Division of Social Science
The Hong Kong University of Science and Technology

Working Papers in the Social Sciences, No. 8

The Evolution of Local State Corporatism

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24 April 1997
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28 February 1997

Chapter 2
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During the 1980s the rural governments of Zouping county, like those of many other Chinese regions, guided the rapid development of industry through the corporate management of public enterprises and the pooling of community resources. In past work I have labelled this type of government-led growth, in which privatization and the formation of new private firms play a distinctly secondary role, *local state corporatism*. In this chapter I will show that this local corporatism has not been static: in Zouping it has evolved continuously from the late 1970s to the mid-1990s, as the increasing scale of the local industrial economy and increasing market competition alter and erode the simpler forms of direct cadre governance. On the one hand, township and village governments have moved toward more indirect forms of governance over public enterprises, reserving more direct control to the more important and more successful enterprises. Only in the 1990s have they begun to privatize township and village enterprises by either leasing them or selling them outright. And during the early 1990s cadres ended their earlier suspicion of private enterprise and now actively promote it in ways earlier reserved exclusively for the public sector. Through time, Zouping has moved from the simpler and more cadre-centered forms of governance to a mixed model appropriate to the vastly larger industrial economy of the mid-1990s. In this chapter I will describe Zouping's evolution and suggest the reasons for it.

For most of the 1980s Zouping, like many counties in Jiangsu documented by other researchers, was heavily biased toward collectively-owned township and village enterprises
and direct cadre involvement in their management. Private business, discriminated against and periodically criticized, received little or no help in securing loans or production inputs. During the economic recession of 1988-89 the private sector was hit much harder by bankruptcies and closures than the public sector. As a result, growth from 1980 to 1988 was concentrated in the public sector.

Despite the success of public enterprise in the 1980s, by the end of the decade it was no longer economically advantageous to rely exclusively on collectively owned township and village enterprise. By the early 1990s private firms became a new target of local plans, and the sector began to receive the kind of preferential treatment earlier reserved for public firms. The result has been a rapid expansion of private industry that is taking the lead in creating new growth.

To grow beyond the smallest of undertakings, industrial enterprises require capital, technical expertise, market opportunities and a favorable business environment for licensing, credit, and the procurement of supplies. Private entrepreneurs may have ideas and initiative, but only in favorable circumstances will they have the resources and the willingness to assume the risks required to develop rural industry of any scale. We shall see that in Zouping local cadres did not simply proclaim their approval of private industry and step back to watch the sector grow. Just as they earlier assisted collective enterprises, local cadres have worked hard to mobilize capital and credit, provide technical assistance, search out market opportunities, and facilitate licensing to promote the development of the private firms within their jurisdictions.

The Early Dominance of Collectively-Owned Enterprise

In the 1980s Zouping made the most of available resources to develop rural industry in the fastest manner possible. This meant using methods and institutions
inherited from the Maoist past; in particular, the existing bureaucratic network and the still-strong political institutions of the county’s townships and villages.7

The early decision to promote township and village enterprises reflects the dominance of local governments, the strength of the collective, and the county’s gradual approach to change. While some counties in China moved to household agriculture in the late 1970s, Zouping waited until 1983—the year that decollectivization was declared basically complete throughout China—to begin the task. Some villages, such as Fengjia, delayed until 1984. Rich villages like Fengjia that had done well in the later part of the Maoist period saw little reason for radical change. The collective system in Zouping was successful enough that all communes had managed to establish at least one enterprise in the 1970s.8 As table 2.1 shows, by 1979 there were already 331 commune and brigade enterprises, an average of 18 per commune (later township), although there was significant variation within the county.9 As collective agriculture was coming to an end, officials decentralized the management of these communes and brigades enterprises. But every effort seem to be made to keep some form of the collective as the unit of production and accounting. In 1981 and 1982 enterprises were contracted out (chengbao) to collective groups (jiti), usually meaning all of the workers and managers of a factory.10 Only in 1983 did the county allow contracting to individuals.

Even when individuals were allowed to contract enterprises, the first contracts were only a modification of the collective group contracting system. The new system was known as the “individual leading the collective contracting” (geren daitou jiti chengbao). To protect peasants within the collective factories, manager could not fire any of the existing workers. The shift to individual contracting was simply to institute greater incentives and therefore give greater responsibility to one person for meeting quotas and
running the factories efficiently, but all the workers of a factory were considered partners in this endeavor. As late as 1988 more than sixty percent of all the township and village enterprises in the county were contracted under this system. Only about thirty percent used individual responsibility contracts. Of the remaining collectively owned township and village factories, not more than five percent were leased out; and not more than five percent were sold. The latter were usually the very small repair shops, such as those for agricultural tool repair, that were difficult to control. According to county officials, there were still a few enterprises not yet contracted out.\textsuperscript{11}

The decision to go with contracting rather than leasing further indicates the continued hold of the collective even as land was distributed to the households. Leasing (zulin) is a contractual arrangement where management rights over collectively owned firms are delegated to individuals who decide how to dispose of all income after rent is paid to the township or village owners.\textsuperscript{12} Contracting restricted the autonomy of the contractor to make major decisions about existing capital equipment and significant new investments, and kept rights over the distribution of profits in the hands of the township or village. Local governments made use of individual management incentive schemes but as owners, they keep property rights over the use and redistribution of profits, over and above the contracted fees.\textsuperscript{13}

Contracting allowed townships to directly benefit from the revenue of these enterprises, in addition to any taxes that these enterprises paid. Once revenue sharing was extended to townships in 1986, they could keep surplus tax revenues once quotas were met, just like the county. The more rural enterprises a township had, the higher its revenues.\textsuperscript{14} Villages are not allowed to keep any taxes. They are not considered a fiscal unit and do not practice revenue sharing. For villages, these enterprises represented the
one source of income to which the village government had legitimate access after the shift to household farming. While townships used the non-tax revenues taken from its enterprises in the form of fees, rents, and profits to supplement their tax income, this was the primary source of income for villages.

Contracting as a Form of Management and Fiscal Regulation

To ensure sufficient control by local officials over township and village enterprises, the details of the contracting system underwent numerous changes over the course of the 1980s. Under the early contracts, often called dabaogan, the contractor paid a predetermined lump-sum "rent,"--the contract fee (chengbao fei)--to the collective for the right to run the enterprise and to keep remaining profits. Rather quickly, however, township and village governments changed the terms of the contracts. Officials complained that under the lump-sum system contractors took a short-term view of profits--striving to make as much as possible before the contract expired. Village property suffered--machines were poorly maintained, accounts were poorly kept, and sometimes the factory stock was illegally sold.

In response, many townships and villages changed to a percentage system to guarantee themselves a share of unexpected increases in profitability and spread the risk between the contractor and the collective. This eliminated the need to correctly estimate the potential profits of an enterprise and allowed local authorities better control over the property and accounts of their enterprises. Instead of paying a simple lump-sum at the end of the year, the rent is stated as a set percentage of a fixed quota of the profit that the contractor agrees to generate. That quota is individually set for each enterprise based on a calculation of estimated profits, taxes, and costs. In addition, most township and village governments give each contractor a list of mandatory quotas for output value and sales.
Factory managers who fail to meet the quotas have their contracts terminated and are relieved of their position. To ensure that contractors take care of the collective assets, some villages have audit teams go to each factory twice a year to check on the factory’s funds, accounts, and machinery. Moreover, the contracts specified the share of the after-tax profits to be allocated to the government, enterprise, and workers.

The strength of the government is exhibited again when the contracting system undergoes further modifications in those villages where contractors have successfully managed collectively owned factories and earned large bonuses. Villages like Dongguan with many village enterprises set up a special body, often headed by the village party secretary, to oversee the villages enterprises. Called the village industrial committee in Dongguan, this body set contract terms for each of its enterprises. When factory managers were felt to be making too much money the committee limited factory manager salaries by pegging them to the average earnings of workers in the factory. Factory managers under such arrangements were essentially hired managers with a good incentive plan.

Government Guidance of Township and Village Enterprises

The rapid development of township and village enterprises in Zouping was due to entrepreneurship by the county, township, and village governments that owned these enterprises. Township and village leaders raised the initial capital for new enterprises and closely supervised and assisted in their subsequent growth. Using their political authority they mobilize capital for investment, arranged and allocated credit, and provided market information and technical expertise well in excess of what was initially present in the locality. The overlapping political and economic authority in the collective sector allowed for corporate solutions to business problems and provided public firms with a competitive advantage over private firms. Local governments used their political authority single-
mindedly to promote local industrial development. During the 1980s, local officials become entrepreneurs who assumed the burden of political and economic risks.

The Formation of Capital by Townships and Villages

Unlike private enterprises, collectively-owned enterprises were able to use the corporate funds of its parent organization—either the township or the village. Because these enterprises remained collectively owned, township and village officials could pool the assets of their collective enterprises and could raise additional funds from within the collective. This strategy allowed collectively owned enterprises to develop in villages and township regardless of whether there were individuals willing and able to raise sufficient capital to fund a private enterprise.

Redistribution of enterprise funds. Townships and villages raised capital by "borrowing" and redistributing profits from one enterprise to another. Profits of richer enterprises could support weaker enterprises through a downturn in the market, or provided the means to start new enterprises or expand the operations of those enterprises that were doing well. This is how Sunzhen township repaid the 120,000 yuan debt left by one of its enterprises when it only had 60,000 yuan on hand. To make up for the difference, the commission divided the remainder of the debt and collected the amount from its other township enterprises.\(^\text{21}\) Yuancheng township, which is more industrialized and richer than Sunzhen, asked some of its factories to pay contract fees in advance to start new factories.\(^\text{22}\)

Even Dongguan, one of Zouping’s wealthiest villages, raised one million yuan for its new cotton spinning mill in 1989, during the economic retrenchment, by borrowing from its other enterprises.\(^\text{23}\) It secured a 250,000 yuan loan from the forging plant, one of the village’s richest enterprises. In this case, one can sense that there are divergent
interests within the village corporation—every enterprise has its own interests as well as that of the larger collective to consider. The manager of the forging plant initially resisted but in the end was "persuaded" to make the loan. In this particular case, the request was much more urgent because the mill, which was just getting under way, had not yet been contracted out, and the village party secretary, who was negotiating the loan, was personally running the operation. Dongguan’s party secretary, who was quite aware that each factory wanted to protect its own resources, tried to make this as palatable as possible. He arranged to repay the forging plant in three years, at 15 percent interest on the loan.24

Borrowing from Collective Members. When village governments cannot raise sufficient capital from its enterprises it can also borrow from villagers. This is often simply called "collecting funds" (jizi). Sometimes it meant selling shares or bonds to the workers; other times it was simply a savings scheme. This practice has been criticized as placing extra burdens on peasants, especially in poor areas, but has been an important way to raise funds for enterprise development in Zouping.

In the late 1980s, to amass funds for its village enterprises, Dongguan village sold bonds to its workers and crafted a saving scheme offering high-interest rates.25 The village was able to raise approximately 700,000 yuan in the first half of 1989 alone, using a combination of bonds and savings plans.26 In 1991, approximately 80 percent of the village's enterprises were still engaging in various forms of jizi. At that time, Dongguan was able to mobilize approximately three million yuan.27 By 1995, Dongguan had 18 village enterprises, with total annual profits of more than five million, and still continued to raise approximately 2 million per year from its savings schemes.28

The pooling of risk and the guaranteeing of bank loans. The same principle of
corporate management and funding applies when outside funds are needed. The township or village uses its collective resources and the name of the collective to guarantee loans. Factory managers may formally apply for a loan and commonly sign the loan papers, but in all cases, local officials play a crucial role. In some cases, township or village governments pre-arrange and negotiate loans on behalf of its enterprises. Powerful Zouping township, for example, secured agreement from the county Agricultural Bank and the prefectural Finance Bureau to provide one million yuan in low-interest loans for one of its enterprises.29 Sometimes, the village industrial committee secures the needed funds for all its village industry and then divides the funds.

Regardless of whether the factory manager or the collective signs for the loan, the owner of the firm—the township or the village government, bears the financial responsibility for the debts of its enterprises.30 During most of the 1980s the township economic commission could sign as the guarantor of loans to its enterprises.31 The township was obligated to bear the risks and ultimately had to repay the loan. This is why in 1987, when four Sunzhen township enterprises closed leaving a debt of 120,000 yuan, the township economic commission was responsible for repayment.32 Village governments are in the same position with regard to its village enterprises contracted out for individual management.

Corporate funding and management allowed township and village enterprises to develop, but it also meant that local governments rather than enterprises assumed the risk of loans. In an economic downturn, if the factory defaults and the township is unable to mobilize sufficient funds for repayment, the loaning agency is left without recourse. As I will show in a later section, this became a problem when pressures on industrial profits increased in the 1990s.
County Guidance and Assistance in Arranging Capital and Credit

During the 1980s, not only did townships and villages keep a tight grip on their contracted enterprises, but county government also used its administrative power and resources to try to ensure successful development of the collective sector. The county issued mandatory plans for the development and production of collectively owned enterprises, particularly for the township level enterprises. The Commune Enterprise Management Bureau (shedui qie guanliju) was transformed into the Rural Enterprise Management Bureau (xiangzhen qie guanli ju) that was given responsibility for planning and supervising the development of all types of rural enterprises—township, village, joint, and private—in the county. The day to day work and the direct supervision was given to its subordinate organization in each of the 17 townships known as the township economic commission (xiang jingji weiyuan wei). The small staff of the township economic commissions, usually five to seven people, were charged with overseeing the implementation of the targets and directing township enterprises, and overseeing the village level enterprises as well as the private and the joint household enterprises within each township. To monitor implementation, the county called all of their 17 Economic Commissions to monthly meetings to discuss the production situation in their respective township enterprises, to give recognition for jobs well done, and to correct problems where necessary. In addition there were regularly scheduled meetings every three months as well as annual meetings. Each township economic commission received production as well as fiscal targets, including those for output and profits. But unlike the Maoist period, townships that met their targets received monetary bonuses as well as plaques.

To ensure that township and village governments could successfully carry out the county’s plans for rural industrialization, the county made available the full range of its
services. Because these enterprises were owned by townships and villages, the county could easily justify such help as part of their administrative duty to assist their subordinate levels of administration. If the resources of the county were insufficient, it could intercede with higher-ranking jurisdictions when necessary. Within county government, aside from the Rural Enterprises Management Bureau, other bureaus and agencies, including the Finance Bureau, the Tax Bureau, and the Agricultural Bank, have a special section or person in charge of rural enterprise. Each office is capable of providing different types of assistance and lobbying other agencies on behalf of enterprises. The Tax Bureau, for example, can give tax reductions. New enterprises routinely receive tax exemptions. But each year the county also provides additional allowances for various other situations, such as technological renovation and a new product lines. Table 2.2 shows the total amounts of the tax exemptions and the number of enterprises affected. During the height of the retrenchment period in 1989 the amount reached 2.8 million yuan.36

But assistance to collectively owned enterprises was not given out equally. If that was the case, the limited resources of the county would not have had much impact. For example, total tax breaks of 2.8 million would have meant little if spread among large numbers of enterprises. But of that amount, one of Zouping Township’s enterprises received 800,000 yuan.37 Which firm received assistance depended in large part on their past performance and perceived future prospects. Officials were not always right in their evaluations, as problems in the 1990s suggest. But Zouping created competition for preferential treatment. Resources were channeled and advantages given to those enterprises that were deemed the most capable or showed the most promise of generating benefits for the community. Over the course of the 1980s banks and bureaus increasingly allocated resources and provided assistance based on the merit or potential of an enterprise
to generate revenues.

Zouping rated firms based on past performance. The ratings determined the level of services and assistance an enterprise receives from the government and its affiliated institutions. Some ratings were bureau-specific. For example, Zouping’s material supply bureau had key-point industries (zhongdian). These industries had priority in getting supplies and had the best chance of receiving the lowest price inputs. For example, Dongguan village’s forging plant is such a key-point industry. In 1988 it received its inputs at prices 3 to 5 percent less than other buyers.38

Even in the early 1990s such ratings still had meaning because the range of materials available under county control has grown with the market. In 1980 the Zouping County material supply bureau consisted of only two subsidiary companies, employing a total of 131 people. By 1989 it had expanded its operations to employ 241 people, handling total sales of 98.6 million yuan through ten trading companies. The material supply bureau was able to offer an impressive array of supplies obtained through various sources, including trade with Russia across the Heilongjiang border. In addition to the county-level material supply bureau, other government bureaus, such as the township enterprise management bureau, have set up material supply companies.39

From the mid-1980s to 1992 credit ratings were among the most important. Beginning around 1983-1984 the Rural Enterprise Management Bureau, along with the Agricultural Bank, annually rated enterprises to determine the fixed capital credit and level of service available from the local bank or savings cooperative.40 This allowed the banks to know which enterprises were deemed important by local officials and credit worthy and therefore which enterprises should be accorded the quickest approval for loans within their prescribed credit limits. Once a factory was in the red, it lost its credit rating. This
system remained in effect until the early 1990s when a growing number of township and village enterprises started to incur difficulties and could not repay their debts.\textsuperscript{41}

Bank Loans. The county government cannot directly control the flow of bank loans, but county officials can indirectly affect who gets a loan. This was particularly important for rural enterprises, especially for village enterprises, which often found it difficult to get credit. Only after a village has established a reputation and shown itself to be successful can it hope to obtain an official loan. This may explain why most village industry, especially in the early years, were funded from internal sources; there was no alternative. This was the case for most villages in poorer, less industrialized townships like Sunzhen township.\textsuperscript{42} In 1987, 30 percent of Sunzhen's agricultural bank branch loans went to township and village enterprises, but of this amount only 10 percent went to village enterprises.\textsuperscript{43}

County officials and agencies directly lobbied banks to grant loans to favored township or village enterprises. This lobbying can come from leading county cadres and from cadres from agencies such as the rural industrial management bureau, the finance bureau or the tax bureau. Before the practice was banned in the late 1980s, the county tax bureau could help an enterprises secure a loan by allowing it to repay the loan before taxes were assessed (shuishan huankuan), thus providing greater assurance to the bank that the loan would be repaid.

In addition, county officials increased the opportunities for enterprises to obtain loans. Originally, in Zouping, as in other rural counties, enterprises could only take loans from the Agricultural Bank at the county level or from the Savings and Loan Cooperatives or branch offices of the Agricultural Bank, known as yingyesuo, at the township level. Zouping county officials allowed local enterprises to circumvent regulations that limited
them to certain financial institutions. By the late 1980s, early 1990s, rural both state and rural collective enterprises were dealing with whatever bank would give them loans and offered the best service and terms.\textsuperscript{44}

By the late 1980s branches of the Agricultural, Industrial-Commercial, and Construction banks increasingly vied for business, including that of the rural enterprises. The Construction Bank, led by an entrepreneurial head, was particularly aggressive in competing for business. In spite of the regulation that stated that the Agricultural Bank was to be the source of rural industrial loans, in 1988, the Construction Bank provided fifteen million yuan in loans to the county’s rural enterprises. The largest of these loans, three million yuan, went to a village enterprise.\textsuperscript{45} By 1990 the county Construction Bank was the source of about 15 percent of the total loans to the county’s rural enterprises, totaling approximately seventy-five million yuan.\textsuperscript{46} All Zouping township-owned enterprises received loans from the Construction Bank, as well as a number of township-owned enterprises in other townships.\textsuperscript{47} Such borrowing by local enterprises at other than their assigned financial institutions required approval of the local branch of the People’s Bank. But such approval was usually given. When local officials are forced to choose between protecting local interests and strictly adhering to central policies, the choice is clear. As the head of one of the specialized banks explained: “The local People’s Bank approves most requests for an enterprise to change banks. If it does not, the enterprise will fail because it will not get the needed funds. What is most important is to support the enterprise. So the People’s Bank has no choice but to approve.” As Marx said: “one must proceed according to conditions” (emphasis added).\textsuperscript{48} There have been other instances when local officials have managed to provide credit to key enterprises, despite restrictions imposed by the upper levels. For example, some of
Zouping's collective rural enterprises received short-term loans from the Agricultural Bank during periods of very tight credit, such as 1988-1990 when the central authorities tried to enforce a credit freeze to slow inflation. It is difficult to know where these funds actually came from, but if the experience of other counties reported in the press is any indication, it is quite possible that this money was borrowed on a short term basis from funds were originally earmarked for other uses.

Throughout, however, Zouping's officials have remained politically prudent and sensitive to the continued institutional constraints on their activities. Bank officials, like others at the local level, cannot afford to flaunt central regulations openly. In the early 1990s, a county-level Agricultural Bank official explained that rural enterprises shopped for banks, even though according to the regulations they should have an account at only one bank. To comply with regulations an enterprise would maintain their basic account (jiben jianghu) at the officially designate bank but then open a secondary/supplementary account (fuju jianghu) at another bank for special projects.

For example, the county brewery was assigned to the Industrial-Commercial Bank. When it needed a large loan to expand production it first did go there. The bank was sympathetic and gave the factory five million yuan in circulation funds, but failed to secure upper-level approval to increase the factory's credit limit to fund the expansion. The brewery then turned to the Construction Bank, which offered it a larger loan. But while the brewery started its account at the Construction Bank, it continued to maintain an account at the Industrial-Commercial Bank. In other instances, regulations overlapped so that an agency, such as the Land Management Bureau (tudi guanliju) which should have its account at the Agricultural Bank, could legitimately do business at the Construction Bank because the bureau handles projects in basic construction, which fall
under the jurisdiction of the Construction Bank. By the mid-1990s such bureaucratic maneuvering was no longer necessary. The specialized banks, such as the Agricultural Bank, were commercialized and regulations were relaxed to allow enterprises to conduct business with the bank that provided them with the best service and credit.

Bureaucratic Loans and Grants. Over the course of the 1980s, as recurrent retrenchment policies tightened credit to rural enterprises, Zouping county officials went beyond lobbying banks and trying to bend the rules to establish credit sources exempt from the centrally mandated restrictions attached to official bank loans. The first step was to directly grant loans to township and village enterprises through its bureaus and commissions. The amounts available in the different agencies varied as did the size of the loans given. The loans generally were small and meant to see an enterprise through particularly difficult periods. Sometimes, these funds were given as seed money for new projects.

The county finance bureau had various sources of support that it doled out on a case-by-case basis. One was the "agricultural support revolving fund" (zhinong jiuzhuanjin) funded by the county, prefecture, and province.\(^{54}\) The bureau also had an "agricultural development fund" (nongye fazhan zijin) that had three million yuan in 1990.\(^{55}\) Both of these funds included money for township and village enterprises. The "finance support fund" (caizheng fuchi zijin) was specifically for the support of collective enterprises. Between 1981 and 1987 a total of two million yuan worth of loans was given from this fund, which was supported by allocations from the prefecture and the province. The volume of loans increased annually from 40,000 yuan in 1981 to 640,000 yuan in 1987. The number enterprises that received loans jumped increased from two in 1981 to twenty-two in 1987.\(^{56}\)
The funds were doled out selectively. Collective enterprises applied to their township finance office (caizhengsuo) and waited for the decisions of the county finance bureau. Enterprises usually had one or two years to repay the loan. If the loan was repaid on time there was no interest charged, only a use fee. If the loan repayment was delinquent then a low interest was charged. These loans had a further advantage in that because the loan was transacted through the county branch of the Agricultural Bank, enterprises were allowed to these repay loans before being assessed taxes.

Zouping’s tax bureau had similar short term loan funds (fuchi zijin) that came from taxes collected from both private and collective rural enterprises. Between 1984 to 1987 the tax bureau gave approximately 400,000 yuan to about sixty enterprises. As with the finance bureau funds, the amounts and the number of enterprises being helped were increasing. One example from 1989, in the midst of the retrenchment, shows that the tax bureau handed out 470,000 yuan to about twenty enterprises; the largest loan was 50,000 yuan.

Non-Governmental Bank Loans and credit associations. The second step the county took to provide alternative sources of credit was to established local savings and loan institutions outside the central banking system to fund local development. The process began during the 1988-90 retrenchment, spreading to all townships in the county by the mid-1990s. The first non-bank credit association was set up in 1988 in Changshan township. Called a financial service center (jirong fuwu suo) it made credit available to collective enterprises and private entrepreneurs. A township official explained that the service center had been set up as a response to the difficulties and red tape involved in securing loans at the local credit cooperative. In contrast, the financial service center’s loan application procedure was fairly simple and approval quick. For large loans over
20,000 yuan, there was a financial management committee (jinrong suo guanli weiyuan hui) to approve the applications. Changshan’s official pointed out that these funds were not spent for education or health; the financial service center provided funds specifically for use in the development of rural enterprises and agriculture. He proudly stated that this source of funds allowed his township to survive the 1988-1990 retrenchment.

Changshan township’s ten enterprises all borrowed from this fund during the retrenchment period. By May 1990, Changshan’s financial service center had granted 300 loans. As of June 1990, deducting the outstanding loans, there was still about two million yuan available at the service center.

Changshan’s financial service center was welcomed not only in the township but in surrounding areas as well. Unlike savings and loan cooperatives, there is no residence requirement for those who used the service. This allowed villages from other townships to take loans. One of the largest loans given by the Changshan financial service center was to a village in Zouping township, which borrowed 1.8 million yuan in March 1990 for use in a textile factory. The village was charged an interest rate of 15.8 percent and was given one year to repay the loan.

Market and Technical Assistance

The county has also been an invaluable source for technical expertise, which is probably one of the most sought after inputs for rural industry. Factory managers and local official alike list this as one of the most difficult problems facing rural industry.

When a village enterprise needs help, it has the advantage of being able to call on the county bureaucracy. The administrative bureaucracy is a free channel for information and resources for local industry. Officials are part of an information network embedded in the administrative hierarchy. The branches of the information grid automatically multiply
the higher one goes in the bureaucracy. Zouping is fortunate in having former county officials who have succeeded in being promoted up the bureaucratic hierarchy. They facilitate access to these higher levels. Using their bureaucratic position and the contacts through their routine conduct of administrative work, local officials can provide an array of essential services and disburse information to their local enterprises.

Study Tours. Local officials routinely use their bureaucratic position to provide firsthand information through the old practice of visiting successful models. Zouping’s local-level officials, particularly those at the county level, take factory managers and township or village leaders to the most industrially developed areas, such as Jiangsu and Guangdong, and to famous national models to study management techniques as well as to explore what products can be made. Once they find a product, they use their connections to learn how to copy or adapt the project for their locality.

In recent years, Zouping’s officials have organized or been included in trips abroad to sign contracts, buy machinery, and to search for new products. While abroad officials scour the stores in search of products that their localities can produce or export. Heads of successful villages have been included in these delegations. Regardless of whether a party secretary or a factory manager is a member of such delegations, local-level government officials are well versed in the production processes and technological needs of their key industries. The degree of attention paid by local officials to their important industries was evident in the well informed technical questions that Jiang Jinhao, then Zouping’s County Magistrate and now its First Party Secretary, asked when I accompanied him on a tour of the Samuel Adams Brewery in Boston.

Meetings. To get market and technical information gathered by officials out to its townships and villages fairly quickly and effectively, the county can call official meetings.
These may be countywide or more localized meetings, with only selected townships and villages invited. For example, when Zouping County officials discover a product that they think is particularly profitable and suited to local conditions, they convene special meetings to bring it to the attention of their townships and villages. Zouping's rural enterprise management bureau organized such a meeting to promote the production of chemical products. The bureau convened the meeting in Linchi township, which was used as a model. The bureau had a Linchi township official chair the meeting, which was attended by relevant representatives of villages that already had chemical plants and as well as those village that had an interest in starting such ventures. The county held similar meetings to promote rug making; again these were held at the township level. The idea to produce rugs stemmed from a township that had been subcontracting production for a Tianjin carpet company since 1986. Once the township started making rugs, a number of private entrepreneurs started to subcontract for the township-owned carpet factory. Taizi township by the mid-1990s was exporting rugs to the United States.67

Requests for Assistance. In other instances, a township or a village comes up with an idea for an enterprise or product and then seeks the help of the county officials to carry out the project. Local officials shepherd the project through the bureaucratic maze of licensing and gaining approvals. It is not uncommon for local officials to take factory managers or village party secretaries to the provincial capital or even to Beijing when developing a project, to get funding or approval. This is a routine part of the work of the county rural enterprise management bureau. Cadres in this bureau are always on trips to the prefecture, even to Beijing, on behalf of specific enterprises. When they are in the county, they often visit the township and villages personally. A diary of one official from the Zouping County rural enterprise management bureau shows that during a one-month
period in May 1988, he made six trips to Ji'nan, the provincial capital, one trip to Beijing, three trips to other townships, and six trips to various villages.

If the technical assistance needed is beyond the scope of county officials, they can help enterprises to get in touch with outside experts. For example, Xiwang village in Handian township wanted to produce a highly marketable type of cornstarch byproduct. The village first came across the product in a trade magazine but they knew nothing about the technology or expertise involved. The village party secretary, who was a representative to the provincial people's congress, had heard more about this product when he was in Ji'nan attending the people's congress. He discovered that the Wuxi Light Industrial Research Institute was the source of this product. The village party secretary then pursued his connections in the county, enlisting the support of various county officials, including the county magistrate. The project was turned over to the rural enterprise management bureau. One of the vice bureau heads (now retired), Jiang Shiqin, who often took the lead in searching out relevant technology, knew about the product and had good connections in Wuxi, having gone there a number times on official business. He then took the village official to Wuxi to negotiate with the research institute. Together they succeeded in convincing the research institute that the village, with the help of the county, would be capable of producing the product. A deal was concluded whereby the village paid technical fees to the research institute in return for equipment and on-site training of staff by technical experts.48

The Limits of the Collective Sector Strategy

Through a combination of local planning and guidance combined with the corporate management of assets and resources the county successfully developed collectively-owned enterprises. Internal sources of collective funding combined with
additional funds from the county made township and village enterprises economically feasible, even in the face of limited credit from the state banking system. Their success was facilitated by the gaps in production left by the large state owned enterprises. The pent up demand provided a niche for these small low-technology enterprises. Using relatively backward and inexpensive technology, enterprising local officials could make a success of these enterprises in a growing market.

By the 1990s, however, the national economic environment for rural industry had changed. Beginning with the recession of 1988, tight credit has made loans expensive and difficult to obtain. Rising competition from the expansion of rural enterprises nationwide has increased competitive pressures on rural firms. Increased market competition has steadily driven down average profit levels of rural industry nationwide. The success of this sector in entering the export market necessitated higher production and technological standards—all of which required higher input costs and reduced profits. The low cost of the technology, a factor that initially allowed these enterprises to grow rapidly in the 1980s, has in the 1990s taken its toll as the market has grown and standards increased.

Consolidation Through Selective Leasing and Privatization

It was never true that all collective enterprises succeeded. As indicated earlier, Zouping officials used a principle of internal competition in deciding which collectively-owned enterprises shall get capital, loans, and other kinds of assistance. Local officials have always had to set priorities for future development, and this has meant leaving the weaker and less promising enterprises behind, in some cases closing them, leasing them out or selling them outright. All these options have existed from the early days of reform. In a competitive environment, some enterprises must fail; and as increasing competitive pressures bear on the profitability of local collective enterprises, officials have had to
respond. They have done so in Zouping in two ways: by leasing or selling problematic enterprises more often than before, and by placing increased emphasis on new private enterprises as sources of revenue and employment growth. The result has been a rapid evolution of Zouping industry toward a mixed economy in which private enterprise now plays an increasingly important role.

The costs of this development are different for the county, townships, and villages. The county government, which previously had lobbied banks to provide collectively owned enterprises favorable loans is no longer in a position to do so. This situation is made more difficult for those county officials who might still want to cling to the path of collective development because the banks have become increasingly conscious of profits. Over the course of the reforms they have become commercial entities rather than simply an administrative arm of the government. They are now highly concerned about debt repayment.

The closures of some township and village enterprises have left the county’s banks holding substantial amounts of bad debt. In the county as a whole in 1996 approximately 60 township and village enterprises had outstanding loans totaling around forty million yuan that the banks were dubious about ever recovering. Of the total amount, approximately twenty million yuan was owed by thirty enterprises that had already closed. Not surprisingly, government banks to which these loans are owed are increasingly seeing township and village enterprises as liabilities that need to be restructured or closed. The banks stopped giving financial ratings to township and village enterprises in 1992 after a number of failures occurred in 1991.

Local banks are adamantly in favor of tightening responsibility and accountability. The Agricultural Bank, the major lender for rural enterprises, is a strong advocate of
privatizing township and village enterprises. In the view of one leading official, too many loans to township and village enterprises were improperly guaranteed, many by the township economic commissions. In the 1980s, particularly before 1988 and the retrenchment with its downturn in the market, the ability of enterprises to rely on the local corporate state allowed enterprises to develop rapidly. But in a prolonged economic downturn when large numbers of factories incur debt with little or no profits, neither the factory nor the corporate parent will have sufficient funds to repay debts. The problem for the banks is that it is also difficult to know who to ultimately pursue for the repayment of these debts.\(^2\)

Villages and townships also have begun to reassess the costs of maintaining direct control of their collective enterprises. While the contracting system allowed villages broad intervention, it also required extensive monitoring and problem-solving. It is not surprising that village or township leaders would decide to rid themselves of some of their burden, particularly the unprofitable firms. Some villages, including Dongguan, are considering selling some of their less successful collectively owned enterprises to rid themselves of problems and better focus their energies and resources. At minimum, they are more interested in leasing out those that are problematic. Dongguan has not yet sold any enterprises, but in 1994 it leased out four—all fairly small and problem ridden.\(^3\) In recent years, villages like Dongguan have begun to formalize the corporate character of their operations. Industrialized villages have changed their names to industrial corporations; in some cases, those that are sufficiently large have become industrial conglomerates (jituan).\(^4\)

While villages are in a position to lease or even sell some assets, the county’s calculations decide which sector will receive the preferential treatment and which sector
will therefore likely grow more quickly. The pressures on Zouping’s collective sector along with changes in the fiscal system in 1994 has prompted the county to take a number of steps aimed at increasing efficiency of the remaining enterprises and to reconsider its attitude toward the private sector as well as to look beyond industry to other ways of developing the county’s economy.  

New forms of management have been encouraged as a means of rectifying the problems in the collective industrial sector. Instead of mainly relying on contracting, authorities are pushing leasing, share holding (gufenzhi), and formation of conglomerates (jituan). For those enterprises that simply are not functional, they are to be declared bankrupt (pochan) and sold at auction (paimai). Auctioning enterprises began in 1994 with the sale of a small factory in Changshan Township. By the end of 1995 a total 17 enterprises had been sold— all township owned. The sales have spread over nine of Zouping’s 17 townships. Linchi township has led the sale of township owned enterprises—by the summer of 1996 had sold the majority (eight) of its township-owned enterprises. Zouping township ranks second with the sale of two enterprises. So far, few village enterprises have been sold. Officials in charge of rural industry admit that the environment is now more difficult for township and village enterprises, but they also claim that for those that survive the profit rate is higher. No figures were given, but improved performance was attributed to the formation of the conglomerates, improvements in managements, and by the county’s efforts to help these enterprises upgrade technical personnel by assigning over a hundred vocational school graduates to various enterprises.

Encouraging New Private Enterprises

The interests of the county now have expanded beyond those of the townships and
especially of village officials. The county government’s revenues do not hinge on
township and village enterprises, while for township and villages, they are crucial. The
changed political and economic contexts have made the private sector a viable option and
one that they have come to realize is not only not threatening but one that is lucrative for
county revenues. Between 1984 and 1988 taxes from the private sector hovered around 16
percent of total non-agricultural taxes. By 1994 its contribution had increased to almost
one quarter of total non-agricultural taxes. After more than a decade of development and
experience, the county now sees the benefits of diversification with a thriving private
sector. The private sector provides an attractive alternative that not only yields increasing
tax revenues but it assumes all the risks of entrepreneurship and the burden of
management.

By the mid-1990s Zouping’s corporatist system had altered its initial development
strategy and adapted itself to encompass the private sector. Yet the activist role of local
governments remains. A symbiotic relationship has emerged between key private
entrepreneurs and local officials from whom the entrepreneurs seek assistance. Most of
the types of assistance that were provided the collectively owned township and village
enterprises can be adapted or extended to the private sector as well. Township or villages
are unlikely to provide private enterprises with the same type of corporate funding through
the redistribution of government funds. But the county certainly can provide credit
assistance to the private sector, including lobbying banks. The county’s decision to cut
the bureaucratic loans and enlarge the number and types of credit associations to serve all
types of enterprises allows for its more diversified development strategy.

By the mid-1990s there was proliferation of township credit associations like the
one established in Changshan in the late 1980s. By 1996 every township had its own
credit association, which are now called jijinhui. One difference with the newer township credit associations is that they are limited to serving enterprises within their own township, unlike Changshan's. These associations directly compete with the credit cooperatives in each township, trying to lure more funds by offering higher interest rates than the official state institutions.

Aside from the township institutions, there are specialized credit associations, such as the such as the Individual Entrepreneurs and Private Business Economic Fund (gesiyingsijingjiijijinhui) that serves private enterprise. The county government, itself, has created its own credit company, under the name of the County Finance Investment Company (caizhengtouzigongsi). Money from these credit institutions costs the borrower more than either the banks or the credit cooperatives, but these new institutions provide increasing amounts of credit to local enterprises, especially for the smaller, short term circulation capital loans. Deposits are attracted by offering higher savings interest rates than given by the state banks. Zouping township's credit association was established in 1992 with an initial fund of approximately 100,000 yuan, half of which came from the township government. By 1993, it had increased its funds to 5 million yuan. In 1994 its loans totalled 15 million yuan and increased to 20 million by 1995.

Equally if not more important, local governments are in a good position to extend to the private sector technical advice and market information--a relatively costless service that the county can provide as part of its bureaucratic duties to any enterprise that can bring in new revenue. Technical assistance is important for the private firms in the early stages of their business when their resources are limited, as it was for collectively owned township and village enterprises. For example, one tile maker-turned-steel maker succeeded because he could call upon the county rural enterprise management bureau for
assistance. He discovered a profitable product, but he lacked technical knowledge that would allow him to produce the product. After he approached the county, local officials helped him contact consultants in Shanghai. A scrap metal collector started his own factory, but only with assistance from county and township officials. In this case, the entrepreneur was from an area that had a long tradition of making small metal tools, but he needed help from Zouping County officials in securing land and the necessary licenses, as well as technical personnel to bring his products up to acceptable standards.

The county’s promotion of the private sector in the 1990s is a shift from its original development strategy, but it is not a renunciation of its earlier course. Since statistics were kept in the mid-1980s there have always been large numbers of legally registered small individual entrepreneurs in the county. What the county did in the mid-1990s was simply provide this sector with preferential access to those resources that would allow the best of these firms to grow and help new businesses to become established, the way that the county helped the collective sector in the 1980s.

Beginning in 1994-95, the county instituted preferential policies to encourage the development of large private firms (siving qive). Local officials have promised to provide assistance in a number of ways from facilitating approvals and the granting of licenses to helping with markets. To further spur interest private businessman who pay over 10,000 yuan in taxes have been allowed to change their household status and be exempt from rural household obligations like performing corvee labor (yiwu gong) and paying fees to their village. If the taxes paid by a private businessman are sufficiently high, the exemptions and change in household registration can be extended to an entire family.

This sector has responded positively. The number of large private firms grew from 69 in 1990 to 528 in 1995.
Compared to areas like Wenzhou, which have relied heavily upon private enterprise from the early 1980s, Zouping's private sector is still small and backward, but it is now growing rapidly. Prior to 1994 there is little evidence that local authorities allowed privately owned enterprises to call themselves collectively owned. The exceptions seem to be cases where a private entrepreneur enters into a partnership with a village. For example, a village enterprise used the investment of an individual and then the village contributes to this initial investment to form a village-owned factory. The individual investor becomes the factory manager and holds the contract for the factory. But after 1994, the county seems to be joining areas like Guangdong that allow privately owned firms to take full and direct advantage of the preferential taxes and credit policies available to collectively owned enterprises. According to a one official, in recent years, approximately 10 to 20 percent of Zouping's officially registered collective enterprises are in fact private.

Conclusions

We have long known that there is not one development model in China. Local state corporatism is but one strategy of development that arose out of a particular set of circumstances. Zouping's experience shows this that development strategy is itself dynamic and evolves within one locality. Zouping's flexibility and adaptability is the key to the county's continuing growth. Zouping's economy is now qualitatively different than in the 1980s. The county has shown an impressive ability to face problems and adopt development strategies that are timely and suited to changing political and economic conditions. The role of the state has evolved with each phase of local development. It is when this evolution stops that we should expect to see stagnation rather than growth in a county like Zouping.
Zouping's growth in the 1980s was not due to the expansion of the private sector or to covert private sector activity. That did not begin until the 1990s. The county's growth proceeded through an evolutionary process that began with the growth of publicly owned township and village enterprises using the inherited institutions of the Maoist period—the bureaucratic networks and the collective structure that survived intact despite the decollectivization of agriculture. This was a public sector strategy in which the mix of private and public enterprise, and the forms of governance of public enterprise, evolved gradually. Privatization began on a significant scale only after more than a decade of rapid public-sector growth, and even then, it proceeded only gradually.

The county decision in the 1990s to diversify its development strategy and promote the private sector retains much of the characteristics of the growth seen in the 1980s. While not funded through corporate investment by townships and villages, this is not laissez-faire capitalism. It is the extension of the county's preferential treatment to a sector that had heretofore been left to its own resources. Taken as a whole, Zouping's development is illustrative of the gradual transition from the socialist system toward a mixed economy. It is a situation where there has been slow institutional change within a context of rapid economic growth.
2. The Evolution of Local State Corporatism


4. Between 1980 and 1988, township and village-run enterprises increased their gross output by 169 million yuan in real terms, while output of cooperative and individual enterprises grew by only 80.5 million yuan. The public sector’s contribution to growth was therefore double that of the non-public sector. Calculated from data in table 1.2.

5. Between 1988 and 1993, township and village-run enterprises increased their gross output by 421 million real yuan, while output of cooperative and individual enterprises grew by 489 million. The private sector’s contribution to growth was therefore
16 percent higher than that of the public sector. Calculated from data reported in Table 1.2.

6. This account relies heavily on interviews with provincial, prefectural, county, township, and village level officials and managers of state, township, village, and private factories. I made five research trips to Ji’nan, Binzhou, or Zouping between 1988 and 1996. Most of the more than 160 interviews were at the county, townships, and villages. I concentrated on the bureaus and agencies directly involved with the day-to-day development of rural industry under the jurisdictions of townships and villages: the Rural Industry Management Bureau, Finance Bureau, Tax Bureau, Agricultural Bank, Auditing Bureau, Individual Entrepreneurs Association, and Industrial and Commercial Bureau. In townships, I interviewed many of the lower level branches of the county bureaus named above, and various financial institutions, including the savings and loan cooperatives and the credit associations. While I visited numerous villages and townships over the years, I concentrated on Dongguan village in Zouping township, and Fengjia village in Sunzhen township.


8. Those areas of rural China that relied heavily on private enterprises from the beginning of the 1980s tended to be places where there was little industrial development under the communes, and that had strong ties to overseas communities of emigrants in southeast Asia and Hong Kong. The strategy was therefore initially common primarily along the coast of Zhejiang, Fujian, and Guangdong. On Wenzhou see Liu Yialing, "Reform from Below: The Private Economy and Local Politics in the Rural Industrialization of Wenzhou." China Quarterly 130 (1992): 293-316. On Fujian see

9. In 1979 the number of townships enterprises ranged from a high of 12 in Zouping to a low 4 in Weiqiao and Libatian. The number of village enterprises ranged from a high of 55 in Weiqiao to none in Changshan, Yuancheng, Jiuhu, Libatian, Taizi, and Matou townships.

10. China Interview 6288.

11. China Interview 10688 The timing of contracting seems to have varied widely. For example, Zouping township, which had many township enterprises, started to contract them out in 1985. Sunzhen, which had few, waited until 1988. Fengjia village, in Sunzhen township, contracted out its first factory in 1985. However, even in villages like Dongguan, which started contracting in 1983, the party secretary personally managed the new cotton spinning mill until it was fully operational.

12. In highly industrialized Dongguan, only one of its seventeen enterprises, the flour mill, was leased, beginning in 1987, after it lost considerable sums of money and fell into deficit. Originally, like the others, it had been contracted out for individual management. China Interview 4688. In Xiwang village, Handian, another highly successful village, only one of the village's ten enterprises was leased, a transport operation. China Interview 62494.

13. Christine Wong makes a similar point in her "Interpreting Rural Industrial Growth

14. Not all of Zouping's 17 townships actually shared revenues with the county. Some could not collect sufficient revenues to meet basic expenditures. Of the 17 townships, the 10 poorest townships received subsidies from the county. The 7 that actually have paid taxes to the county since the revenue sharing system started in 1986 are those that have the largest number of rural enterprises. The tax status of 17 townships has remained constant. China Interviews 6288 and 19696.


16. One such place was Zouping township, which tried dabaoan from 1985 to 1987. China Interview 14688.

17. China Interviews 14688 and 52590.

18. China Interview 4688.

19. Yuancheng township uses a slightly different system. It apportions 50 percent of the basic profits to the township and 50 percent to the factory. Of the percentage that goes to the factory, 20 percent is given to the contractor and 30 percent goes to the workers. The amount that the township economic commission received was reduced from 20 percent to 10 percent in 1989. China Interview 52490.

20. Such limits have been a source of some tension and factory managers express frustration with them. But the frustration was focused at the collective spirit that demanded limits on wage inequalities, not the industrial committee or the village party secretary. China Interview 8691.

22. China Interview 52490.

23. Dongguan has classified its enterprises into three categories based on output, profits, and fixed capital. The amounts that they are asked to loan vary with their rating. China Interview 8691.

24. China Interview 52090.

25. This began in 1988. In 1991 the average interest on these savings plans in Dongguan was around 12 percent.

26. Village workers bought anywhere from 5,000 to 10,000 yuan in bonds.

27. China Interview 52090.

28. China Interview 23696.

29. China Interview 52590.

30. China Interview 81391

31. This is for fixed capital loans. They do not have to sign for circulation funds that enterprises routinely borrow. According to local officials new rules prohibit the township economic commission from acting as guarantors for loans. An enterprise is supposed to find another economic entity, i.e., another firm with sufficient assets, to agree to be guarantor.

32. China Interview 17788.

33. In some counties the township economic commission may operate under different names, such as the industrial office. A vice-party secretary or vice-township head is often also the head of the township economic commission. He is often the only state cadre in the commission. The rest of the staff are considered local cadres. China Interview 4688.
34. This commission is funded mostly by local funds from the revenue of its enterprises. Each enterprise pays one percent of before-tax profits to the township economic commission as a management fee (guanli fei). Part of this is supposed to be turned over to the county rural enterprises management bureau. Each contractor must pay an additional 10 percent of their enterprise’s before-tax profits to the township government. The amount paid to the township government varies. For example, in Zouping township, 20 percent of the after-tax profits go to the township economic commission, but 30 percent of this amount is turned over to the township government, which does not take the usual 10 percent of before-tax profits that most other township governments in the county take. Village enterprises do not pay profits or fees to the township, but in some of the highly industrialized villages each factory pays a management fee of 1 percent of the total enterprise income to the village industrial committee. China Interviews 4688 and 8991.

35. Around 1988 each Township Economic Commission received 300 yuan that could be divided among the staff.

36. China Interview 52290.

37. China Interview 52290.

38. China Interview 6688.


40. To facilitate the work at the county, a similar process occurred at the township level for all but the small and unprofitable enterprises served by the subbranch of the Agricultural Bank; the township economic commission and the Agricultural Bank’s branch office (yingyesuo) participated. China Interview 6388; China Interview 22688.

41. China Interview 21696.
42. Exceptions are villages like Fengjia village, which is developed and highly regarded. Fengjia was sufficiently wealthy that Sunzhen township has asked the village for loans.

43. China Interview 22688. Statistics from Zouping township belie this generalization, but it must also be remembered that the township has the largest number of village enterprises in the county and has long commanded respect and has a solid credit rating. According to township officials, in 1989, 6.7 million yuan was for township enterprises, 14.7 million yuan was for village enterprises, 250,000 yuan for lianheti, and 770,000 yuan for geti. China Interview 52590.

44. Private entrepreneurs who should have technically done their business at the Agricultural Bank also used other specialized state banks, such as the Construction Bank. Unlike collective enterprises, private businesses do not need guarantors, but they must provide collateral. These loans consisted of both fixed capital loans and circulation fund loans.

45. China Interview 81391.

46. This Construction Bank was established in 1979, but only after 1985 did it accept savings and make loans. Prior to that it was simply a bank of the finance bureau that made grants to designated projects. China Interview 81391.

47. China Interview 81391.

48. China Interview 81391

49. Local officials take extraordinary measures carefully. Only the best are able to secure such loans, especially during periods of retrenchment and credit shortage.

50. Zouping does not seem to have had much, if any, of the IOU problem for the procurement of grain.
51. China Interview 8991.

52. This was not the first time that the factory received a loan; this second loan was made in part to protect an earlier investment in the factory by the Construction Bank. China Interview 81391.

53. China Interview 81391.

54. China Interview 52290

55. China Interview 8891.

56. China Interview 6288.

57. The interest rates varied depending on use. For agricultural projects is was 2.5 percent; for husbandry, 3.5 percent; and for industrial project the interest was 4.2 percent.

58. The upper levels have since stopped this practice.

59. According to tax officials a regulation was in force since 1980 that allowed the county tax office to keep a small percentage of these taxes. The amount was decided by the Shandong Provincial Tax Bureau. China Interview 52290.

60. China Interview 6288.

61. China Interview 52290.

62. The importance of these channels are also noted by Hua Sheng, Xuejun Zhang, and Xiaopeng Luo, *China: From Revolution to Reform* (London: Macmillan, 1993).

63. Unless otherwise noted the information in this section is from China Interview 52490.

65. There is at least one former county magistrate/party secretary, Dong Fengji, who is in a prominent position within the province, having first served at the prefecture after leaving Zouping.

66. This is not surprising given the concentration of county investment in the brewery. While this county has a number of other factories, the bulk of investment over the last number of years has been poured into the brewery.

67. China Interview 62294.

68. China Interview 62494.


70. Changing market conditions, backward technology, and lack of technological expertise were cited by a leading county bank official as well as by officials in the rural enterprises management bureau. China Interviews 21696 and 24696.

71. China Interview 21696.

72. In the case where debts cannot be repaid and an enterprise closes, bankruptcy is declared. Banks receive a portion of the proceeds once an enterprise declares bankruptcy, but it is the last in line to receive payment. Consequently they recover only a portion of the original loan. China Interview 21696.

73. China Interview 23696.

74. In 1996 Dongguan was one of seven villages that qualified for such a classification in the county. China Interview 24696.

75. For example, county leaders recently have begun a big push to develop commercial agriculture. Under the aegis of the Bureau of Agriculture, the county has mobilized resources at all levels of government to facilitate vegetable production and
distribution. This new direction was spurred by the opening of a joint-venture plant making dried vegetables used in instant noodle soups. The 1994 tax reforms designated taxes on agriculture as local taxes that need not be shared by the center. This further diversified strategy not only will add more revenues, but is particularly beneficial for those townships, such as Matou, that have failed to develop rural industry and remain largely agricultural. China Interview 23696.

76. As of the summer of 1996, 153 enterprises had been leased out, 61 of which were township owned; 26 enterprises had adopted the share holding system, of these 9 were township owned, while 5 or 6 were village owned, the remainder were formerly jointly owned (lianheti); and 14 had become conglomerates. China Interview 24696.

77. As of the summer of 1996, 17 enterprises had been auctioned, and 14 had gone bankrupt. The assessment is handled by an Asset Assessment Small Group under the industrial commercial bureau of the county. China Interview 24696.

78. According to county officials the township already had leased out a number of its enterprises by 1994. The township decided to sell these enterprises after the township party secretary went on a study trip to the United States. Only five of the township's enterprises remain collectively owned.

79. China Interview 23696.

80. None have been officially registered. It was unclear to county authorities how many may have been sold informally.

81. The county education commission first assigned vocational school graduates in 1994; a second assignment was done in 1995. This last round yielded 150 students. China Interview 24696.

82. See also David Wank, "Private Business, Bureaucracy, and Political Alliance

83. China Interview 21696.
84. China Interview 21696.
85. This private tile maker had previously developed close ties with those in the Rural Industrial Management Bureau when he managed a township-owned tile factory.

China Interview 62294.

86. China Interview 23696.
87. In 1994 four private businessman changed their household status under this provision. China Interview 24696.

88. Unfortunately, I do not know how many of these are industrial enterprises.

China Interview 24696.

89. See Liu Yialing, "Reform from Below."
90. China Interview 6688.
91. In addition, the collective label also allows companies to acquire land more easily, which in the current context, may be one of the most important benefits once a private company reaches sufficient size to secure its own loans. China Interview 7794.

92. China Interview 24696.
Table 2.1. Commune and brigade industry in Zouping, 1976 - 1983

<table>
<thead>
<tr>
<th>Year</th>
<th>Total no. of enterprises</th>
<th>No. of commune enterprises</th>
<th>No. of employees</th>
<th>Gross output (million yuan)</th>
<th>Realized profit (million yuan)</th>
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</thead>
<tbody>
<tr>
<td>1976</td>
<td>77</td>
<td>77</td>
<td>3,566</td>
<td>6.4</td>
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<tr>
<td>1977</td>
<td>405</td>
<td>80</td>
<td>10,838</td>
<td>20.0</td>
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<tr>
<td>1978</td>
<td>524</td>
<td>97</td>
<td>13,167</td>
<td>23.6</td>
<td>5.6</td>
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<tr>
<td>1979</td>
<td>331</td>
<td>107</td>
<td>9,977</td>
<td>19.5</td>
<td>3.9</td>
</tr>
<tr>
<td>1980</td>
<td>264</td>
<td>115</td>
<td>9,463</td>
<td>23.9</td>
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<tr>
<td>1981</td>
<td>437</td>
<td>103</td>
<td>11,139</td>
<td>23.7</td>
<td>4.0</td>
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<tr>
<td>1982</td>
<td>364</td>
<td>104</td>
<td>11,046</td>
<td>26.9</td>
<td>3.9</td>
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<tr>
<td>1983</td>
<td>297</td>
<td>110</td>
<td>9,540</td>
<td>27.6</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Source: Interviews with county agencies
Table 2.2. Zouping township and village enterprise tax exemptions, 1980 - 1989

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of enterprises subject to exemption</th>
<th>Exemption (million yuan)</th>
<th>Exemption as percentage of township and village enterprise taxes</th>
</tr>
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<tbody>
<tr>
<td>1980</td>
<td>38</td>
<td>0.58</td>
<td>10.8</td>
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<td>1981</td>
<td>42</td>
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<tr>
<td>1983</td>
<td>48</td>
<td>0.85</td>
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</tr>
<tr>
<td>1984</td>
<td>87</td>
<td>1.30</td>
<td>8.1</td>
</tr>
<tr>
<td>1985</td>
<td>93</td>
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<tr>
<td>1989</td>
<td>124</td>
<td>2.80</td>
<td>6.3</td>
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Source: Interviews with county agencies