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Review of "Forging Reform in China: The Fate of State-Owned Industry" by Edward S. Steinfeld

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Teaching About Asian Economies



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FEATURES

- TEACHING ASIAN POLITICAL ECONOMY
The Evolution of an Ethnographic Survey Course
by Gene Cooper 6
- TEACHING ABOUT SOUTHEAST ASIAN ECONOMICS
by R. L. Curry, Jr. 9
- TEN YEARS AFTER
Essential Features of APEC's Evolution and Future Prospects
by David McClain 16
- EAA INTERVIEW WITH EDWARD J. LINCOLN 22
- GLOBALIZING INTELLECTUAL PROPERTY RIGHTS
Asian Resistance and U.S. Pressure
by Denise Eby Konan and Sumner La Croix 26
- LESSONS FROM DEVELOPMENT OF THE INDONESIAN ECONOMY
by William E. James 31

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COLUMNS

- 2 Editor's Message
- 3 Guest Editor's Message
- 5 Letters to the Editor
- 37 Factoids about Asia
- 56 Web Gleanings by Judith S. Ames

RESOURCES

ESSAYS

- 38 Comparing China to the United States
by Peter Frost
- 40 Money, Anyone?
Fulbright Program Funds for Group Projects
by Philip C. Brown
- 44 Literature on Japan for Elementary and Middle School Students
by Kazuko Minamoto and Elaine Vukov
- 49 Economic Analysis of Asia in Middle Schools
by Inder P. Nijhawan and Beth S. Eckstein

BOOK REVIEWS

- 59 The Japanese Way of Tea: From Its Origins in China to Sen Rikyū
reviewed by David D. Buck
- 60 Hojoki, Visions of a Torn World
reviewed by Mike Sugimoto
- 61 Beyond Spring: Tz'u Poems of the Sung Dynasty
reviewed by Beata Grant
- 62 Forging Reform in China: The Fate of State-Owned Industry
reviewed by Penelope B. Prime
- 64 Modern China: An Encyclopedia of History, Culture, and Nationalism
reviewed by Chen-main Wang
- 65 Seasons of High Adventure: Edgar Snow in China
reviewed by Barbara Mori
- 67 Stories from South Asia
reviewed by Keith Snodgrass
- 68 The South Asian Americans
reviewed by Anne Hardgrove

- 69 Dance of Life: Popular Music and Politics in Southeast Asia
reviewed by Paul A. Rodell
- 72 Thailand's Boom and Bust
reviewed by Sunil Kukreja
- 73 Books Received List

FILM REVIEWS

- 74 Sunrise Over Tiananmen Square
reviewed by Diana Marston Wood
- 76 Round Eyes in the Middle Kingdom
reviewed by Jonathan Goldstein
- 77 Trav's Travels China
reviewed by Marleen Kassel
- 78 Tapoori: Children of Bombay and Daughters of the Veil: Impact of Education on Women in Pakistan
reviewed by Keith Snodgrass

BOOK REVIEWS

including short biographies of the authors, a glossary of terms, people and places, and a well-chosen bibliography of reference works.

Although there are a few very small points in this background material that I might quibble with, such as that there are practically no women writers represented until the Ch'ing dynasty (there were, in fact, a significant number of women writing and publishing in the Ming period), this material is, much like the translations of the poems themselves, spare and essential but surprisingly informative, useful and often insightful. Reading it will greatly add to the reader's understanding and enjoyment of the poems, but in a very unobtrusive way. What this means is that the poems themselves retain center stage. The fact that the voices of these Sung dynasty poets speak out with such surprisingly poignant clarity and feeling is testimony to the translator's skill. It is up to us to listen with renewed appreciation. ■

BEATA GRANT is Associate Professor of Chinese and Chair of the Department of Asian and Near Eastern Languages and Literatures at Washington University in St. Louis. She is the author of *Mount Lu Revisited: Buddhism in the Life and Writings of Su Shih (1036–1101)* published in 1994, and numerous articles on the topic of women's poetry. She is currently working on a study of the poetry and other writings of Buddhist nuns of the Ming and Qing dynasties.

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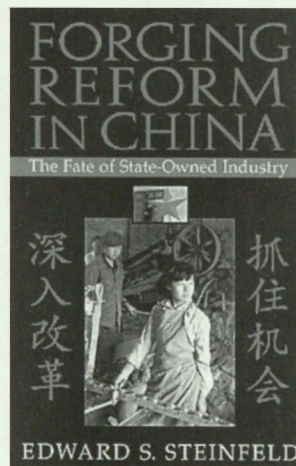
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Forging Reform in China

The Fate of State-Owned Industry

By Edward S. Steinfeld

NEW YORK: CAMBRIDGE UNIVERSITY PRESS, 1998
318 PAGES



Forging Reform in China by Edward Steinfeld is an ambitious attempt to explain the failure of state sector reform in China. The study is well thought out, deals with a broad range of literature, and utilizes case studies. Because the theory assumes familiarity with economic analysis and some knowledge of the Chinese situation, this book is most appropriate for upper division and graduate courses on transition economies or the Chinese economy.

Steinfeld argues at length that explanations of problems in transition economies that use a property rights approach are inadequate in the Chinese case. These approaches cannot explain why some firms do well and others do not. In addition, he argues that the issue is not who owns what, but rather the external environment that sets the opportunities and constraints on managerial and government behavior. His alternative approach, which he calls a "nested problems dynamic," focuses on whether or not decision makers face hard budget constraints with real consequences for poor decisions. The author uses three cases of steel companies, Anshan, Ma'an Shan and Shougang, to further illustrate and support his argument.

On the surface, each of these three large state-owned steel companies has been dealt a different hand in the reform process. Anshan is an example of a firm that was given some managerial autonomy and told to pay attention to market demand. Ma'an Shan went public in Hong Kong, altering its ownership arrangements substantially. Shougang was taken off the dole completely and given unprecedented freedom to manage its own strategy. While some successes can be found, the outcome of all three cases was spectacular failure to transform themselves into profit-generating, value-creating enterprises. The underlying problem, Steinfeld argues, is that for a myriad of reasons, despite the reform measures the firms do not have to make a profit to survive. The managers continue to focus on output maximization,

with access to enough cash to pay their tax obligations. Other obligations can be safely ignored.

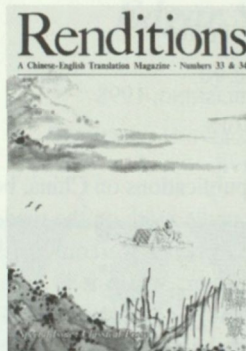
While the argument is intriguing and the case research is meticulous, several issues are worth contemplating before throwing out property rights and other frameworks altogether. After reading *Forging Reform in China*, one wonders how China has made any progress at all. The state sector is in disarray, as Steinfeld carefully and lucidly lays out, and other sectors that seem to be doing better are taxed to support the rest. The result should be inflation or declines in output. In fact, one would think that China should already look like Russia. But unless the facts coming out of China are totally wrong, and unless people really are not better fed as one would guess from casual observation, then something must be going right. This is not to say that serious reforms of China's state firms are avoidable—they clearly are not. But whether or not collapse is eminent, it appears that China's gradual, trial-by-error approach has brought substantial progress to date.

The question for China, and for Steinfeld's analysis, is where to go from here? As the author points out early in the book, while the closing of poorly performing firms is necessary, massive exit from the market is obviously not desirable. The extension of the author's analysis would be to create the external environment that imposes hard budget constraints on all economic sectors. One concrete suggestion he offers is to begin with the banking sector, making it truly commercial and responsible for lending decisions. This, of course, was the original goal of reforms that shifted budgetary grants to lending via the banking system. It has not worked to date, and it is not clear what would be needed to make it work in the future.

Although Steinfeld argues persuasively that privatization cannot work without broader, systemic changes, the alternative is that government itself reforms the external system, in effect taking its bureaucrats out of the picture. The author himself states that all involved now benefit from the current arrangement, making it unlikely that such change would ever occur. The one hope is that even government officials involved in commercial activity might benefit from a better organized, rationalized market, and hence there will be incentives to move in that direction. This study itself, however, does not leave the reader with such optimism. ■

PENELOPE B. PRIME earned her Ph.D. at the University of Michigan and is Professor of Economics at Kennesaw State University in the University of Georgia System. Her teaching and research focus on Asia and the Chinese economy. Dr. Prime has also worked with the World Bank and International Research Programs at the U.S. Bureau of Census.

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