Rural Roots of Reforms near Shanghai, c. 1971-1989
(Compared to Medial Entrepreneurship in Taiwan, Thailand, & Luzon)

Notes for the Elvera Kwang Siam Lim Memorial Lecture in 2012 at the Center of Chinese Studies, University of California, Berkeley

Lynn T. White III

We have had difficulty perceiving change because we have looked for the wrong kind of conflict (conflict within the government) and have underestimated the extent to which the government itself as a whole has been in conflict with other power systems.

- E.E. Schattschneider

One has to have spent a long time in politics to understand the extent to which men push each other away from their own plans and how the destinies of the world unfold through the consequences, but often the contrary consequences, of the intentions that produce them, like a kite which flies by the opposing forces of the wind and the string.

- Alexis de Tocqueville

The beginning of the end of China's revolution was rural industry. Field mechanization in the late 1960s and early 1970s justified technologies that local leaders could use for local prosperity. So they established more rural factories in this era, using raw materials that had previously gone to urban state industries. This weakened Beijing’s revolutionary state.

The "green revolution" of the late 1960s in rich rural areas has received scant attention, because it coincided with the Cultural Revolution in urban areas that more quickly affected intellectuals, who (unlike farmers) write history. Agricultural extension at this time involved walking tractors and rice transplanting machines, new seeds for grains with shorter stalks that yielded more edible calories, inorganic fertilizer, and more reliable water as regulated by canals during dry spells and tube wells in soggy seasons. Shanghai’s suburban fields in 1965, for example, were only 17 percent machine-tilled. By 1972, the portion was already 76 percent. By 1984, it was 89 percent. This was explosive growth.

Local leaders could set up factories, usually in brigade or team collectives, at first using

1 The author is solely responsible for all gaffes here. He is grateful for past support from the University of California at Berkeley and the Center for Chinese Studies, as well as from many other institutions - including Hong Kong University where Elvera Lim once taught. Information below has appeared earlier; so this is not presented as a new publication although these notes for the Lim Lecture are comparative to provoke new thinking. The oral lecture will of course just summarize ideas in this long text. Lynn learned from many at Berkeley (e.g., Franz Schurmann was early to look at medial leaders; or Chalmers Johnson, at political factors of growth). Lynn welcomes more contact with U.C. China scholars. Lynn@princeton.edu, 810 Euclid Ave., Berkeley, in winters; 5 Greenholm, Princeton, in springs and autumns.


4 Chûgoku no toshika to nôson kensetsu (Chinese Urbanization and Rural Construction), Kojima Reeitsu, ed., (Tokyo:
local labor, not just to soften the employment effects of the new machines, but also to take advantage of financial resources they generated. Methods for making cement, bricks, pumps, glass, bootlegged cigarettes, and other easily salable products did not require high technology. So the early 1970s (not the period after 1978) saw the behavioral start of reforms near Shanghai. Quick rural industrialization — allowed but not planned by the multi-layer Party regime — meant that state enterprises could no longer commandeer the raw materials to which they had become accustomed at prices they were able to pay. Medial leaders in the countryside outbid them and by the mid-1980s ended socialist planning of production that required agricultural inputs.

Each main aspect of the ‘reforms’ syndrome was rooted in this rurally led change: Economic boom, shortages followed by inflation, bribes for procurement agents, government budget deficits, less state control over migrants, widespread popular satisfaction with the new prosperity, and other features of China's ‘reforms’ followed agricultural mechanization and its main result, rural industry. This syndrome, containing both ‘good’ and ‘bad’ aspects from various viewpoints, began in an ‘early’ reform era, which may be periodized from about 1971 to 1989. It originated not from China’s top leadership (not just from Deng Xiaoping, certainly not from Mao Zedong or the historical accident of that one man’s death in 1976) but from parallel motives among far larger networks of medial and local leaders. They served clients, as well as their ideal of the state.

**Farmer Leaders' Quiet Autonomy**

Technical extension in agriculture would not, by itself, have guaranteed that local leaders in peasant communities could found factories. But some medial cadres could respond in this way by 1970-71, because the staffs of city and town offices that had previously monitored rural areas were decimated during the Cultural Revolution of 1966-70. These medial leaders had earlier, during the Great Leap Forward, been the Party’s tools in a “decentralization to middle levels” that Franz Schurmann best described. Memories of the 1959-61 famines and shortages also justified medial and local leaders making decisions in tacit neglect of orders from ‘higher’ ‘levels.’ When they could, rural leaders sought both new technologies and new systems for compensating work. ‘Responsibility fields’ (zeren tian) were introduced in post-Great Leap retrenchments of the 1960s. Household contracting was secretly maintained in a few places through the

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5 It is appropriate at a U.C. Center of Chinese Studies lecture to point out that Franz Schurmann, *Ideology and Organization in Communist China* (Berkeley: University of California Press, 1966) remains one of the most intellectually creative books ever written about modern China. Schurmann saw that PRC concepts and behaviors could be related to analyses by Durkheim and Mannheim especially. His emphasis on China’s many “middle” clusters (not just ‘central’ and ‘local’ polities) is a starting point for understanding of this large nation, though most popular writers miss its importance.

Cultural Revolution, until it was partially re-legitimated in public during the late 1970s.7

Three kinds of equipment, especially, saved agricultural labor. First, machines to pluck rice seedlings from nursery fields (bayang ji) became widely used around Shanghai (and in coastal deltas further south, and apparently on the Chengdu plain) from the late 1960s. A second major technology involved machines that transplanted these seedlings onto large paddies (chayang ji). Third, the same period also saw a major expansion of the number of hand tractors (shouju tuola ji), which could be used both on nursery and large fields to aerate soil, or to pull a plowshare (li) or reaper (shouge ji). Also, the engines of these light tractors could be hitched to pumps. With other attachments, they could haul trailers and perform other tasks.8

The total wattage of all agricultural machinery in Shanghai's rural areas rose 19 percent annually between 1965 and 1978 — a very high rate, compounded, for thirteen years.9 From 1979 to 1989 (the later decade that is officially deemed to have started reforms), the annual increase was lower — less than 3 percent. Cadres for career reasons may well often have filed statistics that were lies. But the rates of change in these indices are dramatic, and it is unclear why local leaders might have lied far more in later years than earlier.

The quick increase of electricity use in suburban Shanghai represents a rise in the ratio of mechanical to animal power, a standard index of modernization. In 1965, very few mechanical planters or harvesters were available in Shanghai's rural counties; but by 1974, the planting machines were about 9,000; then by 1976, 27,000. The suburbs in 1974 had over 1,000 harvesters, and almost 8,000 by 1976.10 Sharp increases of agricultural machinery in Shanghai's suburbs (and in adjacent areas of Jiangnan) brought technological opportunities — and a higher portion of China's wealth — to rural political networks.11

Over time, this mechanization of agriculture also spread inland. The horsepower of all

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8 The widespread introduction of hand tractors was important not just in rice-growing areas, but also on North China plains that often grow wheat, alternating with peanuts, rice, and other crops. Wenhui bao (Wenhui News) [WHB], Shanghai, December 19, 1977.
9 The source, like too many others published in China, faithfully avoids offering many statistics for years between 1966 and 1976, as if that decade did not exist in any respect except its disgusting politics. The 19 percent annual increase is calculated from Shanghai shi nongye jixie hua fazhan zhanlue yanjiu (Studies on Strategy for Developing Agricultural Mechanization in Shanghai Municipality), Xie Zifen, ed., (Shanghai: Shanghai Kexue Puji Chuban She, 1991), p. 104.
10 Also, markets in agricultural products boomed during this time. The marketed tonnage of pork from Shanghai's suburbs, for example, rose 84 percent between 1965 and 1973. See a book by the most distinguished non-Chinese team working on such issues: Chûgoku no toshika, pp. 293-94 and p. 299.
11 No such basic set of technological changes had occurred on the Yangzi Delta since the Song, when new "Champa" indica rice varieties had arrived there. About the same time, new higher-yield annual cotton seeds had also been found. The sharp increase of rice and cotton in the Song created radically improved sources of food and clothing. See references to work by Kang Chao, The Development of Cotton Textile Production in China, and Francis Bray, The Rice Economies, in Stephen L. Morgan, "City-Town Enterprises in the Lower Changjiang (Yangtze) River Basin" (M.A. Dissertation in Asian Studies, University of Hong Kong, 1987), pp. 22-23, and Philip C. C. Huang, The Peasant Family and Rural
of China's irrigation machines doubled in the decade before 1973. From 1971 to 1975, PRC local authorities — at central behest, but also in their own interests — completed 4.5 million small water conservancy projects. Throughout the country, the number of machines in 1978 stood at the following percentages of those in 1970: pumps, 246 percent; motorized transplanting machines, 262 percent; large and middle-size tractors, 355 percent; walking tractors, 631 percent; and agricultural pick-up trucks, 914 percent nationwide.

Agricultural mechanization grew from technical extension, which was supported by state authorities in rich parts of China, even though crucial support came also from farmer leaders who benefitted from such change. By the mid-1970s, each of China's provinces had a research institute to study new seeds and new uses for agricultural machines. Shanghai and other South China provinces set up programs for adapting new machinery to water-covered paddies. Shanghai's Chongming County Agricultural Machines Research Institute began in 1971, for example. By 1974, it was involved in 29 large projects; and in the winter of 1975-76, this institute improved the design of transplanting machines that take seedlings from nursery fields. The best aspects of seven different models were combined in a new device, to be ready for the harvest of 1976. This schedule was met. These agricultural extension activities were reportedly opposed by radicals, who sometimes expressed doubts that technical intellectuals could really help rural proletarians. The socialist-conservative “radicals” had their own agenda for countryside.

In 1975, in Shanghai's rural counties, more than half (51 percent) of all "means of production" already belonged to the lowest-level units, the production teams. Only 15 percent belonged to brigades, and 34 percent (including some expensive factories) were commune property. Radical quasi-mayor Zhang Chunqiao thought the communes' portion was too low and the team portion much too high. But Zhang's views on this were not...
shared by the peasants over whom he just apparently ruled. He fulminated, quite correctly, that independent rural factories would eventually weaken socialism.

Overall conditions for more wealth and power in medium-sized rural units had been growing for a long time, and by about 1971 the political conditions were also present. Reforms at this time also began slowly in other fields — ranging from foreign policy and military budgets to media technology, art, and the 1973 reappearance of Deng Xiaoping — so much so, it is no longer adequate to assert that "the reforms" began in 1978. It would also hide too much to claim that the Cultural Revolution ended as late as 1976.

Periodization based on Behavioral Turning Points in Polities of Several Sizes

The main reason for the usual emphasis on 1978 apparently relates to interests of high leaders in Beijing, who hope everyone may imagine they bring all benefits China ever has. The standard periodization, starting in 1978, presumes reforms began from the wisdom of central seers, notably Deng Xiaoping. Not only does this view deny him due credit for his reform activities in 1973-75 (and for his admirable honesty crediting much larger groups), it also overstates the power of the central government as China's revolution wound down. It prejudges the question of whether any origins of reform could be found outside Beijing.

The official periodization obscures a great deal not only about the reforms, but also about the Cultural Revolution. It suggests that the Cultural Revolution was a whole homogeneous decade of turmoil, from 1966 to 1976. Different groups were affected at different times within that era. Then after a hiatus hosted by Hua Guofeng, reforms are said to have begun under Deng Xiaoping in 1978. That view overwhelmingly structures scholarship, in the West and China alike, even among researchers who realize that 1966-76 was not, actually, a uniform era. This periodization makes no sense of many behavioral trends that are relevant to reforms not just in rural industry, but also in other fields.

An improved view does not require that the Cultural Revolution ended (or that reforms began) in all spheres of Chinese life simultaneously. Change came later and less surely for many intellectuals than for others, e.g. farmers. There was a great deal of violence in early-1970s Chinese high politics (although there was less chaos on the streets than 1966-68 had seen, and less extensively organized coercion than in the Cleansing Class Ranks campaign of 1968-70). In normative fields of culture and political rhetoric, reform was slower and less decisive than in situational fields such as rural industry or international trade.

Hurst, 1980), p. 84.


19 Political uses for the Chinese government of a 1976 ending date for the Cultural Revolution are discussed in Anita Chan, "Dispelling Misconceptions about the Red Guard Movement: The Necessity to Re-Examine Cultural Revolution Factionalism and Periodization," Journal of Contemporary China 1:1 (1992), pp. 61-85. A recent essay, also highly compatible with this Lim Lecture, is Sebastian Heilmann, Turning Away from the Cultural Revolution: Political
No periodization can ever be perfect; yet in writing political history, the time periods chosen for analysis tend to frame whatever else is said. Any periodization is only an idea, an analytic approach that does not exclude others. Whether China's fluctuating pattern of reforms "actually" began in 1971 rather than 1978, the proposal that they did so can serve as a lens for seeing aspects of Chinese politics and economics that have been obscured.

**Triple-Cropping, Machines, Money, and the State's Bargain with Peasants**

Improvements in field technology caused rural surpluses in rich areas. Each farmer by 1974 in Suzhou, after maintaining him or herself, produced enough grain for one other person, edible oil for two, meat for three, and cotton for eight.\(^{20}\) An industrial crop (cotton) was the item in greatest surplus, and apparently the fastest growing major commodity. Fei Xiaotong wrote, "If every laborer can manage four mu of land, one third of the population was [agricultural] surplus labor in the early 1970s."\(^{21}\) Suzhou farmers increasingly supplied inputs for rural factories that provided jobs for their newly industrial kin.

The central state, including its ‘radicals,’ had a solution to this problem: more triple-crop rice. This raised output per land unit but used labor extravagantly, discouraged rural competition with state industry for inputs and markets, and (in the short run) aided both rural and urban taxation. In areas with sandy soil, where cotton was the main agriculture, triple-crop rice was unfeasible; but socialist-conservative cadres mandated it wherever they could. Yet farmers saw in multiple cropping a large problem: harder work, for the extra output of taxable grain, than was required for similar returns in rural factories.

"Involution" is a long-term phenomenon that occurs in agriculture if each unit of land produces more only with increasingly intensive labor.\(^{22}\) The arrival of socialist rule created a collectivist involution that continued the pattern of earlier centuries, because collective farms (like pre-1949 family farms) kept working the land with new increments of labor — which grew quickly, e.g. because of the epidemiological transition.

Double cropping is an old practice; but as late as 1959 in Suzhou Prefecture, for example, many fields were still single-cropped. The next dozen years saw very quick

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\(^{21}\) Fei Xiaotong and Luo Yanxian, *Xiangzhen jingji bijiao moshi* (Comparative Models of the Village and Town Economy) (Chongqing: Chongqin Chuban She, 1988), pp. 40-45. Some theorists stress the importance of labor for rural industrialization, while others stress the importance of capital; the present author sees no need to make this choice either way.

change. By 1971, three-quarters of all land in this large prefecture were triple-cropped. In rural Shanghai, triple cropping had been reported as a novelty in 1956, when a small part of Songjiang County managed to harvest two crops of rice and one of wheat. By 1965, still only 2 percent of arable land in Shanghai was triple-cropped. But by 1971, the change could scarcely have been more dramatic; the vast majority of grain fields in the suburbs were then triple-cropped. By 1974, of the two-thirds of Shanghai land used for grain, 83 percent produced three annual harvests. Triple cropping entails problems for the farmers who do it. If crops are harvested three rather than two times a year, total output value near Shanghai rises about 40 percent (rather than by 50 percent, because of shorter crop seasons and technical problems that decelerate yields). But triple cropping raises income to farmers by an average of only 16 percent — even though much more than 16 percent additional labor is applied.23

Three harvests also increase the need for costly fertilizers. Rice is apparently never attempted for all three crops on a single plot; but it is often planted for two. Stalks are shorter in the "miracle" rice varieties, which put more of the plant's available energy into making the edible parts, not the stems. Under one- or two-crop systems, longer stalks were usually left on the fields to rot and refertilize. So three crops may slowly reduce soil quality. With the three-season pattern, there is no longer time to grow clover, which can be fed to pigs for another means to enrich the fields.24 Chemical fertilizers cost money, and the frequent regulation of water that triple-crop, short-stalk, high-yield-seed varieties require is tedious. The output is somewhat higher, but the work is much harder.

Adding another crop tends to raise state grain tax revenues. It also can increase peasant dissatisfaction with officialdom — unless the processes of planting, rice transplantation, fertilizer spreading, and harvesting are mechanized even more quickly. A major trouble, from farmer leaders' viewpoint in the early 1970s, was that maintaining the fecundity of triple-crop fields required greater amounts of inorganic fertilizer for which they had to pay. Local leaders might relay ordinary field workers' complaints that triple cropping led to overwork and inadequate compensation. It was probably better for their careers to keep mum and start factories.

Three harvests were not feasible without machines and without the active consent and participation of farmers. The only way for the government to get such consent (and to get additional grain tax from the third crop) was to let rural leaders develop machine shops and rural industries. Peasants' leaders in this situation concentrated on the possibility of more income through industry. Their attitudes have been informally reported in a saying: "Better a little factory than a ton of grain to the mou." Most workers gradually moved out

of agriculture. The ones who stayed on the land used more operating capital and equipment, becoming farmers in more autonomous groups, no longer peasants.\(^{25}\) They still spoke, and no doubt thought, very well of the state. Not just in industry, but also in agriculture, their leaders were proud to be ‘state cadres.’ But they weakened planning, to the benefit of local power networks.

**Decollectivization**

Even before China's legal decollectivization, some results of the later ownership reform had begun: a greater range of crops, planted on more local and independent decisions. The commune system ceased to work in the interests of most of its participants long before it was formally abolished. Some local authorities during the early 1970s "lent" (*jie*) land to farmers, lest they be criticized for "contracting" (*bao*). Crop reports often underestimated actual yields, so as to leave a larger surplus for local distribution. Private plots were expanded without authorization. Collectively owned trucks were used to haul individual households' goods to markets. Brigade workshops repaired privately appropriated tools. Public storehouses protected households' grain. Peasants spent more time, even in important agricultural seasons, on their own plots than on collective fields — and local leaders did not always dock their work points. Families used their most active members in private work; they sent older or less energetic members to be symbolic representatives of the household in collective projects.\(^{26}\) Such actions were reported from many parts of China. In Sichuan, as near Shanghai, the process of rural reform began in the early 1970s — well before 1975 when Zhao Ziyang became the First Secretary of that huge inland province. Sichuan's "decollectivization was driven from below — and occurred early — but was not ratified by local [reformist medial] government until much later."\(^{27}\)

China's vertical hierarchies for rural areas were mostly organized to purchase (at low prices) the main commodity traditional in each area, usually rice. Therefore agricultural cadres obtained more money, if not more prestige among their ‘superiors,’ by growing almost anything other than the officially designated main produce of the area. A national paper later admitted its quandary, "As to new industries such as edible mushrooms, flowers, and plants, export of labor services, and so forth, which department should take charge of them as their 'anchor' has thus far not been known."\(^{28}\) A state-sponsored norm was that economic activities should be under officials (*guan du shang ban*, as an old slogan from imperial times had it). The government's hunger for revenue gave incentives to local

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26 From Domes, *Socialism*, pp. 91-92.


behavior that violated this norm — even if nobody openly doubted it as moral.29

Many parts of Jiangsu adopted "quota management" (ding'e guanli) for grain long before 1978.30 Communes formally lasted in a few areas as late as the fall of 1983, but they had ceased to have most of their previous functions long before that. Townships (xiang) often took over from communes, and villages (cun) from brigades. Market exchanges presaged reforms and often violated radical policies during the Cultural Revolution. But they flourished, despite some radical politicians.31

When peasant leaders obeyed the state, they could fail as "synaptic" or "hinge" leaders by not serving their local constituencies well. A number of Sunan (South Jiangsu) counties in the 1970s increased their grain outputs almost 100 percent. But the costs of the new techniques that enabled so much more taxable rice rose 250 percent.32 If low, state-fixed grain prices were maintained, the increment of production was financially unsustainable. When forty workers as late as 1980 harvested vegetables for a whole afternoon, and sold the produce at state prices to Baoshan County, Shanghai, they received only 30 yuan — not enough to pay for the fertilizer they had used. The price of vegetables was so low that the head of a brigade said he "had no way of settling accounts" with his farmers.33 Rural leaders' responses to these pressures varied a great deal and were partly determined by the extent of their ambitions for higher offices.

Varied Roles of Officials at Different ‘Levels’

Rural land contracting during reforms rose not smoothly but in surges, and differently under different local or medial leaders. As David Zweig makes clear, many Chinese peasants throughout the 1970s had scant sympathy with agrarian radicals' ideas about how they should organize farming.34 But rural leaders were at no time in consistent agreement even with each other. Some were reformist, and others, conservative.35 Articulation of policies for family farms increasingly came from the high state, but decollectivization was opposed by some local officials.36 Even when they did not oppose it, its meaning was

29 See a not-yet-published essay by Justin V. Hastings of the University of Sydney (a former Princeton student and a Berkeley Ph.D.) concerning “Strategic Hypocrisy,” i.e., support for norms from whose violation supporters get benefits.
30 Yang Dali, “Making Reform,” p. 185, cites RMRB, June 24, 1978. There are similar reports from other provinces, ranging from Guangdong to Gansu.
33 Jiefang ribao (Liberation Daily) [JFRB], September 6, 1980.
35 This logic, if not this terminology (or ideology!) is consistent with the circulation-of-elites paradigm put forward in The Other Pareto, P. and G. Bucolo, tr. And ed. (New York: St. Martin’s Press, 1980).
36 The irony that the policy was supposed to be “applied in accord with local conditions (yin di zhi yi) is mentioned in
altered by quick rural mechanization and industrialization.

Xu Jiatun was an important administrator in Jiangsu during the early 1970s. He was also the highest Party leader to leave China after June 4, 1989; and his memoirs were frank. Writing from the safety of a Buddhist monastery in California, Xu expressed pride in Jiangsu's progress during the early 1970s: "I tell you, we took a different road from the rest of the country. 'The planned economy was crucial, and the market economy was a supplement.' We had openly to support this, but in fact we had gone beyond it."37

There is scant contemporary evidence that Jiangsu cadres went beyond the ambiguity Xu expressed, although rural industrial production statistics show that lower-medial leaders tacitly did so. Many central, provincial, medial, and local leaders unambiguously opposed rural industries. After the Jiangsu Party committee ordered lower branches to "oppose capitalist tendencies more energetically" in 1975, peasants reacted by slaughtering team- and brigade-owned livestock and by diverting water to their own plots. In Jiangsu's Nanchang County (and Zhejiang's Shaoxing County), there was "widespread sabotage."38 Great local variance was the norm at the county level and below. Xu and his comrades simply blinked at changes, from the vantage of their province-level office in Nanjing.

Shanghai's most powerful administrator, Zhang Chunqiao (one of the radical Gang of Four), was not willing to blink. Zhang detested "sprouts of capitalism in the countryside" (ziben zhuyi mengya, a phrase Mao had also used before 1949). Zhang advocated a need to raise communes' and brigades' share of all fixed assets in the collective economy.39 His shrill complaints were generally deemed in the West at the time to be a mere mantra, representing what any devoted 'leftist' (actually a conservative to preserve socialism) would have said reflexively, with or without evidence. By now, however, it should be clear that Zhang knew exactly what he was talking about. These local industries were ultimately, though not immediately, a fatal threat to socialist centralism.

Leaders of the Star Brigade in Chengbei Commune of Songjiang County, Shanghai, were excoriated by radicals for having grown the least grain of any brigade in that commune during the decade before 1975. Their fault lay in "capitalist" tendencies among local cadres who introduced industries that took labor from the fields. Brigade officials were particularly criticized for claiming they had a shortage of workers.40 In the radicals'

38 Jiangxi Provincial Broadcasting Station, November 25, 1975, and Zhejiang Provincial Broadcasting Station, November 16, 1975; in Jürgen Domes, Socialism, p. 90.
40 WHB, December 4, 1975.
view, they were assigning their workers to the wrong tasks: to factories rather than fields.

At the start of the officially sanctioned ‘responsibility system’ by 1978, peasants’ enthusiasm to contract for new plots was high. In this period, many rural leaders’ keenness for admitting to behavior they had long secreted was so great that, "Anything decided at night would be acted upon by midnight." No less an authority than Deng Xiaoping attested to his astonishment at the spontaneity of rural reform: 41

Generally speaking, our rural reforms have proceeded very fast, and farmers have been enthusiastic. What took us by surprise completely was the development of township and village industries.... This is not the achievement of our central government. Every year, township and village industries achieved 20 percent growth.... This was not something I had thought about. Nor had the other comrades. This surprised us.

As late as December 1978, however, the Third Plenum of the Eleventh Party Congress passed a resolution which specified that "contracting to households" should be illegal. If 1978 be taken as the crucial watershed toward reforms, this was an odd way to begin them. This resolution was perhaps a sop to conservatives. Reform-minded leaders, at that time including Deng, may have known it would be unenforceable anyway. Ambiguous late-1978 wordings also had serious reformist aspects: they raised the authority of local work teams and suggested that agricultural commodity prices should go up by 25 percent; and they encouraged more sideline production and proposed opening more local markets. The Plenum showed its divisions. Local leaders, with various aims and at different sizes of polity, followed any of the available decrees they liked.

By the spring of 1979, Daniel Kelliher claims, "The top leadership in Beijing was against the experiment in family farming." That did not stop the trend, however. Decollectivization led to higher harvests, but demand for food rose even faster. The state doggedly tried to retain its "unified purchasing" policy, which in Mao's time had allowed huge extractions from the countryside for urban use. When the state price was good, peasants willingly sold; but the government had to offer more and more price incentives, to obtain grain for its urban employees and inputs for its urban factories. This change quickly ruined official budgets.

Sometimes, official planners set their purchase prices too high, and government granaries then could not hold all the food they had contracted to buy. Peasants by 1983 in Jiangsu's Haian County raised one million more chickens than state purchasing agents had

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42 "Contracting to households" is *baochan dao hu*. Kate Xiao Zhou (a former student to whom Lynn owes thanks) refers to the text of this resolution in Yang Jianwen, et al., *Dangdai Zhongguo jingji sixiang* (Economic Thought in Contemporary China), (Shanghai: Sanlian Shudian, 1991), pp. 395-412.

money to buy at the announced price, because bureaucrats in that year had thought to spur production but overshot their mark. Free markets solved this kind of problem; the farmers strung most of their chickens on bicycles and took them off to sell in Nanjing. Most local leaders in such situations almost surely conceived themselves as good socialist cadres. But they needed markets. State procurement requires state money. When production fluctuated in diverse commodities unpredictably, planners could lose control of their budgets. This much was not a question of ideology; it was a question of paying bills.

When cadres could not meet their obligations to the chiefs of farming networks, the latter were relieved of needs to reciprocate. Norms required that the administrative structure be conceived as a hierarchy — and practically no-one ever spoke of it otherwise. What the higher leaders in this system needed was grain. The "lower" heads had decreasing interests in providing it, as new markets grew. For example, peasants in a large region of Zhejiang in 1983 planted rapeseed on nearly half their land. The profits were enough to buy grain for their required deliveries to the state. But this meant less local food was grown. So a law decreed that each team should put grain on four-fifths of its fields. Laws of this sort pleased top state leaders in Beijing, who knew that urban state workers in politically important cities expected their usual rations. In practice, however, such laws were difficult to enforce. The state soon had to pay more, when it needed to get grain.

The term “China’s reforms” is used in two different ways. It refers to a substantive set of policies in agriculture, industry, trading, foreign affairs, art, constitutionalism, and other fields. But this phrase is also used, separately, to refer to a time period in which reformers at all sizes of polity advocated reform policies for the sake of adapting their elite to new situations, while also conservatives at all sizes of polity advocated diametrically opposite policies for the sake of maintaining the Party’s integrity and “stability.” This circulation-of-elites view of reform politics may not cover all aspects, but it covers many.

Non-Central, Non-Provincial Local Leaders of Shifts from Fields to Factories

Within Shanghai, ecological differences had long been important between less fertile cotton areas near the sea and more fertile places slightly inland, which could often garner rich harvests of rice. Evidence from Chuansha (‘River Sand’) County, a cotton area mostly at the mouth of the Yangzi with sandy soil as its name implies, shows a very quick rise of the industrial portion of gross output in first half of the 1970s. Here are the

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44 Kate Xiao Zhou cites this material from RMRB, January 5, 1984.
46 For more on the practically urban green countryside around Shanghai, see Lynn White, "Shanghai-Suburb Relations," in Christopher Howe, ed., Shanghai: Revolution and Development in an Asian Metropolis (Cambridge: Cambridge University Press, 1980), pp. 240-68.
industrial percentages within Chuansha's total product by value in various years:47

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These numbers show a fairly flat curve of the industrial portion of product during the height of revolutionary politics before the 1970s -- but then a very major jump in the first half of the 1970s. Chuansha (then still largely rural, but now called Pudong) was and is very close to central Shanghai and has a long industrial tradition. Local leaders were still responding, in the 1950s and 1960s, to municipal and central instructions to grow their main product (cotton), perhaps because the Leninist appointment system was intact. But Chuansha also has very strong traditions of nonstate political organization.48 Local hinge leaders always had the option of responding more to their networks' local opportunities than to mandates from the state or from Shanghai Party headquarters just across the Huangpu. After 1970, the portion of output from industry rose by 20 percentage points in half a decade. This rate was exceeded in the two years after 1978 — when hidden non-agricultural activity almost surely became easier for local leaders to report — and later, service jobs became far more important, as this close suburb changed dramatically.

Chuansha comparisons with other Shanghai counties show local contrasts of leadership. As shown above, Chuansha industry contributed 54 percent of product value in 1970, up in the next five years to 74 percent. But Songjiang County, a carbon-soil, traditionally rice-growing area of Shanghai, provides data suggesting that Songjiang cadres obeyed government instructions to stress agriculture more faithfully than their peers in Chuansha. By 1970, even though Songjiang was then richer, just 46 percent (rather than Chuansha's 54 percent) of its output was industrial. By 1975, the Songjiang figure was up to 61 percent; this was a fast increase, but not to the level of Chuansha.49 Local leaders probably created these contrasts, and different local cultures and agricultures also help account for them.

47 The Chuansha xian zhi (Chuansha County Gazetteer), Zhu Hongbo, ed. (Shanghai: Shanghai Renmin Chuban She, 1990), p. 251, is unusual in that it gives information for the early 1970s. The table includes all recent years for which these were published. Similar gazetteers were scanned for Shanghai's Baoshan, Chongming, Fengxian, Jiading, Jinshan, Qingpu, and Songjiang counties too; but except as reported elsewhere in the text, to a surprising extent most of them avoid offering much behavioral information about the first half of the 1970s, the PRC half decade that is still least studied.

48 The Green Gang leader of the Republican period, Du Yuesheng, was a Chuansha native. Evidence of shamanism during the mid-1980s remained strong there. Chuansha farmers included many Roman Catholics, and also many independent-minded 'boat people.' When the county was re-named Pudong, local construction teams (and the redoubtable contractors' and workers' networks behind them) proved effective in assuring they received much of the construction work. The municipal-level Party was not alone in its ability to mobilize Chuansha people's loyalties.

49 Songjiang xian xiangqing (The Current Situation of Songjiang County), Yao Xitang, ed., vol. 2 (Shanghai: Shanghai Academy of Social Sciences, n.d.), pp. 4-6.
Early reforms deepened income differences between places that are smaller than these large counties. The differences between rich and poor brigades in rural Shanghai in 1966 was still not very great; in that year, among twenty surveyed production brigades, a more-taxied group of ten delivered only slightly less grain than the less-taxied ten: 556 jin delivered per worker, rather than 580 jin. By 1978, however, per-capita deliveries from the rich brigades had risen by more than three-quarters (to 980 jin), while deliveries from the poor ones had fallen by almost one-quarter (to 472 jin).50 Some of the higher-delivering brigades almost surely did not raise all the grain they delivered, but instead bought it with industrial profits. This study of ten richer and ten poorer Shanghai brigades found that, by 1978, there was a 71 percent difference in their per-capita incomes, and a 91 percent difference in their average fixed investment per worker. All this happened before reforms were officially announced in Beijing.

Rural leaders' conservatism or reformism could vary, even when their places' ecologies were similar. Dengyi and Shanhuang brigades, both in Chuansha, had nearly identical net incomes in 1966. By 1978, Dengyi's income had doubled — but Shanhuang's had risen more than ten times. The resource and market conditions facing these two brigades were similar. Why did subsidiary industries grow in one place but not the other? The answer seems clear: Shanhuang's local leaders were willing to run the early-1970s risks of nurturing "sprouts of capitalism," while Dengyi's cadres avoided this political risk. The Shanhuang leadership encouraged peasants on their own time to raise more pigs, chickens, and cows. They supported the harvesting of grass from coastal commons and the founding of industries, ranging from hand embroidery to heavy work. When situational factors gave similar opportunities to different leaders, they did not always react in the same way.

In Shanghai County (outside the built-up city), which has richer agricultural soil than Chuansha, a contrast has been documented between Xinlong and Yenong brigades. In the 1960s, these two brigades were similar; but at the start of the 1970s, the pattern changed. Surplus agricultural workers in Xinlong raised ducks, chickens, pigs, fish, and mushrooms. They trucked such goods into central Shanghai, apparently to fund new factories with the profits. Yenong did none of these things extensively — with the result that by 1978, its nonagricultural workers produced 75 percent less value than did those of Xinlong.51

Even in relatively conservative rice-growing counties that have very large settlements, such as Songjiang, the early 1970s rate of industrial growth was unprecedented. Its acceleration was not matched, over similarly long periods, until 1985. From 1970 until 1975, the average rate of all Songjiang industrial growth was 21 percent (and for rural industry, much faster: 37 percent). But over the same number of years beginning in 1978,
average growth was lower, at 17 percent (for rural industry, 26 percent) — and then only 14 percent during the next year, 1984. These reforms showed the common pattern: a boom in the early 1970s, a period of less change after 1976, then a resurgence after 1978, and another reported slowing in 1984-85. No aspect of this pattern after 1978 was lacking earlier in the 1970s. No aspect of it has yet disappeared.

Data from Qingpu County, adjacent to Songjiang, suggest only a somewhat lower rate of industrial growth there in the early 1970s, followed by the common deceleration in 1976-77, and then again an increase after 1978, with fluctuations in the rate continuing thereafter. The Qingpu reports on grain are interesting, because that county’s production of staple food per capita generally decreased in most years after 1971 (despite some periods in which high numbers were filed). Recurrent exhortations from state leaders that every county should grow more grain had no decisive effect. Weather naturally makes annual crops fluctuate, but a broader pattern is not hard to find. The 1987 tonnage of Qingpu grain was about the same as that grown a decade and a half earlier, in the early 1970s. The long-term trend for all of Shanghai rice production was stagnant and then negative.52

Outside the large Shanghai municipality, the rampant exodus of workers from fields to factories was also impressive. In Taixian County, Jiangsu, farmers who once tilled rice increasingly specialized in animal husbandry or fish-raising. Many set up stores or found jobs in township industries. Others "became workers in small firms, often affiliated with larger enterprises in towns and cities."53 The agricultural labor force of Wuxi County declined sharply, a loss reported after 1978 at an annual rate of 13 percent until 1985.54

Men shifted from farm work more than women did, even though the new factories had many female workers in some commodity lines. State pressure on rural areas to feed cities, together with opportunities for rural families to get income from new industries, made rice paddy workers more often female. "Assisted by children and parents, a Taixian woman can on average manage 0.3 hectares of farm land.... But the question, 'Who should be growing crops,' is far less worrisome than the fact that men are not willing to do it."55 The state harassed local peasants to grow grain. Local men largely got their wives and daughters to grow enough so that local leaders would not receive too much criticism from their bureaucratic superiors.

Farming "specialist" households contracted with local governments to produce quotas of crops. Then other families could work in factories. Dongfang Township, Wuxi, from

52 Qingpu xianzhi (Qingpu County Gazeteer), Feng Xuewen, et al., ed. (Shanghai: Shanghai Renmin Chuban She, 1990), 206 and 271.
53 This one-third was surveyed at 32 percent. China Daily [CDJ], January 24, 1989.
the autumn of 1983 allocated 70 percent of its large tracts of "responsibility land" to just 85 families, a small minority in that town. Yongnan village, Yuqi Township, in 1984 consolidated the land previously tilled by 327 families, re-allocating it to merely 10 families. "This greatly raised agricultural efficiency." It surely did so on a per-worker basis, as it also raised the rural village’s efficiency making money from industrial processing that had previously been more urban.

The laborers of Changjiao village, Changshu, were 80 percent industrial by 1984. But somebody was supposed to till the land — or else supervise migrant workers from poorer parts of China to till it. Local cadres contracted out agriculture. Villages were still officially organized as "farming" units. Only slowly could new factories and collaborating plantations change their unit designations from agricultural to industrial categories. Both sectors were administered by closely interlocking village elites. In agricultural slack seasons, more people would work in factories. As Fei Xiaotong writes,

Local leaders carried out a uniform management of agriculture and rural industry. Under this system, those who engaged in agricultural activity actually became members of rural industries. [Local offices] organized agriculture, rural factories, and sideline production too. In Wuxi County, 7,000 responsibility land families were managed by rural enterprises. There was an agricultural department in rural industrial offices. Peasants who wanted to do agricultural work had to apply for land from this department. They submitted the income from the land for which they took responsibility, but they [also] could get wages from rural industry.

**Intentional Modernization Policies and Unintended Political Effects**

China's central leadership was broadly supportive of the general idea of rural prosperity. Beijing had long advocated agricultural mechanization, evidently in the belief that both its rural and urban effects would be beneficial to the state as well as to the people. But major effects of agricultural extension had not been clearly foreseen by socialist politicians in Beijing. The devil was in the details, especially in deleterious consequences for state industries. These were unintended.

Chinese local leaders are not against the Chinese state — to the contrary, they are extremely proud of any associations they can claim with it. But it is necessary to look at what they do, not just what they say or may even think. They may end up eroding the state, at one point in time, because they followed state policies earlier. This phenomenon is by no means just Chinese. A study comparing the adoption of agricultural technology in two parts of Indonesia argued that Javanese took to green revolution farming more easily than

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55 *CD*, January 24, 1989, reflects the "worry" of a grain planner, not a feminist.
57 Ibid.
Ambonese — largely because the Javanese were more statist. They loyally followed advice from Jakarta, which was based on new agronomy; and their crop yields rose. The central Java peasants trusted their local leaders better than those in Ambon, and their leaders in Java also trusted the state better.\textsuperscript{58} But that did not guarantee their success, partly because it involved them in large networks that could exploit them and that sometimes made straightforward economic mistakes. The same pattern is evident in Jiangnan. It can lead to ironic results. As Kelliher writes, "Peasants with no plan, no communication, and often no knowledge of each other's action behaved as if [sic] acting in concert. Unanimity of action came from the sameness of circumstance."\textsuperscript{59} Results varied.

Local resources and norms change in parallel, responding to new economic possibilities, old administrative policies, and leaders' choices. Such changes make powerful politics, even when the local policies they generate are "weak," mute, or without open articulation in the "civil society" style of intellectuals. China's ex-agriculturalists made massive reforms partly because many of their first changes were situational, not normative. They did not begin with public intentions. The Chinese central elite has for centuries comprised intellectuals who proudly presume that their ideas shape situations more than vice-versa. Ex-peasant leaders can find in this presumption a beneficial bluff: Medial leaders can retain good faith and credit with the state hierarchy (and can maintain their own local hierarchies) by accepting this definition of politics as just a matter of public ideas and legitimate symbols — while in the meantime, they can massively take concrete resources that had earlier been commanded by the larger polity that they still normatively support.

The liberation of agricultural labor beginning in the early 1970s conjured reforms more surely than did 1978 pronouncements by CCP politicians in Beijing, partly because statist symbols did not ensure the consistency of state policies or determine what happened over long time periods. If most high PRC leaders had been interested in Marxism as a political analysis, rather than merely as a language to legitimate their rule, they might have been interested in this transformation of rural China. Changes of "substructural" technology constrained China's government. They gave concrete wherewithal to political networks that were almost always loyal by intention, but beyond any high officials' reach in practice.

The beneficiaries were ex-peasants. Statist intellectuals noticed the process but did not soon take it seriously. A Communist reactionary with the pseudonym "Leninger," writing a later book that became well-known among PRC intellectuals, eulogized "the basic correctness of Mao's strategy of keeping peasants bound in poverty to the land [because of]..."


\textsuperscript{59} Daniel Kelliher, \textit{Peasant Power}, pp. 30-31. This argument has been extended in Zhou Xueguang, "Unorganized Interests and Collective Action in Communist China," \textit{American Sociological Review} 58 (February 1993), pp. 54-73. It relates to ideas of Kelliher's teacher, James Scott, and to those of Frances Fox Piven and Richard A. Cloward, \textit{Poor People's Movements} (New York: Vintage, 1979), and to past and planned publications of Kate Xiao Zhou.
the threat peasants have increasingly posed to China's social stability." 60 This conservative writer excoriated a reformist "provincial party secretary" (Wan Li, though the book did not identify him) for maintaining that "China's peasants are simple and dutiful; their only demand is to eat their fill and have the freedom to farm." But according to the hardliner, "once the peasants have filled their stomachs they most certainly will continuously raise other demands. And these demands are no longer demands for a low level of existence. They have the desire to develop." They migrate to cities, violating laws and becoming a "powder keg," a "living volcano," that threatens stable Party rule.61 Most data about China's reforms can be organized by such an analysis. Agricultural extension policies were not intended to end the revolution. In fact, they have made most of China's localities more industrial and autonomous. They in effect became political reforms.

Processing raw materials is practically always more profitable than extracting them. Silk-weaving, ceramics, and other industries have for centuries been prominent on the lower Yangzi. Even when particular local industries did not outlive the post-Leap depression, peasants remembered their own ability to run them.62 The quick resurgence of Shanghai delta rural industries in the 1970s came partly from old local manufacturing and trading habits in East China, which resurfaced quickly when state controls weakened in rural areas. The output of Jiangsu rural industries rose speedily in terms of gross output, by more than three times between 1970 and 1975.63 Industry's portion of Jiangsu rural output value was 13 percent in 1970 — but up to 40 percent by 1976.64 The factories responsible for most of this growth were collectives. They were preceded, because cooperatives that had been run by villages (mostly production brigades) had grown during the early Great Leap Forward of 1958, even though they had been curbed during much of the 1960s.65 Brigade and commune enterprises, which later became cooperatives run by townships (or still later became private in practice or law), were not just precursors of China's reform. They were its industrial beginning.

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60 These are the words of Joseph Fewsmith, in his review of the pseudonymous "Leninger" (Laoyininggeer), Disan zhi yanjing kan Zhongguo (Looking at China Through a Third Eye), tr. Wang Shan [also a pseudonym, because the book was written in Chinese, not German, and needed no translation], (Taiyuan: Shansi Publishing House, 1994), in Journal of Contemporary China 7 (Fall 1994), p. 101.
61 Ibid.
64 This portion was 7 percent in 1965. The early-1970s increase was overwhelmingly in Sunan, and that change would be even more dramatic if it had been reported for south Jiangsu alone. See Xin Zhongguo gongye jingji shi (A History of New China's Industrial Economy), Wang Haibo, ed., (Jingji Guanli Chuban She 1986), p. 364.
65 Xu Yuanming and Ye Ding, Tangqiao gongye hua zhi lu (The Way to Industrialization in Tangqiao), (Shanghai: Shanghai Shehui Kexue Yuan Chuban She, 1987), p. 38, offers a table showing the number of teams, their gross outputs, and their profits.
Zooming In: Tangjiacun Village, Tangqiao Commune, and Comparators

Provincial data from very large areas such as Jiangsu, as provided above, give an overview of reform in an extensive region of China where it was early. Statistics from more local booming places on the Shanghai delta tell the tale even more dramatically. Industry's portion of gross output value in rural Tangjiacun, in Qingcun Commune, Fengxian County, Shanghai, was only 7 percent in 1970. Already by 1971 it was 11 percent, then up sharply to 22 percent in 1972, 44 percent in 1973, and already 59 percent by 1974. These figures on rural industry's contribution come from a place that a foreign (Japanese) anthropologist deems reasonably typical of the area. The percentages on Tangjiacun industrial growth are worth examining in tabular form, to show the early 1970s acceleration was not only steep but also constant until 1975 (when Zhang Chunqiao's last spurt of radical politics in Shanghai may well have forced underreporting). The industrial percentage of total product at Tangjiacun changed as follows:

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By the same token, the portion of gross output value from agriculture in this place plummeted from 80 percent in 1970 to 16 percent in 1987. Industry replaced agriculture.66

In many specific spots, the change began with the founding of a particular industry or a single factory. In 1972, a plastics plant and a silk filature were founded in the Shanghai rural commune that has been most circumspectly studied (and that contains the smaller place described above), Qingcun Commune in Fengxian County. These were the first local industries in that area not directly involved in creating products such as fertilizer or household goods mostly used within the community. Although the town's enterprises in 1966 had employed about 400 workers, the number by 1971 was over 800, by 1972 over 1,000, and by 1978 over 1,700.67

These data do not count the rising employment, at the same time and commune area, of factories legitimated by lower administrative levels. Tangjiacun, within Qingcun, was only a village; but by 1970 it had a metalworking factory with 25 employees — a number that became ten times larger by 1980. By that latter year, after a decade of de facto reforms,

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66 Ishida does not stress this interpretation, although his data suggest it. See Ishida Hiroshi, Chûgoku nôson keizai no kiso kôzô: Shanhai kinkô nôson no kôgyûka to kindaika no ayumi (Rural China in Transition: Experiences of Rural Shanghai toward Industrialization and Modernization) (Kyôto: Kôyô Shobô, 1991), p. 149.
67 Ishida Hiroshi, Chûgoku nôson, pp. 121 and 132.
the village also had other plants, and it employed 500 local industrial workers by 1985. In later years, presuming this place is similar to other parts of the Shanghai suburbs, many of the added laborers were immigrants from inland provinces.

A similar pattern can be found at many places throughout the delta. At Tangqiao Commune, Suzhou Prefecture, Jiangsu, the early 1970s was also a period of quick expansion. Some of Tangqiao's firms had been founded during the Great Leap Forward, but most were started in the first half of the 1970s. According to one report, Tangqiao's agriculture had reached the limits of its productivity under current technology at that time; so the only way for peasant leaders to raise their followers' incomes was to set up factories. Brigade-run enterprises of 1958 in Tangqiao Commune were closed, at least for reporting purposes, in 1962, but they resumed in 1970. Because these businesses did not accord with the then-current radical policy of "learning from Dazhai," which stressed that rural places should "take grain as the key link" (yi liang wei gang), local Tangqiao authorities supporting such factories simply had to ignore many directives.

So in 1971, Tangqiao set up its first power plant, along with a cardboard box factory, several metal shops, and an animal feed processing factory. In the next year, one of its rural production brigades founded a brick factory that proved to be very profitable; so by 1973, the value of that brigade's industrial product (240,000 yuan, with reported profits of 25,000 yuan) made it the richest village in the commune. Word of such success spread quickly in a peasant society. By 1974, Tangqiao leaders could set up an industrial office; and a later writer said these commune cadres "ran a certain political risk." At first, many new plants in this commune were formally under the umbrella of a "comprehensive factory" (zonghe chang). By the end of 1976, this pretense of planned unity was no longer needed; the plants could split into separate administrations. By the next year, villages in this commune found that the more they invested in agricultural production, the less total profit they made. Despite continuing campaigns for agriculture to "study Dazhai," industrialization continued in Jiangnan. State leaders did not mainly bring this change;

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68 After that, Tangjiaocun's carpentry and barrel industries failed for financial reasons, however. So the number of employees in its own factories by 1987 decreased to 425 by 1987. Ibid, pp. 138-39, provides information about just a single place. But the wealth of circumstantial evidence in Ishida's book raises confidence that Tangjiaocun is not a "Potemkin" village. Local reporting from a relatively independent source may provide more accurate suggestions, even about large situations, than ostensibly comprehensive reporting from sources that have official or other unacademic interests. Ishida could monitor the consistency of many different kinds of local data.

69 Xu Yuanming and Ye Ding, Tangqiao gongye, p. 10, says that Party members at Tangqiao took the initiative to spur the development of these new and reopened factories.

70 Central and provincial politicians disagreed among themselves, at this time, about the appropriate kinds and extent of rural industrialization. Radical "policy winds" were nonetheless recurrent, fiercely opposing rural entrepreneurship — especially in East China where Shanghai head Zhang Chunqiao was the main radical spokesman. The interpretation above substantially agrees with the best treatment of these ideological trends: David Zweig, Agrarian Radicalism. See also Xu Yuanming and Ye Ding, Tangqiao gongye, pp. 10-13.

71 The cadres were said to "mao yiding zhengzhi fengxian." Xu Yuanming and Ye Ding, Tangqiao gongye, p. 13.
local leaders did so. The number of factories at Tangqiao doubled from 1976 to 1978.72

By the end of the decade, some of these rural plants switched to new managers. Local leaders who had established or reopened the factories in the first part of the decade were often replaced by new, more technically oriented cadres. Persons from families that had been rich before the revolution had long been active at the plants, but now they began to assume greater roles.73 These new leaders wanted much wider markets for local production; and by the beginning of 1982, Tangqiao factories sent a "comprehensive sales team" to tour more than ten provinces in search of buyers.74 Also, the township established 90 "sales points" in various Chinese cities, including some that were not served by producers of competing products. This was not private capitalism; it showed autonomous collectives' abilities to seek markets in a way that would interest Joseph Schumpeter. Tangqiao entrepreneurs raised the quality of their management and products.

Nearly half of the plants in Tangqiao at the end of 1985, had been founded before the Third Plenum of 1978. Of those, one-third were established in the years 1970-72; and most others were ex-Great Leap plants that had been reopened before 1978.75 By the mid-1980s, more than half of the workers in these particular factories were women. Practically no employees in village-run (cunban) factories had urban residence permits, and only 4 percent did so in plants that were township-run (xiangban). But many workers in rural industry (22 percent in village-run factories, and 14 percent in the more complex ones run in larger rural polities) already were migrants from outside the township.76

Shanghai's suburbs resemble Tangqiao, even though radical administrators in the mid-1970s dampened both rural industries and rural reporting. Proximity to the metropolis spurred quick diversification, as some urban institutions created links to nearby rural areas. At Qingpu County from 1969 to 1973, the annual rate of gross industrial growth was 21 percent; whereas from 1979 to 1985, it was just one point higher (22 percent). New companies were founded readily in those early years of reform: the number of factories in this suburban county rose 2.1 times from 1969 to 1973, but just 1.3 times over another period of the same length from 1978 to 1982.77 Many of these Qingpu factories were

72 For more, see ibid., pp. 15-17.
73 Ibid. This phenomenon is also noted for poorer areas and for agriculture by Jonathan Unger, "Rich Man, Poor Man: The Making of New Classes in the Countryside." China's Quiet Revolution: New Interactions Between State and Society, in David S. G. Goodman and Beverley Hooper, eds. (New York: St. Martin's, 1994), pp. 43-63.
74 The references to this zonghe tuixiao duiwu team and the xiaoshou dian sales points are at ibid., p. 25.
75 Based on calculations from a complete list of all Tangqiao factories in Xu Yuanming and Ye Ding, Tangqiao gongye, pp. 139-43. These pages include detailed information on each plant's number of employees, fixed capital, liquid capital, and 1985 production.
76 Calculated from figures in ibid., p. 68. These may well be underestimates, however, because they may ignore temporary and contract workers, many of whom are usually migrants.
77 The number of factories is in either case large enough for a good sample: 1969-83, 346 to 732 factories; 1978-82, 598 to 796. Since the 1978 number is lower than the 1983 one, the text above suggests the conclusion about business
connected to urban plants in Shanghai. Some of the rural enterprises failed and/or
deregistered themselves to avoid controls, during the interruption of reforms surrounding
1976. Even these hiatuses became typical of the whole reform era (as 1989-90 showed).

In 1974, an unidentified "average" county in Suzhou Prefecture already had 46 percent
of its rural workforce in industry. At Shanghai's Jinshan County by 1974, about half of all
rural workers were reported as agriculturalists, and half were in other activities. Less than
half may have actually spent most of their work hours in paddies, however, since there was
political pressure to report as many peasants and as much farming as possible. In the East
is Red Brigade, "Some cadres interested themselves more in production for cash than in the
political line, encouraging diversification and economic crops at the expense of grain
production; and some prosperous peasants neglected collective production in favor of
private plots and free markets." 78

Most early rural plants were licensed at the brigade level, and to a lesser extent in
communes. Production teams at first were still mainly confined to agriculture. An index of
the growth of decentralized industry is the percentage of all rural output from brigades and
communes, rather than from teams. Between 1970 and 1977, in Wuxi County for example,
this percentage soared from 23 to 64. 79

The portions of industrial employment at the low village (cun) level, as distinct from
that at the higher township/commune level, nonetheless changed sharply during reforms at
Tangjiacun, Fengxian County. The village-run factories' portion of local industrial
workers was not linear but hump-shaped, rising but then falling. Local industrial workers
hired by the village were 34 percent in 1971, up to 65 percent in 1979, then down to 43
percent in 1988. It is likely that nonlocal immigrants by then had already replaced many
locals in difficult and low-paying jobs in village plants. The private portion of hiring in all
three years was minimal (respectively rounding to 4, 0, and 5 percent). 80 So the push for
rural industrialization began at the low-middle size of collectivity, brigades and townships.

Reforms vs. Radicals

As Fei Xiaotong admits, some factories in South Jiangsu ('Sunan') were secret: 81

In the later stages of the Cultural Revolution [this refers to the early 1970s],
many small enterprises emerged in Sunan. These enterprises established by
local cadres were illegal [sic] at that time. They were "underground." Because

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78 Frank Leeming, Rural China, pp. 104-05.
79 Ibid.
80 The township (xiang; earlier, commune) accounted for 62 percent of industrial employment in 1970, a low of 35
percent in 1978, and then back up to 45 percent in 1988. Ishida Hiroshi, Chûgoku nôson, p. 151.
81 Fei Xiaotong and Luo Yanxian, Xiangzhen jingji, pp. 5-9.
of the Cultural Revolution, higher level cadres had no time to deal with such things; so more and more enterprises emerged. Peasants did not mind what the nature of ownership was. The only thing they did mind was to keep up their livelihood.... Capital came from collective accumulation; communes used a portion of their funds to develop [industrial] production after the income distribution.... The government did not give money or invest.... But this was the only way for peasants to make their living at that time.

The North China Agricultural Conference, and other meetings of relative moderates in Beijing during the early 1970s, condoned locally owned rural cooperative industries; but the radicals also tried to enforce regulations against them. Such ambiguity was wholly typical of reforms — and not just in the early 1970s. Rural factories' competition with state plants would erode the Party's ability to plan the economy and finance the central budget. Many such factories were clandestine; but they were actively sponsored by local "state" cadres who could neglect (without wanting to oppose) some decrees from high officials. These did not advertise their insubordination, of course, and almost surely avoided conceiving it as such. They could cite opposite mandates. Splits between conservatives and reformers at the top allowed local cadres to keep low profiles in order to make profits and employ local clients. As Fei says, "At the very beginning of these enterprises, they were not called village and town industries (xiangzhen gongye) but commune and production term enterprises (shedui qiye).... Actually, every commune and every village was an economic enterprise.... Big collectives were still managed by local governments, and for a long time there was no separation between enterprises and [local] governments."

Even at this time, "small collectives" were "established by individuals."82 Such businesses were an early-1970s form of enterprises that by the 1990s were often called "dependent firms" (guahu), relying for local protection on state cadres who had already separated their practice from the state.83 They were de facto private, formally collective. Local officials acquired positive interests in local enterprises, even if they did not control them. Economic expansion within their jurisdictions gave them more bargaining chips in dealing with their higher bureaucrats.84 These resources became important in politics. Local cadres had more wherewithal to grease palms at higher administrative levels, and resources greatly affected cadres' power. Legitimacy from holding low-level state offices may have helped; but access to goods, ranging from fertilizer to factory capital, was increasingly important. As entrepreneurs without official status gained more of these resources, state cadres could no longer "capriciously order farmers around."85

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82 Ibid., pp. 1-4.
83 For more on guahu, see Kate Zhou and Lynn White, "Quiet Politics and Rural Enterprise in Reform China," The Journal of the Developing Areas 29 (July 1995), pp. 461-90.
84 David Zweig, "Urbanizing Rural China: Bureaucratic Authority and Local Autonomy" (article manuscript).
An American delegation visiting rural Chinese industries in 1975 concluded that, "Much decision making in China has been decentralized to lower levels; and scientific and technical personnel from Peking, even if they were so inclined, cannot usually order factory and county revolutionary committees to divulge information that these revolutionary committees themselves, for whatever reason, are reluctant to give out." The delegation visited several small plants on the Shanghai delta (in three Wuxi communes and the municipality's towns of Jiading and Malu). Their report found that, "The prime motive force for this extensive development lies within the counties and communes themselves. Provincial and central government planners sometimes provide financial aid and more frequently technical assistance, but it is the interests of the localities that drives the program forward." 

Away from Shanghai, for example in hilly regions at the edge of the delta and beyond, there is evidence of even greater local autonomy at this time. In 1975, Changqi Commune in Zhejiang "suffered from the capitalist faction's influence among the leading comrades." The pattern of labor leaving collective production in favor of "sideline" occupations (which here included factories) was said to be widespread in 1975 throughout Zhejiang. A county of inland Anhui was said to be suffering at this time from capitalist "corruption of alarming proportions." Wenzhou, in southern Zhejiang, took this trend to great lengths — and did so much earlier than public discussion of the "Wenzhou model," which later became the archetype of extreme reform. Private capitalism in that city and its isolated delta, which had flourished on a technically illegal basis for years before the spring of 1977, was the target of attacks in a government campaign that year against "capitalist forces" in Wenzhou. There, the official hassle merely forced private firms underground — on a temporary basis. In the Shanghai delta, it more usually involved a rectification of collectivist nameplates. Profitable activities continued on a more seemly, albeit local, "socialist" basis.

As one report put it, "Rural industry had no registration among the state's industrial departments, and no place in the state plan." The government's economic committees, central or provincial, normally refused to guarantee the provision of credit, materials, machines, energy, or markets. On the other hand, nonstate firms "had relatively complete freedom to do their businesses... they could adapt, to suit changing circumstances, and

87 Dwight Perkins, et al., Rural Small-Scale, p. 252.
88 Zhejiang ribao (Zhejiang Daily), Hangzhou, October 8, 1975, Anhui Provincial Broadcasting Station, August 23, 1975, and Zhejiang Provincial Broadcasting Station, October 6, 1975; from Jürgen Domes, Socialism in the Chinese, p. 88.
could survive." In contrast to state firms, they were highly competitive traders.\textsuperscript{90}

The government was not quickly weakened by rural industrialization; so its response was reactive. Officials acknowledged the trend — even took credit for it, so as to garner at least some revenues from a situation they did not control. Beijing announced rural China could have "five-small" industries (\textit{wu xiao gongye}), producing steel, machines, chemical fertilizers, coal, and cement. But country factories inevitably vied with state firms selling the same commodities and needing similar inputs. The state plants produced more efficiently in a technical sense than the small ones, perhaps because they were on average much larger. There is nothing inherently "small" about steel, machines, chemicals, coal, or cement.\textsuperscript{91} Yet these companies remained small to avoid monitoring, imposts, and restrictions. High and medial authorities registered them sometimes, to tax them.

Many rural enterprises in the early 1970s were begun outside the "five-small" industries. Entrepreneurs established factories in other sectors illegally, if state managers in rival firms obtained decrees against them.\textsuperscript{92} In Jiangsu during 1970, a polyester fiber workshop created a cotton mill and developed new equipment for it.\textsuperscript{93} Many parts of the China coast saw a "second economy" developing in this period.\textsuperscript{94} The state budget was disserved by the emergence of all these new firms. They flourished not because of production efficiency, but because they could operate more flexibly in both upstream and downstream markets, seeking opportunistic benefits in either the socialist or proto-capitalist contexts.

Some in Beijing wanted to contain such firms by encouraging their formation under middle levels of administration, not low levels where state control was more tenuous. As early as August, 1971, central decrees condoned the founding of factories under prefectures or counties. At these middling levels, larger imposts on economic activity could be expected than if the factories were established under communes, brigades, or teams. But it was necessary to give even county cadres some incentives to comply. For rural firms, the State Council provided in 1971 that "60 percent of the profits made by

\textsuperscript{90} \textit{Xin Zhongguo gongye}, pp. 361-63.

\textsuperscript{91} Christine Wong, Thomas Rawski, and other economists have assessed the comparative efficiency of various kinds of plants. Small factories — even economically successful ones — often turn out to be technically inefficient. Like the socialist enterprises they replaced, they mobilized resources better than they coordinated resources. An advantage of the state sector, in the 1970s at least, was its ability to acquire capital openly. For example, see a striking comparison, by product rather than ownership type, in Rawski's \textit{Economic Growth and Employment in China} (New York: Oxford University Press, 1979), p. 47 and passim.


newly established local industries at the county level could be kept at the county level.”

Several slogans helped acclimatize high cadres to rural industries. Cultural Revolution slogans that had been originally designed for urban purposes (to legitimize contract labor, or to send city youths to the countryside) could be adapted for politics to support rural industries. Such factories were alleged to create all-purpose proletarians who were "at once workers and peasants" (yigong yinong). These new plants made for the "integration of farm and factory" (nonggong yiti hua). They were supposed to discourage urban immigration by allowing laxly employed people to "leave the soil but not the country" (li tu buli xiang). These proletarians were said to be a "national reservoir" (quanguo xushui chi) of surplus farm labor (though actually, rural factory workers had scant interest in ever returning to drudgery in paddies). Slogans could put a patina of official legitimacy on a trend that was out of state control. They could not make the new pattern fully serve the central government.

Collectives during the early 1970s, which were numerous in Shanghai's rural suburbs, paid low taxes and few workers' benefits, in comparison with state firms. They supplied less medical care, less housing, less time off, and lower wages — but still, they paid enough to attract labor. The annual operating budget that collectives required per job was much closer to a subsistence rate than official unions would allow in the state sector. A 1986 book admitted:

City and township collective enterprises... operated during the Cultural Revolution [this PRC commentator meant the early 1970s]. At that time, there were many intellectual youths who could not find jobs in state firms. Collectives became an important place for them to work.... According to statistics of the Shanghai Handicraft Bureau, its collectives on average needed 2,278 yuan to arrange a job, but state firms took 10,049 yuan to do the same thing.... Street enterprises played an important role. Street firms had to collect financial resources and materials by themselves. They had to take charge of their own marketing. They also had independent accounts. They were not subordinate to any level of government or to a trade system. They were established in order totally to resolve the employment problem for young people. After 1970, state enterprises, schools, and universities also established small enterprises in order to arrange employment for family members of their workers.... Small collectives got opportunities to survive and develop. Actually, they carried out a portion of the state ownership enterprises' functions. Shanghai street enterprises had an industrial output value more than 1 billion yuan. The figure [in 1970] was nearly three times that of 1966.... From 1971 to 1976, the average annual [sic] growth rate of state output was 5 percent, but that of collectives was 13 percent.... According to 1975 statistics, the profit rate per hundred yuan in state firms was 15 percent; but in collective

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95 Prefectures (diqu) are areas comprising several counties (xian). Xin Zhongguo gongye, pp. 356-58.
96 Ibid., pp. 359-61.
enterprises, 44 percent.

The state was divided, in the early 1970s and in later stages of reform, between "leftist" conservatives and nascent reformers. The radicals took portfolios more often in cultural and urban affairs than in economic and rural fields. An irony of the reform period, already evident in its early beginnings, was that rural prosperity created by new industrialists helped legitimate the CCP after its traumas in the famine and the Cultural Revolution of the 1960s. If rural people had not made themselves richer by foisting reforms on the Party-state after 1970, the CCP would have enjoyed less legitimacy later.

**Different Rates and Types of Industrialization in Different Parts of China**

Reforms came earlier to the Shanghai delta than to most other places in the country. The pattern described above was certainly not simultaneous nation-wide. It affected inland areas in different ways, almost surely competing with industries in some of them. Southeastern coastal areas, and probably the Chengdu plain, apparently developed industrial syndromes somewhat resembling those in Jiangnan – but coastal places also differ from each other. (Proximity to Hong Kong is relevant to much in Guangdong. Wenzhou trading development in exuberant global mercantile networks was earlier than South Zhejiang major industrial development, partly because the first rail line came to Wenzhou as late as 1998.) To the extent that the Yangzi delta was particularly early in this spreading infection of “contagious capitalism” (Mary Gallagher’s nice descriptive term), its development of rural industry was about one decade faster than quite parallel changes in most of China. For example, Huayang Commune/Township, Songjiang, Shanghai, by 1976 had an industrial portion of total output already at 43 percent — a figure that China on average attained a decade later, in 1986.

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97 This pattern was also evident before the Cultural Revolution. On the political-administrative separation, under Shanghai Mayor Ke Qingshi in the early and middle 1960s, of cultural czars like Yao Wenyuan and Zhang Chunqiao from economic czars like Cao Diqiu and Chen Peixian, see Lynn White, “Leadership in Shanghai, 1955-69,” in Robert A. Scalapino, ed., *Elites in the People's Republic of China* (Seattle: University of Washington Press, 1972), e.g. p. 346, and Lynn White, *Policies of Chaos*, e.g. p. 224.


99 Percentages are rounded from the source. See Philip C. C. Huang, *The Peasant Family*, p. 355.
The Shanghai delta's physical plant to support small medium-distance traders who lack capital is unexcelled anywhere. The dense network of canals is only the most obvious physical manifestation of an old commercial culture. For socialist planners, this infrastructure for economic independence had represented a problem since the 1950s. Cadres had responded by subsidizing canal tugboats, behind which long trains of otherwise free-lance freight barges (each with a family aboard) might be cheaply pulled, and thus might also be monitored. But boat people sometimes dropped the tether. When later they could get their own engines and avoid the water police (shuijing), they could sail off to make money on their own.

Different Jiangnan rural towns have for centuries been somewhat specialized in manufactures, or marketing, or administration, or transport, or simply residence. With this old diversification, early reforms in the delta were natural — even if the institutions that new local leaders used to implement them were not identical with pre-1949 structures. Private trade was mostly prohibited in the 1971-1978 era, but individualist firms under various forms of legal ownership developed quickly throughout Jiangnan.

**Small Polities’ Leaders: Enterprising Ex-Officials, and Quasi-Official Entrepreneurs**

The role of mediad leaders was crucial for reforms, but this leaves unanswered questions: What administrative levels were most important for different kinds of industrial development? Were Party or state cadres more involved? Was the boom led by unofficial

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101 An economist, interviewed at the Chinese Academy of Social Sciences emphasized the early importance in Jiangnan of distinctions between "private" (siying) enterprises that may hire outside workers, "individual" (geti) units that rely on one household, and "joint" (lianhhu) firms that combine several households. Such phrases were reportedly used earlier in common parlance than in official documents. These types were all contrasted with collective (jitti) and state-run (guoying) firms. Not just in the early 1970s, but also later, the collective sector has been the largest fast-growth one. But so many collectives are so plainly under the leadership of one or two top cadres, they are operationally hard to distinguish from private enterprises.
local entrepreneurs, who may or may not have been in the same family lineages as cadres? Do accurate answers to such questions vary over separate subperiods of reforms, over different sizes of networks, or in specific places? Data suggest that many patterns emerged over both time and space.

New factory managers on the Shanghai delta, especially during the early reform years, usually had official backgrounds: in local government, in the local Party, or in local units of the military. A few managers, who were nonetheless of increasing importance after 1979, had previous careers as technicians or traders. Even when their qualifications for appointment were originally political, the market incentives surrounding them tended to make them business specialists rather than political generalists.

Peasant cadres and brigade Party secretaries composed the first generation of Sunan leaders in rural industries. Many were old and lacked much education. If village cadres tried to use methods of agricultural management to run industrial or commercial firms, they could run into problems. Some reportedly admitted they were not up to the job. Dealing in new markets and selling products less standard than grain created needs for younger rural leaders. Some who took such roles after 1976 were ex-urban "intellectual youths," a second generation of entrepreneurs who had lived in the rural places where they established new firms. Later, a third generation of better-educated youths ran many Sunan rural companies. Active young people, such as rural Party branches near Shanghai had often used since the 1950s, flocked to medium-sized cities during the early 1970s (especially if they could not return to the metropolis whence they had been removed by 1968). 102 Some of these became managers in rural industries.

Demographic changes affected recruitment to the Party. Media complained of "a tendency toward senility in rural Party organizations." 103 "In Maojiao Township, Zhangjiagang, fourteen old leaders who were not good at enterprise management in rural enterprises were forced to retire in 1984, and nineteen young leaders were appointed as managers. Among them, twelve were technicians." These were said to have "great authority (da quan) to distribute profits, hire workers, and award or punish them." 104

"Compared to managers in cities, rural executives are more powerful and independent. Town leaders only involve themselves with rural businesses indirectly and in economic terms. The government never interferes with the daily affairs of enterprises." For this

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102 There was a sharp early-1970s immigration to cities having between 500,000 and 1,000,000 people. Many youths who had been sent out of Shanghai after 1968, for example, were able to return to medium-sized Shanghai delta cities in the early 1970s (before they flowed back to the metropolis after 1978). Many rural young people who had been born in the countryside also joined this urban immigration. For a Taiwan comparison, which shows youths’ leaving the countryside for Taipei and Kaohsiung, see Bernard Gallin, Hsin Hsing, Taiwan: A Chinese Village in Change (Berkeley: University of California Press, 1966).

103 CD, October 10, 1990.

independence, local government leaders naturally exact a price: 105

Many managers must have several thousand yuan as a mortgage, before they can be appointed or can apply to be managers. In Zhanjiang and Wuxi, plant directors must pay 10 percent of the planned enterprise [annual] profit before they can become formal managers.... If managers cannot complete their quotas, they have to pay for this incapability.

Parvenu rural entrepreneurs in Shanghai’s suburban Jiading by the 1990s reportedly tended to be young, partly educated, and well connected with local leaders. Some were themselves cadres in town government, although they openly expressed fears and resentments about potential anti-reform changes in state policies. They liked the status quo, under which they prospered. 106 Three keys to success, as these entrepreneurs identified them, can be summarized in alliterative English: capital, courage, and connections.

A reason why some Shanghai delta enterprise managers preferred remaining in the collective sector, instead of founding private firms, is that they liked to deal with town leaders — often friends or kin — rather than with tax cadres from higher administrative levels. Presuming their firms remained collective, rather than becoming legally private, they had better official cover against demands from more centralist government agents. Even if total bribes and imposts on an enterprise remained just as great under collective as under state ownership, funds taken from collectives tended to remain local. Rural factory heads stood a greater chance of influencing the later use of such money, if more of it remained in town. Collective managers tried to maintain good relations with leaders in local governments.

Collectives therefore flourished better than formally private firms. For example in Jiangyin, near Wuxi, a private entrepreneur named Ren in the early 1980s opened an ironworks. Within two years, he was able to repay the 35,000 yuan loan with which he had started. Such prosperity depended on local community support; so this private entrepreneur voluntarily paid the electricity, water, and ploughing bills of a hundred local households. But such prosperity — especially in a firm that had no socialist cover — also bred envy and extra costs: The town government approached him to pay a land-use tax that he had not expected. Then a fisherman, who claimed that the factory scared fish away from a nearby river, organized a gang of sixty boat people to smash windows and equipment in the factory. "Even though Mr. Ren had thousands of dollars, he could not get any help, because his factory was privately owned." 107 The entrepreneur, no longer able to do

105 Ibid, p. 27. Emphasis added.
106 See Lu Feiyun, “Zhuanye chengbao zhe — Yige xin jieceng de quqi” (Specialized Contractors — The Origins of a New Stratum), Shehui (Society), 3, Shanghai, 1990, pp. 30-31.
107 South China Morning Post, Hong Kong, February 11, 1989.
business, gave his whole plant to the local production team as a collective, retaining his position as manager. This allayed his problems in the immediate environment — but his troubles were still not ended. When bureaucrats in a higher-level Wuxi company learned that he had given away his profitable plant, they were angry that he had offered it to the local team rather than to their own office. They sent tax collectors to inspect his books. Then they sued him — without success, because he had broken no laws. The court upheld his right to continue in business, as manager of a collective.

For many years, local firms profited by being nominally collective. If need be, they could also be "dependent firms" (guahu) of a state enterprises, using that firm's red chops, bank account, or other amenities. But the authority of a collective's director was normally as full as that of a private magnate. During the late 1970s, small rural state industries might be leased to their former managers or to ex-agricultural cadres. In order to maintain local budgets, the earlier state profits from such firms were replaced by other kinds of rents and taxes. Former managers or experienced team cadres were the main bidders for such leases.

In some cases, the local leaders found ways in effect to give the factories to themselves. But as Jean Oi has written, "For the most part, team leaders had to exit the historical stage.... The post-1978 reforms robbed team leaders of most of their power, leaving them either as team leaders or as newly designated village small group leaders, with few duties." 108 Many resisted the changes. Others, especially if they had technical skills, changed jobs and prospered in the new era.

Capital was an obvious need for new rural firms, but most new managers could obtain money. According to an estimate for China as a whole, the total amount of wealth that peasants had — in monetary savings, houses, tractors, animals, trucks, stored grains, traditional rotating loan schemes, and other assets — increased almost ten times between 1978 and 1985. The total in 1978 was estimated (perhaps under-reported) at about eighty billion yuan; and in 1985, seven hundred billion. 109 Some of this increase may come from better reporting in later years, as the central state's ability to levy taxes fell. Rural entrepreneurs did not need centralized banks to raise seed money.

When rural industry rose fastest, agriculture often declined or rose only slightly. The hike in official grain purchase prices in 1978-79 was required, in effect, to buy peasant labor from rural factories for use in fields instead. If grain prices had not gone up, state procurement would surely have deteriorated even more quickly (and city people would have had less to eat). The central government paid more, and went more deeply into debt, in hopes of keeping acquiescence from both its rural and urban constituencies.

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108 Jean C. Oi, State and Peasant, p. 185.
109 Gaige mianlin, pp. 4 and 9.
For most reform years from 1972 to 1985, either rural industry or else agriculture did better than the previous year — but not both. Also, in some years when rural industry grew fastest on a nationwide basis (1974-6, 1984-5), agriculture did least well. But by the mid-1980s, the rates of industry growth were so high, this trade-off ceased. The industrial sector already dominated the rural economy by this time.

Inefficient, Exploitative, Uncivil, Successful Factories

Putting rural factories at the center of reforms explains much about this era's localization, inflation, corruption, and unprecedented prosperity. The spread of industries is close to the center of the syndrome of correlated changes that together are called reforms. But this stress on rural plants also represents an analytic choice. An economist can rue village industries, despite their fast growth, because of their inefficiency.\(^{110}\) Tax avoidances and beneficial prices, accorded by local regimes to local firms, can easily make small factories profitable — even if the available technologies and factor distributions make economies of scale or other noneconomic benefits better in larger plants. On the other hand, central planning of resources can also lead to waste. This was evident in the 1964-71 Cultural Revolution investment policy, the "Great Third Front" that favored gigantic nonproductive state factories inland.\(^{111}\) During reforms, collective wastefulness was again likely in the Three Gorges Dam project. Local hinge leaders are not by definition efficient users of resources — but neither is the central state.

Jiangsu industry's total factor productivity has been reported only according to the official periodization of reforms. From 1953 to 1978, it showed a 2.1 percent annual decline; but in the next decade, the index grew 4.4 percent annually. But if shorter time periods are considered, the most startling results are a very sharp decline during the post-Great Leap depression, some rebound from this low-productivity era that continued into the Cultural Revolution, a rise in the early 1970s, a decline that began at least by 1975 for a couple of years, and then the re-starting of productivity reforms after 1977.\(^{112}\)

State industries may be compared with collectives, during reforms, to assess their total factor efficiencies. The results are revealing: The localization of Shanghai delta management during reforms increased the efficiency of trade (and of the whole economy). The economic rise of local and autonomous authoritarian managers meant that

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quasi-private industries relentlessly exploited cheap factors, especially labor. New rural industries mobilized resources, often in a coercive manner rather than in a civil way. They increased the economy's inputs, even more than they increased the outputs.

Sunan collective firms did not use resources with greater efficiency than state firms.\textsuperscript{113} Local economic leaders running Sunan collectives mobilized factors to raise production and make profits. But available evidence suggests that their new factories' input/output ratios were probably even worse, on average, than in the state sector. Total factor productivity in rural industries rose, but only slowly, because they used capital and labor at a great rate. They were no longer Maoists, but they had — now in local networks — communitarian resources and a great deal of exploitative power to make the economy grow. They took the same growth mechanism Mao's planners had used. At least through the mid-reform years they merely miniaturized it. They were entrepreneurial petty tyrants, not engineers or productivity experts.

Their firms nonetheless filled real market demands. Rural industries' products were generally priced lower than similar-quality items from the state sector. About half of China's cement and two-fifths of the nitrogenous fertilizer — both very fast-expanding sectors — came from rural industries in the early 1970s.\textsuperscript{114} Central authorities sometimes tried to close local factories that were less efficient than state plants, but local authorities were usually able to prevent such closures.\textsuperscript{115}

A crucial advantage of rural manufacturing was low wages. In 1982, for example, rural firms already admitted hiring 35 percent of China's whole industrial work force, while they admitted making only 12 percent of the country's industrial product.\textsuperscript{116} Such factories contained a great many ex-farm workers, who would not have been there if employers had to pay more. This was a situation of "growth with unlimited supplies of labor."\textsuperscript{117}

Census and migration data reflect this change. The reported part of Shanghai's population in the suburbs expanded from 41 percent in 1965 to 49 percent in 1978.\textsuperscript{118}

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\textsuperscript{113} The calculation is complex, for reasons involving intermediate inputs. In one way of making the test, state industries raise factor productivity more than collective industries; using another test, the opposite is true. The conclusions are interpreted from data in Penelope B. Prime, ibid.

\textsuperscript{114} Peter Nolan, "Petty Commodity," p. 11.

\textsuperscript{115} Most of this story has been told by Christine Wong, "The Economics of Shortage and Problems of Reform in Chinese Industry," Journal of Comparative Economics (1986), pp. 363-87.

\textsuperscript{116} This 12 percent (by value) may be underreported, but the qualitative point here still stands. See Y. Y. Kueh, Economic Planning and Local Mobilization in Post-Mao China, (London: SOAS Contemporary China Institute, 1985), p. 56.

\textsuperscript{117} See the classic by Arthur Lewis, "Economic Development with Unlimited Supplies of Labour," The Manchester School of Economic and Social Studies (1954), pp. 139-91.

\textsuperscript{118} Calculated from figures in Shanghai tongji nianjian, 1988 (Shanghai Statistical Yearbook, 1988), p. 77. This table gives numbers for other years without noting changes of administrative boundaries that affect these data. A jurisdictional change in 1983 also seems to have affected the figures somewhat. (The earlier large changes c. 1959
Labor in Shanghai County, a suburb southwest of the main city, switched into local industry with extraordinary speed. By 1978, only 24 percent of all non-urban workers there were already listed as employees of factories organized at either the village/cun or township/xiang levels, not even so high as the county level. Just two years later, in 1980, this portion (to the extent it could be reported) was up to 39 percent. The pay was low, but these firms offered jobs.

Suburban township factories grew far more quickly than in-city ones. So despite the commute from the city, urban "laborers were not reluctant to work there, even if they did not move their families to the suburbs. The state had to spend a lot of money to subsidize workers' transport costs." A Shanghai reporter went one afternoon to visit a large suburban factory and found that, "At 4 p.m., there were already ten big buses along the road in front of the plant. Workers stood in line, waiting to go back into Shanghai city." The daily trip required one and a half hours each way, and this single factory had to spend 400,000 yuan a year in wage supplements for transport (public bus fares are subsidized and low, but at rush hour these vehicles are very crowded). Such expenses were justified by advantage of avoiding business in the more monitored city center, and by the quality of Shanghai urban workers for many technical tasks.

In Shanghai suburban towns from 1980 to 1986, regular employment rose 45 percent. Academic surveyors ventured a guess that, during this time, the number of informal jobs rose at least 500 percent. For each new regular place in rural industry, there were about five new non-permanent jobs. Informal hiring by local collectives was rampant.

Less than half of the mid-1980s suburban workers in small industries had permanently registered households, though some were legal temporary residents. Four Shanghai towns, varying in size and together typical of the suburbs, provided evidence showing this. About one-third of their sampled suburban workers (31 percent) labored daily in built-up areas but lived elsewhere nearby, presumably in dwellings rented out by ex-peasant landlords.

predate the comparison in the text.)


120 The author might, at this point, wax nostalgic about his own experiences in the warm and dense community of the No. 26 Bus on Huaihai Road, which he often enjoyed trying to board. He learned, however, to avoid rush hours. For the data, see Yao Shihuang, Jin sanjiao de tansuo (Search for the Golden Delta) (Chongqing: Chongqing Chuban She, 1988), pp. 105-132.

121 Fei zhengshi zhi gong includes linshi gong, hetong gong, and jijie gong. Sometimes texts also mention workers who are part-time or periodic (zhouqi). But no statistics at all have been found on seasonal or part-time informal labor — even to an expert team of Fudan and E. China Normal University surveyors — apparently because the local managers just would not tell academics about this. We have here a principle like Heisenberg's: to gather such information, a coercive (police, labor federation, tax) authority would be needed; but it is precisely to keep these data from such agencies that local managers are secretive. Gathering the facts affects their content. On regular workers, however, more can be known. The portion of them hired by suburban collectives was 77.6 percent; with only 12.5 percent employed by state plants, and 10 percent by private firms, in this extensive 1986 survey of four Shanghai zhen. Zhongguo yanhai diqu xiao chengzhen fazhan yu renkou qianyi (Migration and the Development of Small Cities and Towns on the China Coast) Liu Zheng, et al., eds. (Beijing: Zhongguo Caizheng Jingji Chuban She, 1989), p. 187.
Another fifth (21 percent) had lived in the Shanghai suburbs, practically all for more than year, without any legal household registrations.122

Exploitation of workers in some Shanghai rural factories was brutal. Their "collective" managers, closely connected with local officials no longer under effective state control, were often interested exclusively in making money.123 Reports of egregious exploitation usually come from parts of East China away from the metropolis. Cangnan County, Zhejiang, surveyed 284 rural factories and found sweatshops containing about 500 child laborers between ten and sixteen years of age (with an average age of 13.6 years). Girls comprised 83 percent of the total. The children came from nearby villages. Just one-fifth of these children had finished the second grade of primary school. About one-third were illiterate. They worked generally from eight to eleven hours, on piece rates, earning 1.2 to 3 yuan per day. This report of abuses stressed the effects of toxic chemicals on the health and mental development of the children, especially in unventilated plastic shops using xylene, cycloketone, and banana oil solvents. Similar scandals were said to exist in many other rural factories that had not been surveyed.124

Migrants to a locality did not immediately demand to be treated as well as locals. As Fei wrote, "Some rural enterprises employed more outside workers than local workers, but rural firms give low pay to outside workers. Not only the local laborers, but also the outside workers, do not think this is wrong or unreasonable."125 Different localities' leaders treated workers differently. In the Chongming County seat, fully 99 percent of all new hires in the mid-1980s went into collectives. But at Jinhua, a comparable town that apparently had more conservative socialist leadership, collectives offered only 15 percent of the new jobs, while the state sector still accounted for 85 percent.126 On the whole, collective rural industry was clearly the most dynamic part of China's economy by the mid-1980s. This was not good news for state firms, nor for the central budget.

Rural enterprises in Shanghai's suburban counties were caught in a bind, because they faced competition from similar firms elsewhere in the delta, while they also faced

122 Only 48 percent were registered as permanent. The three towns (zhen) in this fascinating study were Jinhua, a designated "satellite city" (weixing cheng) of Shanghai in Jinhua county (near Hangzhou Bay, and south of the county seat, which is called Zhuji); Chengqiao, the county seat and largest town on Chongming Island; and Luodian, a zhen under Baoshan County, whose c. 10,000 population in the mid-1980s was one-third the size of Chengqiao and one-fifth that of Jinhua, and three times that of the smallest zhen studied: Zhiqiao, in southern Shanghai County about halfway between the metropolis and its major suburb Minhang. See Zhongguo yanhai diqu, pp. 178-81.

123 This startling report on exploitation is Hua Daming, "Xiangban chang dui nonggong de guofen bodu ying yinqui zhuyi" (The Overexploitation of Workers by Township-run Factories Calls for Attention), Shehui 2 (Society), Shanghai, 1990, pp. 12-13. This interpretation is in some tension with the view of Jean C. Oi and many others, but it is consistent with that of Minchuan Yang, "Reshaping Peasant Culture and Community: Rural Industrialization in a Chinese Village," Modern China 20:2 (April 1994), pp. 157-79.


125 Fei Xiaotong and Luo Yanxian, Xiangzhen jingji, pp. 77-81.

126 Zhongguo yanhai diqu, p. 1
province-level administrators whose posts depended on fiscal remittances to Beijing. Small Shanghai firms reportedly "worried" that high taxes were reducing their profits, especially in comparison with nearby Jiangsu firms. Detailed examples of the troubles of specific small businesses in Shanghai's Chuansha, Jiading, and Songjiang counties showed that costs other than labor and materials — especially for "administration" and taxes — were higher than in neighboring Suzhou and Wuxi. A newspaper article suggested that Shanghai's policies might be reformed to allow suburban industries quicker development through lower taxes, so as to provide a larger tax base in the future. Such policies, the paper argued, had been followed successfully in Guangdong, Zhejiang, and Jiangsu.127

"Fake statistics" were inevitable in this situation. Localities of many sizes underreported their production, labor force, factor use, assets, profits, and other data. Quantitative lying was an embarrassment to the government, and not just for symbolic reasons. "Fake figures" were a problem that a State Statistics Bureau leader only much later could admit. "Under-reporting of profits and tax revenues" was publicly if belatedly confessed as a major kind of "negative, corrupt behavior." As a Statistics Bureau cadre said, "Local officials know that others will judge the achievements of their political careers based on statistics." These reporting problems were "worst from coastal areas and township enterprises."128

This was all illegal, of course. It was reported by some officials not because of epiphanies of honesty, but because low fake data reduced taxes. Government treasuries had some revenge for this disregard of their interests: Construction in Shanghai delta townships, for example, had to be supported increasingly by rural industries. "The state did not provide much money." Shanghai suburbs at that time contained 33 county-level townships, but the municipal government's total investment in suburbs during the Seventh Five Year Plan was only 4 percent of its construction budget (less than 100 million yuan). The infrastructure of these places could well have used attention. The road network, in particular, "had not formed yet."129 The suburbs' portion of Shanghai people by the mid-1980s was ten times their portion of the state construction budget. One of the many changes in later reforms, after 1989, was a sharp increase of infrastructure investment.

**Conclusion on the Start of China’s Reform – and Sequel in Inputs Price Inflation**

What can explain the very high sustained growth rates in early reform China? Incentives from market reforms alone may not explain the spectacular long-term growth. Local entrepreneurialism is a basic cause both of the booming markets and of the

production growth. This factor is local and political, more than it is economic.

Rural industries were the most presentable outcome of this entrepreneurialism, and their resources created new local power. They sprang from a green revolution, and they have quietly changed China's political structure. These firms were often inefficient. Their modal decision structures were certainly undemocratic. They were exploitative and uncivil. But many of them flourished, and they outstripped the state sector because they were relatively free of central control and taxation. The Party’s loss of face in the Famine and then the Cultural Revolution was partly redeemed through growth in local communities. This meant a weakening of the state and a strengthening of other networks, which of course related to it. The reform syndrome was generally foisted on China's most famous leaders by myriad ex-farmer leaders whose names are not publicly known. The structure of governance in China became more complex, involving more local leaders.

In an attempt to guarantee planned deliveries, the state by 1984 in effect legalized a black market. It let nationalized factories sell items at 20 percent above the state-fixed prices — but only after those firms could claim to have fulfilled their production quotas. The marked-up rate was called the "state-guided price" (guojia zhidao jia), as distinct from the "planned price" (jihua jia). China's top leaders could not change the unplanned new structure, in which state factories got money from selling rather than processing inputs, while losing markets. Official policies accommodating that situation were reactive. They were made incrementally, not in practice by the state but in accord with the policies of the leaders of coteries of ex-peasants and their procurement agents. These dual-price policies were at first unintended, though they have been praised as wise not just by governments but by officially associated economists, who more usually say that any commodity of standard quality at a single time in a single place must have one rather than two prices.

The urban side-effects of this situation were news to the top leadership. As Deng Xiaoping said with his usual frankness: "The success of rural reforms gave us confidence. So we decided to apply the rural experience to urban economic system reforms." By 1985, the state had to recognize that price controls on nonquota products were no longer enforceable, so formal recognition of the multiple-price norm spread. This divided production into two parts: one portion that was supposed to be sent to the state at a fixed price, with the remainder could be sold to anyone at market prices. Leakage between the two markets became a deluge. In 1985 alone, rural industries spent so much money buying raw materials and energy from state enterprises, these nationalized companies gained at

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130 For more suggestions along this line, see a paper by the author's former student Dr. Roger Cliff, "Technical Progress and the Development of China's Steel Industry Under Mao."

131 Deng Xiaoping, "Gaige de buzi yao jia kuai" (To Speed up Reforms), in Shierda yilai zhongyao wenjian xuanbian (Selected Important Documents since the Twelfth Plenum), p. 1444.

least 10.7 billion yuan (6 percent of total government revenues at all levels, probably more) as profit from speculative exchanges in materials the state had given them cheaply.133

State clothing and cigarette factories, in particular, ran short of wool and tobacco. The Shanghai Cigarette Factory, China's oldest and one of the largest, briefly had no leaves to roll.134 The government issued a document on May 4, 1981, ordering the closure of many rural enterprises that produced cigarettes, textiles, and salt.135 But stately decrees could not reverse local reform policies for long. Price hikes for cotton, tobacco, and salt continued because local power networks could pay for them. Cigarettes are an industry from which, despite the devastating health hazards, the Chinese state has sometimes gathered about 8 percent of its total revenues.136 In September, 1987, the State Council (the Cabinet) decreed:137

Since the procurement of tobacco began this year, many tobacco-producing areas independently raised prices.... This has affected the normal procedure of state purchases. If this situation continues, it will make the state suffer a great economic loss and will also affect the production of cigarettes. This must be stopped.

Rural enterprises often won against state factories in "wars" for raw materials, colloquially known as the "tobacco war," the "wool war," and so forth.

The portion by value of all Shanghai factory inputs previously allocated by plan plummeted, from about 70 percent to about 20 percent in the mid-1980s crisis — not because planners wished this, but because they could not enforce deliveries of goods.138

The number of products from Shanghai state factories under mandatory production quotas thus had to be allowed to drop in the mid-1980s, from 150 in 1984 to only 37 by 1987.139 During the same period, the number of products for which Shanghai agencies required mandatory sales to each other also went down, from 53 to 23. The number of raw materials that were distributed on a mandatory basis under city plans likewise decreased, from 19 to 13. Even then, not all the mandated deliveries were fulfilled.
"Developing the commodity economy, without commodities, is a major vexation for many enterprises in Shanghai," as a sardonic pair of local journalists observed. A mid-1980s survey showed that for 55 percent of a comprehensive range of products, state factories could no longer process the increasingly available, increasingly expensive inputs without losing money.

"Contracts replace plans" thus became a mid-1980s slogan. More rule-of-contract-law sounds modern. But contracts at this time were no more enforceable than plans. If a rural unit failed to deliver to an urban factory a contracted amount of raw materials at the contracted price, the factory could sue. But if even if it won a decision in the urban court, the judge there was not appointed by the same CCP personnel department as were judges (and police) in the rural jurisdiction — which might or might not enforce the decision.

Of all economic litigations filed in Shanghai courts during October 1988, more than half were judicially classed "unresolvable" as soon as three months later. The main immediate reasons for the unresolvable cases lay in enterprises that claimed to have closed, or managers who had absconded (xiáluò bùming), or pressures in favor of manager-defendants who had friends in high places. Judges, who had scant help and much work as “contracts replaced plans,” lacked time to spend on trials when they guessed the plaintiffs had meritorious cases but when they also guessed their decisions would remain unenforced. They often dismissed these cases on non-legal grounds, in order to concentrate on legal work that might have some result. They tried to defend their courts.

By 1988, rural industrialists’ efforts to obtain coal, steel, other metals, and timber usually required dealings with government suppliers. Since state enterprises could often still get these relatively cheaply, state-sector managers could make huge profits trading them despite laws against this practice. So for example, the Shanghai market price of coal in 1988 was 220 percent of the "fixed" state price; for electricity, 176 percent; for steel, 160 percent; for aluminium, 250 percent; and for timber, over 550 percent. Some materials were still delivered to state enterprises. So rural industries bought inputs from state factories at high, non-plan prices. Such trade was illegal, but it became crucial for keeping state-owned enterprises (SOEs) afloat financially and for paying their workers' wages.

Despite Chinese high regard for government and for ideals of hierarchy, many rural industrialists very consciously competed with rival state firms — to make money for their local polities, not to undermine the Party-state. A mid-1980s survey of 5,600 rural enterprises suggests these managers were keenly aware of the state enterprises in their fields. Fully 48 percent responded they were in "competition" with state factories that

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141 Shanghai jingji (Shanghai Economy), January 1985, p. 5.
produced the same products, and 19 percent indicated they were in a mixed state of "cooperation and competition."144

A survey of two localities (one was Changshu near Shanghai) suggested that about half of all licensed small firms in the mid-1980s had been founded by people who had previously been forced out of similar activities during collectivizations, many years earlier. Half of the founders of East China's boom firms were not really new industrialists. They had been required to cease (or at least cease reporting) activities to which they readily returned as soon as they could. Not all of these enterprises were legally registered. The German scholar Willy Kraus, who has sought relevant statistics heroically, confesses that for the 1980s, even beyond the data he found, "a non-licensed individual economy existed which was just as large as the licensed."145

During early reforms, China's private entrepreneurs kept "a low profile, such that they cannot be recognized on the street. They reported that they concealed their personal assets and their companies' profit figures out of fear of being known as rich."146 Workers hired from outside could be treated more callously. In Thailand and the Philippines, as this paper will show below, a similar issue centered on the Chinese ethnicity of entrepreneurs rather than on ideologically dubious property types. When China's cadres approved of an enterprise that sprung up, perhaps because the manager bribed them, they could call it "spontaneous" (zifa) and good. When they disapproved, it could be castigated as "black" (hei); so it had to go "underground" (dixia). Local officials often extracted bribes from managers of property who needed ideological face, despite the illegality of doing so.147

When private entrepreneurs could not legally transfer ownership of collective or state companies to themselves, they might "lease" such companies. Often this was a transition stage, leading to their later outright acquisition of formerly public property. Precedents for leasing were first established on rural land that "specialist agricultural households" rented. Extension of the same principle to industrial collective or state property was a short step. If the rent was sufficiently low or informal, and if the company bosses who became lessors maintained the dictatorial style that is usual in either socialist or capitalist Chinese enterprises, leasing became hard to distinguish from ownership.

Yet when small and medium enterprises in Shanghai, especially its rural suburbs, were leased out, their economic performance improved. Profits rose on average by 55 percent. Taxes paid to the government rose by 24 percent. Bonuses to workers and managers rose 130 percent.148 Quasi-private property, in the form of leasing, affected financial success but not management structure.

144 The remaining 34 percent were in a mode of "cooperation and subordination" to similar state plants; and presumably these were from private or collective "dependent firms," licensed by a state plant in the same field. See Nongmin ribao (Farmer's Daily), September 8, 1988.


Profits could also rise when a “joint” connection with a different entity was just symbolic. When a Hong Kong company put "cash only" — and enough of that just to buy a "small" percentage — into a Shanghai machinery firm, none of the local managers was changed. The "form and functions of the Party organization were left unaltered." The CCP secretary continued to make management decisions, especially on personnel. The firm's tax rate was not reduced. Although a consultant's survey showed that 200 of the 900 employees should be fired to improve the plant's efficiency, just two workers were let go. The Hong Kong partners were not represented at the plant on a permanent basis; they visited once a year, to ask questions, check the accounts, and take a small share of profits.

Yet according to the local Party newspaper, this almost purely formalistic "joint" ownership meant that "superior-subordinate relations between the company and the government were weakened, inspections and appraisals were reduced, and the organizational setup was determined independently." Purchases no longer had to be approved by higher levels. Wage bonuses were no longer taxed through the company, but through individual income taxes. Non-state partners meant that the government no longer guaranteed the company's materials or its markets — but the firm could now seek both upstream purchases and downstream sales on its own. It could bargain freely on the prices for these. Outside capital was far less important than the firm's ability to generate its own new capital from profits (partly by keeping wages low). The symbolic value of being a joint enterprise lessened "ownership by the state" and strengthened local managers at the expense of supervisory cadres, even when nothing else changed.149

More than 80 percent of the total capital in rural-industrial firms at Kunshan came from local Kunshan investors.150 Technical help and useful connections came from people in nearby Shanghai, but just 13 percent of the capital was from the big city. Foreign partners contributed even less, 5 percent; and investors from elsewhere in China, a mere 1 percent. In a large sample of local firms in Kunshan's jurisdiction, four fifths were town-level partnerships, and the rest were at the lowly village level.

The main long-term loser in this game was the central regime. It lost money and authority because of local cadres' illegal transactions, and it failed to stop the process by which rural industries ended socialist planning. Marketization in China was not any high leader's bright idea; it was the political result of covert conflicts over resources that central leaders lost to local ones. But the state profited from the syndrome in one respect: The government had a new source of popular legitimacy in the high rate of economic growth.

The Jiangnan experience is not wholly unique, as this paper will now show. Taiwan, Thailand, and Luzon are in specifiable ways different from places near Shanghai – in some respects, very different. Yet themes that are induced from the Yangzi delta experience will reappear in some of these comparative stories too: Agricultural change in some but not all cases led to rural industrialization that allows growth. High government levels were often most helpful to growth when they were unable to (or had political need to, or had scant


150 This is based on a survey of local firms, and it is particularly striking because these were all companies that a foreigner was allowed to study; see Andrew M. Marton, China's Spatial Economic Development, p. 161.
tradition to) interfere with local entrepreneurship. Growth meant work for courts of law. Above all, medial leaders were – in these countries though perhaps not in Northeast Asia – crucial for fostering prosperity (and in the Philippines, for preventing it).

**Taiwan: Agrarian-Industrial Reforms for Kuomintang Legitimacy**

On February 28, 1947, agents of the KMT government's Tobacco and Wine Monopoly Bureau arrested an old woman in a Taipei park for selling cigarettes illegally. When she objected to their seizure of her wares and money, one of them knocked her down. A crowd formed. Police fired into it, killing at least one person. Taiwanese resentment had grown over previous months against the spectacularly inept administrators whom Chiang Kai-shek had sent to Taiwan while he was still fighting a civil war on the mainland. They had squandered some initial Taiwanese pleasure at the departure of Japanese colonialists. The spark in the park set off a blaze.

During March, scattered violence included assassinations of local Taiwanese leaders. Estimates of police murders in 1947, including the disappearances of scions of traditional leading lineages on the island, range from totals of 10,000 to 20,000.151 Confrontations quickly spread throughout Taiwan between the two main ethnic (or 'subethnic') groups. Taiwanese and mainlanders are all Hans, as are 92 percent of the people in China. But distrust between the overwhelming Taiwanese majority on the island and the armed mainland minority created after 1946-47 a sharp political need for the KMT to garner more support from majority groups on the island.

So for its own security, Chiang's regime promoted economic opportunities for Taiwanese, hoping to allay the political effects of its early conflicts with them. By 1949, when they lost the mainland, chastened KMT leaders arrived on the island. Their economic policies had a clear political aim: giving Taiwanese more reasons to be loyal. When the KMT retreated to the island, it had a million and a half state employees, both bureaucrats and soldiers, practically all mainlanders.152 Mainlanders were only 14 percent of Taiwan's population. They had guns, but they needed legitimacy. Serious land reform became the main way to achieve that goal.

Taiwan, like parts of East China near Shanghai, had strong entrepreneurial traditions. Taiwanese business foundings, notably by the island's most distinguished collaborators with Japan, began long before 1945.153 Japanese colonialism eroded Taiwan's rentier class because the imperial government in early reforms had confiscated much land for itself. Taiwanese lineage heads had been avid founders of sugar mills, trading houses, trust companies, banks, and cement firms in the first half of the island's Japanese era. Many industrial holdings of prominent Taiwanese were taken over, however, by the colonial

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government during the 1930s. These were subsequently inherited by Chiang Kai-shek's state, at a time when sugar refining was still the most important industry on Taiwan.  

Sun Yat-sen, founder of the KMT, had been strongly influenced by Henry George's ideas on rent income. One of Sun's slogans called for "land to the tiller." By April 1949, the KMT regime enacted "Regulations Governing the Lease of Private Farmlands in Taiwan Province." These rules stipulated that no rents could exceed three-eighths of the main crop on any plot. This law was supposed to be implemented by "rent campaign committees" at the provincial, county-or-city, and district-township-village levels. But because tenants were less than 15 percent of the membership of the committees, not a great deal happened at first.

The KMT Governor of Taiwan Chen Cheng, admitted that the mainland's land tenure system "had provided the Communist agitators with an opportunity to infiltrate into the villages. It was one of the main reasons why the Chinese mainland fell into communist hands." This KMT official conceived Taiwan's land reform as a prophylactic against communist infiltrators to the island. But the mainlanders' main problem on the island was not Communists; it was their own minority status.

Over 99 percent of all agriculturalists (either tenants or landlords) were Taiwanese. Land reform would have been politically more difficult for the KMT, if its connections to wealthy Taiwanese had been closer.

By 1951, the implementation of land reform in Taiwan became far more thoroughgoing than such reforms usually become in most countries. A second law reinforced the 1949 one. It was now required that all enforceable leases be in written form, and they had to be valid for at least six years. Changes in the international environment (especially the Korean War) also opened a stream of U.S. agricultural aid. A joint ROC-US committee took the lead in establishing farmers' associations in Taiwan that were similar to groups the American occupation had earlier established in Japan. These proved to be far more effective than the previous rent committees in implementing rules that had been decreed.

Then under a "Land-to-the-Tiller Act of 1953," all tenanted holdings over 8.4 acres of medium-grade paddy (or the equivalent by output in other grades) were purchased by the government for sale to tenants at the same price. Also, all farmlands that were owned collectively by temples and clans were to be redistributed in the same way. The price for these lands was fixed at 2.5 times the average annual value of the main crop. Hakkas and relatively poor Taiwanese would have benefitted most from these terms. Land reform gave them reasons to be content with the government.

Previous landowners during Taiwan's reform were paid seven-tenths in government bonds (bearing 4 percent annual interest) and the other three-tenths in industrial stocks. The Nationalist government had industrial shares that it could distribute to former landowners, because it had confiscated factories formerly owned by the Japanese colonial regime. So agrarian land reform reshaped Taiwanese industry too. This was the hook that lifted some rural families into modern urban industry and commerce. It allowed the KMT to give locally prestigious Taiwanese clans political leadership in nonstate enterprises, thus delaying their ambitions for political leadership in government.

The KMT's interests, after the 1947 ethnic clashes, made Taiwan's land reform different from that in other East Asian countries, such as South Korea or the Philippines (or mainland China). Korean generals and Ferdinand Marcos tried to control the reform process in more detail, more centrally, because they had no political need to gratify an ethnic majority that had an obvious potential for dissidence. For many years, Taiwan and South Korea had similarities: both were strong authoritarian regimes, both were in danger of military attack from obvious enemies, both had been Japanese colonies, both were allies of the United States, and both depended on rice production. Nonetheless, as one analyst says, there are "no analogues in Taiwan to the [later] Tongil green revolution campaign in Korea." 159 Taiwan had a "flexible," less centralized policy for agriculture. KMT government support was important, but the island's farmers made most of the decisions. Farmers' Associations, because they were Taiwanese and the government was mainland, had reasons and opportunities to arrogate to themselves a great deal of local power.

Land consolidation changed irregularly shaped fields into rectangles with straight sides. This allowed easier tilling by machines. Herbicides became common, along with chemical fertilizers and tube wells that were run by gasoline or electric power. Rural machine shops to repair these implements trained ex-peasants as workers in rural factories. Short-stalk, high-yield rice was also introduced in Taiwan, but most of these other changes preceded it.

Green revolution, rural industrialization, and local changes of rural entrepreneurial networks are one and the same process. Agriculture on Taiwan became better financed, and it used more inanimate power. In Hsinhsing, Changhua County, industrialization meant the end of water buffaloes. It meant that few families still kept pigs and chickens (although earlier, practically every village household had had its own swine and poultry). The main hog-raising household in this village became a specialized enterprise, raising a large herd as a business venture. Duck farming became the modernized speciality of another village household. Rice and vegetables were grown for markets by other specialized households. The advent of chemical fertilizers meant that compost pits (which had been scattered all over the village before industrialization) slowly disappeared. Soon agriculture supplied no more than a tenth of the villagers' income. 160

Financial credit, required for mechanized agronomy, did not raise the long-term indebtedness of farmers in Taiwan (as it did in the Philippines), because they rather than


landlords made the production decisions. The size of the farming work force plummeted, but output from fields did not fall for many years. Taiwan's agricultural growth in the decade after land reform was nearly five percent per year, compounding. This is an exceptionally high rate, over ten years and whole society, for agriculture anywhere.

The industrial results of land reform were more important. In the mid-1950s, Taiwan passed a series of industrial laws that were unprecedented in any previous Chinese government, because they allowed entrepreneurs to set up new businesses rather easily. The old official norm that officials should supervise and merchants merely manage (guandu shangban) was in effect repealed. American advisors and U.S.-educated Chinese economists advocated these industrial reforms on liberal market-freeing grounds, but the political impulse that caused the KMT to approve them lay in mainlanders' need for legitimacy to govern the island's majority. The rural Taiwanese elite — i.e. most of the leaders of most of the islanders — were industrialized by this concomitant of land reform.

During the island's early development of more diverse factories, the growth rate of manufacturing from 1956 to 1966 was 7.2 percent in rural areas — but the rate was just 5.3 percent in urban areas. Places classified as rural provided almost half (46 percent) of all new manufacturing jobs.161 As late as 1971, half of Taiwan's industrial and commercial firms — and 55 percent of the factories — were located in areas classified as rural.162

Taiwan's total real annual GNP growth rate throughout the 1960s was a very high 9.4 percent. It declined just a bit in the 1970s, to 8.6 percent, when industrial output grew at 16 percent per year.163 Taiwan's annual real GDP growth rate was 11 percent in 1965-73, and 8.1 percent in 1973-84.

During the decade before the oil-price rise of 1973, Taiwan enjoyed annual industrial growth averaging over 18 percent, with inflation for wholesale products running at only 1.7 percent. The island's Gini coefficients fell (showing more equality) even as per-capita income rose. So Taiwan violated the "Kuznets" pattern, found in most developing economies: a correlation of early fast growth with increasing stratification.164 The reason on Taiwan was not that the poorest people prospered, but that SMEs did. This growth-with-equality performance was truly extraordinary by any comparative standard, even at the medium-low-income "take-off" stage of industrial development, when it is possible for economies to have fast growth.165

162 Rita S. Gallin and Bernard Gallin, "Hsin Hsing Village, Taiwan," p. 279.
More Taiwanese moved from fields. In the mid-1960s, agriculture had still employed 47 percent of the Taiwanese work force; but by 1980, this portion was just 20 percent.\textsuperscript{166} The boom reduced farmers' importance in Taiwan's political economy, and it raised the relative importance of entrepreneurs. By 1976, industry accounted for 38 percent of Taiwan's GDP, with only 14 percent from agriculture, 12 percent in commerce, and fully 36 percent in other sectors including transport, services, and construction.\textsuperscript{167} Output figures from small firms and farms may be understated. KMT legislator Chao Shao-kong in the 1980s reported that the Taipei government confidentially estimated that family businesses in Taiwan, underreporting income to evade taxes, actually produced 25 or 30 percent more than the officially announced GDP figure. A foreign economist guessed the amount of underreporting was even higher: 30 to 40 percent.\textsuperscript{168} This surely happened on the mainland too, and during halcyon times in all the political economies studied here. Small enterprises often tend to report lower-than-real output and profits.

Yet as Taiwan's boom developed in the 1960s and 1970s, SMEs added larger, not smaller, portions of the island's total value added. SMEs' dominance of production increased over time. In 1971, among all the island's manufacturing workers, the portion in factories with more than 500 employees was down to 36 percent. By 1986, that portion in such large factories was halved, to 18 percent. This occurred even as the total number of Taiwan's manufacturing workers more than doubled, from 1.2 to 2.7 million.\textsuperscript{169}

The trend in the Philippines was opposite. On the nearby archipelago, more than half of all manufacturing workers were in factories having more than two hundred employees.\textsuperscript{170} Only one-fifth were in small plants with ten or fewer employees.

In agricultural and industrial jobs, mainlanders on Taiwan were sharply under-represented, relative to their part of the island's population. But in other fields, mainlanders were over-represented: 34 percent of "public administration and professionals," 22 percent of "transportation," and 82 percent of "the military, police, and national security."\textsuperscript{171} The private sector was, like the people, mainly Taiwanese.\textsuperscript{172}

Because all of Taiwan's banks were controlled by the state, the island's SMEs got capital mostly from each other: through traditional rotating-loan arrangements, underground banks, and lending clubs.\textsuperscript{173} The state did not "embed" itself in these firms; so they did

\begin{itemize}
\item \textsuperscript{170} These are 1983 figures in Gustav Ranis, Frances Stewart, and Edna Angeles-Reyes, Linkages in Developing Economies: A Philippine Study (San Francisco: ICS Press, 1990), p. 37.
\item \textsuperscript{172} See Lindy Li Mark, "Disjunct Growth and Small Industries in Taiwan" (paper at the panel on Small Enterprises in China, Association for Asian Studies Annual Meeting, Toronto, 1976).
\end{itemize}
not "embed" themselves in it. The relationship was relatively confrontational, in comparison with most state-business links in developing countries. Susan Greenhalgh says it was "an outright struggle, in which the state has attempted to encourage mergers... while family enterprises have sought to retain their independence by refusing to merge, employing illegal means to maintain profits (going underground, evading taxes, using loans to speculate in the real estate market) and moving transactions through informal channels to avoid government scrutiny."174

State-controlled banks supplied two-thirds of all officially recorded credit to farmers; larger amounts were unofficial. Much of the registered money was returned to the state, however, because it was spent for fertilizers whose manufacture was a KMT government monopoly. The price of a fertilizer like ammonium sulfate was about 40 percent higher in Taiwan than on the global market. Most of the farmers paid in rice, rather than money. State purchase prices for rice were so low that the government's implicit revenue from this source exceeded its total intake from all income taxes until 1963.175 Partly because traditional taxes were often in rice, and partly because farmers and this main crop were far easier to monitor than were manufacturing or commercial businesses, Taiwanese who left fields to start SMEs separated themselves sooner from KMT government control.

A group of economists estimated that recorded capital accumulation accounted for only about 20 percent of Taiwan's GDP growth between 1960 and 1990, but the prosperity came "thanks to an appreciable growth in the rate of domestic savings and a relatively efficient allocation of the savings towards investment." These particular economists also confess that "cultural [sic] traits, a willingness to sacrifice for future generations" may have been a cause of the growth.176

Chiang Kai-shek's government allowed Taiwan's growth more by standing aside than by financing it. A conventional view of East Asian economic development is that the state leads it. Chalmers Johnson's book about the Japanese Ministry of International Trade and Industry and its predecessor institutions back to the 1920s shows the certain applicability of a state-dirigiste explanation for the rise of Asia's first major modern economy.177 A great strength of that book is its historical analysis of specific institutional developments in a specific country over time. Because nations' trajectories differ, however, lessons from one are difficult to transfer. Taiwan, China, Thailand, and the Philippines (as well as other big Asian countries such as India and South Korea) each has its own institutions that are "path dependent" on the evolution of its own norms and situations over time.178

174 Susan Greenhalgh, "Families and Networks in Taiwan's Economic Development," in Contending Approaches to the Political Economy of Taiwan, Edwin A. Winckler and Susan Greenhalgh, ed. (Armonk: Sharpe, 1988), p. 242, quoted also in the next source, to which this reference is owed.
More than in Japan or S. Korea, the KMT regime lacked close links to most private capital. Several researchers of developmental states have noticed this difference and have been surprised by it. Robert Wade "concludes that Taiwan meets Johnson's developmental state criterion of bureaucratic autonomy, but not the requirement of public-private cooperation." Peter Evans admits that Taiwan's "relative absence of links to private capital might seem to threaten the ability of the autonomous state to secure full information and count on the private sector for effective implementation." Evans finds that, "Relations between the KMT state and private (mainly Taiwanese) entrepreneurs are distant, compared to the tight 'Korea Inc.' ties that bind the state and the chaebol together in Korea. The Taiwanese state unquestionably operates with a less dense set of public-private network ties than the Korean or Japanese versions of the developmental state." Government companies accounted for 57 percent of Taiwan's industrial production in 1952, but only 19 percent in 1975 (by which time, in real terms, the amount was twenty times greater). Tigers are not all identical.

Industrial groups (tuanti or jituan) or "relationship enterprises" (guanxi qiye) slowly developed into large, loose corporations. In the mid-1970s, nearly one-third (33) of Taiwan's 106 largest business combines were centered on a textile firm. Many kinds of companies emerged by accumulating shares in the formerly Japanese corporations that had been distributed to landlords in Taiwan's land reform. Four enterprises (Taiwan Cement, Taiwan Pulp and Paper, Taiwan Industry and Mining, and the Taiwan Agricultural and Forestry Company) accounted for most of this distribution. Formosa Plastics, Tatung, and Evergreen "did not start out large... nor were close ties to government investment programs the critical ingredient in their success.... These large business groups were simply the most successful of the leading medium-scale enterprises." Most of them developed from family firms or from networks of such firms that could help each other.

Economists nonetheless have been able to show that Taiwan's SMEs were more efficient than larger firms, e.g., in textiles, wood, metals, metal products, and some other manufactures. Larger firms had economies of scale mostly in chemicals. For firms with fewer than 100 employees, in many sectors the total factor productivity of these small and medium companies was at least good as that of large firms.

As Wu Yongping explains, "The real lacuna in the statist account of Taiwan's industrial success is the outstanding performance of small and medium industries." He writes that on Taiwan, "big businesses are upstream suppliers of intermediate goods and services, responding to demands generated by manufacturing networks of small and medium-sized

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185 Wu Yongping, "Rethinking the Taiwanese Developmental State," p. 97.
firms that, in turn, respond to the demands of buyers external to the producing networks. Taiwan's large enterprises are not organizing nodes in commodity chains. Doner and Hershberg refer to the "small kingdom' mentality of Taiwan's lower-tech SMEs" and call these firms "molecular." They were “cellular.” Micro-science analogies are common in discourse about these industrial structures.

This local pattern contrasts with Japan and South Korea — and it has parallels in state politics. In the Japanese or South Korean democracies, the way to win an election is often to get 'top-down' blessings from hierarchs in whichever political party or faction normally can organize votes in the relevant district. But Taiwanese who want elective office must normally use more 'bottom-up' methods, making friends in local businesses. (In yet a third case, the Philippine one, the most usual route to election in an office is to be in a clan that has always held it.) Asian electoral democracies differ very radically from each other, although American political science tends to neglect these very stark contrasts.

Sociologist Shieh Gwoshyong, in his book Boss Island explores the motives of Taiwanese entrepreneurs, whose nonstate subcontracting networks among myriad small firms spurred the island's growth at the grassroots. Many SME managers had received experience in firms with which they later competed. They wanted to be their own bosses, especially after they married and had children.

A family company's leadership is easy to structure unambiguously, with a patriarch or matriarch at the top and department heads or foremen in younger generations. Where the incentives to be one's own boss (dang laoban) are especially strong, family members are less likely to split from one another on economic grounds alone. Secrecy and trust are easier to maintain, if the organization is a family. A group can take risks more easily than an individual. It can involve many members and spread the dangers of loss widely. Similarly, more members can gather more information about markets, technologies, and competitors. If a firm grows and diversifies, responsibility for its parts can be distributed among family members. Especially where economies of scale are not crucial, or where the strength of collective commitment affects profits, family firms can do well.

Lineages (zu) in Taiwan, not just in the communist mainland, became less important economically and residentially after rural industry arrived. Many villagers spent increasing amounts of time away from their ancestral homes, in factories, schools, or the dormitories attached to them. Acquaintances made in those places somewhat diluted traditional commitments to lineages. When many workers or youths could come home, for example in evenings or on Sundays, the center of their life was increasingly the nuclear family, not the lineage hall. In a suggestive survey of ten small Taiwan companies

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186 ibid., p. 98.


188 Erik Mobrand, "South Korean Democracy in Light of Taiwan and Southeast Asia," paper for a March 15, 2012 conference at Princeton (whence Mobrand has his doctorate; he teaches at the National University of Singapore).


190 Rita S. Gallin and Bernard Gallin, "Hsin Hsing Village, Taiwan, pp. 291-92."
where interviews could be made, the male family head was also head of the firm. Sons were usually part of the company too, and also wives in about half of the cases.191

Small local firms, outside the Export Processing Zones, increasingly made semi-finished products for factories within the EPZ walls. The island's quick industrial growth in the 1960s and 1970s was partly attributable to purely domestic sectors such as residential construction, although foreign trade contributed significantly to growth too. Bricks, cement, and other products that are physically heavy for their value played important roles in Taiwan's (and China's and Thailand's) boom. Local rather than foreign capital was crucial in Taiwan's construction, textile, plastic, and food processing industries, as well as in services and parts manufactures for exports. Some firms were financed by multinational corporations, especially in electronics. Except for oil refineries and infrastructure, the state's capital was decreasingly important. Textiles were prominent among the industries that flourished early without much government help.

Personal ambitions and initiatives of local bosses are factors of growth such as has been led by Chinese business people throughout Southeast Asia, as well as in Taiwan and parts of China. No picture of what happened is complete until these local leaders are included. Shieh writes that, "the subcontracting network, which is prevalent in Taiwan... has created conditions under which consent among workers is manufactured as they seize the opportunities generated by the subcontracting system to become their own 'bosses.'"192

Similar motives were crucial in mainland China (and in Thailand). A 1997 survey of PRC private entrepreneurs indicated that two-fifths (40.1 percent) cited "realizing one's own worth" as the main reason they left the state system; and an additional 7 percent said similarly that they were "unable to use their expertise at their former units." Another two-fifths admitted they mainly had a desire for "increasing income."193 This is a local political motive, and it has been a major factor of production in several Asian countries.

**Thailand: No Miracles, Few Plans, Wily Entrepreneurs, Fast Sporadic SME Growth**

Thai agronomy is distinctive. Only 15 percent of Thai fields are irrigated, because of monsoon rains that concentrate annually in just four months. If excess floods do not come, as they sometimes do, long-stalk rice is appropriately watered. "Thai rice" has an international brand name. The country's development has been aided by this rice that fetches excellent prices throughout East Asia, although many hands must work in Thai fields during the busy seasons.194 Labor is free for employment in factories and trades during the relatively long agricultural slack periods. The Thai government, generally more laid-back than those in other Asian countries, has not pressed for a green revolution; so

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192 Looking briefly at Korea, Shieh does not see the same pattern as he finds on Taiwan. Specifically South Chinese entrepreneurial traditions (not 'Confucian families' more generally) may well be responsible for what he finds, and for what has occurred also in Sino-Thai enterprises, for example. Cf. Shieh Gwo-shyong, "Boss" Island: The Subcontracting Network and Micro-entrepreneurship in Taiwan's Development (New York: P. Lang, 1992), p. 14 and 20.


Thailand simply skipped that. Good markets for traditional fragrant rice have made it unnecessary. High-yield varieties were on less than 5% of Thai paddy land in 1976. Indolent bureaucrats in Bangkok inadvertently gave local farmers more help than Macnamara's and Marcos's enthusiastic technocrats in Los Baños and Manila did.

Thailand traditionally had a low population density, which endemic malaria kept down until recent decades. Farmers have wanted to live close to both their agricultural and slack-season jobs. Small handicraft factories have been dispersed deep into the countryside, where government monitors did not easily tax or register them, and bureaucrats' careers depended on such rule less in Thailand than in most other East Asian countries. The Thai government simply did not record many small enterprises.

The Thai state now has more than two million bureaucrats. Bangkok nominally dominates the provinces (changwat) in which nine-tenths of Thailand's people live. In practice, however, the structure of domination has long been jointed and lanky, although its theory is strongly centralist. The traditional (ex-Hindu) "hill of power" image of an idealized Southeast Asian polity applies to Thai norms, but scarcely at all to behavior.

Anand Panyarachun, a former premier, said Thailand is "laissez-faire by accident." The reduction of malaria in upland regions, where the anopheles mosquito breeds, has allowed expansion of arable fields for varied crops such as cassava and pineapples as well as rice. Roads (often built by the army fearing Communists) aided marketing for these products and for more lowland paddy. The malaria-carrying kind of mosquito does not readily breed in rice paddies; the original environment for anopheles larvae is jungle plants and pools. Deforestation, with land flattening to create paddies, lessens the ecology for this mosquito species.

Extensive tracts of jungle lasted in Thailand until fairly recent times, and farmers sometimes could legally claim such land as homesteads if they lived on it. Less fertilizer was needed for Thai agriculture in part because (relative to other Asian rice countries) arable for paddy expanded onto land whose fertility had not been exhausted by previous use. Land cleared from forests remains fecund for several years after it is first put under crops. Farmers had no clear market incentive to plant high-yield rice seeds that require petrochemicals. These traits of Thai agronomy are merely relative to other Asian places.

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196 The new seeds are difficult to test fully before they are planted extensively and for a long time, as South Korea's experience with the "Tongil" high-yield variety shows. Tongil was enormously successful at first; the state encouraged farmers to increase from 10 to 85 percent the portion of S. Korea's rice acreage between 1973 and 1978, with total output increasing from 3.98 to 5.78 metric tons of rice over that time. But then an unexpected plant disease, a blast, decimated the Tongil harvest. The traditional japonica variety was less affected, and the government eased its previous pressure on farmers. See Larry L. Burmeister, Research, Realpolitik, and Development in Korea: The State and the Green Revolution (Boulder: Westview, 1988), pp. 60-64.

197 This striking myth is described by Robert F. Heine-Geldern, Concepts of State and Kingship in Southeast Asia (Ithaca: Southeast Asia Program, Cornell University, 1956).


199 An increase of the ratio of humans to mosquitoes, e.g. in cities, also decreases the transmission rate of malaria. This mechanism operates through the parasite species' population biology. Urbanization and deforestation are modern trends that reduce malaria, irrespective of their other effects.
and some Thai advantages have reduced in recent years; but rural Thai industries began prior to much of that change.

Thai abilities to absorb Sino-Thai entrepreneurial talent have historical roots, and they contrast with Philippine (and Malay-Indonesian) lesser abilities to tolerate Chinese. William Skinner showed how Chinese boys in Thailand could traditionally, at age 18, simply decide to become Thais. They could choose bowl haircuts (rather than queues), responsibility to Thai law (rather than to Chinese judges who decided disputes within Chinatowns), and corvée (rather than the taxes that were levied on Chinese).\textsuperscript{200} They also usually became temporary monks, as practically all Thai teenage boys did. The vast majority of Chinese in Thailand thus became, and were legitimated as, Thais. They often married Thai women. They were accepted as citizens more fully in Thailand than in the Muslim or Spanish-Catholic countries of Southeast Asia. Bangkok's policies in the 19th century did not end Thai resentment of subethnic wealth, but they gave Chinese clear ways to become Thai — and qualified family firms for low Thai taxes (rather than the higher impost on Chinese), if they decided to self-identify as Thai.\textsuperscript{201} Also, migration from China came in waves, the last big surge being in the 1920s. After 1949 for many years, Thailand had practically no Chinese immigrants. So by the time of fast growth, virtually all immigrant families had "reached the crucial third generation" and were Thais.\textsuperscript{202}

Thai creditors tended to be local Thai-Chinese, from a minority unlike the farmers. Few creditors lived at much distance from mortgaged land. Few in Thailand ran lending businesses only; they were usually in rural trade too, but (in contrast to assimilated Chinese in the Philippines) they seldom managed large plantation estates that bought mortgaged land if the farmer could not pay back the loan. As Laurence Stifel writes, "While a large fraction of the mortgagees in Thailand were Chinese, they were more likely to reside in or near the village, and their culture did not clash brutally with the indigenous culture." Absentee landownership in Thai villages was gradually reduced, to levels between 10 and 20 percent only. "In contrast to other countries of Southeast Asia, Thailand does not have an urban rentier class. Most absentee landlords have other occupations, and the villagers frequently say that they are more lenient, extract lower rents, and demand fewer extra services than the resident landlords."\textsuperscript{203}

Sino-Thai businesses were "gigantistic" (to use Franz Schurmann's word in a country where he did not use it). They usually started as SMEs, a small bank or a factory in rice milling or textile weaving, but they readily branched into new types of industry and commerce. This pattern is also common in China.\textsuperscript{204} The largest retail chain in Thailand


\textsuperscript{203} Stifel notes that during the Great Depression, Thai cultivators lost far less land than Burmese rice farmers did — but his comparison could as easily have been with the Philippines and the time period could have been later. He defines "absentee" owners as those who live in different districts than the village where the land is located. See Laurence D. Stifel, "Patterns of Land Ownership in Central Thailand During the Twentieth Century," Journal of the Siam Society 64:1 (January 1976), pp. 258-60.

\textsuperscript{204} Franz Schurmann, Ideology and Organization.
for many decades has been owned by the Chirathivats. This is a Hainanese family that
opened Bangkok shops in the 1920s and then department stores in the 1960s. Many other
Sino-Thai clans started small stores with similar hopes of expansion. They expanded into
industrial pursuits of all kinds: textiles and zippers and buttons, food processing,
chemicals and cosmetics, air conditioners, rubber, tires, auto parts and then vehicle
assembly, insurance, advertising, real estate, hotels, newspapers and other media, and
(locally and very commonly) brickmaking.205 These entrepreneurs showed "dynamic
efficiency," often beginning in one field and branching into others.206 They moved easily
from selling to making and vice-versa. Their freedom to do so depended not on a land
reform or new agronomy but on South Chinese traditions of entrepreneurialism and on
trust ('social capital') among each other.

During the brief 1973-76 democratic period, Thai intellectuals' had hoped for a land
reform, but these expectations were dashed in the 1976 coup. Then the Kriangsak
Chomanan and Prem Tinsulanonda governments (1977-88) avoided pressing any land
reform agenda, so as not to worry landowners.207 One analyst wrote that "agrarian reform
would have threatened a large number of rural landowners and absentee landlords, large
numbers of whom were businessmen, high-ranking military and bureaucratic elites, noble
families, and the royal family itself."208 But because commercial-industrial profits could
be used to buy land, typical owners of land slowly changed anyway: mainly, they became
more often Sino-Thai.

Agricultural profits were nonetheless important for Thai industrialization, because Thai
rice commands high prices. Yields by weight per hectare, even during the 1970s and
1980s, were in Thailand among the world's lowest (one-third of yields in Japan or Korea,
for instance). Thai farmers could nonetheless grow their kind of rice profitably. In
comparison with the Philippines, tonnage productivity per land unit was low, but Thai
farmers seldom found themselves in unexpected poverty.

Most decided against planting high-yield varieties. They did not obtain this
independence due to government needs for a majority subethnicity's political support (as in
Taiwan), nor because the government found in short-stalk rice a way to take more grain tax
(as in China). Thai entrepreneurs had the practical independence to make profits in new
markets because of pre-existing lax politics and lucky rice.

\[\text{205} \quad \text{Kevin Hewison,} \quad \text{Bankers and Bureaucrats: Capital and the Role of the State in Thailand, Monograph 34 (New Haven: Yale}
\text{University, Southeast Asia Center, 1989), pp. 155 and 160-61.}\]

\[\text{206} \quad \text{On a related Asian application of the difference between neoclassical "static" efficiency and Schumpeterian "dynamic}
\text{efficiency," see Cui Zhiyuan, "Getting the Prices and Property Rights Wrong? The Chinese Reform in the Schumpeterian Perspective}
\text{and Beyond," in} \quad \text{China: A Reformable Socialism, Gan Yang and Cui Zhiyuan, ed. (New York: Oxford University Press, 1995), pp.}
\text{145-68.}\]

\[\text{207} \quad \text{Kevin Hewison,} \quad \text{Bankers and Bureaucrats, pp. 135.}\]

\[\text{208} \quad \text{Quoted in Walden Bello, Shea Cunningham, and Li Kheng Poh,} \quad \text{A Siamese Tragedy: Development and Disintegration in}
\text{Modern Thailand (Bangkok: White Lotus, 1998), p. 149; the authors' footnote withholds the source, however, perhaps because of the}
\text{mention of the royal family.}\]
Bangkok's official policies toward farming have "bordered on the schizophrenic."209 The state achieved extremely odd results by imposing an export tax on rice, the most reliable earner of foreign exchange and the basis for more employment than any other commodity. Ammar Siamwalla and his colleagues write more cogently about officialdom than do most economists: "The strength of the country's comparative advantage in agriculture was such that no amount of mismanagement by the government was sufficient to kill its competitiveness in world markets."210

Some Thai officials also advocated short-stalk rice, and for the most part farmers ignored their advice. Enthusiasm for triple-cropping was localized and short-lived in Thailand. By 1980-81, in an area near Chiang Mai, 40 percent of all irrigated land was triple-cropped; but a decade earlier, practically none of it was used so intensively.211

Thailand's population size, historically low relative to land, was later also held in check by the government's and peasants' family planning policies. (On this score, there is a sharp contrast with the Philippines.) In Thailand, as compared to other developing countries, the price of labor has nonetheless remained low, albeit above subsistence, relatively late into industrialization.212 Dominance of politics by rightist military governments and then by Sino-Thai founders of labor-intensive firms slowed wage increases until recent times.

Bangkok's urban per-capita annual real growth rate by the early 1970s was just 1 percent. But this growth was 6 percent in Thailand's six provinces that had the next-highest per-capita income. It was 4 percent in the next group of seven provinces by income, and it was 2 percent in the 34 poorest provinces.213 Immigration to Bangkok continued, but the capital's growth did not match that of mid-sized towns. The real boom was outside the primate city.

The provinces of Chiang Mai in the North and Nakhon Ratchasima (a.k.a. Khorat) in the Isan Northeast enjoyed particularly fast growth, exporting products abroad and parts to factories in Bangkok, and making local sales. Many of the employees were "able to work in the city while maintaining residence in their villages."214 Location in Thai places distant from Bangkok slowed the issuance of factory permits, petitions for various licenses, passport applications to support foreign sales, customs clearances, and other government services. But the trade-offs for these inconveniences were more important: lower taxes and fewer regulations, because of reduced government monitoring. Entrepreneurs grumbled about policy biases against provincial factories, but these biases correlated with valuable independence for rural industrialists.

210 Ibid. Italics added.
212 Thailand has stretched, but not repealed, the dynamics shown in W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labour," The Manchester School of Economic and Social Studies (1954), pp. 139-91.
214 Nipon Poapongsakorn, "Rural Industrialization," p. 135; also p. 136.
Officially collected statistics, which even by boom times did not include firms with fewer than eight employees, suggest that many Thai rural factories sprang up around Bangkok in the 1970s. In later years, however, industrialization was more evenly distributed in many parts of Thailand. By 1987-91, the growth of the number of industrial firms in provinces around Bangkok (12 percent annually) was similar to the growth in a much larger "outer ring" (11 percent annually, although Kanchanaburi grew at 18 percent, and Anghthong grew at 29 percent per year). In the whole North, the average was 12 percent; in Isan, 13 percent; and in the South, 10 percent.\footnote{Nipon Poapongsakorn, "Rural Industrialization," p. 118}

This provincial prosperity is striking because the central government in those years did practically nothing to finance it directly. Army engineers had built roads and other infrastructure, but the state put little of its money into provincial production or trade. The same pattern appeared among Taiwanese rural SMEs and in Chinese nonstate (collective, private, or individual) firms. In 1987, Thailand's Board of Investment put just ten percent of its funds in the North, Isan, and South combined. By 1991, this portion had risen only to 30 percent, although most Thais hail from those regions, which prospered.\footnote{Nipon Poapongsakorn, "Rural Industrialization," p. 120.}

The Thai bureaucracy's stance toward all companies, of any size, has (except for those giving major campaign contributions to electoral candidates) been one of benign neglect. As Parichart wrote of the early growth era (before 1997 and before Thaksin Shinawatra reorganized the Thai political economy), "By and large, small- and medium-scale entrepreneurs have had to be self-reliant, having been relatively neglected by state authorities. However, as they have done reasonably well for themselves, especially when compared with farmers and workers, this neglect by the state has been, if not acceptable to both parties, at least not a major cause of conflict."\footnote{Parichart Chotiya, "The Changing Role of Provincial Business in the Thai Political Economy," in Political Change in Thailand: Democracy and Participation, Kevin Hewison, ed. (London: Routledge, 1997), p. 256-57.}

Thailand had double-digit growth per capita in each year between 1976 and 1981. Then the rate slowed for the next four or five years, returning to higher rates thereafter for the main boom decade prior to the crisis of 1997.\footnote{Peter G. Warr and Bhanupong Nidhiprabha, Thailand's Macroeconomic Miracle: Stable Adjustment and Sustained Growth (Washington: World Bank, 1996), p. 63.} Before Thailand's boom accelerated, large domestic corporations were more important for economic growth than were small firms, especially in comparison with the relative performances of large and small firms in other countries. Large firms were important producers in this period, but the fastest growth came later, when exports soared and smaller firms predominated.

Thailand had the world's quickest economic expansion between 1984 and 1994, surpassing that of China. In Ayutthaya Province, north of Bangkok, the value of agricultural production decreased slightly between 1989 and 1997 — but the value of industrial production soared fifteen fold. By the mid-1990s, "farm" households there
received more income from non-farm activities than from agriculture.219 (This area was severely flooded in a much later year.) Thai prosperity rose because of profits from sectors such as trucking, machine repair, brick making, house construction, and local banking.

Thai growth has been mostly industrial, based in small-scale, often family-owned firms employing fewer than ten workers.220 Thailand has an industrial census, but a distinguished Thai economist reported in an informal interview that the census figures are highly unreliable. Only rough comparisons with other countries are possible: By 1996-97 Taiwan SMEs employed nearly eight-tenths of all workers. In China, SMEs hired seven-tenths of the manufacturing workforce. Data about Thai SMEs suggest that the registration requirements there are considerably more lax than in other countries. (Several different Thai government departments register SMEs — and classify them variously.) Thai SMEs hire many workers, but perhaps a lower portion than in Taiwan or China. In the Philippine industrial workforce, SMEs employed a lower portion (about two-thirds).221

In Thailand's boom (as in Taiwan's or China's), SMEs were the "major competitors" of "a majority of firms in the formal sector," according to an analysis by German economists.222 The formal sector in Thailand was largely composed of formerly “medium-sized” firms that had become large.

Small-city traders, largely descended from Chinese "pillow and mat" capitalist founders of retail rural stores, made Thailand prosper.223 Savings were 36 percent of Thailand's GDP in 1990-95 (and this ratio did not dip below 35 percent during any of the worst financial crisis years, 1997-99). In 1990-96, Thailand had the highest investment rate in Asia (41 percent of GDP — even higher than the savings rate because of international investments). For comparison, in the island of Taiwan's richer economy from 1990 to 1995, savings ranged between 26 and 28 percent. In China, if the reported data are accurate, savings were 41 percent of GDP in 1990-95 and in each later year until 1999, when the portion dropped (or the accuracy of reporting rose) to make the ratio 39 percent. The Philippines tell a totally different story: The 1990-96 savings rate there was 15 percent, dropping to 14 in 1997 and 13 in 1998, before rising to just 15 percent in 1999.224

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221 See Charles Harvie and Boon-Chye Lee, "East Asian SMEs," in Globalisation and SMEs in East Asia, Charles Harvie and Boon-Chye Lee, ed. (Cheltenham: Edward Elgar, 2002), pp. 3-6, for figures suggesting these approximate portions and for details about the problems of comparison between surveys that use different definitions. The Thai surveys covered only "industrial" workers in a much looser registration regime — although economists, ever eager to tabulate any numbers, seem to have neglected the importance of these differences.


Thailand's GDP growth rate varied more sharply than in other ‘tigers,’ but it was and is respectably high: 9.2 percent annually in 1990-95 and 5.9 percent in 1996. The Asian financial crisis brought it down to -1.8 percent in 1997, then -10.4 percent in 1998, but back up to a positive 4.2 percent in 1999. Comparable figures for the Philippines were: 1990-95, 3.3 percent annually; 1996, 5.8; 1997, 5.2; 1998, -0.5; 1999, 3.2 percent. For Taiwan: 1990-95, 6.4 percent annually; then 5.7 in 1996; 1997 up to 6.8; 1998, 4.7; 1999, 5.5. For all of China, it is unclear whether the data were somewhat inflated, but the 1990-95 annual rate was claimed to be 10.6 percent annually. Thailand's average annual performance in the first half decade of the new millennium neared 5 percent. The financial crisis hurt Thailand, but its earlier boom created path-dependent institutions of entrepreneurship, and the Thai economic record in the new millennium kept it in the small herd of tigers.

Thailand benefitted specifically from Taiwan's industrialization, which (with other rich Asian places) created a better market for Thai rice — and then financed some Thai industry directly. Industrial jobs on the island raised Taiwan labor costs for paddy farming. As agriculture there slowed, rice traders diversified especially to Thailand. They brought marketing networks and capital. By the 1980s, several notable Taiwan-Thailand joint ventures were established in the Isan and Chiang Mai regions. As Taiwan wages rose, and when the government in Taipei was eager to move capital almost anywhere in the universe except the other side of the Strait, some Taiwan firms also switched to manufacturing in Thailand. As Pasuk and Baker say, "The foreign inflows had such a large impact on the Thai economy because of the response of domestic business. If foreign firms found Thailand a competitive platform for export production, why should Thai firms not take advantage too?" Sino-Thai SMEs did exactly this.

The government generally avoided deficits and discouraged inflation. But Thailand has been no developmental state. The Thai tiger was unlike the Japanese one that Chalmers Johnson described in his book on MITI. Danny Unger (another of Johnson's former students, with whom Johnson eventually agreed on this point) argues that

The state in Thailand lacked a politically insulated yet powerful bureaucratic elite, a clearly articulated development strategy, a full range of discretionary policy tools, and [this may be most important - LW] the information that would be necessary to make effective use of such tools.... Thailand's success rested not only on stable macroeconomic policies but on an absence of effective sectoral policies [as well as] the specific assets of the Chinese, their social networks that enabled them to overcome market failures, and the absence of key effective market institutions.

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This country at the national level lacked economic "strategy," as it posted its best economic performance. Quite local entrepreneurs, among whom only the larger ones received some help from foreign capital (e.g., from non-Thai Overseas Chinese), made the economy soar. Bureaucrats in any country, as in formal international institutions, naturally omit to admit that they lack "strategy."

Entrepreneurial prowess among Sino-Thai factory owners, combined with benign neglect from Bangkok despite centralist rhetoric, allowed the founders of small Thai firms to create an economic boom because they had managerial autonomy.

**Luzon: Local Leadership for Non-Development**

Growth occurs only if effective dominant elites want it. The Philippine record, like that of China, Taiwan, and Thailand, suggests that local leaders were economically crucial -- but in this case, they were so dominant on their turf in most parts of the archipelago, they hindered rather than helped growth. In this country of many separated islands and valleys, local leaders (and national leaders whom most Filipinos elect to Congress) seldom see the concomitants of growth (jobs for clients, tax revenues, or the recruitment of new kinds of elite members) as increasing rather than decreasing their own local power. Non-growth is locally led, as surely as growth is.

This is a main answer to the perennial Philippine puzzle, explaining why among the countries of East Asia this one has remained poor for decades. Such an answer has been missed or resisted by many analysts because they have looked at the nation as a whole. They have wanted more from the government in Manila. This has sometimes been led by ambitious centralizers (Marcos) or by other would-be reformers (now Benigno Aquino III, his mother during the early months of her term, and the Pangasinan Protestant Fidel Ramos). But what happens in the capital scarcely affects what happens in the places where the vast majority of Philippine people and voters live. There, local leaders despite their own conflicts tend to keep out rivals. Entrepreneurial rivals can threaten their local control. And for reasons of cultural self-identification that are unusual in East Asia, the local leaders avoid rocking boats by setting up new firms themselves.

The aim in this summary paper is not to join the many sermonizers about Philippine non-performance. As Pinches says, "In a region of Tigers and Dragons, the Philippines has almost universally been portrayed as the exceptional failure, and has had to endure the label 'sick man of Asia' as well as the condescending advice of regional leaders like Lee Kwan Yew." Instead, the aim here is to find structural reasons for Philippine problems that Philippine analysts also recognize, to find out what needs to change so that the future can be made brighter.

The Philippine puzzle at first seems particularly baffling because that country once had a temporary boom in processing industries. Philippine GNP grew at 7.7 percent annually in the first half of the 1950s, with manufacturing (which included refineries for agricultural products) growing at 12 percent. This rate was greatly helped by U.S. grants at a time

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when the Manila government was fighting a communist rebellion that was especially strong in poor parts of central Luzon, notably Nueva Ecija and adjacent provinces.

The Philippine growth that occurred did not create firms hungry enough to diversify "gigantistically" into new industrial and commercial lines. This growth was involutionary. So it was not sustained. Local power networks remained strong enough to prevent its expansion in their specific places, and in their own perceived interests. Elites that had for decades supported themselves less by production than by rent collection, as Hutchcroft writes, were "loath to make the transition to independence" if that meant changes in their traditional structures of patronist politics. These elites are very interested in money, but they seldom start factories. They have run between 100 and 200 private armies. The leaders whom their bloc-voters democratically elect to Manila are very commonly called "traditional politicians," "trapos" for short. In Tagalog, this famous word *trapo* means 'dirty rag.'

During the second half of the 1950s, the Philippine growth rate fell to 4.9 percent annually (and for manufactures and processed goods, to 7.7 percent). The modern sector was always heavily dependent on extraction from forests, mines, and plantations. Employment grew slowly, because these processing enterprises were large and tended to use heavy machinery rather than people. Labor-saving technology meant fewer workers. When this pattern was combined with patriotic policies of import-substitution and frankly racist restrictions against Chinese in business, as well as law-enforced Roman Catholic policies that assured a high birth rate, the result was stagnation of income per capita.

President Carlos P. Garcia (1957-61) set a "Filipino First" policy as the lodestone of his administration. Chinese, who could not easily get Philippine citizenship even if they had been born in the country, had legal trouble founding small companies; and fewer Chinese had come to the islands because of discrimination against them in both the Spanish and American colonial periods. SME growth in the Philippines was much slower than the expansion of large firms. By 1956-62, when Philippine growth was declining but still higher than in later periods, small firms' value-added fell 5.4 percent per year (compounded), while larger companies' value-added rose 10.0 percent per year.

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233 Garcia identified with the Visayan island of Bohol. His predecessor presidents Aguinaldo, Quezon, Osmeña, and probably others had at least some Chinese ancestry, as have all or most of his successors — although few (besides the Aquinos, about whom this is widely known) have advertised the fact. José Rizal himself once proudly proclaimed, "I am a pure Indio [Filipino]." So the Bahay Tsinoy museum of Chinese Filipinos, in Intramuros, Manila, coyly displays without comment a chart of Rizal's ancestors, naming several who were Chinese (as well as Spanish and 'Indio').

234 Small firms were, in this survey, those with 5 to 19 workers, and the larger ones had more than twenty. In the same period, the small firms' value added per worker (at constant prices) was higher (3.3 percent per year) than in larger firms (2.5 percent) — but their employment was down 2.2 percent. For the data only, see Entrepreneurship and Small Enterprises Development: The Philippine Experience, Arnulfo F. Ito and Myrna R. Co, ed. (Quezon City: University of the Philippines Institute for Small Scale Industries, 1979), p. 15.
The World Bank nonetheless in 1957 hopefully proclaimed that, "the basic economic position of the Philippines is favourable... it has achieved a position in the Far East second only to Japan, both in respect to its level of literacy and to per capita production capacity." When economists make estimates that ignore sociopolitical factors — including 'cultural' factors with a careful and behavioral usage of that word — they can, as this estimate shows, go badly astray. As late as 1959, per-capita income in the Philippines was higher than on Taiwan. That is not the case today. Practically all economists (and most political scientists, though not at Berkeley) are allergic to considering the local-political and cultural-motivational factors that can explain what happened.

Growth of Philippine real GDP in the 1960s was just 5 percent annually (before any adjustment for the quick rise of population). President Ferdinand Marcos briefly encouraged some investors he favored, but then throughout the three decades after 1975, the Philippine real GDP grew only 3.5 percent annually. Per-capita income grew hardly at all, because the annual population increase was 2 percent.

These results are inseparable from the local political structures that foster them. They are in part legacies of Spanish and American colonial regimes that relied on indirect rule through various religious and military mechanisms and through land allotments to local clans. Dominant families were franchised to control specific places. The civilian staffs sent by the imperial powers were tiny relative to the Philippine population. Centralization was minimal. Local nonstate power was — and still is — the norm in rural places where the vast majority of Filipinos live (and even in any cities smaller than Metro Manila).

Green revolution became a major Philippine government policy in Marcos's time, and it intensified this local patronism. High-yield seeds are not neutral with respect to farm size or altitude. Rice seed from the International Rice Research Institute (IRRI) at Los Baños on Luzon does well in only some places. It can make "the transfer to leasehold... attractive, in the abstract, to most farmers." But either lessor-tillers or tenant-tillers too often have their short-stalk rice harvests ruined by floods. Deforestation has raised the portion of arable land that is subject to flooding — and Luzon is in the middle of a fierce typhoon belt. The new agronomy requires farmers to take out bigger loans per crop. In most years, their harvests improve somewhat — but in bad years (and thus on average over long periods of several years), they go deeper into debt. These clients become ever more reliant on their creditor-patrons, owing "unrepayable debts" (utang na loob in Tagalog). Marcos's "Masagana-99" agrarian reform accomplished a truly rare feat for any Asian government: It made rice an unprofitable crop for the tillers.

In 1973 in a Bulacan province village not far from Manila, the new hybrid varieties covered "all but a tiny fraction" of agricultural land in the monsoon season.\(^{239}\) The portions of harvest that were paid for rent dropped, but the costs for fertilizers and machines rose — as did indebtedness. Patrons became less likely to farm land themselves. Their children emigrated for education and jobs to larger towns.

The main beneficiaries of the Marcos's green revolution were landed elites. High-yield rice technology gave them fresh resources they could have used to modernize themselves as industrial elites — but very few did so, apparently because they could not conceive themselves running factories. The issue was existential (perhaps in Spanish 'hidalgo' style) for them.\(^{240}\) Many went into a very local and informal kind of banking. Umehara writes that, "Smart landlords... joined the ranks of the commercial elites." The new rice technology gave them new ways to extract money and obedience from clients. Rent came from owning debt, not just from owning land. Profits from factories or stores would have involved work of kinds that many Philippine local elites disdained to do.

"Rice production under the terms of trade and natural risks prevailing in the Philippines in the [1980s] has been unprofitable. Mobile capital has sought other investments." State subsidies for credit, together with state support for the prices of fertilizer and fuel, created a situation in which "capitalist entrepreneurs stay out of farming, finding niches upstream and downstream of the farm."\(^{241}\)

These local structures make the Philippines a dubitable democracy. In abstract constitutional form, this country already is democratic. Multi-party elections are held, and various parties win; there is turnover of the executive. The press is rambunctiously "free" (except that, as some Manila journalists joke, news coverage often requires payments). NGOs abound. The constitution involves so many separations of power, no branch of the government can do much. The economic basis of liberal politics does not yet exist.

The Hobbesian or Weberian view that the state has a legitimate monopoly of violence is, on these islands, thus far no more than an interesting proposal. As Wolters writes, "The classic state monoplies known from European history, namely those over violence and taxation, have never been fully developed in the Philippines. This means that in the rural areas private armies have increasingly played a major role."\(^{242}\) This pattern is also important in parts of Thailand, Mexico, even parts of China, and many other countries where local polities are well-armed. Nonstate extraction is very common in the world. Nonstate violence has been exceptionally frequent in the Philippines.

In China, courts have been somewhat strengthened because economic growth created disputes. But rule of law has not been aided by substantial development in most parts of the Philippines. Grasing de Guzman, a "Godfather," ran his family's estates in Nueva


\(^{240}\) *Hidalgo* is short for *hijo de algo* (son of somebody). Honorable status, not work, is most prized.


Ecija. He controlled mayoralties in four towns and delivered votes for the local congressman, the mayor of Cabanatuan City, and the governor. His relations with the local Philippine Constabulary were very close. Although at one point Grasing was charged with multiple homicides, a court found him not guilty. He proudly admitted to an American researcher that he had been skillful enough to bribe judges, prosecutors, and his opponents' lawyers. He mused that he himself might have been a good lawyer. But then he reconsidered:243

No. I could never have survived as a lawyer. I am a man of honor.... I would have to bribe judges, out of responsibility to my client. But judges are venal and may sell the case to the other side if it intervenes with a higher bid. Then I would have to kill the judge.... It is well that I used my talents otherwise.

Grasing ran illegal gambling games "out of civic duty," and he claimed that the profits went to supplement the low salaries of hardworking public officials, such as the police chief and the provincial governor. It is hard to see what force, aside from new industrial or commercial money, could begin to change a locality with such a leader.

The Philippines enjoyed a brief economic recovery in the 1986-90 period after Marcos fell, and then again after an early-1990s recession. Yet even in the year during this time when growth was highest, 1996, it was only 6 percent.244 The 1997 Asian financial crisis then struck. In the first six years of the new millennium, Philippine GDP growth has varied around 4 or 5 percent only.245 Because demographic increase continued unabated, per-capita growth was just over 2 percent. It will almost surely rise in the future, but not until new firms are established further outside the capital in places where most of the people live. The national population now approaches 100 million. Many educated Filipinos cannot find jobs in their own country; so they emigrate. Almost one-tenth of the national workforce — and one-fifth of the GNP (not GDP) — is outside the country.

Large areas of the archipelago, even in recent years, have almost completely lacked factories. This is the shoe that has not yet dropped, in Philippine development. A careful student of central Luzon, publishing in the 1980s, reported broadly that, "During the past decades not one factory, large or small, has been established in Nueva Ecija."246

Small and medium Philippine enterprises that responded to a World Bank survey in 1998 had an average of 67 workers. They were medium rather than small in size. More than half of these firms (compared to just one-fifth of larger Philippine companies) were "foreign-owned," partly by Chinese. Three-quarters of them (compared to just one-third of the large companies that responded) were exporters.247 Such SMEs were seldom small

245 The author thanks John Wong, former senior economist at the East Asian Institute of the National University of Singapore, for several of these estimates.
246 Willem Wolters, Politics, Patronage, and Class Conflict in Central Luzon, p. 35.
247 Edgard Rodriguez and Albert Berry, "SMEs and the New Economy," p. 139.
sari-sari stores, but they were also seldom factories that raised their employees' skills, so that the latter might become 'bosses' of their own companies. They were mostly urban. They largely provided services rather than manufactures. Above all for purposes here, their usual non-involvement with sizeable populations meant that they had scant effect on Philippine local politics.

Thai-Philippine comparisons are revealing. These two countries are sometimes thought to be broadly similar, but in the decade after 1987 in Thailand, per-capita consumption of electricity rose by 145 percent — but just by 19 percent in the Philippines. Thailand in 1995 was using 3.3 times as much energy of all sorts as was the Philippines.248 Thailand's economic growth was faster than that of the Philippines not only in the decade after 1985, but also in every five-year-or-longer period before that, as far back as the mid-1950s. From 1950 to 1960, Thailand's GDP annual growth at constant prices was only 6.3 percent, while the Philippines' was 6.1 percent. But from 1960 to 1965, the Thai rate rose to 7.24 percent; the Philippine rate was 5.21. In 1965-70, the rates were 9.14 in Thailand and 5.09 in the Philippines. In 1970-75, they were closer again (respectively 6.27 and 6.03); and in 1975-80, they were 7.55 and 6.27 unless Marcos's bureaucrats overreported. From 1980 to 1985, the Thai economy grew at 5.1 percent annually, whereas the Philippine rate was negative, at -0.5 percent.249 The Philippines has suffered "late, late industrialization."250

Political opportunities in least-constrained networks provide situations in which new local enterprises thrive. As the Philippine case shows, constraints by traditional landed oligarchs have thus far prevented strong development there. Structures of information, and the self-identities of effective leaders (often medial, or also local or central) are the factors that create or inhibit entrepreneurial risk-taking. This is true of all the unique places compared here, despite their institutional and historical differences.

**Conclusion: Tigerism or Apathy Often Comes from Local Leaders' Autonomy**

It may seem un-Berkeleyan to credit the exploitative small dictators of SMEs for many of East Asia's recent successes. Structured connections that link large and small polities are, in practice, the moderators of arbitrary leadership in any of them. Only under conditions of "primitive accumulation" (Marx's term) or "development with unlimited supplies of labor" (Arthur Lewis's phrase) can a weakening of such links let local leaders exploit labor so well that they happen to increase its productivity.251 This process pluralizes political economies before it may liberalize them. The recent "rise of Asia," which eventually even the Philippines may join, is the most notable result.

Yet experiences in Japan and South Korea suggest that local rural leaders’ autonomy has not been universally so crucial. These, and examples elsewhere in the world, show that there is no single route to socioeconomic progress (when such improvement occurs at all).

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248 Calculated from Ronald Hill, *Southeast Asia: People, Land, and Economy* (Crows Nest, NSW, Allen and Unwin, 2002), p. 188 on kilowatt hours per person and p. 190 on total primary energy consumption in kilocalories.


250 The phrase is that of Paul D. Hutchcroft, who complains eloquently about his favorite country in "Booty Capitalism," p. 223.

Chinese data, and those from Taiwan and to a lesser extent from Thailand, show striking similarities of development, but neither path nor destination is sure. Functional diversification in economies can pluralize societies. Competition among entrepreneurs can strengthen courts, and perhaps eventually a rule of law. But any consequent results for political form do not happen automatically. Like any change or stagnancy, they are led.

A healthy realism about the objective strength of local networks can greatly improve both economics and political science. These disciplines, in their present mainstream forms, have been developed mainly from experiences outside Asia. Each of the places discussed in this paper is unique. Comparative research about them should convey a 'not-in-Kansas-anymore' sense of their distinctive traits — not just vis-a-vis Western locations, but also as regards each other. An obvious similarity of the places studied here is that they all grow rice. Even that does not make them all the same. Their recent successes and failures have emerged, for the most part, because they are locally led.