

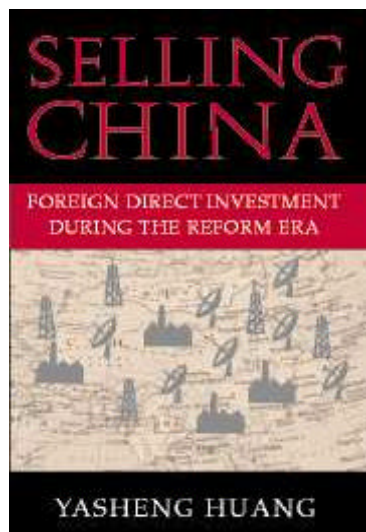
# A Tale of Two Provinces: Private Sector Development, Growth and FDI

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## Topics

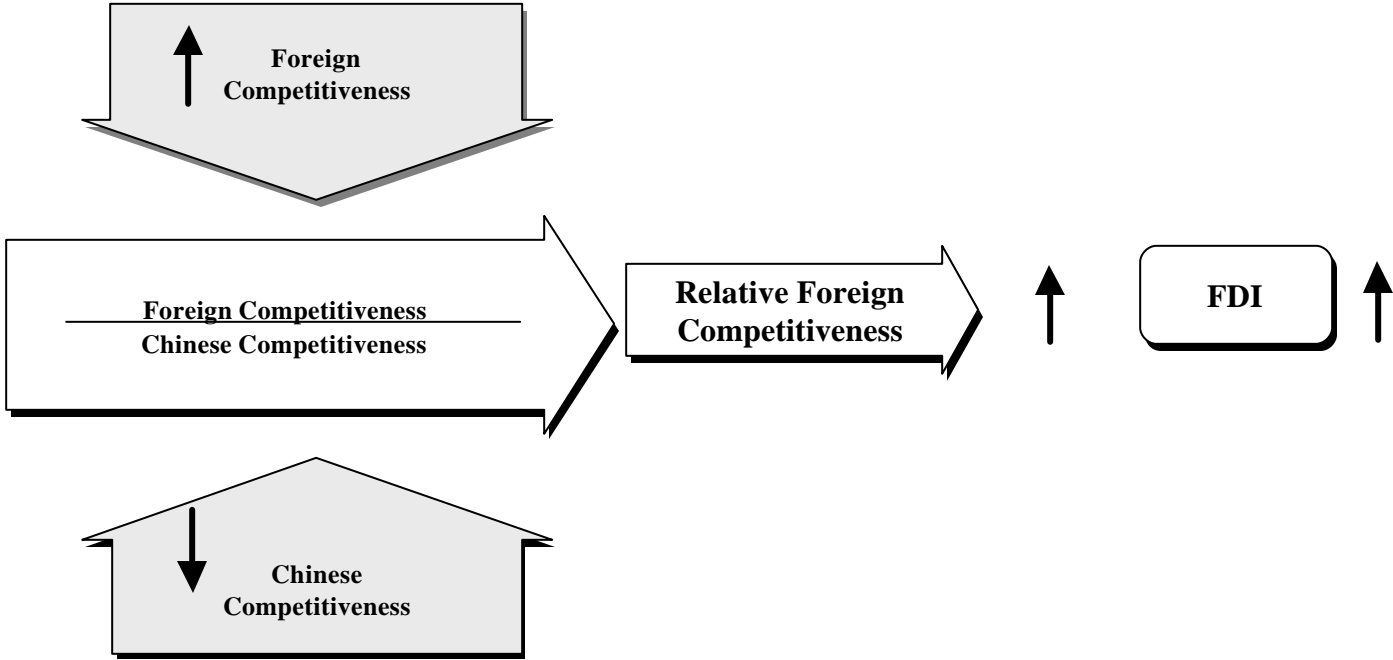
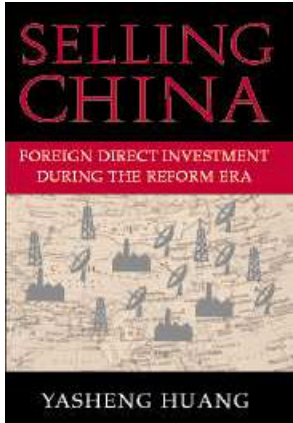
- Research Background
- A tale of two provinces: Institutional variance
- Institutional environment: 1) Growth and 2) Foreign ownership
- Exploring implications

# RESEARCH BACKGROUND: PREVIOUS WORK



- Why China so dependent on FDI?
- Basic idea:
  - $\text{FDI dependency} = \text{Foreign investment} / \text{Domestic investment}$
  - Two ways to increase this dependency: 1) ?Foreign investment and/or 2) ?Domestic investment
- FDI literature: Why foreign investment?
  - Technology, market controls, know-how, etc.
  - Market failures in resource transfers
- Selling China: Why low domestic investments?
  - Institutional sources of low competitiveness of domestic firms: 1) Lack of financing and 2) Lack of legal protection

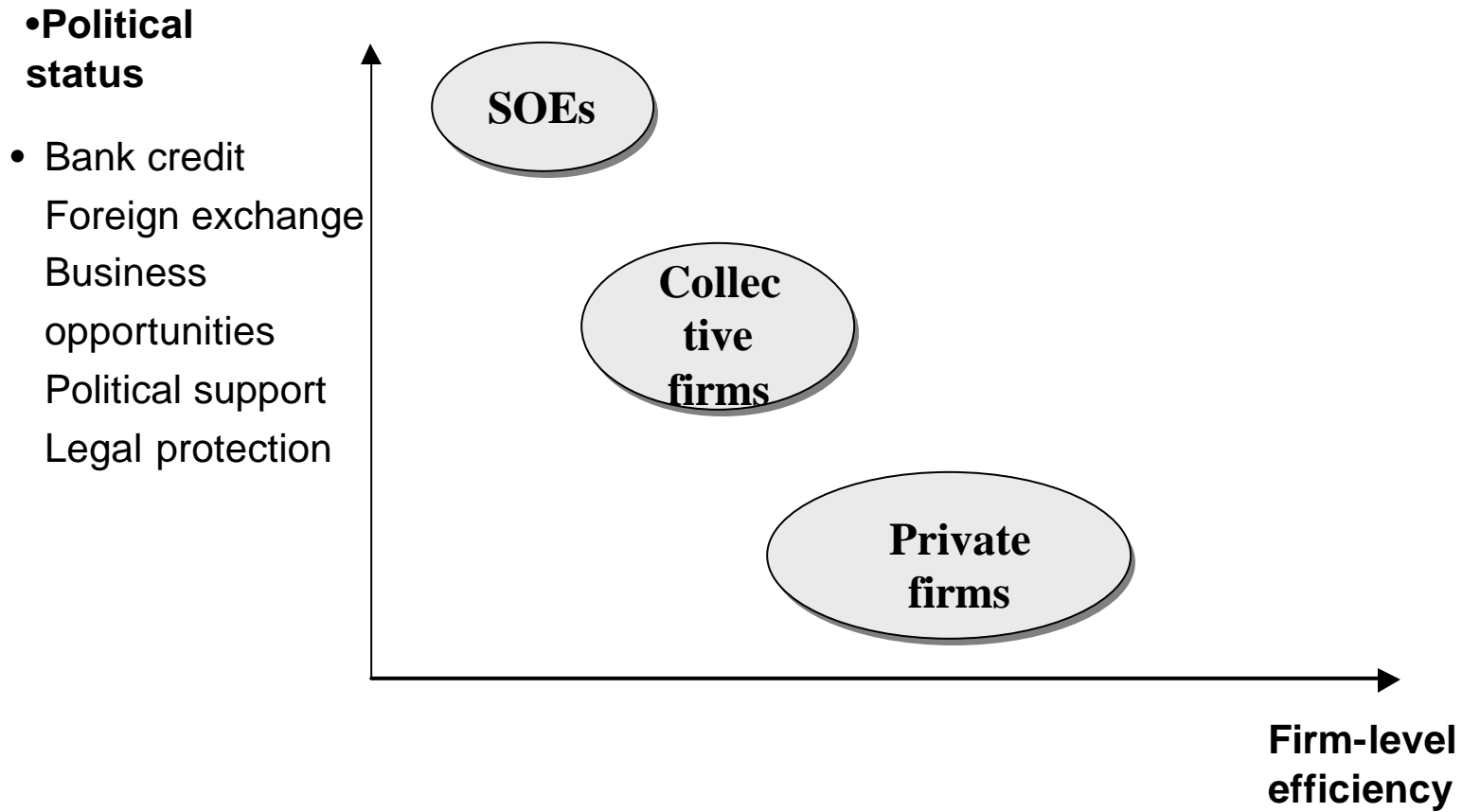
# Two Ways to Increase FDI



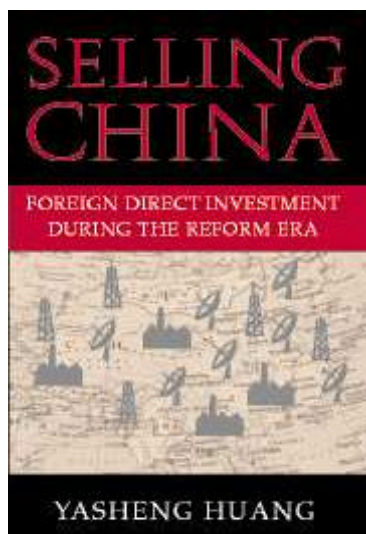
# RESEARCH BACKGROUND: INSTITUTIONAL ORIGINS OF LOW DOMESTIC COMPETITIVENESS

- **For political reasons, some governments often allocate resources to the least efficient domestic firms at the expense of the most efficient domestic firms**
  - Examples:
    - > China: SOEs (and TVEs) vis-à-vis domestic private firms
    - > Malaysia: Ethnically Malay firms vis-à-vis ethnically Chinese firms
    - > NOT favoring foreign firms over domestic firms *per se*
- **Effects on domestic firms: ? Overall domestic competitiveness**
  - Resource-rich firms lack internal efficiency to grow
  - Efficient firms lack external resources to grow
- **Effects on foreign firms: ? Relative competitiveness of foreign firms**
  - Competing with uncompetitive domestic firms on average
  - Policy treatments: Better than the most efficient firms (but usually worse than the most inefficient firms)
  - Logic:
    - > Optimal treatment to get foreigners in: Policy competition and business competition
    - > By design: Get foreigners to crowd out politically undesirable domestic firms

## An illustration of an illiberal institutional environment



# RESEARCH BACKGROUND: FURTHER EXTENSIONS



- Institutional inefficiencies and FDI:
  - A tale of two provinces (with Wenhua Di): High variance in institutional efficiencies
  - Foreign ownership across 81 countries: WBES data
  - A study of labor-intensive FDI
- Extensions on two models of growth: Quality of firms
  - A tale of two eras in China: 1980s vs. 1990s
  - A tale of two provinces
  - A tale of two Shanghais: 1930s vs. 1990s
  - A tale of two cities: Hong Kong and Singapore
  - A tale of two countries (with Tarun Khanna): 1) “Can India overtake China?” 2) A book project

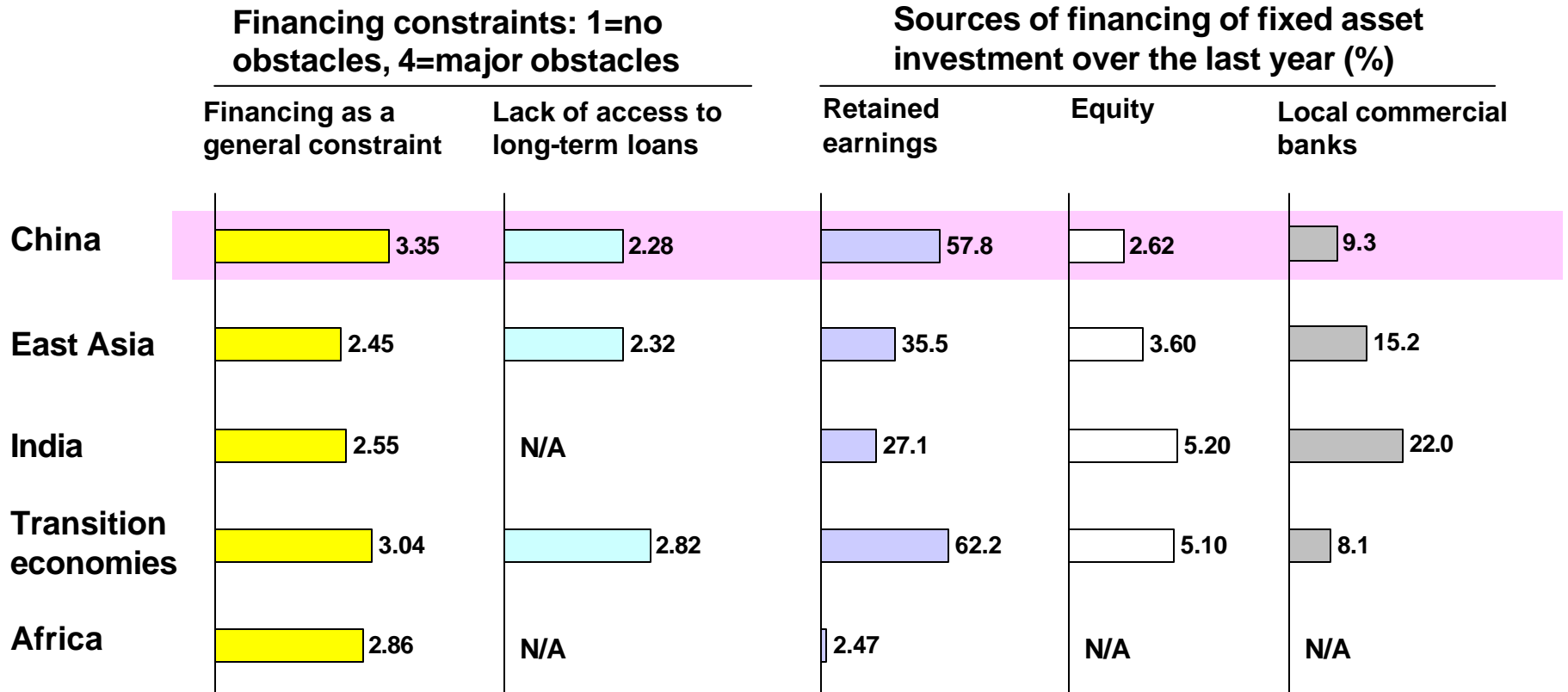
# A TALE OF TWO PROVINCES: NATIONAL MODEL BUT REGIONAL VARIATIONS

- Substantial constraints on the domestic private sector
- Tolerant but highly suspicious of private sector
  - National institutions and policies designed to constrain private sector
    - Ideology and preserving monopoly of power
- Treatments of private firms
  - Constitution: 1) Compared with foreign investors, 2) Controversial amendment in 2004
  - Regulations:
    - > Sectoral licensing (Tian Jiyun): 40 allowed for private firms vis-à-vis 60 allowed for foreign firms
    - > Among 10 general constraints (WBES): Private firms more constrained than foreign firms in 7 areas

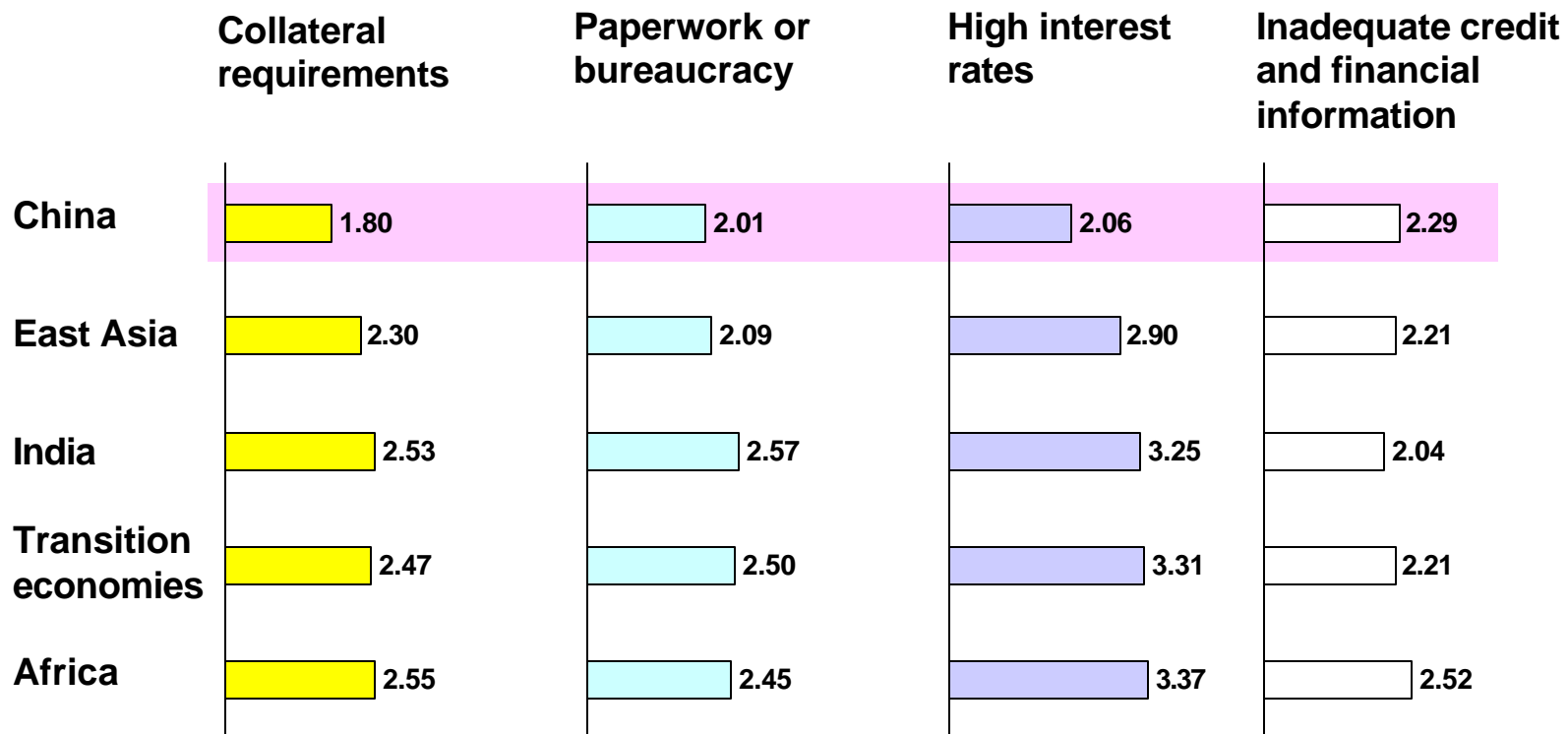
# A TALE OF TWO PROVINCES: NATIONAL MODEL

- Cross country comparisons:
  - One of the most stringent financial constraints on private firms: 3.35 (4=the worst)
  - Economies worse than China: Kyrgyzstan (3.43), Moldova (3.46) and Ukraine (3.44)
  - One of the most dependent on retained earnings: 56.6% compared to India (27.1%) and Philippines (50.8%)
  - Honesty in tax reporting (=property rights security): China = Haiti (11% reporting 100% of sales)

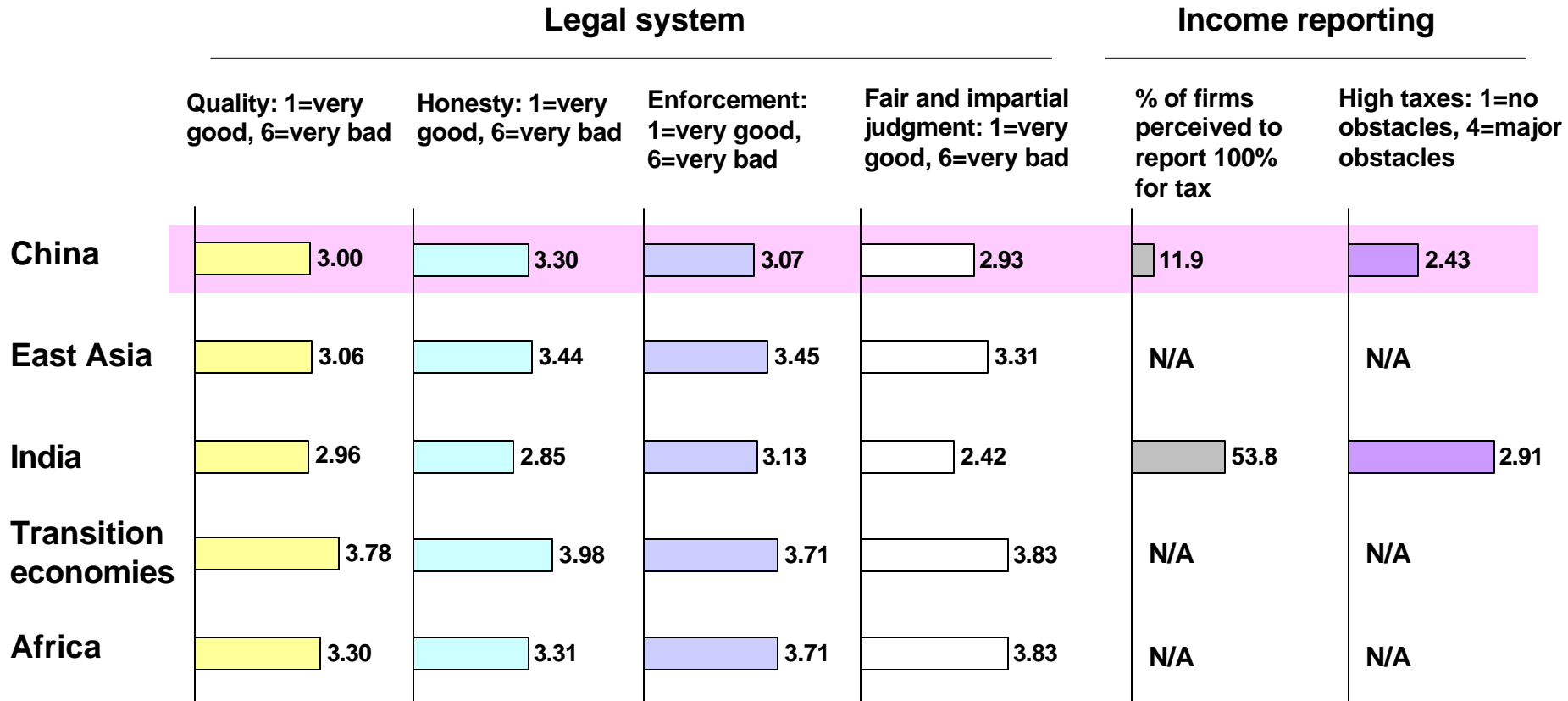
## Fig 2 Various measures of financing constraints



**Fig 3 Sources of financing constraints: Functions of the financial system (1=No obstacles, 4=Major obstacles)**



# Fig 5 Quality of legal system and income reporting honesty



# A TALE OF TWO PROVINCES: REGIONAL HETEROGENEITY

- National model but *substantial regional heterogeneity*: “Federalism, Chinese style”
- Zhejiang far more liberal than Jiangsu: Less stringent enforcement of the national model
  - Minimum institutional biases against domestic private firms,
  - Less government interventionism,
  - A protective, rather than operating, role of government,
  - A vibrant informal credit market serving private entrepreneurs
- Two well-documented development models
  - “Sunan” model (Jiangsu) and “Wenzhou” model (Zhejiang) first formulated by Professor Fei Xiaotong in 1986
    - > Sunan model: TVEs as the engine of growth
    - > Wenzhou model: Private firms as the engine of growth



# JIANGSU AND ZHEJIANG: INSTITUTIONAL BIASES

- Survey Evidence on political rankings of domestic firms (1999): “Please rank the economic importance of SOEs, FDI firms and private firms on a 1-10 scale.”
  - Officials in Jiangsu and Zhejiang are both more supportive of SOEs than of private firms
  - Officials in both provinces hold similar views on FDI
  - But private firms received a far higher ranking in Zhejiang
  - The political bias is present in Zhejiang but less severe than Jiangsu
    - A comment by private entrepreneur in Hangzhou: “We were treated like garbage.”

# A TALE OF TWO PROVINCES: INSTITUTIONAL VARIANCE

- World Bank in 1990:
  - On Wuxi of Jiangsu: “Private enterprises are severely hampered by administrative restrictions, and sizable ones have not emerged.”
  - On Wenzhou of Zhejiang: “free development of private enterprises, a thriving financial market based to a large extent on private financial institutions....”
- A natural experiment:
  - Almost identical in many dimensions: Geography, socioeconomic conditions, openness to trade, etc.
  - Identical FDI policies*: Both embrace FDI
  - But pronounced variance in institutional environments for domestic private firms

# A TALE OF TWO PROVINCES: WHAT WE KNOW NOW

- Wenzhou
  - Difficult geography
  - Capitalistic legacy rooted in policies, not culture
  - Allowing Informal finance, not because of formal finance
  - Piracy as startup capital: A tale of two bonfires
- Wenzhou model (of Zhejiang) outperformed Sunan model in every aspect
  - Faster economic and export growth
  - Far lower NPL ratios
  - Clustering of best domestic firms
  - Greater domestic value-added
  - Extinction of Sunan model: Massive privatization of TVEs in Jiangsu since 1995 and visitors from Jiangsu
  - Contract production for foreigners rather than FDI
  - Almost no FDI in labor-intensive industries

# A TALE OF TWO PROVINCES: WHAT WE KNOW NOW

- Possible channels: Hypothesis, not evidence
  - Superior microeconomic performance of firms in Zhejiang
  - Incentives to source locally and thus greater rent accruals to locals
  - Greater external benefits of FDI in Zhejiang: A miracle of quality rather than a miracle of quantity
- The myth of the third way:
  - TVEs better than SOEs but worse than private firms
  - TVEs only thrived when private firms were suppressed as in Jiangsu

# JIANGSU AND ZHEJIANG: Case study of labor-intensive FDI as proxied by FDI FROM ETHNICALLY CHINESE ECONOMIES (ECES)

- Relative to domestic firms:
  - A more substantial role of ECE firms in Jiangsu:
    - >Average fixed asset investment/sales ratio: 0.6% of Jiangsu vs. 0.23% of Zhejiang
- Relative to firms from non-ECES:
  - About the same in two provinces:
    - >ECE to non-ECE fixed asset investment ratio: 20% in both
  - But industry distribution is dramatically different in two provinces:
    - > In Jiangsu, ECE and non-ECE firms tend to gravitate toward same industries; in Zhejiang, they go to very different industries
    - > Capital-intensive machinery industry: ECE firms invested actively in the labor-intensive segments of this industry in Jiangsu while they did not in Zhejiang

# JIANGSU AND ZHEJIANG: INDUSTRY DISTRIBUTION OF FDI

- Greater investment differentiations between ECE and non-ECE firms in Zhejiang than in Jiangsu:
  - Competitive local firms in Zhejiang forced ECE and non-ECE firms to invest in their respective areas of strengths
  - in Jiangsu, ECE firms provided financing to marginalized local entrepreneurs in both labor-intensive segments of a capital-intensive industry as well as in labor-intensive industries

# Why foreign ownership is greater in Jiangsu than in Zhejiang

- Incentive effects:
  - Superior legal and regulatory treatments of foreign firms=>? demand to acquire the legal status of foreign firms
  - Credit constraints=> ? demand for financing from foreign firms
- Capability effects:
  - Legal and financial constraints=>? resource contributions from domestic private firms and ? bargaining power

# INSTITUTIONAL ENVIRONMENT AND FOREIGN OWNERSHIP: FOREIGN FIRM PERSPECTIVE

- An illiberal institutional environment:
  - Benefiting *the least efficient* domestic firms at the expense of the *most efficient* domestic firms
  - Examples:
    - > China: SOEs (and TVEs) vis-à-vis domestic private firms
    - > Malaysia: Ethnically Malay firms vis-à-vis ethnically Chinese firms
- Effects on foreign motivations (controlling for other things):
  - ? home-court advantages of *efficient* local firms => ? competition from efficient local firms
  - Entry choices: ? contract production => ? ownership arrangements
    - > Rule of law reduces value of control
    - > A well-known example: Poor IPRs lead to internalization at the expense of licensing (contracting).

# INSTITUTIONAL ENVIRONMENT AND FOREIGN OWNERSHIP: CHINESE CONTEXT

- Private firms and TVEs:
  - Incentive and capability effects stronger among private firms
  - Incentive and capability effects weaker in Zhejiang
  - Implications:
    - > Private entrepreneurs cede more equity to foreigners
    - > Firms in Zhejiang are less foreign owned

# FINDINGS: DATA AND VARIABLES

- Data

- 1995 industry census: Most detailed firm level data
- Limited to firms established in 1992-1995
- Only joint ventures: 1) Negotiation dynamics and 2) Explicit resource contributions from local firms
- Only joint ventures with private firms or TVEs as Chinese shareholders: Sunan vis-à-vis Wenzhou
- Small firms to minimize strategic discretion
- About 2,000 firms in the sample

- Dependent variable

- Foreign ownership of joint ventures: Foreign equity/total equity of a firm

# FINDINGS: DATA AND VARIABLES

- Institutional variables
  - Chinese private shareholder dummy (PRIVATE)
  - Zhejiang dummy (ZHEJIANG)
  - Output shares of private firms and investment shares of non-state firms as alternative measures (1994, city-level data)
- Controls
  - Size of firms: Asset, employment, sales (alternate measures of size)
  - Industry dummies: 4 digit detailed classifications
  - Establishment year dummies
  - Export/sale ratios
  - Trade/GDP ratio (1991, city-level): Economic openness
  - FDI characteristics: 1) country origins and 2) contractual vis-à-vis equity alliances

# FINDINGS: 1) PRIVATE=>?FOREIGN OWNERSHIP AND 2) ZHEJIANG=>?FOREIGN OWNERSHIP

- Effect of PRIVATE

- PRIVATE consistently positive on foreign ownership
- Effect of PRIVATE most significant when separating Zhejiang from Jiangsu by including ZHEJIANG\*PRIVATE
  - ZHEJIANG\*PRIVATE is negative
- PRIVATE is positive in Jiangsu but negative in Zhejiang

- Effect of ZHEJIANG

- ZHEJIANG consistently negatively correlated with foreign ownership
  - Similar results with alternate measures of ZHEJIANG: Allowing institutional environments to vary at the city level
- ZHEJIANG reduces foreign ownership across-the-board, i.e., joint ventures with either private or TVE shareholders

# Broad Implications based on WBES

- Three findings

- Foreign firms are privileged by host governments contrary to the national preference view in economic literature on FDI
- This privilege is more significant when benchmarking foreign firms against the politically weak domestic firms
- This privilege is more significant in corrupt countries

- Policy implications

- Internal liberalization ought to be the priority
- External reforms can be a substitute for internal reforms
- Some governments seem to prefer external reforms to internal reforms

# FINDINGS

- Other findings
  - Control variables broadly consistent with results in the general FDI literature
  - Institutional findings are robust to: 1) Methods: OLS vis-à-vis Tobit, 2) Additional nationality variables, 3) Different sample periods, 4) Firms of all sizes

# CONSISTENT WITH FDI LITERATURE ON FOREIGN OWNERSHIP

- Foreign ownership as a function of bargaining between foreign and domestic firms
  - Bargaining:
    - > Preferences for control on the part of foreign firms and preferences for FDI rent on the part of local firms (or governments),
    - > Resource contributions from each party
  - Dominant approach: Analyzing preferences and capabilities on the part of foreign firms, subject to host-country constraints
- Host-country constraints:
  - Policy restrictions on foreign equity
  - Riskiness of host countries

# CONSISTENT FINDINGS BUT DIFFERENT PRIORS

- Previous findings: Foreign ownership increases with 1) riskiness and 2) poor rule of law
  - Examples: Contractor (1990) and Asiedu and Esfahani (2001)
- But results are treated as “strange” or contrary to priors
- Or given implausible explanations

propensity to form 50-50 and minority affiliates. We need to be cautious in interpreting this result. For *Ratio 15*, which measures mandated local personnel and labor, we may be relatively safe in concluding that the foreign investor has a greater need for local partners. In the case of *PERF* which is an overall index of the level of performance requirements in the nation, we have to be more tentative. All we may say is that in a nation where the government is perceived as more intrusive in operations, there is a greater tendency to form shared-equity affiliates.<sup>4</sup>

- The signs of the commercial and political country rating variables *COM* and *POLIT* are contrary to the a priori hypotheses, with a single exception. However the coefficients are not generally significant. Kohn's [1987] political risk index was also not significant—and his sample was confined to developing nations where this consideration is expected to be significant. All we can weakly conclude is that there is no firm evidence that country ratings influence the tendency to form 50-50 and minority affiliates.
- While *SALSHR* (an index of a nation's relative importance to U.S. investors) is significant only in Table 7a, its sign when entered is always congruent with the hypothesis. The higher the share of a nation in total global U.S. investment, i.e., the greater its perceived importance, the lower the propensity to form minority and 50-50 affiliates, *ceteris paribus*. To quote De La Torre [1981], who was describing the similar results of Goodnow and Hanz [1972], "the results appear to indicate a preference on the part of firms to make a greater commitment . . . to the countries which have the greatest interest for them; and to hedge their bets (through minority positions or non-equity arrangements) elsewhere" (p. 11). This would be especially true for Western Europe where neighboring countries may be perceived as a common market.<sup>7</sup>

#### PARTITIONING THE SAMPLE

Since there may be different motivations on the part of investors in forming joint ventures in developing versus advanced nations, it seemed worth indulging curiosity by partitioning the sample between twenty industrialized and twenty-seven developing nations and running the same regressions on each subsample. Regrettably, the reduced sample size, together with missing data, especially in the LDC category, did not make for strong results. For this and space reasons the results are not shown. However some interesting patterns emerged which are summarized below.

#### For Industrialized Countries

- GDP and *SALSHR* alone are significant consistently.
- *Ratio 1*, *LIM*, and *POLIT* are generally *not* significant.
- *COM* is often significant but has a positive sign.

THE REVIEW OF ECONOMICS AND STATISTICS

TABLE 4.—THE PROBIT MODEL: DETERMINANTS OF THE CHOICE BETWEEN WHOLE AND JOINT OWNERSHIP BY U.S. NON-BANK TNEs

Variables	(1) All Industries	(2) All Industries Except Finance and Service	(3) All Industries Except Wholesale	(4) Manufacturing
Intercept	0.232 (0.727)	0.673 (0.469)	1.291 (0.194)	1.857 (0.143)
<b>Firm Characteristics</b>				
Log (TNE sales/assets)	0.351*** (0.001)	0.346*** (0.002)	0.510*** (0.000)	0.492*** (0.001)
(Age of TNE)/100	0.900*** (0.001)	0.818*** (0.001)	0.993*** (0.001)	0.623* (0.082)
(Age of TNE)/100 squared	-0.403*** (0.003)	-0.414*** (0.003)	-0.423*** (0.004)	-0.277* (0.098)
Log (1 + number of foreign subsidiaries)	0.415** (0.023)	0.330* (0.096)	0.342 (0.104)	0.143 (0.554)
Log (1 + number of foreign subsidiaries) squared	-0.079** (0.012)	-0.064** (0.049)	-0.063* (0.062)	-0.030 (0.459)
Production diversity of TNE	-0.044*** (0.002)	-0.037** (0.012)	-0.067*** (0.000)	-0.060*** (0.001)
Organizational structure dummy*	0.230* (0.095)	0.269* (0.077)	0.369** (0.024)	0.318** (0.030)
Public trading dummy*	0.733*** (0.001)	0.538*** (0.010)	0.991*** (0.000)	0.852*** (0.001)
<b>Industry Characteristics</b>				
Research expenditures/total sales	0.027* (0.068)	0.017 (0.297)	0.038** (0.021)	0.020 (0.295)
RESBASEZ <sup>b</sup>	0.844*** (0.001)	0.877*** (0.000)	0.881*** (0.001)	0.926*** (0.000)
Forward vertical integration	0.555** (0.034)	0.819** (0.006)	0.473 (0.133)	0.994** (0.011)
PATENT • BVEERT <sup>c</sup>	-1.110* (0.058)	-1.004* (0.089)	-1.201* (0.053)	
RELEASED • BVEERT <sup>d</sup>	-2.239*** (0.000)	-2.251*** (0.000)	-2.274*** (0.000)	-2.215*** (0.000)
<b>Industry Dummy</b>				
Manufacturing	-0.274** (0.012)	-0.243** (0.036)	-0.332** (0.031)	-0.611** (0.027)
Grain and bakery products	-0.673** (0.015)	-0.677** (0.015)	-0.689** (0.016)	-0.583*** (0.000)
Industrial chemicals	-0.684** (0.006)	-0.657** (0.000)	-0.634*** (0.000)	-0.226 (0.183)
Chemical products	-0.344** (0.036)	-0.302* (0.066)	-0.339** (0.049)	0.358** (0.049)
Electronic components	0.265** (0.034)	0.385** (0.026)	0.344** (0.049)	
Commercial equipment	0.523** (0.033)	0.619** (0.019)	0.049	
<b>Company Characteristics</b>				
Equity restrictions	-0.025*** (0.000)	-0.023*** (0.000)	-0.027** (0.000)	-0.025*** (0.001)
Black market	-0.358*** (0.000)	-0.362*** (0.000)	-0.409*** (0.000)	-0.423*** (0.000)
Risk of expropriation	0.197* (0.080)	0.172 (0.133)	0.123 (0.332)	0.008 (0.536)
Log (average years of schooling)	0.724*** (0.006)	0.711*** (0.006)	0.564* (0.053)	0.374 (0.262)
Share of nonagricultural sector employment	0.012** (0.046)	0.013** (0.039)	0.008 (0.221)	0.013 (0.124)
Share of patents granted to local firms	-1.456*** (0.000)	-1.344*** (0.000)	-1.409*** (0.000)	-1.308*** (0.000)
Log (number of patents per 1,000 population)	-0.445*** (0.000)	-0.471*** (0.000)	-0.391*** (0.001)	-0.449*** (0.006)
Rule of law <sup>↑ 10% of prisoners or 10% of hearings</sup>	-0.234*** (0.010)	-0.221** (0.013)	-0.227*** (0.007)	-0.253*** (0.025)
British heritage (ANGLO)	0.118 (0.575)	0.178 (0.414)	0.369 (0.113)	0.435 (0.102)
Non-Anglo European	0.268* (0.091)	0.345** (0.034)	0.503*** (0.005)	0.56*** (0.006)
Latin America	0.851*** (0.000)	0.859*** (0.000)	0.925*** (0.000)	0.767*** (0.001)
Log likelihood	-724.37	-691.70	-601.41	-517.00
Observations	2416	2268	1823	1523

Dependent variable equals one if the subsidiary is wholly owned and equals zero otherwise.

P-values are in parentheses, and \*\*\*, \*\*, and \* denote significance at 0.01, 0.05, and 0.10 levels, respectively. Except for variables noted below, all others are defined in table 1.

<sup>a</sup> Dummy variable is equal to zero if the subsidiary reports directly to the U.S. parent.

<sup>b</sup> Dummy variable is equal to one if TNE's stock are publicly traded.

<sup>c</sup> Dummy variable is equal to one if the subsidiary is research-based manufacturing sector.

<sup>d</sup> Interaction of PATENT dummy variable = 1 if subsidiary is in mining or petroleum and a measure of backward vertical integration BVEERT measured by the share of TNE's imports supplied by subsidiary.

<sup>e</sup> Interaction of manufacturing research-based dummy variable (RESBASEZ) and the measure of backward vertical integration (BVEERT).

<sup>f</sup> This dummy variable is part of wholesale and therefore was not included in regressions (3) and (4).

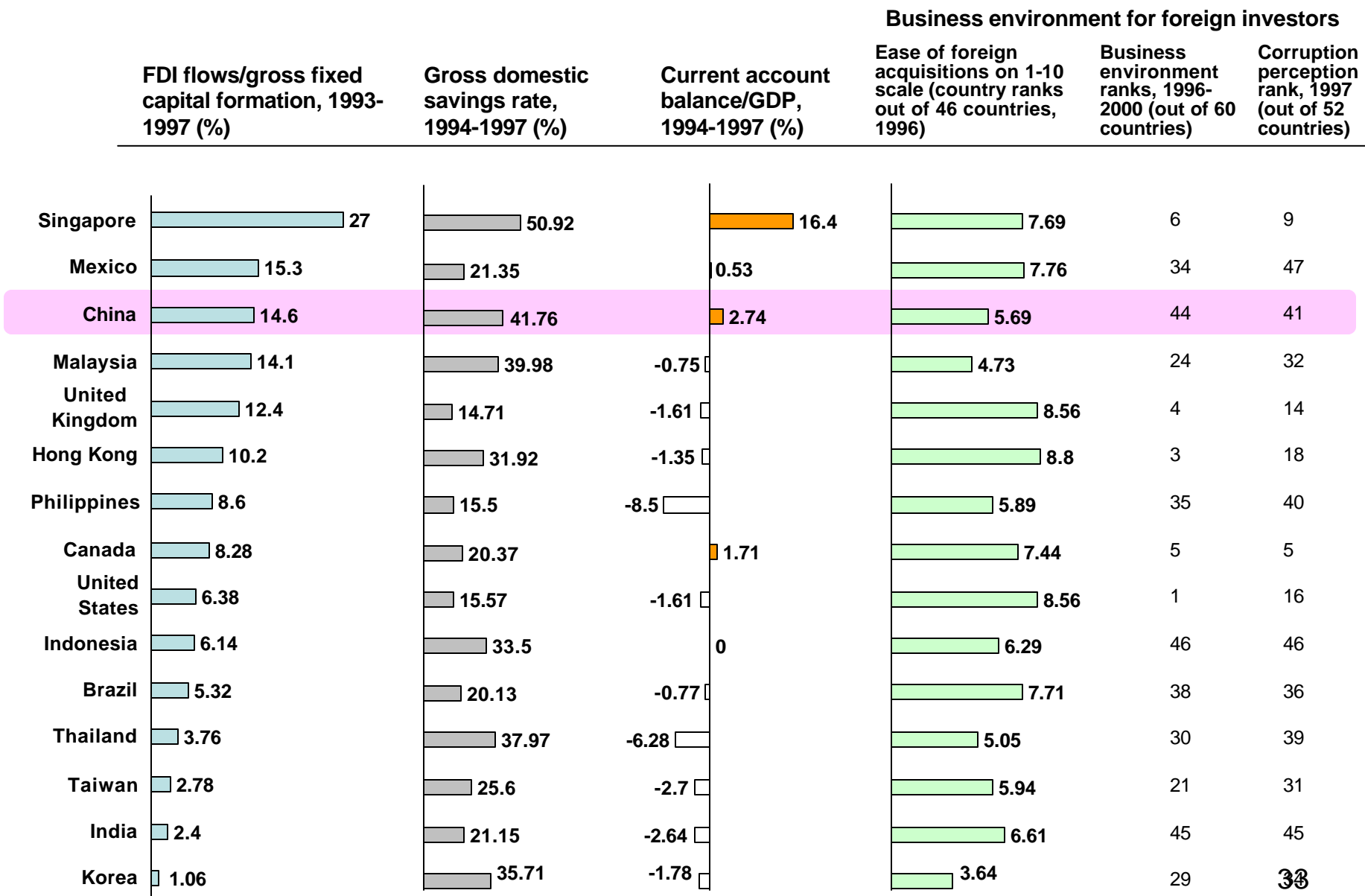
Table 4 Tale of Two Provinces: Foreign Equity Shares and Policy toward the Private Sectors:  
Testing H2 and H3

	(1) H2a	(2) H2b	(3) H2c	(4) H3a	(5) H3b
<b>Institutional variables:</b>					
PRIVATE	0.002 (0.015)	0.058* (0.030)	0.081*** (0.029)	0.062* (0.036)	-0.019 (0.017)
ZHEJIANG	-0.063*** (0.011)	-0.048*** (0.012)	-0.052*** (0.012)		
ZHEJIANG*PRIVATE		-0.084** (0.034)	-0.081** (0.034)		
CREGCAP	-0.721*** (0.122)	-0.729*** (0.121)		-0.748*** (0.122)	-0.738*** (0.124)
CREGCAP*PRIVATE	0.695*** (0.120)	0.705*** (0.120)		0.725*** (0.121)	0.708*** (0.122)
ASTSAL			-0.000 (0.000)		
ASTAL*PRIVATE			0.000* (0.000)		
NSFAI94				-0.166** (0.073)	
NSFAI94*PRIVATE				-0.291** (0.124)	
POPT94					-5.031*** (1.407)
POPT94*PRIVATE					2.149 (4.912)
<b>Control variables:</b>					
Log (EMP)	-0.038*** (0.006)	-0.037*** (0.006)	-0.024*** (0.006)	-0.034*** (0.006)	-0.038*** (0.006)
EXPSH	0.044*** (0.013)	0.042*** (0.013)	0.045*** (0.013)	0.042*** (0.013)	0.046*** (0.013)
OPEN91	0.000 (0.000)	0.000** (0.000)	0.000 (0.000)	0.000*** (0.000)	0.000*** (0.000)
HTM	-0.010 (0.010)	-0.009 (0.010)	-0.009 (0.010)	-0.009 (0.010)	-0.010 (0.010)
CJV	0.116*** (0.035)	0.114*** (0.035)	0.122*** (0.036)	0.118*** (0.035)	0.119*** (0.036)
Establishment year	Yes	Yes	Yes	Yes	Yes
4-digit SIC controls	Yes	Yes	Yes	Yes	Yes
Observations	2178	2178	2178	2178	2178
R-squared	0.25	0.26	0.23	0.25	0.24

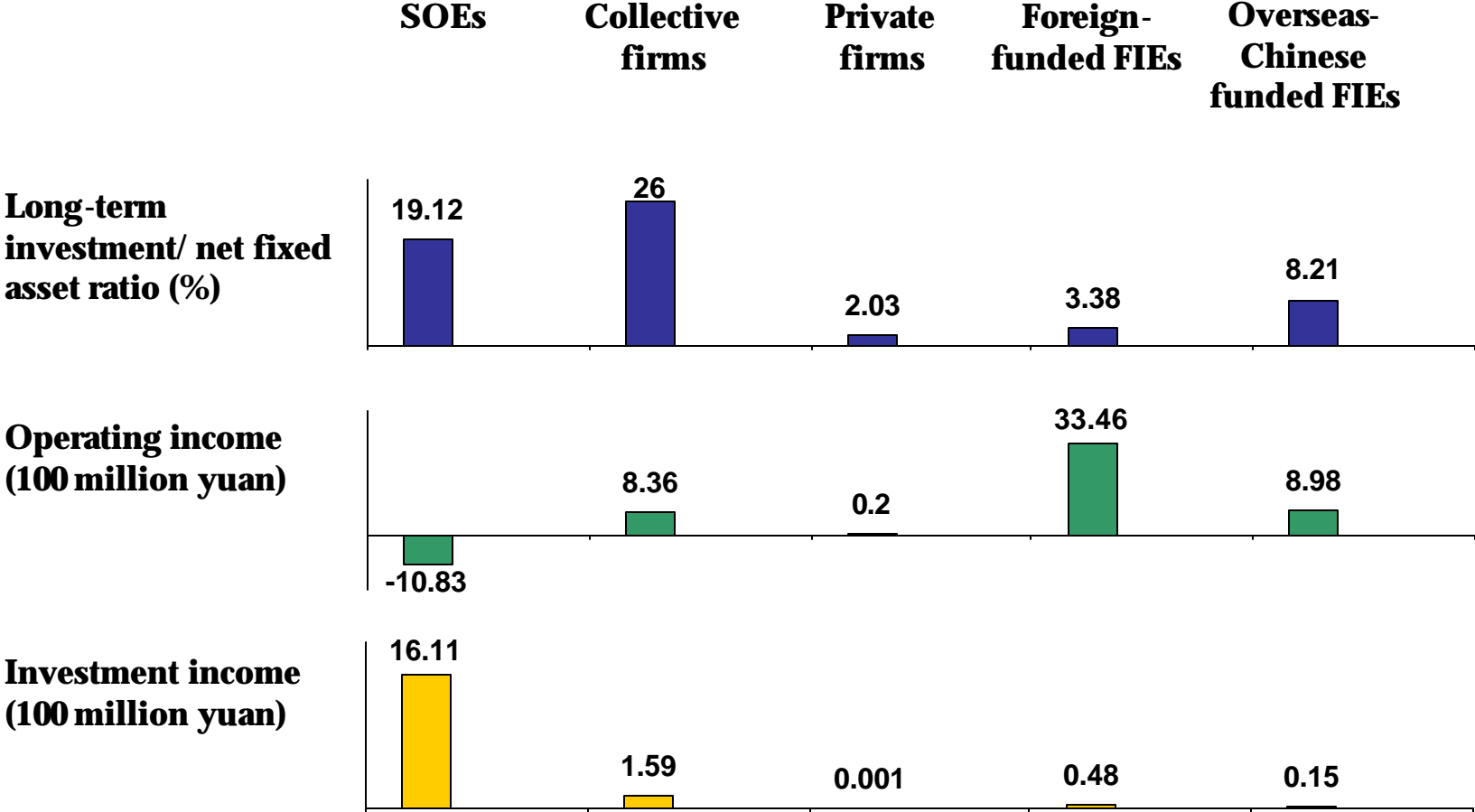
Robust standard errors in parentheses. The dependent variable is FEQSH (=foreign registered capital divided by total equity capital).

\* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%

# RELATIVE FDI SIZE, MACROECONOMIC DEVELOPMENTS, AND FDI CONTROLS 1993-1997



# INVESTMENT AND PRODUCTION ROLES OF SOEs IN CHINA'S MACHINERY INDUSTRY, 1997



**Table 1 Profiles of Jiangsu and Zhejiang**

	Jiangsu	Zhejiang
<b>Basic Statistics</b>		
--Size of area	100.3 (1,000 km <sup>2</sup> )	100.2 (1,000 km <sup>2</sup> )
--Length of coastline	1,000 km	2,200 km
--Population, 2001	73.6 million	46.1 million
--# of main seaports, 1987	5	3
--Loading capacity of the main seaports, 1987	163 million tons	30.2 million tons
--Turnover freight traffic per kilometer, 1978	28.4 billion tons	16.4 billion tons
--Primary school enrollment, 1978	97.0%	98.0%
--Doctors per 1,000 persons, 1978	0.97	0.87
--Hospital beds per 1,000 persons, 1978	1.89	1.00
<b>Economic Structure</b>		
--Industry as % of GDP		
1978	47.0	38.0
1995	47.9	46.3
--Urban as % of total employment		
1978	21.0	17.5
1995	27.2	20.1
--Foreign trade as % of GDP		
1981	5.8	4.0
1995	27.2	27.3
--Export as % of GDP		
1981	5.3	3.7
1995	8.1	20.0
--Domestic private firms as % of industrial output value of domestic firms <sup>a</sup>		
1980	0.53	0.57
1995	10.5	38.7
2001	44.7	69.3
<b>Economic Performance</b>		
--Nominal GDP (yuan)		
1978	24.9 billion	12.4 billion
2001	951 billion	674.8 billion
--Nominal GDP per capita (yuan)		
1978	430	331
2001	12,922	14,655
--Real GDP growth (annual average 1978-95)	12.9%	14.0%
--Nominal export growth (annual average 1978-95)	9.3%	27.9%

: The output value of domestic private firms is derived from the total output value minus the sum of that of SOEs, collective firms, and FIEs. The output value of FIEs is netted out from the denominator as well. This is a relatively broad measure of private output and it includes firms of mixed state and private ownership, such as alliances between SOEs, and private firms and listed companies. For the latter two categories of firms, control rights often reside with the government rather than with private entrepreneurs. Jiangsu has more of these types of firms.

Sources: Basic statistics are mainly from State Statistical Bureau (1989). Economic and social data are based on State Statistical Bureau (1996) and National Bureau of Statistics of China (2002).

**Table 2 Descriptive statistics of small FDI firms established between 1992-1995**

<b>Variable</b>	<b>Definition</b>	<b>Mean</b>	<b>Std Dev</b>	<b>Min</b>	<b>Max</b>	<b>Obs</b>
FEQSH	Foreign registered capital/ total registered capital	0.412	0.209	0	1	2188
PRIVATE	Dummy for private ownership of Chinese venture partner			0	1(342)	2227
EMP	Number of employees	120.2	127	1	1508	2227
SALES	Sales (RMB 1,000)	12549	25602	0	444271	2189
ASSET	Asset at year-end (RMB 1,000)	12851	21772	196	336084	2189
EXPORT	Exports (RMB 1,000R)	4721	15371	0	404732	2189
EXPSH	Exports/Sales ratio of joint ventures	0.31	0.42	0	1	2178
OPEN91	Trade/GDP ratio in 1991	0.176	0.075	0.02	0.291	2227
HTM	Dummy variable for investment from firms based in Hong Kong, Macao, or Taiwan			0	1(1085)	2227
CJV	Contractual joint venture			0	1(72)	2227
ZHEJIANG	Dummy variable for firms located in Zhejiang province			0	1(923)	2227
NSFAI94	Non-state share of fixed asset investment in 1994	0.232	0.085	0.06	0.37	2227
POPT94	Private share of output in 1994					2227
CREGCAP	Chinese registered capital/ employment/1,000	0.041	0.165	0	7.205	2227
ASTSAL	Ratio of assets over sales	9.433	198.6	0,03 4	8906	2178
JPN	Dummy variable for Japanese joint-venture partners			0	1(197)	644
USA	Dummy variable for American joint-venture partners			0	1(175)	644