企业主要产品单位成本

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<td>⑧工厂成本</td>
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十三、能源和主要原材料消耗

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<td>13·5本企业使用的其他五种主要原材料</td>
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REPACheld a meeting on April 25, 1986. All members were present.

Research Proposal: "Chinese Collective Industry"

Mr. Dervis introduced the proposal on behalf of the subcommittee. He summarized the subcommittee's report which overall argued in favor of support for the proposal. He said that the main issue raised was one of approach and methodology. It was not clear to him whether there would be an attempt to address the question — which he considered as central to the research — of the linkages between labor management theories and the actual situation in China, in particular as far as the institutional characteristics of firms were concerned and their links with "economic efficiency" as elaborated in theory. He noted that the proposal did not contain many testable hypotheses. But on balance he found enough in the proposal to suggest that the proposed study would not be too descriptive. One favorable factor in his views was the impressive combination provided by the involvement of a good consultant, Professor Jan Svejnar, the strong commitment by the AEA region, the active participation of Mr. Byrd, one of the sponsors, and the collaboration of CASS and its contribution in terms of financial and staff resources. He also stated his views that the questions addressed and the proposed approach transcend the normal CESW. The objective is to help throw light on an important aspect of China's ongoing economic and social transformation.

The first issue raised by a REPAC member was the apparently conflicting schedule of Professor Svejnar who had also been hired to work on another recently approved research project and of which he was the sponsor. Mr. Dervis indicated that he had also planned to hire this consultant to work in his Division in some near future. It was agreed to bring this issue to the attention of the proposal's sponsors to avoid overcommitment on the part of Professor Svejnar which might affect his performance.

The international component of the proposal was next discussed. Members raised doubts about the seriousness of its purpose and about its potential value added to the overall study. Given that the proposal was essentially an empirical fact-finding study of the
Chinese experience, to be undertaken by an international expert, they questioned the need for such a component. Mr. Dervis argued that along with the theoretical literature and the review of the international experience, this first-hand contact by the Chinese with worker-managed enterprises in other countries would fit naturally within the whole work. The majority of the members however were skeptical that much could be derived from these skimpy interviews with foreign firms by the Chinese team. And if the purpose of this component was primarily institution building, their views were that it should not be funded with RMB money but by the Region and/or the Chinese themselves.

As for the main component, the study of the Chinese collective industry, it was the subject of a long discussion by REPAC. A member expressed his views that it would be more important to focus on studying the external environment and constraints, such as pricing policies, incentive systems and so forth, which could be more relevant than the internal organization of firms. Mr. Dervis argued that the objective of the sponsors was primarily to look at how the collective and private firms are organized and function, who makes the decisions and why the decisions are made. As for the study of the incentives and the overall macroeconomic environment, it was only secondary. Mr. Lal agreed with Mr. Dervis that the organization and functioning of these firms were not very well known, yet they were a very important part of China's current economic and social transformation. He noted that there was great variation across provinces, and the situation was changing rapidly. Fear was expressed however that apart from its descriptive value, important as it may be, the study may turn out to be shallow in terms of analytical content. Members pointed out the lack in the proposal of a clear analytical framework or an organizational core, even to guide the descriptive analysis. There were no well formulated hypotheses and it was not clear how the study will answer the few questions raised in the proposal. Doubts were also raised about the adequacy of the questionnaires for the various surveys and interviews of firms, workers and local officials. The analogy was drawn with an earlier research proposal ("Structural Adjustment in Korea: Lessons of Experience"), in that it was a potentially good research in terms of objectives, staffing and local collaboration but one in search of hypotheses, and suffering from a weak exposition of the analytical framework. In sum, REPAC felt that the present proposal may produce a good descriptive piece on Chinese collective industry but its analytical part needed further development and strengthening.

REPAC therefore made the following recommendations:

1) Not to fund the international component. This will reduce REPAC's proposed contribution from $182,000 to $104,000.

ii) To fund the China component in two stages. A first tranche of $60,000 will be granted to finance the descriptive part of the study and a reworking of the
analitical part of the proposal. Release of the second tranche, $44,000, would be conditional upon REPAC's approval of the latter.

iii) To assign a REPAC subcommittee consisting of Messrs. de Tray and Selowsky to assist the sponsors in the formulation of the analytical framework, to review it for REPAC and to recommend whether and when the second tranche should be released.

Evaluation of Completed RSS-Funded Research Projects

Mr. Lal raised the issue of evaluation because of the memoranda circulated by Mr. Graham Pyatt regarding the evaluation of his two projects 671-27 and 672-25A. Mr. Pyatt claimed that he had not been given due process, because he had been denied the opportunity to defend his views before the panel of reviewers as he had constantly requested. That had led him to seriously question the integrity of the technical peer-group review process as adopted by REPAC. To these charges, Mr. Lal responded that at issue was the principle of anonymity which in his view ought to be preserved for the reviewers. As panel chairman of the two projects in question, he had had to face this issue because of the internal reviewer's refusal to participate in a panel meeting involving the project's sponsor. Respecting the internal reviewer's decision based on the above principle of anonymity, he said he had offered Mr. Pyatt the alternative to submit his written comments on the reviewers' reports. These could be sent back to the reviewers, and along with further assessments by the latter, could form the basis for revising and finalizing the draft evaluation reports on the projects.

Ms. Meesook said that she had understood i) that the review process as decided by REPAC had included the possibility that any project sponsor could request a meeting with the evaluation panel, and ii) that the panel would consist of both the panel chairman and the internal reviewers. She accordingly had written down these rules about the review process in her correspondence to REPAC panel chairman, reviewers and project sponsors. Having not received any objections about them, the assumption was that they were correct. Mr. Lal called this a mistake because it conflicted with the principle of anonymity promised to all reviewers, external and internal alike. REPAC members agreed that the principle should be upheld and preserved, as it was in the case of evaluation of proposals. Mr. Lal therefore instructed Ms. Meesook to accordingly amend all her correspondence referring to REPAC's evaluation rules and procedures for the purpose of the ongoing evaluation exercise. With respect to Mr. Pyatt's case, REPAC members accepted Mr. Lal's suggestion that i) Mr. Pyatt be given a month to respond in writing to the reviewers' reports, ii) his written comments be sent to the anonymous reviewers for their consideration and to see whether in the light of Mr. Pyatt's reactions they would wish to alter
their assessments, and (iii) all the evaluation reports including Mr. Pyatt's comments be submitted to the whole REPAC for its judgment, to counter Mr. Pyatt's claim of prejudice on the part of the panel chairman. Some REPAC members also insisted that henceforth care should be taken to give project sponsors time to respond to reviews during the review process.

cc and cleared with: Mr. D. Lal
File Title
674-07 Collaborative Research with China - 1v

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Document Date
May 20, 1986

Document Type
Form

Correspondents / Participants
To: Budget Control & Systems Division, ACT
From: Phi Anh Plesch, VPERS

Subject / Title
The World Bank/IFC Budget Transfer Request

Exception(s)
Personal Information
Corporate Administrative Matters

Additional Comments
The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by
Shiri Alon

Date
April 19, 2017
OFFICE MEMORANDUM

DATE May 19, 1986

TO Mr. Gautam S. Kaji, Director, AEA

FROM Phil Ansh Plesch, VPERS

EXTENSION 33484

SUBJECT Research Proposal: "Collaborative Research Project on Chinese Collective Industry"

1. Thank you for your May 14 memorandum indicating your department's acceptance of REPAC's decisions on the above research project as communicated to you in my May 5 memorandum.

2. The project's identification code and financial authorization are issued as follows:

   i) Identification Code 674-05
   ii) FY86 Authorization $20,000
   iii) FY87 Authorization $40,000
   iv) Total Authorization $60,000

   Please use the identification code in all financial documents and other correspondence related to this project including letters of appointment to consultants.

cc and cleared with: Mr. D. La

cc: Messrs./Mmes. W. Byrd, P. Levy, C. Koch-Weser, R. Monaghan, AEA
S. Panickaveetil, M. Tonson, PBD
W. Gasson, W. Hannemann, M. Herndon, ACT
B. Ross-Larson, OD
S. Alyar, F. Jessup, V. Mataac, VPERS
F. Mitchell, BRDC
R. Pearson, BVMI
REPAC Members
On behalf of the project sponsors and myself, I am communicating our acceptance of the decisions made by REPAC on this research project. We regret that REPAC did not fund the international component of the project, since this is viewed as an integral part of it by CASS, whose collaboration is essential for the success of the project. We are endeavoring to find other sources of funding for the international component.
1. The above proposal, sponsored by your department, had been reviewed by a Bank staff and two external referees and subsequently evaluated by a REPAC subcommittee (their reports are attached). The full REPAC considered the proposal at its meeting on April 25. Its views and recommendations are summarized below.

2. REPAC unanimously agreed that the issues addressed in this research proposal are of considerable interest to the Bank and to Chinese policymakers as they are among the key issues in China's ongoing social and economic transformation. Members also noted the strong level of commitment by both the Region and CASS in terms of staff time and financial resources. However, they were concerned about the design of the proposal's two main components:

   1) The international component: all reviewers as well as REPAC members questioned the value added of this component to the overall study. They doubted that much could be derived from firm interviews by the Chinese CASS team in a month-long trip to several countries spanning three continents. For lack of a common analytical framework, in their views, there would be little attempt at integrating and comparing the results from the Chinese experience with those from other countries' experiences. If the purpose of this component was primarily institution-building, REPAC's views were that it should not be funded with RSS money but rather by the Region and/or the Chinese themselves.

   1i) The lack of an apparent analytical framework for the main component, the study of the Chinese collective industry, was a subject of deep concern to REPAC. Apart from its descriptive value, important as it may be, it was feared that the study may turn out to be shallow in terms of
analysis. As pointed out by the REPAC subcommittee, the core of the research effort would be to address the links between "economic efficiency" and "institutional characteristics of firms." It is this link which must be "fully analyzed in a rigorous way and the policy conclusions must come from such an analysis." Yet there was not enough in the proposal to suggest how it would be done or if such an analysis was feasible. It was also not clear how other important questions raised in the proposal would be addressed. Doubts were expressed about the adequacy of the questionnaires for the various surveys and interviews of firms, workers and local officials. The hypotheses, if they exist, were not clearly formulated. In sum, REPAC felt that this research project may produce a good descriptive piece of the Chinese collective industry but its analytical part needed further development and strengthening.

Although the reputation of the main consultant, Professor Jan Svejnar, is well established, it was felt that he may be overstretched with several other commitments (both with the Bank and Cornell), which raised the question whether he could deliver properly in his various tasks.

3. In view of the above, REPAC made the following recommendations to the Vice President, ERS, who has endorsed them:

1) Not to fund the international component. This will reduce REPAC's proposed contribution from $182,000 to $104,000.

2) To fund the China component in two stages. A first tranche of $60,000 will be granted to finance the descriptive part of the study and a reworking of the analytical part of the proposal. Release of the second tranche, $44,000, would be conditional upon REPAC's approval of the latter.

3) To assign a REPAC subcommittee consisting of Meaurs, de Tray and Selowsky to assist the sponsors in the formulation of the analytical framework, to review it for REPAC and to recommend whether and when the second tranche should be released.
4. If those decisions are acceptable to you and the sponsors, REPAC will issue the financial authorization ($60,000) and an identification code for the project.

Attachments

cc and cleared with: Mr. D. Lal

cc: Messrs. F. Levy, W. Byrd, C. Koch-Weser, AEACH
    REPAC Members
OFFICE MEMORANDUM

DATE April 29, 1986
TO Mrs. Anne G. Krueger, Vice President, ERS
FROM Phi Anh Plech, Secretary, REPAC
EXTENSION 3484
SUBJECT Research Proposal: "Collaborative Research Project on Chinese Collective Industry"

Sponsoring Department: AEA
Staff Responsible: Fred Levy, William Byrd
Amount Requested: $182,000

1. The Chinese collective industrial sector includes a wide variety of firms, mostly owned by communities and groups of individuals. It has been the most dynamic part of Chinese industry over the past decade, increasing its share in China's industrial output from 22 percent in 1978 to 32 percent in 1984. Despite its growing importance and its significance for economic liberalization in China, little is known about the operation of firms in the collective sector, the constraints they face, and their economic environment. The proposed study is aimed at filling this gap and would be carried out as a collaborative research project with the Institute of Economics of the Chinese Academy of Social Sciences (CASS). It has two components:

(a) The China component, a basic fact-finding exercise consisting of a review of the Chinese published information on the sector, enterprise surveys, in-depth interviews of a selected sample of forty enterprises and of local officials in four target areas in China and a worker survey. The cost of this component is $164,000.

(b) The international component whose main goal is to provide the Chinese collaborators with exposure to a broad range of experiences with cooperative and labor-managed firms in several other countries (India, Europe, USA). The idea is that this will improve their analysis of the Chinese situation and stimulate creative thought about future choices and strategies. The cost of this component is $78,000.

The total direct cost of the project is therefore $242,000 (excluding Bank staff time), of which REPAC is asked to contribute $182,000, and the remaining $60,000 will be financed by the Region. CASS will also provide substantial staff time and financial resources to the project.
2. The proposal was reviewed by Mr. J. Page (LCP) and two external referees (Professors C. Howe from University of London and G. Ranis from Yale University). The REPAC subcommittee consisted of Mr. K. Dervis and Mrs. U. Lele. The full REPAC considered the proposal at its meeting on April 25, 1986. Its views and recommendations are summarized below.

3. REPAC unanimously agreed that the issues addressed in this research proposal are of considerable interest to the Bank and to Chinese policymakers as they are among the key issues in China's ongoing social and economic transformation. Members also noted the strong level of commitment by both the Region and CASS in terms of staff time and financial resources. However, they were concerned about the design of the two main components described above:

1) The international component: all reviewers as well as REPAC members questioned the value added of this component to the overall study. They doubted that much could be derived from firm interviews by the Chinese CASS team in a month-long trip to several countries spanning three continents. For lack of a common analytical framework, in their views, there would be little attempt at integrating and comparing the results from the Chinese experience with those from other countries' experiences. If the purpose of this component was primarily institution-building, REPAC's views were that it should not be funded with RSB money but rather by the Region and/or the Chinese themselves.

11) The lack of an apparent analytical framework for the main component, the study of the Chinese collective industry, was a subject of deep concern to REPAC. Apart from its descriptive value, important as it may be, it was feared that the study may turn out to be shallow in terms of analysis. As pointed out by the REPAC subcommittee, the core of the research effort would be to address the links between "economic efficiency" and "institutional characteristics of firms". It is this link which must be "fully analyzed in a rigorous way and the policy conclusions must come from such an analysis." Yet there was not enough in the proposal to suggest how it would be done or if such an analysis was feasible. It was also not clear how other important questions raised in the proposal would be addressed. Doubts were expressed about the adequacy of the questionnaires for the various surveys and interviews of firms, workers and local officials. The hypotheses, if they exist, were not clearly formulated. In sum, REPAC felt that this research project may produce a good descriptive piece of the Chinese collective industry but its analytical part needed further development and strengthening.
Although the reputation of the main consultant, Professor Jan Svejnar, is well established, it was felt that he may be overstretched with several other commitments (both with the Bank and Cornell), which raised the question whether he could deliver properly in his various tasks.

4. In view of the above, REPAC would recommend the following with respect to the proposal:

1) Not to fund the international component. This will reduce REPAC's proposed contribution from $182,000 to $104,000.

2) To fund the China component in two stages. A first tranche of $60,000 will be granted to finance the descriptive part of the study and a reworking of the analytical part of the proposal. Release of the second tranche, $44,000, would be conditional upon REPAC's approval of the latter.

3) To assign a REPAC subcommittee consisting of Messrs. de Tray and Selowsky to assist the sponsors in the formulation of the analytical framework, to review it for REPAC and to recommend whether and when the second tranche should be released.

5. These recommendations are for your approval.

cc and cleared with: Mr. D. Lal (VPERS)
This research proposal on Chinese Collective Industry addresses one of the key issues in China’s ongoing social and economic transformation. The objective is "to understand how Chinese collective and private enterprises are organized and how they function in China’s economic system." The project would also "provide an evaluation of the advantages and drawbacks of different options for the future development of Chinese collective and individual industry."

An important question that often arises in relation to a large RPO focused on a single country is whether the proposed work merits support from the external research budget or whether it should be undertaken as part of the economic and sector work of the Region. (This question is underlined by the internal referee.) In this case it is quite clear that the magnitude of the effort is such as to necessitate some form of external support to the Region. We also think that the question addressed and the proposed approach, including the surveys and the quantitative analysis, go beyond "normal" ESW. Finally, the size of China obviously makes it a very special single country.

In terms of the general approach taken there may be a little too much emphasis on the "theory of the labor managed firm." As one of the referees points out "the hypothetical nature of the labor managed firm in China" needs to be brought out more clearly. On the other hand the literature on labor managed firms does address the links between "economic efficiency" and "institutional characteristics of firms." It is this link which must be fully analysed in a rigorous way and the policy conclusions must come from such an analysis. This is really the core of the research effort.

Given the objectives, the proposal would be very well staffed. Jan Svejnar is a leading specialist of socialist economies with very good credentials. He has done extensive and high quality work on the theory of comparative and labor managed firms. Moreover, the Region is committing 42 weeks reflecting a strong level of commitment. The combination of an academically oriented theorist and two country specialists, one of them a regular staff member, appears exactly appropriate and compares favorably with many other RPOs.

A final attractive feature of the proposal is the participation of the Institute of Economics of the Chinese Academy of Social Sciences (CASS). The CASS team will not be paid through the RPO, only their international travel would be covered by World Bank funds. In that sense, the project is
even more of collaborative effort than other projects where in-country consultants are paid by the Bank.

6. During a meeting with the project sponsors, Messrs. Levy and Byrd, these points were discussed. At the end, we stressed the need for the Region to fully deliver its part, notably the 42 weeks budgeted for Bill Byrd. The sponsors assured us that they and their management’s commitment to protecting Byrd’s time was very firm. Nevertheless, we suggest that REPAC obtain an explicit commitment from the Region that the time of the Regional economists will be assured and that they will not be transferred before the study is completed.

7. In light of the above, we recommend the funding of this project with $160,000 from the external research budget which necessitates some economies in travel and consultant fees and perhaps a marginal increase in the Region’s financial contribution.

cc: REPAC Members
    Mr. F.A. Plesch
April 24, 1986

Johannes:

Regarding the AEA proposal on "Chinese Collective Industry," Deepak says that, although you could not serve on the subcommittee in charge of that proposal, you may participate in its discussion at the full REPAF meeting. So I am sending you the proposal and the referees' reports. Needless to ask you to preserve the anonymity of the reviewers.

See you on Friday, May 25 at 4:30 pm, Room S-9023.

[Signature]

Phi Anh Plesch
April 21, 1986

Johannes,

You were not invited to REPAC's next meeting on Friday, April 25 because the only item in the agenda is the discussion of the AEA proposal on "Chinese Collective Industry" (see attached memo). However, since REPAC is also going to discuss the "controversy" regarding the past evaluation of Graham Pyatt's two projects on SAM, we would like you to also participate in this discussion. I'll let you know the approximate time when you should join us on Friday.

Phi Anh
DATE        April 17, 1986
TO           REPAC Members
FROM         Phi Aih Plesch, VPERS
EXTENSION    33484
SUBJECT      REPAC Meeting: April 25, 1986

There will be a meeting of the Research Projects Approval Committee on Friday, April 25, at 4:00 p.m. in Room 6-9-023 to discuss the research proposal on "Chinese Collective Industry."

Enclosed for your review are the proposal and the reports from three referees. The subcommittee report will be circulated to you early next week.

Enclosures

PAP:aa
DATE March 25, 1986
TO Mr. Deepak Lal, Research Administrator, VPERS
FROM William Byrd, ARAC
EXTENSION 74917
SUBJECT Update on Proposed Collaborative Research Project on Chinese Collective Industry

1. A request for Research Support Budget (RSB) funding for this project was submitted on January 23, 1986. In accordance with the tentative schedule, draft questionnaires for the worker survey and for enterprises were prepared by both sides and were exchanged in late February. During a trip to China on other business, I had a number of fruitful meetings on this project with members of the Chinese team (from the Institute of Economics, Chinese Academy of Social Sciences). There have been the following main developments, which may be of interest to REPAC as it considers the proposal.

2. In addition to a team member from the Rural Development Center under the State Council, an economist from the Economic Reform Research Institute (under the Economic Reform Commission which is headed by China's Premier) and a sociologist from Beijing University will be involved in the project. They have already participated in the design of survey questionnaires (see below) and will be very helpful in the data collection and analysis components of the project. Moreover, broader dissemination of both the analytical techniques used and the results obtained in the project will be assured.

3. At the request of the Chinese team, the size of the sample of enterprises for in-depth interviewing has been increased from 30 to 40 (10 in each of the four localities). This would be accomodated without any change in schedule, by splitting the research team into two groups for most interviews.

4. The Chinese team proposed that in addition to the questionnaires already discussed and agreed upon (the worker survey questionnaire, basic data on a large number of enterprises, and the detailed quantitative questionnaire for the sample of 40 enterprises), there should be a questionnaire for enterprise managers. They submitted a draft for this questionnaire and it was agreed that, suitably revised, it would be distributed to the directors of the 40 enterprises in the sample and also to directors of a large number of the enterprises from which basic information would be collected.

5. Drafts of the worker survey questionnaire and the detailed enterprise quantitative questionnaire were exchanged and discussed. It was agreed that the Chinese team would produce revised versions which would then be sent to us for final comments and revisions. Both of these are already in relatively good shape for testing (see below). Concerning the enterprise survey questionnaire for the large sample of firms, it was felt
March 26, 1986

Ms. U. Lale, DRDDS and Mr. K. Dervis, INDSP
Ms. Vilma V. Natero, VPERS

Research Proposal: Collaborative Research Project on Chinese Collective Industry

On March 10 I sent you copies of the reports from three referees for evaluation. Herewith is a copy of an update on the proposal from the sponsor.

Attachments
that relying more on qualitative questions and less on quantitative data requests would be more effective, in view of the fact that many of these enterprises are relatively small and keep poor statistical records. The Chinese team had prepared a draft of such a questionnaire, which could be combined with a much abbreviated version of our draft questionnaire.

6. The draft questionnaires will be tested by the Chinese team in 20 township and village enterprises in a suburb of Beijing. We will be given the results and informed of any problems that emerge. The questionnaires also will be used in some research work in Fujian Province and more generally in other work that may be conducted by the Chinese Academy of Social Sciences in the future on collective enterprises. Revised versions of the various questionnaires are now in the process of preparation and translation from Chinese into English, but copies of the original drafts prepared by the World Bank team in February are available upon request.

7. The two target areas which would be visited in the first mission (June-July 1986) have been selected. Wuxi County in Jiangsu Province is one of the richest and most industrialized counties in China; within the county, fieldwork would be focussed on the township with the highest average per-capita gross industrial and agricultural output value. Jieshou County in Anhui Province has an average per-capita rural income very close to the national average, and is located on the North China Plain, far from any large city and with relatively poor access to transport. Within Jieshou County we would concentrate on Jinshai Township, which is an "average" township for the locality. Thus both target areas fit very closely with our desire to study an "advanced" and an "average" locality in terms of per-capita income and the development of rural collective industry. (It was confirmed that a backward area in Jiangxi Province and an area in Guangdong Province that has close ties with foreign capital would be visited in the second fieldwork mission, now scheduled for January 1987.)

8. In Wuxi County, 25 enterprises were put forward as possible candidates for inclusion in the sample; the list has been cut to 11, of which 10 will be actually interviewed. In Jieshou County, an initial list of 34 enterprises was provided, of which 12 have been selected, later to be cut down to 10. The enterprises in the sample range in size from 25 employees to nearly 900; there is also great variation in technology and factor input mix. A few of the enterprises in the sample make losses, while some earn extraordinarily high profits. A number of industries are represented, with particular focus on textiles, food processing, machinery, and consumer durables. There is also considerable variation in terms of relationships with the state sector, ranging from primary reliance on subcontracting to arm-length direct competition. Perhaps most important, the enterprises in the sample are characterized by numerous different forms of ownership and financial structure, including the traditional commune-brigade pattern (which predominates in Wuxi County), pooled capital firms formed by small groups of peasants, similar enterprises established by unemployed school graduates, limited liability corporations, joint ventures involving domestic and in some cases foreign partners, and two individually owned enterprises. All in all, the sample of enterprises in the first two target areas fully meets our objectives set forth in Attachment 6 of the Project Proposal.
9. The Chinese team has prepared extensive background materials on township and village industry in Jiangsu and Anhui Provinces and in the two target areas to be visited during the first mission. Briefs on the enterprises in the sample and some basic quantitative information also have been provided. These materials have been translated into English and are available upon request.

10. Overall, the Chinese team has devoted a great deal of time and effort to the preparatory work for this project and has been very responsive to our requests. This is particularly evident in the careful selection of target areas and enterprises and the provision of a large number of enterprises in the preliminary list, from which we could choose those which seemed most appropriate. The Chinese team has also shown considerable initiative in suggesting changes which improve the project, most notably the addition of the enterprise director's questionnaire. The progress in preparatory work for this project so far confirms the high quality of the Chinese team and the high priority given this project by the Chinese Academy of Social Sciences. It also strongly indicates that despite the ambitious nature of the project and the relatively tight schedule, implementation should be feasible given the strong commitment by both sides.

cc: Messrs. Yenai (AEN); Linn (AEADR); Karcher (AEP); Koch-Weser, Levy, Pohl (AACH); Tidrick (CPD); Golb (DRD)

Mess. Mataac (VPERS); Wallich, Woo (AEACH)
DATE: March 10, 1986

TO: Ms. U. Lele, DRDPE and Mr. K. Dervis, INDSP

FROM: Ma. Vilma V. Mataas, VPERS

EXTENSION: 33487

SUBJECT: Research Proposal: Collaborative Research Project on Chinese Collective Industry

Please find attached copies of the reports from one internal and two external referees.

Attachments
March 4, 1986

Ms. Vilma V. Mataac
Economics and Research
The World Bank
1818 H Street, NW
Washington, DC 20433

Dear Ms. Mataac:

I am pleased to enclose both a brief evaluation of the research proposal on "Collaborative Research on Chinese Collective Industry" and a copy of my curriculum vitae, as per your request.

Sincerely yours,

[Signature]

Gustav Ranis

Enclosures
My overall assessment is that the proposed subject is very important, that the questions to be asked are, with a few exceptions, highly relevant, and that the social product likely to emerge is substantial. This, in my judgment, overcomes some obvious deficiencies when viewed as a "normal" research proposal, e.g. it is not at all specific on just how the information, if obtained, is to be utilized within a specific research frame nor on what precise shape the research product will take. In other words, I see this "research project" not as the usual professional economic inquiry but as encompassing a rather preliminary, but necessary, fact-finding stage which will make such research possible in the future.

I also perceive anomalies in the way human resources are to be deployed collaboratively, which gives the project more of an institution-building rather than research cast. Finally, as with respect to the project's international component, this seems to be in the nature of an expensive quid pro quo rather than an essential component of the research per se. In summary, I believe the proposed activity is extremely worthwhile and should be undertaken, but I am frankly somewhat surprised that it is being pushed through this particular Bank channel, if I understand that channel correctly.

Specific comments on the proposal as it stands:

1) I believe it would be helpful to have the Chinese collaborators trace the origins of the collective enterprise back to the pre-revolutionary period
so that we can see three distinct phases: pre 1949, 1949 to liberalization, and post-liberalization. The economic significance of what is happening now will become much clearer in this context. This is because the research should be able to distinguish between real changes during the 1949-1960 period as opposed to changes in the lexicon only.

2) With respect to the situation in each of the three periods - with greatest emphasis of course, on the 80's, I believe the proposal needs to distinguish more clearly between rural and urban collectives, on the one hand, and between the internal and external rules of the game, on the other. I believe there is a good deal of confusion, reference to the rural areas, between collectives, side-work by incompletely specialized farmers, and the remnants of commune-owned industry. The proposal seems to largely ignore rural collectives which were formed partly historically out of private handicraft activities, were partly grafted onto the commune system during the Cultural Revolution and partly re-emerged with rural reform after the late 70's.

3) With respect to the internal rules of the game, I would suggest that for each period (and separately for urban and rural) the research should yield, at a minimum, discrete information on a) the changes, if any, in the nature of the management function; b) the changes, if any, in the ownership of the capital stock; c) the changes, if any, in actual employer-employee relations; d) the change, if any, in their legal status (rights and responsibilities). An exploration of these dimensions would seem to lie at the heart of an understanding of the actual economic functions of the collective enterprise. It is not at all clear, for example, what, if anything changed, when a number of individual units were first "collectivized" and later, "decollectivized"
without possibly any major change in the production units or even management.

4) With respect to the external rules of the game, I would suggest obtaining information on a) the changes, if any, in the pricing behavior in both input and output markets; b) the changes, if any, in the contractual arrangements between enterprises and their suppliers, on one side, and their contractors or markets, on the other. It is this exploration of the external market environment for the collective enterprise (fixed prices, negotiated prices, market prices etc.) which should provide the other part of the explanation of the dynamic (or lack of it) of the collective enterprise at different times.

5) There are occasional vague references to the exploration of technology transfer issues in the proposal. I think the emphasis on the important issues of technology choice and the direction of technology change should be redirected away from the issue of transfers from state to collective enterprise and towards the consideration of what various constellations of internal organizational rules of the game within the collective sector do to encourage (or discourage) the internal incentive for innovative activity. The same comment applies to the external environment in which the sector finds itself.

6) While the project research methodology is generally down-played -- given its rather special information - gathering thrust -- it might be better not to separate "reports" from "analytical studies". For example, the preparation of the questionnaire already represents an initially critical analytical act which cannot be divorced from the later use to which the data might be put. I perceive a danger in the way data collection and analysis are being separated in time and in terms of the human resources being deployed.
7) The collective enterprise sampling procedure contemplated is not very clear. There seems to be a hint of purposive sampling, i.e. focussing heavily on units with the greatest autonomy, which might give a very misleading picture of the sector as a whole. It is well-known that there exists a wide variety of experience given the somewhat idiosyncratic nature of recent experimentation with industrial reforms.

8) As already noted, one has the impression that the international component of the project is viewed more as a carrot to ensure Chinese cooperation than as a substantive requirement of the project. While there is probably relatively little to be learned abroad with respect to the very special Chinese manifestation of how to transit from centralized to market socialism, this does not bother me on moral grounds. But I do worry about the fact that it may betray a lack of intrinsic interest and motivation for the project on the part of the Chinese collaborators. If this implies giving the project relatively low priority in terms of human and other resources, the high quality consultants being provided from the outside may encounter real difficulty in pressing forward with the project. More time spent early in getting fuller conceptual agreement between the parties on all phases of the project and its prospective value to Chinese planners might therefore be time well spent. This comment, of course, relates more to the explicit research product and less to the implicit training and institutional by-products of the proposal.
25th February 1986

Dear Mrs Mataac,

I enclose my comments on the research proposal. I hope that they are along the lines you require. I have assumed that you did not want me to comment on the financial aspects of the proposal. If you require further elucidation I will supply it.

I will send you a c.v. in the next day or so.

Yours Sincerely,

[Signature]

Professor C.B. Howe
Proposal for research on the Chinese Collective Industry sector

The proposal contained in these two papers is soundly based, would be an important contribution to our understanding of the Chinese economy, would be of potential value to Chinese policy makers, and would certainly be relevant to World Bank decisions pertaining to China.

I have four general comments and a number of more specific comments relating to points raised in the two papers.

General Comments

1. The collective sector has a long history in China's development policies. It originated directly from the socialisation of the private sector in 1956/57. The scale of its establishment represented a major departure from the Soviet institutional framework and from the outset the planning problems it posed engaged high level attention. It is significant that one of the authors of the original policies for this sector was Chen Yun, who has been a key figure in the formulation of economic strategy since 1979. Throughout the 1950s, employment considerations were central to policies towards the private and collective sectors and early research showed the existence of a policy/activity cycle in which floors were set by intolerable urban unemployment stresses and ceilings by unacceptable "capitalist" behaviour. The reconciliation of conflicts of interest between the state-owned and collective/capitalist sectors was a major issue of policy 1955-56. This issue was never publicly addressed again until 1979 and after, but it clearly remained a great submerged importance. I would suggest
that the analysis of this policy background is not left entirely to the Chinese collaborators but that Christine Wong play an important part in it. These issues remain very important but ideologically sensitive and the Chinese analysts while obviously having much to contribute, will not provide a full account of them.

2. The analytical framework of the project is heavily biased towards the collective sector as a case study in the economics of the worker managed enterprise. It is fairly safe to say that up to now the scope for worker management (as understood, for example, in the Yugoslav case) has been slight. Collective enterprises have up to now worked under Light Industry bureaus and other bodies and have had highly constrained discretion over revenue allocations - and especially over the allocation of "surpluses" or "profits". Indeed, in some respects the collective enterprises have been more subject to arbitrary bureaucratic intervention than the state sector enterprises. This will background will need to be fully explored and the hypothetical nature of the labour managed firm in China brought out.

3. Further, the collective and private sectors in China do to a very considerable extent overlap with what in most countries is thought of as the informal, small scale and labour intensive sectors. This is in contrast to the conventional labour managed firm which has as its distinguishing feature ownership and management structures. This dimension of the collective sector needs more attention than appears to be proposed in the present analytical plans. This is particularly important in
the Chinese case because the "duality" problem has had a long
and controversial history there. The issues of wage and non-
wage remuneration levels have been particularly contentious.
In the draft of the Third Five Year Plan (1966-70) increasing
the scale of the inferior part of the duality was official
policy - the idea being to keep the collective sector at a
low level and further marginalise workers in the state sector.

4. This matter also links to your international dimension
and background papers. There is something to be said for the
visits to Europe and the US and to getting some background on
these experiences. However, experience of industrial and urban
duality in other poor economies is equally, if not actually
more important.

Specific comments
G-CHO/CH-43/
p.3 decentralisation will not necessarily lead to collective
growth. It has not done so in the past.
p.4 a basic reason for easy profitability in the non state
sector is that high profits are the means of resource mobilisation
in China. Therefore technical inefficiency and high wages may
still be "competitive" in the Chinese context.
p.6 it is to be hoped that the Chinese side would collate the
key Chinese monographs on this subject.
I strongly question the choice of enterprises "whose autonomy
is greatest". This is a strategic decision which carries with
it the danger that the study will not deal with typical form
of urban collective at all. You could finish up with yet another
study of "rural industrialisation". It is the urban collective
which is close to the urban local state enterprise which is
exactly what is interesting because the direction of state sector reform might be to push the local state sector into collective patterns. I also think that you should include a study of the service trade collective. These are very important and relate to the current plans to increase the service sector of the economy.

p. 11 The issues of wage administration and how these relate to collective policy are very important. At present there is a major wage reform going on in China and the question of how income distribution in the state sector should be controlled is a subject of lively discussion in the Chinese economic literature. This issue relates to both the employment and the macro anti-inflationary implications of the growth of the collective sector.

p. 14 see earlier comments on the types of collective to be studied. I would suggest a study of an industrial collective in north east China to give a more rounded picture. In such a context the issues of sub-contracting, links with the state sector, labour management and choice of technique could be explored. I do not see these subjects getting attention on the present proposal.

G. Doll 8

p. 3 the sources of capital, past present and future are a very important area for attention. This will involve looking at both local fiscal policies and banking developments. For the role of overseas funds, Canton and or Shanghai would be the best locations.

Attach 5 p. 2 Luo appears to have some Japanese background that might be useful.

Attach 6 p. 3 the extractive sector should be looked at.
DATE: 18 February 1986

TO: Ms. Phi Anh Plesch, VPERS

FROM: John M. Page, Jr., LCPI2

SUBJECT: Research Proposal: "Collaborative Research Project on Chinese Collective Industry"

1. I have reviewed at your request the above research proposal. Clearly, essential description of the collective enterprise is of considerable interest to the Bank, to Chinese policy makers, and to scholars interested in comparative economic systems, and the approach of comparative field study and analysis is both appropriate and desirable. I have, however, two sets of reservations concerning the proposal as it now stands. The first concerns the country focus; the second concerns the analytical framework within which the project will be conducted.

2. The fundamental objective of this project is basic fact finding - to describe the structure, and to some extent the conduct, of Chinese (rural) collective enterprises. In this respect the first question which comes to mind is does such fact finding, exclusively focused on one country (albeit a large one), merit support from the external research budget or should it be undertaken as part of the economic and sector work program of the region? I do not find the argument in paragraph 11 that this work cannot be collaboratively undertaken as anywhere but REPAC sponsored research persuasive. Collaborative ESP has been undertaken in other countries where ideological sensitivities are important (e.g., Hungary and Yugoslavia).

3. To my mind, therefore, the key to whether the proposal merits REPAC support is the extent to which the lessons learned from the project will have more general applicability for the Bank and its clients. In this regard I do not find that paragraph 10 makes a persuasive case for the general applicability of the results. I am also greatly concerned that the international component of the research, as it is presently structured, focuses too heavily on providing field experience for the Chinese counterparts and does little to set the results in an international context. A competent survey of the existing literature would presumably be provided, but greater attention needs to be paid to integrating and comparing the results with those from other countries within a common analytical framework.

4. The absence of an apparent analytical framework is my second area of concern. There is about the project a quality of data
collection in search of an hypothesis. Most simply put the project stresses description of internal structure, and to a lesser degree conduct, at the expense of evaluating performance. A statement that sophisticated techniques are not appropriate (para. 32) does not suffice to address the absence of some indication of the hypotheses to be tested and the methods to be used. What are the criteria by which "successful" performance by collective enterprises will be judged? Will any effort be made to assess the costs and benefits of the incentive regime within which the collective enterprise functions (as set out in Attachment 2) and to link the results with the microeconomic evidence on performance?

5. Simple description of the way in which the enterprise functions, although laudable, will not be of sufficient general interest or policy relevance to justify a major effort to collect data. Moreover, experience with other data-intensive research sponsored by the Bank (eg. the Small and Medium Enterprises Project) indicates that unless the hypotheses are well defined at the outset of the survey effort, questionnaires may be misdirected, priorities in the collection of data will be vague, and the analysis will be made correspondingly more difficult.
Thank you for agreeing to serve as members of the REPAC subcommittee set up to evaluate the above proposal. It is being reviewed by one internal and two external referees and their reports will be circulated to you as they become available.

Attachment:
## Record Removal Notice

**File Title**
674-07 Collaborative Research with China - 1v

**Barcode No.**
1314970

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**Correspondents / Participants**
To: Professor Gustav Ranis  

**Subject / Title**
External referee for "Collaborative Research on Chinese Collective Industry" research proposal.

**Exception(s)**
Personal Information

**Additional Comments**
The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

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<td>April 19, 2017</td>
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Archives 01 (March 2017)
OFFICE MEMORANDUM

DATE    February 5, 1986
TO      Mr. John M. Page, Jr., LCPI2
FROM    Ms. Vilma V. Hataee, VPERS
EXTENSION  33687

SUBJECT  Research Proposal: "Collaborative Research Project on Chinese Collective Industry"

Thank you for agreeing to review the above research proposal (copy attached) for REPAC, to which you have agreed with Ms. Flesch that you will send your report by February 15, 1986.

Attachment

cc: REPAC Members (for information)
This is to acknowledge receipt of your research proposal on the above subject on January 23, 1986. The proposal will be reviewed according to REPAC's procedures and REPAC's decisions on its funding will be communicated to you as soon as the review decision/process is completed.

cc: Mr. W. Byrd, AEACH
The World Bank Research Program Request for Research Support Budget (RSB) Funding - "Collaborative Research Project on Chinese Collective Industry"

Personal Information
Corporate Administrative Matters

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

Withdrawn by: Shirin Albin
Date: April 19, 2017
CHINA

COLLABORATIVE RESEARCH PROJECT ON CHINESE COLLECTIVE INDUSTRY

Summary

Collective and individual industry has in many respects been at the cutting edge of Chinese economic reforms. The proposed project consists mainly of a study of its development, current situation, and future potential. This will be supported by a survey of international experience with collective and labor-managed firms in a number of other countries and a review of the main theoretical results achieved by the Western literature on cooperative and labor-managed enterprises. The proposed project will be carried out as a collaborative research project with the Institute of Economics of the Chinese Academy of Social Sciences (CASS).

The most important objective of the study is to understand how Chinese collective and private enterprises are organized and how they function in China's economic system. Basic fact-finding work would focus on their ownership system, financial structure, and form of management, as well as the institutional and regulatory environment faced by Chinese collectives and their relationship to the state sector of the economy. On the basis of this understanding, the project would analyze the reasons for the extremely rapid growth of Chinese collective and individual industry in recent years, with a view toward assessing the strengths and weaknesses of the sector and the impact of reforms. Finally, the project would provide an evaluation of the advantages and drawbacks of different options for the future development of Chinese collective and individual industry, based on the analysis of the Chinese situation and prospects and the review of international experience.

The questions addressed by the study are important for China because: (a) the future development of nonstate, collective forms of ownership will have a crucial impact on China's attempt to reform and modernize its economy and achieve rapid, efficient growth; (b) international experience has shown that the organization of collective enterprises as well as their institutional and regulatory environment can have a crucial impact on their competitiveness, profitability and efficiency, reinvestment and growth potential, and employment generation; (c) little is known inside or outside of China about how collective and individual nonagricultural enterprises actually function, and the reasons for their recent spectacular growth are obscure; and (d) the Chinese government has shown its willingness to consider a wide range of alternative forms of ownership, management, and economic regulation - hence it would be receptive to institutional and policy scenarios that may be put forward as a result of the project.

The questions addressed by this study are also important for a potentially large audience in other developing countries and in some of the centrally planned economies. For the past twenty years or more the "China model" of self-reliant industrialization based on centralized planning and decisionmaking, state ownership, massive mobilization of resources for investment, and autarchy in the international field has exerted a strong influence
on economic thought and policy in many developing countries. Since 1978 China has attempted to move away from this development pattern, toward a more decentralized, privatized, market-oriented, and open economy. It is important that this major shift by China, the largest and one of the most influential developing countries, be carefully researched and that its implications be disseminated to policymakers in other developing countries.

The World Bank has a strong interest in the questions addressed by this study, partly for the reasons mentioned above but also from the perspective of its economic and operational work in China. Some of the issues attacked by this study (particularly ownership questions) would be difficult to address through noncollaborative economic and sector work, though they have been recognized as crucial long-term policy issues in the Bank's recent economic report on China (China: Long-Term Issues and Options).

The study will be focussed on though not limited to China's rural collective and individual industrial enterprises, which are generally more independent from the state sector than are most urban collectives, have a great variety of ownership and management forms, and have shown spectacular growth during the past several years. The project will seek to gain a broad understanding of China's collective and individual industrial sector through a combination of different empirical approaches: (a) existing Chinese published information on the sector as a whole (books, articles, investigation reports, and aggregate and provincial statistical data) will be gathered and analyzed; (b) similar information on four selected target areas in different parts of China will be collected and provided by the CASS team; (c) basic data on comprehensive sets of certain types of collective and individual industrial enterprises in the four localities will be collected through a survey; (d) in-depth interviews will be conducted at a small, selected sample of about 30 enterprises, supplemented by interviews with local officials and detailed quantitative data on the enterprises; and (e) a worker survey will be distributed to all workers in a subset of the 30 enterprises. The four target areas have already been selected and include a locality where rural collective industry is highly developed, one where its development has been about average, a backward region where it is underdeveloped, and an area with more open dealings with the outside world and where many collectives have close ties with foreign capital. The sample of 30 enterprises for in-depth investigation will be carefully selected to provide a range of variation in the dimensions considered most important from the viewpoint of the study: ownership and management form, financial structure, degree of autonomy, and method of dividing value added.

The international component of the project will put the Chinese situation and prospects in the broad perspective of international experience rather than attempt to conduct original research. It will consist of: (a) a general background paper distilling the main lessons of international experience and, the theoretical implications of different organizational forms and financial structures for performance; (b) short case studies/briefing papers with uniform terms of reference on selected cooperative and labor-managed firms in India, Europe, and the UNA; and (c) interviews conducted by the CASS team with these enterprises.
The main publishable output of the project will be a book-length study of Chinese collective and individual industry in international perspective. This will be built up from the fact-finding and analytical work conducted during the course of the project, which will be presented at an international conference at its conclusion. It is anticipated that the project will also lead to other kinds of publishable output, in the form of journal articles and staff working papers.
January 8, 1986

Files

William Byrd, AEAOMAB

74917

China: Initiating Meeting for Collaborative Research Project on Chinese Collective Industry

1. The initiating memorandum for this study (dated December 16, 1985) was discussed at a meeting on December 20. The following main comments were made by meeting participants.

Objectives

2. There was a general feeling that the goals of the project were too numerous and too diffuse. The focus should be sharpened, with the main questions to be addressed mentioned up front, followed by a discussion of their importance and relevance and then by an outline of how the project would go about answering the main questions. In this context, the main goal of the China component should clearly be to learn about the organization and management of the Chinese collective/private industrial sector. But there was also a sense that the project should look at the legal, regulatory, and general economic environment faced by the collective/private sector and particularly how it differs from that faced by state enterprises in China. Questions to be addressed should start from the most basic level, like who can establish collectives, how much they can be expanded before running into legal/regulatory limits, etc.

Sample

3. On the sample of enterprises to be studied, it was felt that the reasons for a sample of the selected size and dimensions were not stated in the text of the memorandum. The choice of the sample, and how information from the sample would be used in answering the basic questions posed by the project, should be made explicit. It was pointed out that the project is actually planning to look at two different samples: (1) about 30 enterprises subjected to in-depth interviewing and (2) a much larger group of collective and individual enterprises for which basic quantitative data would be collected. While the first, smaller sample could not be representative of the huge collective and individual industrial sector in China as a whole, it would be chosen to provide variation in key dimensions thought to be important, including type of enterprise (ownership structure, degree of autonomy, etc.), region of the country, and industry.

International Component

4. The meeting felt that the international component of the project was justified but should be scrutinized carefully, particularly in view of its high costs. It might be more productive for the GAS5 team to visit...
fewer countries but spend more time in each. Some participants thought it would be better to concentrate on other socialist countries, but others thought that this would provide insufficient variety in types of enterprises and in environments they face, and that some exposure to the experience of collective enterprises in capitalist-market economies would be beneficial. It might be possible to organize seminars on meetings with scholars in the countries visited, in addition to seeing enterprises.

Output

5. It was agreed that in addition to whatever published output is generated by the project, there should be a main report, but it was left open whether this should be a formal Bank report or an informal report. The report should be short (perhaps 50 pages or so) so it would attract a wide readership within the Bank. It should be written for the Bank and for the Chinese, and it should discuss the situation in China, the main findings of the project, and related issues and policy options. The Chinese side would also be encouraged to write a report of its own.

6. The next step in this project is to prepare an application for partial funding from REPAD. Comments received at this meeting would be taken into account in preparing that proposal.

Cleared with: Mr. Yenal (AEN)

Distribution:

Messrs. Yenal (AEN), Kaji, Linn (AEA); Karmani, Turnham, Karcher, Colaco, Deshpande (AEP); Ingram, Gelb (DRD); Dervis (IND);
Huang, Schrenk (CPD); Lim (AEFCH)
Ms. Hisayasu (IND)
AEACH
CHINA
COLLABORATIVE RESEARCH PROJECT ON CHINESE COLLECTIVE INDUSTRY

PROJECT PROPOSAL

I. Background

1. The Chinese collective industrial sector includes a wide variety of firms, mostly owned by communities and groups of individuals. Some of them are essentially private in nature. 1/ The collective sector has been the most dynamic part of Chinese industry over the past decade or more, with exceptionally high growth rates during the past few years. 2/ In 1978-83 collective industrial output value grew at twice the rate for state industry. In 1984 its growth was closer to triple that of state industry, quadruple for rural collectives, double for urban collectives. The share of collective industry in China's industrial output has increased from 22% in 1978 to 32% in 1984; if present trends continue, it could account for as much as half in the year 2000. Collective industry has been encouraged since Chinese economic reforms were initiated in 1978 and has been at the cutting edge of the shift towards a more market-oriented economy. The sector has played a crucial role in

1/ In China there are now a considerable number of identifiably private enterprises hiring wage labor, which will be included in the scope of the proposed study. They still account for a very small proportion of total industrial output, though they have been growing rapidly in the past two years. For understandable reasons these firms are not called "private" or "capitalist" enterprises but rather "pooled capital" and "individual" enterprises. In the interest of brevity the title "Chinese Collective Industry" has been retained for the proposed study.

2/ More background on Chinese collective and individual industry is provided in Attachment 1. Also see Xu Chenggang, "The Growth of Commune-Brigade Enterprises in China" (available upon request) and Samuel P. H. Ho, "Rural Nonagricultural Development: The Asian Experience and Prospects for China" (World Bank Staff Working Papers, forthcoming).
generating employment opportunities, filling gaps left by the highly regulated state sector, providing needed resources to the latter through subcontracting and other cooperative arrangements, and developing innovative financing mechanisms. Some collective enterprises have grown quite large, use modern technology, and compete successfully with state enterprises. Available information suggests that the collective industrial sector is considerably more efficient than the state sector. There is also some impressionistic evidence of greater enterprise flexibility and adaptability at the micro level.

2. Despite its growing importance and its significance for economic liberalization in China, little is known about the operation of firms in the collective sector, the constraints they face, and their economic environment. Rural collectives' wages seem sometimes to be excessively high, which may restrict employment. Some collectives function essentially as state enterprises or were set up to provide jobs for children of state sector workers. It is not clear how others, in theory more autonomous, operate in the absence of such basic institutions as a bankruptcy law. Collective firms often appear to have difficulty attaining the size needed to exploit scale economies, and are sometimes criticized for "antisocial" and illegal activities. More generally, existing Chinese economic institutions are not well adapted to deal with substantial numbers of autonomous firms, and institutional reforms have proceeded more slowly than enterprise-level reform. This is evident in the weakness of the legal framework (both legislation and enforcement) and in the lack of reform in many government agencies.
3. To date, there has been little thought given in China to the question of the most appropriate forms of ownership, financial structure, and management for firms outside the state sector. This is an important question. The range of options is wide, and research on labor-managed and cooperative firms in other countries suggests that different ownership, management, and financial arrangements have a substantial impact on the propensity of enterprises to use resources efficiently and to grow, and on employment and income distribution. Certain kinds of collective firms can compete very successfully in market economies, but failures are abundant, and there is the danger that collectively organized firms will stagnate and fail to raise productivity. Some of the options and likely problems are outlined below (see paras. 13-18). Whatever the exact choices made by the Chinese, moves to decentralize and privatize Chinese industry will have to involve a shift from state to collective (as well as to individual) ownership. Ideological and political considerations as well as the dispersed ownership of wealth in China will probably dictate primarily non-capitalist alternatives to state ownership in large and medium-sized enterprises, perhaps along with a more mixed, collective/private pattern for smaller firms.

II. The Research Issues

4. The first and most important objective of this study is to understand how Chinese collective and individual enterprises are organized and how they function in China's economic system. One important area of focus is the institutional and regulatory environment they face. Who can establish such firms? Under what conditions can they be expanded, and to what degree? How are their input and product markets regulated and how is their choice of factors determined? What relationships exist between collective firms and
their surrounding counties, communes, or brigades, which in many cases are
their "owners"? A second, related area is the interaction of collective and
private industry with the state sector. This includes provision of material
inputs and energy by state entities; planning targets set by state agencies
(particularly at the county level); government-imposed barriers to entry in
many industries; subcontracting and other forms of cooperation in production;
technology transfer from the state to the collective/individual sector;
provision of financial capital through the banking system as well as direct
investment; competition between state and nonstate enterprises for resources
and in output and service markets; use of collective and private enterprises
to "fill in gaps" left by the state sector; and possible discrimination
against the nonstate sector and its impact. A third key area is the ownership
and financial structure of collective and individual enterprises. How are
they organized internally and what are the incentive systems prevailing in
firms of various types. Who bears losses and receives profits? Is labor
hired and paid on the basis of performance, and can workers be fired? How
have collective firms adapted to changes in the regulatory environment over
the past seven years? In all of these areas, the emphasis will be on
analysing implications for enterprise behavior and for enterprise and sectoral
performance as well as discovering the facts of the situation in China.

5. On the basis of answers to the above questions, the project would
assess the reasons for the rapid growth of collective industry. Does it
reflect greater flexibility and better use of factors than in the state
sector? Or is it due to the ability to sell at higher prices or to subsidized
state loans disbursed to firms with an inadequate equity base? A number of
hypotheses, not mutually exclusive, are set out in Attachment 2. The project
would also seek to identify the main barriers to more efficient growth of the collective and individual sector, with a view toward suggesting possible institutional and policy measures to remedy these. Some major issues for the future are listed in the latter part of Attachment 1.

6. A third major objective of the project would be to provide an evaluation of the advantages and drawbacks of different options for the future development of collective and individual industry. International experience indicates a wide range of alternatives and suggests that performance can be strongly influenced by structures of ownership, management systems, and the method of dividing value added. Such questions, which have barely begun to be considered in China, are becoming more urgent as the economy shifts towards a market orientation. To help address them, an international comparative research component is proposed.

7. Finally, the collaborative nature of the project itself reflects a number of objectives. It would aim to provide much-needed exposure to international experience with nonstate, collective forms of ownership for Chinese economists and researchers. It would do the same in the area of analytical techniques for the study of collective enterprises and the main theoretical results achieved in the Western literature over the past several decades. Finally, it would bring international experience and expertise to bear on the Bank's own analysis of the situation and prospects in China.

III. The Significance of the Proposed Project

8. This section first discusses the relevance of the proposed study for its different audiences and then outlines some of the most important institutional and policy options (based on international experience) and the tradeoffs between them. The questions posed in the preceding section are of
great interest to the audience for the output of this project, including: (a) Chinese researchers and the Chinese Government; (b) academics and policymakers in a number of developing countries; and (c) the Bank itself.

9. **Chinese Researchers and Government.** Some outside scholarly work has been done on China’s rural collectives and on rural industrialization in China, but developments have proceeded so rapidly that existing work (based on information gathered in the 1970s) is already dated. Chinese study of collective industry is rich and informative, but it is not analytically rigorous and does not make use of elementary quantitative methods. Though we know something about the aggregate quantitative characteristics and performance of the sector, we know very little about the reasons underlying these, and we do not know enough to set out options for its future development. Thus in-depth research (including extensive field work) will be necessary before the most important policy issues can be clarified and a considered evaluation of the pros and cons of different alternatives can be made. The proposed study would focus on firms whose autonomy is greatest. It could therefore shed light on the problems that will be encountered as enterprise reforms progress (probably rapidly in relation to institutional reforms) in other parts of the economy, particularly in state-owned industry. China also is in a position to benefit from the most useful lessons to be drawn from international experience (including the experience with collectives in other socialist countries and the competitive functioning of collective enterprises in market economies). The inadequacy of the existing information base has

3/ This is of almost immediate policy, relevance, since increasing the autonomy of enterprises has been made a major objective for the Seventh Five Year Plan (covering the period 1986–90).
been recognized by the Chinese, who strongly support the proposed study, have
allocated substantial resources for it, and are willing to permit detailed
firm and worker survey data to be collected.

10. Other Developing Countries. For the past twenty years or more
developments in China have exerted an important influence on economic thought
and policies in a considerable number of developing countries. Few developing
countries have dominant private industrial sectors, and the Chinese example
has encouraged attempts to centralize decisionmaking rather than rely on the
market, to socialize ownership, and to close off the economy to foreign trade
to promote "self-reliance." The reform process initiated in 1978 sought to
move the Chinese economy away from this path, toward a more decentralized,
market-oriented, and open economy. Results have in general been very favor-
able, though reform has been partial and fraught with difficulties. In the
industrial sector, for example, the rapid growth since 1978 has been generated
primarily by collective firms rather than state enterprises. It is important
that this major policy shift by China, the largest and one of the most
influential developing countries, be carefully researched and that its
implications be disseminated to policymakers in other developing countries.
The research project is designed to do this, by providing accessible studies
of the impact of reforms in a key part of the Chinese economy.

11. The Bank. There are also benefits from the study for the Bank,
which would be put closely in touch with the cutting edge of nonagricultural
reform in a way that would be impossible to achieve otherwise. Ownership
questions have been singled out as a crucial policy issue for the future by
the Bank's recent economic report (China: Long-Term Issues and Options), but
are difficult to approach through regular economic or sector work, due to
ideological sensitivities and other factors. Some of the most important innovations in China's financial sector reforms have occurred in rural collective and private nonagricultural activities, so the proposed project would be able to draw on and support financial sector work now under way. The operational importance of the study is recognized by the China Division, which strongly supports it and has agreed to allocate staff and financial resources.

12. China will face important choices in the design of institutions and policies for the collective and individual sector, which will have a strong impact on its future development and performance. These choices should be made not only in the context of the evolving situation and priorities in China but also in the light of international experience, which can illuminate the range of options available.⁴/

13. Internationally, cooperative and labor-managed enterprises show a wide range of variation in their systems of (i) ownership, (ii) division of surplus (or of value added), and (iii) management. Ownership of the firm could be (a) by the collective of members in a joint communal account, (b) in individual accounts held by members, or (c) "social" or external, where members working in the firm have no claim to its capital stock. Division of surplus could be (a) according to capital stock owned, or (b) according to some measure of "patronage" - a concept which embodies labor and other inputs as well. Management has many possibilities. Firms could be run by a management responsible to (a) the body of workers (perhaps under a one-man, one-vote system), (b) owners of the capital stock, or (c) any combination of

⁴/ A selected bibliography on collective enterprises in other countries is presented in Attachment 3.
these, which may also include (d) outside interests. The degree of autonomy of management may vary greatly as well.

14. The experience of collective and cooperative firms in other countries suggests that these choices have important effects on (a) the tendency of the firm to be profitable and efficient, (b) its propensity to reinvest earnings and grow, (c) distribution and employment creation, and (d) the extent to which the firm is compatible with broad, efficient markets for factors of production.

15. The trade-offs involved can be illustrated by some examples. The failure of the British Industrial Common Ownership Movement (ICOM) may be largely attributed to its rules whereby labor "hires" capital and firms have no equity base at all. Such a system is not compatible with a competitive market for loanable funds. These rules have also discouraged individuals intent on commercial development. ICOM firms have therefore remained insignificant.

16. Common ownership of assets by the collective has led certain firms to restrict membership to a subset of workers, so as to maximize surplus for this group. These firms have come to rely increasingly on hired labor. Under such an incentive system there is a strong tendency for ownership of the capital stock to become more concentrated. Indeed, this could be one way of effecting a transition to a capitalist economy with extensive use of wage labor. Were wage labor not permitted, common ownership could result in minimal new hiring by successful firms. Equilibrium in the labor market would then rely on the creation and extinction of enterprises, which would probably be a slow process.
17. The Mondragon model of ownership in individual accounts held by all workers has numerous advantages. It avoids the common ownership problem, and the "truncated horizon" problem of social or trust ownership, where (as in Yugoslavia or the British case of the John Lewis Partnership), members of the firm have no claim to increases in the value of its equity. Under social ownership, incentives for the retention of surplus are reduced and those for borrowing to finance large wage payments are raised because members are not liable for enterprises' debts. The individual-account mode encourages reinvestment and growth. However, it is difficult to operate such a system when labor is mobile, because accumulation of equity requires members to remain with the firm for long periods. And distribution of surplus in such a system can probably not be simply on the basis of the capital stock owned by individuals, since this will result in a highly skewed distribution and make it more difficult to buy out retirees.

18. Because of the advantages and drawbacks of each kind of ownership and management structure (and the above examples do not even address the role of external "members" such as the community or outside investors), it is usually necessary to strike a balance to enable good performance. One firm in the UK which has recently become employee-owned has opted for a mixture of trust and individual ownership, to reduce the problems associated with either in a pure form. The John Lewis Partnership, to take another example, is a 30,000-member trust-owned firm where profit-related bonuses averaging 20% of wages rather than share appreciation link members' rewards to performance. Decisions on reinvestment and retention of earnings are, however, made by a management which cannot be changed except at the desire of the overwhelming bulk of the members.
19. In economies where some form of collective ownership is the dominant mode of production organization (most notably Yugoslavia), the competitiveness of collectives is a less important issue but their efficiency, growth, and employment generation propensities become critical in themselves because they in large part determine these aspects of the economy as a whole. Of course, the very nature of collectives may be quite different from that of isolated cooperative or labor-managed firms in a capitalist market economy. Regulatory issues also come to the fore in a way that they do not (for collectives) in an economy dominated by capitalist firms. For example, in Yugoslavia the inability to implement a meaningful, effective, bankruptcy mechanism has been singled out as a major source of inefficiency. In other socialist economies where state ownership remains the dominant mode but there is a substantial collective sector (e.g. Hungary and China), competition between the two modes is important because it affects the efficiency of both and also the restrictions that may be imposed on the collective sector.

20. China's unique economic system as well as its own set of national priorities will make it impossible to apply the lessons of international experience mechanically or in the absence of a thorough understanding of the situation in China. Choices on ownership, management, and financial structure of collective and individual enterprises may have different consequences in the economic and regulatory environment of China. There are also close tie-ins with reforms and policy changes in the economy as a whole. For example, the optimal form of a collective firm could be quite different depending on whether labor in the society is desired to be relatively immobile (with infrequent job and community changes, as in China today) or highly mobile across both jobs and localities.
IV. Organization of the Research

IVA. Experience with the State Enterprise Project

21. The proposed research project would follow research on state-owned industry (RPO 673-14) which has now been completed. This has been highly successful in deepening understanding of the state-owned industrial sector. It has produced a considerable quantity of published and unpublished output (see Attachment 4) and has influenced the design of the proposed project. Some of the main observations and conclusions of 673-14 are directly relevant and will be pursued further in the proposed research.

22. One of the most striking findings of 673-14 was that for many, probably most, state enterprises the planning and supervision system has been weak, inflexible, and fragmented. Many aspects of their environment are manipulable and set by negotiation and bargaining. Also, while enterprises pursue multiple objectives in their decisionmaking and operations, the most important goal for many of them is improving the material well-being of their workers and dependents. This is due in large part to the "social service functions" taken on by virtually all state enterprises in China, but also to other factors like low worker and managerial turnover. Thus, to a certain extent, state enterprises behave like labor-managed firms, even though this is not apparent from their formal structure. Still another main observation was that factor allocation in Chinese state-owned industry is highly rigid and inflexible, yet due to the fragmentation of administrative control and increasingly established property rights of enterprises in this sphere, the system lacks even administrative rationality. Factor endowments are therefore highly uneven in relation to needs. Finally, the success of reforms in the state sector has been closely linked to the emergence of excess supply for
many goods. This stimulated a shift from quantitative expansion to responding
to nonquantitative aspects of demand (quality, variety, specifications, timely
delivery, warranties, post-sale service, etc.). These and other conclusions
of the state enterprise research project will provide a useful basis for
comparison and further research in the collectives project.

23. The advantages of pursuing economic and research work through collabor-
ization with Chinese research institutions have also been demonstrated.
Collaboration helps to obtain interviews and contacts necessary to gather
information. Interviewees are generally more responsive and forthcoming to a
joint team than to a World Bank mission on its own. The policy impact of a
successful collaborative project may be more direct and powerful and there is
also a transfer of analytical methods and modes of thought. The exposure of
Chinese colleagues to international experience through collaborative work
(including research conducted abroad) has great potential benefits. Finally,
the World Bank also benefits from the greater familiarity of Chinese collab-
orators with conditions in China, which helps speed work and avoid pitfalls,
as well as providing a rich source of insights and hypotheses.

24. Collaboration entails costs as well, notably additional resource
requirements, both of funds and staff time. Though real, these costs should
be modest in relation to the benefits. One reason why the project will pro-
duce separate reports rather than a joint one to Government is to avoid the
problems involved in reaching complete agreement on findings. For the pro-
posed project a high-quality counterpart team of younger Chinese economists
has been organized. All have some facility with English, some exposure to and
great interest in international experience, and previous research background
on rural collective industry (see Attachment 3). The proposed project will be
managed by the Institute of Economics of CASS, but the Chinese team will include one member from the Rural Development Center under the State Council. Moreover, there will be close contacts and exchange of information with other Chinese organizations involved in this area.

IVB. Project Design: China Component

25. The proposed project has two components: (1) the study of collective and individual industry in China is the larger, and (2) a review of cooperative and labor-managed firms in several other countries is the smaller. The main focus of the China component will be on rural "township and village" enterprises, a category which includes enterprises owned and run by rural townships (former communes) and villages (former brigades and production teams), firms formed by peasant households pooling their capital and other resources (but which are apparently free to hire labor from outside the founding group), other forms of associations and joint ventures, and enterprises set up by individuals. In order to increase the variety of ownership and management forms in the study and to facilitate comparisons, the project will include some smaller urban industrial collectives, but not "large" urban collectives (which for the most part are indistinguishable from small state enterprises) or those set up primarily to employ the children of state enterprise employees. It may also be possible to look at a few smaller state

5/ The State Council is China's supreme government administrative body. The Rural Development Center has been an influential think tank on rural economic policy (including development of township and village industries). The various research institutes of CASS also have a close link to economic policymaking.

9/ The latter type of enterprises are largely appendages of the founding unit and are usually financially dependent on it. A considerable volume of information about these collectives has been gathered as part of the state enterprise project.
enterprises which have been contracted out or sold to collective or private
management.

26. The proposed research activities are set out in Figure 1. They are
structured to permit a combination of in-depth analysis of individual firms
and a view which is to some extent representative of the universe of Chinese
collective industrial enterprises. For this reason the analysis covers (a)
all industrial collectives, (b) a large sample of enterprises in four locali-
ties, and (c) a smaller subsample in the same four localities, in
progressively greater depth.

- Collection and analysis of existing information will cover books,
  articles, and quantitative statistics on the collective sector as a
  whole, by province and activity and by type of firm (individual
  proprietor, pooled capital, commune or brigade ownership, etc.) as
  far as possible.2/ The literature search will be conducted
  primarily by Chinese collaborators.

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2/ This work began in the summer of 1983 and has resulted in a paper ("The
Growth of Commune-Brigade Enterprises in China" by Xu Chenggang, a Summer
Intern at the Bank). The CASS team will be gathering available materials
and articles on collective and individual industry in China as a whole
but particularly in the four target areas, in preparation for the field
work.
## Figure 1: Components of Research on Chinese Collective Industry

<table>
<thead>
<tr>
<th>Activity</th>
<th>(a) All Industrial Collectives</th>
<th>(b) Large Sample in 4 Localities, 300-400 Firms</th>
<th>(c) Small Sample in 4 Localities, 30 Firms (Subset of (b))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection of existing information</td>
<td>To be done mainly by CASS collaborators with some involvement by Bank team.</td>
<td>To be done by CASS.</td>
<td>More detailed survey administered by CASS</td>
</tr>
<tr>
<td>Enterprise survey</td>
<td>To be administered by CASS to all collective firms in 4 smaller localities</td>
<td>With selected regional officials concerned with collectives, Joint CASS/Bank</td>
<td>With collective management and selected workers, Joint CASS/Bank</td>
</tr>
<tr>
<td>In depth interviews</td>
<td>With collective management and selected workers, Joint CASS/Bank</td>
<td>Covering all workers in a selected subset of small sample, Joint CASS/Bank</td>
<td></td>
</tr>
<tr>
<td>Worker survey</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- The four interview sites for (b) the large sample and (c) the smaller sample will be: (1) a locality where rural collectives are highly developed (Wuxi or Suzhou County in Jiangsu Province); (2) an area where their development has been about average (in Anhui Province); (3) a backward region where rural collectives are underdeveloped (in Jiangxi Province); and (4) an area that has more open dealings with the outside world and where rural collectives have close ties with foreign capital (probably Foshan Prefecture in
Guangdong Province). Sites (2) and (3) will also differ in their proximity to large urban areas, which may affect the type of production engaged in by collective enterprises and their links to state enterprises.

- Basic quantitative information on complete sets of collective and individual industrial enterprises of specified types will be gathered in these four localities. For example, the large sample could consist of all such enterprises in a county or township. The questionnaire would request information about each enterprise (type of enterprise, date of founding, main products and activities, ownership structure, etc.) and basic quantitative data for one or at most a few years (output, gross output value, profits, costs, capital, investment, labor force, etc.). This would further the objective of gaining an overall picture of collective and individual industrial development in these localities. It would also facilitate testing of hypotheses about the determinants of such development.

- Because collective and individual enterprises for the most part are relatively small, this research component will not be exclusively enterprise-based but rather will be geared toward gaining a more comprehensive understanding of the development, current situation, and future trends.

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8/ Detailed accounting data are compiled regularly by all significant collective firms. For the larger collective enterprises, coverage is similar to that for state enterprises; for the smaller firms, data are more limited but still adequate. Examples of accounting forms used by rural collectives are available upon request.
and functioning of collective and individual enterprises in the four target areas. In line with this objective, interviews will be conducted with local government authorities (at township or village, neighborhood, district, county, and municipality levels); with relevant administrative bureaus responsible for the development of the sector at provincial, county, and municipal levels; with state enterprises which have a close business relationship with some of the enterprises (particularly those selected for in-depth interviewing); and with banks, commercial departments, material supply bureaus, financial bureaus, and other local organizations that are regularly involved with the enterprises in the sample.

- There are obviously tradeoffs in the selection of the small subsample of firms for more intensive study. It could cover a wider or smaller set of activities, range of ownership patterns or locational divergence. Given the study's objectives it is proposed that the subsample would (a) consist of significant firms and (b) be mainly restricted to three or four types of industry. Also (c) it will be chosen to provide the widest possible range of ownership and management types and degree of autonomy (See Attachment 6). If necessary this means that certain kinds of firms will be overrepresented.

- In-depth interviews are envisioned to last 1-2 days for each firm in the small sample. They would be complemented by a more detailed questionnaire filled out by each enterprise.
Short questionnaires would be distributed to all workers in a subset of the 30 enterprises. These would ask basic questions about worker characteristics (education level, time on job, wage or grade, skill level, previous job experience, age, etc.) and also some simple multiple choice questions covering worker attitudes. Previous research on a variety of different kinds of collective and private enterprises in other countries has shown that such surveys can be a useful vehicle for learning about: (1) labor force patterns and mobility; (2) pay differentials and their impact; (3) how enterprises are managed in practice; (4) enterprise relationships with local communities; and (5) worker motivation. CASS supports such surveys and considers that their administration would be feasible.

27. The China component of the proposed project would require two missions to China for field work. The first mission would cover Jiangsu and Anhui, the second Jiangxi and Guangdong (with provision for some re-interviewing in Jiangsu and Anhui if necessary). There would also be discussions in Washington at the end of an international trip (see below) by the CASS team. The project would wind up with discussions and an international conference in Beijing, at which the main findings would be presented.

IVC. International Component

28. The goal of the international component of the project is to provide exposure and to suggest options for China rather than to do independent research on collectives in other counties. Such exposure will be very helpful in providing the Chinese side with a direct, concrete impression of the broad
range of international experience, which will improve their analysis of the
Chinese situation and will stimulate creative thought about future choices and
strategies. The international component will also help broaden the research
and analysis on China by the Bank team. In any case, Chinese collaboration in
the China component of the proposed study is essential. The Chinese side
strongly desires the international component, for the reasons mentioned above,
and feels that a trip to visit collective enterprises abroad should be an
integral part of the international component. Their enthusiasm for the pro-
posed study and even possibly their willingness to participate in it depend on
an international component along the lines described below. Thus the inter-
national component is viewed as an essential part of the project as a whole.

29. Short case studies/briefing papers would be prepared with uniform
terms of reference by consultants for a number of cooperative or labor managed
firms. The CASS team would then undertake a month-long trip to visit these
firms. In each of several countries, possibly including India, Hungary,
Yugoslavia, Italy, Spain, the United Kingdom, and the USA, one or two
tailors or groups of enterprises would be visited, and each enterprise
visit would be for one to two days. 9/ The CASS team would be accompanied by a
knowledgeable local consultant on most enterprise visits.

9/ Specific enterprises to be visited might include: the Spanish Mondragon
Group, National Freight in Britain (a privatized state enterprise bought
by its employees), the John Lewis Partnership, which has a highly unusual
trust form of ownership (also in Britain), and Weirton Steel in the
USA. In Hungary both traditional collectives and new, smaller firms in
some respects akin to China's pooled capital enterprises would be
covered. Italy has the largest cooperative sector in Western Europe,
with about 450,000 members. Italian producer cooperatives typically each
employ 100-200 workers. Most are in manufacturing and construction.
Indian sugar cooperatives could provide useful lessons because of their
varied experience. See Attachment 3 for references on the collective
enterprises mentioned.
30. A background paper would also be prepared, which would review the lessons of international experience for China and the theoretical implications of different organizational forms and financial structures for performance. Experts on collective enterprises in other countries could also be brought in for the final conference at which results of the project would be presented.

31. While the final choice of countries and firms for the international trip has not yet been made, it is considered particularly important that collective firms in market economies be visited rather than confining visits to firms in other socialist economies. In some respects China appears to have moved beyond Hungary and Yugoslavia in terms of enterprise-level reform and willingness to allow different forms of enterprise ownership, though there are of course important lessons (some of them negative) to be learned from both countries. There are also useful lessons to be drawn from international experience concerning the competitive functions of collectives in a market economy.

V. Analytical Techniques

32. It should be recognized that in many respects the study of the Chinese economy in general and of the collective industrial sector in particular has not yet reached the stage where complicated models can be developed and sophisticated analytical techniques can be utilized. This project to a large extent will be trying to ascertain the facts of the situation in China and to analyze their implications for the behavior and performance of the collective and individual industrial sector. This kind of work is necessary before more rigorous, complex models and analytical techniques can be applied.
33. There is an implicit model underlying the proposed analysis of Chinese collective industry, but it has numerous gaps because of our lack of basic institutional information about the sector. Enterprises are assumed to further an objective function that is a composite of the objectives of the different elements that form the enterprise (managers, worker-owners, nonowner-workers (if any), local community body, etc.), subject to technical, economic, market, financial, customary, legal, and other constraints, which may differ across firms and localities. The enterprise objective function itself will be influenced by the mode of ownership, organization, and financial structure. Incentive policies can influence how enterprises go about furthering their underlying goals. The whole constellation of (a) objectives, (b) internal structure, (c) external constraints, and (d) incentives has a determining impact on enterprise behavior and performance. Much of the effort involved in this project will go into understanding this constellation as it exists in China, how it affects behavior and performance at both enterprise and sectoral levels, and how sensitive behavior and performance are to changes in different parts of the system.

34. A combination of techniques will be applied to the different types of data gathered in order to shed light on the questions addressed by the project. These include (a) use of detailed case study materials from in-depth interviews in qualitative analysis; (b) elementary statistical analysis of worker survey data and enterprise data from the large sample of 300-400 firms; (c) cross-section analysis of the enterprise data using simple regression techniques; and (d) to the extent possible, time-series analysis of the smaller sample of 30 enterprises. Comparative analysis of (e) different types of enterprises, (f) the four different localities studied in China, and (g)
different country/examples in the international component will play an
important role.

35. The extensive use of carefully-researched case study materials has
proven fruitful in the research project on state-owned industry. This permits
the use of evidence that is difficult if not impossible to incorporate into
formal quantitative analysis and provides at least tentative answers to
questions that are not amenable to study primarily through quantitative
methods. For example, the question of the objective function of enterprises
is perhaps best approached through gaining a clear understanding of particular
actions taken by particular enterprises in response to different conditions in
their environment (especially where different postulated objective functions
would be expected to generate different responses).

36. The case study approach is also useful in gaining a more accurate
understanding of other important "stylized facts," like what conditions are
necessary to establish a collective or private enterprise, what are the limits
to expansion, to what extent are collectives responsive to or independent from
the interests of the local community in which they were founded, under what
conditions does subcontracting or other forms of cooperation between
collectives and state enterprises occur, when and under what conditions does a
collective or individual enterprise fold, etc.10/

37. Elementary statistical analysis of the worker survey data set and
enterprise data set (for the large sample of 300-400 firms) will prove useful
in identifying characteristics in the samples which are strongly correlated

10/ Though there are sometimes formal legal frameworks or regulatory
mechanisms in place governing these activities, actual practice may
differ from codified procedures widely and to varying degrees in
different parts of the country.
with each other. Workers' answers to multiple-choice questions about attitudes toward work and the firm, job mobility, pay, relationship with the local community, and other aspects can be tested for their relationship with worker characteristics, form of enterprise ownership, method of dividing surplus, geographical location, etc. For example, a finding that greater job mobility (either measured by turnover rates or as perceived by workers) is associated with private forms of ownership (pooled capital or individual enterprises) as opposed to the traditional form of rural collective enterprise would be important. Similarly, any association between the degree of wage differentiation within an enterprise and ownership/management form would also be of great interest.

38. With the enterprise data it might be possible, for example, to ascertain whether factor mix (capital-labor ratio) varies systematically with the type of enterprise or with other aspects (like wealth of the local community). This could provide insight into the influence of ownership form and financial structure on allocative efficiency (recognizing that there are significant distortions in the "market" price of labor and capital). It also would provide indirect evidence on the degree of segmentation in factor markets faced by enterprises (particularly capital markets). Similarly, the relationship between profitability and various sample characteristics also could be tested.\[11\]

\[11\] Unfortunately it is extremely difficult to go one step further and equate profitability with management efficiency. Efficiency questions at the enterprise level are perhaps best tackled through looking at data on costs (correcting as is necessary in China for differences in prices paid for inputs). But detailed cost data will likely be available only for the smaller sample of 30 enterprises.
39. Where virtually continuous variables are involved in the enterprise data (e.g. profitability, output value, investment rate, wage rate, wage bill, etc.), use of regression analysis techniques will sometimes be appropriate. For instance, is greater profitability generally associated with higher payments to labor (including bonuses, profit shares, collective welfare, etc.), or is pay largely independent of enterprise profitability? If payments to labor are unrelated to profits, this suggests that workers in a particular enterprise probably have a limited say in the distribution of surplus, which may be largely determined by an "outside" entity like the local community/founder.\textsuperscript{12}

VI. Project Output

40. The main research-oriented output of the proposed project would be a book-length study of Chinese collective industry in international perspective.\textsuperscript{13} This would rely mainly on materials, reports, and informal papers prepared during the course of the project. The volume would consist of chapters written by the members of the CASS and Bank teams working on the project and also some pieces by consultants written as part of the international component. The exact contents of the volume would be determined only at a later stage, after extensive discussions with the CASS team. It might

\textsuperscript{12} Data aggregated at the provincial level indicate that wage rates for rural collective industry are not related either to rural per-capita income or to the profitability of rural collective enterprises.

\textsuperscript{13} The Bank team will also prepare a short (30 page) report for the Chinese Government and for internal Bank consumption as part of the project. This will be policy oriented and will consist of a brief description of the collective and individual industrial sector in China, an analysis of its current situation and strengths and weaknesses, and a considered evaluation of a small number of different policy options for the future. The CASS team will prepare a separate report for the Chinese Government.
have five main sections, which would move from an aggregate approach to more micro-level analysis.

41. (1) An overview of China's collective and individual industrial sector, which would provide a general description based on aggregate data and some historical background, setting the stage for the more specific, detailed analysis which follows. It would also provide some basic institutional information and a description of the environment faced by collective and private firms in China.

42. (2) A comparative study of collective industry's situation and development in the four localities where fieldwork has been done. This would look at institutional arrangements, relationship with the state sector, degree of priority in local development plans, and other policy issues as well as aggregate quantitative statistics and enterprise statistics. The section would analyze and in broad terms explain divergences in the pattern of collective industrial development in the four areas.

43. (3) A set of analytical papers on various topics, which would discuss general issues but would rely primarily on the information gathered through the enterprise survey, in-depth enterprise interviews, and worker survey. The choice of topics would depend on the findings of the project and would not be determined until the fieldwork is completed. Some possibilities for analytical paper topics include: (a) the impact of different ownership forms, management structures, and relationships with local communities/owners on enterprise motivation and performance; (b) the environment faced by Chinese collective/individual industry: nascent markets and the existing state sector; (c) employment, labor mobility, and worker/member motivation in collective and private enterprises (may be based largely on worker survey data); (d) the
determinants of collective and private industrial performance (based on the enterprise survey data); (e) financial structure and investment financing and their impact on the development of the sector; (f) the relationship between size, technology, ownership, and performance.

44. (4) A small number of enterprise studies which would look at subgroups of the sample of 30 enterprises and would use the case study method to investigate a few important topics. How the sample would be split up into smaller groups forming the subjects of the different paper would be decided only after the interview have been conducted. There might be a study focussing on an industry that is heavily represented in the sample where there are important issues relating to the future development of the collective and individual industrial sector (e.g., textiles or components manufacture). One paper might be on a subgroup of enterprises with a similar ownership form (e.g., pooled capital enterprises or private enterprises). If size or advanced technology raise important questions, a paper might address these by looking at the large and/or technologically advanced enterprises in our sample. Possibly a paper on the collective and individual enterprises in one of the four localities would be warranted. There might also be one or two papers on particular enterprises, if these are of general interest (for example, in northern Anhui province, some entire villages are specialized in the manufacture of particular commodities at the household level, with important resources and assistance provided by the village).

45. In the detailed design of sections (2) - (4), the teams would strive to achieve fairly complete coverage of the most important topics while avoiding duplication. Thus a particular topic might be discussed in the section on comparative regional development, in an analytical paper, or as
part of a study of a subgroup of enterprises, depending on the form of presentation that is most appropriate given the information gathered and the findings.

46. (5) The international section of the volume would pull together the review of international experience and the main findings of the CASS trip to other countries in a way that would emphasize the possible lessons for China. It would include the general background paper on international experience and theoretical issues, the briefing papers on the different cooperative enterprises visited by the CASS team (most likely consolidated into one longer paper), and a paper by CASS researchers on the implications of their findings for the development of the collective sector in China.

VII. Resource Requirements

47. The importance and policy relevance of the proposed project justifies the substantial resources that will be required to carry it out.14/ There will be three missions to China (two for field work and one for final discussions and conference) and one mission by the CASS team to India, Europe, and the USA. There will be considerable demands for staff time and consultants, and for financial resources to cover mission and other expenses. In this context the staff and financial resources proposed for the project are very close to the minimum necessary to ensure its viability and success. The World Bank team would consist of one China Division economist (William Byrd), responsible for organizing and managing the project; one research assistant from the China Division (Josephine Woo); a consultant (Jan Svejnar) to help manage the international component of the project as well as

14/ Estimated external costs of the proposed project are given in Attachment 7. The staff budget is presented in Attachment 8.
to participate extensively in the China component; and one Chinese-speaking consultant (Christine Wong), to work mainly on the China component.\textsuperscript{15} Alan Gelb (ORD) will provide advice and assistance on the design and implementation of the project and will contribute to the project output. Other consultants will be used on a short-term basis to prepare case studies/briefing papers and to accompany the CASS team on its visits to enterprises in other countries.

48. The China Division will make a substantial contribution of staff time and financial resources to the project. About one third of the estimated total staff weeks required for the project will be provided by China Division staff. In addition, the cost of the time of the Chinese-speaking consultant and the costs of field work missions by China Division staff will be funded from Regional resources. This amounts to about one-quarter of the total external costs of the project (i.e. the cost of external consultants, travel costs, and other direct financial expenditures).\textsuperscript{16}

49. The Institute of Economics of the Chinese Academy of Social Sciences is making a major commitment of its staff time and its limited financial resources to the project. Three Chinese economists will be involved in the project on a full-time basis over a period of more than a year and a half. In addition, other Chinese researchers will be involved on a part-time basis in the data gathering work. The salaries and internal travel costs of Chinese participants in the project will be covered by CASS. CASS will also pay for

\textsuperscript{15} Background information on the two principal consultants for the project is provided in Attachment 9.

\textsuperscript{16} Valuing the East Asia and Pacific Region's staff contribution using the accepted costing coefficients (Form No. 1699), the Region will contribute over half of the estimated total combined staff and financial costs of the project.
intra-city transport of the Bank team while it is in China, as well as the costs of preparing questionnaires, data, and other written materials in Chinese. CASS will be responsible for all local costs of the international conference except for the subsistence costs of the Bank team.

50. Certain features of the proposed project will help economize on staff time and financial resources. Most interviewing after a few initial pilot interviews will be conducted in Chinese, which will obviate the need for translation and will greatly speed the pace of work. It will also allow most interviews to be conducted jointly by CASS and the Bank, which will avoid the need for lengthy and costly compilation and translation of written interview reports, the main cause of delay in the state enterprise project. Given the planned composition of the Bank team, it should be possible to split into two groups for some of the interviewing, if this turns out to be necessary for timely completion of the field work. The proposed project is planned to be completed relatively quickly, with the bulk of the work occurring during a period of one and a half years. This in itself is likely to economize on resources as compared with a stretched-out alternative approach (though of course it means that staff resources will be used more intensively while the project is under way). Finally, World Bank staff continuity from the state enterprise project will ensure that we can build on our experience in that project and will minimize startup costs.

VIII. Schedule

51. A tentative schedule for the project is presented in Attachment 10.
Attachments

1. Background on Chinese Collective and Individual Industry
2. Possible Explanatory Factors for the Recent Performance of Collective and Individual Industry
3. Selected Bibliography on Collective Firms in Other Countries
4. Output from State Enterprise Project
5. Resumes of CASS Participants in Collectives Study
6. Sample Considerations
7. Estimated External Costs of Proposed Project
8. Estimated Staff Budget
9. Background Information on Consultants
10. Tentative Schedule
BACKGROUND ON CHINESE COLLECTIVE AND INDIVIDUAL INDUSTRY

1. The nonstate (collective and individual) sector has been the most dynamic part of Chinese industry over the past decade or more, with exceptionally high growth rates during the past few years. As can be seen from Table 1, gross industrial output value by nonstate enterprises grew at double the rate of state industry in 1978-83 (13% p.a. vs 7% p.a. in real terms). In 1984 growth of rural collective and private industry accelerated sharply to over 41%, double the growth rate of urban nonstate industry, which in turn was nearly double the growth rate of state industry. All in all, the share of the collective and private sector in China's industrial output rose sharply from 22% in 1978 to 32% in 1984. In the first quarter of 1985 rural nonstate industrial output value was up by 51% in real terms. Continuation of recent trends would mean that the collective and private sector could account for as much as half of China's industrial output by the year 2000.

2. Collective and individual enterprises in industry as well as in other nonagricultural sectors have played a crucial role in generating employment opportunities in both urban and rural areas. Their rapidly growing demand for inputs and supply of outputs has been in large part responsible for the emergence and expansion of the market mechanism in Chinese industry. In addition to filling gaps left by the state sector, in many cases collective and private firms compete successfully with state enterprises. There is also a great deal of cooperation between state and nonstate sectors through subcontracting, technical assistance, provision of investment resources, etc. It is in the nonstate industrial sector that some of the most
significant reforms and innovations in the financial sphere have occurred. Finally, a considerable diversity in forms of ownership and management forms has emerged; thus in a sense the nonstate sector can serve as a kind of "laboratory" to test alternatives before they have to be implemented on a more widespread basis in the state sector.

Table 1: GROWTH OF CHINESE COLLECTIVE AND PRIVATE INDUSTRY

<table>
<thead>
<tr>
<th></th>
<th>1978-83 (annual average)</th>
<th>1984</th>
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<tbody>
<tr>
<td>Total collective and</td>
<td>13.3%</td>
<td>29.5%</td>
</tr>
<tr>
<td>private industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>urban</td>
<td>12.2%</td>
<td>21.0%</td>
</tr>
<tr>
<td>rural</td>
<td>16.8%</td>
<td>41.2%</td>
</tr>
<tr>
<td>State industry</td>
<td>6.7%</td>
<td>11.0%</td>
</tr>
</tbody>
</table>

Share of collective and private industry in total

<table>
<thead>
<tr>
<th></th>
<th>1978</th>
<th>1983</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>21.8%</td>
<td>27.4%</td>
<td>32.0%</td>
</tr>
<tr>
<td>urban</td>
<td>12.8%</td>
<td>15.3%</td>
<td>17.3%</td>
</tr>
<tr>
<td>rural</td>
<td>9.0%</td>
<td>12.1%</td>
<td>14.7%</td>
</tr>
</tbody>
</table>

/a Growth rates are for gross output value in real terms. Figures for collective and private industry include output of joint ventures between state, collective, and/or private enterprises.

3. The nonstate industrial sector consists of a heterogeneous, even disparate set of different types of enterprises. In urban areas there are "large collective" firms which appear to differ very little from local state-owned enterprises; there are also collectives created by state enterprises or government agencies primarily to meet the employment needs of employees' children; neighborhood collectives under the sponsorship of local district
street committees play a significant role in generating employment; there are also private enterprises formed by individuals or small groups; and in recent years a large number of "joint ventures" created by other enterprises (and sometimes individuals) have emerged.

4. In rural areas the diversity of forms is even greater. There are some larger collectives which are directly under the supervision of county governments (in many respects similar to urban collectives). Traditional commune and brigade-run enterprises were already extensively developed even before the recent economic reforms (some of the older ones may be best understood as community-run enterprises, whereas the newer ones may be more akin to genuine cooperatives). There are also many industrial enterprises run by production teams. Township, village, and team enterprises for the most part appear to be initially financed by seed capital from the collective body that "owns" the enterprises, but subsequent growth probably depends primarily on internally generated funds and bank loans. During the past several years, rural enterprises formed by small groups of peasant households pooling their capital have been established on a widespread basis. At least some of these firms hire large amounts of labor aside from the "owners" and their households.1/ There are also considerable numbers of smaller individual industrial enterprises in rural areas, and also many joint ventures between different types of enterprises (sometimes also including individual households).

1/ A striking example from Gansu Province (where the development of rural nonstate industry has been relatively slow) is a food processing plant set up by 6 peasant households each contributing ¥ 5,000 of their own capital. The enterprise then proceeded to borrow ¥ 300,000 from the local bank and now employs about 200 workers.
5. Despite significant economic reforms since the late 1970s, government administrative regulation and state ownership continue to be pervasive in China's economic system outside of agriculture. Thus collective and individual industrial enterprises still function in an environment heavily influenced by government mandatory planning and controls, and they must interact closely and regularly with state-owned enterprises and numerous government agencies. Direct government controls over the activities particularly of rural collectives, however, are much weaker and more limited in scope than they are in the case of urban state-owned enterprises. Moreover, for the most part Chinese economic planning is weak and government control is fragmented and unsystematic; this means that collective and individual enterprises may be subjected more to ad-hoc restrictions and interventions by government organizations rather than regularized planning and bureaucratic control.

6. Despite its demonstrated ability to maintain extensive growth over a long period of time, China's industrial system as a whole is characterized by widespread inefficiency and waste of capital, lack of flexibility, and apparent inability to modernize technology of existing enterprises at a fast pace. There are also problems with suboptimal scale of many plants, regional and departmental autarchic tendencies, and excessive investment demand. Although expansion of the role of the market mechanism in resource allocation has been a major element in Chinese economic reforms, the commercial system remains inefficient, and a fragmented, bureaucratic input supply system often severely constrains enterprise activities. The lack of capital markets or an efficient mechanism for horizontal flows of funds is a major obstacle to improving the efficiency of investment. Enterprises in the state sector spend a considerable part of their energy and resources functioning as social ser-
vice agencies, providing workers and their families with employment, housing, entertainment, education, health, and retirement benefits. Partly as a result of this role, state enterprises are extremely hard to close down, since they effectively serve as the social "safety net" for their employees and dependents.

7. In many respects the collective and individual industrial sector appears to stand in healthy contrast to this somewhat bleak picture. Growth has been very rapid during the past few years, and employment generation has accounted for a substantial proportion of the national total. Micro-level flexibility may well be considerable, as is suggested by qualitative impressions of higher rates of enterprise turnover and shifts in product lines. Collective and individual industry in China uses much less capital per unit of output than does state industry and only slightly more labor, so it is probably a far more efficient user of factor inputs than are state enterprises. It is also possible that collective and individual industrial enterprises have more flexibility in determining the size of their work force than do state enterprises (though further research is required to substantiate this point).

8. On the other hand, there are numerous unresolved issues and problems which could become major obstacles in the future. Rural collectives in particular have been criticized on the grounds of their often uneconomically small scale of operations (though some have become very large, with over 1,000
employees. Unfettered competition between rural collective and urban state enterprises has led to "protection" of the latter and imposition of entry barriers against the former in certain industries like textiles and cigarettes. In an environment of highly distorted prices for many goods and differential access to resources and markets, competition may not be effective in improving efficiency and directing resources to the most appropriate uses.

More generally, China's rural collective industry seems to exhibit some of the same problems of chronic overinvestment and excessive numbers of investment project starts (leading particularly to excess capacity in high-profit industries) that are characteristic of state industry. Development of the rural collective sector has been highly uneven across different regions and localities; this may have worsened rural income inequality. At the micro level, the apparently excessively high wages paid by many rural collectives may restrict employment growth and increase the gap between the peasants employed in these enterprises and those in agriculture. Urban collectives in many cases serve primarily as employment agencies for urban youth (especially for the children of employees of the units that established them). Many of the larger collectives set up in the 1970s and earlier function essentially as small state-owned enterprises. Finally, both urban and rural collectives have been criticized for engaging in activities viewed as anti-social or on the borderline of legality, with the ambiguity exacerbated by the lack of development of China's legal system.

2/ The administratively fragmented industrial management system and the lack of scope for horizontal flows of investment funds may be the main explanation for suboptimal scale, but the nature of the enterprises and their close ties to small rural communities may also be a factor.
Issues for the Future

9. Turning to the longer-term future, a number of major issues can be identified, all of which are intimately related to the role of the collective and private sector in the economic system outside of agriculture, and to the future share of this sector in the economy, particularly industry.

10. Ownership. Which forms of ownership will be most conducive to the future development of the nonstate sector? Which will be consistent with China's socialist system, its income distributional goals, and its other objectives (particularly those relating to the other issues discussed below)? To what extent should private ownership of substantial concerns be permitted or encouraged, and how can this (and its income distributional consequences) be rendered compatible with socialist ideology and the rest of the economic system?

11. Employment. China's nonagricultural collective and individual enterprises will be expected to play a crucial role in generating employment opportunities for surplus rural labor released from agriculture during the process of economic development over the next several decades. But many types of collectives have an at least theoretically demonstrated tendency to limit employment as compared with capitalist enterprises. Thus a key issue is the design of ownership/management forms that are conducive to employment generation as well as efficiency and growth. Regulation of the creation of new enterprises and administratively imposed entry barriers also are important in this context.
12. **Scale.** To what extent are the essential characteristics of Chinese collective and private firms and their perceived advantages relative to the state sector due to their small scale? How do the rather large collectives now appearing on the scene differ in their organizational form and their internal motivation and control vis-a-vis smaller collectives? If collectives lose their distinctive characteristics and become similar to state enterprises once they exceed a certain size, this would have important implications for the future development and role of the sector. On the other hand, if appropriately organized collective enterprises maintain their advantages over state enterprises even at relatively large scales of production, there would be great potential efficiency improvements from changing the ownership and organizational form of many state-owned enterprises to something akin to that of collectives.

13. **Technology.** How well can collective and individual enterprises perform in modernizing and absorbing new technology? What constraints do they face in this area, which will be vital for their long-term development?

14. **Financing.** This is clearly related to all of the above issues. What investment financing mechanisms need to be developed that allow collective and individual enterprises to engage in efficient, if necessary large-scale production and acquire needed technology, while at the same time ensuring that the efficiency advantages of the sector are retained? How should financing be related to ownership and control?

15. **Relationship with the State Sector.** Subcontracting and other forms of cooperation between state and rural collective sectors appear to have worked well so far. What is the future potential for this kind of coopera-
tion? What tensions are there in these most probably at least somewhat unequal relationships, and what will happen if eventually the limits of development based on subcontracting are reached? How will continued and even intensified direct competition between state and collective/individual sectors affect both? How can administratively-imposed entry barriers and other forms of discrimination against collective and individual enterprises be reduced (if they are a serious hindrance to their development)? In particular, what is the potential for competition from collectives to stimulate efficiency improvements in state enterprises?
Possible Explanatory Factors for the Recent Performance of Collective and Individual Industry

1. Freedom from mandatory planning, which at least to some extent restricts the activities of most state enterprises. This freedom may be especially important in investment planning and decision making.

2. Greater flexibility for collective and individual enterprises in pricing and material supply arrangements. On the output side this means greater ability to charge a higher price for goods in short supply, or to lower prices to enhance competitiveness if necessary. On the input side, it may mean greater ability to obtain needed inputs through the market, albeit at a higher price (which in many cases can be passed on to customers through higher output prices).

3. Better treatment than state enterprises in the crucial area of taxation and profit retention. Many collective enterprises have been given tax-exempt status for their first several years of operations. Overall, the average direct tax rate on rural collective enterprises in 1983 was only 14%, about one-fifth the rate for state enterprises. (However, the collectives also had to turn over a portion of their after-tax profits to their managing bodies.) Lower tax rates may have left more funds for internal accumulation by collectives.

4. Credit policies. In 1984 a government decision was made to greatly increase credit to rural collective enterprises, and this undoubtedly was a factor in their rapid growth in 1984-85. The same may be true of reduction or elimination of entry barriers and restrictions on the establishment of new enterprises. But these explanations beg the question of why the sector was
able to grow so rapidly when financial or administrative constraints were eased.

5. The growing of China's small-scale rural industry into something approaching its appropriate "niche" in the economy during the past few years. This niche may be (at least temporarily) greater in China than in other countries because of the inability or unwillingness of the state sector to provide many kinds of goods and services. To the extent that this is true, it would have implications for the pace of future development.

6. The strong "push" force of surplus labor released from agriculture, for which productive employment opportunities needed to be developed. The strength of this force was greatly increased with the implementation of the "production responsibility system" in agriculture, which had the effect of transforming hidden surplus labor (or underemployment) into open unemployment.

7. Reliance of rural collective industries on locally available resources, some of which may have no economically attractive alternative uses but others of which may be appropriated away from other users (i.e., urban state enterprises).

8. Possibly greater flexibility for rural collective and individual enterprises in setting and varying the size of their work force and in adjusting product lines to respond to changing market forces. This may even extend to greater enterprise turnover.

9. Better motivation and greater effort by workers, leading to more efficient operations. This could be due to the ownership form and organisational structure of the enterprises themselves, or to other factors
like greater ease of firing workers, and the great penalty implicit in a worker being forced to return to less lucrative agricultural activities.

10. Cooperation of the collective sector with the state sector through subcontracting, joint ventures, and other forms of transfer of investment resources and technology. While this presumably has been designed by state enterprises primally to increase their own profits, it may also have generated much faster growth of collectives.
Selected Bibliography on Collective Firms in Other Countries


Svejnar, J. and Jones, D.C. (1982). *Participatory and Self Managed Firms*, D. G. Heath


Output from State Enterprise Project

I. Gene Tidrick and Chen Jiyuan, editors, *Chinese Industrial Reform in International Perspective* (conference volume). To be published in English and Chinese. Tentative Table of Contents is as follows:

"Introduction",
Gene Tidrick and Chen Jiyuan

Part I. Overview

1. "Questions on Increasing the Vitality of Enterprises under the System of Ownership by the Whole People"
   Dong Fureng

2. "Factor Allocation and Enterprise Incentives in Chinese Industry"
   William Byrd and Gene Tidrick

3. "Comparison of the Chinese and CHEA Industrial Enterprise Environment"
   David Dranick

4. "Reform of China's Planning and Pricing System"
   Cao Shangquan

Part II. Planning, Supply, and Marketing

5. "A Study of the State Industrial Enterprise Planning System"
   Chen Jiyuan

   Gene Tidrick

   Tang Zongkun

8. "The Role and Impact of Markets"
   William Byrd

Part III. Enterprise Organization

9. "System Reform and Industrial Corporations"
   Xu Lu

    Zheng Guangliang
Part IV. Lessons from Other Countries

11. "The Dual Dependence of the State Owned Firm: Hungarian Experience"
    Janos Kornai
    Martin Schrenk
13. "Performance Evaluation for Public Enterprises"
    Leroy Jones
    Prem Shankar Jha

II. William Byrd, Gene Tidrick, Chen Jiyuan, Xu Lu, Tang Zongkun, and Chen Lantong, "Recent Chinese Economic Reforms: Studies of Two Industrial Enterprises" (World Bank Staff Working Papers, No. 652). Consists of two papers: (1) "Adjustment and Reform in the Chongqing Clock and Watch Company" (by World Bank team) and (2) "Management Reforms in the Qingdao Forging Machinery Plant" (by CASS team).


IV. Works in Chinese. Numerous articles have been published about the project and particularly about the international conference held in Beijing in August 1983. Two pieces were also published based on the joint investigation of the Chongqing Clock and Watch Company: Xu Lu, "The Economic Responsibility System in Industry: An Investigation of the Chongqing Clock and Watch Company," (in Economic Investigations, No. 1, 1983); Yu Zuyao, "Investigation of the Chongqing Clock and Watch Company's Experiment of Substituting Tax Payments for Profic Remittances (Finance and Trade Economics, 1983, No. 6). It is quite likely that other articles have been published internally in China.

V. Unpublished output. A list of papers, questionnaires, and other written work done as part of the project is included in the Progress Report on the Collaborative Research Project with China, February 7, 1984.
Proposed Collaborative Research Project on Chinese Collective Industry: Sample Considerations

Note: The sample of about 30 nonstate industrial enterprises selected for intensive interviewing cannot be fully representative of the sector in China as a whole. Instead an attempt will be made to ensure that the sample has an adequate degree of variation along the dimensions that are considered most important from the viewpoint of the project. These include the following.

1. Type of Collective/Degree of Autonomy. It is important to get the widest possible variation in this dimension, biased toward forms that are most radically different from the traditional Chinese state-owned form of enterprise and toward those that have great potential for future development. Two broad categories of collective enterprises are therefore excluded from the study: collectives set up by state enterprises to employ the children of workers and "large" urban collectives (which differ from smaller state-owned enterprises only in name). The sample should include some representatives of the other main types of collective industrial enterprises: the traditional commune and brigade enterprises in rural areas (now the top two levels of township and village enterprises); neighborhood collectives in urban areas; enterprises run by production teams; pooled capital enterprises (mostly in rural areas); and some private enterprises. It may also be possible to include some small state-owned enterprises that have been contracted out to collective or private management or sold to collective private management, provided that these changes were significant and there is a history of several years to study. The majority of enterprises probably will be commune and
brigade enterprises, but if there are major differences in formal organization within this category, the variants should be represented. The sample should encompass as wide as possible degree of variation in terms of the degree of autonomy of enterprises vis a vis their supervisory agency or nominal "owner." There should be ample variation in terms of decision-making authority in operation and also in the degree of control the enterprise exercises in the distribution of surplus.

2. Location in Regions with Different Degrees of Development Particularly of Rural Collectives. The enterprises in the sample will be from four localities: (a) A locality where rural collectives are very well developed (in southern Jiangsu Province). (b) An area where collective enterprises have close ties with foreign businesses and rely on foreign capital (most likely in Foshan Prefecture in Guangdong Province) - rural collectives most likely would be relatively well developed in this locality as well. Both areas would most likely be near to urban areas and well situated with respect to transport. The advanced locality and the one with foreign ties would be in rich agricultural areas with high per-capita rural incomes. (c) A locality where the development of rural collectives has been only average (probably in Anhui Province). Agriculture in this area will also be less developed. (d) An area where rural collectives are very backward and undeveloped. This will be a poor agricultural region. One of the latter two areas should be close to a large urban area, whereas the other should be centered around a smaller town (but if possible the locality chosen should not be one where rural collectives are only of the agriculture support variety). To minimize logistical problems, the localities should be in provinces that are close to each other.
3. Type of Industry/Product. The enterprises in the sample should be concentrated in three or four different industries (all the enterprises will be industrial enterprises, excluding construction, transport, commerce, etc.). This will facilitate cross-enterprise comparisons. The criteria for which industries to choose should include: (a) the industries chosen should be those in which collectives (particularly rural collectives) account for a substantial share of total national output; (b) most of them should be industries which are represented in all four localities; (c) there should be variation in the production process, technological and skill requirements, etc.; (d) at least one should be a fairly standard process industry for which performance across enterprises is fairly easy to compare and for which there is likely to be significant variation in type of collective; and (e) at least some of the industries chosen should facilitate comparison with state-owned enterprises, based on detailed information gathered in the state enterprise project or from other sources. Another important consideration is the employment-generating potential of the industry concerned. Attractive candidates include the following: machinery, textiles (perhaps limited to cotton textiles), food processing (perishables processing), components manufacture, and possibly furniture or ceramics (perhaps specified a bit more narrowly). It is advisable to also include a few enterprises in "advanced" industries with great future potential, which might be located only in one or preferably both of the "advanced" areas. We may also want to include one or two coal mining enterprises to get a grip on the particular issues they face.

4. Size. The sample should include a considerable range of variation in size. In particular there should be at least a couple of very large enterprises (with employment as high as 1,000 or more). At the lower end, the
limit should be that all the enterprises in the sample should be substantial, fairly stable concerns. It might be best to specify a lower limit on employment (at least for traditional commune and brigade enterprises), perhaps around 20-50 employees.

5. **Profitability/Performance.** We will probably get a range here anyway. But we should specify that at least a few enterprises should be chronic money-losers.

6. **Technology.** There will be a trade-off between great variation in technology within industries and cross-enterprise comparability of performance. We might aim for great variation in technology in one or two industries (e.g. machinery), and uniformity in another (e.g. perishables processing).

7. **Date of Establishment.** This may be an important variable within the category of commune and brigade enterprises, and may be associated with differences in formal structure and degree of autonomy.

8. **Subcontracting versus Competition with State Enterprises.** Some enterprises set up primarily to subcontract for state enterprises should be included in the sample. The sample as a whole should include a range in terms of cooperation/competition with state enterprises.
### Estimated External Costs of Collectives Project

<table>
<thead>
<tr>
<th></th>
<th>FY86</th>
<th>FY87</th>
<th>FY88</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultant Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultant (Jan Svejnar)</td>
<td>$15,000</td>
<td>$27,000</td>
<td>$12,000</td>
<td>$54,000</td>
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<tr>
<td>36 weeks at $1,500/week</td>
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<td>Chinese-speaking Consultant (Christine Wong):</td>
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<tr>
<td>32 weeks at $1,250/week</td>
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<tr>
<td>Five case studies/briefing papers on collectives in other countries, $4,000 each</td>
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<td>$10,000</td>
<td>-</td>
<td>$20,000</td>
</tr>
<tr>
<td>Local consultants to accompany CASS team on visits to collectives in other countries: 4 week at $1,250/week</td>
<td>-</td>
<td>$5,000</td>
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<tr>
<td><strong>Subtotal</strong></td>
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<td>$64,500</td>
<td>$17,000</td>
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<tr>
<td>Mission costs (China)</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>1st mission: 5 people at $5,000 each</td>
<td>$20,000</td>
<td>-</td>
<td>-</td>
<td>$20,000</td>
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<tr>
<td>2nd mission: 4 people at $5,000 each</td>
<td>-</td>
<td>$20,000</td>
<td>-</td>
<td>$20,000</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td>$20,000</td>
<td>$20,000</td>
<td>-</td>
<td>$40,000</td>
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<tr>
<td>Mission costs (international trip)</td>
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<tr>
<td>3 Chinese participants: $8,000 each</td>
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<tr>
<td>Accompanying local consultants: 4 at $1,000 each</td>
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<tr>
<td><strong>Subtotal</strong></td>
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<td>$28,000</td>
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<tr>
<td>Mission costs (visits by consultants to Washington)</td>
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</tr>
<tr>
<td>10 visits at $500 each</td>
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<td>------</td>
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<tr>
<td>6 missions to China</td>
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<td>-</td>
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<td>Translation costs (done at Resident Mission, China)</td>
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Total external costs of project | $59,500 | $131,500 | $51,000 | $242,000 |

<table>
<thead>
<tr>
<th>China Division</th>
<th>Source of Financing</th>
</tr>
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<tbody>
<tr>
<td>Chinese-speaking consultant</td>
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<td>Four fieldwork missions to China</td>
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<td>Subtotal</td>
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</table>

REPAAC | $37,000 | $99,000 | $46,000 | $182,000 |
### External Cost Summary by Project Component

#### China component

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<th>FY87</th>
<th>FY88</th>
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</thead>
<tbody>
<tr>
<td>Consultants /a</td>
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<tr>
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<tr>
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<tr>
<td><strong>Total</strong></td>
<td>$43,500</td>
<td>$74,500</td>
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<td>$164,000</td>
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</table>

#### International component

<table>
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<th>FY86</th>
<th>FY87</th>
<th>FY88</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Consultant /a</td>
<td>$16,000</td>
<td>$27,000</td>
<td>$3,000</td>
<td>$46,000</td>
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<tr>
<td>Travel /b</td>
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<tr>
<td>Other</td>
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<tr>
<td><strong>Total</strong></td>
<td>$16,000</td>
<td>$57,000</td>
<td>$5,000</td>
<td>$78,000</td>
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</tbody>
</table>

/a Jan Svejnar's time is allocated as follows between the two project components: (1) 22 weeks for the China component (4 in FY86, 10 in FY87, and 6 in FY88); (2) 14 weeks for the international component (4 in FY86, 8 in FY87, and 2 in FY88). This division should remain flexible.

/b Of the cost for consultants' visits to Washington, $3,000 was allocated to the China component and $2,000 to the international component. Conference travel costs are entirely allocated to the China component.

/c Part of editing costs.
### Staff Budget for Collectives Project

<table>
<thead>
<tr>
<th></th>
<th>FY86</th>
<th>FY87</th>
<th>FY88</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>China Division</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economist (William Byrd)</td>
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<td>Research Assistant (Josephine Woo)</td>
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<tr>
<td><strong>Consultants</strong></td>
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<tr>
<td>Jan Svejnar</td>
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<td>Christine Wong</td>
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<tr>
<td>Other consultants</td>
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<td>Research assistance</td>
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<td><strong>Total Staff Weeks</strong></td>
<td>54</td>
<td>94</td>
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/a A number of international experts would attend the final conference for the project, but they would not be paid honoraria or consultant fees.
## Record Removal Notice

**File Title**
674-07 Collaborative Research with China - Iv

**Barcode No.**
1314970

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### Correspondents / Participants
Lin, Qingsong; He Jiacheng; Luo, Xiaopeng

### Subject / Title
Resumes of CASS Participants in Collectives Study

### Exception(s)
Personal Information

### Additional Comments
The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information or other disclosure policies of the World Bank Group.

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<td>Shiri Alon</td>
<td>April 19, 2017</td>
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</table>

**Correspondents / Participants**
Jan Svejnar; Christine Pui Wah Wong

**Subject / Title**
Background Information on Consultants

**Exception(s)**
Personal Information

**Additional Comments**

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Archives 01 (March 2017)
Tentative Schedule for Proposed Collaborative Research
Project on Chinese Collective Industry

arrangements for field trips to four provinces, including choice of specific
sites and a tentative list of the 30-odd enterprises selected for in-depth
interviews. Both sides prepare draft outlines for interviewing, quantitative
questionnaire, worker survey questionnaire and enterprise survey
questionnaire. Drafts are exchanged in February. Chinese side provides back-
ground information on the four interview sites and the provinces they are
located in, as well as available published literature on collective industry
in China as a whole. World Bank team will start to provide a selection of
published work on cooperative enterprises in other countries.

March 1986. Outlines, questionnaires, and preliminary list of
enterprises to be interviewed will be tentatively agreed upon. Basic project
document will be prepared (formal or informal). Content and timing of Chinese
mission to India, Europe, and the USA will be determined. Terms of reference
and format for briefing papers for this mission will be discussed.

April-May 1986. Both sides continue with background and mission
preparation work.

June-July 1986. Mission to China for discussions in Beijing
followed by fieldwork in two provinces (most likely Jiangsu and Anhui).

July-August 1986. Briefing papers for visits to cooperative enter-
prises in other countries will be completed. Analysis of findings from field-
work mission.
September-October 1986. Mission by Chinese team to India, Europe, and USA. Discussions at World Bank in Washington on: (a) experiences in first China mission and analysis of data gathered; (b) results from visits to cooperatives in other countries and the lessons for China; and (c) implications of (a) and (b) for the second mission to China.


January 1987. Mission to China for fieldwork in two provinces (probably Guangdong and Jiangxi). Also if necessary, some re-interview work in the two provinces visited on the first mission.


July or August 1987. Discussion of report with Chinese government agencies and research organizations. International conference to present research results (in Beijing).

September-December 1987. Revision of output and preparation for publication.