

By Geng Xiao

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Property Rights Transaction and Alleged Asset Stripping **A case study on the establishment of a foreign joint-venture in China**

1. Introduction

This case study shows the complicated process of business negotiations and government interventions which leads to the establishment of a manufacturing joint-venture between a Chinese state-owned enterprise, NCF, and an American multi-national corporation, PPG in January 1993. The case illustrates how the unclearness of property rights over the assets of the state-owned enterprises have led to conflicting objectives and fragmented control by different government agencies over the property rights transaction. The establishment of a joint-venture seems to have clarified the property rights over the assets in the joint-venture company, part of which are owned by the state. However, this may have been achieved at the costs of selling cheaply valuable state assets while retaining liabilities and low value and less sellable state assets in the existing state-owned enterprise. The case raises an important policy issue on whether joint-ventures with foreign corporations could be used as a vehicle to improve the productivity and value of the state assets.

2. NCF's searching for foreign technology and foreign investor

NCF is an SOE affiliated with the Bureau of Chemical Industry of Nanchang. It has an history of 40 years in producing chemical products and has 1600 employees on its payroll including retirees. In 1984, based on rising demand, NCF initiated a plan to bring in foreign technology for manufacturing a chemical liquid used for producing high quality rubber products. NCF first contacted companies in West Germany and Japan through the China Technology Import Export Company for possibilities in forming joint-venture with foreign companies. The Japanese and German companies contacted by NCF have rejected joint-venture proposal and offered only sales of technology. Hence, NCF carried out a feasibility study for importing the technology and sent it out together with a formal proposal to relevant municipal and provincial departments in early 1985. The proposal, including the request for funding of the project through state bank loans, was approved in April 1985.

However, at roughly the same time when the technology import proposal was formally approved, NCF received an invitation from PPG, an American MNC, to discuss a possibility of joint-venture in manufacturing the chemical product in China. PPG explicitly rejected sales of technology to NCF and would only like to form a joint-venture, probably with the intention to expand its product market in China. NCF, with its preference for joint-venture, then asked the

relevant provincial departments for changing the form of the project from technology import to joint-venture. Its request was rejected on the ground that the proposal and funding for the project had already been approved. But anyway, managers from NCF and officials from the government departments supervising NCF accepted PPG's invitation to negotiate a joint-venture.

3. Conditional sale of PPG's Technology to NCF

The negotiation ended up with an agreement of conditional sale of the use rights of PPG's technology to NCF. In addition to paying an one-time technology transfer fees to PPG, NCF agreed to establish a small joint-venture with PPG in the area of technical services and exclusive sales of the new product. This small joint-venture, named as NG Chemical Technology Development Company (NGC), was established in 1988 and to last for 17 years. NCF and PPG each holds 50% equity of NGC. Also, according to the agreement, NGC would charge NCF 12.5% of the revenue from sales of the new product as fees for NGC's exclusive sales service.

NCF started the technology transfer and the construction of the new production line in 1986. Trial production of the new product started in August 1989 and quickly achieved the designed capacity and quality. The project passed an inspection by the Ministry of Chemical Industry in April 1991 and started regular production in May 1991. During the construction period, NCF invested RMB89.3m in the fixed capital for the project, among which, RMB66m are loans and RMB23.3m are interest payment. Part of the fixed capital consists of technology transfer fees (USD1.75m) and imported equipment (USD2.68m). In addition to fixed capital, NCF also borrowed RMB23.69m as working capital for the new product.

During the trial production period of 1989-90, PPG helped NCF's sales by withdrawing 50% of its China market supplied by its subsidiaries in Taiwan and Thailand and replacing them with NCF's new product. By 1990, the NCF's sales started to rise rapidly to allow regular production in full capacity. By 1991, the technology transfer project was completed to the satisfactory of both Chinese and American parties.

4. New contract on manufacturing joint-venture between PPG and NCF

PPG and NCF reopened several runs of negotiations on establishing comprehensive manufacturing joint-venture during 1991-92 and signed a new joint-venture contract in January 1993. According to the new contract, a new joint-venture company, PPG-Nanchang Chemical Company, Ltd. (PPG-NCC) would replace the old joint-venture NGC. The total registered equity capital of PPG-NCC was set at USD5m (=RMB28m), with USD3m (=RMB16.8m) cash from PPG and USD2m (=RMB11.2m) equivalent fixed capital from NCF. Hence, PPG is in majority control with its 60% shares of the joint-venture company.

According to the joint-venture agreement, the total investment in the production facility by the joint-venture company was set at RMB67m (=USD11.7m), among which RMB44m would be invested in purchasing the three existing core production workshops from NCF. Of course, the RMB28m of registered capital was not enough to cover the total investment of RMB67m. It was agreed that the new joint-venture should apply for RMB39m loans from the state banks in China to cover the investment. In particular, it was agreed that a fixed capital loans of RMB32.8m would be requested from the People's Construction Bank of China specifically for purchasing the 74.6% of the three core production workshops from NCF. The other 25.4% of the core workshops would be simply counted as NCF's USD2m contribution to the registered equity capital of the joint-venture.

In March 7, 1993, the new joint-venture obtained its enterprise legal person business licence from the State Industrial and Commercial Bureau. The new company, PPG-NCC, was officially established the next day on March 8. Two days later on March 10, NCF transferred the ownership of the technology and production facilities to PPG-NCC as specified in the joint-venture contract. From then on, PPG, as the major shareholder, controlled the production, sales, and technology development in the joint venture company PPG-NCC. In the end of 1993, the after-tax profits of PPG-NCC were distributed to PPG and NCF according to their equity shares (60% to PPG and 40% to NCF).

An outsider, looking at the facts present so far for this case, may well conclude that this is a successful restructuring of the state-owned enterprise under the help of foreign investors. The asset value of PPG-NCC may well increase as PPG brings its modern capitalistic style of enterprise management into PPG-NCC. As a result, the value of state assets invested in PPG-NCC by the Chinese shareholder NCF may also rise, somehow free-riding on the efforts by the foreign shareholder PPG. This positive perception on the joint-venture, however logically and realistically convincing, is not shared widely by the insiders in China.

5. Asset stripping: Is the sale price of state assets too low?

In China, especially among some academics and government officials, the joint-venture between PPG and NCF is taken as a typical case of asset-stripping involving foreign investors. The key concern of these critics is that the state assets are sold at too low a price in the joint-venture deal. Three major evidences of asset stripping are pointed out for this particular deal:

(1) Sale prices for state assets are much lower than their replacement costs.

Table 1. Sales prices of assets compared to their net replacement costs

Asset items	Net replacement costs RMB 10000	Sales prices RMB 10000	Asset stripping RMB 10000
1. Buildings	721.28	702.31	18.97
2. Equipment	3508.19	2843.92	664.27
3. Technology transfer fee	936.20	524.47	411.73
4. Non-durable	1.88	1.88	0.00
5. Reserve items	10.44	10.44	0.00
6. Interest during construction	415.00	257.90	157.10
7. Training fees	11.74	11.74	0.00
8 Land use right	556.85	0.00	556.85
Total	6161.58	4352.66 (4400.00)	1808.92

The net replacement costs of the total assets to be transferred from NCF to PPG-NCC are estimated by the asset evaluation agency approved by the government to be RMB61.6m while the actual sales price for the transferred assets is RMB44m. The difference between the actual sale price and the estimated replacement costs amounts to RMB17.6m or 28.6% of the total transferred assets. The RMB17.6m is counted as the amount of asset stripping by price cutting by the critics of the joint-venture.

The above calculation is misleading however. If there is any asset stripping due to a low sale price as shown above, it would amount at most to 60% of RMB17.6m or RMB10.6m because NCF still holds 40% of the shares in PPG-NCC. If the sale price is indeed lower than it should be, as shown in the above calculation using replacement costs as the benchmark market price, then the market value of PPG-NCC would rise above its book value right after the joint-venture deal. If NCF sells its 40% shares in PPG-NCC in the market, it would be able to get the original sale price of RMB44m plus a capital gain of 7m due to the initially under-pricing in the joint-venture deal.

RMB10.6m of lost value to NCF, as calculated above, amounts to 17.2% of the total assets in the property transaction. Is it a real asset stripping or free give-away of state assets? It all depends on whether NCF could sell its assets to alternative buyers at a price higher than it achieved with PPG. In another word, the price based on replacement costs is only a theoretical price, not a real economic price which is defined by the opportunity costs of the resources. If an original investment in production facilities turns out to be a mistake and no one would buy them, the value of the investment would be zero no matter how high the replacement costs of the facilities would be.

The above basic economic principle sounds too abstract to be tested in this joint-venture case. It turns out that there are some evidences which support the hypothesis that NCF probably has

got the highest price it could in its property transaction. First of all, NCF has tried initially to contact foreign companies in Germany, Japan as well as in USA for joint-venture possibilities.

More importantly, the negotiations between NCF and PPG during 1991-92 were once stalled due to large gaps in the proposed sale prices by the two party. During that time, PPG approached another state-owned enterprise in Qindao, Shandong province and the two parties did express their intentions to go ahead with the joint-venture project. After learning about this new development, NCF, after consulting with various government departments, requested PPG to stop its negotiations with Qindao enterprise and reopen their negotiations in Nanchang.

At the same time when NCF was negotiating with PPG, the Provincial Economic and Trade Commission explored the alternative of expanding NCF' s production facilities by 50% without resorting to joint-venture with foreign investors. It estimated that the expansion needs about RMB 10m to 12m additional investment. Also, PETC has secured from the State Council USD1.6m loans for NCF to develop new products related to its current core products. The proposal to expand NCF' s production facilities was included in the waiting list of the National Eighth Five- Year Plan. In the end, NCF selected the joint-venture alternative, to the disappointment of PETC which objected to it. The issue of conflicting objectives and fragment control relating to NCF' s property transaction among various government departments will be examined later.

(2) Good assets taken by the new joint-venture while bad assets left with old SOE.

The other major evidences of asset stripping involves the scope of the joint-venture. The new joint-venture company PPG-NCC only took three core workshops from NCF out of its total about ten production and non-production facilities. Also, PPG-NCC only absorbed 242 out of the total about 1600 employees from NCF. Apparently the three core workshops and the 242 workers are the best assets of NCF. It was agreed in the joint-venture contract that NCF after spinning off its best assets and workers to the joint-venture would continue to provide supporting services for PPG-NCC on a contractual base, including the supply of industrial water, steam, power, gas, and communication. While PPG-NCC would pay market prices for the services provided by NCF the joint-venture contract also stated that NCF should try its best to make sure the prices of its services being set not higher than those paid by the local state-owned enterprises. On the other hand, PPG-NCC did not promise any obligations in maintaining the value of NCF' s left-over assets, most of which are specific investment for supporting PPG-NCC.

(3) Large financial liabilities left with the old SOE.

In addition to the less valuable assets, NCF is left with the liabilities to pay back the loans and interest for the construction of the whole production facilities, which amounted to RMB89.3m. The sale of its three core workshops to PPG-NCC brought to it RMB11.2 of equity in PPG-NCC and RMB32.8m in cash, which can be used to pay back part of the loans and interest.

Hence, the net financial liabilities incurred for the left-over production facilities would be RMB43.3m.

However, it turns out that NCF did not receive the RMB32.8m cash from PPG-NCC until Fall, 1994. PPG-NCC argues that it could not pay the agreed cash because it had not yet secured the necessary loans from the People's Construction Bank of China. It is true that the joint-venture contract specifies that PPG-NCC should use loans from PCBC to pay the bill for transferring to itself NCF's three core workshops. However, the critics of the joint-venture deal pointed out that in any case, PPG-NCC should have paid the bill by applying loans elsewhere when the assumed loads from PCBC failed to come through.

In summary, the evidences here do not seem to support the claim that there are large scale asset stripping during the process of establishing joint-venture between Chinese NCF and American PPG when the basic economic principle of opportunity costs is applied to the assessment of asset value. However, the evidences in this case do support the conclusion that the joint-venture did not deal with the problem of less valuable assets and heavy accumulated liabilities left over with the old state-owned enterprises. The problem is quite general among Sino-foreign joint-ventures and need separate discussion.

6. Unclear property rights over state assets: conflicting claims and fragment control

There is no question that NCF is a state-owned enterprise. In particular, its assets are owned by the state. However, it is not entirely clear which particular individuals and government departments could represent the state to exercise property rights over the state assets in NCF. The decisions to form a joint-venture or make a property rights transaction were made by an ad hoc group of representatives from various government departments and the enterprise management.

At the core of the group was NCF's managers who initiated the joint-venture project and participated in all of the negotiation and implementation of it. In fact, the former legal person representative of NCF later became the President of the joint-venture PPG-NCC.

The most enthusiastic government supporters for the joint-venture has been the Nanchang Municipal Government, including its General Office, Planning Commission, Economic and Trade Commission, Bureau of State Asset Management, and Bureau of Chemical Industry. Senior leaders in the municipal government made the decision that it would be fine to lower the sale price to the book value from the consideration of overall objective in attracting foreign investment to Nanchang. An ad hoc investigation team consisting of officials from the above municipal government departments wrote a report on the joint-venture project which gave full support to it. The municipal Planning Commission formally approved the joint-venture proposal in November 16, 1992.

It should be noted that the Municipal Bureau of State Asset Management does not have any real decision power in influencing this property rights transaction involving foreign joint-venture. It does not appoint managers in the enterprises, does not approve proposal, and does not issue licenses. Although the MBSAM does audit the results of asset evaluation by the accounting firms, it could not change the result.

Although NCF is affiliated with the Municipal Government, Provincial Government departments also had control over NCF and its joint-venture deal. The financial accounts of PPG-NCC were audited by the Provincial Auditing Bureau during April 1994. Also, the establishment of the joint-venture PPG-NCC was approved by the Provincial Foreign Economic and Trade Commission on March 4, 1993, which has always been a strong supporter for the joint-venture project. On November 25, 1993, PFETC awarded PPG-NCC the title of outstanding foreign invested enterprise.

As discussed in a previous section, the Provincial Economic and Trade Commission did object to the joint-venture between NCF and PPG. So did the Provincial Bureau of Chemical Industry. Both had supported the technology transfer project which built the whole new production facilities in NCF during 1986-91. From their perspective, the investment in the production facilities had pasted the most risky periods of construction, trial production, and market development and started to yield steady profits after 1992. Why should the control rights and the associated claims on 60% of the profits from this successful project be given to the foreign corporation at the costs of merely USD300m while the state-owned NCF left with a large liabilities? PETC and PBCI had tried to block the joint-venture to no avail since they have no supervising authorities on the joint-venture companies.

However, PETC and PBCI did bring their objection to the joint-venture to the attention of senior provincial leaders. Although, by that time, the joint-venture contract was already signed and any unilateral change on the Chinese side on the terms of the contract was likely to bring further financial losses to the Chinese. This is due to PPG's insistence that any disputes concerning the joint-venture should be settled in Swedish court according to the international business law.

It should be noted that the above municipal and provincial government departments, regardless whether they supported or objected to the joint-venture project, do not have any substantial claims on the profits and losses and the asset value of either the joint-venture or NCF. Interestingly, the Municipal Finance Department and Tax Bureau, which have claims on the profits and taxes of the enterprises, and the People's Construction Bank of China, which have contingent claims on the assets of the enterprises, both have little control on the property transaction in the joint-venture deal. Also, the preferential tax rates applied to foreign joint-ventures obviously provided strong incentives for selecting the joint-venture form of doing business. Surprisingly, no one in the decision-making group has used the tax advantages as a reason for or against the joint-venture.

It seems clear that in making decisions on this joint-venture deal, the municipal government had the objective of attracting foreign investment into its region; the managers probably had the objective of pursuing a better career in a dynamic joint-venture company than in a state-owned enterprise; the PFETC apparently would encourage more foreign invested companies while PETC and PBCI may prefer large state-owned enterprises and domestic investment. Unlike the foreign corporation representatives who have strong profit incentives, these Chinese decision-makers seem to have paid little attention to the immediate profitability of the joint-venture project and were concerned heavily with their personal or organisational objectives.

In summary, the conflicting objectives and fragment control over the state assets by various government departments may be responsible for the generally low actual sale prices of state assets in the joint-venture deals, which are usually taken as evidence of asset stripping. Four points should be noted on this issue:

First, the low actual sales prices may be the highest market prices for the state assets given the current conditions of unclear property rights for the state assets. Raising the sale prices may drive away foreign investors.

Second, given the low initial sale prices for the state assets, the joint-venture may still be the best alternative for maintaining and increasing the value of state assets. The strong profit incentives of the foreign investors may bring rapid growth of the joint-venture so that to increase the future value of the state assets invested in the joint-ventures. Many positive effects to the national and local economies brought about by the foreign investment, especially in the areas of business laws and practices, technology, and on-the-job learning, should not be ignored (and was not ignored by the Nanchang Municipal government).

Third, reforms to unify the government objectives and control over the state-owned assets may not lead to better overall performance in maintaining and increasing the value of state assets. An extreme case is going back to the old central planning system. The present system of conflicting objectives and fragment control over the state assets does seem to play the function of checks-and-balances in reducing outright asset stripping by those insiders holding strong property rights over the state assets, although it has weak profit incentives relative to a private property system.

Fourth, the liabilities left with the state-owned enterprises after the joint-venture are partly sunk costs due to past policy or management mistakes. They should be dealt with carefully but should not become the reason to block healthy development of new joint-ventures with foreign investors in majority control. While the government should aim at getting rid of commercial liabilities in the form of loss-making enterprises and banks, it is also important for it to realise that today's profitable enterprises may turn out to be tomorrow's loss-making enterprises. If the government would like to sell its assets, it's better to sell the presently high priced ones. Would any rational individual intentionally sell low and buy high in the stock market?

7. PPG's strong profit incentives and bargaining power

PPG's strong profit incentives and bargaining power have pushed the sales prices for NCF's production facilities to a very low level. The strong profit incentives are characteristic of competitive Western corporations. PPG's bargaining power comes from its superior technology, financial strength, management skills and business reputation. What PPG have in these aspects is exactly what the state-owned enterprises like NCF lack. The joint-venture seems an excellent opportunities not only for NCF to learn from PPG but also to strengthen the profit incentives, technology, and management applied to the state-owned assets invested in the joint-venture. It should be noted that when PPG tried to push down the property transaction prices, it does so in the interest of both PPG and NCF. Whatever profits and advantages PPG gets, 40% of which would be shared by NCF. Also, if PPG were not to behave like a profit-maximizer, would the Chinese government still like to invest a 40% stake in the joint-venture controlled by PPG?

The above analysis is not intended to justify the low property transaction prices. It only points out that what PPG did in the joint-venture negotiations are the standard practices the Chinese government and state-owned enterprises should expect from a foreign investor and probably should learn from them. It is useful to review the strategies and arguments by PPG which led to several runs of price cuts in the property transaction.

First of all, PPG managed to get the Chinese part to agree in using the book value or replacement costs as the benchmark for measuring the asset value. One advantages in using book value is simply its objectiveness. There is only one book value for any piece of assets. This would reduce greatly the possibility of outright cheating. Of course, for the book value of assets to be a useful benchmark, good accounting is necessary.

Second, PPG, as the designer of the facilities, is in a much better position in estimating the present value of net future cash flows which could be generated from the facilities when they are under its own management and control. This would be the reservation price for PPG, or the highest price PPG would pay in the joint-venture property transaction. However, what really matters in the price negotiation is the reservation price for NCF (the lowest price it would sell the property) since PPG has a strong bargaining power and could easily work away to find another Chinese enterprises for joint-venture. The reservation price of NCF should be the present value of net future cash flows which could be generated from the facilities when they are under NCF's management and control. It is the difficulties and uncertainty in estimating this reservation price that lead to a weak bargaining power on the Chinese side. The root of the weak bargaining power seems to lie in the uncertainty of the productivity and efficiency of the state-owned enterprise.

Third, in pushing the property transaction towards the reservation price of NCF, PPG has used all available and legitimate institutional conditions: formal laws and regulations and informal

practices. Here, it is useful to take a look again at table 1 to see how PPG have justified the price cuts from the book value of the assets.

(1) In table 1, the net replacement costs for the fixed capital is obtained by subtracting depreciation from the gross replacement costs. The depreciation for fixed assets are calculated for the period from May 1, 1991 when the facilities passed an inspection by the Ministry of Chemical Industry to May 31, 1992 when the asset evaluation took place. PPG insisted that the depreciation should be counted for the period from August 1989 when the production line started trial production to December 1992 when PPG and NCF agreed to sign a joint-venture contract. This resulted a price cut of RMB189,700 for buildings and of RMB6,642,700 for equipment.

(2) In table 1, the technology transfer fee was paid in US dollars in 1986. The replacement costs of the fees are calculated by using the official exchange rate in 1992. During the period 1986-92, RMB depreciated significantly. If the replacement costs of the fees are calculated in 1986 exchange rate, they would be much smaller. PPG instituted using the 1986 official exchange rate in calculating this technology transfer fees and also subtracting an amount for the use of the technology during past years. This leads to a price cut of RMB4,117,300.

(3) In table 1, the interest payments for construction loans are accumulated over three years of the construction period. PPG insisted that similar constructions take only one year in Taiwan and Thailand and it would only pay interest incurred in one year. This leads to a cut of RMB1,571,000.

(4) PPG rejected the Chinese proposal to pay the one time fees for land use rights of RMB5,568,500 and insisted to pay an annual fee at the fixed rate of RMB3 per square meters, which, PPG claims, is a price recommended by the “State Council Regulation on Encouraging Foreign Investment” issued on October 10, 1986. The article 4 of the regulation states:

“The land use fees for enterprises with export products and enterprises with advanced technology should be charged according to the following standards except in the downtown business districts of big cities:

1. For those regions which combine development fees and use rights fees, the annual fees should be RMB5 to RMB20;
2. For those regions which charge one time fees and those places the enterprises develop the land by themselves, the annual use rights fee should be RMB3 per square meters at the most.”

It is debatable whether the above regulations could be applied to PPG’ s case and whether this State Council regulations in 1986 are outdated by early 1992. By then, rising inflation and rapid increase in foreign investment in China, which perhaps have been partly induced by this generous preferential land use policies, have apparently increased the market value of industrial land. The administrative land pricing policy, having played an important role in opening up China

to foreign investment, should probably give way to market-oriented land pricing policies like auction.

On the other hand, PPG's effort in taking advantage of the State Council preferential policies for foreign investment should not be discouraged as long as it followed existing laws and regulations. The credibility of the government in enforcing its laws and regulations, even temporarily outdated rules, is probably more important in attracting foreign investment than the monetary value of the preferential policies.

8. Conclusion

In this case study, a property rights transaction between a state-owned enterprise and a foreign corporation in the process of establishing their joint-venture company is examined closely. Before the property rights transaction and the joint-venture, the state assets invested in the new production facilities were managed by a typical state-owned enterprise, NCF. Although the state ownership of NCF's assets is clearly understood, actual property rights over the assets, the rights to use the production facilities, the rights to derive revenue from them, and the rights to exchange them for other assets, are distributed fragmentarily among the NCF managers and various provincial and municipal government departments. It seems clear that these managers and officials holding fragment property rights over NCF's assets have conflicting objectives and do not seem to have direct and strong profit incentives when making property transaction decision.

However, after the joint-venture was established and the related property rights transaction was completed, at least part of the state assets originally invested in NCF's production facilities were transferred to the joint-venture company and have since been subject to the management and control by the joint-venture's major shareholder PPG. The property rights over the physical assets in the joint-venture company are no longer subject to the same fragment control and conflicting objective as those in NCF. The integration of property rights over the joint-venture company's physical assets, part of which are owned by the state in the form of shares, may be the most important contribution of the joint-venture to the development of effective state asset management.

Of course, the management and control over the state-owned financial assets invested in the joint-venture company may still subject to fragmentation and conflicting objectives. When NCF receives dividends from the joint-venture, how are they going to be used? And who would make the decisions on using the dividends? These are also important questions. But the joint-venture case here at least shows that the institutions of modern corporation could be used to integrate the property rights over the physical assets of a corporation, part of which are owned by the state in the form of equity shares, when the foreign investors are brought in as major equity shareholders. This approach to property rights integration and state asset management

seems to have avoided the problems of too weak owners and too strong insider control associated with mass privatisation programs in Eastern Europe and Russia. The key in the success of the joint-venture approach in China lies in the strong profit incentives of the foreign investor and their strong bargaining power, which lead to majority control and effective profit maximisation by the foreign investors and create opportunities for the state assets to free-ride the increase of asset value in the joint-venture.

There are however significant costs for the joint-venture approach. One major cost is the perceived asset stripping during the initial property rights transaction which establishes the joint-venture. However, on closely examination, the alleged asset stripping in the joint-venture seems systematically exaggerated. First, any free transfer of asset value from SOEs to joint-ventures would be shared between the foreign investors and the Chinese SOEs. Second, when the simple economic principle of opportunity costs is consistently applied, many alleged lower than rational prices in property transactions involving state assets could be expected and explained purely on economic rationality. The above objective analysis of asset strip in the joint venture can be easily ignored in the real world of complicated political considerations.

Source: World Bank Mission, The information on this case is from Professor Tang Zhongkun of the Institute of Economics, the Chinese Academy of Social Sciences and a paper by Han Chaohua published in Economic Research Journal, in Chinese, No. 5, 1995 pp.34-43. The analysis and conclusion here are different from the original Chinese paper.