The Path of Chinese Privatisation: a case study of village enterprises in southern Jiagnsu

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This paper uses an in-depth case study in southern Jiangsu to document the last wave of privatisation of Chinese rural enterprises, showing that throughout the economic reforms, particularly at the village level, local cadres and corporate leaders dominated the publicly owned enterprises, from which they benefited disproportionately. It was these same local institutions based on village cadres' social networks that controlled the entire process of privatisation, leaving nothing to the free market or open competition. Those who positioned themselves in the village administration and enterprises are the same group of specific families and individuals who run the private corporations today. It goes without saying that workers and ordinary villagers have been disenfranchised in this property rights transformation.

Keywords: Property rights, privatisation, town and village enterprise, China

Introduction

Over the past two decades, rural reforms in China have unleashed a wave of economic growth and institutional change. Along the eastern coastal regions, rural industries developed rapidly from the mid-1980s to the mid-1990s. During this period, township and village enterprises (TVEs) were the biggest contributors to growth in employment and GDP and played a key role in boosting rural incomes. By the end of 1996, TVEs had employed 135 million people, contributing to nearly half of China's exports, compared with one-sixth in 1990 (*Zhongguo xiangzhen qiye nianjian*, 1997, pp. 3–9). However, since the mid-1990s, the country's economic growth had slowed, and rural firms have begun to see their profits dwindle. Even so, rural enterprises still play a dynamic role in Chinese economy and rural reforms, and have drawn substantial research attention. Among many issues on Chinese reforms, a fundamental one has been the property rights transformation of TVEs, which is critical in corporate governance of contemporary Chinese economy. Scholars have debated whether TVEs should be understood as "local government owned", "semi-private", "de facto private" or a "hybrid" property form. However, this debate has recently ceased because as of the early 2000s almost all of the TVEs in traditionally pro-collective regions have already been privatised.

Previous literature about property rights in China helped to clarify the confusion, yet the findings were not definitive because the transitional process was not yet complete (see Oi and Walder, 1999). What is not well documented is the dramatic property rights reform and privatisation process of collective TVEs that took place in traditionally pro-collective regions in the mid-1990s and early 2000s. This most recent privatisation concluded the long-time property rights reform, and has had far-reaching social and political implications. Li and Rozelle (2003) examine the privatisation of China's township enterprises and find that

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local governments almost always sold firms to insiders, which is unique compared with the rest of the world.

The general goal of this paper is an attempt to contribute information that will help illuminate the past, current and future development of rural TVEs through a case study conducted in the heartland of rural China. It shows that throughout the take-off period of the reforms, rural industry in traditionally pro-collective southern Jiangsu operated as collective firms and cadre-directed corporations. Only in the mid-1990s has the pro-collective heartland begun to feel the privatisation thrust. This case study suggests that a symbiotic relationship had long existed between corporate entrepreneurs and village cadres, blurring the boundaries between village ownership and elite family ownership. The recent privatisation in the early 2000s actually changed little of the resource allocation and power structure, but legitimised undervalued transfer of legal ownership to elites.

This paper first provides a brief description of the TVE development trend in southern Jiangsu. It suggests that a downturn in the region's rural economy in the mid-1990s pushed government administrators to adopt privatisation measures in the TVE sector. Meanwhile, the central government's decision to sell and merge small- and medium-sized state-owned enterprises further encouraged local governments to give away money-losing TVEs. The paper then takes up the theme of the great property rights transformation, particularly the privatisation process after the mid-1990s, of village enterprises in a village in southern Jiangsu. It highlights the distributional consequences and power structure of the village, signalling a pattern of power persistence among a small clique of village elites, both in the past and foreseeable future.

TVE development in transitional Sunan

Sunan (i.e. southern Jiangsu), referring to Suzhou, Wuxi and Changzhou, had spearheaded economic change in rural China to become famous as the heartland of rural public enterprises. At one time this region received national acclaim for its efforts at collective ownership, and for following the path of socialist transformation with indigenous Chinese characteristics. The proliferation of its TVEs stood as a pillar of the region's economy, bringing in substantial incomes for rural inhabitants and generating fiscal revenues for township and village governments, and became known as the "Sunan model".

Since the mid-1990s, however, the Sunan model faced a precarious future. From 1990 to 1994, for example, the total industrial output value of TVEs in Suzhou jumped from 36 billion yuan to 179 billion yuan, with an average annual growth rate of 49 per cent. But in 1994–95, the industrial output value of Suzhou's TVEs fell from 179 billion yuan to 123 billion yuan, a decline of 31 per cent (*Suzhou tongji nianjian*, 1995, p. 199, 1997, p. 134). Although output did recover in the following year, profits continued to shrink. In October 1996, the number of Suzhou's money-losing TVEs increased by 31 per cent over the previous year (Dong, 2002).

This led to a wave of privatisation in the region. In the mid-1990s, about 70 per cent of TVEs in Sunan practised some kind of property rights reforms. Yixing, for example, one of the pioneering localities in ownership transformation, put 94 per cent of its TVEs under ownership transformation, which included 74 per cent of collective net assets (Li, 1998). Whiting's study reports that, by 1996, local officials in Wuxi and Songjiang county of Shanghai suburbs started for the first time to push collectively owned enterprises toward outright privatisation. The policy adopted was to maintain property rights over large enterprises but sell small enterprises to private individuals (Whiting, 2001, p. 289).

The privatisation thrust accelerated in the late 1990s, when TVEs in Sunan underwent two waves of "institutional change". The first wave, in 1997–98, focused on privatising money-losing medium and small TVEs and promoting individual businesses and private enterprises. Because large money-losing TVEs could hardly find qualified buyers, they were left for the second wave, which began in late 1998 and reached its peak in 2000, and pressed the directors of the large TVEs to either buy the company or take a share in the company if they were unable to buy it out. By 2000, it was reported that more than 95 per cent of TVEs in southern Jiangsu had adopted some kind of property rights reforms.

A case study: village enterprises in the reform era

The village under study in this paper, Shuang village, is about 30 minutes drive south of Suzhou in the southern Jiangsu region. In 2000, Shuang village had 1343 residents in 350 households, occupying a total area of 2.1 square kilometres. Like other villages in the region, Shuang owes its achievements to the one-time village-owned factories that dot its verdant fields. Between 1984 and 2001, the number of village enterprises increased from one to seven, while their industrial output raced ahead at an average annual growth rate of 60 per cent, from 250,000 yuan in 1984 to 790 million yuan in 2001. Shuang's collective economy shifted onto a privatisation track in the mid-1990s, and was fully completed in the spring of 2002 after the village government gave away its last share of a loss-making company. The data from Shuang village are drawn from extensive fieldwork conducted between 1996 and 2002, where the author visited the community at least once a year since 1996, and most recently in the fall of 2002.[1]

The very first village-owned enterprise in Shuang was launched in 1974 as a chemical products factory – among the first in southern Jiangsu. In 1985, a metal foundry and a paper cartons plant joined the village's non-farm activities, followed by a chemical fibres factory established in 1987. By 1990, with the metal foundry taking the lead, these four village enterprises contributed 13 million yuan in output and 2.5 million yuan in profit to the village, and submitted 0.6 million yuan to the village coffers. In 1993, the village's flagship enterprise, a differential polyester chip factory, was founded. It then overshadowed all other village enterprises and became the village's cash cow, accounting for 54 per cent and 88 per cent of the village's total industrial output in 1995 and 2000, earning 13 million yuan or 71 per cent of the village's total and 30 million yuan or 66 per cent of the village's total in 1995 and 2000, respectively (Table 1). In 1997, based on the chemical products factory and chemical fibres factory, the village set up its sixth enterprise producing acrylic fibre chips. The next year, the village established a colour master batch factory, manufacturing dyeing materials for polyester chips. The other two village enterprises – the metal foundry and paper cartons factory – had been involved in different industries and actually maintained a relatively independent position in management and property rights relations.

Shuang maintained conventional public ownership throughout the 1980s, before shifting to private ownership in the late 1990s and early 2000s, with collective contract systems and shareholding systems in between. In the 1970s and 1980s, Shuang's enterprises were run under traditional collective ownership, called "collective unified management" (*jiti tongyi jingying*). Under this system, the village government, commanded by the village party secretary, took on a twofold role – as community administrator and as enterprise owner. It retained complete control of property rights, including personnel appointment and managerial decisions as well as profit allocations among the collective, firms, cadres, corporate managers and workers.

In the mid to late 1990s, the conventional collective ownership was gradually replaced by a profit-sharing system in Shuang and its nearby villages. As time passed, some of the delegated directors accumulated knowledge pertaining to their firms from the idiosyncratic association with their work environments, physical equipment and outside connections. Furthermore, the village administration and township government were unable to effectively monitor the day-to-day management and resolve problems. As a result, effective control and monitoring of the village party secretary on enterprise directors mostly relied on personal ties and informal restraints. This explains why the delegated directors finally became the sole buyer in the privatisation process later on.

The privatisation in the late 1990s

In 1997, the national 15th Party Congress ushered in a sweeping privatisation agenda, in which Beijing called for the sale, merger or closing of the vast majority of small- and medium-sized state-owned enterprises. Orders were sent down from the city government for the townships and villages to get rid of their money-losing and debt-ridden enterprises.

Shuang had three TVEs with net assets well over a billion yuan, and one with assets over 39 billion yuan – cash that no single buyer had access to. In fact, it was a problem that plagued much of Sunan. The natural solution was a system of shareholding, in which two or more parties would purchase the entity. Shuang officials thus implemented a dual wave of privatisation where they first sold off those companies with assets under one billion yuan, which were the village's three small-scale but debt-burdened enterprises: the chemical products factory, the chemical fibres factory and the paper cartons factory.

By 1998, the bank debts owed by these three enterprises totalled 14 million yuan. In February 1998, the ownership deals were negotiated and finalised between incumbent directors and village authorities. There was no public bid, nor any competition from other interested individuals. Buyers, all incumbent factory directors, signed ownership transfer contracts with the village administration represented by the village party secretary. The sales prices were settled as 1.05 million yuan for the chemical products factory, 600,000 yuan for the chemical fibres factory and 300,000 yuan for the paper cartons factory. The contract listed

Table 1: Performance of village enterprises in Shuang village, 1984–2001

	Total	Chemical products		Metal foundry		Paper cartons		Chemical fibres		Differential polyester chip		Acrylic fibre chips	
		Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Gross value of industrial output (10,000 yuan)													
1985	74	39	52	30	41	5	7			–	–	–	–
1990	1,344	297	22	355	26	269	20	424	32	–	–	–	–
1995	28,075	1,378	5	5,386	19	3,010	11	3,201	11	15,100	54	–	–
2000	67,874	1,417	2	2,140	3	1,501	2	–	–	59,540	88	3,276	5
2001	78,962	1,231	2	1,614	2	1,667	2	–	–	70,808	90	3,642	5
Net profit (10,000 yuan)													
1985	13	10	73	3	25	0	2	–	–	–	–	–	–
1990	250	53	21	82	33	50	20	64	26	–	–	–	–
1995	1,890	–5	0	301	16	51	3	201	11	1,341	71	–	–
2000	4,565	71	2	655	14	73	2	–	–	3,029	66	737	16
2001	551	34	6	122	22	4	1	–	–	125	23	267	48
Remittances submitted to the village (10,000 yuan)													
1985	0	0	100										
1990	64	13	21	22	35	13	20	15	24	–	–	–	–
1995	295	7	2	68	23	20	7	40	14	160	54	–	–
1999	754	11	1	90	12	21	3	0	0	534	71	98	13

Source: Author's fieldwork, October 2002.

all the assets and liabilities of the said firm, followed by the statement, "after the buyer takes over the assets and liabilities, he takes on full ownership of the company and is fully responsible for the firm's debts".

These sale prices were not only pre-arranged, but also deflated considerably, as were all the deals reached. On the surface, the price was determined by the company's total assets, less its total liabilities. In fact, this was arranged by deflating the company's fixed assets to a price agreeable to both parties.

The second wave of privatisation began in mid-1999 and took over three years to complete. Due to the size of the remaining four village enterprises, they could not be sold and purchased outright, but instead had to undergo rounds of shareholding and devaluation of stock or assets or both before the director could claim complete control of the company.

Two steps were undertaken: first a divesture of shares between the village and the director, and then, when the director had enough cash, outright privatisation. However, the process was again marred by the incestuous relations between the local officials and the directors. Just like the small to medium TVEs, when the large ones were privatised they were put into the hands of the directors who had been placed there by the local officials, and in some cases in the hands of the local officials themselves.

As such, the fundamentals of the process of privatisation did not rest on traditional capitalist values of free trade and open bidding, but were instead completely contained by the village clique. The process was based locally, taking on the characteristics of crony capitalism, in which an elite few establish a closed network for the imparting of wealth to each other for reciprocal favours, all at the expense of the state and the populous. It was not economic and not political but cliquish, where everything was organised and decided by a few actors within an insular locality. Each of the companies sold, for instance, not only had their assets devalued, but also had their shares owned by the collective devalued, sometimes by more than half, which favoured the buyers at the expense of the collective.

The differential polyester chip factory, for example, started out with over 39 billion yuan worth of shares in 1999, and ended up three years later with 19 billion yuan worth, two-thirds of which were concentrated in the director's hands. In 1999, the firm's liabilities totalled almost 46 million yuan, of which bank loans totalled over 35 million yuan and unpaid trade credit over 4 million yuan. Its fixed assets were calculated at over 52 million yuan, actually highly overestimated, and the firm's net assets equalled 39 million yuan. Shares of this firm were initially divided among three parties: the township government (12 per cent), the village government (54 per cent) and the state-owned Yangzi Petrochemical Corporation (35 per cent) (Table 2).

To find a slot for the incumbent director's investment, the three collective shareholders agreed to strip 17 million yuan from the firm's book, forming a shareholding corporation with net assets valued at 22 million yuan, including shares of 2.11 million yuan or 10 per cent owned by the township government, 9.75 million yuan or 44 per cent by the village government, 6.33 million yuan or 29 per cent by the Yanzi Corporation, and finally 3.8 million (3,800,000) yuan newly injected by the incumbent director Sun Xue, whose shares accounted for 17 per cent.

Between 1999 and 2002, Sun Xue borrowed money from fellow managers and local banks to buy township and village's shares valued at

Table 2: Changes of share divisions for differential polyester chip factory in Shuang village, 1998–2002

	Net assets and share divisions, 1999								
	Total	Township shares		Village shares		Corporation shares		Individual shares	
		Amount	%	Amount	%	Amount	%	Amount	%
1999	39,247,006	4,553,000	12	21,034,006	54	13,660,000	35		
1999 after shareholding	22,000,000	2,111,500	10	9,754,900	44	6,333,600	29	3,800,000	17
2002 after shareholding	22,000,000	1,300,400	6	6,096,700	28	6,333,600	29	8,269,300	38
2002 after privatisation	18,890,778	0	0	0	0	6,333,600	34	12,557,178	66

Source: Author's fieldwork, October 2002.

4.47 million (4,469,300) yuan. As of February 2002, the ratio among the stocks owned by township government, village government, Yangzi Corporation and the director Sun Xue was 6 : 28 : 29 : 38. By 2002, Sun Xue owned 38 per cent of the firm's shares valued at 8,269,300 yuan. The recession in 2001 put great pressure on Sun Xue, but also offered him an advantageous position to buy out the firm from anxious village and township authorities at a good bargain. Negotiating the sale terms took months before the government made substantial concessions.

Both sides agreed on a deal in which the village government sold Sun Xue its stock with a 6-million-yuan book value at a price of 3.79 million (3,787,878) yuan, approximately 38 per cent off. Likewise, the township government sold Sun Xue its stock with a book value of 1.30 million yuan at a discounted price of 500,000 yuan. In total, according to the contract signed in February 2002, the ownership transfer cost and previous debts Sun owed to the village government amounted to 6.17 million (6,165,600) yuan, which had to be returned on heir-purchase and completed in two years (Table 2). This watershed ownership transfer in 2002 signalled the end of Shuang's collectivism in village enterprises and a new beginning of private ownership in its non-farm economy.

All parties involved were quite happy with the results. The village government alleviated itself of its debts and of money-losing firms; it also got the added bonus of continuous revenues from the agreed assortment of fees. While the government did collect percentages of profits in the past, it constantly ran into the problem of the equivocating factory director who dissembled profits, informing the government that they just did not make money.

Also, the directors who became private owners were happy because the contract spelled out very clearly the relationship between themselves as company directors and the village. They were, in essence, set free. The previous ambiguity of the relationship would find government authorities demanding more money from the company if it made money that year. Or it would involve itself in the hiring and firing of workers, telling them to hire more villager-workers if unemployment was up, or disallowing them to fire villager-workers. Village cadres might bring guests by for lunch leaving the director with a large bill to pick up and his afternoon wasted. Under the new terms, as set forth in the contracts, fees were set, not to be arbitrarily adjusted according to profits.

As for the debts the new owners were burdened with after privatisation, they just would not pay them. This is why the sale deals could be finally reached. With liabilities running into the tens of millions of yuan, the directors really had no intention to repay. When the bank collectors happened to come around to demand payments, they would be treated to a lavish lunch at the village restaurant reserved for village VIPs, perhaps slipped a red envelope and then sent on their way without so much as a word about debts owed, for they all were told by now that these companies are "not profitable". And who would know otherwise? No legal system of collection exists, giving the banks only the option to take the company to court in a legal suit, possibly win the company's assets, which it will have limited means to unload.

The distributional consequences of reforms

Like elsewhere in rural China, Shuang's village administration merged with its enterprises, which made the directors board members of the villagers' committee. However, unlike the centralised one-man command structure widely reported in other glorious villages (e.g. see Lin and Chen, 1999; Huang and Odend'hal, 1998), Shuang's leadership was cliquish. A small group of elites occupied the posts with few turnovers.

The village's collective non-farm sector has been a "talent-type" economy where the success of a firm depends heavily on its director. Before the privatisation transition in the late 1990s, the appointment of directorship was controlled by the village authorities, headed by its party secretary. Over the past two decades, Shuang's leadership structure has been stable. On the top echelon are Huang Wen and Huang Song, who held the party secretary post in 1984–94 and 1994–97, respectively. Despite carrying the same surname, they are not related, though they have dominated the village's administration and collective enterprises since the early reform era.

Two kinds of managerial elite emerged in Shuang. The first group of directors, like those of the metal foundry and paper cartons factory, had gradually transformed their roles as managerial cadres of the village administration to private businesspeople able to dance out of the village's monitor and control. The other group of managerial elite, like the directors of the differential polyester chip factory, acrylic fibre chips factory and colour master batch factory, all belong to the inner circle of Huang Song, who wields authority and power as the locality's strongman. In any case, all of these directors have made themselves indispensable to the enterprises delegated to their management after a significant period of time. The enterprises' operation and profit generation, which supplies the village's revenue, hinges on these managerial elites. Therefore, when privatisation occurred in the late 1990s, Shuang's enterprises were invariably sold to the incumbent directors whose power and resources were further consolidated and even strengthened.

The most important distributional consequence of Shuang's transformation is the widening income gap between elites and village workers, despite their rising average income. According to the village's records, the earnings of the elite group, the village party secretary and enterprise directors, have been consistently parallel, particularly compared with workers' wages. Up to the late 1990s after a long time period of market expansion, there had not been any decline of cadre privilege in this region. Nevertheless, the income gap between elites (cadres and directors) and ordinary workers has been growing. From 1987 to 1999, for example, average annual wages for the village party secretary and directors increased from 4500 yuan to 49,000 yuan, climbing at an average annual growth rate of 22 per cent, whereas average annual wages for workers improved from 1707 yuan to 6540 yuan, with a smaller growth rate of 12 per cent. In 1993–98, the elite group earned roughly five to six times more than that of workers. Since 1999, the income gap continued to enlarge; the ratio of elite-to-worker income stood at over 7 : 1.

The increasing income divergence between the haves and the have-nots in Shuang echoes the national trends of rising inequality, but it is noteworthy to see such a quickly increasing income disparity occurring in once pro-collective southern Jiangsu, which used to impose a ceiling on income differences between directors and workers within a community. Ideological constraints against high personal income in this region have been eroding rapidly, even though an ethos of socialism and community obligation remains, which gives villagers the first chance at available employment in village enterprises. Despite remarkably increasing annual pay for the directors, the massive assets accumulated by TVEs in the reforms that were later transferred to private owners may further increase their relative returns (see also Walder, 2002). All in all, growth in personal incomes has been associated with substantial increases in inequality between local elites and ordinary villagers, particularly after the recent privatisation transition.

The future of local state corporatism

Important questions about the privatisation of TVEs are: To what extent has it restructured the resource base of village administration (Oi, 1999)? To what extent will the local state corporatism described by Oi (1999) evolve in the post-privatisation period? Does the village government still have access to the associated enterprise profits and non-tax revenues? If not, where will the village's alternative financial resources, if any, come from?

Further inquiry in Shuang reveals that the shift from collective to private ownership did not necessarily undermine the resource base and power of village administration. Privatisation presumably sees village authorities stripped of property rights pertaining to village enterprises. This is unquestionable. Yet the Shuang village administration still holds administrative power over private enterprises in its jurisdiction and is entitled to charge them for various kinds of service fees. Following Shuang's privatisation there were still a bundle of fees imposed on private enterprises to support village coffers and discretionary funds. On the subsequent pages of the privatisation contract is a long list of annual fees that the new owner is obligated to pay to the village government. They include management fees, paid to the village government for managing the village; education fees in order to raise the standard of education in the village; agricultural fees to support the farmers whose land the factory occupied; village pension fund fee; village sanitary fee; public security fee; environmental fee; union fee; flood control fee. It was a lump sum that the factory paid, and the village did not necessarily spend the itemised amount on the service detailed. Thus, annual fees for the paper cartons factory totalled 264,956 yuan in its contract, much of which went to entertaining and supporting the cadres. Also, electricity fees over the next eight years were to be paid out in the sum of 116,000 yuan. These fees are all stipulated under "the opinion of further improving property rights reforms of the TVEs", of which "both parties sign on equal, voluntary and pay as you use terms".

In addition, rental contracts formalise the rents to be paid by enterprises for factory sites, buildings and utility facilities such as transformers and waste-pipes. For example, in 1998, various fees plus rental payments collected by the village administration from the three privatised enterprises actually were no less than those submitted in the collective period. Thus, privatisation offers private business people complete rights pertaining to their property, but does not change their subordinate positions to village administration and obligation to the community.

After two decades, the village administration's role as a business corporation is fading, but its role as land manager and infrastructure provider is further reinforced. Since the early 2000s, Shuang village started to reallocate and develop its land for industrial use, launching a so-called industrial park in which the village constructs factory buildings, warehouses and other facilities for a more profitable use in industry.[2] Parallel to the "park fever" in Jiangsu and similar development experiences in other economically developed coastal regions, the village administration now acts as a real estate and land-contracting company, appropriating land ownership rights to facilitate land planning and industrial development.

But more so, this study illustrates the monumental influence of local institutions. It is such that the question becomes one not of corporate governance, but rather one of local governance. The privatisation process was completely controlled by local forces within the villages and not within the market-based institutions. Local institutions, such as those based on the Shuang village cadres' social networks, controlled the entire process of privatisation, leaving nothing to the free market or open competition.

Concluding remarks

The transformation from plan to market in Shuang village has gone through two distinctive stages: first when enterprises were cadre-dominated, and second when enterprises were turned over completely to private ownership. Outright privatisation in 1998 marks the point between them.

As reforms began to bear fruits, local elites, cadres and corporate elites appeared less willing to share fruits of their enterprises with the community administrations and villagers. They took steps to claim income rights from the local governments, the original legal owners, while at the same time keeping it away from the workers and villagers. Even worker-stock holders played a marginal role, with little say in how shareholding was carried out. The privatisation in the late 1990s and early 2000s saw the collective ownership undervalued and diluted. The fundamentals of the process of privatisation did not rest on traditional capitalist values of free trade and open bidding, but were instead completely contained by the village clique. The process was locally based, taking on the characteristics of crony capitalism, in which an elite few establish a closed network for the imparting of wealth to each other for reciprocal favours, all at the expense of the state and the populous.

The process of property rights conversion could be achieved mainly because deliberate under-capitalisation had been used to reduce the proportion of collective shares. Other studies on TVEs in the mid-to-late 1990s in Jiangsu and Shandong also report the privatisation process actually better served the interests of some agents, mostly township governments and enterprises managers, than ordinary workers and villagers (Ho *et al.*, 2003). As a result, a legal separation of village administration and enterprises emerged. There is a divergent trend between corporate leadership and political leadership. However, those who position themselves in the village administration and enterprises have been the same group of specific families and individuals. Economic expansion and privatisation created ample returns and autonomy for private entrepreneurs, but did not lead to reductions in cadres' income advantage and administrative power. Being stripped of property rights on village enterprises following privatisation, village administration became much more anxious to secure adequate revenues from other sources. It pushed local authorities to formalise a legal rent-generating structure.

At the same time, the transfer of undervalued corporation property rights signals the rising power of local elites and declining control from above. Local elites derive their power from political positions and clique networks centred on particular local leaders. Village enterprises were profitable for the people who controlled them. And the people who controlled them controlled the village. One visible consequence of the transformation is the shift from bureaucratic coordination in the government hierarchy toward networks in a locality, rather than toward a Western-style capitalist economy.

In the once-collective village in southern Jiangsu, personal finances remained more than comfortable compared to the past, but village finances had already begun to deteriorate. On the surface, a heavy debt burden weighed down on village enterprises for which the village government guaranteed their bank loans. The village's book of net assets would turn to a painful loss if enterprises' unpaid bank loans were considered. Nevertheless, ignoring these loans meant the village still had much cash to spend. As a new-generation village head put it, "In our village the richest people have more money than they can spend, and more debt than they can pay!" Two distributional consequences are emerging and noteworthy. One is that workers have largely been disenfranchised in the property rights transformation. As the local economy thrives, elites retain the lion's share of the benefits. If and when the economy slows, workers may be laid off or fired. If so, it would add a much more volatile situation to the locale because farming land is no longer available to villagers as it has been shifted to industrial use. However, villages in southern Jiangsu have not yet experienced such a crisis. The village administration actually uses its land ownership to collect a substantial amount of revenue to support the village's infrastructure and social services, and certainly for the cadres' benefits.

Notes

1. For more detailed information on this village, see Chen (2004).
2. As of 2001, Jiangsu had 1404 parks developed by various levels of governments in which 1071 or 76 per cent were operated by township governments. Village-run parks are not common and not officially counted (Jiangsu Provincial Government, 2001).

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