1. Introduction

Throughout human history, private and public ownerships have been coexisting over time and across societies, giving rise to different forms of economic systems. Capitalism emerged on the basis of private ownership. But the Great Depression and the devastation of the two world wars called for massive government intervention, resulting in large-scale nationalization in post-war Britain. The pendulum began to swing back in the 1980s, when Margaret Thatcher's conservative government launched a series of privatization programmes (Megginson and Netter, 2003). This was followed by a worldwide wave of transfers of assets from the state to private hands. According to World Bank statistics, from 1989 to 2007 governments in the world received about US$733 billion through privatization (Table 1.1). This book is about the case of China in this process.

Initially, most of the privatization activities took place in developed OECD countries (OECD, 2001, p. 43). This was followed by post-communist transition economies in Eastern Europe and Central Asia, which emerged as a major group of participants in the worldwide privatization trend. During the 1990s, proceeds from privatizations in these countries accounted for about 20 per cent of world total. In comparison, China's share during this period was only about 7 per cent. However, China began to pick up in the early 2000s, and has since emerged as one of the largest privatizing countries. From 2000 to 2007, China alone accounted for over 38 per cent of the world's proceeds from privatizations (Table 1.1).

The above seems to suggest that privatization is an economic prescription based on intensive researches by experts and scholars, exported from developed countries first to post-communist transition economies in Eastern Europe and Central Asia, and subsequently to China as a result of proven powerfulness of privatization as an impetus of economic growth. This, however, is an illusion. The fact is that economic theorists have never reached any consensus about the desirability of privatization. Both private and public ownerships are found to have theoretical advantages and disadvantages, and there are many trade-offs between the two kinds of ownership. That is to say, even at pure theoretical level, privatization has not been proved as a panacea (Roland, 2008).

Table 1.1 Proceeds from privatization[a]

	Transition economies in E. Europe and C. Asia[b]			China			World Total	
	US$ billion	Annual change (%)	Share in world total (%)	US$ billion	Annual change (%)	Share in world total (%)	US$ billion	Annual change (%)
1989	0.47	N.A.	13	N.A.	N.A.	N.A.	3.63	N.A.
1990	0.83	76	7	N.A.	N.A.	N.A.	12.66	249
1991	1.97	139	8	0.01	N.A.	0	23.86	88
1992	2.85	44	11	1.26	11 479	5	26.18	10
1993	3.78	33	16	2.85	126	12	23.66	–10
1994	3.95	4	18	2.23	–22	10	21.71	–8
1995	9.41	138	43	0.65	–71	3	21.90	1
1996	5.45	–42	21	0.92	42	4	25.36	16
1997	16.79	208	25	9.12	893	14	66.57	162
1998	7.79	–54	16	0.61	–93	1	50.16	–25
1999	11.17	43	26	2.95	382	7	42.35	–16
2000	9.65	–14	25	10.28	249	26	39.04	–8
2001	7.07	–27	43	0.96	–91	6	16.31	–58
2002	9.59	36	62	1.60	67	10	15.56	–5
2003	7.02	–27	36	6.07	279	31	19.61	26
2004	13.71	95	41	4.12	–32	12	33.58	71
2005	15.63	14	29	14.09	242	27	53.06	58

2006	27.43	75	26	50.36	257	48	104.88	98
2007	36.60	33	28	71.54	42	54	132.64	26
1990–1999	63.99	N.A.	20	20.60	N.A.	7	314.41	N.A.
2000–2007	126.70	N.A.	31	159.02	N.A.	38	414.68	N.A.
1989–2007	191.14	N.A.	26	179.60	N.A.	25	732.69	N.A.

Notes:
[a] Proceeds from privatization are defined as 'all monetary receipts to the government resulting from transactions involving partial and full divestitures, concessions, and releases. Thus, only those transactions that generated revenue for the government from privatization or private sector participation in an existing state-owned enterprise and other government assets are included.'
[b] Data for 1988–99 cover the following countries: Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russian Federation, Serbia, Slovakia, Slovenia, Ukraine, and Uzbekistan. Data for 2000–2007 cover all the above countries, plus Bosnia, Georgia, Herzegovina, and Tajikistan. Moreover, pre-2000 data were collected on an 'announcement' basis, whereas data from 2000 on reflect actual flows of receipts. The two sets of data are thus not entirely compatible.

Source: World Bank Privatization Database (http://rru.worldbank.org/privatization).

Major arguments in favour of privatization include relief of the state's financial and administrative burdens; enhancement of economic efficiency and productivity; stimulation of private entrepreneurship; and reduction of the public sector, which tends to be monopolistic and bureaucratic. These arguments, however, have been challenged on the grounds that efficiency of the public sector can be improved through greater public accountability and transparency; only profitable activities are privatizable; loss of stable income of the state from profitable public sector activities; adverse impacts on public sector employees, lower-income consumers, and social welfare recipients; and finally high costs of monitoring privatized enterprises. Apart from such lack of theoretical consensus, empirical results of privatizations in both developed and developing countries are also mixed. As ideological faith in privatization declines, even advocates of privatization have to admit that for the strategy to work, sequencing and preconditions of reform are also important (Jomo, 2008; Parker and Saal, 2003).

As mentioned, since the early 2000s China has emerged as one of the largest privatizing countries in the world. However, there is no indication that China was theoretically informed to join the above worldwide privatization trend. China did engage in ideological discussion about privatization; but the debate was more about the socialist-legitimacy of privatization, rather than the liberal-economic rationale of the reform. What this book intends to argue is that China's privatization is not based on any grand blueprint; rather, it is privatization by 'groping for stones to cross the river', a well-known metaphor often attributed to Deng Xiaoping, meaning that the reform simply proceeds on a trial-and-error basis, without being guided by any theory. That is to say, though China's privatization is consistent with the above-mentioned worldwide trend, that general theoretical context does not seem to be directly relevant to the Chinese case.

As indicated in Table 1.2, immediately after the Chinese economic reform was launched in 1978, the Chinese economy began to show robust growth. However, according to World Bank statistics, Chinese privatization did not start until 1991 (Table 1.1). Some analysts thus took the Chinese case as showing that economic success could be achieved through restructuring of state enterprises, and that privatization is not necessary (Megginson and Netter, 2001, p. 338). This might be true as far as privatization in the narrow sense – divestiture of existing state enterprises – is concerned. However, if proper attention is paid also to privatization in the broad sense – which includes also development of greenfield private enterprises that is not covered in the World Bank data – the Chinese case shows that 'privatization is absolutely necessary to achieve sustained intensive growth' (Chai, 2003, p. 256).

The above notwithstanding, this book will focus on China's privatization

Table 1.2 China's real GDP growth (%)

1979	7.6	1994	13.1
1980	7.8	1995	10.9
1981	5.3	1996	10.0
1982	9.0	1997	9.3
1983	10.9	1998	7.8
1984	15.2	1999	7.6
1985	13.5	2000	8.4
1986	8.9	2001	8.3
1987	11.6	2002	9.1
1988	11.3	2003	10.0
1989	4.1	2004	10.1
1990	3.8	2005	10.4
1991	9.2	2006	11.7
1992	14.2	2007	13.0
1993	13.9	2008	9.0

Source: China Data Online (http://chinadataonline.org).

in the narrow sense. More specifically, it is about the shareholding system reform, which provides a channel for the transfer of state assets to private hands. We do not intend to examine the effect of this change; rather, our concern is how this reform has evolved, without any pre-existing plan, from a spontaneous local attempt into a nationwide reform programme. That is to say, it is about the emergence of a privatization programme through 'groping for stones to cross the river'.

This book is based on a collection of updated versions of previously published articles. Chapter 2 identifies the shareholding system reform as the Chinese way of privatization, in a political and ideological context in which the term privatization had to be avoided. Chapter 3 traces the evolution of the shareholding system reform, from the early spontaneous attempt in the early 1980s, to the official endorsement of it as the mainstream reform programme in 1997. Chapter 4 examines the role of spontaneity and state initiative in the shareholding system reform, based on three case studies in Foshan, where China's first industrial shareholding enterprise appeared. Chapter 5 analyses foreign participation in the shareholding system reform, and the role of the state in this process. Chapter 6 discusses how China's shareholding system reform has been facilitated by Hong Kong as an important venue for the listing of Chinese state enterprises. Chapter 7 traces further the evolution of the shareholding system reform from 1997 to the completion of the reform through the 'share conversion' programme in 2005–2006. Finally, Chapter 8 concludes by arguing that the shareholding system reform is consistently gradualist, and the entire process can be characterized as 'privatizing by groping for stepping stones to cross the river'.