

**China's Regions, Polity, and Economy:
A Study of Spatial Transformation
in the Post-Reform Era**

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Launching Satellites: Predatory Land Policy and Forged Industrialization in Interior China*

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It is widely believed that rapid industrialization in the Chinese countryside has brought about conspicuous economic benefits for the peasants. Many studies have verified this economic achievement in the coastal area. However, it is relatively unknown about the development in the immense inland.¹ A theme of "local corporatism" has been used to describe the rural development in China. The economic and political life in the Chinese village, under active intervention of local government, appeared harmonious and equitable. Village cadres were depicted as development-oriented, egalitarian-minded, and non-corrupt.² This concept, albeit useful for the understanding of the coastal regions, does not grasp the reality in most of interior China. Instead, I will provide a contrasting image of the rural cadres in this study.

Rapid growth steered by local government often resulted in perverse outcomes. Officials in the inland were eager to push growth by granting lavish subsidies to "capable entrepreneurs"; and this was done primarily at the expense of ordinary peasants. A *latecomer mentality* among local officials was found at various government levels.³ The mentality helped

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fabricate numerous "industrial parks," emulated from the coastal area, that occupied farmland without appropriate compensation. This pattern of forged industrialization usually proved wasteful and caused rural dislocation. In fact, life in the interior villages was not as enviable as thought. Embezzlement, cheating, plunder, and torture, behind the facade of "collective wealth," permeated daily life. As a result, sabotage and protests (often in the form of "collective petitions") became weapons of the poor and powerless peasants in the villages. Peasant discontent may erupt in mass rebellion in the future, if the clamouring voices continue to be ignored.

The argument of this chapter is based on ethnographic research and historical-structural analysis. It intends to shed light on the *non-developmental* side of China's rural industrialization. In addition, it establishes a prototype of the latecomer in China's development. Two adjacent interior villages under rapid growth are documented in detail, in contrast to the coastal regions.⁴ Three major factors — variation in state policy, indigenous economic endowments, and exposure to the international economy — have shaped distinct paths of rural development across regions. Multiple-level analysis in rural Zhengzhou, Henan, is conducted to roadmap the villages under scrutiny.⁵ The chapter is organized as follows. First, we will analyze the official anxiety within the context of the post-reform rural economy. Next, the processes of the hastily forged growth in the two villages will be examined respectively. The paired comparison helps to illustrate how latecomers tried to catch up and why they failed. Finally, I will propose several theoretical implications of the findings.

Late Development and the Mentality of Leap Forward

Two characteristics of the rural area of Zhengzhou are common for the immense inland. On the one hand, the poor rural economy had a strong impulse for privatization once external constraints were relaxed (as in the case of Wenzhou).⁶ On the other, the rural officials had a strong tendency to intervene in the economy even though they did not have a solid collective agriculture like that in southern Jiangsu.⁷ This proclivity to intervene was motivated by a drive for rapid industrialization and it was reinforced by a delay in the open-door sequence nationwide. A campaign to "leap forward" hence took command when the region was granted the open policy by the centre.

Henan has been known for tragic events in the history of the People's

Republic of China. The province, situated in a major agricultural area of the North China Plain, was deeply involved in the zeal for "catching up with England within fifteen years" during the Great Leap Forward (1958–60). The Chinese people were surprised by the Soviet Union's *Sputnik* programme in 1957. The success of the first artificial satellite inspired Chairman Mao and his party officials. "Launching a satellite" (*fang weixing*) soon became a popular term in China to refer to extraordinary productivity in the fields and in the mills. The high-product grain fields were thus called "satellite fields" (*weixing tian*).⁸ In June 1958, the first "satellite" in China was launched by Suiping county (in central Henan), reporting an average wheat output of 2,104 jin per mu, which was more than double normal productivity.⁹ In the same month, the "Great Steelmaking" (*da liangang*) began.¹⁰ Meanwhile, communization in the rural areas was put into action. Henan had taken the lead in the commune movement in July. According to provincial officials, 1,463 communes were established within a month.¹¹ The exaggeration and unrealistic prediction of economic numbers (*fukua feng*) soon caused famine and serious structural imbalances in the national economy. Henan was among the most seriously damaged in this state-mobilized mass movement. It is estimated that in 1959–60 over 2 million people starved to death in Xinyang (a poor rural region in southern Henan), the so-called "Xinyang Incident."¹² As we will see in the following, the anxiety of lagging behind in economic development still haunted official behaviour in this interior province, even several decades after the disastrous Leap Forward.

The Rise of a Village and Household Economy

The local economy of Zhengzhou, until the mid-1980s, was characterized by the structural dualism of an urban-rural disparity. At first glance, the region as a whole was heavily industrialized. In 1985 industry constituted 59 percent of GDP, while agriculture only accounted for 15.9 percent of GDP (see Table 11.1). As yet, the light weight of agriculture was due to its low productivity, compared to that in the southeast coastal region or southern Jiangsu, for example. In 1985, 74 percent of the total population was still employed in agriculture. Moreover, industry, from the pre-reform era throughout the 1980s, was dominated by the state and urban collective sector. There were few township industries in the countryside; and virtually no village and household industry before 1984, according to official statistics

Table 11.1: Composition of GDP in Zhengzhou, selective years (unit: %)

Year	Agriculture	Industry	Service
1985	15.9	59.0	25.1
1989	14.2	58.3	27.5
1995	7.3	53.5	39.2

Sources: *Zhengzhou Statistical Yearbook*, various issues.

Table 11.2: Composition of GVIO by Ownership in Zhengzhou, selective years (unit: %)

Year	State Enterprises	Urban Collectives	Township Enterprises	Village	
				Enterprises and Households*	Others**
1975	89.5	10.5 [#]		0.0	0.0
1978	87.5	12.5 [#]		0.0	0.0
1983	82.8	17.2 [#]		0.0	0.0
1984	67.0	10.3	5.7	17.0	0.0
1989	55.0	10.3	7.1	27.3	0.3
1995	26.4	6.7	9.8	45.7	11.3

Sources: *Zhengzhou Yearbook*, various issues.

Notes: [#] Urban and township collectives are grouped together before 1984.

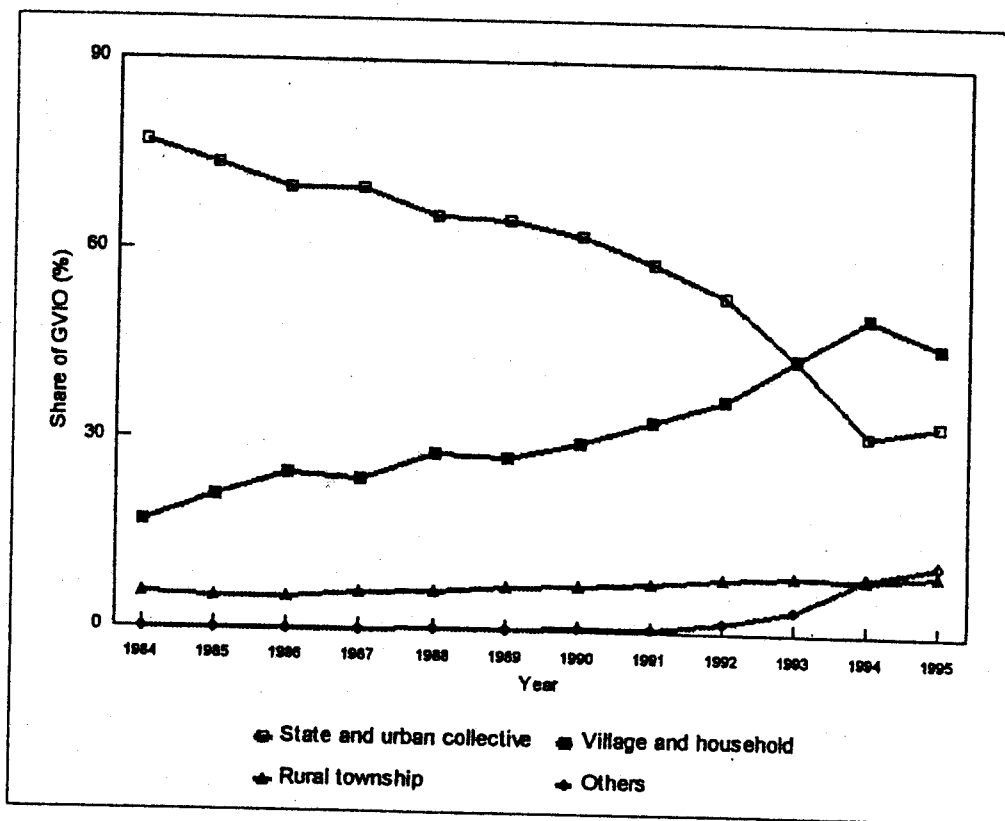
* Households include both urban and rural units.

** Others include various forms of joint ventures and foreign ventures. Joint ventures can take several forms in cooperation with domestic enterprises or with foreign capital.

(see Table 11.2). In short, the regional economy was strictly divided into two sectors: the strong urban-state industry in the cities and the poor, low-income agriculture in the countryside. However, by the mid-1990s, state-owned enterprises had declined to a minor position, while village and household units took up the role of the state sector in industry (see Figure 11.1 below).

We provide a subtle interpretation for the emergence of rural industry. By its nature, the rural economy of Henan resembled that in Wenzhou on the eve of reform in several ways (see Table 11.3 below). As there was no solid collective industry, there should have been a trend toward privatization in the countryside. Yet the rural government was more conservative than the Wenzhou officials because of Henan's stronger Maoist legacy of collective agriculture. In fact, rural industry experienced two periods of rapid growth before the reforms, one during the Leap Forward and the other in the mid-1960s. But there were severe losses as "many rural sidelines and collective industries were cut as the tail of capitalism during the Cultural

Figure 11.1: The Trend in the Composition of GVIO by Ownership in Zhengzhou, 1984-1995 (unit: %)



Source: *Zhengzhou Yearbook*, various years.

Table 11.3: Composition of GVIO by Ownership in Wenzhou, selective years (unit: %)

	State Enterprises	Urban Collectives	Township Enterprises	Village Enterprises and Households*	Others
1970	49.8	39.4	4.1	6.6	0.0
1978	35.7	44.2	11.0	9.2	0.0
1989	17.0	33.3	18.4	30.1	1.2
1994	7.4	5.1	27.5	55.7	4.4

* Village and household units are grouped together in the statistics. Households include both urban and rural units.

Source: *Wenzhou Statistical Yearbook*, 1994, p. 91.

Revolution." In 1984, these units only accounted for 15 percent of total output in the countryside (*Zhengzhou Yearbook*, 1985, p. 174). One may expect that as the severe political controls were gradually relaxed after the late 1970s, the private economy should have grown immediately and the emerging private units should have sought asylum under the "collective" umbrella due to the policy uncertainty. This appears to be the case. It is interesting to find that although no village and household units were listed in the official statistical yearbooks before 1983, this sector jumped to 17 percent of total GVIO in the next year (see Table 11.2 above). How could this tremendous growth be possible if there had been no official patronage at the grassroots level in the previous years? The surfacing of the creeping sub-township sector was simply a response to the central government's "Number 4 Document of 1984," which formally recognized the status of TVEs (township and village enterprises) and offered them preferred treatment. An official statistic released in 1985 contradicted prior data. It claimed that Zhengzhou's TVEs had achieved a total output of 889 million yuan in 1983.¹³ Thus, the "adjusted" official statistic acknowledged a flourishing village and household economy before 1984.¹⁴ This indicates that rural cadres might hide growth if necessary. It depended on how they perceived the policy wind.

Table 11.4 shows the structure of ownership and scale of TVEs in Zhengzhou. The extraordinary strength of the village is compared to the weakness of the township. Also note the weight of household and cooperative units, which in combination rivalled the muscle of village industries, despite their smaller average size. The weakness of the township is also demonstrated by its contribution to tax revenues. Table 11.5 indicates that

Table 11.4: Ownership Structure and Average Scale of Zhengzhou's TVEs, 1993

	Number of Unit (%)	Gross Output (million yuan, current price) (%)	Employment (%)	Average Output (million yuan)	Average Employment
Township	962 (1.6)	4,217.44 (19.1)	103,679 (16.2)	4.38	107.77
Village	5,555 (9.0)	8,909.03 (40.4)	252,033 (39.4)	1.60	45.37
Cooperative	3,843 (6.2)	2,480.31 (11.2)	69,871 (10.9)	0.65	18.18
Household	51,543 (83.3)	6,470.82 (29.3)	214,801 (33.5)	0.13	4.17
Total	61,903 (100)	22,077.60 (100)	640,384 (100)	0.36	10.34

Source: Fieldwork, Zhengzhou TVE Bureau.

Note: Figures in parentheses are percentages of column total.

**Table 11.5: Tax Payment by Ownership Structure of Zhengzhou's TVEs
(unit: million yuan)**

	Industrial TVEs (1993)	All TVEs (1995)
Township	109.62 (31.1%)	209 (24.0%)
Village	144.93 (41.2%)	309 (35.5%)
Cooperative	25.75 (7.3%)	60 (6.9%)
Household	71.79 (20.4%)	292 (33.6%)
Total	352.09 (100%)	871 (100%)

Source: Fieldwork, Zhengzhou TVE Bureau.

Note: Figures in parentheses are percentages of column total.

**Table 11.6: Ownership Structure and Average Scale of Industrial TVEs
in Yinhe, Zhengzhou, 1994**

	Number of Units (current price)	GVIO (million yuan, (million yuan)	Average Output (million yuan)	Tax Payment
Township	28 (3.2%)	80.97 (10.9%)	2.89	0.90 (8.6%)
Village	188 (21.7%)	466.10 (62.8%)	2.48	7.60 (72.6%)
Cooperative	16 (1.8%)	17.00 (2.3%)	1.06	0.25 (2.4%)
Individuals	633 (73.2%)	177.99 (24%)	0.28	1.72 (16.4%)
Total	865 (100%)	742.06 (100%)	0.86	10.47 (100%)

Note: * GVIO is in current price. Figures in parentheses are percentages of column total.

Source: Fieldwork, Yinhe TVE Bureau.

in 1993 the township shared 31.1 percent of total taxes paid by rural industries. Yet, counting all TVEs (including industrial and service sectors), the township only contributed 24 percent of the revenue in 1995. In contrast, the village and household units bore the brunt of the tax burden. Table 11.6 takes a closer look at GVIO by ownership in Yinhe, a district of Zhengzhou.¹⁵ The district was within the reach of the urban political centre due to its location. The rise of the village was salient. The village-level industries were dominant, with a 62.8 percent share of GVIO and a 72.6 percent of tax payments, as a result of government intervention. Following an analysis of the rise of the village economy, we will examine the role of local officials in such a structural transformation.

Delay in the Opening Sequence and Official Anxiety about an Industrial Leap

Zhengzhou was granted the status of an inland open city in 1992. The open

policy meant that the provincial capital then had the right to court foreign capital with tax concessions and other flexible treatments. A top official of Henan reported at the Provincial Party Congress in 1994:

Our province's development has lagged far behind the coastal advanced regions. We have to reinforce the sense of urgency, the sense of pressure. The differential policy treatment between the inland and the coast is being reversed. The potentials of the inland to embark on the open door are emerging. We now have excellent opportunities to open to the external world.¹⁶

This speech clearly demonstrated aspirations for rapid growth by taking advantage of the open policy. Let us briefly examine to what extent the development of the region was "backward," in contrast to that in the coastal area. Tables 11.7a and 11.7b compare the per capita economic performance of Zhengzhou and Xizhu during two periods.¹⁷ Xizhu had begun to attract a

Table 11.7a: Comparison of Per Capita Economic Performance in Zhengzhou and Xizhu, 1985

	Xizhu	Zhengzhou	Ratio of Xizhu to Zhengzhou
GDP (yuan)	1,686.3	1,024.9	1.6
GVIO (yuan)	1,292.5	1,445.4	0.9
FDI (US\$)	23	n.a.	n.a.
Financial revenue (yuan)	92	124	0.7
Rural net income (yuan)	746	388	1.9
Average urban wage (yuan)	1,456	969	1.5

Sources: *Zhengzhou Yearbook*, *Xizhu Statistical Yearbook*, various issues.

Note: * Average urban wage only computes the state and collective sector. All figures are calculated in current price.

Table 11.7b: Comparison of Per Capita Economic Performance in Zhengzhou and Xizhu, 1992

	Xizhu	Zhengzhou	Ratio of Xizhu to Zhengzhou
GDP (yuan)	6,213	2,570.5	2.4
GVIO (yuan)	11,126	4,681.7	2.4
FDI (US\$)	242	15.9 [#]	15.2
Financial revenue (yuan)	413	212.7	1.9
Rural net income (yuan)	1,976	796	2.5
Average urban wage (yuan)	4,531	2,586	1.8

Sources: Same as Table 11.7a.

Note: [#] The figure for 1993 is used because the 1992 figure is unavailable.

large amount of foreign capital in 1985, whereas Zhengzhou was granted the open policy in 1992. In four indicators — production (GDP and GVIO), foreign direct investment (FDI), financial revenue, and income (rural and urban) — the differences between the two regions have significantly widened over the years. In 1985, Zhengzhou still led in GVIO and financial revenue; but its edge had disappeared by 1992. This comparison clearly serves as a footnote to the apprehension of inland local governments.

Predatory Land Relations and Worsening Peasant Income

The village land in Zhengzhou was divided up according to average population in the early 1980s under the household responsibility system. However, by the early 1990s, most of the collective farmland was controlled by village cadres. As the grain procurement price stagnated and agricultural productivity fell (relative to the industrial sector) after 1985, the problem of *paohuang* (“land abandonment”) gradually emerged. The stability of land tenure stumbled as “economies of scale” and specialized farming were promoted by rural governments. This resulted in a drive for a reconcentration of land at the village level under the dual-field system (*liangtian zhi*).¹⁸ The officials’ desire for faster industrial growth led them to endorse a boldly predatory policy regarding rural land relations, as noted by the party secretary of Xinzheng:¹⁹

At bottom, Xinzheng is different from Wuxi and Wenzhou in its pattern of primitive accumulation. These two places have finished the stage of primitive accumulation whereas Xinzheng has not ... To achieve rural modernization, we have to liberate the peasants, allowing them to no longer depend on the land ... Xinzheng cannot pursue an incremental approach. To achieve rural industrialization, the land system needs to be altered with special means. If we follow the path of Wuxi and Wenzhou in primitive accumulation, then industrialization will be delayed, and the gap between us and the advanced regions will widen ... We should encourage the peasants to enter the towns and carry out *nongzhuanfei* (transferring peasants into nonagricultural households); to transform peasants into free economic men, and to separate them from the farmland. The land thus obtained cannot be divided up. Instead, it should be used for economies of scale on the condition of valuable form.²⁰

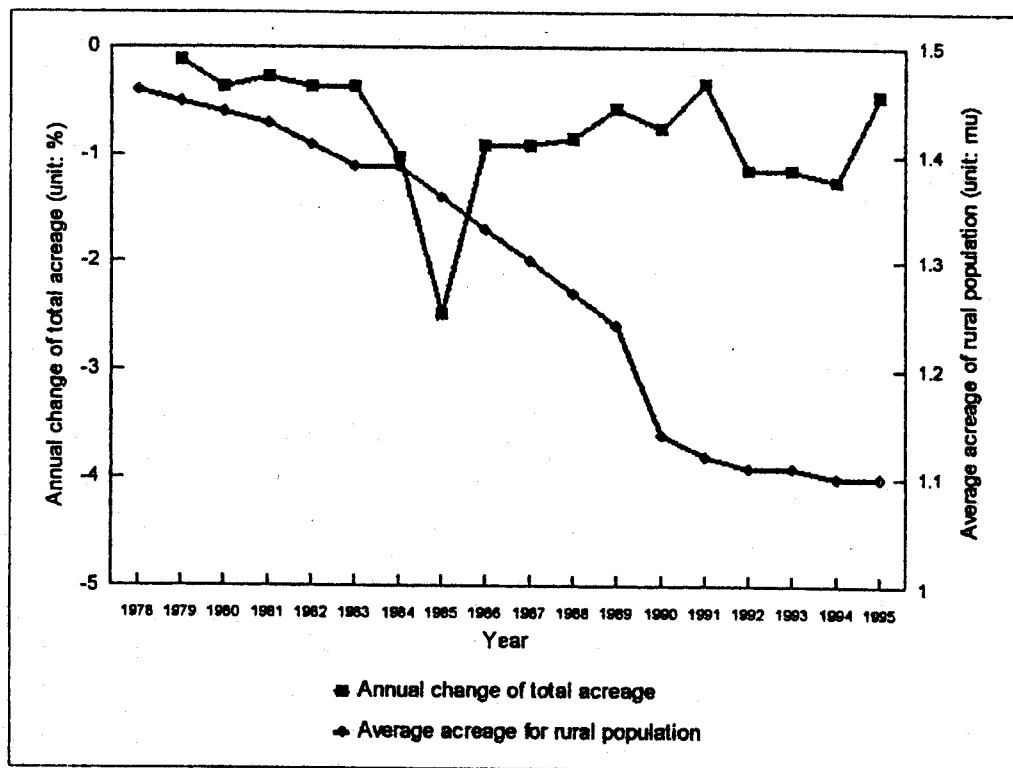
This reveals a belief that driving peasants from the fields into the towns was necessary for rapid industrialization. The “valuable form” here is an euphemism for a commercialization of farmland. But the “land market” in the

minds of the local officials certainly differed from that in Wenzhou, where the land market appeared spontaneously. The party secretary further asserted that the concentrated land should be put into the hands of "able entrepreneurs" (*nengren*), and that the government should help them get rich first in order to motivate poor peasants.²¹ Regardless of whether or not his interpretation of "primitive accumulation" in Wuxi and Wenzhou is accurate, this policy guidance marked a green light for village cadres to end the land tenures of the peasants by massive appropriation. Land rights hence became a focal point in rural conflicts. As we have explained earlier, the region was prone to spontaneous privatization, due to low agricultural productivity and weak collective industry. This in turn produced a decentralized structure of land ownership based on small and part-time farmers, as in the case of Wenzhou. However, the official priority for rapid growth under "economies of scale" reinforced village collective ownership dominated by cadres and clans. The mentality of officials and the interests of cadre-entrepreneurs thus had an "elective affinity": they combined to bring about a rise in village-level industry. This also explains why the dual-field system swept the Chinese countryside and became the dominant land institution by the early 1990s, even though the government never openly endorsed it.

In Henan, official aspirations for rapid industrialization created "model villages" one after another for mass propaganda purposes. Nanjie (in Linying) and Zhulin (in Gongxian) are two of the most famous villages in recent years. Hundreds of villages in the province were placed on a list of "strong villages" and "civilized villages."²² A great number of satellites were launched by these model villages. Many of them did not have solid financial conditions like the villages in Sunan or the Pearl River Delta. Instead, they relied heavily on government low-interest loans, high-rate funds from private banks, and the forced savings of villagers. An essential element in this type of model village was that the farmland was under the tight control of cadres under the name of collective development. Land subleasing by individual villagers was strictly prohibited.²³ Because of the predatory land relations, protests over land rights frequently erupted in these villages.

A loss of farmland and worsening peasant income were two logical developments from this pattern of industrialization. Large areas of farmland in Zhengzhou were appropriated for TVE and infrastructure projects. Figure 11.2 shows land loss trends since 1978. The total acreage was reduced by 12.5 percent over the reform years. On average, it decreased 0.78 percent annually. In terms of per capita acreage, it decreased from 1.46

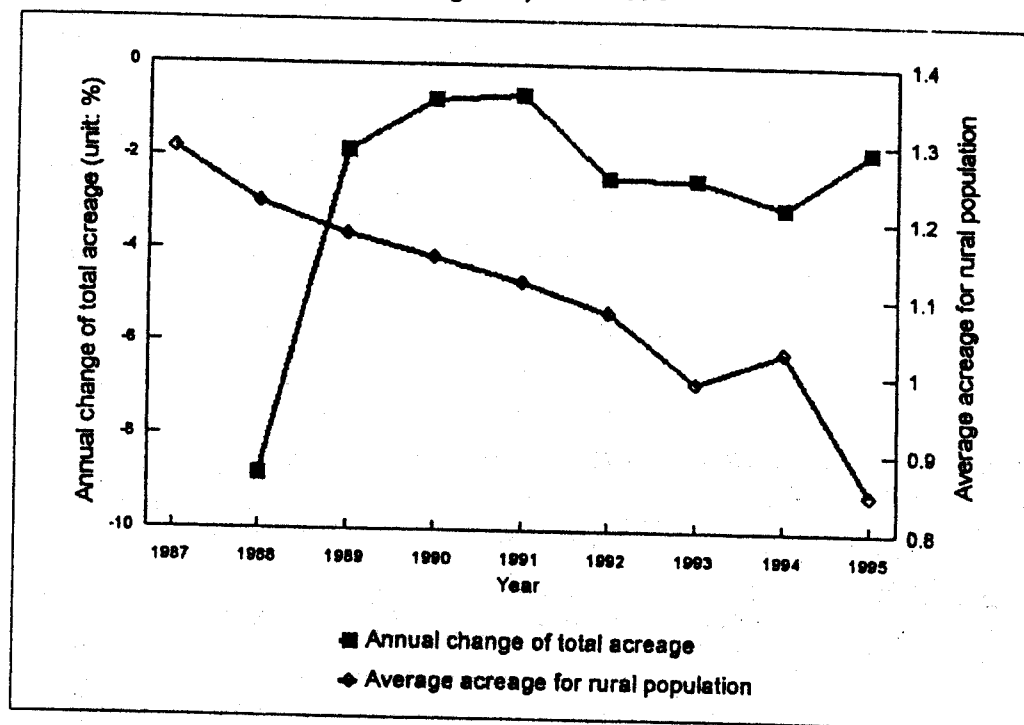
Figure 11.2: The Trend of Loss of Arable Land in Zhengzhou, 1978–1995



Source: *Zhengzhou Statistical Yearbook*, various years.

mu in 1978 to 1.1 mu in 1995. It seems that the encroachment of farmland in Zhengzhou was less serious than in other regions. From the perspective of agricultural productivity, the loss affected the rural ecology. Furthermore, the average acreage in the region fell below the national average (1.66 mu per capita) in 1994. When we focus on Yinhe district, the problem appears much more severe. Figure 11.3 shows the trend of annual change in arable land in Yinhe. Total acreage decreased by 20 percent over the 1987–1995 period. It was reduced 8.8 percent in 1988 alone. Per capita, it plunged from 1.29 mu in 1987 to only 0.85 mu in 1995. In 1994 the trend seemed to be reversed. In the government records, the average acreage increased from 0.99 to 1.03 mu. However, this turned out to be a cover-up when we cross-checked the data on arable land and population. The land actually was reduced by 3,615 mu, or 3.1 percent of the total acreage in 1994, the greatest loss since 1988. Agricultural population increased steadily from 1988 to 1993; but, curiously, it decreased by 7,759 in 1994. In fact, thousands of peasant households were transferred to nonagricultural sectors in that

Figure 11.3: The Trend of Loss of Arable Land in Yinhe District of Zhengzhou, 1987-1995



Source: *Yinhe Statistical Yearbook*, various issues.

year.²⁴ This was a trick of *nongzhuangfei*, as advocated by the party secretary above.

A further question is how the land was appropriated and whether the transferred peasants obtained adequate compensation. Indeed, the local government stipulated strict rules for farmland appropriation. The Land Bureau in Yinhe had the discretion of approving up to 10 mu for nonarable land and 3 mu for arable land. The official records show that in the 1989-94 period, 700 mu of land for TVE projects was approved by the bureau. But this figure does not reflect the reality because "many villages merely did not submit their projects for our approval. They had the backing of the city government," said an official in the bureau. The illegal appropriation of farmland indicates two things. First, the loss of land was more severe than the official statistics report. Second, the village authorities did not compensate the peasants in due process since they circumvented government monitoring. According to a Land Bureau official, an investigation in 1994 discovered 334 illegal cases involving more than 4,000 mu. Another high-ranking official revealed at a government work conference that there were 7,600

cases of illegal utilization, involving a total area of over 50,000 mu in Henan province during 1992–93; and some of the cases were illegally approved by the county-level governments.²⁵ He alluded to the collusion between rural officials and cadre-entrepreneurs. Curiously, what concerned the provincial officials was not the peasant grievances caused by the loss of farmland, but the loss of the government share of the profits generated from such “illegal land exchanges.” Therefore, an institutional reform was proposed to create an “open land market” that would yield more land revenue for the government.²⁶

Zhengzhou government enacted a compensation programme for land appropriation. According to a city document, up to 30,000–50,000 yuan, including the expenses for relocating peasants to factories, could be paid for each mu of farmland. This compensation was low, compared to other regions.²⁷ Regardless, most villages took land from peasants without compensation. In contrast, there was better compensation for land taken for government construction projects. But the problem is whether the programme was carried out sincerely by the officials. Because the funds were not directly paid to the peasants, but managed by the Land Bureau, there occurred a situation similar to the problem of *da baitiao* (local government-controlled banks issuing vouchers to pay for grain procurements). That is, the government expropriated the money for other purposes. Furthermore, there was another problem in the transfer of peasant households to nonagricultural sectors: the problem of *zhandi gong*, a peasant relocation programme.²⁸ In theory, the land-occupying unit was required to pay “labour settlement subsidies” to the enterprises that were willing to employ the peasants. Usually the subsidy was 8,000 yuan per person. However, “as the enterprises usually found that these peasant workers were unskilled, they did not hesitate to fire them only a few days later.” Thus, the relocation programme turned out to present a social problem for the government. There was a protest incident organized by *zhandi gong* in Yinhe in May 1995. Hundreds of landless peasants besieged the village office and the district people’s congress, petitioning for land and money. But since their households had already been moved out of the village, they had no “legal rights” to claim the collective profits. Moreover, there was virtually no land for them to cultivate because the village was now “urbanized.” Eventually, their demands were not met and “the protest was settled by the police.”

The widening urban-rural income gap coincided with the land-loss troubles. Peasant dissatisfaction in this region was more pressing than in the

coastal areas because the peasants here were severely deprived under the rapid industrialization. Many farmers whose land had been occupied in the coastal area found good opportunities in prosperous towns. This was not the case for the inland peasants. It is true that young men could travel to coastal factories, but it was impossible for old farmers to do so. It was impossible for them to become "free men." Their lives were further aggravated by rampant exactions and apportionments.²⁹ Since the reforms, the interior peasants have not only been worse off in comparison to the coastal farmers, but have become poorer relative to the urban residents in the same region. Table 11.8 shows that the income gap between the urban and rural population constantly widened. The ratio of the income difference increased from 2.5 to 3.7 during the 1985–1994 period. Apparently, hardships had already befallen the peasants before they could taste the fruits of the open door. This may help explain why so many Chinese peasants came to miss Chairman Mao.

Table 11.8: Comparison of Agricultural Income and Urban Wages in Zhengzhou (unit: per capita yuan)

Year	Urban Wage	Rural Net Income	Difference between Urban and Rural Incomes	Ratio of Urban to Rural Income
1985	969	388	581	2.5
1988	1,562	519	1,043	3.0
1989	1,835	602	1,233	3.0
1990	2,120	692	1,428	3.1
1991	2,213	710	1,503	3.1
1992	2,586	796	1,790	3.2
1993	3,094	927	2,167	3.3
1994	4,379	1,181	3,198	3.7

Source: Adapted from *Zhengzhou Yearbook*, various issues.

The Rise and Fall of Xijia Village

Following the above historical-structural analysis, we will focus on two neighbouring villages. The rise and sudden collapse of Xijia village is a good example of a hastily forged model village in China.

Xijia was an administrative village in Tiger township of Yinhe.³⁰ It had 1,436 mu of arable land and a population of 1,290 as of the end of 1995.³¹ In the early 1990s Xijia became a star village in Yinhe, later followed by the adjacent village of Dongjia (which we will examine below). Xijia was noticed by the district officials for its economic success within a few years

after 1984. It was thus given the title of "provincial civilized village." Its success story was well circulated around the area through a special issue of a party-run magazine and in work conferences in the early 1990s. The village still held bright prospects as late as the spring of 1994, at least in the eyes of district officials. But it encountered serious economic and political troubles by the end of the year, eventually resulting in the fall of its leader.

The Reforms in Xijia and the Rise of Huang Tianshun

As in most villages throughout China, the commune system was dismantled and lands were distributed to households in Xijia in the early 1980s. The previous brigade was then called a villagers' committee (*cunmin weiyuanhui*, or abbreviated as *cunweihui*.), and production teams were changed into villager small groups (*cunmin xiaozu*). Xijia had five groups in 1984. Their average net income was about 225 yuan per year. Village cadres had been sent down from the township since the Cultural Revolution. But in 1984, the township party committee decided to change the policy and promote competent figures from within the village to promote reforms. They selected a young man, Huang Tianshun, as the new director (*zhuren*) of the villagers' committee.³² The decision appeared to be a smart choice. Huang proved to be brave in changing the village system. First of all, he cut the number of village cadres from forty-five to seven; then he centralized the financial management of the respective small groups into the hands of the village office, which meant that the crucial function of the groups was annulled; and most importantly, he decided to reallocate the village collective land. The land was to be divided into two categories. One was grain-ration fields (*kouliang tian*) and vegetable fields (*cai tian*). Every person was entitled to 0.4 mu of grain-ration fields and 0.2 mu of vegetable fields. Villagers did not have to pay agricultural taxes or exactions (*tiliu*) for this part of the land. The other category was responsibility fields (*zeren tian*), organized as 10 mu units, and contracted to "able farmers."³³ This new method of land distribution, called a "dual-field system," encountered resistance from the villagers, as it meant that the popular household responsibility system would in effect be abolished. They saw Huang's reform as an effort to concentrate land at the village-level (i.e., the previous brigade). With the strong support from local officials, this new system was carried out within a few weeks.

A second thrust of reform for the new leadership was to build industrial

enterprises. There were no profit-making units owned by the village at that time. In 1985, Xijia set up an electrical equipment plant with a state enterprise from Zhengzhou by providing a piece of land in exchange for a share of ownership of the enterprise. The joint venture appeared to be immediately successful and several similar joint ventures were established in the next few years. In 1991, the Xijia Group Corporation was organized. All of the agricultural and industrial units were put under the control of the corporation. By the end of 1992, the corporation owned fourteen village enterprises, five joint ventures; and there were fifty-two individual units associated with it.³⁴ In 1992 total social production (including agriculture, industry, and service) reached 18.2 million yuan; and per capita pure income rose to 1,912 yuan. During the following two years, Huang Tianshun, encouraged by the new wave of the open policy, decided to appropriate more land to develop industrial zones and real estate ("garden villas"). To compensate the villagers, Huang set up a new institution called the "villager waiting-for-employment system" (*cunmin daiye zhidu*): those who lost farmland were paid 20–50 yuan per month, depending on the productivity of the appropriated land.³⁵

Along with industrialization, living standards improved in many ways, including the provision of electricity, paved roads, running water, and television. There was also more welfare for the villagers such as a pension programme for senior residents, a new primary school, and a kindergarten.³⁶ In 1992–93 the village began to gain political visibility due to its shining economic achievements. (See Table 11.9 below.) Huang was praised as a model worker (*laodong mofan*) and elected a representative to the provincial people's congress in 1993. The village enterprises enjoyed generous

Table 11.9: Basic Data of Xijia Village, 1993, 1995

	1993	1995
Villager small group (<i>cunmin xiaozu</i>)	1	1
Number of rural households	450	433
Rural population	1,298	1,290
Land area	2,080	2,008
Arable land (mu)	1,436	1,436
Arable land per capita (mu)	1.6	1.6
Net income per capita (yuan)	2,208	2,060
Unit of major enterprises	30	1

Sources: Information from field work and *Yinhe Statistical Yearbook*, various issues.

tax breaks offered by the local branch of the Tax Bureau. In short, Huang won the complete trust of the party based on his performance.

Economic Recession and Problems in Redistribution and Leadership

The development of Xijia did not proceed smoothly after 1993. Some troubles already loomed large in early 1993. The central government began to launch a series of austerity measures to curb economic overheating at that time. In Xijia, several village units and joint ventures suffered losses and as a result were closed. The appropriated lands were enclosed with high walls, but left obsolete as none of the promised foreign investment actually materialized. This was partly because Xijia itself lacked funds to cooperate with investors. Huang Tianshun did not want to borrow from private money shops for development. The village-run enterprises gradually declined. Hence the group corporation functioned like a landlord, making a living on rents. It became clear that the village would meet with a financial crisis if it could not generate enough revenues from the remaining enterprises for its ever-increasing expenditures. Some villagers already felt a drop in the provision of welfare benefits in early 1994. They began to complain to the township and district governments, but they did not receive any positive response.

Over the good years, the mentality of the Xijia leadership had changed from the early hardship period. By 1994, sixty-one persons were employed in the complex of the villagers' committee and group corporation. Most of the jobs were occupied by relatives of cadres, many of which redundant. The employees enjoyed generous fringe benefits, such as cheaper telephone installation fees and free motorcycles. Huang Tianshun himself built a huge luxury house and purchased a Mercedes-Benz 500 for his personal use. "The money was suspected of coming out of the village's 'little coffers' (*xiao jinku*) during the threat of economic recession." The villagers who were excluded from the leadership felt deprived and envious. Dissent and rumours spread quickly in the community. In addition to embezzlement, Huang was accused of being "undemocratic in his style of leadership." He did not call any meeting of the villagers' council (*cunmin dahui*) for almost two years. Also, he seldom participated in the meetings summoned by the township government. Yet, his behaviour was still tolerated by the township leadership.

At the end of 1993, Huang and his staff were still optimistic about the

economy and signed a very boastful target responsibility with the township government, in which total social output for 1994 was set at 102 million yuan. Unsurprisingly, actualized output was only a few million yuan. More intolerable in the eyes of Huang's rivals was that he inflated to the media an output figure of 160 million yuan.³⁷

Villager Protests and Government Response

The internal contradictions broke out at the end of 1994 when the village re-elected the members to the villagers' committee. Huang's opponents participated in the campaign but lost. They accused him of cheating and of unfair election practices as well as of embezzlement and abuse of power. Some villagers collectively went to visit the district government during the election campaign. They asked the government to dismiss Huang. But their voices were not heard by the district officials until they took the action of a collective petition to the city and provincial governments where the protesters ended up clashing with the armed police.³⁸ The district officials then feared that the incident would affect their own political fortunes, so they became responsive and sent investigation teams and work teams to the village. Nevertheless, the peasants persisted in protesting, and even blocked the gates of the village office and four enterprises for several months. Finally, the secretary of the district party committee had to go to the village, pacifying the angry villagers and negotiating with the "agitators behind the scenes." The secretary accepted several demands of the villagers, including agreeing to hold a re-election for members of the committee. But this obviously did not settle the issue. Dissent and sabotage continued. Some peasants even privately redistributed the responsibility lands among themselves. The government finally realized the gravity of the situation and decided to crack down. Three days before June 4, the police arrested three "leading figures of the mob." Meanwhile, the party forced Huang to "voluntarily submit a letter of resignation." In reality, he was forced to step down from the village leadership,³⁹ and consequently he lost his position as general manager of the group corporation.⁴⁰

The villager protests took the district officials by surprise because they had ignored the peasants' complaints. They were puzzled over the questions: "who led the collective action?" and "why were the peasants so angry and daring?" In the official report, investigators interpreted the whole event as being manipulated by "a handful of ambitious former village cadres who

mobilized themselves through kinship ties."⁴¹ Ironically, those people behind bars were not the accused "agitators" in the government's internal reports. Obviously, the authorities did not want to ignite the sentiments of these "backstage figures" ("kinship forces in opposition to Huang's clan").⁴² However, the origins of villager discontent definitely went beyond the conflict of political factions between Huang and his challengers as interpreted by the government.⁴³ There were other problems: in the first place, the complaint of "too much collective accumulation, and too little distribution," which meant the benefits of development were not fairly distributed in the community; and a big portion of collective profits were shared by a few core members of the village leadership. Feelings of envy were a catalyst for the collective action.

The fundamental problem originated from the arbitrary cadre power in the managing of the collective land. Discontent over the appropriation of land caused the most serious conflict. Most of the farmland occupied to develop industrial zones was taken without prior agreements with the farmers holding the leases. In addition, compensation was unreasonably low, as the "waiting-for-job subsidy" was merely 20–50 yuan a month. Another dispute was over the distribution of *zhaijidi* (land for building family houses). Huang was accused of granting his favourite cadres larger strips of house land. Nepotism also occurred in the realm of birth control. Some cadre families were given above-quota birth licenses while others were fined severely.

After Huang Tianshun stepped down, the government had to establish a new leadership. Officials regarded the leadership change as an opportunity to overhaul the village power structure. Without holding the promised re-election, they directly appointed a vice secretary of the township party committee as the new village secretary, and a district official as the director of the villagers' committee. This was a reversion to the political arrangements before 1984, when Huang had been selected as the head. In this way, the challengers to Huang's position did not get what they wanted. They could win a free election since they represented the majority of families in the village. The officials justified the authoritarian measures by simply interpreting the event as a power struggle: "It is even more chaotic than during the Cultural Revolution ... A democratic election is not really what those people want. That cannot produce real democracy, but only cause disorder and tyranny."⁴⁴ Interestingly, party rectification (*zhengdang*) emerged as the instrument for the officials to contain the rural unrest. A team composed of

thirty-two district officials led by the party secretary took charge of the reforms in Xijia.

During the investigation of Xijia, the district officials also discovered a very uneasy fact: serious decay in rural party organization. During the eleven years of rule by Huang, the Xijia party branch (*dang zhibu*) only recruited five new party members; and the average age of the thirty members was over fifty. In fact, decay in party organization is a common phenomenon in the rural areas of Yinhe, particularly in the economically advanced villages. Collective protests have occurred frequently in recent years, mostly over distribution of the fruits of development. In the wake of the Xijia protest, the party decided to launch a "stability project." Every senior official in the district government was responsible for a village, a method called "village supervision responsibility" (*baocun lianxi*). They were required to coordinate between various departments in the district and the township governments. The district party secretary himself took charge of the "most unruly Xijia village." This campaign was carried out in the countryside of Yinhe during the summer of 1995, and the leadership of some twenty villages had been reorganized by the end of August. It is interesting to note that, among the seventy-two villages in Yinhe, only one was exempt from the campaign; and no district official was sent down to investigate its internal operations. This was Dongjia village which we will examine below.

The Rise and Crisis of Dongjia Village

On a steamy summer day in Tiger township in 1994, the district party secretary summoned rural cadres to a conference on rural development. Secretary Wang spoke at the meeting, demanding all village heads to learn from the successful lessons of Dongjia village.⁴⁵ He praised Mr. Dong Haonian as a model leader who changed his community from a "tiny poor village" in the 1980s to a "great conglomerate" with five "dragon-head companies" and twenty-seven subordinate collective units in 1994. Dongjia village was indeed transformed into an industrial park within a few years, unlike Xijia where farmland was merely enclosed without actual development projects. Agricultural activities were insignificant by 1993; and there was no farmland left in 1995 (see Table 11.10 below). Secretary Wang believed that this was the key to its rapid growth. He concluded that the great development was a combination of several factors: Mr. Dong's shrewd action in grasping the open-door opportunities, his generous concessions to investors from

outside, and his bravery in borrowing money for development. He urged the cadres to establish industrial zones in each village by giving them quotas. He suggested, "Don't worry about approval from the upper-level government. Just do it. You all know, some localities have built huge projects, using a lot of land without approval. They didn't get into trouble"... As the secretary became excited when advocating his "grand strategy," some cadres, after enjoying the plentiful luncheon provided by Dongjia, fell asleep and snored. Mr. Dong became angry and changed his topic and tone:

You lazybones! If you don't reform, I will dismiss you in the coming election. It won't help even if we kill these guys. Just feed them up. Don't let them do anything, lest they obstruct reform!

The above scene sets the stage for our analysis of Dongjia. The village, following in the footsteps of Xijia village several years earlier, now served as an advanced model for other villages. Documents for cadre education had already been passed down to the grass-roots level several times. Local officials were sent down to the villages to teach cadres how to develop the economy. But there seemed to be little change. Hence the party leader himself went to give a talk. As a matter of fact, this kind of work conference was not rare in the countryside. Ironically, most of the cadres summoned regarded these meetings as free dinner parties. What interests us is not the effects of such meetings, but that they reveal the role of local officials, their interaction with rural peasant cadres, and their anxiety about economic development. Secretary Wang's mentality was characterized by what may be called a "syndrome of late development."

Zhengzhou was definitely not backward in comparison to most other interior regions. However, when compared with the coastal area, its development lagged (see Tables 11.7a and 11.7b above). When the city was formally permitted to open to foreign investment in 1992, officials saw this a great opportunity for development. The economy of Zhengzhou had several features typical of late development in the inland: a low level of indigenous capital accumulation in the countryside, the decline of the state sector, and hence low bargaining power vis-à-vis foreign investors. All these factors motivated the local governments to intervene, as noted above. "Local collusion" was encouraged by high-level officials under the name of grasping opportunities (*zhuazhu jiyu*). As a main speaker at the meeting, Dong Haonian, the head of Dongjia village, said confidently in front of his boss from the district government:

Our middle-level officials (township and county) are not liberated in their thinking, such as the cadres in the departments of urban construction, tax, and so on ... There is too much red tape that impedes the development of enterprises. I can't do anything if everything must strictly follow the "red-head" documents (formal documents with red rubric). Fish do not thrive in clean water (*shuiqing wuyu*). Everybody knows, there is a limit of three mu for each development project according to the document, but you just do it, and feign ignorance. We have twenty plants without registration for the land certificate and license. But we don't have trouble.

Dong's speech was so frank that it was like a living example for Secretary Wang's pep talk. His style probably can be attributed to the trust that the government had put in him since his village was then the most developed in economic terms. Dongjia not only took the lead in industrial output, but also was the most successful in establishing joint ventures with outsiders. How did Dong Haonian achieve this within only a few years?

The Rise of a "Peasant Entrepreneur"

Dongjia was a very small natural village. It had a population of less than 700, with arable land of only 68 mu at the end of 1993. Most land had been taken for industrial projects (see Table 11.10). Its political leadership had remained unchanged for almost two decades since the end of Cultural Revolution until Dong Haonian was elected director of the villagers' committee in 1988. Dong's election reflected his vision and strategy. He was a virtuoso of politics.

Mr. Dong was a typical "peasant-turned-cadre entrepreneur" during the reform era. He began his career in 1984, when he first built a paint plant.

Table 11.10: Basic Data on Dongjia Village, 1993, 1995

	1993	1995
Villager small group (<i>cunmin xiaozu</i>)	1	1
Number of rural households	336	289
Rural population	694	653
Land area	795	795
Arable land (mu)	68	0
Arable land per capita (mu)	0.1	0
Net income per capita (yuan)	2,449	2,837
Unit of major enterprises	25	30

Sources: Information from field work and *Yinhe Statistical Yearbook*, various issues.

The paint business turned out to be very successful. Dong soon became a "ten-thousand-yuan-household" (*wanyuanhu*) and was famous within the township. He was said to be generous, devoting considerable energy and money to village welfare. In 1988, he decided to donate his paint plant to the village to contribute to his fellow villagers' collective wealth. Thereafter, he was elected as the head of the village, a critical event for his subsequent development.

Dong took several measures to change village life, similar to those that Huang had enacted in Xijia. He combined the three villager small groups into one group.⁴⁶ He unified financial management into the hands of the village cadres. And he began to appropriate land for industrial projects and he set up a group corporation. He appointed himself as both chairman and general manager. However, Dong developed a different strategy from that of Huang to attract investment from outside. First, he borrowed a huge amount of money to build new enterprises. The debt was estimated as much as 120 million yuan by the end of 1994. Because most of this money was borrowed from private banks, the interest rate was very high.⁴⁷ In addition to private sources, a small portion of Dongjia's loan was offered with a low interest rate by the government. For example, a "spark project" sponsored by the State Science and Technology Commission lent money to the steel mill to buy an oxygen maker. The interest rate was only 4 percent annually. This indicates that Dong had good *guanxi* (connections) with government officials. Dong was nicknamed "Dong *Dadan* (brave)" by his colleagues because of his audacity to borrow large amounts of money.⁴⁸ Because of Dong's borrowing philosophy, servicing the debt would later become a big problem for the village.

Second, Dongjia was among the first in Yinhe to build a pseudo-foreign (*jia yangguizi*) company to enjoy favourable government treatment. In 1991, a female friend of Dong Haonian took millions of yuan to Southeast Asia and remitted it back to Zhengzhou. This money then became a fund for foreign investment in 1992. In reality, four of the five foreign investments in the village were such pseudo-foreign ventures. Interestingly, the city officials liked to tell this story, as an example of their flexible use of state policy.

Third, Dongjia adopted an innovative scheme for distributing shares of enterprise ownership. It stipulated that collective shares should not be more than 40 percent of the total capital, while private shares could be as much as 60 percent. Moreover, the skills and expertise of the managers and

technicians ("intellectual property rights") could count as a part of the investment. This sweet formula allowed, for example, the manager of a profit-making steel plant to earn a dividend of 1.5 million yuan in 1991.⁴⁹ Although according to a district official, the private shares in the village collectives cannot exceed 50 percent, Dongjia's generous concession to outsiders was highly praised in official documents.

Fourth, when setting up joint ventures, land was used free of charge by the enterprises. This measure was particularly attractive to outside investors. The rationale for this method was that, as Dong explained, "the rights of the land remain in the hands of the collective." In this way, the village cadres convinced the peasants that the collective land was not sold. Thus, they should not ask for much compensation. Dong said, "The peasants didn't ask for much; they are easy to be satisfied." Most of the farmland was appropriated in this way in Dongjia. In 1993, there remained less than 100 mu of land contracted to the villagers. In that year, Dong Haonian announced that all land was to be taken back by the village office within one year. Anyone who wanted to hold the land tenure had to pay a large amount of *tiliu* (rents to the village office): 1,500–2,000 per mu for one year, depending on the category of land. Coupled with the new land policy, a compensation programme was provided to the peasants who lost land: 100 yuan for children (between the ages of 6 and 16), 60 yuan for adults (ages 17 to 45), and 120 yuan for the retired (over age 46) per month.⁵⁰

Consequently, most of the land occupied by the enterprises was not submitted for formal approval. Officially, there were two kinds of certificates: collective land certificates (*jiti tudi shiyong zheng*) and state land certificates (*guoyou tudi shiyong zheng*). The major difference is that land rights in the state certificate can be transferred whereas those in the collective certificate cannot. But in order to obtain a state land certificate, the applicant had to pay a variety of fees to the government and appropriate compensation to the peasants.⁵¹ According to an official at the Land Bureau, there were eighteen cases of illegal utilization in Dongjia by mid-1995; that is, the village did not even apply for collective land certificates.

Based on the above tactics, Dongjia held a competitive edge in attracting investment. The village not only provided investors with free use of land, but also working capital through borrowing. Besides, the village obtained favourable treatment from the government. As a result, Dongjia exhausted its farmland within a few years (there was no farmland by 1995). The area was entirely transformed into an industrial zone. The village reported a total

social output of 95.5 million yuan in 1993, with 10.1 million yuan of profits and tax payments. Dong Haonian and his colleagues, unlike Huang Tianshun in Xijia, had a tough management style. They participated actively in the enterprises. In short, they acted like entrepreneurs. However, a major part of their daily work was devoted to "coordinating" with government officials for privileges and favourable treatment.

Guanxi, Tax Breaks, and Legalization of Lands Occupied by Enterprises

Dong Haonian kept a low profile in his personal life, even after he was "suddenly discovered" by the party, and he was promoted for propaganda purposes. In contrast, Huang of Xijia drove a Mercedes while the village was coping with a financial crisis, while Dong drove a Hyundai even though his factories were making good money; and Dong allowed his managers to drive better cars, such as Peugeots. He became a CCP member in 1993. In the same year he was given the title of model worker, elected a representative to the provincial people's congress, and a vice secretary of the township party committee. His success story was widely circulated in 1994. Dong cultivated connections with township and district officials by offering banquets and gifts. The expenses were apportioned among the village enterprises. For example, Tailyu Aluminum, a joint venture with a Taiwanese company, had to pay 500,000 yuan per year to the group corporation for public relations.⁵² The village also operated a fine restaurant that became a meeting place for the powerful local elite. In 1995, the village spent millions of yuan to build a luxury resort hotel that provided sauna and massage services. Government officials received free services. Patrons included officials in the Public Security Bureau.

The payoff from *guanxi* was evident in the generous tax breaks granted by the Tax Bureau. Archival research in the District Tax Bureau sheds light on this. Of the five major enterprises, three enjoyed a total tax cut (value-added tax and income tax) of 1.5 million yuan during the 1993 fiscal year.⁵³ This amount of the tax cut was very close to reality when double-checked with the data obtained at the township branch of the Tax Bureau. Even so, Dongjia Group Corporation remained a "big tax-payer" (*jiaoshui dahu*) in the area; it paid up to 2 million yuan in 1993, which was roughly 75 percent of total tax revenues in Tiger township.⁵⁴ This is because Dongjia maintained better enterprise management than other villages that exaggerated their performance.

Dong Haonian also maintained good connections with officials in the Land Bureau. Recently, he decided to apply collective land certificates for industrial lands. Because he had solved the problem of peasant compensation with low costs, he could proceed with *de jure* control of land rights. This was a multiple-stage strategy of land appropriation. Once he had the collective certificates in hand, he could go ahead with the state certificates as a last step. Representing a new model of rural industrialization, Dong enjoyed full support from district officials. "Now that his illegal occupation of farmland has become a *fait accompli* (*mu yi cheng zhou*), people in the city government will cover for him," said an official in the Land Bureau, "We are required to coordinate with him. We'll go to the village to take his applications." The legalization of the enterprise lands was a part of Dong Haonian's grand plan. He said the village would embark on a transformation of property rights with a privatization project in 1998. He would abolish all the collective shares of the enterprises, dividing them up among the managers and villagers. What he meant was actually a restructuring of property rights through a shareholding system.

Slack Business and Crises Ahead

Although Dongjia's prospects looked bright, there were some potential problems. First of all, a few businesses turned out not to be as successful as expected. The expanded steel mill has been idle for years because of a slack market. Likewise, Tailyu Aluminum was also hit by over-competition in the market.⁵⁵ Another problem was caused by the rapid expansion itself. Most of Dongjia's capital was borrowed at high interest rates from private sources; it reached 120 million yuan in 1995. The servicing of debt became a heavy burden, especially during the slack season. Conservatively estimated, it had to pay at least 17–25 million yuan to creditors every year. Therefore, sometimes new loans were barely enough to repay the old debts. Lack of working capital embarrassed the enterprise managers. But as the central government was implementing its austerity programme, the money supply was pretty tight, even on the private market. As the director of the financial department in Tiger put it vividly, "Dong Haonian can survive if some people lend him another 150 million!"

Even worse news hit the village when the centre installed the new tax-sharing system in 1994. Under the pressure of the new fiscal system, the local government had to reduce the tax breaks offered to the TVEs. An

official in the Tax Bureau branch of Tiger said, "Last year (1993) we let the electrical equipment plant (of Dongjia) have a break of 600,000 yuan. This year we expect to collect 800,000 yuan." More tax payments were to reduce the profits of the Dongjia group. This in turn would affect its contribution to village welfare. To meet welfare expenses, an option was to exact more funds from the group enterprises. But the enterprises would suffer serious financial burdens under such an option. A dilemma of rapid growth and redistribution thus emerged under the new tax system. During the prosperous years, Dongjia provided villagers with better welfare than its neighbour, Xijia village. However, if all these negative factors were to occur simultaneously in the future, the new model village would suddenly crumble.

Fortunately, such a nightmare has not been realized, thanks to Dong Haonian's political connections. The last resort to bail out his group was still the village land that had allowed for his rise in previous years. Dong used his *guanxi* to win a new project from the city government in 1996. The village was selected as a "model village within the city" (*dushi cunzhuang*). The government promised to construct roads and an electricity transmission station in the village by tearing down eight (money-losing) village-run enterprises. This project would transform the village into a part of the suburban area. More importantly, the village was applying state land certificates for the enterprises. Once finished, the village would be able to transfer (sell) the factories and land to outside investors. At least, Dong could use them to borrow from the banks by mortgaging the land. Obviously, this was a part of his ambitious privatization schedule. If the project went well, Dong could avoid the danger of bankruptcy and accumulate more wealth. However, the privatization scheme would inevitably sacrifice the interests of the villagers who were not in his small elite group. Some opposition voices were already heard in 1994-95 concerning Dong's tricks to appropriate farmland. Thus, one may expect that villager discontent will erupt if Dong cannot satisfy the demands of the villagers. If such a scenario really occurs and if villager collective action cannot be contained, Mr. Dong might follow the bad fortune of Huang of Xijia.

Implications of the Forged Industrialization

In the above we have analyzed the origins of local government-directed industrialization in Zhengzhou. We have also examined how local officials

intervened in rural industry and how they responded to village conflicts due to cadre abuse of power. One may cautiously infer from the cases of these two model villages that the pattern of hastily forged industrialization has caused more trouble than benefits for the peasants. Although the research focuses on the inland areas, its implications are not limited to it. Problems similar to those disclosed in this study, such as cadre tyranny, predatory land relations, and distributional conflicts, are also found in the coastal areas. In fact, such problems have also afflicted a few model villages along the prosperous coast. By throwing light on a dark corner of China's rural economy, this study calls for further cross-regional comparison. Several implications will be elaborated upon in the following.

Contradicting the Benign Image of Rural Cadres

Recent work on Chinese rapid growth points to the theme of the local developmental state. New concepts are coined to illuminate the reform dynamic. Fruitful concepts include market transition and hybrid ownership (Nee, 1989 and 1992), local corporatism (Oi, 1992 and 1999; Lin, 1995; Nee and Su, 1996), particularistic contracting (Shirk, 1993), and local government ownership (Walder, 1995). Although these works often contradict one another, there is a common feature: a consensus on promising prospects for Chinese rural development.⁵⁶ In addition, most of them tend to emphasize the significance of local officials on the positive outcomes of rural industry. For example, the perspective of local state corporatism stipulates a non-corrupt cadre as a premise for the analysis. Oi, in her influential article of 1992, states:

For the purposes of this analysis I am assuming that cadres are noncorrupt. Obviously some are. But corruption is not a very useful explanation and would leave unexplained the impressive growth that has taken place in China's rural economy. Moreover, rapid economic growth does not preclude the well-being of those local officials ... the new budget constraints imposed by the fiscal reforms compel the local officials to keep their own greed in check and use the profits and revenues from local enterprises to fund local expenditures and for reinvestment (p. 113, note 44).

By playing down the factor of corruption, Oi's work neglects an intriguing issue in Chinese rural development. As the above case study indicates, it is corruption — in the form of cheating, bribery, and graft — that has fueled the rapid industrialization.⁵⁷ By the same token, it is "corrupt local

collusion" that has caused unequal distribution of economic benefits and villager discontent. Oi also overlooks the fact that the well-being of cadres was attributable to corruption, more than to the normal above-target bonuses (cf. Rocca 1992). In this regard, her assumption is empirically inaccurate as well as theoretically limited. We must not postulate *a priori* an ideal role model for local officials in order to explain rural change. On the contrary, corruption is a significant factor in understanding the emerging negative consequences of China's rural economy. Oi's line may be dubbed a "benign image" of rural cadres and officials. No wonder that the problems of rapid industrialization are left unexplored in this perspective.

This research has tried to solve the puzzle of rapid industrialization and peasant protest by taking into account the internal workings of local collusion. Unlike the benign perspective that sees Chinese village life as harmonious and nonconflictual, this study finds that corrupt collusion and cadre tyranny are a part of daily life in the countryside. The latecomer mentality of local officials encouraged a pattern of forged industrialization, which in turn resulted in predatory land relations and hence rural dislocation. This pattern of economic growth gave birth to a dominant class of cadre-entrepreneurs. The Chinese village seemed to have been stratified into two distinct groups: a coalition of entrepreneurs and powerful clans on the one hand, and powerless villagers deprived in the process of industrialization on the other. It thus sowed the seeds of *distributional* conflict. When the demands for sharing collective benefits evolved into open conflict, local officials often initially disregarded them. When they realized that this could affect "political stability," they opted for cracking down on the protesters, as demonstrated by the story of Xijia Village. The government appears to have recognized the *status quo* of cadres' economic dominance, as exemplified by Dong Haonian's strategy in transferring public ownership into personal coffers.

To sum up, rapid growth, cadre self-interest, and peasant protest are causally intertwined in rural industrialization. The problem is now one of how to make sense of obviously corrupt local politics in the context of China's transition from state socialism.

The Prevalence of Local Collusion

Why was collusive behaviour so prevalent in a developing nation like China? To understand the incentives of local officials, we need to observe the

historical change in the role of officials. Economic development became "imperative" for local governments as the function of officials shifted from "political supremacy" in the Mao era to "getting rich" during Deng's reform. The Chinese reform adopted a strategy of "partial reform" based on double-track pricing and particularistic contracting (Shirk, 1993; Naughton, 1995). Both measures effectively motivated local officials to enlarge their own tax base and enforce their "residual rights" of over-target production (Wong, 1992; Oi, 1999). Specifically, dual-pricing helped create space for bureaucratic rent-seeking while particularistic contracting encouraged clientelist patronage. These two elements together provided tremendous loopholes for local collusion, that is, interest exchange between local officials and rural cadre-entrepreneurs.⁵⁸ This was an institutional dimension in the rampant operation of *guanxi* in the reform era (Wu, 1997b).

The anxiety of local officials to seize development opportunities further exacerbated local collusion. As revealed in the Xijia story, the county party secretary spurred his village cadres to court foreign investors: "Don't worry about approval from the upper-level government. Just do it. You all know, some localities have built huge projects, using a lot of land without approval. They didn't get into trouble." Consequently, the latecomer mentality, subtly, extended the umbrella for cadre cheating and tyranny in the village, as long as the rapid industrialization appeared to deliver "collective development." This helps us understand why the chief of Dongjia village so proudly boasted about his trick of "just do it and feign ignorance."

Here one wonders if upper-level officials and the central government understood the gravity of local collusion. In reality, the centre ignored such local behaviour if it was believed to bring about rapid growth. Thus, many of the problematic implementations of central policies were recognized afterward in the name of government credibility; particularistic contracting itself has allowed a huge gap for flexible local interpretation. The ubiquitous fake collective enterprises — a good case of collective cheating behaviour — will further illuminate the issue. It is an open secret that numerous private investments exist as collective enterprises. Why? Let me borrow a concept from James Scott. The Chinese people have been periodically reminded that China remains a communist country whose economic organization is based on "public ownership." Therefore, where power relations are involved, a "hidden transcript" and *infrapolitics* may arise coupled with the conformist "public transcript" (Scott, 1990). Everyone in China knows how to do the trick. For the higher authorities, the pseudo-ownership

arrangements at least fulfil an official need: they conform to the state-sanctioned ideology of public ownership.

No wonder the central government could still proclaim that “the national economy is steered by the public ownership” at a time when state enterprises actually produced only a small portion of the national industry. The popular practice of false ownership registration in effect saved the “face” of the central government, and was thus tacitly welcomed by the centre. In a sense, local collusion may be seen as a special form of infrapolitics. Yet, it should be noted that this insider’s game in essence involved asymmetric power relations: the powerless in the village were ruthlessly dominated by the powerful cadres. As the Xijia story reveals, the peasant collective protests could at best bring down their hated village chief, but they could not change the power structure. It is evident that local officials hid the “scandals” from upper-level government while ruthlessly punishing the “unruly villagers.” The “common interest” between the village chief and the county government resulted in the tragic outcomes for the villagers.

Two Images of Chinese Rural Politics

Now we can contrast two images of the Chinese countryside, respectively offered by the “benign school” and the present study that suggests a more reserved estimation of the Chinese rural economy. Table 11.11 below provides a brief scheme for this comparison. We need to make it clear from the outset that each of the images represents a pure type on the spectrum of cadre behaviour. The reality is always mixed in between the two extremes. It is pointless to demonize the rural leadership. Similarly, there is no need to glorify them. The contrast is only to facilitate comparative analysis.

To my knowledge, local corporatism comes closest to the positive image. According to this perspective, rural cadres — through local coordination — steer the rural economy toward development, which in turn brings

Table 11.11: Divergent Images of the Chinese Village

	Positive Image	Negative Image
Village leadership	Benign/coordinating	Corrupt/collusive
Behavioural outcome	Development-oriented	Financially-predatory
Village welfare	Equitable redistribution	Unfairness and deprivation
Mode of interaction	Harmony	Conflict
System implication	Stability	Dislocation

about a positive redistributive effect on village income. Meanwhile, village leadership and ordinary villagers, though bifurcated in power relations, interact in a harmonious manner. Therefore, conflict between leaders and villagers is presumed to be unusual because the paternalistic system tends to be inherently stable.⁵⁹ I argue that this description of village life in contemporary China is empirically rare, if not nonexistent. To illustrate, the celebrated Daqiuzhuang (Tianjin) as a prototype in Lin's work (1995) has recently stumbled as its paramount leader, Yu Zuomin, was imprisoned for abuse of power and corruption. Although Yu's misfortune did not altogether destroy the village economy, it nevertheless unravelled the ideal image of this paternalistic paradise.⁶⁰ In the history of the PRC, model villages could abruptly collapse once the conditions for their initial success were changed. When the political climate changed and the ideological line was altered, the truth about the fabricated miracle was revealed. This was the doomed fate of Dazhai, a star commune in Mao's time. Here we observe the continuity of political propaganda in waging an economic campaign.

A major implication of this research is the issue of potential instability in the Chinese countryside. In effect, peasant protests have accompanied the rapid industrialization. Three types of rural conflict can be identified during the reform era. First, there was the problem of "envious cadres." In the initial stage of reform, as cadres felt they suddenly lost their economic power as a result of the household contracting, they mobilized villagers infected with "red eyes" to protest against the new rich (Perry, 1985). As the reforms have progressed, this type of rural collective action has faded. It turned out that the rural cadres were among the major beneficiaries of the market reforms.

A second problem was the old sore of heavy exactions on peasants. The centre has tried to hold down the rural burden rate at 5 percent, but has failed. The burden rate was actually much higher than that permitted by the central government (Lu and Zhang, 1994, pp. 129-31).⁶¹ The peasants have obviously lost faith in the government's expressed policy to crack down on illegal exactions. According to a national survey conducted by the Ministry of Agriculture in 1993, 73.8 percent of the peasants did not believe that the policy of eliminating illegal exactions can be carried out (Lu and Zhang, 1994, p. 132). The problem was more severe in the less-developed regions. Following the 1994 tax reform, the situation further deteriorated as the new system forced local governments to squeeze more extrabudgetary revenues

from the rural areas. A pattern of collectively resisting illegal exactions thus occurred, particularly in the poor inland areas.

Finally, a new pattern of rural unrest emerged in the rapidly industrializing areas, as revealed above. This research emphasizes the unequal distribution of the fruits of development. The benefits offered to ordinary villagers were usually scorned as "chicken feed," compared to the generous bonuses taken by village cadres. Moreover, cadres often grabbed extra income through the well-known second, little coffers. There was a conflict between cadre power and rural development. In theory, village life could be greatly improved under "capable and noncorrupt leadership," as exemplified by a handful of model villages under the collectivist property system. Yet, these were exceptional cases, whereas corruption and cronyism more commonly took place. The simmering distributional conflict relates to arbitrary cadre power in collective land management. The contradiction in land institutions in the rural areas is deemed to be the most awkward issue for the centre's deepening reform in the future.

In conclusion, this study suggests that the rural situation is not as healthy as some observers have described. On the contrary, the Chinese rural political economy is facing trouble resulting from government-steered industrialization. The latecomer mentality of local governments has inadvertently generated rural dislocation and peasant contention. These are the disgraceful consequences of the market reforms behind the facade of collective ownership — the dark side of a *local dirigisme*, Chinese style.

Appendix: A Brief Note on Field Work

Rural Zhengzhou was chosen for the case study because of its delayed open-door sequence, as well as for its relative economic backwardness and strong government intervention. Multiple-level analysis was conducted in this research. Aggregate data were in part collected through documentary research in Hong Kong (Universities Service Centre at The Chinese University of Hong Kong), Taipei (Chung-hua Economic Research Institute), and New York (Starr East Asian Library of Columbia University). Some data were compiled through archival studies in Zhengzhou. The field interviews were primarily conducted in Zhengzhou. My research travel to Suiping, Luoyang, and Jiuyuan in Henan and to Bazhong in Sichuan also helped bring together information necessary for the argument. Most of the fieldwork was done during 1994–95. Afterward I received updated data

through correspondence with informants. For ethical considerations, I cannot acknowledge the assistance I obtained in the field. For similar reasons, code names are given to the people, locales, and institutes in this study as is common practice among ethnographers.

NOTES

1. See, for example, Zweig (1991, 1995), Oi (1992), Lin (1995), Nee and Su (1996), and Qian and Stiglitz (1996). The volume by Byrd and Lin (1990) provides useful information about several case studies in the interior provinces, but the research on these cases was conducted in the late 1980s.
2. The works by Oi (1992) and Lin (1995) are representative of this model. The work by Zhiyuan Cui (1995) also belongs to this genre by promoting the "shareholding cooperative system" (SCS). For a critical review of the SCS model and local state corporatism, see Wu (1998b).
3. The term "latecomer mentality" is used following Gerschenkron's original work on the interrelationship between economic backwardness and the state's heavy role in guiding industrialization (1962). Note that Gerschenkron's scheme is used to compare national economies for those latecomers in the nineteenth and early twentieth centuries. Here the concept is used instead to describe and compare the behavior of local officials in a single country.
4. Cross references to other regions of China are noted throughout this chapter. The author assumes that the readers are interested in cross-regional comparison and are familiar with the relevant issues involved. See other chapters in this volume for other regions.
5. Zhengzhou is the provincial capital of Henan. It is composed of six urban districts and six other neighboring cities and counties. This administrative design, called *shiguanxian* (city manages county), intends to narrow the urban-rural gap. Zhengzhou had a total population of 6 million at the end of 1995, among which 68.5 percent was rural.
6. For the dynamics of rural privatization in Wenzhou, see Liu (1992), Parris (1993), and Wu (1998a, chapter 3).
7. For the model of southern Jiangsu, see Fei (1986), Tao (1990), Huang (1990), Christiansen (1992), and Wu (1988a, chapter 3).
8. See Bo Yibo's memoirs (1993, chapter 26) about the origins of the Great Leap Forward. He gives a vivid first-hand account about how the planned figures were inflated at one official level after another.
9. One jin is equivalent to half a kilogram. One mu is equivalent to 666 square metres. I visited several villages in Suiping in the early summer of 1994. It was interesting to find that the senior peasants (from ages 55 to 65) with whom I

talked nostalgically recalled Mao's time. They thought that prices were stable and life was easier before the market reforms. Their living standards in real terms did not improve much after the reforms, except that they received some cash remittances from their children working in coastal factories. This was the only real gain for them. In addition, the peasants seemed to play down the painful memories of the Great Leap Forward, and they expressed discontent about the current reforms.

10. According to the grand plans, steel output would be doubled from 5.35 million tons in 1957 to 10.7 million tons in 1958; furthermore, it would reach 27 million tons in 1959, and 80–100 million tons in 1962 (Bo, 1993, pp. 691–702).
11. Bo (1993, p.739).
12. Xinyang district included twenty counties at that time. Suiping county mentioned above then belonged to Xinyang. The government archives about this incident are still classified. The number of casualties was revealed by a government researcher in Henan.
13. *Zhengzhou Yearbook* (1985, p.174).
14. Certainly, the revised number itself may have been inflated to some degree to ingratiate the local leaders with the new state policy.
15. Yinhe (pseud.) is an urban district between the prefecture and township level, equivalent to a county. Yinhe is composed of five townships (72 administrative villages) and ten urban neighborhoods. Its total population was 569,100, with 23.3 percent rural residents in 1995. Although Yinhe is an "urban district," its rural area is not different in economic structure from other agricultural counties. The two villages we will examine are situated in Yinhe.
16. Ma Zhongchen, "Liberating Thoughts and Strengthening Power to Enhance the Level of Opening for our Province" (internal document collected from fieldwork).
17. Xizhu (pseud.) is a prefecture-level city in the Pearl River Delta. Its development is emblematic of the Pearl River Delta during the reform era.
18. Under this system, farmland was divided into responsibility fields and ration fields. For more details, see the following in-depth cases.
19. Xinzheng is a county-level city in Zhengzhou.
20. Zhang Haiqin, "Developing a Market Economy is a Necessary Road for Reconstructing Xinzheng" (internal document collected from fieldwork).
21. *Ibid.*, pp. 15–16.
22. See, for example, *Henan Ribao*, May 11, 1994.
23. Take the most famous "red million-yuan village" of Nanjie as an example. According to the villagers' committee: "No one is allowed to transfer his responsibility field to other villagers or to people from outside. No one is allowed to leave the fields uncultivated." See "Insist on the Principle of

- Vigorously Grasping the Work of Civilization and Wealth with Two Hands" (internal document collected from fieldwork).
24. In fact, definitely more than 7,759 people were transferred because we have to add in the natural growth of the population.
 25. "Vigorously Pushing the Institutional Reform of Land Utilization," p. 22, in *Land Work Bulletin* (internal publication), no. 1, 1995. Illegal approval by the government means that the approved project surpassed the delegated discretion by the upper-level government.
 26. "Enhancing Awareness, Grasping Key Points," p. 29, in *Land Work Bulletin*, no. 1, 1995.
 27. The Zhengzhou city government stipulated a eight-rank scale of land prices in 1995. The price of industrial land ranged from 70 to 950 yuan per square metre, depending on location.
 28. Literally, *zhandi gong* means "land-occupied worker." A peasant becomes a "worker" in compensation for the appropriated farmland.
 29. Henan was among the provinces most seriously troubled by *da baitiao*. See "Some Thoughts on the Phenomenon of *Baitiao*," *Henan Ribao*, February 16, 1993.
 30. The Xijia administrative village comprised only a natural village.
 31. According to the official data, Xijia had only 1,036 mu of arable land. But in fact, the village hid about 400 mu from the government to evade the agricultural tax. The village head called it "*yintian*" (hidden fields) which has been common practice among Chinese peasants since ancient times.
 32. "Huang was a little hesitant at first when asked to take the leadership because the collective coffers then were almost empty. Yet he was soon persuaded by the township officials. Huang had been the head of a production team since 1968, when he was only eighteen. He was highly respected by his fellow villagers for his industriousness" (field interview). At the time of Huang's promotion, the party also appointed a new secretary (a local resident as well) to the village party branch. It appeared that the secretary was in effect under the leadership of Huang due to the latter's higher prestige and power within the community.
 33. Each lease for these responsibility fields was signed for a period of ten years.
 34. The individual units in effect had nothing to do with the group corporation. Being included in the group meant they had to pay management fees. According to internal material, "Each enterprise invested by individual villagers should pay 3,000 yuan of the contract fee every year, and a management fee of 1 percent of sales" ("A Collection of Documents of Xijia Village Double Civilized Construction," internal document collected from fieldwork).
 35. "Adapting Local Conditions for Development," internal document, p. 10. Note this compensation was very low, compared to the standards in southern Jiangsu.

36. Every "retired resident" was eligible for twenty yuan a month.
37. This information was double-checked with the field interviews and two internal inspection reports conducted by the office of the party committee of Yinhe ("Why Did the Advanced Villagers Protest?" and "A Report of the Investigation on the Problems in Xijia Village").
38. The villagers organized six collective actions from December 1994 to May 1995. The number of participants ranged from 30 to 160.
39. "Huang is certainly to be dismissed, and has to hand over all his enterprises," said the director of Yinhe's policy research office in an interview.
40. The dismissal of Huang was regarded by the officials as a major concession to the protesters.
41. "Why Did the Advanced Villagers Protest?"
42. Ibid.
43. These problems were implicitly admitted by the government. Ibid.
44. Ibid.
45. Mr. Wang was a young official in his late thirties, recently promoted from the party committee of a suburban county in southern Zhengzhou. He had climbed the ladder of the party ranks so quickly because his county had become an outstanding economic success within a few years, according to an official in the district government. In the last decade, Henan had implemented a promotion programme for local officials, during which "agriculture-centred officials" are replaced with "industry-type officials."
46. According to the data provided by the township government, Dongjia had three villager groups, instead of one. However, in my field interviews I actually found there was only one group, and the data provided by the village office confirms my investigation.
47. The annual rate in private banking during 1993-95 was as high as 30-40 percent because of soaring inflation and the government austerity policy.
48. This strategy of "development based on borrowing" was praised in government documents. Note that Huang Tianshun was condemned in the investigation report for being "passive and conservative" because he did not dare to borrow money for development.
49. The story of the steel was mythical in the official propaganda: It had been built up in forty-five days, and earned back the invested money in four months. The manager spent the bonus on enlarging the plant. Encouraged by its initial success during the boom of 1992, another 15 million yuan was invested in new projects in 1993-94. Unfortunately, when austerity policies and slack business hit the plant in mid-1994, business came to a virtual standstill. The steel-rolling industry in China now is generally in trouble primarily due to over-investment. The price of steel for construction was 3,800-4,200 yuan per ton in 1991-92; it dropped to only about 2,400 yuan per ton in 1994.

50. "Welfare Management for Dongjia Villagers" (internal document collected from fieldwork).
51. The state certificate cost roughly 50,000–100,000 yuan per mu of industrial land in the rural areas of Yinhe. Most of the fees were taken by the government instead of being paid to the peasants.
52. Tailyu, a Taiwanese-invested company, was the only genuine joint venture in which Dongjia cooperated with a foreign investor.
53. These three units included the paint plant, a chemical factory, and an electrical equipment factory. The steel mill paid a turnover tax of 63,000 yuan in 1993. It paid no income tax since it had been losing money until recently. As for the Tailyu Aluminum Company, taxes were collected by the city-level Tax Bureau since it was registered as a *sanzi* enterprise.
54. The director of the township Tax Bureau Branch said, "We can collect 400,000 to 500,000 yuan from a major enterprise in Dongjia while the total taxes paid by Xijia for one year are no more than 200,000 yuan." This confirmed the serious recession in Xijia.
55. It was designed for a production scale of 12,000 tons per year, but actually, it produced only one-third of its capacity.
56. Note that Nee (1991) brings up the issue of inequality consequent to market transition.
57. A few recent studies reveal that in the initial stage of market reform, bureaucratic revenue-seeking activities may not necessarily obstruct overall economic growth (Smart 1993a and 1993b; Wu 1997a). This perspective to some extent contradicts standard rent-seeking theory (Buchanan et al., 1980; Tollison, 1982; and Tullock, 1990). A long-term historical structural analysis for specific countries is needed to qualify the rent-seeking theory. For further discussion, see Wu (1998b).
58. Citing Wu Jinglian, a leading Chinese reform economist, Shirk notes "officials sold contracts in exchange for bribes or political support" (1994, p.33).
59. This summary is basically drawn from the work of Lin (1995) and in part from Oi (1992). "Despite many criticisms one may level at such a paternalistic system, the indigenously embedded network provides the stability to the entire system." (Lin, 1995, p.339).
60. For an account of recent developments in Daqiu Zhuang, see Lin and Chen (1999).
61. The "rural burden rate" is calculated as the percentage of extra exactions over rural net income.

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