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## FROM THE EDITORS

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IT IS WITH MUCH PLEASURE that we present to readers this collection of papers written by researchers and scholars from China, offering their reading of various aspects of life in China today. ARENA has, in the last few years, facilitated intellectual exchanges between scholars and practitioners from China and their counterparts from other countries, in particular countries from Asia.

The local anywhere is increasingly affected by global capitalism; one cannot really make sense of the forces to which a certain locality is subjected without taking the global context into consideration. The exchanges have proved to be most useful and relevant for gaining a deeper and more comprehensive understanding of the predicaments facing various sectors of people, especially the disadvantaged caught in the modernization processes, as well as tackling questions of alternative thinking and alternative practices.

To name a few of the exchanges that ARENA helped facilitate in the last few years, which were participated in by ARENA Fellows and resource persons from China:

- Workshop on Beyond Seattle: Preparing for the Millennium Challenge, March 2000, Hong Kong;
- Workshop on Women in Economies of Transition, May 2000, Hanoi;
- Workshop on Transitional Era, Transformative Work, December 2000, Fukuoka;
- Workshop on Capital Flows: Arresting Speculation And Volatility, February 2001, Hong Kong;
- Workshop on Rural Transitions: Coping with Globalisation, August 2001, Beijing;
- Workshop on Gender Concerns, November 2001, Tokyo;
- Visit of Chinese scholars to Kerala, January 2001, Kerala;
- Visit of Indian scholars to China, August 2001, Kunming;
- Visit of Chinese scholars to Kerala, January 2002, Kerala;
- Visit of Chinese scholars to World Social Forum, January 2002, Porto Alegre;

- Inaugurating Conference of Asian Peace Alliance, August 2002, Manila;
- School on Sustainability and Rural Reconstruction, 1-6 January 2003, Beijing.

In these exchanges, the resource persons or participants from China gave presentations and participated in dialogues. Requests for a better understanding of issues in China and for compiling the presentations have been made by many people outside China. In response to such requests, ARENA decided to put together a collection of papers that aim to cover various aspects of concern, giving emphasis to rural issues. But instead of simply putting together the presentations, we requested some of the resource persons and participants to recommend their writings in Chinese that lay out the complexities of the issues and tease out the various concerns. We also solicited a few papers from people who had not been in the ARENA exchanges, but their concerns give us a glimpse of a wider spectrum of issues confronting China today.

Much effort was subsequently put into the transcription of discussions or translation of the papers. Our heartfelt thanks are to the translators and transcribers for the wonderful job they did; their effort made it possible for exchanges to take place across barriers of language and culture.

Much more will need to be done for meaningful exchanges and dialogues to take place, and our effort here is minimal. However, notwithstanding all our shortcomings, we hope this is a modest starting point for joint endeavours in the search of alternatives that can lead to more creative, active and open connections among scholars, researchers and practitioners in the building of processes of mutual learning for better understanding of alternatives, effective in bringing changes to conditions of existence and mindsets that are essential to building our lives differently.

Last but not least, we would like to acknowledge the contributions of the writers, the roundtable participants, the ARENA Secretariat, and the many partners, volunteers, interns, and interpreters and funding institutions who have given a hand at different points of time to make the exchanges possible. We would like to specifically thank the following partner organizations for their invaluable input in the exchanges – Institute of Sociology of Chinese Academy of Social Sciences (CASS), China Social Services and Development Research Centre (CSD), Kerala People's Science Movement (KSSP).

LAU KIN CHI, HUANG PING  
March 2003

## Developmentalist Discourse and Representation of Rural China

LAU KIN CHI

MANY ACQUAINTANCES I have outside China, if they have ever seen a Chinese film, would probably have seen *Not One Less*. The film won the Golden Lion Award at the Venice Film Festival in 1999, after dramatic moves by the director Zhang Yimou withdrawing his submission to the Cannes Festival, claiming that he was unfairly subject to prejudices against Chinese films by the West.<sup>1</sup> It is intriguing whether the perceived failure to win at the Cannes or the actual winning at Venice speak of various versions of “orientalism” in the West or of “self-orientalism” of the director. Anyway, Zhang claims that the film is a “sub-documentary”, hence the expectation that viewers may take this to be a representation of rural life in China today. Interestingly enough, the film was also promoted for the purpose of fund-raising for Project Hope, the largest charity project in China, operated by the China Youth Development Foundation since 1989,<sup>2</sup> to sponsor rural children to go to school. Thus, the intended viewers were also the urban middle class in China.

According to Zhang, the film espouses “universal human sentiments”, inspiring people to do good. Such a claim works by turning some values defining humanity on the basis of a certain model of being human into original, universal values which are basis both for persuasion and for propagation. With this as the premise, questions and solutions are put forward unquestioningly in a global fashion. In *Not One Less*, poverty and the rural are seen to be identical, on the basis of the stereotypical representation of rural China as backward, i.e., lagging behind the stage of development of the “developed” countries. Hence, it is believed that

education is the remedy to break the fateful identity and give a future to the children; philanthropists may give money and material goods to ensure rural children go to school, and problems may be solved.

Of course, the real situation is far more complex, because the education we talk about here is the existing education system, ridden by competition, confirming a few as victors, condemning the majority as failures. For the urban elite (the “us”), the rural (the “them”) is uncultured, a force of darkness to be feared or avoided. Or, the difference between the rural and the urban is not presented as opposition, but as a not insuperable gap: the rural lacks something that the urban elite already possesses, but “we” can help “them” acquire it and “they” may approach “us” and may even one day become “us”. Here, the difference between the urban and the rural, and between the rich and the poor, is read as something lacking as well as threatening in “them”. Affirmation of “us” is made possible by the appropriation of “them”. “We” may be genuine in sympathizing with them, offering assistance to them, yet amidst the arousing of good intention and well meaning, there is also an unacknowledged stirring of disavowal – the “them” world reflects one’s own “poverty”, some lost value. Indeed, the constituting of “them” as lacking in what we possess is made possible by what we allow ourselves to forget and be blind to.

The film is illustrative of the arrogance of the “us” world. According to Zhang Yimou, the film should endeavour to present itself as crude, natural, plain, close to life, a “sub-documentary”. He told the screenwriter Shi Xiangsheng: “the effort is to present ‘crudeness’, ‘crudeness’ not only in the behaviour and language of the characters, but ‘crudeness’ also in the storyline”; “the film should capture the most natural, the most original thing, because only the most natural, the most original thing is touching”.<sup>3</sup> The allusion to the “crude reality” flavours “love” and “care” with a sense of “genuineness”, hence the power to move, even to transcend specific contexts, space and time, to become something universal and “eternal”, a shared sentiment that may be communicated among all humans.

How is the “genuineness” manufactured? All actors in the film were non-professionals; the teachers, students, village head, journalists, all of them played a role which matched their real life roles. The site of shooting was the Shuiquan Primary School situated in Shuiquan Village, Chicheng County, Hebei Province. The plot was simple and crude: Wei Minzhi, a 13-year old substitute teacher, goes to the city to look for Zhang Huike, a 9-year old runaway boy. After ups and downs, with the assistance of some urban folk, the problem is finally solved. The “genuineness” of emotions climaxes in the scene when Wei Minzhi, arranged to appear before the city TV camera, in front of tens of thousands of viewers, her tears flowing

freely, pours out her anxieties in the search for the boy, calling to the boy to come home.

Examined closely, the apparently “real and natural” scenes, persons and performances reveal themselves as being meticulously picked and carefully plotted. Shuiquan Primary School was picked from a few dozen schools in the county; situated on a yellow-earth hill at the edge of the village, it gives one a sense of isolation and desertion. The eighteen primary school students were selected from tens of thousands of rural kids. Wei Minzhi was selected from 20,000 middle school students, the selection taking two and a half months. On the day the TV scene was shot, the director manoeuvred by having everyone give a cold shoulder to the pampered young actress, she was confused about what was happening, she felt anxious about being wronged, then she was shown a pre-taped video of her parents instructing her to be good and obedient. Tears began to trickle down her cheeks, and the TV scene was shot. The “genuineness” and “crudeness” were fabricated with calculation.

When the film is marketed as a “sub-documentary”, what is mobilized is the habitual belief in the viewers that documentaries reflect the “reality”, so that at unawares, the viewers accept some habitual cognitive or affective modes as part of “reality”. The film, by phenomena that reflect the “reality”, constructs the figure of a rural teenage girl in a fashion that is actually detached from the world of the village and the peasants. While it appears to be leading viewers along with a concern for questions of poverty and education in rural China, the film in fact evades a direct confrontation with questions of poverty and education, but serves to naturalize ideas and imaginations with regard to poverty and education that play a part in shaping modern subjects divided and polarized among themselves. Contradictory, complex tensions are simplified into a straightforward storyline; the complex relationships implicated in questions of poverty and education are filtered and presented as unequivocal, abstract themes; images that appeal to the senses and feelings are articulated with abstract concepts that are habitually disseminated by words deployed in constructing the “reality” while triggering off habitual cognitive and affective modes.

In other words, everything works at calculated and habitually fixed levels. Nothing fundamentally undermines the habits and the world of the giver, the “us”, or interrogates the relationships between “our” habits, “our” world and “their” dilemmas. Because, in order to think these questions, one has to go beyond the rational and affective world one is accustomed to, and attempt to enter a territory of the Other which is beyond one’s control or manipulation.

Of course the film cannot be effective without the complicity of the viewers. If the viewers are moved by the narrative of the film, or if the viewers believe they are approaching the "reality" of rural China, then it is not only due to the deliberate guidance of the film, but also because the viewers entertain certain habitual ideas about the rural, about women, about poverty and backwardness, and such ideas echo the images and abstractions presented by the film.

Let us take a look at the central figure, Wei Minzhi, to see how it works when the image triggering affection is linked to abstract concepts. A rural teenager, arbitrarily drafted to serve as substitute teacher, goes to the city to look for a runaway pupil, but she comes upon one after another indifferent urban folk. She struggles on, though frustrated, but after the tearful appeal on TV, events take on a sharp turn towards the bright side. Empathy from the urban folk suddenly gushes forth, and with their enthusiasm, the boy is found, donations of money and boxes after boxes of coloured chalk are made, and two vans of TV crew escort the girl and the boy on a "triumphant" return to the village.

The girl is portrayed as highly determined and persevering with an unyielding spirit. However, with all her exertions, taking her to the limit, she seems to remain very much the same self, not in any significant way transformed by her hard won experience which only restores to her the power of her "natural" instinct as a woman. While her efforts are presented as somewhat blind, her perseverance is allowed to last long enough for the fortunate encounter to take place, so that the bitter suffering can finally be relieved and sweet joy be generously on the offer. Here is painted a happy encounter between the blind stubbornness and yet helplessness on her own in the figure of a rural teenage girl on the one hand, and the sympathetic and superior strength of urban potential residing in a cold sea of indifference in the figure of a male patriarch holding power and resources in his hand. It is no accident that a village girl is made to stand for a value characterized by stubbornness and helplessness, while a mature urban male in a position of power is made to stand for kindness and responsibility. It is also no accident that the accessibility to such a benevolent force is to be dependent upon chance encounter. It unwittingly betrays certain unequal relations prevailing in Chinese society, which the film seeks to cover up by portraying Wei Minzhi as unchanged by her unsettling experience, which is given a self-healing power at the end of a fairy-tale like journey.

The peasant figure of Wei Minzhi when she comes on stage is a combination of cultural inferiority of the traditional past and vulgarity of drive for money under the Reform era. Wei is substitute teacher not out

of any idealism for education, she is quite uneducated, she cannot do the sums, she cannot even sing well. Her initial stubbornness is to defend the 60 yuan (USD7.50) of wages and bonus – not one yuan less. To get the full sum, she must make sure that under her supervision, the pupils should not “get one less”. Rather than tasked as a teacher, she is tasked as a guard – locking inside the classroom the kids (assumed to be difficult and wild) – in order to hang on to the education quota.

The story continues with a diluting of her self interest and an extension of her role as a woman. She is destined to compensate for the shortcomings of other women: Zhang Huike gets lost in the city, but his mother is bed-ridden with illness and cannot fulfill her parenting role, while the relative in the city, with an age and role like a bigger sister, is indifferent and selfish. Hence, the plight of a helpless, vulnerable boy conjures the great maternal-like love from Wei Minzhi to go on the testing journey of search.

The change from selfishness to altruism in Wei Minzhi happens in ambivalence, which does not require any explanation because it is premised on a woman’s “natural” instinct and role. At the same time, Wei’s image continues to bear the imprint of the ignorance and idiocy of an imagined peasant/woman/juvenile. Her stubbornness is unreasonable, bullying, negative. In order to get her bus fare, she forces every school kid to empty their pocket. She takes pupils to unwanted labour moving bricks around in the brick factory, and compels the factory owner to submit to her moral righteousness and pay her a sum to get them go away. Thinking she has more than enough for her bus fare, she buys two coca-colas for all pupils to share a sip of this modern luxury item (coca-cola in the remote desolate village!). Having miscalculated and now short of the bus fare, she tries to cheat by taking a free ride. Spending the last notes she has on buying paper and ink, she writes search bills describing the boy, which are illegible and totally useless, and anyway never get posted up because they are blown away by the wind when she dozes off on the street. All her acts are presented as blunt and rash, but because she is totally unaware of her own limitations and the environment she is in, she demonstrates a fierceness to pursue her aims. The happy ending is the result of pure luck – she encounters the kindly TV station director.

The seeker for help has physical strength but no wisdom or knowledge. She is a young woman from poor rural China. Indeed, as Zhang Yimou said, the selling point of the film is the “crudeness” of the character, the language, the plot. Wei’s “crudeness” evokes certain fixed views and habitual cognitive and affective modes, and complies with conventional discrimination and prejudices. The pity that is evoked is the pity that the superior hand out to the “weak”: the giving from men to women, from

the adult to the young, from the city folk to the peasants, from the rich to the poor, from the literate to the ignorant, from the advanced regions and countries to the backward China. The giving is unilateral: its premise and its effect are the acknowledgement and acceptance of “gaps”, normalizing differential social relations. There is no possibility for opening up new relationships.

The characteristics of disadvantaged groups in the social hierarchy – the female, the young, the peasant, the poor, the illiterate – is that they are the binary opposite of the privileged groups. Gender prejudices serve to naturalize biological differences as gender differences, which in turn legitimize, by extension, other binary opposites, hence concealing the specific historical conditions and power relations that give rise to the differences and contradictions. The complex social relationships and realities in rural China today are concealed, leaving in the horizon only a primary school building on a desolate hill, and the helplessness and disorientation of a teenage girl solely shouldering the responsibility of keeping watch over all the pupils.

In April 2000, Phoenix TV stationed in Hong Kong presented a 30-minute documentary that it produced, entitled *Iron Pot and Clay Pot*. The theme is proximate to *Not One Less*, and the site, the Shangwan Village primary school in Shangwan Village, is also close to where *Not One Less* was shot, in the same Chicheng County. 19-year old female substitute teacher Jia Na and primary four male pupil Zhang Dawei are interviewed. Jia Na gives her views, without exaggeration and without self-debasement, about her work, the pupils’ situation, and rural education. Zhang Dawei’s father suffers an injury while working as a migrant worker in the city, so he is back home for convalescence. The family is indebted because of the expensive medicine, so Zhang Dawei will at any moment drop out from school. Interviewed when he is helping with farmwork after class, Zhang says his ambition is to go to university, but he also talks with maturity of his understanding of his family problems. The narrator puts in an aside: “children of the poor take up family responsibilities at an early age”. In contrast to the pale and abstract world of the kids in *Not One Less*, here is a portrayal of the state of living of the poor, of the mutual care among family members, of the reliance on one’s own hands for a living.

The camera takes in images of the broken classroom: no glass on the windows, only newspaper scraps blowing in the wind. The pupils bring to school from home their own desk and stool. The only property belonging to the school is a charcoal burner for lighting a fire to keep warm. Fearing that it would get lost, the pupils take turns to be on duty: dismantling the burner after school, bringing it home to keep for the night and then back

to school the next day. However, the brokenness of the classroom or the material lack does not give one any sense of pity or desolateness. On the contrary, a sense of vitality and dignity is conveyed with Jia Na leading pupils in reciting the Chinese textbook chapter *Iron Pot and Clay Pot*. The recital recurs in the documentary. The text is: the clay pot is ridiculed by the iron pot, saying that it breaks when it is bashed. But the clay pot says, we are born to hold things, not to bash each other. After changes of dynasties and epochs, the clay pot is unearthed from the ruins, still lustrous after cleaning.

The iron pot and the clay pot symbolize two different ways of relating to one another: one is the willing subject of modernization; the other, being dragged into the process of modernization, hence is contemporaneous with modernization, however does not share its spirit of relentless progress by subordinating others. The common figures of this difference are the urban and the rural, representing two different cultures and worlds. The iron pot culture is one of rival bashing, elimination of the weak; bragging of glorious conquests, fierce competition. The clay pot culture goes after not conquest of the Other, but self actualization; its eternal value lies in its capacity to hold things. Yet, it is consistently threatened to be smashed by the iron pot. Reciting a text that affirms the clay pot in a broken old classroom is obviously a deliberate attempt to dissolve the negative impact on one's psyche of discriminative differences between the urban and the rural, between the modern and the traditional. It is also an attempt to refuse to forget what the iron pot world seeks to turn a blind eye to – it seeks to forget and suppress the “refuse” of history in the name of progress, for the “refuse” as the Other of progress betrays the absurdity, madness and violence of the abstraction of progress that underlies its desires and visions.

The loud recital echoing in the small world of the rural school shows that the pupils are educated to defend their dignity and their belief that the clay pot culture is eternal. However, the documentary does not conceal the pressures and tensions exerted by the iron pot world. Outside the classroom, in the real world, there are inevitably aspirations for the iron pot world: Zhang Dawei's younger sister does not like school, but enjoys drawing the figure of a popular TV star; Zhang Dawei's classmate cunningly evades a collective duty of collecting firewood, and wants to find a future in the city. But at the same time, the chanting of the text reminds one that even if one forgets what the iron pot wants one to forget, problems cannot be resolved, or the fate of poverty be reversed, because the success that the iron pot goes after is premised on the construction of hegemonic normative criteria, that is, the logic of the iron pot is the logic of

polarization, and the success eulogized by the iron pot precisely speaks of its forgetfulness and blindness.

If what the clay pot world refuses to forget is self respect, dignity and mutual support of a certain traditional rural culture, it is however confronted with the threat of being smashed to pieces and swept to the side in the reality infiltrated and impacted by the iron pot material "civilization" and individualist values. It can be said that under the developmentalist discursive hegemony of modernization and science and technology, the peasants in their rural world are the clay pot, symbolizing backwardness, intransigence and ignorance, hence naturally poor, waiting to be cultured into modern citizens and enhanced by "education". That the peasants are sacrificed in the process of modernization seems non-debatable, for this is a path destined by the great wheel of history.

Under this discursive hegemony, the "crudeness" articulated by *Not One Less* appears to be the "crudeness" of the clay pot world, a virtue, and an advantage (otherwise the International Award cannot be won). Yet, the clay pot is obviously inferior. It confesses to its own poverty and ignorance, its inability to change its own situation, its vulnerability of being smashed by the iron pot. It cannot become the iron pot, but it embraces the values of civilization and progress of the iron pot, no matter how incongruent the coloured chalk finds itself in the broken rural classroom. In the film, the clay pot that cannot possibly stand up in opposition to the iron pot is the poor countryside, the ignorant woman, the backward China. The only resort the clay pot has is to obstinately seek pity and aid from others.

Zhang Yimou's appeal in the name of the Other through piling up abstract concepts is a colonialist discourse of the iron pot appropriating the clay pot for the consolidation of its own identity. The strength and genuineness of the Other divorced from the concrete world of the peasants are not organically linked to the clay pot world. Though the film is apparently about issues of poverty and education, it in fact evades the issues. The abstract understanding of poverty is made possible by a global understanding that represents poverty as a general problem, with those affected being subjected to a problem that is the same for all. Thus poverty is generally described as lacking in means and resources accessible to others who are above poverty, while the general solution to the poverty problem is education, implying it is essentially a lack in the person's capacity that education can remedy. This sort of common sense view of poverty is perpetuated by binary oppositions underlying the mentality shaped by the ideologies and institutions of modernization. The most obvious binary oppositions are the pitting of the modern against the

traditional, progress against backwardness, reason against unreason, science against superstition.

*Not One Less* thus does not pursue these questions: what kind of complex relationships and institutions dominate the world of poverty? How do the "common people" live and nourish their strength in such dominant relationships and institutions? How can we lay aside our habitual abstract ideas of poverty and education, look at the question of subjectivity from the mode of living of the poor, and rethink the relationship between the existing education system and the logic of polarization? How can we reflect on our own positioning, interrogate the self righteousness of the urban elite, and learn to approach the Other and enter the world of uncertainty and ambivalence?

The papers collected in this volume offer a reading of various dimensions of life in China under the Reform and Opening up Policy in the last quarter of a century. The writers are scholars with long years of engagement in the related fields as practitioners or researchers. Their reading, however, is much more than a sympathetic or well-informed reading. They are disturbed by the complacency with regard to the seemingly "self-evident", abstract notion of development; such complacency allows the underlying associations and references of the abstract notion of development to stay in a safe distance away from any critical reflection. They are concerned with very specific problems they themselves experienced while working together with people confronted by structurally difficult situations in their daily lives. Whatever views they may offer, they have no intention to pretend to take on the obligation to take into consideration things globally. That is not where their hearts lie. They cannot do otherwise but stand together with the people who seek their help or confide to them their uncalled for sufferings, for these people not only imprint their stories on their hearts, but actually shape them.

An ethico-political concern underlies their attention to the issues. The identification with the downtrodden, the subjugated, the powerless, the disadvantaged is the sustaining force of their critical energy. They are moved by a sense of urgency in the face of the problems they have come to grasp and in their understanding of the miserable plights the common people, particularly those in and from the rural areas, are driven into. In the face of the monstrous historical machine of modernization, millions of families are pushed into economic conditions of existence cut off from the rest of the people who are able to benefit one way or the other from the drastic social changes brought about by processes of modernization in China under the increasingly encroaching influence of globalization.

To these families, their increasing isolation from support networks, and their increasing embeddedness in and dependency on a society that offers practically no lines of mobility for them to come away from their plights, represent such a bleak future that even the courageous ones would find it easier to entertain no hope than to put on a hopeful bold face.

In our critique of the naturalization of the course of development as modernization, we are thus often confronted with situations that may appear to be hopeless, and with people who embody hopelessness in themselves. This constitutes our concern. Such concern is certainly a response to the call of ethical responsibility, but there is more to it, there is something stirring within us that no words can be adequate to it. It is perhaps appropriate to borrow from Irving Wohlfarth in order to find words that can be put together in such a way as to be in proximity to the flame in our hearts. In his discussion of Walter Benjamin's use of the *chiffonnier* (rag-picker) as the figure of the historian, he makes the observation that Benjamin, in line with Nietzsche, sees in the *chiffonnier*, the most provocative figure of human poverty, "signs of a more subversive potential" to be redeemed: "Such is, however, the logic of redemption that – pace Nietzsche – only the deformed can remedy the world's deformity. 'Only for the sake of the hopeless is hope given to us.'"<sup>4</sup>

In this connection, it may be useful to take Benjamin's powerful pithy saying as advising that it is through those who are left behind, marginalized or excluded that we can best grasp the mentality of othering that normalizes the marginalization and exclusion as well as the violent nature and the excessive cost of the pursuit of the successful. More importantly, the grasping of the mentality of othering can also open our eyes, allowing us to glimpse, from the refuse, the rejected and the insignificant, gestures suggesting different values and logic for relating to one another and to nature.

It is therefore also necessary for us to give attention to the local specificities and complex relationships so as not to be easily swayed by the binary oppositions underlying the mentality of othering shaped by modernization. Certainly, the forces that account for situations of poverty are global in character, particularly under the intruding influence of globalization. However, these forces can only operate via institutions and people inhabiting specific localities. This gives the problem of poverty specificities that cannot be addressed in any proposed general solution. As long as prevailing common sense is congealed in binary oppositions that shape the modern subject, the concrete situation of poverty as a result of the complex intertwining relationships between global forces and local institutions and local people cannot be usefully grasped. Yet without

understanding the specific complex relations involved, meaningful participation by the people themselves to deal with the problems in their specificities is not possible.

It is indeed our responsibility to redeem gestures that can disrupt the representational closure, operated by accepted truths produced and framed by a system of binary oppositions, which is responsible for the congealing of the mentality of othering. The papers here may be dealing with the institutional and ideological constraints giving rise to poverty of spiritual and material being. However, it is best not to take them as giving a descriptive representation of the present as objective reality. Rather, as the critique of the treatment of poverty in *Not One Less* suggests, the efforts here can be made more useful if they are taken as attempts to implicate ourselves in the operation of the social machine which keeps turning out forms of congealed mentality that play into the hands of forces that shape the lives of the common people in increasingly adverse ways. Such efforts are also an invitation for us to join hands for the making of a difference of ourselves and of one another.

#### NOTES

1. On receiving pre-selection comments by Cannes officials and knowing that the film was not included in the "official selection", Zhang Yimou published a letter in the *Beijing Youth Daily*, 20 April 1999, withdrawing *Not One Less*: "It seems that in the West, there are always two 'political criteria' when interpreting Chinese films: 'anti-government' or 'propaganda'. This is unacceptable."
2. The China Youth Development Foundation was organized primarily by the Communist Youth League of China to operate Project Hope.
3. See Shi Xiangsheng: "Coming close to Zhang Yimou", in *Not One Less*, Beijing: Chinese Film Press, 1999, pp.15, 17.
4. Irving Wohlfarth: "Et Cetera? The Historian as Chiffonnier", in *New German Critique*, No.39, Fall 1986, p.147.

# China: Rural Problems and Uneven Development in Recent Years\*

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CHINA ENTERED the "Reform" in the late 1970s and early 1980s. This overwhelming process of social change originated in the rural areas, and what is more significant, on the initiative of Chinese peasants. The "contract system with remuneration linked to output which came to be known as the Household Responsibility System in the 1980s (renamed Reallocation of Arable Land to Household several years later), was hailed as a "marvellous innovation by Chinese peasants." It was in fact first practised by some small production units in Anhui and Sichuan provinces without the permission of higher authorities. This agricultural reform inspired peasants' initiative and brought them great benefits from consequent bumper harvests. To quote some peasants, "all that is left after fulfilling the state and collective quota belongs to yourself." We can say without any exaggeration that peasants were at the time in a state of exultation that had not been seen for years.

Things began to change in the mid 1980s as the high enthusiasm inspired by the new contract system became lukewarm and the growth rate of per capita income in rural areas took a significant dive.<sup>1</sup> Another contributing factor is the rapid rise of the so-called township and village enterprises (TVEs). Since it was difficult for peasants to look for off-farm jobs in urban areas, they had to establish their own enterprises in their own villages or townships. As early as the 1970s, peasants in southern China began to raise funds among themselves to establish small workshops, which later became TVEs of considerable scale. This phenomenon was later considered as "another marvellous innovation by

Chinese peasants." In the major part of 1980s, these enterprises developed rapidly, absorbing nearly 10 million in terms of labour force annually.<sup>2</sup> These TVEs have been praised as wonderful practices with Chinese characteristics. However, the great success of the TVEs is not without high social and environmental costs. Unfortunately, these costs came to be fully recognized by us only after so many years.

## I

IN 1992, Deng Xiaoping embarked on an inspection tour of Southern China. In what may be considered his swan song, and also seen by many as the most important landmark since the Reform began in 1979, he delivered a series of speeches that gave a significant push on China's drive for market reforms. After these speeches, the whole nation was seen to move in full swing towards market economy. Moreover, it was also the signal for a new discourse for "political correctness".

Since then, enormous economic projects and constructions began to spread over the coastal areas and big cities such as Beijing and Shanghai, creating a great demand for labour force. For the first time since the Great Leap Forward in 1958, Chinese peasants had a great opportunity to move into cities and find jobs there. In addition, the food coupon system that had limited citizens' mobility silently disappeared. In its stead a personal ID Card system was established. In other words, any young peasant, with some cash and an ID Card, can go to cities for temporary or seasonal off-farm work if he/she wants and can find such work. Again, for a long time, we failed to understand the significance of this "silent revolution."

At first, the outflow of peasants into the cities was the result of the huge number of surplus labour in the countryside. After the very limited arable land was divided and contracted to rural households, it was only natural for redundant workforce to go out to seek off-farm opportunities, as farming was always a job with limited income and little marginal interests. Also in economic terms, it made a great difference if those households in villages had members working in cities, and these differences are the most obvious on occasions such as wedding, birthday party, house building, etc. The biggest outflow of peasants into big cities started in provinces that have more population and less arable land such as Zhejiang, Sichuan, Anhui and Henan.<sup>3</sup>

The outflow of young peasants helps the redistribution of wealth and opportunities. In the mid 1990s, my colleagues and I conducted a research on outgoing peasants in some villages in China. One of them was located

in a very poor county in Sichuan province. The village's revenue was below 80 million RMB yuan. When we came back from the village to the county town, we learned from the local government that the income in cash earned by local labourers working in cities and remitted back via the post office during the first 10 months of the year totalled as much as 350 million RMB yuan!<sup>4</sup> At the time, the term "outpouring labourers" became a frequent subject in the media, and researchers in most cases studied this issue in terms of order and security in urban areas. Many people from upper classes in cities often describe these labourers as "blind influx" (a derogative term in Chinese). It seems that we seldom think of this problem as one concerned with rural development, since we are all used to live with the long lasting fact that China has more population and less arable land.

The floating populations in large scale are directly linked with the economic development pushed by the Reform and Opening-up Policy. They are also facilitated by specific measures in implementing the structural reform. For example, the practice of "food coupon"<sup>5</sup> disappeared as a result of great increase in grain output, thanks to the new Household Responsibility/Contract System. Another example is the establishment of personal ID Card system, which to some extent replaced the "residence registration system." These two policies institutionally enabled peasants to seek off-farm opportunities in cities. The old problem of "huge population with little arable land" began to ease. And more and more young peasants leave their home village to "try to survive" in coastal areas and big cities like Beijing and Shanghai.<sup>6</sup>

In the ever-increasing floating population, more than 90 percent are rural labourers and their relatives seeking non-agricultural opportunities in cities and towns. By the end of 2000, mainland China recorded a total population of 1.25 billion, over 800 million of them live in the countryside, where the labour force totalled near 500 (498) millions. About 360 millions of this workforce engage in traditional agricultural production, and only 140 million work in non-agricultural production. However, although the proportion is small, the actual migrating population amounts to about 80 millions, who "float" in/near cities and towns. Since 1997, partly due to the Asian Crisis<sup>7</sup> and partly to the re-structuring industrial system in China, on many occasions they cannot even find temporary jobs with low payment, few welfare benefits and safety guarantees!

Moreover, with present agricultural productivity and market demand, the traditional agricultural production needs only about 150 million full-time peasants. That means 210 of the 360 million total workforce currently staying in the rural areas can be considered as potential "surplus labour

force", yet only about one third of them are currently "floating" to cities. (See table 1 and table 2).

**Table 1: Population composition** (unit: 10,000)

Year	Population by year-end	Total in cities and towns		Total in rural areas	
		Population	(%)	Population	(%)
1978	96259	17245	17.92	79014	82.08
1985	105851	25094	23.71	80757	76.29
1990	114333	30191	26.41	84142	73.59
1995	121121	35174	29.04	85947	70.96
1999	125909	38892	30.89	87017	69.11
2000	126583	45844	36.22	80739	63.78

Source: *China Statistics Year Book, 2001*, Beijing, China Statistics Press, 2002.

**Table 2: Employment** (unit: 10,000)

	1996	1997	1998	1999	2000
Total no. of employees	68850	69600	69957	70586	71150
In cities and towns	19815	20207	20678	21014	21274
In rural areas	49035	49393	49279	49572	49876

Source: *China Statistics Year Book, 2001*, Beijing, China Statistics Press, 2002.

## II

DRAMATIC CHANGES have taken place after 1996. On the one hand, we can say that the living standard in big cities in China at least exceeds the "comparatively well-off" level both by international standards and by ordinary people's observations or experiences. These cities are now competing in the race to "realize modernization ahead of the schedule".<sup>8</sup> On the other hand, the market prices for peasants to sell their agricultural products have dropped over 30 percent, and slow growth rate of per capita income from agricultural production has been recorded in consecutive years. In Mid West China, most of the grain-producing areas have seen decreases of income in years from agricultural production despite increases in production output.<sup>9</sup> In contrast to the dazzling race among metropolises to "catch up with the World", rural communities have deteriorated both in scale and in content. Numerous village authorities are in heavy debt. Social order, infrastructure construction, irrigation projects, public health, and basic education – all have experienced downturns.<sup>10</sup> Although China did not encounter financial crisis as Southeast Asian countries did in 1997, it did experience widespread unemployment in the cities since then. Many state-owned enterprises (SOEs) went bankrupt and dozens of

millions of employees from SOEs were laid off. At the same time, several million young labourers entered workforce every year, adding pressure on municipal governments to set up new policies limiting the inflow of peasants. Rural labourers are not allowed to work in many professions in cities since the late 1990s. Also, big cities such as Beijing and Shanghai frequently drive out "unqualified outsiders" during or before big festivals and national holidays. During the same period, TVEs were undergoing "ownership transition" from collective to private or share-holding ownership, resulting in another wave of dumping employees. All these factors have kept the rush unabated. Not only peasants in big agricultural provinces such as Sichuan, Anhui and Hunan, but also those in widely-considered as "conservative" and "backward" provinces such as Gansu, Guizhou and Shaanxi, joined the mobile population pouring into cities. These labourers are not all young in age and are not necessarily "surplus workforce".<sup>11</sup> There appeared a paradoxical phenomenon in which in rural China limited arable land is increasingly deserted by out-going peasants and their entire families!

This phenomenon did not occur in the past decades and came as an unexpected consequence of mercerisation. For years, China had been burdened by a shortage of food supply. Famines were always looming large. Since the establishment of new Household Responsibility/ Contract System (and later Land Reallocation to Household System) in rural areas, most of us took assumptions that peasants had finally a systematized guarantee for their enthusiasm in agricultural production, and that rural problems would disappear, or at most, be technical, including whether fertilizers and chemicals can be delivered to peasants in time, whether the prices for them to sell are reasonable, or how to promote advanced science and applied technologies. Later, we came to attend to issues of how to "teach" peasants to adapt to market economy, such as rational calculation, or at least not to lose interest in trade, how to become better off. More recently, we were concerned with how to raise their income, to reduce taxes on them, and to adjust industrial structure, etc.

In recent years, the mass media have been talking about how to raise agricultural production, to reduce peasants' burden, and to adjust the industrial structure in rural areas, to such an extent that these talks have become repetitious and attracted less and less audience. It is however in these recent years that rural development has further deteriorated. Some policy-makers even asserted that "unstable foundations (referring to income for rural people and finance for villages and townships) will cause tragic earthquakes." Some researchers even criticized that "while it is always claimed that every possibility has been considered to increase peasants' earnings, not even a single possibility has in fact been materialized."

Independent thinkers have recognized much earlier that modern Chinese history proves that the social problems in China in the final analysis are mainly problems of land, agriculture and peasants. No need to mention Dr. Sun Yat-san and Mao Zedong who started their careers by addressing the problems of peasants, or to remind ourselves that the late premier Zhou Enlai who used to warn people that the most important tasks for Chinese leadership were to provide food for hundreds of millions and to guard against flood and famine.<sup>12</sup> In the late 1980s, when inflation appeared to be a major problem for China, the late Chinese leader Deng Xiaoping met with some top government officials in charge of rural development. In the meeting, Deng mentioned in particular a paper by a "middle-aged scholar" who warned that if the country were to encounter disastrous problems, they would come from the rural areas, and if such rural problems ever occurred, they would be really long-lasting disasters!

Now we finally recognize that "peasants are so poor, the countryside is so arduous." This quotation comes from a letter to the top leadership by a young rural official who worked in a township for more than 15 years, only to find him now unemployed! The quotation was used as the title of the cover story on the first issue of *Dushu* (2001) written by the same "middle-aged scholar" mentioned by Deng a decade before.

In the years after the end of the Cold War, almost all of us followed the ideas of neo-liberal economics in considering structural adjustment, regardless of what -isms or what -ists we labelled ourselves. No matter how inaccurate we may understand the neo-liberal economics, basically we believed that in the cities, reduction of enterprise employees or clearer distinction of property rights can guarantee efficiency first, and then efficiency will ensure tax payment to the government, and only then will the government be able to allocate funds for education, health, pension, unemployment aid and other social welfare or social security schemes; in villages, setting up the new Household Responsibility/Contract System was only a first step that should be followed by an even more important step of re-distributing land to every household, and further, to privatise the arable land, and only after the privatisation of the land can the expected result, the concentration or merging of small pieces of land and modernization of farming, be possible, and only then can peasants become more competitive in the global market economy.

These ideas do not seriously take into account the historical and specific contexts for China. We also have not paid enough attention to the fact that even the development of the early industrial countries in Europe and America has never been as simple as "rational choice". In addition, these countries now all appear to advocate the ideal of minimal

government and great society, but it is these countries which are the most powerful nation-states and nation-state groups with the strongest administrative military forces in the world. In Europe and America, the present level of social welfare, security, legal and taxation systems would be unimaginable if Europe had not had a long history of colonization and exploitation of other countries, migration of "surplus labour" to other territories, and if America had not massacred native Americans, imported African slaves and benefited from the two World Wars, – just to mention only a few common sense views here. Other factors that have contributed to the prosperity of these countries include persistent social movements of workers, women, students, and people with different ethnical backgrounds, and the corresponding policy adjustments in these countries. Even if these factors were all nonexistent or not important at all, it may take a long period of time to make the rationale of neo-liberal economics to prevail. It took several hundred years for Europe and more than two centuries for America to develop into the present level, in terms of both economy and social security.

Then what about China? It has long been recognized by many people that a paramount factor that holds back the socio-economic development of China is the fact that China has a huge population with little arable land. In recent years, Chinese government officials like to use the phrase "market economy with Chinese characteristics". When explaining what are the Chinese characteristics, people like Deng Xiaoping – as well as Mao – would usually refer to "enormous population with very weak bases." Of course this is a common knowledge and can hardly be claimed as a discovery. Sometimes it is too common to remember!

It is easy to complain about social diseases, criticize social policies, and further condemn authorities, it is however difficult for us to be self-reflexive and self-critical. Here I am not talking about politicians but about ourselves as academic researchers. For myself, I did not read any books by Philip Huang until 10 years ago. He studied in detail the problem of agricultural revolution in China caused by overpopulation and insufficient arable land. His research is indeed innovative. He did not simplistically imitate any established paradigms but went deep into the very Chinese social history and discovered why Chinese peasants did not follow the seemingly obvious "rational rules" that everyone can easily take for granted.<sup>13</sup>

Since the mid 1980s, Wen Tiejun conducted in-depth investigations in rural China. His article entitled "Reflections at the Turn of the Century on 'Rural Issues in Three Dimensions'" (*Dushu*, No. 12, 1999) was the first of several articles he published in the Journal. Some writers and readers

of earlier generations described the article as one that "had not been seen for years, which left us sleepless."

Wen discusses in his recent articles the inescapability of the historical conditions manifest in overpopulation and insufficient land: per capita arable land amounts to only 0.4 hectare in China. In more than 300 countries in southern China, the figure is much lower than the average. Although peasants in northern China have larger pieces of land, they are more often the victims of drought. Wen explains that there had been frequent uprisings of peasants in Chinese history, most of which were caused by a fundamental conflict that held back the social development: a conflict of overpopulation and scarce natural resources, especially water and land. Severe imbalance between population and resources was in fact behind almost all natural disasters and human tragedies such as peasant upheavals, which appeared as being triggered by isolated incidents.<sup>14</sup>

Some people, including some of my serious colleagues and myself, have doubted or challenged his conclusion: is it a fact that the amount of per capita land in China is much higher than in Japan? Wen replied with the statistics that reveal to the effect that the proportion of agricultural population to arable land in Japan is three times higher than that in China. Less than 5 percent of the whole population in Japan is engaged in farming, while the percentage in China amounts to nearly 70 percent. Another example is India, which has a population catching up with China but its total area of land is smaller. However, the proportion of arable land to the whole land of India is much higher than in China, and it has much better water resources. Lastly, in both Japan and South Korea, per capita land enjoyed by the labourers is several times more than that in China. We are still one of the countries in the world that have the least arable land in proportion to the labour force. In addition, water resources in China are also very scarce and unevenly allocated.

My immature opinion (which may again be outdated or "in defence of something old") is: no matter how important the internal structure and management are in the case of Japan and the Asian Tigers, we cannot talk about "Confucian capitalism" in a context devoid of their specific historical conditions, especially as regards the geo-political and military protection and economic-technique aid they receive from the USA. "To match with the advanced" can be politically correct, but we have to consider whether the successful experiences are comparable to us. There is one neighbouring country, India, which we do not like to compare ourselves with, but which has basically identical features to China: India gained independence in the same period of time as China proclaimed the establishment of the PRC; it has more population and less land; its

population is based on farming, etc. If we are careful enough, we cannot ignore a basic fact: although India has developed under the Parliament-democracy ever since its Independence, India's economy has not "taken off" yet.<sup>15</sup> In reality, whatever "-isms" we advocate, we cannot escape the specific historical conditions and neglect the social-economic constraints such as overpopulation and insufficient land in countries like China, India, Indonesia, Brazil and many countries in Africa.

### III

THE LATEST CENSUS reveals that among a population of nearly 1.3 billion in mainland China, 800 millions are "rural residents". Not accounting for those who have already moved into small towns, there are still about 800 million rural population in China. The present food demand and level of agricultural productivity should need only 150 million workforce. In other words, at least another 150 million labourers have to be diverted into the cities. If we consider the number of their relatives, the figure will be close to 300 millions, or over 450 millions in 20 years if we add the number of new generations.

It is now unrealistic to imitate the earlier pattern of development in which undeveloped societies or colonized territories were available for absorbing "surplus" workforce. Even if we want to go abroad, very few people can succeed. Here we are not talking about a few hundreds, thousands, nor millions or tens of millions, but hundreds of millions! Are they really bound to float without residence places and families? Where can they go?

Since the end of the 1950s, China's population policy and administration system in urban and rural areas have been based on permanent residence registration system, which fixes people's identity to the places where they register their residence. Government budgets, infrastructure, social security and welfare benefits, public facilities such as schools, hospitals, residence houses, water and power supply – all are planned according to local "permanent residence statistics" without considering the mobile population.

The social and economic development in the last two decades renders the disadvantages of the existing residence registration system all the more obvious. Although in many cities the number of outsiders constitute a significant proportion to permanent residents, in some places even larger than the local population,<sup>16</sup> with respect to municipal administrative system and social security and welfare system, these outsiders are still not attended

by the local policy makers when they make decisions. In areas where workforce demand is greater, mobile people are accepted only as "labourers." In many big cities, they often face the possibility of being driven out, especially during national holidays such as National Day, Spring Festival. They are not included in local census and economic statistics.

As the problem of the mobile population is becoming more serious, and as the mass media frequently expose cases of violation of these people's legal and social rights, local governments, especially those which are in great demand of workforce, begin to take a pragmatic attitude. For the sake of local economic development and social order, local authorities set up new policies to accept, and to certain extent, protect, the outsiders.

At the same time, the central government has also become more and more concerned with the problem of floating population, modified some policies and taken some corresponding measures. For example, in March 2001, the Central Government decided to extend the reform on small town domicile control, eliminating their residence quota, payment for residence registration and limitation on residence length. At the end of 2001, the Central Government compiled a new five-year plan, according to which the government is going to unify the national labour market within five years, eliminate limitation on reasonable flow of workforce, and establish employment registration and social security systems. These plans are of great significance for reforming the old administrative system that separates urban areas from rural areas, and for improving the social status of the floating population.

However, the implementation of the new policies involves compromise of different interests resulting in conflicts between local and central governments and between insiders and outsiders. Local authorities therefore have laid down various constraints for outsiders to live in cities. For example, they may be required to invest a certain amount of capital, or to buy a big house, to have certain qualifications in terms of their education, etc.<sup>17</sup> Social gaps in terms of region, profession, sector, and income also tend to aggravate the problem.

The question is: in the coming two decades or so, the economic development measured by GDP will not be as fast as in the last two decades due to the slow down of the momentum and limits of resources. The industrial restructuring in urban areas will also cause additional unemployment and layoffs. By the end of June 2001, the registered unemployment in urban areas reached a record high of over 6.18 million, in which over 53 percent are under the age of 35.

From 1980 to 2000, the Chinese government focused on economic growth measured in particular by GDP and per capita income.

"Development is the number-one rationale" is the consensus of social ideology in the last two decades in China. Researchers and government departments became increasingly concerned with the employment problem in recent years, however. People recognized that the increase of the overall GDP or per capita income is not necessarily linked to the increase in employment. On the contrary, sometimes, it is necessary to lay off workers in order to promote productivity or/and efficiency.

Now, there are over 15 millions of fresh labour force every year, most of which are from rural areas. In many big cities, inflowing labourers from rural areas are in fierce competition with urban laid-off labourers. By the end of September 2001, total employees in cities and towns decreased (by 4.84 millions compared with that of the last year) to 113.67 millions. Zhao Xiao, a researcher from China Economic Research Center, Beijing University, estimates that in China there are 197 million people in search of employment. Supposing China will be able to maintain an annual economic growth rate of 8 percent, the market demand for fresh labourers will be around 8 million. That means there will still be 189 million unemployed, or one quarter of the total workforce. There is no doubt that in the coming decade, unemployment will be a top social and economic problem, among many others, that China has to face.

Against such a background, issues of privatisation of arable land, mass production and large-scaled farming become tasks that sound so easy to talk about but so difficult to deal with.

These issues are only repetitions of the so-called "common sense" based on development patterns in the "West". Why did not our predecessors have such a common sense and did not even think of land privatisation and large-scale farming?

Wen Tiejun suggests that in rural China, the basic conditions for land privatisation do not exist because the government cannot provide social security and social benefits to 800 million rural population. In fact, it is the limited arable land that provides peasants with basic means of survival. Wen explains: "farmland will not be privatised until the government could provide peasants with medical care, employment, insurance, education, etc." My further question will be: for hundreds of millions who live in rural areas, will the provision of social security be too luxurious? When farming of scale is realized, numerous peasants may be without any security, and it is impossible for them to open colonies or a "new continent," then where can they turn to?

There are other factors that restrict rural development in China. One of them is that the marginal interests from traditional agricultural production are low. Starting from the early 1950s, China practiced scissors

prices for agricultural products in order to build up as quickly as possible an independent industrial system in this agriculture-based country. The essence of this practice is to squeeze surplus labour and products from agriculture for the sake of primitive capital accumulation. Under the circumstances, this practice was to a certain extent a choice of the lesser evil. However, the situation has not changed for decades and resulted in serious but unintended consequences. Now agricultural production in China stands for about 15 percent of its GDP, but the rural labour force constitutes 50 percent of the total workforce! It indicates agricultural productivity in China is very low. Rural labourers of new generations clearly recognize the fact that they can earn more income than growing crops in the countryside, even if that means they have to endure more hardship and humiliation in the cities.

Under the condition of overpopulation and insufficient arable land, marginal interests cannot be high. On the other hand, land privatisation or expansion of farmland is not easy. This situation leads to a dilemma. In the past, Chinese peasants were satisfied with making some extra cash income by doing additional work off their home place. Now, the market economy, commercialisation and fast delivery of information have educated the new generations in rural areas. Through a nation-wide television broadcast network, a governmental program for more than a decade, rural youths realize that the outside world is "so wonderful" that only "fools will remain in poor rural areas."

Here the point is agricultural production cannot sustain itself as peasants are no longer content with their low income from agriculture, and as in many places funds for agricultural production have to be obtained from non-agricultural activities.

Behind this change are the sharp differences of income distribution in China between urban and rural areas and among different regions, various sectors. When agricultural reform first started in the late 1970s, per capita income of residents in urban areas was nearly three times as high as that in rural areas. In the early years of the 1980s, the gap was narrowed to less than two times thanks to the newly introduced Household Responsibility/ Contract System. However, entering the 1990s, the gap again approached the earlier level and remains as it is since then. Although in general we can say rural China has undergone very dramatic changes since the late 1970s, the fact is by the end of 2000 per capita income of rural residents amounts to only 2,253 yuan. In contrast, discretionary income of urban residents amounted to over 6,200 yuan. By the same year, Engel's Coefficient for urban families decreased by 39 percent, but in rural areas it remained at nearly 50 percent. (See table 3.)

**Table 3: Per capita income of urban and rural residents and Engel's coefficient**

Year	Rural household net income		Urban household discretionary income		Rural area	Urban area
	Absolute value (yuan)	Coefficient (1978=100)	Absolute value (yuan)	Coefficient (1978=100)	Engel's coefficient (%)	Engel's coefficient (%)
1978	133.6	100.0	343.4	100.0	67.7	57.5
1985	397.6	268.9	739.1	160.4	57.8	53.3
1990	686.3	311.2	1510.2	198.1	58.8	54.2
1995	1577.7	383.7	4283.0	290.3	58.6	49.9
1999	2210.3	473.5	5854.0	360.6	52.6	41.9
2000	2253.4	483.5	6280.0	383.7	49.1	39.2

Source: *China Statistics Year Book*, Beijing, China Statistics Press, 2002.

**Table 4: Per capita net income in rural areas (in yuan)**

Item	1985	1990	1995	1999	2000
Total net income	397.60	686.31	1577.74	2210.34	2253.42
from agricultural production	202.10	344.59	799.44	918.27	833.93
from plantation	191.46	330.11	775.12	882.09	783.64
from forestation	6.16	7.53	13.52	21.58	22.44
from livestock farming	51.96	96.81	127.81	174.30	207.35
from fishery	3.59	7.11	15.69	24.80	26.95

Source: *China Statistics Year Book*, Beijing, China Statistics Press, 2002.

It should be pointed out that rural per capita income includes earnings from non-agricultural activities. Of 2,253 yuan of the average income in 2000, only 834 yuan came from agricultural production (783 from crop farming), compared to 918 yuan (882 yuan) in 1999. (See table 4.) It is reported that during the 1990s, the proportion of expense to income in rural per capita income remained basically unchanged, indicating a fact that hardly any is left after basic expenses. (See table 5.)

A survey conducted last year in southern China by a group of researchers from the Chinese Academy of Social Sciences indicates that, although the central government has in recent years made great efforts in "reducing peasants' financial burden," village authorities who are in heavy debt have to collect more from peasants.<sup>18</sup>

My own research in recent years also indicates serious problems of medical care in rural China. While the growth rate of income from agricultural production has slowed down in recent years, peasants' routine medical expenses have increased rapidly. In many rural areas, medical treatment and prevention are managed separately and there is a tendency to first commercialise medication.<sup>19</sup> Many peasants cannot afford to go to clinics, let alone hospitals, which are much more expensive and further away from villages. Curing of sickness has dragged many rural families into heavy debt.<sup>20</sup>

**Table 5: Basic figures about rural households (in yuan)**

Items	1990	1995	1999	2000
Number of households surveyed	<b>66960</b>	<b>67340</b>	<b>67430</b>	<b>68116</b>
Permanent residents	321429	301878	286348	286162
Permanent residents per household	4.80	4.48	4.25	4.20
Per capita annual expenses	<b>639.06</b>	<b>1545.81</b>	<b>1917.23</b>	<b>2140.37</b>
Household production cost	162.90	454.74	470.73	544.49
Purchase of fixed production asset	20.46	62.32	57.63	63.91
Tax payments	33.37	76.96	93.06	89.81
Family running cost	374.74	859.43	1144.61	1284.74
Transferring and property cost	47.59	92.36	151.20	157.42
Net per capita annual income	<b>686.31</b>	<b>1577.74</b>	<b>2210.34</b>	<b>2253.42</b>
Income from salary	138.80	353.70	630.26	702.30
Net income from family business	518.55	1125.79	1448.36	1427.27
Income from property		40.98	31.55	45.04
Income from transfer	28.96	57.27	100.17	78.81

Source? *China Statistics Year Book*, Beijing, China Statistics Press 2002

#### IV

ALL THE ABOVE-MENTIONED difficulties turned out to be the main motivation behind the outflow of rural labourers into cities in the 1990s.

The challenge rural China now faces is: very shortly, there will be greater outflow of labourers – “surplus” or not – in the wake of China entering WTO and with the further weakening of rural economic and financial situation. Concurrently, in urban areas there will be more jobless people, making it more difficult for rural labourers to compete for jobs in cities. The widening gap between rural and urban areas in terms of income, education, health, welfare and social securities further pushes such an outflow. I am not denying the fact that in the last two decades China has achieved remarkable success thanks to the Reform. However, the problem is where China should be heading in the coming 10 to 20 years: to try to maintain sustainable growth in both urban and rural areas, or to allow an uneven development? If we further launch a nationwide land privatisation in the hope of increasing efficiency through building large-scale modern farms, where will the way-outs for hundreds of millions of rural residents be? Should they follow the tragedy that happened in many third world countries where numerous peasants turned out to be landless, then jobless, and eventually homeless?

In China, overpopulation and insufficient land as a basic fact has existed for centuries. Alone it cannot explain why large rural population has to be outgoing. Those “floating” people have to endure uncertainty in

search of off-farm jobs in urban areas, social discrimination and challenge in psychological adjustment. If rural residents can survive on limited arable land, it only results in differences between professions, and rural labourers do not have to rush into cities as their only means of life. But if agricultural productivity remains low for long, peasants would be under more pressure to move out, and it is totally unrealistic to expect them not to go.

An even more serious problem is: since 1997, people of all walks have been talking about the problem of "under-consumption" and trying every means to "encourage domestic expenditure." More careful studies will reveal the fact that rural residents who constitutes 70 percent of the total population consume only about 30 percent of all commodities and less than 20 percent of national savings. This helps us to understand why we have seen continuous growth of GNP in years but also witnessed insufficient domestic expenditure and under-consumption. Overproduction and insufficient employment have led to an ironical outcome: having more crops is not a fortunate thing. It is of course fortunate for us not to have experienced a financial crisis similar to what happened in Southeast Asia. But we should recognize that we enjoyed such "luck" at a heavy price paid by rural labourers.

When the financial crisis occurred in Southeast Asia, many investors in southern China from Japan, Korea, Taiwan and Hong Kong immediately withdrew their investment or cancelled contracts. Some simply disappeared, leaving behind hundreds of thousands of rural labourers jobless and penniless. Many of them have to turn to serve in restaurants and hotels, and some of them even ended up being "street girls". Some critics claim we are now in a post-modern era, and you cannot simply deny different ways of living. Some others assert the different ways of living are reasonable as long as they do it on a voluntary basis. However, the questions I put to myself are: How many are there who choose the way of living out of their own will? How many are actually forced, such as the girls in the streets? An impressive investigation conducted by Mr. Pan Suiming in Pearl River Delta reveals telling stories behind those people.<sup>21</sup>

In southern China, where "overseas investors" concentrate, the grass-root social structure has changed a lot from simple bilateral patterns of state vs. society, market vs. government and city vs. village.

For one thing, overseas investors are looked upon as "big bosses."<sup>22</sup> People take it for granted that they are the legitimate holders of maximum profit.

Thanks to the economic connections they have with overseas investors, township officials are able to enhance their administrative power with economic benefits, and also the target of hatred as main symbols of corruption.

Officials from higher authorities are either ignorant or not able to do anything about it. At best, they make due inspections, pretending they do not see the corruption. At worse, they participate in corrupted activities.

Next come the local permanent residents. They take advantage of rural labourers and live on rent. Most of them become landlords who do not work and do not have to work as long as outsiders are pouring in.

In-flowing rural labourers are no doubt at the bottom of the social strata. They live on piece wage and almost all work extra hours without any pay rise in years under very poor working conditions. There are few welfare benefits and social security for them. We only occasionally hear from media of frequent work casualties, but we seldom hear of any measures taken to upgrade their working conditions.

The problems that are troubling me most include:

(1) **Equal starting point.** We are used to talking about and been taught of “market fundamentalism.” Based on an equal starting point, we should compete for survival and interests, and thus let the market decide who would succeed. During the “natural process”, we will see from “survival of the fittest” to “trickle-down redistribution of wealth.” All people are by nature rational. They can calculate benefits by themselves in market competition. So long as government let it be, an “invisible hand” will manage a spontaneous order for all of us.

It is true that equal starting point is required, but problems remain as follows:

- After “equal start”, should the process and results of the development remain a question? Some colleagues may argue: wait, let us start with creating equal starting point for all first, since we at present are not; let us first privatise productive means and resources; let us let go bankrupt state-owned enterprises first; and let us eliminate at least the system of “all sharing equally from one big pot”. However, even if we succeed in all of these, should not we remind ourselves the problem of unfairness during the process and the outcome? If we do not need to, is it because the gap between the rich and the poor is only a natural and therefore legitimate consequence of the “rule of the jungle?” Or, is it because it is too early to talk about the process and the outcome?
- Is there a universal pattern of development across the world during the last 200 or 300 years? Should we neglect basic historical facts such as colonialism, slave trading and racial discrimination in talking about equal starting point enjoyed by contemporary developed countries?

- Is it inevitable for all human beings to develop along the unique and the universal way first from an equal starting point and then through the rule of "survival the fittest?" If so, it is really not necessary to consider the fairness of the process or/and of the outcome. Theoretically, it is necessary to acknowledge and allow differences. The problem however is: in what ways and to what extent should we allow the existence of gaps between the rich and the poor? What is the basis for allowing these differences? For what reasons should we believe in the inevitable and fairer "income redistribution?" is it possible that when rich people can no longer be "richer," their wealth will naturally and slowly be "trickled down" to the poor?

(2)Market economy and privatisation. The current trend is to establish competitive economic structure and optimal allocation through market system. No one wants to be eliminated by this process. The problem is how do hundreds of millions of rural population enter the system? And how do they become competitors? If the "natural law of survival" eliminates all the losers, it is most likely that those losers are from rural areas. They are less educated, short of fund, information and technology. How do we expect them to compete with others? Often they are blamed for selling inferior or fake products. Yet they are actually the most miserable victims of such practice. In years they have been instructed to grow "profitable" crops, which often turn out to be unwelcome in the market.

When we jump from one extreme (planned economy) to another (free market), we should realize that we are in a sense deceiving ourselves, because it takes several hundred years for the free market to take shape in the most developed countries, and we certainly cannot wait for another 2-3 hundred years for its "natural evolution."

Again it seems to be common sense to optimise allocation of resources and to modernize agriculture through land privatisation; and again the problem lies in the particular "national conditions" mentioned earlier: among nearly eight hundred million rural population, how many should be diverted to other industries? When land is privatised, how do we guarantee that those who sell land are "surplus labourers," not bankrupt peasants? How to handle the competition between in-flux of rural labourers and redundant employees in cities? When we succeed in establishing market economy and complete land privatisation, the problems we will face are not whether we should in theory have small governments, but how to identify redundant or weak governmental departments. We have to define the responsibilities of the government and its boundaries:

"Spontaneous order" sounds attractive, and everyone wants freedom. However, it should not mean that we should let the winners take all control of everything, and let other decline, including health care system and social security in rural areas.

In recent years, there are also "marginalized groups" emerging in cities. They include the elderly, the sick, and especially those who are laid off or receive "minimum wages". However, compared to rural labourers, they still belong to beneficiaries of vested interest as long as they stay in cities. Young rural labourers from Anhui and Henan provinces often say, "it is better to collect garbage in the cities than to grow crops in the countryside." Some of them even claim, "going to jail is better than growing crops,"<sup>23</sup> and "if I have to die, I would rather die in the city."

Problems China has been facing in modern history are in the final analysis concerned with rural development. From Dr. Sun Yat-sen, through General Chiang Kai-shek, Chairman Mao Zedong, to Mr. Deng Xiaoping, all their successes and failures were directly connected to how to deal with this problem. Yet the difference is in the past it is one of the problems of relationship between peasants and land, and now it turns to one of how to resolve the issue of transferring rural population into non-agricultural communities and how to maintain a sustainable agricultural growth and a humane rural livelihood. While in cities most of us are trying to catch up with a time featuring high technology and knowledge economy, few people pay attention to the fact that such kind of economy tends to exclude crude labour that is over-sufficient in China. If we simply let these redundant rural labourers "die to be reborn," that is "easier said than to be done." Moreover, how can we promise that they can be "reborn?" and who gives us the right to let them die in the first place?

If we can resolve such rural problems – rural in three dimensions: rural production, rural community, and rural labourers – in a careful and steady manner, China as well as the whole world will have a more peaceful and safe environment for future development. The key issue here is whether China can succeed in handling the task of transferring hundreds of millions of rural population to other sectors and urban areas under the increasingly globalised runaway world.

*Translated by Xiang Long*

#### AUTHOR'S NOTE:

When this paper was being drafted, China was completing its final step into WTO. While some people claim China's entrance is a win-win game, there is a realistic possibility of China's agricultural products losing competitiveness. People

who are optimistic would say it is a good opportunity for implementing restructuring of agriculture and transforming it into modern farm. Again the real issue here is how and where we should possibly transfer such a large rural population. If such a transfer is possible, do we really think China's tomorrow will be exactly what it looks like in today's advanced countries? And if we completely agree that all societies have been taking the same course (urbanization, industrialization, privatisation, globalisation) in the last two to three hundred years, this process will still take a long time to finish, during which we will have to experience twists and turns, and pay a great price for its accomplishment.

Doubtlessly, benefiting groups in big cities (they are in fact groups of vested interest, including ourselves) do not want to see any more social revolution, turmoil, "peasant revolt"<sup>24</sup> or "ruffians' movement". On the other hand, can we simply imitate the process of land privatisation or modern farming in the developed countries, letting surplus population go out to explore new continents or colonize other peoples? If we cannot, we have to think of a "third way" or "fourth way", or "X way". We have to realize that we do not have to choose between either "black" or "white," "left" or "right". We have to ask ourselves why in so-called "backward" areas, such as remote mountain villages, people enjoy not only fresh air and unpolluted water but also mutual trust, communal support and strong sense of confidence, while in more developed areas there are security gates, railed windows everywhere, and criminals and terrorists coming from nowhere!<sup>25</sup>

Maybe it is really high time for us to go beyond the dichotomies of Advanced vs. Backward, West vs. East, Society vs. State, Market vs. Government, or Left vs. Right, though by going beyond we do not mean that we should act as an impartial arbitrator accusing either side on equal terms.

#### NOTES:

\* A shorter version of this paper was originally published in Japanese in *Sekei*, November, 2001, Tokyo. The full Chinese version of this paper appeared in *Horizons*, Vol.8, 2002, Shijiazhuang: Hebei Education Press, China.

1. It is estimated that between 1979-1984, the average growth rate of income per capita in the countryside is 15 percent. But between 1989-1991, this figure crashed to less than 2 percent. "Peasants are so poor, the countryside is so arduous" by Lu Xueyi, (*Dushu*, No. 1, 2001).
2. When inspecting some of these town enterprises, a high official could not make himself believe what he saw, and demanded a definite reply from local officials accompanying him: "can you guarantee by the honour of the Communist Party that these enterprises are truly TVEs?"
3. They have their own trends of "occupational path dependence". Take Beijing for example, migrants from Zhejiang province started to work as shop attendants, and later they set up their own shops. Most of the migrants from Sichuan province work on construction sites, and many boys and girls went to restaurants to work

as assistants. When they came, migrant workers from Hunan province found that other migrants already occupied "the labour market", so they rushed southward to work in joint ventures in Guangdong province. Male migrants from Anhui province usually engage themselves in house improvement while females work as babysitters. Those from Henan province are not so aggressive. Many of them end up in garbage collecting for recycling.

4. We need to remember, usually, these labourers would carry a half of their earnings in cash with them when they go back to village for family reunion in Chinese Spring Festival or harvest time in autumn.
5. Under the old system, you could not eat in a restaurant in a city even if you have cash, because you had to show the food coupon issued by the local authorities.
6. See *Seeking Survival* ed. Huang Ping 1996, People's Publishing House of Yunnan. In that book, I set out the argument that the most "rational" consideration on agricultural costs and benefits is the guarantee of the total sum of basic survival based on the entire household, not on the maximization of marginal profits of the individuals. Therefore, we have the concept of so-called "agricultural involution". Philip Huang borrowed this concept from C Geertz to refer to the additional labour input into the land when marginal profit continues to decrease. For further reference to "rationality of survival" and relevant researches, see "The Outgoing Trend of Modern Chinese peasants" by Huang Ping in *Thinking*, special edition No. 928.
7. Many found seasonal or temporary jobs in overseas companies -mostly joint ventures from Hong Kong, Taiwan, Japan, South Korea, and Malaysia-- along the coastal areas in the late 1980s and early 1990s, usually with no contract.
8. Estimated by purchasing power, the World Bank in 2000 categorized China as one of the "countries of lower medium incomes". As a result, China is no longer qualified for receiving low-interest "soft credit" for social development in basic education and public health in rural areas. And it cannot even receive "hard loans" for building infrastructure in remote areas.
9. Statistics show that in 1995, only one percent of peasants did not receive any income in cash. In 2000, by contrast, this figure increased up to 46%. Lu Xueyi calculated and concluded that prices of grain products, vegetables, eggs, and fruits fell year by year since 1996. For grain production only, compared to 1996, the profits in 1999 decreased 32 billion yuan. Still, the total decrease of income amounts to 40 billion yuan, and over 160 billion yuan over 4 years!
10. It is estimated that township authorities have an average debt of over 2 million yuan, and village authorities 200-300 thousands. (Wen Tiejun: "Careful Thinking on 'Rural Issues from the Three Dimensions'", *Dushu*, No. 10, 2001)
11. During the spring festival of 2000, my colleagues and I shuttled between the home place of rural labourers and cities where they worked from Sicbuan and Hunan to Guangdong. We witnessed many labourers who just came back to their workplace, only to find out the factory was closed down, and still queuing up outside were youngsters from rural areas of Gansu and Inner Mongolia waiting for vacancies.
12. By now, at last, the problem of food shortage has basically been solved. Many

years later after the establishment of the Household Contract System, the government's work report to the national congress solemnly made an assertion that it is a great achievement for the government to finally solve the problem of food shortage. Still, one of my friends from the advanced societies sincerely asked me in the late 1980s: "I do not really understand how much you Chinese people have to eat?" it indicates their ignorance of how serious this problem has been.

13. Phillip Huang, P.C.C., 1985, *The Peasant Economy and Social Change in North China*, Stanford: Stanford University Press, 1990, *The Peasant Family and Rural Development in the Yangtze Delta, 1350-1988*, Stanford: Stanford University Press. Similar researches that impressed my very much also include James C. Scott's *The Moral Economy of the Peasant* (1976, Yale University Press), Samuel Popkin's *The Rational Peasants* (1979, University of California Press). In my recent conversation with a well-known social historian on China from the USA over the issues of social changes in modern China, he mentioned in particular that many of the current debates are concerned with invalid issues, but two basic facts cannot be put aside so easily. One is the issue of imperialism, and the other is the issue of overpopulation and insufficient land.
14. Of course there are others who have made similar analysis on these issues.
15. Another basic fact that we cannot ignore is the "Asian Tigers" were all under a system of dictatorship in the process of "economic taking-off." At the 15th ISA congress, which I attended recently, an Indian professor, who taught for years in America, challenged the audience by a question: why in the last two decades India, who has been under a democratic system and market economy, obtained foreign capital amounting to only less than one third of that of China?
16. Especially in Pearl River delta, where many towns have established joint venture companies, mostly from Hong Kong, Taiwan, Singapore, South Korea, and Japan.
17. It was reported by *Beijing Youth Daily* (Sep. 28, 2001) that starting from Oct. 1, 2001, China would initiate an experimental reform on residence registration system on more than 20 thousand small towns. This is an important step in a long march, to develop small towns in China.
18. See Zhang Xiaoshan, "History and the Present of Community Organizations in Rural China," PCD-CASS Summer Retreat Reader, 2001.
19. This tendency further aggravates the problem of medical care in rural areas, increasing in the long run the burden of the patient.
20. See Huang Ping, "Stay Healthy: the Bottom Line for Development," *Horizons*, No. 7, 2002, Shijiazhuang, Hebei Education Press.
21. Pan Suiming, *Surviving and Experiencing*, Chinese Social Sciences Press, 2000. Unspeakably shameful, these labourers are "readjusting" income differential by putting on sale their bodies as well as their tears and honour.
22. Many of the so-called "overseas investors" are only small brokers from Hong Kong who present contracts out of nowhere.
23. *Outlook* (No. 12, 1996) reported a story in which a peasant sent a letter to the country governor, wherein he wrote: "going to jail is better than growing crops." He said that he "enjoyed" his life while in prison: with over 100 yuan a month as

allowance, free medical care, medical supplies, electricity and running water, he had "virtually nothing to worry about." However, when he was released and became a "legitimate citizen" again, he had to struggle for a living since his family had to live on a very small piece of land and had to shell out over 1,080 yuan a year for compulsory payment of tax and charges, etc.

24. We should recognize the fact that peasants never staged a rebellion unless they had no other way to survive.
25. Unfortunately, such places are becoming rare as the process of modernisation is sweeping over almost every corner of the world. Erosion and desertion is becoming the main feature of the vast underdeveloped regions in the world.

ISSUE FOR DEBATE

## Why Must We Talk About the Environment?

HAN SHAOGONG, HUANG PING, LI SHAOJUN,  
LI TUO, WANG XIAOMING, ET AL\*

THE GLOBAL ENVIRONMENT has been deteriorating for a long time -- shortage of fresh water, expanding desertification, increased concentration of "greenhouse" gases, the breakdown in the ozone layer, decreasing biodiversity, etc. -- not only endangering the survival of humanity, but also heightening economic, social, political, cultural and ethnic conflicts on both local and global scales.

In a developing country like China with a relative scarcity of per capita resources (ranked below 160th in the world), the contradiction between resources and development, between the environment and economic growth has rapidly surfaced and intensified. In recent years the drying up of the Yellow River, the flooding of the Yangtze River, the "blackening" of the Hui River, rapid desertification in the northwest, air and water pollution in the east and south of China, etc., threaten the basic survival of many people; garbage control and food contamination in many cities are endangering the health and life quality of many (especially the wage-earners and the poor). On the whole, the shortage of fresh water, the pollution of air and water, the deterioration of the soil, the decrease of arable land, loss of soil and water, and the increase in acid rain have not yet been effectively controlled and dealt with.

There is a widely circulated view that environmental pollution and ecological destruction are part of an inevitable stage in the process of economic and social development; that the problem will be gradually solved as time elapses and science and technology develop; and only economic growth will generate more investment in environmental and

ecological restoration. The question to be asked is this: in the past several decades the world did not lack the technology needed for the basic and necessary protection of the environment; the world did not lack the funds to solve such problems as water pollution and industrial pollution of air, but this did not stop the intensification of environmental pollution. This indicates that there are deeper social, political and cultural causes hidden behind the pollution. The problem of the environment is absolutely not just a matter of science and technology.

The problem of the environment is fundamentally related to how natural resources are possessed, utilised and distributed. And these processes always take place within a certain social and ideological system. Engaging, reflecting on and critiquing the spheres and processes in which these take place should be the irrefutable responsibility of critical scholars in the humanities and social sciences, of writers, artists, and public intellectuals.

The relationship between the environment and development is often constructed as an either/or dilemma: If we desire development, then the environment will have to be sacrificed; if we want to protect the environment, then development will have to be sacrificed, and poverty would be the consequence. This developmentalist logic and discourse have been internalised as "common sense" or "common knowledge" by many, preventing any serious and meaningful discussion of the relationship between development and the environment.

The concern over the environment does not require us to establish a modern polytheism that worships and protects all living things (even viruses) and all that is natural (including floods). Nor does it negate the reasonableness of people pursuing an increase in material comfort. But shouldn't the meaning of comfort include a relative harmony between humans and nature and a relative balance between economic growth and the environment? Regardless of the fact that all civilisations have generated conflicts with nature, this cannot justify the necessity and legitimacy of merely sitting by and watching the environment deteriorate. To construct an "either/or" relationship between "development" and the "environment" often makes an excuse for predatory and destructive development.

It should be pointed out that "developmentalism" and "development" are two different concepts. "Development" in the usual sense refers to the improvement of the level of material production and quality of life. So-called "developmentalism", strictly speaking, refers to an ideology and discourse of modernity that grew out of the particular institutional environment of Western Europe and North America and were expanded after the 1960s by international organisations and worshipped by

developing societies. By promising industrialisation, urbanisation and modernisation, etc., it has exerted a far-reaching impact on the Third World, including an increasing gap between the rich and the poor, deterioration of the environment, etc. After the end of the cold war, developmentalism has become a global trend. This trend reduces "development" to economic growth and further reduces economic growth to an increase in Gross Domestic Product (GDP) and per capita income. While promising all of us a "beautiful life" in the future, developmentalism reproduces an unbalanced economic structure and an unfair system of exchange and distribution, and at the same time, severely damages our resource-diminished environment and harms our already feeble ecology.

This developmentalism discourse has numerous blind spots. For example, its statistics of growth often hide the true state of human survival: excessive deforestation satisfies the market demand for timber to produce wood furniture, paper pulp and disposable chopsticks; these kinds of production increase GDP, but the environmental damage caused by such production (for example, pollution of rivers by pulp production, loss of water and soil and degenerated air quality by deforestation, etc.) is not subtracted from the total GDP. It is especially ironic that when people buy mineral water to guard their health, or when rich or "middle-class" consumers fly to vacation spots in search of fresh air, these modes of consumption further boost GDP. One act of environmental damage yields a double augmentation of the GDP!

GNP (Gross National Product) or GDP or per capita income are necessary concepts for estimating the overall economic income of a society. But if these statistics become the only index for social progress, the enormous environmental, ecological, social and moral costs will be obscured. Furthermore, these kinds of statistics usually do not tell us who and how many have benefited from extraction and growth and who and how many have to bear the costs. Measurement using monetary value always eclipses labour that does not go into money circulation (for example, domestic work, volunteer work, mutual help among kinsmen, and self-sufficient agriculture) and other costs (damage to the environment, health, security, dignity and trust, etc.); and therefore, often obscures the lack of balance and harmony and increased injustice and unfairness that lie behind growth.

The 1999 *Human Development Report* from the United Nations Development Program shows that about forty countries have experienced a worsening economy compared to ten years ago, with Africa, South Asia, Latin America and yesterday's superpower Russia facing serious crisis. In fact, developmentalism is not an inclusive but an exclusive jungle game.

Just as it cannot solve the problem of wealth mal-distribution, but can only lead to more of it, it also cannot solve the environmental and ecological problem, but can only worsen it. This is determined by its one-sided pursuit of "maximisation of profit" and its internal logic of "the winner eats all".

In places where developmentalism has established itself, more natural things are turned into "resources" by developmentalist institutions and discourses. Once natural things acquire the characteristic of becoming a "resource", through the process of marketisation and commodification, and via various local and global dependencies on capital and technology, they become quickly and more and more concentrated in the hands of various power blocs and corporations. In the system of power monopoly and capital expansion, these blocs always use these "resources" to satisfy the interest of their own or a small minority and have the majority bear disastrous consequences.

This process is often carried out in the name of pursuing natural desires and a happy life. The question is this: The desires that keep emerging are neither primordial nor natural, but are carefully constructed and reproduced by transnational production and sales corporations and media and advertisement companies following the logic of developmentalism and capital expansion. These desires are completely different from the unchanging natural desires of other species and also different from the possession and utilisation of resources by people in a relatively harmonious ecological environment. These unnatural consumption desires are rapidly exacerbating the tension between humanity and nature. The fact is that when a minority of people are able to satisfy their needs as such, the basic and normal needs of the majority – needs for water, air, clothing, food, housing, etc., – are, in contrast, constrained. This is one of the direct causes of the negligence or even denial of non-material desires (feelings, dignity, security, aesthetics, etc.) of the majority.

When talking about environmental problems, people often use buzz words like "humanity", "development", "modernisation". These overly abstract words often obliterate the real differences: who are those benefiting from "development" and "modernisation"? Who are those excluded outside "development" and "modernisation"? Who within this abstraction of humanity are suffering from the consequences of environmental deterioration? Who are those reaping profits from the deterioration? Methodologically speaking, critiques of developmentalism must be based on critiques of all kinds of universalist discourses and must at least prevent

an anti-praxis attitude that substitutes thinking with popular words and replaces facts with discourse.

China is the most populated developing country. Therefore, China's successful solution to the contradiction between development and the environment will be very significant to the world at large.

"Development as an indisputable logic" is a political choice based on China's deep-rooted poverty and weakness. But "development as an indisputable logic" is not the same as "making money" as an indisputable logic, let alone destroying environment and ecology as an indisputable logic. Nowadays, "Chinese characteristics" has become a national pet phrase. But "Chinese characteristics" first of all means a huge population, scant resources, backward technology and insufficient infrastructure, all of which make it impossible for China to follow or emulate the modernisation model of Western Europe and the United States in their early period of development. Modernisation in Western Europe and the United States was facilitated by massive extraction of resources and the destruction of the environment, accompanied by imperialist plunder and expansion through colonisation, slave trade, and invasion. The tension between population and resources at home was relieved through out-migration while resources abroad came under control at home through colonialist domination in political, military, economic and cultural spheres. The dependent relationship between the core countries (15% of the world's population) and peripheral countries (85%) was formed in this process of modernisation. When economic development was smooth, this unequal relationship might be relaxed; when there was economic recession, this unequal relationship was intensified, causing various crises, including wars. This process of modernisation, which used the outside to depopulate the inside, to nourish the inside and to ease the tension inside, is a particular path of development forged out of specific historical conditions and is a path that cannot be repeated and followed by developing societies.

The advanced science and technology and the experience of effective social management of developed countries are worth learning and absorbing by China. However, not only does China differ from Euro-America in its national conditions; but the contemporary era is radically different from two centuries ago. Like many developing countries that are being "suburbanised" and "peripheralised" by the developmentalist model, China is forced to sell its resources cheaply and to engage in resource-intensive and heavily polluting industries. In the existing global system, China cannot relieve the domestic tension between population and resources through out-migration. Neither can China transfer the environmental cost abroad. On the contrary, China is forced to accept the

entry of “sunset industries” (*xiyang chanye*), for which it is sacrificing its forests, grassland, rivers and soil. Therefore, China must choose sustainable development, engage in conceptual as well as institutional innovation, and break a path of development with its own characteristics.

It is worth noting that the reform, beginning in the 1980s and centering on constructing a market economy, has seen some great achievement. Sustainable development has also received serious attention in Chinese society and is already designated as a development strategy by the state. But at the same time, some power and interest groups still adopt exploration plans that ignore or destroy social justice and the environment, or even ally with transnational capital in predatory extraction, resulting in all kind of social and ecological harm.

These consequences are often defended by some in the name of the stage theory of development. The stage theory argues that environmental damage is only a phase of development and, like developed countries, China can also “pollute first and redress later”. But “pollute first and redress later” is not a universal principle, let alone a common process shared by developed countries. Much environmental damage caused by developed countries is not redressed at all, but is transferred to other countries and areas, including to relocation of heavily polluting industries to undeveloped areas; furthermore, some damages just cannot be compensated, for example, the extinction of species. Some damages cannot be rehabilitated without enormous investment and a long lapse of time.

More importantly, humans are not the means, but the end. Growth should improve our lives; we should not sacrifice our lives for growth. When predatory extraction has already endangered our air, water and health, and when we sacrifice our lives for development, what significance is there for the “pollute first, redress later” approach?

The “cost theory” is another defense we often hear. This viewpoint holds that environmental damage is an unavoidable cost of growth and should cause no alarm. Admittedly, nobody is so naive as to assume a cost-free development, not to mention China’s need to rid itself of its longstanding weakness, even if it means some cost to the environment. But what should be noted is the abuse of the “cost theory”, which is often conducive to protecting an unjust and unfair social system, because almost all crimes and tragedies in history could be legitimised under the guise of the cost theory. Colonialism enabled the spread of science and technology; invasive wars brought about growth in industries and employment; bureaucratic authoritarianism facilitated the increase in GNP; all of these could be regarded by some as a relationship between “cost and benefits”, as having “major merits and minor defects”, and could be affirmed by the

logic of the cost theory. Therefore, the question is not whether growth and development require costs, but whether the cost has exceeded the endurance level of the society or some strata of the society. Who is to bear this cost? According to UN statistics, residents of the non-core countries have not or have shared little in the benefits of developmentalism, but it is these 85% of the global population who are losing the soil, forests, pastureland, and rivers that have sustained them and it is they who are enduring the consequences of environmental destruction.

In addition to what has been discussed, the "leftover theory" should also be mentioned. This theory assumes that all social problems, including environmental damage, are residual problems caused by the planned-economy system. As long as there is thorough marketisation and globalisation, as long as our system completely joins those developed systems of the Euro-American countries, then all problems will resolve themselves. Those who make this assumption have seen the neglect and destruction of the environment by the economic system and the blind economic movements of the 1950s, fanned up by determinations like "man triumphing over heaven" and "catching up with Britain and America". But they do not see that the fundamental notions of these movements, such as "progress", "growth" and "industrialisation", share the same root with the dominant ideology of the West. They have seen the waste and corruption of the authoritarian planned economy, but deny that the "privatisation of public property" is a manifestation of "maximisation of individual benefits" within the bureaucracy. Furthermore, the nepotism of corporations provides the necessary condition and direct support for the massive privatisation of public property. As a product of modern Western civilisation, early socialist theories emphasised class struggle and social relations, and had a blind spot in the knowledge of environmental issues. This very blind spot highlights the kinship relations between early socialist theories and other Western ideologies such as scientism, rationalism, progress, humanism, etc., which is very worth reflecting on and critiquing. But reconstructing the public quality of society is the moral precondition and criteria of this reflecting and critiquing, which shares nothing in common with "market romanticism" or "market fundamentalism" and the kind of developmentalism that opposes and suppresses "justice" in the name of "efficiency".

After the end of the cold war, areas such as South Asia, Africa and South America, where developmentalism has made its most impact, are also where the environment has most deteriorated. The 1990s saw the increasing worship of developmentalism and also witnessed the most

serious breakdown of the ozone layer, the largest precipitation of acid rain, the worst contamination of oceans and the desertification of land. This indicates that environmental-ecological problems are not just the leftovers from the old planned system, but are a serious challenge facing the whole of humanity for a long time to come. Only if we analyse from a global perspective rather than from the perspective of the nation-state, from a far-sighted historical perspective rather than confining our field of vision to one or two decades, can we more clearly recognise the seriousness of environmental problems and begin to undo the predicament, including reflecting on and redressing the mistaken practices in China's planned economy that are damaging the environment.

The ideological production and popularisation of developmentalism as a discourse is enabled by a whole set of mechanisms. The most effective of these is the so-called "reproduction of cultural industries". "Reproduction of cultural industries" reaches deeply into all levels of social life through media such as newspapers, magazines, books, TV, movies, advertising, and popular songs, and completely subverts traditional values and ethics. With a speed unseen before, it inculcates a whole set of concepts and discourse in the depth of people's minds and infiltrates all surfaces and levels of daily life.

Since the 1980s, one of the important signs produced by the cultural industries is the image of "successful figures", a myth of the new ideology. This is intimately related to the trend of "searching for the self" and other humanistic ideas of the early 1980s, to the imaginary of "the middle class" and the process of marketisation in the late 1980s and is of course very much enabled by the importation of consumerist culture from Hong Kong, Taiwan and the West. The image of "successful figures" is often held by many as the paragon, and is considered as an index of social progress. But the construction of "successful figures" often hides the real reasons for their success: the filthiness of profit extraction through collusion, cheating, betrayal, cruelty, and the bitterness of struggling to stand out, including having to endure exhaustion, loneliness, humiliation and exploitation - all these evaporate into an empty smile on the faces of successful figures. They are the embodiment of money, material consumption, and status hierarchy; therefore, they have become the representatives of a popular aesthetics of transnational capital in developing countries.

Related to the sign of "successful figures" is a series of fashionable trends. Fashion has become a new spiritual god and exerts a most powerful force outside the state on society. Fashion makes anything old depreciate; the "new", which is the "modern" and the "global" have all become the object of desire and pursuit. Behind these trends is the dumping of

transnational products and huge profit-making by business corporations, whose monotony and monopoly destroys our spiritual richness and individuality and further annuls our power for discernment and aesthetics.

Protecting the environment has become an urgent social task and an important gateway to rebuilding the public quality of society. It is also a banner that can effect a powerful mobilisation. But this issue does not represent all the social problems that we are facing in the new century. Our thinking about this issue should also keep an open space for diverse ideas.

To do this, it is crucial to go beyond some ideological grids. Simplistic dichotomies such as humanity/ nature, market/ government, society/ state, modern/ traditional, capitalism/ socialism, growth/ poverty, development/ environment, etc., seem to have impressive explanatory power and are becoming popular words on the lips of various media, but are preventing people from carrying out an in-depth and truthful diagnosis of history and reality. If we really want to face China's problems, we have to liberate ourselves both from these ideological sediments which are increasingly becoming doctrines and superstition, and from the limitations of each of our own interest positions. Due to its special conditions, China's environment is destined to endure unusual pressure in the process of reform. From this perspective, Chinese intellectuals and critics may therefore begin to be engaged in conceptual and institutional innovation. This could be a fortunate thing.

\* This article is based on roundtable talks at the conference "Environment, Ecology, and Humanities", held in Hainan in 1999. Participants also include Chen Sihe, Chen Yangu, Dai Jinhua, Geng Zhanchun, Nan Fan, and Wang Hongsheng. Li Shaojun documented the discussions, and Yan Hairong did the English translation. It was originally published in Chinese in *Tianya (Frontiers)*, No. 1, 2000, Haikou, China. The version here was abridged by Huang Ping and was published in *Dushu (Reading)*, No. 2, 2000. A full Japanese version was published in *China Research Monthly*, March 2002, Tokyo. A full English version is forthcoming in *Positions*.

ROUNDTABLE DISCUSSION

## Rural Development and Local Governance in China

*Moderator:*

Lau Kin Chi, Chairperson, ARENA Council of Fellows

*Speaker participants:*

Bai Nansheng, Institute for Restructuring of Rural China

Chen Xin, Institute of Sociology, Chinese Academy of Social Sciences

Huang Ping, Institute of Sociology, Chinese Academy of Social Sciences

Wen Tiejun, Chief Editor, *China Reform*

Jeannie Manipon, Coordinator, ARENA

Lot Felizco, Programme Officer, ARENA

*Date:* 12 December 2001

*Venue:* ARENA office in Hong Kong

Lau: In the last three days, we attended the Oxfam International Conference on Globalization and Development in China, and exchanged our views on rural development. Huang Ping critiques the whole notion of developmentalism. He thinks in rural communities, not only natural resources have been damaged, interpersonal relationships especially in terms of trust, sense of security and traditional life-style have also been disrupted. Science, technology and foreign capital investment have changed the original diversity and especially indigenous knowledge and wisdom. He asks the basic question: "development for what?"

Wen Tiejun critiques the monopoly of resources and wealth by different sectors in China. He says we cannot simply impose western

theories on Chinese reality. In China now there is a process of "internal colonization", for lack of a better term, with exploitation of rural resources. He proposes that at the village level, there should be general election, self-government and cooperative economy, so that the village cooperative committee would be the basic unit of financial management and ownership of local resources.

Chen Xin questions the logic of capitalism, which is pursuit of super profits. He feels we should distance ourselves from the impact of market under globalization.

Bai Nansheng gives us a specific case in Yunnan, of how the government promoted the planting of grass and trees, but the project was quite a disaster. Though in the name of environment protection, the project caused a lot of environmental destruction. He calls for caution on implementing programs by administrative means.

On the basis of such discussions, we can now go further into these issues.

Wen: The exchange in the last three days enables us Chinese scholars to learn a lot from presentations by NGOs. However, I would like to make one comment: some people emphasize the question of participation and human rights without a concept of fieldwork. For example, Green Peace is very popular in developed countries, but this kind of environmental movement is not popular in China, not so much because of political control, but because people are not at the same level of concern for issues of post-modernization. A large number of people still live in the rural area, and issues like genetically modified food, which have become critical issues in western countries, are not of much concern to peasants in China because land is scarce and peasants want to find ways to increase output. Similarly, poor urban consumers need cheap food rather than care if the food is organic.

So there is a conflict between the need of poor people and opposition to GM food. If you take the poor's need into consideration, how can you stand against GM food? Last October I was in Shaanxi province, in a town famous for biotechnology. The University of Northwest Agricultural Technology has a BT center and produced a sheep "Youngyoung" using the same technology as the British Dolly cloning. I was in the town to give a speech on the local people's demand on hi-tech. I said maybe there is not such strong demand for hi-tech from the rural people. The technology system is strictly controlled by the administration. Scattered farmers do not have the scale of economy and capacity to absorb hi-tech. But they may need some applied

technique for their small farmland in increasing output. So our problem in agriculture is not similar to countries like Japan or Europe. I think thorough discussion is needed to compare data from different countries and different periods.

The reason why I strongly criticize some micro finance projects practiced among a lot of NGOs with high cost and high interest, but instead talk about alternative currency, is because that is a very important factor for social capital and social economy in the rural area.

Lau: Could we also go into the question of alternatives, such as election of village chiefs, and the question of self-governance at the village level?

Chen: Village self-governance depends on the condition of the villages. Self-governance will be better than intervention by officials from outside if peasants can decide their own resources, land, property, community relations and the development of the village. A good example is Xinrenzhuang Village in Hebei Province. But if the village chief is supported by hooligans or triads, the nature of village self-governance is changed, since there is no monitoring from higher authorities. Authority from above sometimes can be a restraining factor in preventing control by the local mafia. I am not saying village self-governance is not the way out, but its effect varies in different situations.

Wen: In some cases in Guangdong and Guizhou provinces, there is a strong relationship between local governance and local property rights. Last year I was in Guangdong Province to carry out fieldwork in several villages. I found out that if the village has carried out reform in giving property right to the villagers, especially the land right, or even property right of the village's factories, the villagers, as shareholders, are very careful on election of village representatives. However, often, the central government, in order to get access to the village, turns the rural organizations and village committees, which are supposed to assist village agricultural production, into tax collectors for the central government. Then gradually these rural organizations lose their function in helping agricultural production, and only perform the function of collecting tax. If the staff of these organizations are elected by the shareholders of the village, then those who can defend the interest of the villagers will be chosen. Different structures of property

right distribution would bring different authority and different measures of local governance.

Chen: I agree with you, but what you said is only one of many possible situations. In some cases, the villages have their own committees, but the question is who will supervise this committee's power when the committee only represents minority interest in the village. I think in this case, the central government should supervise the village committee.

Wen: If the village distributes property to every household equally, the villagers will be serious about exercising their right. But if the government carries out a privatization program on property right distribution, and much of the village land falls under the control of a few entrepreneurs, then the villagers will not care about public affairs which is under the control of the entrepreneurs. I think the resources of authority are affected by the structure of property right, therefore we should distribute property right equally.

Chen: Yes, that is quite reasonable. But when we talk about the committee at the village level, in trying to equalize power by distributing property right equally in terms of shares, we have to face the reality that power distribution is not equal in a village. At the village level, the distribution of right and interest is very differentiated. So-called equal distribution may not easily reach women and children who are supposed to share the property right. In this case, one solution is to invite government intervention at the beginning.

Manipon: On the question of village governance, relationship between the village and higher levels of authority, it is very hard to talk based only on principle, to say whether it should be more centralized or decentralized. We need to talk of which area we are referring to in a certain experience. I want to use Kerala as a starting point to ask the question further. Two things struck me of how they describe several processes in Kerala. One is how they look into the direction of devolution of power from above to below. What has been devolved? The other direction is what could be done at the village level, and the pre-conditions of social reform before that can actually happen. I don't know if Chen Xin was also referring to certain pre-conditions in the village?

Huang: There is a danger of simply arguing on abstract principles, like should we have an equal starting point, or should it be bottom up. Some people may even come up with a neo-liberal approach to development, that is, let it go. Let the government do nothing. Let the people live under the rule of the jungle and compete with each other. That is definitely neither Wen's nor my point. When we talk about such issues or argue for self-governance, it is not just a question of theory or principle, but rather a question of where to start. We have to recognize we don't start from zero. The interest groups already exist. There is already unequal distribution of wealth and power. Look at the land reform in the early 50s and the rural reform in the early 80s, the reason why they were quite popular is because they offered equal opportunity for everyone in accessing resources. Of course we should go further, and consider not only equality at the start, but also equality of the process. For instance, we may have a quite equal program on re-distribution of land, but what happens after three months or three years? Sometime it turns out the land is monopolized by a few persons. We have to look at the starting-point, the process as well as the end-results.

Even if we have mechanisms in monitoring, evaluating and controlling these kinds of unequal distribution, we still have to face the problem of the weak. It is more a question about the whole process, rather than simply saying decentralization, privatization, letting go. Today, when NGOs talk about alternatives, they all talk about participation and bottom-up approach. I think that is too simplistic and idealistic. That's why we always emphasize how complicated things are.

Lau: Can Chen Xin give an example of the need for intervention from senior levels?

Chen: I will talk of what I saw in a village election. There was conflict in the village, no agreement could be reached, and in the end some people resorted to violence. The government had to come to help with mediation and form a new committee, and suppressed some people in the process of mediation. Later the village committee became somewhat like a shadow of the government. This is one case with the government helping to resolve internal conflicts and then influencing the village committee.

In another case, an entrepreneur who had started his enterprise for a few years said, "Vote for me and I will do this and that for the

village, I have money." The entrepreneur made a lot of promises, and told people that "my uncle is the county chief, if I am elected I will do this and that". Sometimes they even bully the villagers. The official told the villagers, "If you vote for him, I will give funds to your village so that you can build a new road. If you don't, you get nothing." So there is outsider influence. What I just mentioned are some worse cases. The more ideal cases that Wen mentioned do exist, for example in Shangdong Province.

Huang: The question is: who can guarantee that the initial distribution of property right is just? Even if we have villagers' self-rule, the self governing team may be hijacked by the village chief or the officials.

Chen: There already exists a structure of conflicting interests, but some re-distribution of land still retains a revolutionary nature.

Wen: Jeannie asked the question of comparing Kerala with China. In Kerala, the Kerala People's Science Movement has started a very long-term social movement. Let me talk a little bit on what I think China can learn from Kerala. There should be some small capital, or resources, such as a piece of farmland, to be given to the local people by the government. In China, people do want property right, but in actuality the property right is controlled by the village elite in the name of the Party, the village committee, etc. So the question is how you can enable the villagers, in the name of shareholders, to have a share in the property right that used to be monopolized by the village elite. How can we make the elite share this right with the villagers? I emphasize that equalized property right is an important base to people's right.

During the 1990s, there were new conflicts because of the appearance of industrial zones or development zones. Especially in the Pearl Delta region, which is near Hong Kong, the village elite wanted to increase the village collective land for industrialization and to attract investors. But all the land had already been taken by the common villagers during the rural reform of the early 1980s. So the village elite had to re-collect the land in the name of the village collective. But the villagers said: "you have already occupied the interest of the village industries, and now you want to rob my land? No way!" So there were so many conflicts in Guangdong province. According to the statistics, 46-49% of local conflicts were caused by the land problem. The central government had to settle this situation, and started to intervene by trying to find solutions. This gave a chance for

the common villagers to bargain with the village elite. Otherwise the village elite will never agree to sharing power with the common villagers. Since we were working in one of these experimental zones as instructors, we were able to propose a solution of equalized distribution of industrial property right combined with ownership of land, where farmland can be converted into industrial land. Every share-holder can benefit from the village industry.

Huang: This case suggests that sometimes there should be intervention from either people like Wen or the higher authorities to ensure there is equal distribution. My feeling is if we simply let it go, it would turn into disaster. In reality, it is impossible to have equal starting point, because resources are already unequally distributed. I also understand why today people are calling for private ownership of land and even urging for modification of the Constitution; it is because twenty years after the last re-distribution of resources in the early 1980s, distribution of resources has again become unequal, and a minority has put most of the village resources into their own pocket. For instance the conversion of township and village enterprises into private shareholders system has privatized a lot of common property. Some may feel there is no problem in principle, but in reality the situation is complicated. One speaker in the conference did not realize there are such privatized systems in rural China, and argued for common property and village cooperatives. In terms of alternatives, I don't think alternative should simply mean bottom-up because we have been suffering from top-down. We should rather find something in between, to work with different agencies and groups to see if there is any solution.

Chen: The Xinrenzhuang Village that I mentioned has a very good local governance committee. They also have a better economic situation based on a larger proportion of collective economy compared with other villages. But such cases are rare in the rural area. In some villages with collective enterprises, because the ownership of property is not clear, the management is chaotic and inefficient. In some cases, it begins with collective economy but turns into monopoly by individuals.

Felizco: There is much stress on resources in terms of physical resources, property, but that is just one of the factors that exist in the community. There are so many variables and hierarchy of power that impact on

whether a governance is democratic or not. For example, social and cultural hierarchy. I think it is important to make those linkages because democratizing access to resources does not prevent the possibility of power captured by a local elite. Who is powerless is not simply on physical resources but also on other terms.

**Huang:** Yes, definitely so. Even when we had quite equalized re-distribution of land in the 50s and early 80s, we did not have that kind of consideration or institutional arrangement of opportunities or rights. It would be impossible to imagine how women could participate in all these kinds of social life and economic life, the so-called liberation of Chinese women. I think we still cannot surpass the early 50s, when at least there were big changes, despite all the failures. The first was land reform and the second was women's status as the first marriage law was passed. And that is exactly what you said, we need to consider both physical and non-physical resources. Today we already talk a lot about equal opportunity, equal access, but in terms of institutional arrangement, there is still a serious lack of implementation, even from NGOs. Both NGOs and industry developers can be a big help on this. How NGOs think not only for themselves but for the people is important. Usually NGOs don't realize this: they bring new ideas to the community, but without sustainable effort.

**Bai:** In the eighties and nineties, I did some historical research on the countryside, and I have been looking for chances to continue this research. My research shows that in China, in the past, rural villages were basically self-governed. In modern historical writings, there is a trendy saying that the rural is "a tray of dispersed sand", without organization, difficult for organization. But I have many examples of self-governed organizations actually existing in the countryside in economy, social security, disaster relief, financing, and other aspects. If we are to seriously study this, we can categorize them by their functions, and see what functions they had taken in the past, and how they came to take up such functions.

Of course, today, the village is required to take up very different functions compared with the past. Now we ask the village to take up a lot of work, almost like controlling all aspects of society, from land to birth control, education, housing, and even burial of the dead. That is one major difference. The other is, historically, the village had strong Confucian thinking. Even though the government did not go directly into the village to work on people's mind, Confucian thinking

maintained basic control. In a village, there were literate people who studied in order to get into the officialdom, so they acquired Confucian thinking, and the village thus had a rather homogeneous ideology.

**Lau:** When was it?

**Bai:** The records can be traced back to Ming and Qing periods, but the situation did not change much until liberation. Before liberation in 1949, the Nationalist Party government set up district offices under the county in only a few provinces, but there was not any township or village level governing bodies. When I was conducting interviews in some villages in North China, I came upon a very interesting story: the villagers in one village were discontented about their leaders. Why? Well, from today's point of view, we will say that the village leaders then were too honest and clean. The discontent was: each leader collected the villagers' money as fund for village affairs, post the budget balance on a wall, but the villagers were not satisfied because the accounts for the whole year was a neat balance, not one cent more, not one cent less. The villagers thus thought that was not possible, it must be a scam. The villagers complained to the district office and the village leader was removed from office.

At that time, "cadres" in the village, for performing certain tasks throughout the year, would collect money from the villagers. The tasks could be giving provisions to an army unit that came by, for example. Every expenditure item must be shown in the balance report posted on the wall. This village had a neat balance.

**Huang:** Luo Hongguang did a research in North Shaanxi Province. There was a temple where people came from different villages, and shared the social space as well as symbolic space. The argument of his research is basically that among the villagers, power and authority did not necessarily all the time remain held by the same group of people. The authority for community integration, community identification and community development must be an authority with identification by the villagers. For instance, the village chief may have certain political power, but he may not really be the authority in the village. It may be the elderly people who have the authority. Luo's research shows that there are a lot of "exchanges" taking place among villagers. The exchange may not necessarily be of equivalence in price or value, but rather, the equivalence is in terms of meaning. For such physical or non-physical exchange of meaning, people cultivate a kind of authority

structure. That is something we should consider when we try to reconstruct the community.

Chen mentioned Confucian culture in the village; the village Luo Hongguang studied was of Daoist culture. Actually, it does not matter which culture it is, because the people in the village has dialogue with Zhang Fei the legendary general in folk stories, or with Confucius, or with Mao Zedong. The activities held in the temple are not just religious or ritual; they are also practical. When the village authority and the political power structure go into conflict, a lot of resources and time in the village are wasted.

Lau: I would like to ask Bai, how do you link your research of the historical past to possible alternatives for the present?

Bai: Before 1949, the self-governing bodies took up different functions, so the situation was relatively stable, and even if there were problems with one self-governing mechanism, other mechanisms were there, so there was no total collapse. The integrated system built up since 1949 is highly unified and monolithic, and includes ideology and rigorous social control. However, when problems arise in this monolithic leadership system, the system becomes the least stable. That means all the self-governing mechanisms playing various integrative functions that the village originally had have been done away with.

Now our institute is working on a new research project. It is to study what are the things that the peasant families cannot resolve by themselves, and who takes up these social functions. There are lots of differences among villages, and we try to see whether the institutions that take up these functions are centralized or diversified. For instance, about elections, I would like to know how village committees in various places hold elections; they must be very different, for example between a poor village where the village government knows nothing but collecting tax, and a well-to-do village where the village government provides lots of social benefits; in some places, people don't have to pay for medical fee, and the livelihood of the elderly is taken care of. Through analyzing these I hope I can see, among the functions that the village government has taken up, what are the needs of the villagers, what are the tasks imposed by the higher authorities, and what are the different conditions of the villages taking up these social functions. I think we have to compare that, to see what is the real situation, so that we can make more meaningful recommendations.

Why am I interested in this research? Firstly, this idea came up from studies on the rural village in the collective phase. At that time, we believed that the managing cost in the collective phase was too high, while the surplus of agricultural production, after deducting the necessary production cost, was very little. Could such a small surplus sustain such a huge monitoring, control system? I therefore went to look at control and management in the past. In the past, productivity was lower, surplus should be less, so at that time, for example, economic cooperation or disaster relief, which could not be taken up by one single family, had to be accomplished with very low costs. There are many stories but we do not have the time to go into them.

The second reason is, according to class analysis, those who controlled the village and had authority all seemed to be rich men. Why? Was it because of class consciousness or other factors? From some interviews, I find out that it is because of actual need. The rich men provided something, some services unavailable from others. Take one example. The troops arrived in the village, and demanded that the village gave them a certain amount of provisions in two days. These were not part of the usual tax collecting activities. To collect these, only the rich men could do. In the north, rich men were called 'big hay households, because they had more crops and more hay. In the process of collecting provisions, if one person could not pay, another person would have to stand in, otherwise the troops would set fire to the whole village. The local gentry might allow the poor to pay back after the autumn harvest, or might ask for high interest.

We paid special attention to those who were originally the authority of the community, helping to integrate the community. In those days, the local gentry would not have taken direct wages or remunerations. So, when did the wage-receiving functionaries come to be professionalized? From our studies, this basically started after collectivization in the 50s, after the implementation of labour credits. Such professionalized people came to be a bit too many.

Huang: My view is slightly different. In analyzing the structure or the problems of the village, I think analysis of the functions cannot solve one problem. Specifically, why did I mention the structure of authority? A friend of mine studies the ancient history and post Warring States period, through Qin to Han dynasties. Qin was a time when the rule of law was more dominant, but why was it that they went back to Confucianism after the Han period? Because that would keep the management cost low.

Using class analysis in economic terms to apply to a village would of course be too simplistic. But I think there is a structural problem here, which is not so much between the rich and the poor, but the question of moral authority. When the self-governance of the village is largely based on authority within the village, little intervention is required and the management cost is low.

**Bai:** I think the most meaningful thing about studying rural integration is, if you look at the problem only from the economic perspective, the problem is difficult to be resolved. The economy of the rural village is basically a problem of income. In actuality, the criteria a peasant uses to judge a person are, besides the person's income, his character, then his clan – which big kinship group he belongs to. These different dimensions do not necessarily overlap with each other. The less they overlap, the more the community's diversity and stability; the more they overlap, the more rigid and oppressive the structure may be.

**Huang:** The authority structure is often like this: the one with the highest authority is not the wealthiest one. (Bai: Right.) For instance, the physician in the village, the elderly. It is because the structure of a village is usually centred around a clan, the family is given higher value. The higher the position in the kinship hierarchy, the higher the authority. Often the structure of authority has nothing to do with income. On the other hand, the elite and the upper class will sit down to decide village affairs. They represent different clans, blood lineages and interest groups, and sometimes not the people with the highest authority can make the decision alone; at least the physician, the head of the big family, the old farmer with the best farming technique, etc., had to participate, (Bai: The most ferocious people also.) All sorts of authority are included, despite their difference in nature. (Bai: The butchers are the most ferocious people.) In the past we asked: why was it that political authority reached only the county level, and below county level it was self-governance? In this analysis, we can see self-governance includes a very important power structure, but it is not a power structure of administration, because once it becomes an administrative power structure, the villagers have to support the village chief's livelihood, the central government cannot afford that, the substantial cost will be very high. So the good thing about Luo's study is, I think, when there is a power structure, what is its relation with the original authority structure? If they are in conflict, the cost will be higher, most of the resources will be consumed in confrontation.

I know of a village, when in the fifties, the captain of the production brigade was not appointed by the government, but was the head of the clan. He had authority because he was an old farmer, and knew farm work, when to sow seeds, etc. In another village, two brothers were the seniors in the clan, the elder brother was the production brigade head while the younger brother was the landlord. They were supposed to be politically on different sides. But actually, when the elder brother went out for meetings, the younger brother would take charge of the affairs of the village. Thus, in the village, there was a very complicated mix of relationship and most important is the one who has authority in the village, the one who has the capacity to mediate, so that conflict, argument and fight could be avoided or compromised. It is not simply top-down administrative control from the government. The top-down process also involves local authority. In addition, even if we say power should be devolved to the village level, it will not induce a sudden political vacuum and only the local mafia will be dominant. There are still many existing relationships.

Thirdly, the usual talk about "decentralization" has much to do with the administrative system. I would like to stress that we should consider not only how authority functions, but also how it constructs rural community life, how it relates to traditional authority and moral structures. Today, many NGOs try to work closely with the community by simply repeating the World Bank's approach of money, technology, top-down or governmental approach, enforcing the administrative means or power, rather than looking into the kind of authority that can be shared or established by the villagers, so that the village may find out its own way to self-governance.

**Chen:** The style of management in the village that Huang Ping mentioned can still be found today, and can be an important background reference. Today's rural village has changed a lot compared with the past. Before 1949, villages were basically isolated from the outside world, with internal diversity, and a relatively simple and primitive economic structure. The relation between a village and the state was, during the war time, that the village provided supplies for the army, paid tax, gave provisions, and depended on the state in carrying out disaster relief work; there were no other relations. Self-governance was under the influence of Confucianism, and existed under the interlocking relations of functions and structure. Apart from the functions Bai pointed out, there were functions for marriage, defence against bandits, and other simple functions. After 1949, there was a major change, the

state industrialized and modernized the townships and villages, and economic targets became the dominant language. The natural village is no longer natural, and it is still called that way because of the geographical meaning. It has been closely tied with the political agenda of the state. Through the Party and the people's commune, the rural villages were organized into the state agenda. After the reform policy, the people's commune do not exist anymore but the townships and villages are still drawn into the development target of the state: family planning, roads, electricity to every village....

Now, the relation between the village and the state is not that the village can self-govern itself. The state sets requirements for the village, and seeks to uniformly construct the township and the village. Especially in the 70s, the economic structure at the village level was highly complex. There are more than 20 occupations at the village level. Some are based on actual need, some bring individuals away from his land but not his home village. These occupations have complicated the political and economic relations in the village. In addition is the state's demand for all villages to aim towards the same goal, so rural villages cannot remain natural villages.

For the time being, it is not easy for NGOs to start from village self-governance, to discuss from the outside what pattern of self-construction the villages can choose. Not only because it may arouse suspicion from the government, it is also difficult to mobilize people to participate in it. The experience I got in projects is, whether it is a township or a village, one should choose a place where the village committee is more just so that the villagers can be convinced. If the village head is a local tyrant, the relations in the village are tense, the conflict of interests serious, and it is not easy to come to consensus on anything, then a project should not be launched there.

Huang: I agree. The most important thing is that the village now is part of the state building process, be it to modernize or industrialize. One problem is, when things go wrong in the village, there is only one solution: to resolve the problem within the administrative system, such as giving more funds, more manpower, or add a special official post. The village reconstruction and community reconstruction I think of does not go this direction. It doesn't mean one more bridge or one more woman representative in the village committee. It is to find a genuine authority that everyone recognizes in the village. This person with authority may be a village committee member, a teacher, a physician, an old man, or an educated person. Without this authority,

more money, technology, bridges or electricity lines mean nothing.

The rural village in China is seriously declining, not just financially in terms of indebtedness, or decrease of agricultural income, or marginalization of the village because young people run away. Of course these are problems, but most important of all, if a village loses its authority, and there is no reconstruction, no rediscovery, then it is not the community we talk about, it is just a place in the geographical sense, with a group of people living there, on guard against each other, trying to stab the back of each other. The agenda of the state or of the NGOs are all from the outside, like what Wen said, imposed by the west, or imposed by the state. It may not be useful for a village to go after production of profit.

I find the definition of poverty problematic, not only because it imposes on the village a marginal position once and for all, thus diminishing its self confidence, but it also mixes up a good village with a bad one. For instance, even if the average income per capita is 500 yuan, some village may be in a barren mountain with unruly rivers, bandits, local scoundrels, diseases, and some village may have very good relations, blue sky, clean water, trust among villagers. Yet, if one looks only in terms of per capita income, the two villages are of the same level.

I have previously talked about a remote mountain area where the villages are not indebted, and there was no suicide for some years. Rather than pushing for an increased income, it is more preferable to seek identification with the community, consolidation of authority, trust and security. The income may remain 300 yuan a year, but the relations between man and nature is excellent, there is sense of identity with the community and the authority. They do not need a lot of administrative control. A village like that is a village with high quality of life, which even urban people will envy. I think it is the most important thing in the reconstruction of the rural community.

*Translated by Siu Wing Yip*

*Transcribed by Lau Kin Chi and Yeung Oi Mei, Amy*

# Reflections at the Turn of the Century on "Rural Issues in Three Dimensions"<sup>1</sup>

WEN TIEJUN

CHINA'S PROBLEM is the peasants' problem. The peasants' problem is that there is no land" – it was an old saying from the last century, utilized by both the Nationalist Party (KMT) and Communist Party of China (CPC) to mobilize peasants. Then the CPC succeeded in the "War of Agrarian Revolution."

Now the catch-phrase has been changed to: "China's problem is the peasants' problem. Peasants' problem is unemployment." Who can overcome this problem and gain the upper-hand this time? And how?

With the discussion at the turn of the century, people nowadays begin to think that there is no "agricultural" problem in China. Instead, there are only rural problems in three dimensions: *rural people*, *rural society* and *rural production*.

Academics who were involved in the economic reforms in China all know very well that the main projects I carried out in the "Rural Reform Experimental Zones"<sup>2</sup> for the past ten years have always been market-oriented. In order to implement the first initiated "Policy Experiments," I have tried my best to learn from scholars working in different traditions, including those who believe in so-called classical Marxist political economics as well as those who teach trendy theories of "Western Economics," in order to illuminate the concept of property rights. During these years, I took different theories into consideration, respecting scholars from different traditions as "Masters," treating all perspectives equally and practicing eclecticism. On several occasions of theoretical discussion,

I have repeatedly emphasized that I am only an "experimenter," not a theorist, and I consider what I am proposing here merely an intuitive understanding of the experiments in the grassroots.

The meaning and value of the outcomes of "Experiments" serve not merely as a reference for the government leaders whose agricultural policies were detested by peasants. They were therefore forced to review the "rural problem in three dimensions," which serves as a stimulus for the centenary reflections of scholars on what China has learned from the West.<sup>3</sup>

## **I. What is the real problem of China?**

THE MANY YEARS of experience in rural grassroots communities have brought about a great deal of confusion in me with regard to the grand theories, but oftentimes, I can resolve the confusion in the fieldwork in which I was engaged.

In my view, in the last century, one most prominent question has been the distorted process of receiving and absorbing Western theories; that is, how to combine or make compatible Western science, including Western philosophy of science, with traditional Chinese thought, including the realities of Chinese culture. Marxist theory of political economics, which has an unshakable grip on Chinese social scientists, and theory of economics of liberalism as well, face the same question of the compatibility between Western epistemology and Chinese practice. Political leaders such as Mao, Deng and all serious scholars, native and abroad alike, all think or have thought that this problem has yet to be solved.

For this reason, the basic hypothesis I can contribute to this century-old problematic in Chinese Studies is the simplest and the most well-known diagnosis: "China's problem is the tension aroused by an agrarian society, characterized by overpopulation and limited resources, in the process of internal and primitive accumulation of capital for state industrialization."

This study can be abstracted as an investigation into the "two basic paradoxes and two historical phases." Our economic development in this century can be summarized as "the four industrializations of a peasant state." The lesson we learned from this approach is quite easy to understand: any innovation of the existing institution and system we have is only the end-result of, rather than the prerequisite for, the different structural changes under the constraint of macro-environment.

### **i. An analysis of the “Agrarian Revolution” in modern China.**

Let us focus on the similar situation faced by Sun Yat-sen and Mao Zedong:

At the beginning of the Old Democratic Revolution<sup>4</sup> in the last century, Sun Yat-sen made the peasants’ appeal for equal land distribution, put forward by many peasant revolts in history, into one of the two main goals of his Principle of Livelihood. The question of land ownership immediately provoked the anger of the Royalists.

Even though Sun and his cohorts did not retreat in the theoretical debate with the Royalists, in practice he soon learned a lesson: virtually no common peasants were moved by the call to agrarian revolution. He then understood that the inequality in Chinese agrarian society was only manifested in a distinction between “extreme poverty” and “less extreme poverty.” Therefore, failing to mobilize the peasant, Sun Yat-sen changed his strategy into organizing “Parties’ uprisings.” The so-called bourgeois revolution he initiated, ironically without the support of the national bourgeoisie, finally turned into an internal war of provincial division waged by the warlords controlled by Western colonial powers.

The young Mao Zedong wrote a report called “On the Peasants’ Movement in Hunan” in the 1920s, showing his affirmation of the much berated “Rascals’ Movement.” Building on this work, Mao formulated a primary theory of class division in Chinese society. Later, during the Autumn Harvest Uprising and in the process of establishing a revolution base at Jinggang Mountain, he attempted at “attacking the local ruffian landlord and redistributing land-ownership”; soon after, because the small peasants did not produce enough to feed the Red Army, he changed his agrarian revolution to “attacking the local ruffians to gather provisions for the army.” For this practical policy change, he was severely punished by the CPC Leftist leadership and almost lost his life. Later, although the Red Army had recruited over 300 thousand soldiers from Jinggang Mountain and other bases, without adjusting land policy to the contextual environment, the “Soviet Revolution” in China failed. After that, the Red Army embarked on an arduous expedition – the Long March. To escape military attacks, they changed their destination several times and finally decided to settle in North Shaanxi Province. Taking away the factor of the Sino-Japanese War, what accounted for the final success of the CPC – the fact that the Red Army could gain a foothold in the poor region of North Shaanxi, and that “Marxism can be derived from the village of North Shaanxi” rather than an application of doctrines from Moscow dogmatically upheld by Wang Ming – was precisely the adjustment of reform from “land redistribution” into a reduction of land tax and rent;

from “attacking the local ruffians of landlords” into an acceptance of “Li Dingming as an enlightened local gentry.” Such moves implied a preservation of the tradition of the rural elite’s self-governance. Mao’s article on the Two Theories and on “How to Improve Our Learning” in *The Selections of Mao’s Writings* are products of this struggle between the Chinese Communists and the Soviet doctrinaires.

## **ii. Opposition of scattered peasants to state industrialization**

Having learned from the lesson of blood, the peasant-based Chinese Communist Party gradually started to correct the extreme leftist orientation imported from the Comintern. Meanwhile, in the 1930s, the intellectual circle in China also went through a period of self-reflection. A group of scholars, focusing on the context of the Chinese situation, started a discussion of the Asiatic mode of production. They referred to the self-reflective writings of Marx in his late years concerning his limited knowledge of ancient societies in Asia. He admitted that his theory derived from the tradition of Morgan and Darwin on the five historical epochs in the West was not applicable to the unique character of China. This discussion brought a ray of hope to “localize” the western-based social sciences in China.

In ancient eastern countries, irrigation-intensive agriculture was the primary mode of subsistence. This mode of production required small social groupings such as family or village (clan) to be the basic unit of society. Their historical development therefore differed from Western societies, which consisted primarily of hunter-gatherers and herdsman, with the individual being their basic social unit. I reached this conclusion by observing the remnants of human civilization at the New York Metropolitan Museum, the Great British Museum in London, and the Louvre in Paris. The evolutions of Eastern and Western civilizations were clearly different. The different modes of production in ancient times gave rise to different social structures. Appropriation of nature – hunting and gathering – required a strong body and physical prowess, which led to the development of individual-based societies. In the East, particularly in China, a gigantic country that until now has never been completely colonized by the West, self-sufficient communities based on social groups emerged when primitive tribesmen irrigated their land together along the continent’s rivers. The Xia Dynasty that emerged 4,000 years ago as the first state in China was a result of Xia Yu’s success in developing an irrigation system preventing the flooding of the Yellow River. Such historical processes were neither related to class oppression nor pillage.

That was the reason why the western institution of slavery never appeared in China.

We also have to pay attention to the result of the discussion in the 1930s: Ever since scholars who emphasized the Chinese context were labeled Trotskyists, the discussion of how historical materialism might be compatible with the context in China was accordingly interrupted. Meanwhile, *The Age of Slavery*, an influential book in the theoretical circle, was acclaimed because it argued that China, like the West, had the “five epochs” of historical development, including slavery. This theory was taken up by some economists who concluded from their rural research that “80% of the land was controlled by 10% of the population – the rich landlords.” Their conclusion was a very influential political judgment, in the sense that it provided the theoretical basis for the nation-wide land reform.

In order to understand the impacts of institution on economic developments, I studied the founding of rural fieldwork in this century chronologically, disregarding the researchers’ political views. Initially my study proved that the “separation of rights in land ownership and land use” is a system derived from the internal structural logic of the rural society: on the one hand, the increase in population, which led to a tension of land-population ratio, had prevented land ownership from falling into the hands of a few. On the other hand, as a result of high rental rate, the right in land use was limited to kulak and middle farmers who had the capability to manage agricultural production. These property rights systems maintained a balanced distribution of land resources and rural labor that supported an extremely stable social structure of Old China for centuries.

How, then, do we explain the frequent social uprisings and class struggle in Old China?

A further structural analysis revealed that the major conflict that led to the collapse of peasant economy in modern Chinese history was the conflict between peasants and landlords who were also usurers, industrialists and merchandisers. The industrial and commercial capital accumulated through the circulation of goods had increased the degree of exploitation of peasants, which became much more severe than the exploitation of land rate; and the profit from usury was even higher than profit from industrial and commercial capital. This conflict reflects that the essential problem yet to be tackled is the developmental path of this agrarian country. In other words, the issue at stake is the means of extracting and accumulating capital, in the process of urbanization and industrialization, from a highly scattered and low surplus agricultural economy. We have developed a scale to measure the effectiveness of the

system in this kind of agrarian country: A system is considered effective, if it may efficiently lower the transaction cost paid by the millions of scattered peasants and complete the primitive accumulation of capital in the inevitable historical process of industrialization.

## II. Two Basic Theses

CONSIDERING the imperatives of rural development, one can see that there are two basic theses in the studies of rural economics: First is the constraint for an innovation of land system under the pressure of high population density. The other is the constraint of an agricultural surplus-distribution system under the binary structure between the urban and the rural.

### **Land Reform under the structural constraint of high population density**

#### *(a) The issue of property rights in land reform*

The land reform that was launched to redistribute land ownership according to the family size of peasants (including landlords and kulak) was the direct result of the Third Agrarian Revolution War (also known as the War of Liberation). In practice, it was a thorough privatization of farmland (except the right to lease land) including those originally publicly owned farmland in traditional villages.

Afterwards, the interdependent Mutual Aid Teams ensured that the land rights of peasants could remain unchanged; the Primary Cooperatives, which were set up in the 1950s based on pre-existing villages, also allowed the peasants to hold shares of the land property. However, since the Advanced Cooperatives and the People's Commune came into being in 1957 and 1958, respectively, the natural boundaries of traditional villages (clans) were broken and the peasants lost their land rights. This time, it was a complete nationalization of privately owned land. But from 1957 to 1962, a short interval of five years, a nation-wide famine broke out, pressuring the government to readjust its agricultural policy. The production units changed from "people's commune" and "brigade" to "production teams," and natural villages once again became the bases of production and land ownership.<sup>5</sup> At the same time, in the 1960s, the readjustment gave space to the development of private land, free market and "contract system" which meant that the peasants could keep a small portion of land for their own subsistence. By the end of the 1970s, the government finally gave back most of the land ownership rights to the peasants.

Currently, the so-called Shareholders' Cooperatives in villages, based on "dual structural property rights", are widely practiced in many regions. The central idea of this system is to protect the peasants' land rights through contracts, while the villages hold shares of "publicly owned land." Many conflicts occurred in the villages, which involved unduly occupation of land and the underestimation of land value by the local government.

*(b) The structural constraint of "rural China"*

Examining the five thousand years of Chinese agricultural civilization, we can see that the tradition of peasant economy and the tension in land-population ratio actually complemented each other. Under this constraint of "rural China," the major historical events were caused by man-made calamities rather than natural disasters. Very often the problem was that the rich and powerful occupied land by force, bearing witness to the theory that "the real evil is not scarcity but unequal distribution." Or, it was due to the excessive construction of "infrastructure," continuous warfare, and heavy taxation which led to an increase in mobile population and social instability. When coupled with a natural disaster or foreign invasion, the social crisis inevitably led to a "reform," or even a change of dynasties. Then, the very first national policy of the new dynasty usually was land redistribution and tax waiver.

The so-called heydays of Chinese civilization, the Han and Tang Dynasties, were successful because these dynasties increased their agricultural productivity by expanding their territories. Because of the large number of wars, I exclude Jin and Sui in my list of examples. The political instability of the Song and Ming Dynasties both had to do with the imbalance in the ratio between land and agricultural resources on the one hand and their population on the other hand. A most obvious example is the Mongolian invasion of China. Despite the fact that it was foreign domination, and that the Mongolian tyranny implemented most brutal policies, which were unacceptable to the common folk, the Yuan Empire still lasted 87 years. It was related to the unprecedented size of its territory which released the tension of land-population ratio. The situation of the Qing Dynasty was similar to the Yuan Empire. The Manchus, a small ethnic minority, in ruling the vast continent for approximately 280 years, owed their success to their adaptation of central China's culture into its own governmental system. However, more significantly, the vast territory of the Qing Dynasty enabled a reallocation of land and natural resources and reduced the tension derived by population density. Together with the reduction of taxation, the adjustment of land-population ratio led to a long period of social and political stability.

From the late Qing period to Republican China, the continent was first invaded by the foreign powers and then plagued by domestic warlords. With a rapid increase in population, the ratio of available resources to the population went down dramatically, which subsequently resulted in the polarization of the rich and the poor. However, the rural community in traditional villages could still be self-sustaining because of the stabilizing system of property rights, which was characterized by the "dual land ownership," i.e., "separation of rights in land ownership and land use." Since the mid 19th century, the Taiping Rebellion, the Sino-Japanese War, and the two Civil Wars greatly decreased the population of China, approximately by 20 to 30 percent. These changes more or less altered the land-population ratio. However, the context did not allow a nationwide readjustment of the land-population ratio, which resulted in a serious regional difference in agricultural production. Despite the fact that in the South tenant peasants outnumbered land-holding peasants, and vice versa in the North, the living standards were considerably higher in the South than in the North. This discrepancy explains why the peasants' revolts became a dominant revolutionary force in the North.

When the War of Agrarian Revolution won its victory, Mao redistributed land to the peasants in his land reform; Deng Xiaoping's policy of "15-year contract of rights in land use" was another redistribution of land. The third generation of leaders in China followed the policy of their predecessors, promising that the contract of rights in land use would not be changed in the next thirty years. Under the constraint of the tension caused by the land-population ratio, these three succeeding land reforms, all aiming at the equal distribution of land, could only be implemented by dividing farmland along the natural boundaries of villages. Indeed, the fact that villages in China cannot afford the institutional cost of polarization is also a result of such constraints. This is an important issue we all know but have not adequately articulated.

### **"Rural problem in three dimensions": principle of equality versus the market economy**

Because of the extreme tension in land-population ratio, arable land in China, as "survival material," which is to be differentiated from the notion of "production material," can only be distributed among the village population, which embodies the principle of equality. In our experiments, we have promoted land transactions. In the past ten years, only one percent of the peasants have sold their rights in land use to others. It proved that this kind of property rights system, which grew out of our internal

structural constraint, is not compatible with market economy. The notion of efficiency, a goal set up by agricultural economics, cannot be a guiding principle for land reform in the present context of rural China, unless there is a radical change in land-population ratio. Due to the lack of resources, China throughout history has never had a purely "agricultural" economic problem. The real problem is always "rural problem in three dimensions".

Under the framework of property rights theory in institutional economics, the restructuring of land property rights, a manifestation of the idea of equality, was a result of transformations in the political system, either through revolutions or by governmental reform. Because the formation of this unique property rights concept is contingent upon the convergence of political forces rather than market forces, in our history, the notion of "private" property never existed. This is an important element of "All land under the sky is the king's land, and all natural resources are the king's servants" – the basis for feudalism and centralized authority.

*The binary opposition between urban and rural: agricultural surplus-distribution system – Over-exploitation of small farmers' surplus*

An economist pointed out once that, as early as one thousand years ago in China, the commodification rate of agricultural product had already reached 15%. In recent years, China has been industrialized, but out of the total production of grain, the percentage of commodity grain was only increased to 30%. 15% of total yearly grain produce was state-owned. Statistics showed that 50% of rural peasants did not produce any commodity grain, and only 30% of rural peasants could sell more than 30% of their total produce. Therefore, 70% of the small peasants faced the problem of low surplus rate. Industrialization did not solve the problem of rural poverty; indeed, the situation was worse with population increase over time under the rural-urban binary structure.

Under the structural constraint in China, whether it was armed revolution or peaceful reform, the subsequent result could only be an equal redistribution of land. We can see that the core of Chinese society's "stabilizing structure" is an internal distribution system of property and profit in the peasant economies. In the villages, the economic internalization of property and the mechanism of profit-distribution became a stabilizing force for rural society, and essentially, it rejected the capitalist system that accompanied Western industrialization.

*"Four attempts to industrialize China"*

There were "four attempts to industrialize China" since the late Qing period. First was the "Westernization Movement" (Yangwu Yundong)

initiated by the Qing government from 1850 to 1895. The second one took place from 1920s to 1940s with the Republican government. Both led to the outbreak of revolutions because the bureaucratic industrial and commercial capital had extracted an excessive amount of surplus from the peasants that intensified social conflicts.

The other two attempts were the so-called two "historical phases" I mentioned at the beginning of this paper: The first phase was from 1950s to 1970s, when the central government launched industrialization in the name of "socialism" and "people's ownership" and was relatively successful in completing the primitive accumulation of state capital. The second phase took place since the open door policy in the 70s. Under the goal of rapid economic growth set up by the central government, the local governments initiated "local industrialization" on different levels, which successfully accelerated economic growth and national power, but also created serious environmental problems. Institutional innovation was mainly aimed at tackling the problem of transaction cost between government and peasant in the process of capitalizing resources and extracting agricultural surplus.

### *Primitive accumulation of capital in state industrialization*

By the time the People's Republic of China was established, the West had already partitioned resources through colonization, and the geopolitical structure brought about by the two World Wars was fixed. China had no choice but copy the Russian model of industrialization in order to "stand up." It had to complete the "primitive accumulation of capital" which could not possibly be done under the conditions of a low-commodity-rate peasant economy.

In the first three years since the establishment of the PRC, its four hundred million peasants were able to provide enough agricultural produce for the fifty million urban population. During the first Five-Year Plan, twenty million rural labors were recruited into the city to support the construction of industrial infrastructure. The sudden increase of 40-50% of grain-consuming urban population led to a shortage of agricultural produce. Moreover, with the excessive amount of surplus laborers in the village, the mode of accumulation in this peasant economy was indeed investment of labor force rather than capital. Industrial products, therefore, could not enter the rural market and the two sectors could not support each other through the exchange of products.

As a result, China was forced to carry out an unprecedented self-exploitation led by a highly centralized government: In the villages, what was implemented was a symbiotic system of people's communes and state

monopoly for purchase and marketing, while, in the cities, a system of planned allocation and bureaucratic institution was established. By controlling all surplus value produced by both rural and urban labor, the central government redistributed resources to expand heavy industry-based production.

Meanwhile, the government converted its developmental strategy of the New Democracy that contained elements of private capitalism and state capitalism into a state monopolized property ownership system during the period of the so-called "transition toward socialism." In the process of developing heavy industrial bases, it required an intense investment of capital and limited labor force and thereby restricted the influx of rural laborers into the city and reconfigured the binary structure of the rural and the urban. Although thousands of peasants perished in the process of capital-accumulation of state industrialization, China finally crossed this threshold in the shortest time and completed the formation of industrial infrastructure for the political and economic autonomy of the country. This unique historical period from the 50s to the 70s, the Age of Mao Zedong, was also called the Heroic Period because everybody was devoted to the betterment of society.

### **III. Restrictions on Development and Alternative Policies**

#### **Rural development under the restriction of the dual system**

What do we inherit from this period? It is the gigantic state capital in the name of "people-owned property." State capital has been gradually redistributed and possessed by recent and future generations, with the various claims that they may stake. But, people also inherit a problematic binary system that divided the urban and the rural into antagonistic positions. Obviously and unfortunately, everybody is eager to take part in the redistribution of capital only, leaving the problem of the binary opposition to others in the future to solve.

An expert on central policy studies, Mr. Du Runsheng, pointed out in the 1980s that China's agricultural economy would have no future if the situation of "eight hundred million peasants feeding two hundred million citizens" could not improve.

According to Western economics, the flexibility of the demand for agricultural produce in the city would be predictably low because the demand is state-safeguarded and highly centralized. By contrast, the supply from the countryside is self-sufficient, mostly scattered, and very flexible,

which is actually completely different from the case of the West.

Because of the rural-urban binary structure, the flow of information is asymmetrical. Agricultural supply and demand fluctuate. For this reason, the market for agricultural produce and the fluctuations in price do not follow any predictable order. Then peasants typically try to grow a variety of produce, as a result, to cater to different markets in the hope of avoiding risks, unless the government helps them gain financial security. This situation leads to further fragmentation of the scale of agricultural production. This, in turn, intensifies the market fluctuations. From the 80s to 90s, the fact that cyclical “excessive supply” occurred three times is an example of this logic.<sup>7</sup>

In addition, due to the increase in rural population, arable land gradually became a basic prerequisite for peasants’ survival and not merely a factor of productivity, and its surplus accordingly decreases. The theory of “population trap” can partially explain this paradox. If the surplus rural population of a particular place could not move out, the benefits of either modern technology or government’s price policy would not take effect. Quite on the contrary, any effort on the part of the government, which usually involves financial subsidy, would only bring about negative effects. Obviously, none of the governments in the world is able to subsidize such a vast and semi-unemployed rural population as the one in China.

Therefore some have claimed that China has no ranches and the USA has no peasants. European countries and the United States have consistently endeavored to protect the resources that they have accrued in the period of colonization, paying special attention to their agricultural resources, which have an affinity to the ecosystem. For that reason they subsidize the ranchers in the rest period and do not allow the ranchers to maximize their production in order to protect the natural resources. The negotiation between WTO and Uruguay that took place recently was done on terms completely dictated by the West. If we take into consideration the potential competition between our small peasants’ economy and the giant international agricultural economy, we should remember the catastrophic precedent of the bankruptcy of the peasants in Suzhou and Hanzhou – the areas reputed as “worldly paradise” – raided by the international market in the 1930s and 1940s.

### **Alternative Policies**

In the past, China tried to enlarge the “scale of economy” in agricultural production by establishing collectives, and then, the situation worsened. Adding a plow to a scythe—one small peasant to another—the simple

regrouping of individuals would not lead to any progress in productivity. Now the government and its technocrats still have not given up the attempt to enlarge the "scale of economy." But, since the agrarian population has doubled, and if we take the situation of surplus labor force into consideration, "investment of labor instead of capital" should be our guiding principle in economic development. In any region, no matter how developed it is, any modern and capital-intensive agricultural production cannot achieve a reasonable ratio of investment-production.

I believe policy-makers have two options: one, the primary policy of China should be a "labor intensive development." The government can direct the plentiful labor force into the building of state infrastructure, even if it implies a slow growth rate and a low level of technological development. Meanwhile, the government can accelerate urbanization by doing away with the dual system at least in small cities, counties and towns to readjust the industrial and employment structure and facilitate the transfer of surplus rural labor to other sectors.

The second option is, if the first proposition is too difficult to carry out, we should then focus on an institutional innovation characterized by a "non-market" system in rural communities that equalizes the internal property and gains of the communities. At the same time, the government needs to dissolve the monopolies in circulation and finance, so that the external economic scale can be enlarged to sustain the small peasant economy.

Short of this, the peasants have no hope, the villages cannot develop, and agriculture can never stand alone as a market-oriented industry. Of course, this would not prevent a few major metropolitans from modernizing themselves with the mushrooming of slums. That would inevitably fall into the Trap of Latin-Americanization.

*Translated by Petrus Liu*

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#### NOTES

1. "Rural problem in three dimensions" (*sannong wenti*) meant: the rural problems cannot be simply treated as an agricultural issue, but inter-related with rural people (income/migrant/etc.), society (social capital development and multiple socio-economic and political issues), and production (agricultural vertical

integration/ township and village enterprise development) etc. I have published several papers from 1989 to 1999 to argue that China is not a large agricultural country but a huge rural population country. There is no isolated agricultural problem, but rural problem in three dimensions.

"Rural problem in three dimensions" is nowadays a hot topic in central governmental policy studies. There is a recently founded "State Council Office of Important Economic Issues," in which "rural problem in three dimensions" has been listed as one of the most significant issues, to be tackled by the so-called "fourth generation leadership." The ever-worsening situation in rural areas has led the politicians and their technocrats to accept and address the "rural problem in three dimensions" again.

2. The rural reform experimental zones were founded in 1987, by former RCRD (Research Center of Rural Development) which has been one of 5 major policy think tanks in the reform of the 1980s. I was one of the researchers engaged in the rural experiments to insist on the policy studies projects for 11 years, even though RCRD was disbanded in 1989. Otherwise, the government would have signed the "policy letter," in which the government would acknowledge the "market oriented reform" in the rural area in order to gain \$300 million "World Bank Adjustment Loan". This policy letter was 5 years earlier than the formal announcement at the 1992 "14th CPC Congress".
3. The title of this paper is the subtitle of my newly published book *Study on Basic Institution of Rural China*, published by China Economic Publishing House, May 2000. This paper is a summary of my book.
4. Mao defined his Agrarian Revolution not as "Communism" or "Socialism", but "New Democratic Revolution." Deriving from his concept, Chinese scholars redefined Sun Yat-sen's political movement as "Old Democratic Revolution".
5. The public ownership took place only in the short period of Advanced Cooperatives and People's Commune, when the so-called rural "collectivization" was caused by the selling of industrial products to the rural. It meant that the success of industrialization in the First Five Year Plan required the government's intervention in setting up larger rural organizations for creating the demand for urban products.
6. "Dual structural property rights" means that the villagers can hold the membership right of the village resources as share holders. It is different from the individualized property right in the West.
7. These events happened in 1984, 1990 and 1997 as the over-supply of grain and other agricultural products.

# Social Structure and Tension in China's Villages<sup>1</sup>

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## Abstract

The word "tension" means latent social discontent that has not yet broken out into the open. In China's villages, tension is widespread. Although not yet breaking out into the open, tension still erodes the stability of rural society. Tension in China's villages is an expression of a structural contradiction which departs from the usual logic of rural development. While the market economy expands, not only do China's villages remain semi-open, but they even, in fact, become more closed as a result of interventions by the state. Hence, members of villages turn to the village for protection. However, under the impact of an open world outside, the village is unable to provide the kind of protection sought by its members, thus fanning social tension. Due to the inability to address this basic contradiction, many measures put forward to resolve rural problems are ineffective.

## Introduction

Social contradictions are common in China's villages. Some of these take the form of confrontations such as filing complaints, charges, or lawsuits, or even more extreme behaviour. But the most common form is tension which does not express itself as direct confrontation but as non-cooperation. Everyone has his own way to express dissatisfaction. Although tension is not open conflict, still it erodes the stability of rural life.

Without doubt, there are many reasons for social conflict and tension. This essay attempts to analyse the relationship between the general

phenomenon of tension and the present structure of China's villages. Our sources of analysis come from personal research conducted in two villages which are located in China's north and south. The two villages are comparatively well-off.

### Expression of Tension

In recent years, the economic development of villages X and Y has been relatively fast. The township to which Y belongs is the location of one of the ten most important commodity markets in Wenzhou. With the fast pace of urbanisation, Y has been integrated as part of the township; and has ceased being a typical village. There is not much arable land left, and almost everyone now engages in non-agricultural activities. Even houses are no longer clustered together; instead, newcomers mix with old villagers. While private enterprises take off, those belonging to the village collective also develop fast. This is something uncommon in Wenzhou. Even in the entire province of Zhejiang, Y is a leading example of advanced development of the village collective economy. In Village Y, resort-like residences have replaced many old houses. There are tens of privately owned limousines.

In Village X, all enterprises are now privately owned; the former collective enterprises have gone bankrupt. However, the high level of development in both villages does not preclude social tension. On the contrary, there are various complaints and expressions of discontent.

In general, the major forms of social tension are:

1. Open expression: some members take every opportunity to openly express their dissatisfaction. For instance, in Village X, in an attempt to regulate car speed, blocks were placed on roads. Although the measure was to enhance safety, especially for children, troubles still brewed in the open when the blocks were constructed. Village cadres were subject to verbal abuse. Many of the instigators did not own cars.
2. Complaints "behind the back": this is an even more common form of expression than that of open expression. Although villagers do not want to reveal their genuine feelings in front of the cadres, the latter know very well that relationships within the village are tense. Prior to our research in Y, the cadres there reminded us that there would be a multitude of opinions. In the course of the research, villagers told us many things about the cadres and made various complaints. Some of the complaints have nothing to do with those who made them; others are closely connected. Although

some complaints are unfounded, still they are what villagers think.

3. Boycott and non-cooperation: for most of the time, peasants are indifferent to affairs of the village. Instead of actively taking part, they keep away from village affairs. From the example of the construction of roadblocks, one can see that villagers do not take part in affairs that concern the whole village. During election periods in the village, incidents of non-cooperation are especially common. Less than 50 percent showed up to vote in the elections in both villages. Many villagers stay away from elections. The relatively high vote is obtained by moving the ballot boxes around. Votes obtained this way do not always reflect the views of voters as many factors come into play in the process.
4. Serious distrust: Distrust is one of the causes of tension; it is also a form of expression. Many villagers seriously distrust cadres. On the one hand, peasants do want cadres to show up. On the other hand, they think that all cadres come with their own personal interests; they only seek to further their own ends. They are far away from the decision process which they distrust.

At present, both villages have openly declared their respective financial accounts; but villagers remain sceptical. When it comes to recruitment for collective enterprises in Village Y, villagers are again sceptical, even though there are clear guidelines. In particular, families that have young people waiting for work at home point their fingers at cadres. They charge that cadres have manipulated the recruitment process, even though they are unclear how this is done. Villagers of Village X are also full of misgivings about contracting the village's arable lands, especially when the successful bidder turns out to be from outside the village. Many decisions of the village, in particular those that tie the village's resources to outside forces, are bound to arouse mistrust of the villagers.

The same social tension is also found in many other villages. In the way it is expressed by peasants, one can see that some are genuine, while others are mere expressions of peasants' feelings. However, one should not dismiss the problem as one that merely arises from the peasants' imagination. Although in most cases, there is no truth in what the peasants say, the depth of their feelings is unmistakable.

### **Characteristics of Tension**

At present, China's villages are undergoing change. In times of change, social tension is common. The kind of tension found in China's villages at present is marked by the following characteristics:

First, most of the discontent centres on internal affairs of the village, in particular, the village cadres. If in reality, village cadres have many roles, then it is their role as community leaders and village cadres that the villagers resent. On the one hand, many villagers resent that the pace of development for their village is not fast enough. They do not benefit much. In Village Y, many say that they have yet to receive any benefits from the village's reputed economic development. The collective enterprises established in the village are marginal to them.

The village can neither resolve their problem of unemployment nor bring them any concrete benefits. Some also say that as a result of wrong decisions made by cadres, development of collective enterprises in the village almost comes to a halt. Such opinions are in line with those expressed by the media. According to most media, the lack of good leaders has hampered the growth of villages. Hence, when villagers are unhappy about life in the village, they naturally turn their dissatisfaction onto the village cadres. On the other hand, villagers are suspicious of cadres, suspicious that they are looking only after their own interests. The father of a man who owns a business in Village Y explicitly states that "my son is rich; but he earns his money from outside. He doesn't cheat the village. They (meaning the village cadres), however, always cheat. Why do they take up so much land, and such a vast stretch of woodland? That belongs to the village." In Village Y, villagers think that the village's chief cadres sell out on them in exchange for shares in privately owned enterprises.

As a matter of fact, peasants' livelihoods are now closely connected to the state and to the market, and are greatly affected by these two. However, complaints against the outside world are comparatively few even though the two villages under study have many economic connections with the world outside. For instance, villagers in Village X are not happy with the method of contracting land. However, the policy of farming with economy of scale is set by the government from above, not by the villagers themselves. Still, villagers put the blame on village cadres.

Second, what is said is not necessarily what is meant. That is to say, even as villagers air their grievances, they actually have something else in mind. Discontent is all too true and is far more complicated than those that have been aired; and is therefore also far more vague. In both villages, there are villagers who keep accusing cadres of serving their own interest but without actually relating concrete incidents. Again, in both villages, there are people who say that turning arable land to non-agricultural use is wrong and harmful to the survival of future generations. But in actual fact, people from both villages have already benefited from the change. Moreover, in both villages, the importance of agriculture is no longer

what it used to be. If such dissatisfactions were expressed mainly by older people, then one might say that they find it hard to accept change. However, there are people who have never farmed and would never want to do so, but still air such opinions. Clearly, they are unhappy about things. What these are is another matter.

There are many reasons for such discrepancies between what is said and what is meant. In the first place, it is likely that since tension and dissatisfaction are widespread, some of these are hard to pinpoint. For instance, many in Village Y think that despite the reputation the village enjoys, they have been left behind. Even though there are majestic buildings in the village and some villagers are quite well off, most villagers still have to rely on handicraft work to maintain a rather poor level of living. That is why most people are unhappy. But in a place such as Wenzhou where individual ability is lauded, people are somewhat inhibited in expressing this particular grievance. Hence, they tend to say this and that to express themselves. The dissatisfaction over the construction of roadblocks in Village X is not confined to the incident which provides a pretext for expressing pent-up grievances.

Due to general discontent, dissatisfaction on the part of villagers turns into mistrust of cadres. In both villages, there are accusations against cadres over such things as serving their own interests or even cheating. But such accusations are rarely backed up with concrete facts. As a matter of fact, villagers doubt if they can obtain reliable facts, since they are far away from the decision-making process and they have strong opinions about the transparency of village affairs. However, in both villages, there are clear guidelines for managing the finances of the village, and accounts of incomes and expenditures are available. In Village X, there are even formal procedures for villagers to openly discuss village affairs. Nonetheless, villagers are still suspicious.

Third, when villagers express their opinions, they tend to seek legitimacy from the world outside. They often adopt double standards in the treatment of village affairs. In Village X, it happened that a contractor from outside the village ran away with wages for all the contracted workers. The villagers expressed their sympathy for the workers but did nothing as the workers came from outside the village. The villagers admitted that had the workers come from the village, they would not have allowed such things to happen. However, when it comes to their dissatisfaction over certain affairs of the village, they will seek legitimacy from outside sources such as government policies, and opinions expressed in the media. That is why even though the two villages are rather different, the grievances expressed are quite similar. They have to do with problems over land,

pollution, malpractices by cadres etc. This is in line with the general opinion of society as a whole.

We do not deny that one of the causes of tension in villages is the demeanour of cadres. However, this is not the entire reason. If it is only a problem of conflicts between the masses and the cadres, then the problem can be resolved by having the cadres replaced. For both villages, this is not the case. Complaints and grumbling against cadres are often refracted opinions on village affairs. As village cadres are the power holders in the village, they often come to personify the village. Almost all the decisions regarding the village are taken by cadres. Village affairs are completely identified with the cadres. No wonder, dissatisfaction over village affairs takes the form of dissatisfaction over cadres.

Although peasants' grievances take on many forms, in actual fact, they point to two directions. The first has to do with the interest of the village, that is to say, the kinds of benefits and welfare the village brings. Among villages located in more advanced areas, it is common to find complaints that peasants have received very little benefits even as the village economy has seen rapid development. The other common complaint has to do with inequalities in the village. Fingers are often pointed at cadres, that they have benefited themselves or their relatives or even people outside the village at the expense of the village.

### **Village Structure**

Tension between peasants and the village depends greatly on how closely connected to the village the villagers are. In both villages, with economic development, many villagers have established links with the world outside and chiefly depend on outside resources. Even though these people still live in the villages, they no longer rely heavily on the villages; and their degree of dissatisfaction is comparatively low. In contrast, for those who still rely heavily on the villages to provide them a living, the degree of dissatisfaction is high. Hence, tension within a village is a reflection of the degree of its openness to the world outside.

Among studies of peasant society in the third world, the closed nature of village society has always been the center of discussion. In the eyes of researchers of peasants, peasant society has always been a closed society. With the development of commodity economy, especially the marketisation of agricultural products, the entry of the state and of western capitalism, the closed nature of villages has been broken. The two major schools of thought in peasant studies, namely, the moral economy school and the rational peasants school, though holding diverse views about peasants, agree on this process.

Popkin calls the first type of village "corporate village" and the second type "open village". For Migdal the distinction is one of inward or outward orientation. Popkin adopts four criteria to determine whether a village is open or not. These are taxation, village boundaries, land ownership and identity of villagers (Popkin, 1979). Migdal adopts three criteria, namely uses of cash, market condition and labour mobility (Migdal, 1996).

In so far as the peasant society is concerned, the transition from a closed society to an open one is a period of very important change as it marks the structural transformation of a closed village society, where the relationship between peasants and owners of resources, chiefly landowners, is characterised by a strong sense of protection and dependency. According to Scott, such a strong sense of protection and dependency arises out of a subsistence ethic. As small-scale production renders peasants almost powerless to cope with risks, a subsistence ethics arises whereby owners of resources protect their followers from hardship, enabling them to survive (Scott, 1977). Seen from the point of view of the school of moral economy, such protective relationship is a kind of patriarchal benevolence (Popkin). In their view, the very setup of a village is a system designed to protect its villages (Scott, 1976). Although Popkin thinks that patriarchal benevolence is simply a ruse to further the interests of owners of resources, he agrees that a relationship of dependency does exist.

Scott writes, "If the need for a guaranteed minimum is a powerful motive in peasant life, one would expect to find institutionalized patterns in peasant communities which provide for this need. And, in fact, it is above all within the village—in the patterns of social control and reciprocity that structure daily conduct—where the subsistence ethic finds social expressions." (Scott, 1976, p. 40) In their studies, the village provides protection due firstly to the presence of common resources - Scott emphasises in particular such examples as public lands in European villages; secondly, to social pressure exerted on the rich generated by gossip in particular; and thirdly, to the presence of certain institutions such as forms of mutual help.

The closed nature of villages is precisely the reason that it can be maintained. As outside forces, such as colonisation, commodification and the expansion of the state enter the village, the closed nature of the village is broken up. It may begin with some enterprising peasants (including landowners) entering the market. In the past, these people were held in check and could not disengage themselves from providing protection. Now, with the encouragement of outside forces, they no longer provide protection for fellow villagers (Migdal, 1996). Secondly, the complex relationship between peasants and providers of protection is replaced by

a single uniform relationship. In the past, peasants had to rent the land they farmed from landowners. When they needed money, they also went to landowners to borrow. Between the peasants and the landowners, there were various ties. Now, peasants are in contact with different kinds of people. They can turn to different people for land to work on, or to borrow money. Such relationships are placed on equal footing; and in this way, the relationship of protection is broken (Popkin, 1979). Even though the two schools differ on how openness of a village is to be gauged, they do agree that things are changing, and that the complex relationship of protection and dependency between peasants and landowners is something closely connected to the closed nature of a village.

In the studies of Joel S. Migdal, the degree of the outward orientation of China's village is quite high. According to his ranking, 9 points represents total outward orientation, while 3 points represents total inward orientation. In his studies, the seven Chinese villages chosen have an average score of 7.43 points, far exceeding those from other areas such as southeast Asia or even Latin America (Migdal, 1996). The villages chosen are from pre-1949 days. The analysis is based on researches carried out by some anthropologists. While the chosen villages are not representative of villages in pre-1949 days, to some extent, they point to the fact that in pre-1949 days, many villages in China were rather open. However, with the implementation of land reform and the establishment of the system of People's Commune, villages became almost sealed up.

In the process of state expansion, the entry of the state into China's villages results in the economic expansion and opening up of the latter. However, politically and socially, the villages become even more restricted. This is quite different from the usual process of development. In the first place, as regards land ownership, the coming of land reform abolished all the rights of ownership for people outside the village. During the People's Commune period, all lands were collectively owned. Even at present, the village remains the chief arbitrator of land use. In Village X, land use is decided by the economy of scale. Each villager receives 0.5 *mu* (1 *mu* equals 0.067 hectare, or 0.165 acre) of land for cultivation, and the rest of the land is left to the village collective to contract out. In Village Y, due to rapid urbanisation, there is not much arable land left. However, with most farmland converted into non-agricultural use, the ensuing income is controlled by the village collective. When land is sold, two-thirds of the proceeds goes to the village, while the peasant household who works the land under the responsibility system receives the remaining one-third. As Village Y is already part of the township, village planning falls under the township government. Even so, land for villagers to build houses still has

to be allotted by the village. The village unmistakably owns the land. It is entitled to control land use in such a way as to maximise income for the village. Needless to say, villagers are also affected in the process.

In Popkin's analysis, an important index is the way liabilities of the village are shared. In a closed village, liability to the outside world is taken up collectively by the village, and then apportioned within the village. Although at present, most taxes are directly derived from operators of business, whenever dues for extraordinary items arise, the entire village has to shoulder the responsibility. It is then apportioned to individual households. When the fees concerned are directly related to peasants, some rich villages will provide subsidies, as in Village Y where many charges are paid for from the village coffers. For instance, in 1998, fees were charged for irrigation works; these fees were paid by the village; villagers did not have to pay. This earned the praise of villagers. Furthermore, the village also at times takes on the work of redistribution as in the case of property insurance in Village Y. Both the government and the insurance company required the village to insure its property. The village again apportioned the principal to every household. Seen from the viewpoint of liabilities, the village still takes up the burden collectively.

Peasants still retain a strong sense of village identity; as Zhe Xiaoye has pointed out, the question of which village one belongs to is still pertinent (Zhe Xiaoye, 1998). As in actual fact the village is in control of considerable resources, the identity of villagers is a necessary condition for obtaining the resources of the village. In Village Y, villagers enjoy special privileges and welfare. In Village Y, certain businesses which normally require little capital but generate considerable income, such as loading and unloading works, are monopolised by people from the village. Some of them are so well-off that they now employ outsiders to do the work while they receive the lion's share of income. Village entitlement is, however, not to be confused with village residence. Some married women may still remain in the village and retain their village residence, but they no longer enjoy village welfare. In Village X, people from outside may obtain residence rights after paying certain fees, but they are still distinguished from people from the village. They cannot, for instance, take part in any land distribution.

With the coming of industrialisation of villages and the development of market economy, the boundaries of villages have become vaguer or have taken on many forms (Zhe Xiaoye, 1996). But this is so only in comparison with the time after the establishment of the People's Republic and in particular during the People's Commune period, when boundaries were clearcut. In many places, the village still maintains a clear boundary

as it still functions as a political unit as well as an economic unit. A village's boundaries are evidenced in the fact that the village owns the land, villagers own village titles, and the village's jurisdiction is clearly demarcated. Within this closed entity, the village is unmistakably marked off by its monopoly over resources.

Seen from the viewpoints discussed above, despite the great mobility of villagers in recent years, despite the further growth of the market, and the fact that the state is intervening ever more in the affairs of villages, villages remain largely closed.

However, the closed nature of China's villages at the present moment is different from that described by classical writers as regards peasant societies of pre-capitalist days. To begin with, this closedness is the outcome of state construction. By means of a land ownership system, a residence system, and a system of local government, a comparatively closed system of villages is formed. For pre-capitalist peasant societies, the closed nature is a result of the lack of contact with the outside world. Once the state began to expand and sent its roots deep into the grassroots level, pre-capitalist peasant societies were forced to open themselves to the outside world. In China, on the other hand, the expansion of the state into villages only increased the closedness of the village's political and economic set-up. In addition, the outside world is changing beyond recognition. The village now faces a strong state and an open market environment. The state intervenes directly into villages which are closely bound with the market.

The closed nature of internal village structures co-exists with the openness of the outside world. This is the gist of the structural contradiction confronted by villages.

### **The Demand and Supply of Protection**

The closed nature of villages results in villagers constantly harping on matters related to village resources and demanding protection. However, in an environment of openness, the village is becoming less and less able to provide protection. This is the source of the general discontent.

As the village has monopolised the resources of the village, villagers are proud of their village identity. This, they think, enables them to have a say over the resources of the village, and also entitles them to demand that the village protect their interests.

First and foremost, villagers are concerned that the resources of the village must not be shared by people from outside. They believe they should remain the sole recipients of any benefits provided by the village.

What happens in Village X is a case in point. As the village's economy has been closely connected to the outside world, the majority of the workers employed in its production of pre-fabricated rooms are from outside the village. While realising the importance of outside workers for the village's economy, villagers are apprehensive, when interviewed, about granting official villager status to these workers. They fear that their rights to arable and residential lands will be compromised by granting official village status to these outside workers. In Village Y, many villagers complain that some newcomers to the village have been granted the right of residence. They fear that their rights will be eroded.

Villagers also want the village to adopt protective measures that would shield them from outside competition. As Village Y is already part of the township, some enterprises have expressed the wish to move into the village. One such application was rejected after the general secretary of both the party branch and the village committee held many discussions over the subject. It is thought that as the enterprise is producing the same type of goods as another enterprise that has already been established in the village by villagers, and as the goods are mainly for local consumption, allowing one more company to establish itself in the village will inevitably harm the interests of the village enterprise. It is common practice to bar outsiders from entry to the villagers' range of business activities. There are factors within and outside the system. It is comparatively easier to set up shops in the village, but villagers run most of these. The reason behind this has little to do with the system. It is a question of trust as well as the fact that villagers are already in control of prime properties in the village.

It is a common demand for villagers that all employment opportunities within the village should be taken up by villagers. In Guangdong Province, even as the job market is fast opening up and outside enterprises are coming thick and fast, key positions such as factory managers of foreign enterprises and custom declarers are monopolised by people from the village (Wang, 1996). The monopoly over loading and unloading by villagers from Village Y is in a similar vein. It so happened that a businessman from outside had bought a piece of land in Village Y and intended to build with pre-fabricated materials which he brought from outside. He had employed outside workers to transport the materials. Villagers from Y raised their objections at once. They pointed out that by purchasing land from the village, the outside businessman had in fact deprived local villagers of land passed to them by their ancestors. Moreover, villagers would hence have less land to work on. Thus, the work of transporting the pre-fabricated materials must be done by local villagers, and at a higher cost too. Similar things happened when Village Y bought

an entire marketplace in a neighbouring village. Villagers there demanded that they be given the job of refurnishing the marketplace. The ensuing talks concluded that local villagers would take up the work of outside furnishing while internal furnishing would be left for people from Village Y. In Village X, many outsiders have taken up jobs in the village. Even the village committee has employed several professionals from outside. However, villagers resent this. They maintain that priority must be given to local villagers.

The closed nature of villages means that there is little distinction between the interests of the village and its villagers. In the view of most peasants, since they are members of a particular village, they are entitled to a share of the village's assets and benefits. As village cadres are a village's direct representatives, demands placed on them by peasants are often a kind of reflection of their demand for a share of the village's benefits.

Such thinking on the part of peasants is completely in line with the thinking of the state, which has always emphasised that cadres should strive to provide welfare for villages. In our thinking, cadres should lead peasants on the way to becoming rich. It has always been maintained that the key to economic development lies in good leadership. As one propaganda goes, "to give money or goods is not as good as providing a good cadre". Such thinking on the part of the state reinforces peasants' expectations of being provided protection and welfare. As previously suggested, the legitimacy of peasant societies comes from outside sources. Hence, their discontent is expressed in ways that can be supported by official ways of thinking.

However, even as villages seem all too closed, they are in fact not closed.

In the first place, villages are constructed by the state and are increasingly placed under more and more state influence. As representatives of the state, local government officials wield enormous influence. Most of the time, they act as agents between the state and the peasants. They have to see to it that policies of the state are carried out and targets fulfilled. Sometimes, they are empowered, as in Village Y, to resolve whatever problems that arise. In some areas, the township government directly controls the finances of villages. In Village X, the expenditures of the village have to be approved by the township government official in charge. Although the money belongs to the village, it has to be managed by the township government. Even basic monthly bookkeeping has to be done at the township government.

In a modern society, peasants can no longer live their lives far away from the state. They are closely connected to the latter. They have to be

on good terms with various departments of the local authorities, and have to rely on officials to resolve problems or to accomplish targets. Not only is the state deeply involved in every aspect of social life, its various macro policies also affect peasants greatly as in food policy and ownership policy. When regulations of pollution prevention were enforced, the dyeing factory in Village Y had to be merged with another factory outside the village since an enterprise must be of a certain scale in order to meet all the regulations.

Secondly, the present village society is also a highly marketised society, and peasants are closely connected with the market. In Village X, peasants can no longer cultivate on their own as the cultivation and irrigation of fields require cash, for the use of tractors and sprays. Agriculture is now highly commercialised, and such important means of production as seeds and fertilisers all have to be bought. More and more peasants have switched to non-agricultural works. In both villages, almost no one works exclusively on land. In Village Y, there is almost no more arable land. The only land left is no more than a few dozen *mu*. It too is left uncultivated, and is waiting for a buyer. In Village X, those that still work the land work no more than half *mu* on average. It is left to an outsider to contract a total of 200 *mu* of land, on which he plants cash crops for sale in the market. In both villages, peasants are highly marketised.

With openness, the internal cohesion of villages has been eroded. Migdal has pointed out that as society becomes more open, some villagers manage to break through the close confines of the village, and forge close links with the world outside (Migdal, 1996). Through such links, some villagers have obtained enormous benefits. They have breached the limits imposed on them by the village, though they still maintain various links with it. In Village X, owners of enterprises have all broken through the confines of the village. Some have established enterprises outside the village; some reside outside the village. Without doubt, they are outward looking. In Village Y, as early as the seventies, some villagers had already forged links with the world outside. There were some specialist households in the village. Although they lived in the village, they did not take part in its agricultural activities. They engaged in non-agricultural work outside. For instance, there is an old villager who once worked as an instructor in a county-owned enterprise in Fujian Province. He has never engaged in agricultural activities. The younger generation seems to have an even wider range of activities. A young person now works in the northeast.

Elites in the village now consist of economic elites as well as political elites. Economic elites are often such outward-looking villagers. They stand aloof from village affairs. Even political elites are now rather outward-

looking. As agents of the state, they are required to carry out state policies and meet designated targets. Hence they have to be outward looking too. There is an important cadre in Village Y, who is not regarded as a capable cadre simply because he does not speak good putonghua, which is thought to be highly desirable when dealing with the world outside. In addition, cadres are actually managers of the village. They represent the village in various dealings with the world outside. For instance, the general secretary of party branch in Village Y has to go outside the village to collect debts. The most important thing is that cadres not only look after village affairs but also their own affairs as they are peasants too. In both villages X and Y, the two chief cadres have contracted large areas of land for cultivation. Knowledge of the market is a must for such large land contracts. Besides, cadres are often engaged in various non-agricultural activities in the village. They may have put in their investment or have bought shares. Hence, whether it is in their own interests or the interests of the village, they have to be outward-looking.

Faced with an open environment and receding cohesion within the village, the village has become less capable of acting as a unit, and hence less capable of providing protection for its members.

### **Brief Conclusion**

The gap between villagers' expectations of villages providing protection, and the actual protection provided, is the major cause of tension. As the village holds monopoly over its entire resources, members expect profit from any development taking place in the village. However, the village has already been placed in a larger context of opening up. Members of villages must interact with this larger context in order to progress. Hence, when villagers in Village Y demanded that only their people could do the job of transporting the pre-fabricated materials belonging to a newcomer, the village cadres sided with the newcomer. To do otherwise will jeopardise investment in the village. Although villagers in Village Y were not entirely happy about the way land was contracted out, the fact is an outsider contracted most land as he had the know-how to guarantee his high bid would yield reasonable returns.

Seen from the viewpoint of the moral economy school, the entry of the state as well as of colonialism and the development of the market have dealt a heavy blow to peasants' security, welfare and even existence, hence peasant protests (Popkin, 1979). The present situation in China is obviously different. Social tension in villages is more often expressed in terms of community tension. Many peasants hold village cadres responsible

for the erosion of protection provided by the village. However, the problem is not only one of personal integrity of village cadres, it is an expression of structural contradictions in villages.

*Translated by Ma Kwok Ming, John*

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#### NOTES

1. The present study is mainly based on the author's research in two villages, one in Wenzhou, Zhejiang Province, and the other in Hebei Province. These researches were supported by the Ford Foundation and the Society of Sino-American Exchange. My thanks to many organisations and individuals from the two villages that have given help, and it is not possible to list them all here. In the present essay, for the sake of convenience, I have named the village in Wenzhou as Village Y and that of Hebei as Village X.

# Credit for Peasant Households and Private Lending

WEN TIEJUN

## **Background and Problems**

Under the double impact of macro conditions of the 1990s and prevailing internal factors, agricultural efficiency, rural employment, peasant income and investment went through a three-year period of sluggish growth since 1997. The long-standing question of incongruence between the rural economy and the national economy has gradually come into the open, and has become more complicated. There are five aspects to the problem.

### *1. Rising costs of agriculture*

According to the Ministry of Agriculture and the State Statistics Bureau, since the 1990s, as a result of the freeze in growth of arable land and the inability of village labourers to switch to non-agricultural jobs, the cost of agricultural production increased by about 10 percent annually, while the cost of services increasing by 9 percent. The lack of demand for agricultural productions, which in turn is linked to the urban economy, has further aggravated the problem. The index for agricultural products is negative for the years after 1998, and the range of its decline is larger than the national consumer's price index. The decline in the price of agricultural products, in turn, puts limits on demand just as the increase in the price of agricultural products in 1994 pushed up the national consumer's price index.

The present problems cannot be resolved by the usual practice of further readjustment of agricultural structure and increase in agricultural

investment. What needs to be discussed is the effects of the subsidies to 900 million rural population in the form of the state setting the purchasing price of agricultural products – the effects are limited and ephemeral in leveling off the differences in gains within and outside agriculture, but this policy in effect pushes up the price of major agricultural products, rendering it impossible for competition in the international market.

## 2. *Negative efficiency in agriculture*

Bound by factors that cannot be changed, costs increase while prices go down. The result is a continuing decline in the ratio of agricultural output to input since 1997.

According to research conducted by the Ministry of Agriculture, under the impact of large increases in the prices of agricultural products as set by the state, the rate of increase of household income for peasants and the increase of income in the planting sector in proportion to that of borrowings for production is a factor of 4.83 and 1.05 respectively. Up till now, there is no reliable figure as to the effectiveness of borrowings for production. However, using the concept of marginal utility, one can say that an increase of one yuan in borrowings for production will bring an increase of 4.83 yuan in family income, and 1.05 yuan in the income of the farming sector. That is to say, in 1996, efficiency in agriculture was still positive. But things began to go wrong in 1997 and in 1998, with family income for peasants down by 3.25 percent. In 1999, family income further decreased by 64 yuan, while that of the sector by a staggering 552 yuan. Borrowings for production no longer brought increased income, but decreases. Farmland was abandoned. Since the reform began twenty years ago, per capita income for peasants went through a four-year fall for the first time.

## 3. *Village and township enterprises tend to depart from agriculture*

Although statistics show that the increase in the value of products in recent years still meets targets, in 1998, the increase in income and taxes was lower by 50 percent than the increase in value. There was a slight increase in 1999. The true picture is that investments in village and township enterprises have been falling since 1997. The problem of cash flow has forced many firms to stop production, or even to close down. Those that are still in production are less and less efficient. With firms having already switched to being capital intensive, it is impossible for them to absorb any increase in labour power. Moreover, the practice of turning village and township enterprises into share-holding companies (or privatised companies) is in itself one more step away from agriculture.

In the first place, the number of workers employed decreases by three to four million annually. Secondly, enterprises no longer commit themselves to subsidise agriculture, and to provide social security in rural areas or other forms of public goods that cannot be provided by the state. The abandonment of these roles, in turn, leads to the cancellation by the state of previous policy concessions. The net result is the quickening of the pace of turning enterprises from being employment-oriented to being profit-oriented. That is the reason why peasants' income is down, and local government debt is up.

#### *4. The worsening situation of debt in rural areas*

Since the policy of fiscal decentralisation in the mid 1980s and the tax reforms of 1994, local governments at both the village and the township levels were endowed with various fiscal powers, and the number of personnel paid by their budget grew. The burden put on peasants could then only be heavier. In recent years, budget deficits at grassroots-level governments have become widespread, and government investment in agriculture as a ratio of expenditure has fallen sharply to the lowest on record. In most agricultural areas, the transaction cost between government and the 900 million peasants has increased to such an extent that makes any transaction almost impossible. However, not only is agriculture unsustainable; it is also unable to pay taxes to the local government. Hence, the problem facing peasants becomes one of non-tax contribution.

Furthermore, due to the fact that local governments expand and the number of village organisations grows, money is borrowed under the thinnest pretext. The amount of debt begins to mount and to spread at great speed. According to the 1997 research conducted by the Ministry of Agriculture in seven provinces, the average amount of debt for a township level government is roughly two million yuan, and for the village level, 200 thousand. But in 1999, research conducted in some provinces indicated that the highest figure of 40 million was reached. In some places, peasants' means of production were forcibly taken away in order to make them pay various taxes. Cash-rich units and individuals seize the opportunity to lend at usury rates. Village committees are forced to borrow from these loan sharks to pay tax. To make matters worse, there is no reliable account of assets belonging to village collectives, so these assets are easily lost. 89 percent of the rural population has an income below average. The gap between rich and poor is widening. Security and unity are hard to maintain. As public goods are delivered from top down, even community self governance cannot manage internal affairs.

### **5. *Financial institutions continue to function as channels of rural capital outflows***

Faced with the above situation, official financial institutions are in a dilemma. On the one hand, as official institutions, banks and credit associations should, in principle, provide credit to peasants engaged in both agricultural and non-agricultural activities. But on the other hand, in accordance with the provision to avoid risky loans, small peasant productions do not qualify for loans. As a result, growth in agricultural credit is inevitably slow or even negative, and money flows out of rural areas which are constantly short of capital. This is not only seen from statistics compiled over the years, but also evidenced in the strong demands put forward by villages and the large amount of individual cases.

From observations at selected sites, in 1999, the average annual balance of deposits for the peasant household was 4,956 yuan, while the balance for loans was 1,726 yuan. The balance of deposit was much greater than that of loans. Compared to the 1995 figures, the balance of deposit grew by 80.6 percent while that of loans by 69.2 percent. The growth in the balance of deposit was quicker than that of loans. It is hence clear that there is a net outflow of capital at the present phase.

### **The Basic Conditions of Case Research**

Our research consists of three parts. The first part is survey of the general economic conditions of villages. The second part is of those who have borrowed money, while the third is of those who have lent money. In fifteen provinces altogether, we obtained 57 cases of people who had borrowed money, but only 27 cases of people who had lent money, as some lenders refused to be interviewed.

Seen from our research, private lending, including usury, is both beneficial and harmful to the development of rural economy and the livelihood of peasants.

### **Villages covered by our research, and the interviewees**

Our case research involved 41 villages spread throughout the eastern, central and western parts of China, covering 24 counties in 15 provinces. The villages chosen included those from the relatively well-off eastern part and from city suburbs in the central and western parts. Cases from these villages illustrate the condition of private lending in more developed areas. As the shortage of capital in these areas is less obvious, we do not focus on them in our analysis. As for the less developed villages in the

eastern part as well as the central and western parts, the shortage of capital is quite obvious, and can serve to illustrate the general condition.

As can be seen from our research, the relationship between lack of capital and economic backwardness is quite obvious. Poor resources, low level of economic development, and small-scale production are the pre-conditions for private lending to occur.

Our research shows that when peasant households have to engage in more diverse activities and when the scale is small, per-capita production is comparatively low (in our sample, the annual income for the household varies from 200 yuan to 5,000 yuan, but the majority falls within the 800-2,000 yuan range). For those households planting staple crops in particular, the per capita income is around 1,000 yuan. In most cases, the figure is reached because some members of the household work in the cities. Those with per capita income approaching 2,000 yuan are generally engaged in non-agricultural work such as animal husbandry, or vegetables and cash crops. Some are engaged in forestry with special products.

### **The widespread nature of private lending and borrowing**

Our research is not based on sampling, but on taking statistics from the cases we gathered from 24 different locales in 15 provinces. We found that only in two locales were there private loans that were interest-free. In all other locales, private loans came with high interest rates. We may conclude from this that incidences of private loans are as high as 95 percent, while incidences of loans at high interest rate reach 85 percent. Although the north-east region is not covered in the present research, previous research on the region shows that a similar high transaction cost between official financial institutions and the peasant masses means that the demand of the latter is never met, and loans at usury rates among the peasants are the norm, with monthly interest rates as high as 20-40 percent. It can be concluded that private lending, especially lending at high interest rates, is a country-wide phenomenon; and our research suggests that the widening gap in income is one of the major factors. It is closely connected to the level of economic development, and the level of per capita income among peasants. The gap in income is especially pronounced within the same village. Figures show that incomes for two-thirds of peasant households are below the national average.

### **Complexity of the problem**

From our research, it can be seen that private loans are no longer a simple economic problem.

In the first place, the problem has already affected various organisations at both the township and the village level. Many village cadres have acted as guarantors for loans. Some of them have in this way incurred heavy debts themselves. Some village committees lent to households at interest rates higher than those of banks. The problem is at the very heart of village organisations.

However, there are also cases where poor peasant households received loans from village collectives without any interest. Others borrowed from village co-operative savings associations at minimal rates. Hence, the participation of village organisation in private lending is not completely negative.

Secondly, private lending and borrowing have also affected the non-economic realms; and its influence is growing by the day. It is easy for conflicts to arise out of private loans. In our research, there are five incidents of conflicts, with three of them leading to scuffles, in one of which, people got injured. Another thing is that it leads to lawsuits. We encountered three such incidents, with only one having been resolved. The other two are considered by the court as too trivial since the sums involved are small. Some peasants even try divorce as a way to avoid payment of debts.

The third point to be noted is that borrowing, especially borrowing at usury rates, is often connected to gambling. Some lenders are gamblers. They recruit fellow gamblers to lend to their fellow gamblers. Gambling and usury are often inseparable.

Fourthly, the background of lenders as well as the sources of their capital are by no means simple. Besides rich peasants and relatives of cadres, some retired cadres use their pensions as capital for loans. Some have relatives abroad, and their regular remittances become capital for loans. Some farm equipment companies borrow at rates as high as 4 percent per month; and the sum involved amounts to 300,000 yuan. They also take other not-yet-due loans, and pay extra interest which amounts to 1.5 percent per month.

In some cases, money was first borrowed from private sources and deposited into a peasant household's account, so the household concerned qualifies for loans from the village credit association. When loans from official channels require loans from private sources in the first place, the latter spread further.

There are also cases which are quite troubling. When some borrowers are unable to pay back the loans, they are required to perform, without payment, certain tasks designated by the lenders. Some borrowers have to provide free service on a long-term basis.

## **Analysis and Recommendations**

Whether seen from history, or from concrete research in villages, the conclusion one can come to is that given the fragmented nature of small-scale farming, formal financial institutions operating on a commercial basis cannot meet the diverse needs of peasant households since the transaction cost involved is much too high. With such a view, private loans are inevitable in a setting where capital is in short supply, and where people are tied to forms of subsistence or semi-subsistence farming which must endure long production cycles, low return and high risk.

One-third of private loans is co-operative in nature, and comes with low interest or even no interest. However, in an environment of privatisation in which the profit motive is the overriding factor, private lending at high rates is again inevitable.

Hence the way forward as regards financial policies for rural areas is to maintain and enhance the growth of community-based co-operative funds, which were once established in rural areas.

## **The function of private loans in maintaining the reproduction of small-scale agriculture**

Although the practice of lending at high rates is the norm for private loans and therefore constitutes exploitation of labour by capital, the fact is that the state has neglected to establish a system of social security for peasants; and insurance companies have long since departed from the rural scene, leaving most peasants with nothing to fall back on. Given the fragile nature of small-scale production, a small mishap can turn out to be a major disaster for peasants. In most cases of borrowing at high rates, the decision is taken precisely to forestall a small mishap becoming a major disaster. Despite their dire conditions, peasants do have labour power in abundance; and both the creditors and they themselves know very well that when their abundant labour is harnessed, the payment of interest will be met.

## **International experience: establishing local credit systems through "market internalisation"**

Throughout mainland China, Japan, Korea and Taiwan, agricultural production in rural areas, where blood ties are the single most important factor of social integration, is characterized by small-scale farming. These countries, as well as their local governments, have long realised that such

a method of production, which involves long cycles, high risks and comparatively low returns, is unfit for competition in international markets. If forced to take part, the already scarce capital in rural areas will only be further drained. Such problems can only be resolved by means of market internalisation. With the exception of China, governments of countries in East Asia have all implemented policies to protect peasants, and have exempted them from taxes. There is also a complete overhaul of the system of rural finance, and community financial co-operatives serving the needs of small-scale agricultural production are set up.

In addition, in the developed countries of Europe and America as well as developing countries such as Mexico, India and Thailand, NGOs in the countries have developed a wide range of alternative money and local currency, such as Ithaca Hours and Times Dollar in America, the popular LETS in Great Britain and Canada, and Tlaloc in Mexico. We have also made studies on these.

Although China formally dissolved community co-operative funds in 1997, the ensuing growth of private loans has vindicated its desirability. Precisely in places where such funds still operate, the drain of capital from rural areas is much less acute, and private lending at high rates is held in check. Such funds have achieved the one thing that cannot be achieved under normal market conditions - that is to use capital that comes from peasants for the betterment of peasants.

### **Transform private finance, develop community cooperation**

In traditional rural areas, the subjects of rural economy and investment have changed from that based on the government and banks, to that which is based on peasant households and village organisations. Objectively speaking, peasants are now required to go their own independent way. We should learn from the experience of other countries in East Asia and by means of market internalisation, to transform private financial bodies that have already become quite common into well-regulated community financial co-operatives.

In this regard, the government must pass laws that would legally bind financial co-operatives to operate within a certain community and to model themselves not as banks, but as alternative financial institutions that do not treat profit-seeking as the overriding principle. At the same time, the government can channel funds earmarked for agriculture through these co-operatives or encourage them to work with the agricultural banks. In this way, government funds are guaranteed to reach the grassroots level and at the same time help to quicken the pace of institutionalisation of financial co-operatives.

As regards credit guarantees, it is not necessary for community financial co-operatives to set aside a special precaution fund or to meet the stringent requirement of commercial banks. Instead, what is required will be to carry out a general audit of collective assets, and turn debts still owed to the collective into the form of loans. With the finances of the collective completely transparent, the foundation is laid for transforming collective assets into capital for development. As villagers are closely connected by kinship ties and once everyone becomes a member, to borrow from the co-operative is tantamount to borrowing from the entire village. As everyone in the village has vested interest, non-payment of loans will be something unthinkable. Besides, there is the authority of the village committee and the government.

We think the most pressing problem at the moment is, taking as reference the cooperative principles in international experience, to quicken the promulgation of the cooperative law, and implement a set of comprehensive policies that would address the problems of operation of scale for small-scale farming, so that cooperatives will be instrumental to developing institutions that are external to agriculture, such as institutions of finance, insurance, processing and marketing.

*Translated by Ma Kwok Ming, John*

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# **The Rise and Demise of the Rural Co-operative Fund: 1984-1999**

WEN TIEJUN

## **PART ONE**

THE RISE AND DEMISE of the Rural Co-operative Fund (RCF) is closely related to the overall national condition and the changes made to financial policies.

In the first place, its rise is due to the collapse of the People's Commune in the mid 1980s, when the household responsibility system was put in place. Throughout the country, collective assets were audited and debts were transformed into loans from the 1980s to the early 1990s. The RCF played an important role in rural financial reform and economic development. As a result, it spread throughout the country. Its importance as a mechanism of raising funds in the development of local economies is such that not only the local government increased its intervention and control, but also the central authority throughout the period between 1984 and 1993 lent its support. Even in the period of rectification, from 1994 to 1996, the central authority still regarded it in a positive manner.

In the second place, the mid 1990s saw a loosening of control by the state in bonds, futures and real estate investments, all three being rather speculative. There was a squeeze of capital throughout the country, resulting in high interest rates. The RCF (mainly at the township level and above) ran into problems similar to other financial institutions. Hence, at the peak of its development in 1997, the higher authorities carried out rectification and decided to merge or close the funds. In the ensuing years between 1998 and 1999, even though problems occurred mainly at the

township level, funds that were established at the village level suffered the same fate.

In the third place, under the direction of the central authorities, the decision to rectify and close the RCF was soon carried out. Immediately, this created new problems. On the one hand, the administrative decision to close the RCF and to stop lending activities rather abruptly was bound to create large-scale bad debts. On the other hand, nothing was done to insure against this risk. Even though local governments pressed the central authorities hard for credit, there was not enough money to meet the need for hundreds of billions of yuan. As a result, governments at the village level were heavily in debt; and in the end these debts were passed on to the peasants and township enterprises. The outflow of capital from the village worsened. Capital for agricultural investment was stretched far and thin. Grassroots-level lending and borrowing, as well as usury, reappeared and spread to wide areas.

This essay sketches a brief outline of the emergence, development and decline of the RCF.

### **Historical background and causes of the emergence of RCF**

The emergence and development of the RCF is by no means an accidental economic phenomenon. It is due to the following four aspects of underlying realities.

1. In the course of the reform of the People's Commune, hundreds of billions of yuan was lost. Under instructions from the central government, local governments carried out audits of collective assets. By setting up fund organisations, debts were either cleared out or transformed into loans. At the time, directives from the central government were positive or even encouraging; and with the continuing improvement of marketisation, liquidity of rural capital diversified and further expanded.

Rural policy directives from the central government at that time contained the following clear and positive statements:

The central government's Document Number One of 1984 pointed out, "capital from peasants and collectives is allowed to flow freely, or to be organised to flow without any territorial restriction."

Central government's Document Number One of 1985 declared, "to loosen and enliven rural financial policies, and to enhance the effects of capital liquidity."

Document Number 27 of 1986, issued in the middle of the year,

supported the practice under certain conditions. It said, "In recent years, some rural co-operative organisations put together idle capital that belongs to the collectives and utilise them in profitable ways to support local villages, local co-operative organisations and peasant households in developing commodity production. As long as they do not attract deposits from outside sources, and carry out lending/borrowing activities only among themselves, such practice should be allowed to be tried out."

To show its support for the development of RCF, the Agricultural Bank of China also issued in 1986 Document Number 414, which demanded that "agricultural banks throughout the country and credit associations should not meddle with the internal lending and borrowing activities of rural co-operative economic organisations. Instead, they should guide them by doing business with them."

The central government's Document Number 5 of 1987 further pointed out that "some township or village economic co-operatives or enterprises have established co-operative funds. Some have set up investment trusts. Such activities are in line with the different demands of the development of commodity production. It helps to pool idle capital, and alleviate the contradictions arising from the lack of credit given out by the agricultural banks and other credit associations. In principle, it should be supported."

The 1990 central government Document Number 19 also pointed out the need "to manage well co-operative funds that are not profit-seeking, and to fully utilise capital belonging to collectives."

The resolutions of the Eighth Plenary Meeting of the Thirteenth Congress of the Communist Party of China (CPC) held in November 1991 asked local governments to continue overseeing the smooth functioning of RCF. At the same time, two documents jointly promulgated by the finance and agricultural departments were fully supportive of the development of RCF.

In 1992, the State Council, in its resolution to develop high-yield and high-quality agriculture, once again declared the need to "continue to develop RCF so as to fulfill the need of high-yield and high-quality agriculture."

From 1984 up till 1992, the central government constantly voiced its support, which was effective in softening the fierce opposition coming from established financial institutions in their bid to keep their monopoly and to prevent competition. It was this favourable policy orientation that propelled the development of RCF.

2. As the household production-based agricultural reforms deepened,

the rural economy boomed. With the increase in peasants' income, both commodity production and monetised relationships were strengthened. One million agricultural collectives and two hundred million peasant households became the basic units of production as well as owners of properties in rural areas. Due to the pressure of unemployment, many peasants turned to non-agricultural sectors. Many more still held other jobs while remaining on the land. Hence, demand for investment in rural areas was strong, and a variety of credit networks sprang up from grassroots levels to fulfill the need, putting pressure on established rural financial institutions to reform and to adapt themselves into more flexible institutions that can respond to the needs of the new situation. In this regard, rural reforms and the ensuing marketisation were the pre-conditions for the emergence of RCF.

3. The resulting rise of income from reforms, in particular, the rise of per capita cash income for peasants, resulted in the rapid expansion of financial resources within rural communities. For example, in 1988, per capita income reached 544.9 yuan, an increase of 353.6 yuan over the 1980 figure of 191.3 yuan. However, in the latter part of the 1980s, the recession that occurred in urban areas dampened demand, and the agricultural sectors also became sluggish. Its previous comparative advantage decreased, bringing down with it peasants' incentive for investments. For most peasants, they only knew how to invest in their own farms. Other than that, they knew very little. Yet they still wanted to use their idle capital in such a way that they could obtain additional income. At the same time, the development of township and village enterprises meant that demand for capital was on the rise. While both supply of and demand for capital within rural areas were increasing, the monopolistic state financial institutions were unable to seize the new opportunities - and that caused the widespread development of RCF.
4. With the agricultural bank as its flagship, the rural financial system, which included village credit associations, had maintained its monopolistic position as well as its closed and ossified way of functioning. Its main function was to absorb capital in rural areas and transfer it to non-agricultural sectors. Its involvement with supplying capital to agriculture and the development of rural areas was inadequate. With the coming of the 1980s, peasant households became the basic production units. For village credit associations, the

change meant that instead of dealing with a smaller number of large collectives, they had to deal with a multitude of peasant households and other economic entities.

Even though the state had foreseen this and had carried out financial reforms to speed up the process of marketisation, the more the financial sector was marketised, the less suitable it became for the diverse needs of a rural economy dominated by small peasant households. On the one hand, there was no way for the state to end the monopoly of state banks just as it was incapable of fundamentally changing China's single ownership structure of its financial institutions. On the other hand, agricultural banks and credit associations are not only strictly controlled by the state as regards scale and structure of credit, but also chastised by large-scale bad debts and overblown credit due to money used up in purchase of agricultural goods. On top of it was the inflexibility of their operation, making them unresponsive to the diverse needs of an environment undergoing reform and marketisation. A vacuum was thus created for RCF to fill.

### **Internal Dynamics**

The four above-mentioned background factors and their dynamics only provide the ground and the external infrastructure for the emergence of RCF. The cause that started off the process was the need to strengthen management of rural collective assets and to safeguard their well-being and growth. The major factors leading to the emergence of RCF are:

1. The need to rebuild the mechanism of collective savings and to utilise them in profitable ways. In some areas, this was the primary cause for the emergence of RCF. In changing the three-tiered and production brigade-based People's Commune, the lack of timely institution-building linking the different property structures of village collectives and rural households so as to provide proper management of rural savings resulted in the drain of collective savings that were accumulated in the time of the Commune. This is due to:
  - a. Widespread damage, corruption and waste in the course of the handover of collective assets. It is estimated that assets handed down to households depreciated by 40 percent. A large proportion of loans to members of communes or outside units never returned. According to one estimate made in 1987 in 26 provinces, cities and areas, there were three hundred thousand commune cadres who had committed corruption, theft of collective assets or illegal

- use of funds totaling 1.17 billion yuan.
- b. In some places, management of collective assets was in such a mess that accounts that had been audited turned out to be unreliable, or assets continued to disappear even during the very process of auditing. Due to the power wielded by village cadres and their penchant for wasteful investments, capital accumulated by rural collectives was dispersed into diverse channels, resulting in chaos and lack of liquidity. All these were totally unacceptable to the peasants who reciprocated by refusing to pay dues and undertaking other forms of collective protests, straining the relationship between peasants and cadres, and calling into question the security of rural areas.

In 1985, the Jin County in Liaoning Province transformed its collective assets into shares in accordance with policy instructions. Shares totaling 14.04 million yuan were formed while the collective still held 23.66 million yuan as capital. However, audits carried out in 1987 found the amount of 18 million yuan unaccounted for.

- c. A considerable amount of rural collective funds deposited with credit associations was seldom touched. However, when peasants needed to borrow, they had to pay higher interest to agricultural banks or credit associations. There was likewise no guarantee that they would be loaned the money. Unsurprisingly, peasants resented this.

To resolve such problems, some regions took the opportunities offered by the audits of village collectives. They transformed collective assets into shares for co-operative funds and allocated them to households. Other regions turned debts into new loans and incorporated them with the business of co-operative funds, enabling the effective collection of village collective debts. The setting up and efficient functioning of RCF thus became an effective way to manage and fully utilise collective assets. It not only stopped the drain of collective assets, but also helped to realize the further accumulation of collective assets.

## 2. The search for new mechanisms for insuring agricultural investment

In the course of rural reform, the implementation of the household responsibility system and the increase in prices for agricultural by-products resulted in a change of urban-rural relationship on the one hand, and relationship between central government and local authorities on the other. Fiscal decentralisation and other reforms in investment policies resulted

in an increased lack of funds for agricultural infrastructure and decreased incomes for peasants in rural areas, thus adding to the burden of local governments. Fields were deserted; and at the macro level, the further development of agriculture was called into question.

As the process of marketisation gathered momentum, it became more difficult for private capital to flow into agriculture, which is marked by long production cycles, high risks and low returns. If no readjustment is made to the peculiarities of different sectors, the survival and development of agriculture will not be guaranteed. However, the reality of reforms in China is such that it is rather difficult to carry out readjustments to different sectors. This is evidenced in three aspects.

Firstly, fiscal decentralisation is actually the result of the adoption of "replacement of profit by tax", which leads to conflicts of interest between different government bodies. Decentralisation consists of delineating the levels of income for central government and local government respectively. While the interests of the two are thus delineated, there is no provision as to who will bear the burden of looking after the weak agricultural sector. Moreover, with the completion of primitive capital accumulation in China, the proportion of industrial output within the national economy is twice that of agriculture. Government income has come to rely less and less on agriculture. This is the background to the decrease in investment in agriculture since the reform of "replacement of profit by tax" and fiscal decentralisation.

Secondly, collective saving capabilities are weakening, resulting in a decrease in agricultural investments. According to the statistics, the ratio of contribution to village administrative fees to total net income in the village is down from 16.7 percent in 1978 to 10.2 percent in 1988. Agricultural investments made by township enterprises are also down from 15.4 billion yuan in the five-year period between 1979 and 1983, to 5.5 billion in the period between 1984 and 1988. For peasants, a land lease of fifteen or even thirty years does not imply an increase in investment, as agriculture is a high-risk and low-return business. In actual fact, peasants' households have increasingly turned to investing in non-agricultural sectors.

Thirdly, as the main financial bodies in rural areas, agricultural banks and credit associations have all along acted as the main channel of capital outflow from agriculture. The increase in peasants' income and the rise in savings also saw an increase in the volume of outflow. What should be noted in particular is the conflict of interest these bodies face. Since the mid 1980s, budget deficits have become the norm. As a result, the cost of agricultural subsidies is shifted to departments responsible for purchase

and sales, which in turn pass it on to agricultural banks in the form of accounts payable. Banks are therefore loaded with overdue loans. For instance, our research of 1992 shows that the proportion of such loans to all other loans at the agricultural bank in Anhui, an important province for agriculture, is 38 percent, causing credit to be overblown. With the adoption of the market principle in 1992, banks naturally seek higher profits and shun agriculture which is high-cost, high-risk and low-return. This means that the central government is unable to do anything even though it does want to help.

In a word, given the state's difficulty in making macro adjustments, there is the need for mechanisms to guarantee further investments in agriculture.

### 3. To fill in the "credit vacuum" left by banks, to stem the tide of usury

Even with the implementation of households as units of production, agricultural banks and credit associations continued their practice of lending to collectives and ignoring peasant households. Their hands were tied by the limits imposed by the state on the amount and composition of loans. They were not equipped to meet the demands for small loans from two hundred million peasant households, who then had no choice but to borrow from underground sources which had been in existence all along. As such practices spread, the financial situation in rural areas was bound to worsen. When some underground operators disappeared with large funds, the locale was thrown into chaos and unrest.

RCF, which was set up spontaneously, took the role of extending small amounts of credit to peasants, thus filling in the gap left by the banks. At the same time, judging from the results of recent years, only in areas where RCF was well-developed was the practice of usury contained.

## External Forces

It should be said that heads of all levels of local governments and agricultural banks were strongly driven by their own self-interest, which greatly influenced the development of RCF.

### 1. Local Governments

Since the mid 1980s, all levels of local governments have had to cope with two new situations. One is financial reforms which abolished the old practice of the state taking all incomes and paying all expenses. Instead, various forms of fiscal decentralisation were put in place. Local governments had much greater say over their own financial resources. As

a result, they had every incentive to increase their own resources through investments. Another factor is that as banks gradually adopted the market principle, the ability of local governments to influence them diminished. They could only watch as capital flowed out of rural areas, and banks channeled their resources to non-agricultural sectors. As the gap between supply and demand grew, the local governments welcomed the setting-up of alternative regional financial mechanisms which would meet the need for local capital shortfall and thus enhance the authority of local governments to control local finances.

## 2. Departments for the administration of agriculture

In China, the departments for the administration of agriculture form an all-embracing system. They are responsible for policy guidance as well as provision of services. They oversee the finances of rural collectives. They field a large number of personnel to audit rural collectives. They resort to administrative means and launch campaigns which produce results that have proved to be adverse or ineffective. The need to adopt new management practices and develop new mechanisms that will prevent the drain of collective assets is something that has come to be appreciated by everyone within the departments for the administration of agriculture. What must be pointed out is that in overseeing all new as well as old collective assets, the department does not profit a cent. Its operation is supported by the government budget which is enough to maintain the personnel but not enough to do business. Hence, the management at township level is particularly interested in making their collective funds become live capital, so that they can make profits in the process.

## PART TWO

### The process of development: reform, experiment, rapid expansion, rectification and abolition

The process of development of RCF can be roughly divided into five phases.

#### 1. Formation (1984-1986)

As early as the second half of 1983, some villages in Heilongjiang, Liaoning and Jiangsu Provinces had experimented with lending money held by collectives to members of the collective as a way of better utilising resources. Such activities produced positive results. While safeguarding the security of collective assets, new channels of agricultural investments

were established. Peasants welcomed the practice; and the economic branches of local governments gave their support. Since the formal set-up of an RCF in a village in Hebei Province in 1984, similar experiments took place throughout the country. By the end of 1986, rural communities in the provinces of Heilongjiang, Liaoning, Hubei, Zhejiang, Guangdong, Sichuan and Jiangsu had all developed some forms of internal lending and borrowing, laying the foundation for rural co-operative financial institutions.

The central government had, on occasions, supported such spontaneous developments of internal financial arrangements. The 1984 central government Document Number 1 mentioned that "the free flow of capital belonging to peasants and collective is allowed." This is the policy base for the activity of internal lending and borrowing in rural areas. As to the setting up of RCF, the earliest documentary support came from the 1985 central government Document Number 5, which lent its support to "the development of diverse forms of capital liquidity."

## 2. Reform and Experiment (1987 - 1991)

In this phase, the benefits of RCF, which are the spontaneous creations by peasants to provide capital, gradually came to be appreciated by the authorities. In August 1986, the central government instructed that as long as deposits and lending remained within the collectives, they should be allowed to continue. In January 1987, the Politburo passed a motion to deepen agricultural reforms. Part of it stated that "the co-operative funds set up by villages or enterprises are fulfilling the different demands of commodity production. They help pool idle capital and ease off the pressure put on banks and credit associations for supply of capital. In principle, it should be supported."

In 1987, under Document Number 5 passed by the Politburo, various bases for the experiment of rural reforms were set up in Heilongjiang, Hebei, Shandong, Guangxi and Sichuan to carry out experiments that would institutionalise RCF. These well-run, well-organised bases steadily promoted co-operative funds at the grassroots level and their umbrella organisations. The framework of a new system of co-operative funds was taking shape.

Supported and promoted by the central government, RCF spread throughout the country. The period between the end of 1986 and the end of 1988 saw the fastest growth of internal capital flow in rural areas. There was an increase of 4 billion yuan in these two years. For example, in 1988, 80 percent of the townships and villages in Jiangsu province had set up co-operative funds, with the capital reaching 800 million yuan. In

Sichuan, half of the townships and villages had financial organisations that mainly relied on co-operative funding as their source of capital, which amounted to 201 million yuan. In Hubei, RCF was set up in 40 percent of the townships and in 5,927 villages, with a total capital worth 280 million yuan.

In November 1991, the resolution of the Eighth Plenary Session of the Thirteenth CPC Congress required local governments to continue to develop RCF. Earlier, in January of the same year, the agricultural department circulated the document *Notices on the Institutionalization of RCF*, which gave further impetus to the development of co-operative funds.

Encouraged by the resolution of the Eighth Plenary Session of the Thirteenth CPC Congress, rural co-operative financial organisations spread out from the successful bases, and entered the stage for complementary reforms. In Shangzhi City, 341 co-operative funds were formed, utilising a total of 39.664 million yuan. In Yutian County, which already had 34 co-operative funds, an umbrella organisation was formed, and total lending amounted to 420 million yuan. In Pingdu City, total deposits amounted to 264 million yuan, while the figure for loans was 250 million yuan. All these show that the capacity for accumulation within the agricultural sector was increasing, and the problem of outflow of capital from villages was temporarily solved.

By 1992, throughout the country, there were 17,400 townships and 112,500 villages which had co-operative funds as their chief financial institutions. The figure represented 36.7 percent of all townships, 15.4 percent of all villages, and a total capital of 16.49 million yuan accumulated by the end of 1992. Each of the two provinces of Sichuan and Jiangsu had more than 2 billion yuan; figures for Hebei and Shandong are close to that.

Summing up the results of experiments and experiences of different locales, the department for agriculture issued Document Number 8 in 1993, which said, "On the premise of persevering with the present right of ownership of capital as well as its concomitant incomes, the RCF is formed by village collectives and households out of their own will for mutual aid. The aim is to serve the peasants, to boost agricultural production, and to further develop the economy of village collectives."

### 3. Rapid Expansion (1992 – 1995)

With Deng Xiaoping's tour to south China in 1992, economic growth picked up its pace under the impact of highly speculative sectors such as securities, futures and real estate. The whole country was seized by a new round of investment fever. Investment stimulated demand, thus benefiting

rural economies. The gap between demand for capital and its supply grew rapidly, resulting in high interest rates in capital markets. Under such conditions, the now established RCF encountered the contradictions of expansion. Many funds were forced by local governments to lend blindly to village and township enterprises that were in dire need of capital.

According to central government documents, Yutian County in Hubei province began to set up community economic organisations in 1987, and RCF was one of the main items. In 1994, its capital reached 176 million yuan, of which 48 million came from collectives, while individual peasants contributed 128 million. With its flexibility, low operating costs, and the fact that it was operating outside the framework of official financial institutions, it succeeded in rapid expansion. However, as the whole country was seeking high growth, the funds came to be used increasingly in non-agricultural sectors. In 1998, when the funds in Yutian went into receivership, it had loaned a total of 230 million yuan to village and township enterprises. The figure represented 38 percent of its total capital. Ninety percent of these loans were made under the heavy hands of local governments, with 70 percent bound to be written off.

With the coming of financial reforms, agricultural banks and credit associations gradually turned into commercial enterprises. Their role as instrument of policy weakened. *Every financial institution tried to bypass agriculture - RCF was no exception. Industry and commerce became favoured clients.* Co-operative funds began to operate outside its base, and accepted deposits from non-members. The funds further expanded. For instance, by the end of 1995, the number of funds set up in Sichuan grew to 5,349, or 84.7 percent of the townships. Capital accumulated amounted to 14,526 million yuan, an average of 2.7157 million for each fund, or a growth of 62.4 percent and 50.8 percent respectively, compared to the previous year.

By the end of 1996, the year the central government decided to close the operation of the RCF, there were 21,000 funds at the township level and 24,000 funds at the village level throughout the country, with total capital amounting to 150 billion yuan.

During this period, the finance sector was all chaos, with various government bodies such as sales and marketing co-operatives, planning commissions, village bureaus and ministries for labour and social security all competing to form funds and join the field of high-interest rate lending. RCF had relied on a policy of interest rates higher than those sanctioned by the government for their deposits as well as loans. Higher interest rates naturally attracted more deposits, while the lack of supply of capital meant that it was possible to lend at higher rates. The fact that such a policy worked meant that it reflected the actual price of capital markets. However,

with frequent interventions from local governments, the lack of check and balance, low management quality and high risks, the efficacy of the funds became diminished. The proportion of loans to non-agricultural sectors was too big, and worse still, small-scale runs on the bank occurred in some places.

#### 4. Rectification (1996 - 1998)

Issued in August 1996, *The State Council's Resolution on Rural Financial Reform* still affirmed the contribution of RCF to boosting agricultural production and easing the pressure on peasants. At the same time, the document criticised the funds' practice of issuing shares, which was, in fact, a form of deposit. As shareholders were not members of funds, the practice actually violated the law. To counter the practice, the *Resolution* proposed three measures: stop the issuing of shares by co-operative funds to attract deposits, incorporate those funds which have been running like banks into official financial institutions after they have been properly audited, and require those funds which cannot be incorporated to remain co-operative in nature.

Such measures were the outcome of compromises made by different government bodies. Both criticisms and policy measures were mild, and some problems were not addressed. One problem had to do with those funds which were not fit to be incorporated, but the capital was tied by bad loans. Another problem was that of the government's responsibility for agriculture. The document did not discuss the inability of official financial institutions to meet the needs of small farmers.

Since 1994, related departments had issued instructions to rectify co-operative banks. On such directive, Document Number 21 of the Village Economic Development Bureau required officials from village economy departments to fulfill administrative duties, while the supervision of co-operative funds should be left to The People's Bank. Village officials should not intervene in the running of funds; instead, they should help watch if anyone had overstepped the line. In 1995, another directive, *Rules on the Management of RCF*, was circulated.

All these actually reflected the struggles among different government bodies as to who had the actual power over the funds. Hence the work of rectification was put on hold for a long time. Still, some progress was made. During this period, the increase of funds slackened. Attention was directed to the quality of management. One way was to hand out guidelines for lending and borrowing, and to implement rules and procedures for audits. Another way was to enforce the practice of making provisions for bad debts. Further training of personnel was also a way forward.

In Sichuan, where capital accumulated by RCF was comparatively high, the number of funds established since 1996 was small. By the end of 1998, there were 4,052 funds throughout the province, a growth of only 0.5 percent compared to the previous year. The percentage for townships is 82.6 percent, a mere 1.7 percent growth rate over the previous year. In 1998, the total capital of RCF in Sichuan amounted to 21,378 million yuan, while on average each fund held 5.276 million yuan, an increase of 12.3 percent and 11.8 percent respectively.

Merging co-operative funds with official financial institutions is something easier said than done. Bad loans from both credit associations and co-operative funds will not simply go away; and when a run on banks occurs, it becomes a social problem. Another factor is that while agricultural banks and credit associations are monitored by the state, local government departments have been heavily involved in the running of co-operative funds. Both are subject to government interventions, complicating the business of merging.

#### 5. Liquidation and Closure (January 1999 onwards)

In January 1999, the State Council issued Document Number 3 which formally declared the dissolution of RCF. It said, "To prevent and defuse financial risks, to safeguard the security of the rural economy and society, the Party Central and the State Council have decided to carry out complete rectification of RCF.... The aim is to halt the formation of any new funds and to stop existing funds accepting deposits or making new loans. At the same time, a thorough auditing of existing funds will be carried out and bad debts written off. Those that meet the necessary requirements will be merged with credit associations. Those that are in debt will be liquidated and dissolved."

##### a) *Background to the liquidation and closure of RCF*

The running of RCF at the township levels is far from satisfactory. A few years back, in the heat of the rise of village and township enterprises, many township governments were instructed or required to loan directly to or act as guarantor for enterprises. However, in the three years after 1995, depression, changes to the market and poor management resulted in great hardship for small enterprises throughout the country, with some going bankrupt. Many local governments were heavily in debt, with this debt comprised mainly of loans from co-operative funds.

The township of Jianyang in Sichuan had a net debt of 18.3228 million yuan, of which 9.973 million were debts owed by

enterprises – 51 percent of the township's total debt. The enterprises had all ceased functioning, their debts all passed on to the township government, which in turn owed a total of 5.19 million yuan. This figure was, however, only that on the record, and did not include many hidden debts.

Since the tax reforms of the 1990s, local government expenditure grew, and so did the amount of debt. According to the research conducted by the Agricultural Ministry in 1997 in seven provinces, the average debt for a township government was 2 million yuan, while at the village level, it was 0.2 million. In 1999, representative researches made by some provinces showed that the highest debt level reached 40 million yuan. Nationwide, total debts for townships and villages exceeded 30 billion yuan. Some resorted to taking away peasants' production tools to force them to pay all sorts of taxes and levies. Units or individuals with abundant cash took the opportunity to lend out money at usury rates. These loans were forced onto village units. In the end, local government debts were shifted to peasants.

The combined result of the rural financial reforms of the 1980s and the tax reform in 1994 is that the fiscal power of the local government at both the county and the township levels was greatly enhanced, and the related government bodies greatly expanded. The burden put on peasants inevitably increased. With the withdrawal of agricultural banks from the agricultural sector and the decrease of government investment in agriculture (as a proportion of the national budget) to an all time low, peasants struggled to make ends meet, not to mention pay the various taxes and levies imposed by local governments. Peasants were forced to go into debt.

After the dissolution of co-operative funds, one particular problem should be noted. Some peasants whose money was held up by the funds used their share certificates as payments to the collective administrative fees, forming the so-called "empty transfer of capital".

#### **b) *The Work of Rectification***

Judging from the practices of different locales, the work of rectification can be divided into auditing assets, classification, collecting debts and returning deposits.

Working committees were formed by local governments to audit the assets of funds under their jurisdiction. Those that were

financially with or without new injection of capital were integrated into local credit associations. Those that were considered not viable were liquidated, and their debts taken up by local governments.

Every legal means was employed to put pressure on debtors to pay their debts. In case debtors were party members or cadres, administrative measures and party discipline were imposed. To speed up the payment of loans made to shareholders, the funds were held as the first benefactor of all payments.

Returning deposits was the last step. Usually, the government tried its best to raise enough cash to pay the first installment. When it was unable to do so, the government set a date for payment.

c) *The Effectiveness of Rectification*

Although the work of rectification was by no means easy, the combined use of political pressure and administrative measures is enough to meet the target set by the higher authorities. This means that so long as the special interests of government bodies are not affected, mobilisation from top down is still effective. But co-operative funds were initiated by local governments. The fact that it had to be dissolved by orders from above is bound to harm the credibility of local governments, which has wider repercussions in the form of loss of assets.

In Yutian county in Hebei province, the combined assets for its 22 funds amounted to 393.47 million yuan. Total debt was 653.02 million yuan. The deficit totalled 206.46 million. After rectification, nine funds were merged with the local credit association, which in turn had total assets of 206.46 million yuan and total debts of 303.99 million. The township government had to inject capital of 67.13 million, and the county government, 29.8 million. The rest of the funds were dissolved. Their combined assets were 187.01 million yuan, and debt, 283.58 million. It was promised that all deposits would be returned with interest in three years.

In the course of rectification, the government injected large amounts of capital. For instance, in Wenzhou, of 191 funds, 148 were merged with local credit associations. The other 43 were liquidated. The related government bodies injected 266.2 million yuan as capital, and provided 160 million as guarantee for credits. The total was 426 million, of which 329 million were loans from the provincial government.

Even with the completion of rectification, there were lingering problems. In the first place, local governments had to borrow from banks to pay depositors. The funds' debts were thus transferred to local governments, increasing the latter's financial burden. Many local governments were already heavily in debt. They, in turn, transferred the debts to peasants in the form of dues and levies. In certain areas, the pre-1949 practice of "tax paid in advance" was resurrected.

Secondly, although there were still debts to be collected - and hence, on paper there should still be money to pay to depositors - the fact is every means had already been used in the early stages to collect debts, and those that remained uncollected would be very difficult to collect. With local governments already heavily in debt, the question becomes one of maintaining the credibility of local governments, and thus becomes a long-term political question.

### **PART THREE** **Rethinking RCF**

TO STUDY the management system and the functioning mechanism of RCF, it is meaningful to study their nature and ownership rights since these define and control their management system and functioning mechanism.

#### **General understanding of the nature of RCF**

If we limit ourselves to past policy studies and government documents, then in the course of our analysis of the emergence and development of the funds, we can see that they are the outcome of the initiative taken by villages to rebuild the system of accumulation for agriculture following the breakup of the People's Communes. The funds are a form of capital-sharing within the community economic framework. They are self-regulated independent accounts. People join them out of their own free will and the funds are run democratically. Everyone involved shares the risks.

Data from the past is enough to support this view. Between 1990 and 1996, RCF throughout the country invested a total of 151.5 billion yuan in farming and livestock-raising. The percentage of investment in agriculture to that of total investment was 43.3 percent. In some areas, the funds not only were lent to peasants, but suggestions and information were also provided. They acted as guides for production activities.

In accordance with instructions from above, the funds also invested in organisations that provided services to rural communities. From 1990 to 1996, 7.3 billion yuan was channeled to such organisations. The figure for 1996 represented 19.9 percent of total investment in that year.

The two above-mentioned investments took up 63.2 percent of total investment, a ratio much higher than that provided by agricultural banks and credit associations. From this, one can see that the funds were marked by the following characteristics: they are co-operative in nature, their function is to provide services, they are run on democratic principles, they combine the features of shareholding economy and cooperative economy, they are not profit-seeking, they are taken from the peasants and used on the peasants, and fairly defend the interests of the money-owners.

### **The actual ownership of RCF and the differences between funds at township level and funds at village level**

#### *Difference between township level and village level funds and policies that are in line with regulations of self-government*

Collective assets were the initial source of capital for RCF. Those collective assets that were allocated to co-operative funds should be the collective assets of members who formed the economic body. As such, co-operative funds should be financial organisations collectively owned.

But in actual fact, after the reform of fiscal decentralisation, nothing was done to implement the system of "community share-holding", which should make the question of ownership of collective assets much clearer. As a result, peasants did not have any say over collective assets even though they were members of the collective. Under the policy of "township overseeing villages", township governments could channel collective assets by way of their subsidiary "economic management checkpoints" to the designated co-operative funds, and then lend out the money. All these could be done without the prior consent of village collectives. Hence, funds set up at township level or above were not exactly the creation of peasants or village collectives.

While funds set up at township level can be said to be rural financial bodies belonging to local governments, those set up at villages, where the policy of "township overseeing villages" had not been carried out, were collectively owned. If China is a country with a legal system in place, then it is possible to cite the village self-rule laws enacted at the People's Congress in 1988, and subsequent laws on village committees. Funds that are set up at village level are completely in line with these laws as

they are self-servicing and self-developing. And in accordance with these laws, funds set up at village levels should not be dissolved but should be required to meet certain criteria.

*The proto-capital nature of collective assets and increase in collective accumulation*

By nature, the existence of collective assets is one of the most general pre-conditions for the setting up of RCF. But in fact, it is not the absolute condition as ownership reforms occurred only at the brigade level or below. Collective assets owned by the top level of the commune had been placed under the control of the township government. Hence, in most townships there were no more collective assets. In the townships, co-operative funds issued shares right from the beginning, or borrowed to finance their everyday functions.

Where there were still collective assets, they could be withdrawn when turned into shares. But in normal circumstances, to maintain the smooth running of co-operative funds, it is necessary to have a certain level of capital. Otherwise, things would easily go wrong as there would be no support from the Central Bank. In practice, most funds did maintain a stable level of capital, and some, even more. From 1990 to 1996, through the funds, 6.05 billion yuan of debts owed to village collectives were successfully collected.

In view of these facts, collected shares should be looked upon as a form of "proto-capital". The initial definition of co-operative funds as a way to utilise collective assets and to promote collective accumulation also means that the collective assets are "proto-capital". Such a definition clearly shows that the funds must rely on the initial investment of the collective to promote further accumulation by the collective.

As "proto-capital", it can be withdrawn. Hence, we can only come to the conclusion that since funds at the township level are effectively held by local governments, and not by the village collectives, the latter can only be regarded as "absentee" share-holders.

*Local Financial System that is Innovative and Accessible*

Townships and in some places county governments, having got their hands on collective assets and the right to exploit local resources, were bypassing the central government's monopoly on finance by setting up RCF to propel the development of local economies. Given the emphasis on monopolistic arrangement in the 1990s, such a step can be considered as "innovative".

With this innovation, it became possible to solve the problem of

shortage of capital, and to develop the non-agricultural sector in rural areas. The development of village and township enterprises, in turn, ensured more profits that accrue to local governments. Between the years 1990 and 1996, a total of 157.9 billion yuan was invested in village and township enterprises through co-operative funds. In 1996, the amount invested in rural enterprises represented 36.8 percent of total investment. It is evident that in the years before 1996, the booming economies at the county level and below were directly connected with the emergence of local financial institutions.

However, controlled by local governments, the proportion of agricultural investments made by the funds declined, and the proportion of non-agricultural investments increased. In 1999, the total investments made by funds in Sichuan amounted to 21.46 billion yuan. Agricultural investments accounted for 7.88 billion or 36.7 percent of total, while non-agricultural investments took up 13.59 billion or 63.3 percent of total. The proportion taken up by non-agricultural investments almost equaled the proportion of bad assets to total assets. Overdue loans and immobile accounts amounted to 10.84 billion yuan, with peasant households (normally engaging in agriculture) taking up 3.48 billion or 32.1 percent, while loans to enterprises and others accounted for 7.36 billion or 67.9 percent.

Such figures and related researches help clarify the situation. Although the central government had always maintained that RCF was not a formal financial institution but an internal organisation of villages to help members to obtain funds, the fact is, when further reforms of rural areas are not forthcoming, the funds cannot fully realise their potential for co-operation, at least not at township levels.

Once it is clear that control of the funds by local governments is for the sake of local economic development and local government expenditures, then the interventions made by local governments in the daily running of the funds are no different from those made by the central government in its monopoly of the country's financial activities. The only difference is that when such interventions prove to be unwise and costly, local governments do not have the leverages that the central government has in issuing bonds or compensations.

Interventions of local governments are usually in the following forms:

Firstly, the compulsory set up of funds. In some places, the funds were headed by heads of local governments. In most cases, the funds were staffed by people designated by township governments. In some places, funds were set up even when requirements for capital, personnel and management were not met. In others, deposits held by village

collectives at credit associations were forcibly transferred to the funds. The workings of local government (especially at township levels) were such that interventions in the running of the funds were inevitable.

Secondly, heads of local governments always had the final say. It was not uncommon for funds to provide money to meet tax quotas or to buy government bonds allocated for the area. In some places, the funds were forced to take up the burden of infrastructure development or to build schools and hospitals, or to act as guarantor for certain government departments. Some heads of local governments even treated the funds as their own bank account. The funds had to pay for all the expenses incurred by them. Others forced the funds to lend to their relatives and friends. Most of these loans eventually turned into bad debts. For instance, in Sichuan, since 1992, of the 21.46 billion yuan loans made out by the funds, overdue loans and immobile accounts amounted to 10.84 billion yuan or 50.5% of total. Such was the work of government intervention.

Thirdly, in some places, units responsible for the village management treated co-operative funds as their own; and the finances, accounts and assets of the two were all mixed up.

Hence, the dissolution of these funds was necessary if the central government wanted to pursue a policy of tightening expenses. However, if the policy was to encourage growth by raising demand, the required policy measures would be the reform and formal institutionalisation of these funds. This also explains why most local governments were willing to let funds under their control to be incorporated into credit associations.

### **Three types of RCF**

Due to differences in economic development, structures of ownership and economic conditions, there were different types of RCF throughout the country. Classified according to their range of business activities, there were three different types.

#### **1. Community-based RCF**

This type of co-operative fund was found both at the township and the village levels. As suggested above, only funds at the village level could be considered as internal co-operative credit associations of a community.

This type of co-operative fund was typically found in areas where agriculture accounted for a large share in national income. It was set up from within the community to serve the community. Such funds had their beginnings in assets audits carried out at the village level.

Their capital mainly came from the savings of the village collective and individual households, as well as assets held by village enterprises. Investment was mainly made in agricultural production of the peasant households and the village collective. Normally, business activities of the funds were confined to the community; and their loans were small and short-term, with low interest rates. Loans went mainly towards small-scale agricultural production. The funds set up in the township of Pingdu in Shandong were typical of such community-based funds.

Pingdu lies in a traditional agricultural area. Agricultural production is the main economic activity, and the majority of the population engages in agriculture. From the beginning, Pingdu's co-operative fund aimed to resolve the problem of ownership at the village level, and to build a new mechanism to utilise the savings of individual households and the village collective. Membership contributions came from the collective and the peasant households. Borrowing from outside sources was avoided. From 1988, when it first began, to 1992 when it was formally established, the total membership contribution amounted to 263.55 million yuan, of which 112.31 came from the village collective, and 66.1 million from peasant households, while 85.14 million was entrusted to the fund. As for investment, of the total investment of 145.37 million yuan, 48 percent was invested in agricultural production. Adding this to the 57 million used in agricultural infrastructure and the 30 million used in agricultural machinery and generating electricity, the proportion was as high as 83 percent. The amount invested in village and township enterprises was a mere 40.36 million yuan, or 16 percent of total. On account of the investment, conditions for agricultural production improved greatly. From 1988 to 1992, machinery power increased by 131.762 million watts, electricity cable lines increased by 2663.9 kilometres, and 23 thousand new or repaired water works were completed. Irrigated area reached 1669 thousand *mu* (1 *mu* equals 0.067 hectare, or 0.165 acre), or 64.3 percent of total cultivated area. Sustained production for agriculture was secured.

Most of the community-based co-operative funds gave priority to agricultural production. In those well-developed test-sites for co-operative funds, one-quarter of the villages received investments from the funds for their capital requirement for agricultural production.

The township of Pingdu in Shandong also serves as a leading example in its distribution of benefits. At first, Pingdu used a proportion of 4:3:2:1, with four portions going to dividend payment, three to further accumulation, two to social functions, and one to

special bonuses. Since 1993, Pingdu transformed the funds into shares, and provisions were made for risks. Every year, 2 percent of share value was to be extracted as provision for risks. If a loss occurred in the year, provisions for risks would be used to plug the gap. If this was still not enough, then the value of the shares would be subtracted to make up for the shortfall. Hence there was profit-sharing as well as risk-sharing. The further development of the fund was guaranteed, and its competitiveness increased.

The county of Meitan in northeast Guizhou is a hilly region where land is relatively abundant. Throughout the province of Guizhou, the per capita cultivated land is 0.7 *mu*; but for Meitan, it is 1.2 *mu* (1.5 *mu* according to the latest cultivation). In 1987, the State Council designated Meitan as among the first batch of test-sites for rural reforms. Peasant households were entitled to work on a fixed area of land regardless of changes to their members, and they only had to surrender roughly 50 kilos of grain per *mu* as payment for all forms of tax. With these reforms, the rural area entered a period of stable growth. The burden placed on peasants was relatively light.

In Meitan, in a village called Jinhua which is six kilometres west of the county capital, in 1999, the average annual income for peasants was 2,700 yuan, and per capita consumption of food was 60 kg. Its economic development lay within the median range. The village was organised into six groups. There were 273 households and 1,145 people. The amount of cultivated land was 1,461 *mu*, with 200 *mu* of tea gardens, half of which was collectively owned. Although there was no village enterprise, the village collective had an annual income of six thousand yuan from the tea garden.

### *Co-operative savings associations for peasants*

As early as 1983, the household responsibility system was put in place in Jinhua village. Since then, titles to land had not been changed. Only 852 people had titles to work on land. In 18 years, the population increased by 300. These did not have land to work on, nor did they have to pay taxes. The increase in landless population put pressure on the village labour force to seek work outside. As a result, incomes as well as expenditures both increased. In recent years, peasants changed their way of farming; and the resulting ownership structure changed as well. The biggest change lay in the need for investment. But the nearest credit association is tens of kilometres away. The amount of capital required was small, and it was difficult to obtain from official financial institutions. Eventually, the village collective

decided to use the 30 thousand yuan accumulated from incomes of the tea garden as starting capital. With further funds from more than 200 peasant households, they got permission in 1998 to form a co-operative savings association for peasants.

Participation in the savings association was voluntary. But to encourage more households to take part, the village party secretary contributed 1,500 yuan, the largest amount. Next came the accountant with 1,000 yuan. The smallest contribution was 20 yuan. In all, 130,000 yuan was collected. In June 1999, after payment of dividends, there still was 2,000 yuan left. It was decided to use 12 percent of the amount to aid poor households.

Savings association would only lend to peasant households within the village. In one and a half years, 500 loans, totaling 100,000 yuan were made. At first, the monthly interest was 10 percent. Afterwards, it was fixed at 7 percent. Most of the loans were for buying seeds and fertilisers. In general, the loans were short-term loans of three to six months, and just for one hundred yuan or less. The money was usually borrowed in spring and paid back in summer. In a few cases, money was borrowed to pay for trips outside to look for work, or for children's school fees. The largest loan involved the purchase of a buffalo and amounted to 1,200 yuan.

Jinhua's savings association functioned well. So far, no bad debt had occurred. At the time of research, there was a spring drought, and overdue loans amounted to 20,000 yuan. But the village cadres were not worried. If things were normal, debts would be returned in June after the summer harvest. Procedures for loans were by no means simple. The borrower must have double guarantees; both collateral and a guarantor were required. Some poor households were unable to meet this requirement, and the cadres must step forward to help.

### *Handling of the Situation*

According to related papers, Jinhua's savings association was to be dissolved too. The local credit association had twice urged the village to stop all business and reimburse all shares. At the moment, 18,000 yuan had been reimbursed. Since the government would not allow them to form savings associations, the village cadres thought it was no use keeping any collective funds. In future, collective funds would be used to construct public facilities.

In the course of our research, we exchanged views with both cadres and peasants. In general, people thought that:

- a. Co-operative funds or other forms of spontaneously-formed

savings associations have by nature collective management of the assets

Most community-based co-operative funds and savings associations begin life by turning liquid assets held by collectives into starting capital. Afterwards, members of collectives join in. Hence, they are by nature self-management of collective assets. Loans made out are chiefly for the improvement of the local agricultural set-up. It is entirely in the spirit of using collective assets with benefits and increasing the value of the assets. Moreover, capital is sourced within the village, and so are the loans made out. Judging from the country's constitution, agricultural laws and related regulations on village self-rule, co-operative funds fulfill the three principles of village self-accumulation, self-development and self-governance.

- b. Rectification according to related regulations on management of internal assets of collectives

To live up to the spirit of rural reforms, to face the problem of financing small-scale agricultural production, and to stem the practice of usury, rectification of community-based co-operative funds and other internal collective assets can be done along the lines of "community co-operative shares system". Liquid as well as fixed assets held by the collective can be transformed into shares and issued to households who can decide for themselves whether to pool their resources and form a management committee to manage their collective assets. In this way, the liquid part of the collective assets can be fruitfully utilised.

## 2. Professional RCF

This type of co-operative funds mainly relies on professional economic organisations of peasant or professional associations. The funds are set up by members of the professional organisations or associations. The main function is to provide financial services within the profession. Some may overlap with community-based funds. Some encompass several communities. But most of them are confined to particular organisations. Typical examples are those in Huanghua township of Hebei, the fishermen's co-operative funds in Shanwei, Guangdong province, the loggers' fund in Sanming, Fujian province, and the beekeepers', drivers', and miners' co-operative funds in Shenzhen, Heilongjiang province.

What should be noted in particular is that co-operative funds are very effective in stemming the practice of usury. Since rural reforms,

lending and borrowing among peasants are widespread. However, due to lack of effective control, usury is common. In an attempt to develop cash crop production, peasants often find themselves burdened with debts and even bankruptcy. Rural professional co-operative funds provide new channels of finances in addition to formal government financial networks. Compared to loans provided by individuals, these funds are well-regulated and cost less to borrow. Hence, they have significant impacts on a rural environment where competition among financial institutions has been previously non-existent. From the viewpoint of peasants, competition will lower the price of capital. In fact, where the RCF is well-managed, usury is contained. Some researches show that as a result of the development of RCF, the interest rate for loans provided by individuals fell by 30 to 50 percent.

In the test-site of Yulin in Guangxi province, there used to be a dozen or so usurers lending at extremely high rates. Among their victims were individual traders and craftsmen. With the development of RCF, more than one hundred poor households were able to obtain loans. The usurers lost their market.

Rural professional co-operative funds stress the interests of shareholders. In their distribution of profits, 40 to 70 percent go to the payment of dividends. Only 20 to 40 percent are retained for accumulation and further development. The rest go to salaries, general welfare and bonuses of employees.

From this, the co-operative nature of professional funds is far from clear. With the dissolution or closure of many co-operative funds in recent years, professional funds also lose many co-operative characteristics they might have had in the past, and regress to private lending companies.

### 3. Enterprise-based rural share-holding co-operative funds (financial service associations)

This type of RCF is formed by economic groupings within a community or a particular area. It is spontaneously formed, but the members are economic bodies engaged in trade or industry.

Its main function is to help capital flow readily within shareholding companies, township enterprises and private enterprises. This type of funds can only be found in places where economic development has already taken place, and economic activities have branched out into second and third sectors. It is the result of the pooling of resources of different economic bodies to further each other's development.

In the city of Wenzhou, township as well as private enterprises

have boomed. Economic units that are collectively owned are also strong. Since 1992, the year when the experiment for shareholding co-operative funds began, and up till May 2000, 52 such funds have been formed. Capital inflow and outflow are 167.32 million yuan and 186.59 million yuan respectively. Not only was the need for capital from village and township enterprises met, the practice of usury was also stopped. According to research conducted by an enterprise in Wenzhou, in 1993, there was a shortfall of 80 million yuan to upgrade technology. Banks and credit associations could only provide one quarter of the amount. Up to May 2000, the 45 co-operative funds that were in operation had provided capital in the amount of more than 300 million yuan.

The problem is when the economy is in recession or when interest rates are high, as is the case in China in the 1990s, co-operative funds that are without the support of the Central Bank and are involved in enterprises running into difficulties are bound to be adversely affected. To cope with such risks, such private funds tend to work illegally with corrupt officials, and thus give rise to extremely harsh private usury.

The rise and fall of RCF point to the inescapable fact that whether it is at the level of central or local government, the established rural financial institutions are inadequate in many respects.

With the benefit of hindsight of fifteen years, from actual experience, the following should be evident: only those co-operative funds that were established at the village level still had life in them, even though the local form they took appeared incongruent with the orientation of developing modern financial institutions.

*Translated by Ma Kwok Ming, John*

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# Agro-technology Supply and Demand in the Chinese Countryside

YANG PENG

AS AN IMPORTANT means of raising agricultural production efficiency and enhancing peasants' income, promotion of agro-technology in the rural areas has always been the highlight of the Government and the academic circle as well. Recently, we carried out investigations on the promotion of agro-technology in Dounan Villange of Longjie Township, Chenggong County and Jiulong Township in Luquan County, near Kunming, the provincial capital of Yunnan Province.

One of the fundamental objects of the economics studies is to find the relations of the economic phenomena which have been converted into digital data. However, the incomprehensiveness and inaccuracy of agro-economic data in China make big obstacles to the agro-economics studies. It is rather impossible to accurately learn the actual situations in the rural areas by merely relying on official statistical data and government documents. As the investigations took us only 30-odd days and we did not have enough time to systematically address all the details and data collected, we thereby are not in a position to make a quantitative analysis. This paper only serves as a sort of investigation experiences we are going to share with friends who are concerned about rural problems in China today.

## **I. Agro-technology Supply and Demand Have Largely Been Commercialised**

In the pre-Reform era of the planned economy, the government was the sole economic organizational force in the countryside. The peasants were

rigidly organized via political mobilization, the system of the People's Commune and the Militia Set-Up. Under the semi-militarised command of high uniformity and in accordance with the government's instructions, peasants engaged in agro-infrastructure construction, studied politics and culture in literary classes, learned how to use chemical fertilizers, new grain varieties and some agro-machinery. Agro-technology was regarded as a sort of "public goods". The government documents and policies of the time show that promotion of improved crop seeds, fine farming methods, chemical fertilizers and pesticides and simple farm machinery constituted the essential content of agro-technology promotion work.

The 20-odd years of market-oriented economic reforms beginning with the Contract Responsibility System Reform has thoroughly shattered the original organizational pattern of rural production, the system of the agro-technology supply and demand as well as the relationships between the government and the peasants.

Owing to the scarcity of per-capita farmland, the equal distribution of land, the dominance of a household-based economy and a small-scale farming, the agro-mechanization level in Yunnan province remains extremely low, and the government meanwhile does not make it an important content of agro-technology promotion. The current agro-scientific and technological efforts in the province mainly focus on the promotion of new varieties and farming methods and application of chemical fertilizers and pesticides. To many rural administrative officials, the so-called rural technological promotion means largely the same as the construction of rural road and water infrastructures and better supply of means of farm production.

Lying on a stretch of flatland 30 kilometres from Kunming with convenient transport, Dounan Village is a pure flower producer with 5,189 villagers, 2,715 *mu* (181 hectares) of farmland (averaging nearly 0.52 *mu* or 0.035 hectare per head) and an annual net income averaging 3,500 *yuan* per person. Here, agro-technology supply and demand have almost entirely been commercialised. When the flower cultivation was introduced in Dounan around 1985, the scientific and technological departments of the provincial, city and township governments did some mobilization and training work for the villagers in the area of flower cultivation. But now, the flower growers and horticulture companies have become independent entities, with flower cultivation and sales, production arrangements and business management conducted entirely in accordance with market demands. Most of the horticultural techniques are introduced from abroad (directly or indirectly through certain scientific research units and horticultural companies), and the township government has almost

entirely withdrawn from the domain of flower production (in terms of flower varieties, cultivating methods, flower fertilizers and pesticides and information supply) and has turned its main attention to the construction, administration and charges-collection of the wholesale flower markets. In the sphere of production and business operations, the flower planters and horticultural companies no longer need the township government to provide scientific and technological services. What they badly want is the normalization of market activities. For example, they require the government to crackdown on illegal merchants and peddlers who produce and sell fake and inferior chemical fertilizers, pesticides and flower seeds. Agro-technology has become a sort of commodity and the government is no longer in a position to provide many services. Though the township government's institutional structure still retains an agro-technological centre and an animal husbandry and veterinary station, they actually have no meaning to the flower peasants and companies of Dounan Village.

With 43,360 residents, 65,040 *mu* (4,336 hectares) of farmland (averaging 1.5 *mu* or 0.1 hectare per capita) and an annual net income averaging 514 *yuan* per capita, Jiulong Township is located in an out-of-the-way mountainous region some 150 kilometres from Kunming. Its major economic source is grain production, tobacco planting and pig, cow and chicken raising. Here, with the exception of monopolized crop seeds supply by state-owned seeds companies, the supply of chemical fertilizers, pesticides and other farm-use goods have by and large been commercialised. The township tobacco purchasing stations and Supply and Marketing Cooperatives remain the main suppliers of chemical fertilizers and pesticides. Nevertheless, in front of an ever-increasing number of small fertilizer and pesticide merchants and peddlers, their sales ratio out of the township's total is declining year by year.

The institutional system of the township government still retains an agro-scientific and tech centre and a veterinary station (each having 7 staff with wages averaging 700 *yuan* each), and all the 18 villagers' committees have their own agro-technicians and veterinarians (each with 1 agro-technician and 1 veterinarians with monthly wages averaging 120 *yuan* each). Put together, there are 50 township-paid agro-technical promotion staff, averaging 11 per 10,000 people. Each year, the township government appropriates to it a "poll fund" of 170,000 *yuan* for the salaries of the staff who are responsible for the agro-technology promotion. Nevertheless, these people always complain that they "only have the salary but no work fund". Agro-scientific and technical demonstrations and project disseminations require financial input. Owing to lack of funds, they are not in a position to undertake their work. In actual operations,

however, the agro-technicians already have largely commercialised their scientific and technical services (for instance, veterinarians make charges for livestock inoculation administering and peddle veterinary medicines). Certain township government functionaries grumble that these agro-technicians take wages from the government while concurrently making extra money at the market. Thanks to long-time practices of grain, tobacco and white kidney bean planting and pig and cow raising, most peasants have accumulated a rich stock of experience in terms of crop varieties and livestock breeds as well as cultivating and breeding methods. They purchase the seeds they need from the seed centres and piglets from peddlers, or breed them on their own. They buy chemical fertilizers and pesticides from the township tobacco stations, Supply and Marketing Cooperatives and numerous peddlers. As to cultivating and breeding methods, they rely on their own practical experience or exchange know-how among fellow villagers. While selling crop varieties and livestock strains, the farm companies and peddlers generally will introduce to the purchasers related cultivating and breeding methods. As a result, the government's functions in terms of giving peasants technical guidance have drastically been reduced, with the exception of a few poor, underdeveloped mountainous villages (however, what they need are not the government technicians' oral guidance or training, but improved seeds, chemical fertilizers as well as free financial grants and subsidies).

In Jiulong, the township government is technologically involved most deeply in tobacco planting and purchasing. Needless to say, peasants have rich experience in tobacco cultivation. Yet the township government still has a rather powerful say in the standardization of planting techniques and crop management. The reasons are as follows: Tobacco factories' formulation and management determine specific requirements in terms of tobacco varieties, tobacco quality as well as classification of different tobacco varieties. The township tobacco purchasing stations and township governments must realize these requirements from the tobacco factories. Because tobacco constitutes the principal source of the township's financial revenues (making up 70% of the total), the township government thereby actively supports the tobacco purchasing stations' work through co-sponsoring training courses, promoting management standardization (for example, all the tobacco peasants in the entire township are allowed to grow only one single variety, i.e., "one township for one variety") and helping resolve contradictions between tobacco growers and tobacco purchasing stations. In the mean time, the tobacco factories through township tobacco purchasing stations give tobacco growers price subsidies for the chemical fertilizers and pesticides they have consumed and give

material incentives to the township government for their work. Such kind of agro-technology and standard management promotion is inspired by the "company + peasant + government" model, and propelled by the interest structure of "factory's profit impulse + government's financial impulse + peasant's response to the higher purchase prices of high quality level tobacco leaves". During the course, the township government directly undertakes part of tobacco factories' functions at the tobacco cultivation link. Because it collects taxes and gets financial incentives from tobacco factories, peasants thereby call it the "tobacco government".

Investigation findings in two different kinds of villages (suburban and mountain villages) suggest that in suburban villages like Dounan, certain commercialised agro-firms and peddlers have entirely replaced the government's original scientific and technical functions. The government has almost completely withdrawn from the area of agro-technology promotion. Whereas in the underdeveloped mountain villages, their planting and stock breeding structure has all along remained relatively stable, the government scientific and technical promotion setup remain intact, but, owing to lack of free government fund input in the promotion work, charged scientific and technological services have become a common phenomenon. This indicates that they have been commercialised to quite a large degree. For those technological projects that the government involves and intervenes in relatively deeply and that are based on the "company + peasant + government" framework, their promotion is also determined by the requirements of farm produce processing enterprises (such as tobacco factories). Therefore, it is safe to say that in the present-day countryside, even in the underdeveloped hilly villages, agro-techniques have become a sort of commodity, with the market force dominating the supply and demand.

Nevertheless, this does not mean that the government does not have budgetary grants to support agro-technology promotion. In the government budget agro-technology promotion still retains a considerable degree of "public goods" nature. Each year the government sets aside a substantial amount of grants for the agro-technical demonstration and promotion use. However, it is obviously a question as to where this considerable sum is diverted. Motivated by departmental interests considerations (it is said that the agro-administrative departments care about their own interests), the current governmental agro-technical demonstrations display a "three-moves" tendency, namely, "move to cities, move to roadsides and move to capital-intensive projects". "Moving to cities," suggests that the government sponsored projects of agro-technical demonstrations are increasingly leaving rural areas to concentrate on cities.

For instance, most of the cities are doing their utmost to build up various kinds of agro-technological demonstration gardens and projects, whereas all of them are located around big cities. What's more, they generally follow the mode of "Government Investment+ Company Operation". Government budgetary funds channelled in through related agro-departments are converted into capital with which official businessmen carry out business operations under direct or indirect control of the departments concerned. "Move to roadsides" means agro-scientific and technological demonstration projects are concentrated along cardinal transport lines so as to facilitate the officials of higher authorities to visit and inspect. Thus, the budgetary allocation has been converted into resources for local government or departmental officials to show off their political achievements as well as capital for them to build up their political image. "Move to money" denotes that more and more money is devoted to scientific and technological demonstration projects and their capital intensity gets higher and higher. Factory-type farming represents the main content of present agro-technological demonstration gardens. Its major form is the huge sunlight green house shed, costing 100,000 yuan to 300,000 yuan per *mu*. What are demonstrated in the sheds range from new vegetable varieties introduced from abroad to the entire capital-intensive, knowledge-intensive production model? Many demonstration gardens boast an equipment system even more advanced and more complete than those in the developed countries. During the course, it is an indispensable item for the officials of government departments concerned and the managers from business-related units to go abroad for inspection, procurement and sightseeing. This, too, consumes a considerable part of the government budgetary allocation. In recent years, under the slogan of opening our agriculture to the outside world, officials at various levels in the agro-administrative sector have been flocking to various countries for inspections, repeatedly importing numerous huge greenhouse sheds and relative equipment. Even those that can entirely be made by Chinese factories (such as the steel frames of sheds) have been listed among the imported items. In the light of input and output, because too much money was spent importing hardware while the management software has failed to match it, only few hi-tech agro-scientific and technological demonstration projects can survive by relying on the market, with most of them only assuming a vain modernized frame while yielding no high-capital returns.

To put it in another way, in the eyes of the government, agro-technology maintains a considerable degree of "public goods" nature. Thereby, China's farm technological policies still allocate a substantial amount of fund for this purpose, and the government's agro-technological promotion system

still remains operational. However, project choice and fund distribution assume a tendency to depart increasingly from peasants and villages to the higher agro-authorities and urban areas, with the common form of government's investment and market-oriented company management. In the course of carrying out agro-technical promotion activities, driven by a growing strong agro-departmental interest impulse, the relative departments are doing their utmost to grasp the power of controlling the government agro-technical input and its returns. Thus, the agro-technical promotion grants as a sort of "departmental goods" have been devoured and digested by these agro-departments, whereas the technological needs of the peasants can only be satisfied mainly through free market.

For the peasants, since the agro-technology has become a pure commodity, they have to make their own decisions on the use of it in the light of their rational judgments. For the government departments concerned, however, agro-technology still maintains the nature of public goods — a sort of public goods with a substantial amount of government budgetary input. As the departmental interests are being strengthened, this sort of public goods is increasingly evolving to the privileged proceeds of the relative departments. The drizzles brought about by the government's input in agro-technology promotion are less and less nurturing the countryside and peasants. Under the current system of budgetary allocation decision-making and supervision, the peasants are not aware of, cannot participate in and are unable to supervise the operations of the government funds in the area of agro-technological promotion. It would be a gospel for the hundreds of millions of peasants if the huge amount of government grants for this purpose were directly appropriated to every villagers' committee for its disposal and control, instead of channelling them through relative departments at various levels, which has led to high cost with low efficiency and the retention and diversion of the fund.

## **II Constraint Factors for Agro-Technology Promotion**

### ***1. Administrative agro-departments' interests***

Though in recent years the government's input in agro-technological promotion has been declining year by year, the government still allocates a substantial amount of budgetary fund for this purpose. Viewed from this angle, the fundamental constraint factor lies in the swelling of departmental interests, i.e., the government's agro-support fund is profusely consumed by the related administrative agro-departments within themselves after the funds are channelled through them, while the peasants

do not get any actual benefits from it. Viewed in terms of a relatively short term and of the administrative reform, the most vital constraint factor is the administrative constraint. The fundamental solution lies in changing the ways and channels of government farm-support allocation. The Central Financial Ministry should overstep the relative agro-departments to channel the fund directly to the villagers' committees. The agro-departments concerned should shift their work to making investigations and researches and helping the villagers' committees dispose the fund properly, instead of directly handling the fund and undertaking projects as they currently do. It is difficult for the peasants to supervise governments at various levels, but it is possible for them to supervise villagers' committees. Once the fund is put in the hands of the villagers' committees and thus becomes peasants' public property, it will yield higher efficiency and serve the peasants better. More importantly, for many villagers' committees that exist only in name due to an underdeveloped collective economy, lack of economic income sources of their own and entire dependence on a small amount of per-capita budgetary subsidies, direct allocation of the agro-support fund to them will help them build up a common, village-level financial foundation – an important condition for promoting grassroots democratic processes. Apart from the above-stated administrative constraint factor of fundamental nature, agro-technological promotion as a commodity (to peasants) is also confronted with some other hard constraints rooted in the market supply and demand relations.

## 2. *The constraint relating peasants' anticipation of input and output prices*

The market relations between the prices of farm production means input and the sales prices of farm produce affect peasants' input and output decision-making. Increasing the scientific and technological contents of production process can enhance farm output. It is common knowledge every peasant knows. Notwithstanding, any technological element necessitates financial input, and peasants have to calculate the costs and returns. In Dounan Village, flower-growers all know buying latest seeds and using more chemical fertilizers and pesticides can raise flower quality and production. Yet, because of the price disparity in different seasons, the flower growers decide how much chemical fertilizer and pesticide to be used according to the predicted flower prices in the flowering seasons (for example, flower prices are higher between October to the coming March while lower between April to the coming December). They will not go all the way to increase input for raising flower production and quality. In many other places, the local governments once tried to promote the "1 ton/mu cropland plan". Nevertheless, to raise grain production

means the input of more chemical fertilizer and pesticide; therefore peasants said that the increased grain would be made of "piles of chemical fertilizer". Chemical fertilizer is sold at market price, so peasants have to calculate the costs of fertilizer input and the anticipated sales price of grain. In the face of constant rise in chemical fertilizer price and drop in grain price, even if peasants succeed in raising their grain production to 1 ton /mu, this does not mean they can make profits. Many peasants say they are not "so foolish as to build the so-called 1 ton/mu cropland". So they refuse to follow the idea of raising the grain unit-output at the expense of cost input, unless the government, with an attempt to create political achievements by building the "1 ton/mu cropland", satisfies their expectations by granting them free or subsidiary input in water conservancy and other infrastructure construction and in the chemical fertilizers to be consumed to make up the price disparities between input and output in building the "1 ton/mu cropland".

China's wheat and maize output per unit is comparatively lower than the level in developed countries. This is determined by a series of factors, including the average per-capita production scale, mechanization degree, farmland quality, prices of farm production means and farm produce. Both the academic circle and the government claim that the fundamental issue of Chinese agriculture is low production efficiency and low per-unit farm output, and an important way out is to promote the agro-technologies. Yet, behind the phenomenon of low per-unit farm production hide more complex factors which cannot be removed by a single policy of agro-technology promotion.

Since the producing factors of farm production input and farm produce sales are both commercialised, to peasants, more agro-technical elements input does not necessarily mean more profits. In this sense, peasants have a characteristic of economic man and rationality as well. Only government agro-departments are interested in and have a capacity of undertaking the demonstration projects that assume a superficially modern agro-scientific and technical form.

### 3. *The constraint in terms of peasants' operational scale and mechanized level*

In the present world, the most advanced agro-technology, apart from research and development of new varieties, is the "fine agriculture" frequently mentioned in T.V. and newspapers. "Fine agriculture", based on the geographic information system (GIS), geographic positioning system (GPS), remote sensing system (RSS) and decision-making support system, gives accurate guidance to "what to produce and how to produce".

However, American "fine agriculture" is built on the basis of scale management, with the smallest area for "fine agriculture" being no less than 85.6 hectares. What's more, "fine agriculture" cannot be applied without a mechanized and automatic system of planting, spray irrigation, fertilizer application and crop reaping. In China, under the condition of extremely limited per-capita farmland, some government departments once made trials on "fine agriculture". The "computer agriculture" using meteorological and ground temperature data to guide farm production was once trumpeted glamorously by the mass media. In the actual operations, however, the net result was the government departments concerned spent some money buying some computer equipment. The experiment accomplished nothing, for it had nothing to do with peasants. Currently, in the Chinese countryside, it is the promotion of improved grain seeds that has proved to be highly efficient and obviously effective. The fine seed technology can be promoted because it does not alter the existing small-scale production mode and does not require peasants to provide additional complementary equipments that go beyond their financial capacity. Nevertheless, seed companies exclusively monopolize the grain seeds trade various levels. They accept financial support from the government departments on the one hand while on the other making profits through their exclusive right to sell seeds to peasants. For peasants, grain seeds remain a pure commodity and bring high cost to them. The peasants in Jiulong Township spend more than 3 million yuan purchasing grain seeds every year.

With more opportunities to go abroad for visiting, the higher-ranking agro-officials are more strongly stimulated by advanced foreign agriculture and more "Westernised" things. Judging from the angle of either conception or interests, they have a stronger impulse to bringing in advanced foreign technologies. Yet, the Chinese countryside cannot provide necessary conditions for imported advanced technologies in terms of operational scale, mechanization level, capital and information. There exists a considerable gap between advanced foreign technologies and Chinese farm production conditions, thereby requiring the government scientific research departments to make absorption, adjustment and conversion with regard to the imported technologies. Regretfully, however, China is very weak in this link, leaving many government-funded agro-scientific projects increasingly deviating from peasant's actual needs. If the huge amount of government allocation wasted on duplicated importation had been diverted to digesting, improving and localizing the foreign technologies and relative research and promotion, the results would undoubtedly have been much better. However, this involves redistribution

of power and interests among departments concerned, and thereby requires the diversion of resources from the related government administrative departments to the agro-technological research and promotion departments. Regretfully again, it is difficult to realize under the present actual circumstances of intense contention for interests among related departments, the dominant position of government departments and the trouble-saving mentality of higher authorities.

#### 4. *The constraint in terms of peasants' purchasing power*

Under the present technical conditions, peasants are not the creators of agro-technology; the production experience they have summed up through long-time production practices has been crushed by modern technology. Only in rather closed mountain villages can we find that some conventional knowledge (of local nature) is still playing a part. Under the market economy, peasants have to spend money buying agro-technologies. However, the hard constraints – the extreme scarcity of per-capita farmland and a surplus labour – have minimized their purchasing power, thereby restricting the further promotion of agro-technology in the countryside. In Dounan Village, the annual per-capita income averages around 3,500 yuan, whereas their current input in flower cultivation is as high as 6,000 to 10,000 yuan per *mu* (for buying flower seeds and seedlings, chemical fertilizers and pesticides). Certain technological items (such as spray irrigation system) cost even more, far exceeding peasants' financial capacity. The green house shed cultivation costs no less than 6,000 yuan per *mu*. Therefore, the technical production system centering round the green house shed production has no meaning to the mountain peasants. In another example, the government tries to promote methane-generating pits with a view to protecting ecological environment in the hilly regions. Peasants in Jiulong Township mostly gather firewood on the mountains, on an average each family consuming more than 3 tons of firewood a year. They all know the merits of methane-generating pits – not only saving them much painstaking labour for wood-cutting, but also protecting the forests and ecological environment. Nevertheless, each methane-generating pit costs about 1,600 yuan. To a family with an annual per capita income averaging 500-odd yuan, it is a substantial sum. Unless there is support from outside, the villagers will not spend money building such pits.

The legal system is not favourable to the peasants. According to the law, the land/ forest/ water/ mineral, all natural resources do not belong to the peasants but belong to the state, so the peasants have no right to sell them or use them as guarantees to get loans from the banks. So the legal

system greatly limits the exchange ability of the peasants. Lack of financial surpluses and a perfect rural financial set-up has made peasants short of financial support for expanding technological introduction. Of the 219 households surveyed in Dounan Village, only 3 were once granted bank loans. Whereas in the entire Jiulong Township, families having deposits in the township credit cooperative account for less than 20% of the township's total only, while the creditor families make up less than 25% of the township's total only, with the rest 75% - 80% families never having enjoyed financial services. Peasants thereby have no alternative but to "keep their spending within the bound of their income", unable to employ such technological items that exceed their direct purchasing capacity.

Either in Dounan Village or in Jiulong Township, the last few years saw very little increase in peasants' income, while in some other places peasants' income even declined somewhat. As the direct-income-limited technological absorption capacity fails to enhance, the contents of agro-technological elements cannot have a remarkable rise. Under the market economy, peasants' income cannot increase unless they raise their production efficiency by employing advanced science and technology. Nevertheless, with an extremely low income and a very small farm scale, peasants are not in a position to have access to many agro-technologies. This is an insurmountable dilemma if we solely rely on market mechanism with the current characteristics.

### 5. *The constraint of peasants' educational level*

The government scientific and technological departments at various levels in various areas organized experts to compile a number of very good applied agro-technical books and pamphlets. Some of them are available in bookshops while others have been given to various township governments and villagers' committees free of charge. However, in Dounan Village, we did not find in any family any book related to flower cultivation. Fine seed purchase, individual experience and technical exchanges remain the main technological resources for most flower growers. In Jiulong Township, we did find a small number of such books piled in the offices of some villagers' committees, but we did not see any in all the families we surveyed. Nowadays, township (town)-sponsored agro-technical training gets less and less in number.

Different educational levels determine information acquisition ways and channels. With an average of very low educational level, peasants do not have the ability to directly learn and acquire agro-techniques from books and other written materials, whereas they are still accustomed to such conventional ways as listening to oral explanations and watching

live demonstrations. This resulted from both the ultra shortage of information flow-ins and peasants' low educational level. Some TV stations and newspapers once trumpeted that peasants could get information or sell their vegetables on the computer webs. This is nothing but a stupid sensational clamour that has nothing to do with the overwhelming majority of peasants. Even in richer, well-known Dounan Village, computers and information webs have nothing to do with flower-growers' production and management. Of the 219 villagers surveyed, those with high school learning account for 7.5% and those with junior high school learning for 35.6%, the remaining majority only having primary school education. In Jiulong Township, more than 90% of the population only received primary school education. Both the ultra-low income and the ultra-low educational level concurrently made the peasants have no luck to make friends with books, not to speak of computers.

Ninety-five percent of the families in Dounan Village and 30% in Jiulong Township have TV sets. Yet all the programs are simply relayed from the CCTV as well as provincial and city stations, without a single program serving local cultural and intellectual needs and agro-technical training. How to use the mass media to arouse peasants' interest in science and technology and to enhance their absorbing ability has never topped the local governments' agenda. What's more, as the urban economy is increasingly capitalized and professionalized, young peasants are gradually losing the ability and chances to make a living by getting jobs in the urban areas, due to their low educational levels. In both Dounan Village and Jiulong Township, it is common for migrant workers to come back again. Due to the saturation of labour-intensive enterprises since the middle and later period of the 1990s, the economic growth as a driving force for rural employment has been weakening.

As regards the technical management knowledge on livelihood (such as family financial accounting, sanitary habits, wholesome diet, social forestry management and community public projects) in the countryside, there exist no special institutions to study, organize and manage, leaving the peasants to handle these affairs entirely in accordance with their traditional habits and experience. In the eyes of an urban dweller from outside, there exists a considerable space for improvement, which has an important bearing on the improvement of peasants' quality of life.

The countryside must have the ability to retain its residents and provide a qualified labour force for society. This is an important condition for China to maintain stability and make progress. To retain the rural residents, it is essential to lighten peasants' financial burdens, improve the rural ecological environment, and provide more education and training

that serve the localities as well as raise peasants' economic output. To do so, it is necessary for the countryside to study, develop and import more applied science and technology, thereby helping peasants gradually raise their overall quality of life on the basis of self-support and self-reliance. To send out a qualified labour force to cities, it is vital for the countryside to vigorously develop its education and realize the educational equality between the urban and rural areas, thereby equipping rural residents with necessary knowledge for making a living legally in the urban areas. In the present situation, however, rural science and technology and rural education are increasingly evolving from social public goods to market commodities, while more and more government budgetary input in the rural "public goods" is held back and devoured by the privileged administrative departments, thus making the public goods departmentalised. Therefore, the prospect for both retaining rural residents and sending out a qualified labour force is less and less optimistic.

The average per-capita farmland scale, the legal system of the rural property rights, the peasants' educational level, the prices of farm production means and farm produce as well as the peasants' per-capita income all directly constrain the development of China's agro-technology and its promotion in the countryside. Also, they directly affect the production efficiency and the economic output level of Chinese agriculture.

The market economy is a competitive economy. As an extremely weak group in this economy, the peasants possess the least competitive resources. Today, as the Chinese economy evolves towards "capital + knowledge", the peasants, relying solely on the very small average per-capita natural resources, their conventional production experience and physical energy and lacking in both modern knowledge and capital, are not in a position to keep abreast of the urban economic development. As a result, the gap between the urban and rural areas is swiftly widening.

Rights necessitate the support of resources, and rights without the backing of resources are empty rights. Many young migrant peasants have personal freedom but cannot find a job in the city, thus nullifying the significance of the right to freedom. Natural resources, farmland, capital, science and technology and labour make up the resource base of rights. For the peasants, out of the scarcity of per-capita farmland and a surplus labour force, their farmland and their labour power can only sustain their right to survive, but cannot support their pursuit for higher and more equal rights. In the present time of science and technology dominating the economy, science and technology not only constitute the means to raise income, but also the base for enhancing peasants' rights. During the

last two decades and more since the initiation of reforms, wealth flow has assumed a trend of moving from the bottom of the social pyramid upwards to the pinnacle, i.e., constantly flowing from the countryside to the cities, from the lower strata to the upper strata, from the weaker groups to the stronger groups and from the non-technological labour force to the complex of “knowledge + capital + power”. The bottom of the pyramid is in a deteriorating position of deteriorating ecological environment, shrinking financial capacity and impoverished livelihood, with the rural group gradually dropping out of the chain of commodity value.

The development of Western capitalist nations underwent the following process. In its developing process the capitalist class turned peasants first to workers and then to the middle class, thus transforming the whole nation into a middle class society. Today, the whole capitalist society is at the stage of transforming people into knowledge workers. During the process, though there are class oppressions and class conflicts of this kind or that kind, there do not emerge any split in the production chain as well as in the value chain of different classes; they need each other. Whereas in China today, there do crop up class splits in such a production-value-chain, with the peasants — the overwhelming majority of the population — gradually dropping out of the economic growth process. Unequal education has caused scientific and technological inequality while scientific and technological inequality has in turn resulted in inequality between different classes. It is urgent for China to create a mechanism and a force which can narrow the ever widening gap between cities and countryside, bring about the Chinese nation's advance through equal education and scientific and technological promotion, and combine the “knowledge, capital and power” with the peasants who make up the overwhelming majority of the Chinese population. China urgently needs a mechanism and a force to motivate the backflow of social wealth, letting capital, knowledge and power flow back from the pinnacle of the pyramid to the rural ecology, education, science and technology as well as rural families, and to closely link the urban and rural areas in the real sense. Otherwise, the locomotive of the Chinese urban economy will gradually disconnect with the long rural carriages behind it, and the majority of the Chinese population will be marginalized and pauperised, reduced to a stagnant and declining position. A society with the majority of its people having lost development opportunities will undoubtedly be an unstable society; a China with the majority of her population short of development rights will not be a civil and prosperous China.

*Translated by Qian Yurun*

# Class and Gender

DAI JINHUA

CHINA, in the 90's of the 20th century, began to undergo a drastic process of class differentiation while its social institutions were restructuring and the intervention of the globalisation process in Chinese society was deepening. Women have undoubtedly been chosen to be the social group to be sacrificed in this process. In the cultural context, this has not only meant an extension of the social and cultural processes that began in the 80's in terms of "rewriting" women: rewriting definitions and norms and redefining women's social status and identity in the process of social restructuring. It has also become one of the ways to solve, or at least to displace, social crises and social contradictions.

In a number of occasions, I have emphasised that even though Chinese Socialism or the so-called Mao's Era has become remote and alien in the cultural perspective of contemporary China, all that are happening in China now are connected with or entangled in the historical legacies and debts of Mao's Era, albeit in complex or even weird forms. Throughout the process of *gai ge kai fang* (economic reforms and the opening up of the market) that China has been undergoing, the conspicuous reconstruction of class and gender manifests in more complex and eerie ways the entanglement of the present with the real and singular historical legacies and debts of that era.

A weird scene can be witnessed on the social and cultural stage of China: the interlocking processes of rewriting and reconstructing the reality of class and gender have become themes which conceal and circumscribe each other when they are projected as social problems or appear in cultural representations. When gender is addressed, it seems to

imply a standpoint that places itself above other social problems, in particular the reality of class. But such a standpoint fails to acknowledge the reality of women, especially the sufferings of lower class women in the process of social restructuring. When a particular vision of women's resistance that "originates from the west" finds an effective counterpart in China, a particular way of life of women and their resistance becomes that of all women: representations of women and feminism inevitably become those which conceal the social reality of the survival of women. For example, in the 90's when a particular kind of women's writings and the literary criticisms that target this kind of women's writing became a distinguishable feature in the cultural landscape, the applause or the defence of a form of resistance in a kind of women's writing that is "me-my self-my monster-my body" could inevitably conceal the much more complex or much more painful reality of the fate of women and women's bodies in China in the 90's.

When we defend "women writing with their bodies"—the expression of women's bodily experience, desire and sexuality, are we able to come face to face with the dead bodies of women workers who were burnt to death or those who had become permanently disabled and were sent home with a meagre compensation as a result of being locked behind an iron gate in a fire that broke out in the Zhili Toy Factory in Shenzhen in 1993? When we rose up in defiance against the rage and the assault of the patriarchal society subsequent to particular kinds of representation of women denuding their bodies, how do we treat other episodes in the narrative about the social and cultural scenery surrounding women? For example, the many advertisements of breasts enhancing creams which say "*Zuo nu ren 'ting' hao*"<sup>1</sup> or "Don't let men grasp you in one hand". Or the mass of news reports on police action against the sex industry disclosing indirectly the bodily experience of women who work completely nude or half nude, or serve their customers in Japanese kneel-down style?

Behind the logic of feminist critique in terms of active/passive and gaze/being gazed, how do we deal with the logic of capitalism that is adorned and reinforced by money? In the case of the latter, is it being effectively understood and critiqued when the theme of class is being taken up? In fact, close by the expression of "my body, my self" is another scene unveiled by women's writings: use one's own body, especially when it is still "a virgin's body", as one's only capital to dig up the first bucket of gold in the Special Economic Zone. This is obviously a logic of women's subjectivity, which the patriarchal culture has refused to face. But does the discovery of such a subjectivity imply an end or a conclusion to the problems discussed above?

In fact this is a cultural reality that is formed on two different but inter-related levels. First, even though it is complex and diverse, it is still an effective construction of a new dominant ideology and that of the mass culture. It is a top-down construction that is used consciously or unconsciously to divert people's attention from the increasingly acute reality of class conflicts. When the process of social reconstruction and the attempt to displace the subsequent social crisis to women as a social group become visible and result in these realities being perceived as social problems that cannot be evaded, the women's question or the discourse on women is used by the dominant ideology and the mass culture to divert people's attention away from the question of class. The discourse is shifted to particular kinds of discussion on gender role and gender division of labour. This is so obvious in the discussion of "the assailing waves of unemployment" which is depicted as so-called problems of *xia gang nu gong* (women workers who leave their posts) the discussion of which becomes miracle stories of "stars of the reemployed" and "the woman boss who establishes her own enterprise". More interestingly, the question of women workers being robbed of their right to work has quietly become chatters about "the full time housewives" or "the professional mothers". In the stories of the happy "full time housewives", women are all "white collar beauties" or housewives that live in suburban villas.

For example, in an advertisement of a washing powder that is used by most families, the voice of the narrator is unexpectedly a girl. "Mother has been unhappy recently," the voice says. On the screen is a young woman who appears to be distressed and heavy-hearted. She looks wearily at the post-ups on the wall that advertise for recruitments. When she comes home, she sees clothes put on one side, washed and folded neatly. A tired girl lies asleep on the sofa. Tears in her eyes, the mother hugs her child. The brand name of the washing powder appears on the screen. This is the first time a *xia gang nu gong* and the problems faced by *xia gang nu gong* appear in advertisements of commercial products. This undoubtedly shows that the problem is widespread and is deepening.

In spite of this, representations in the advertisement—the family setting, the images of the mother and the daughter—all smack of "middle class" that is a must in the advertising culture. Consequently, the advertisement distances itself from the themes of survival, poverty and class that the problem of unemployment brings. What is represented is some kind of temporary difficulties faced by the individual and the family.

In fact, in the so-called turn of the century, other than this advertisement, many TV soap operas have used similar forms of expressions and representations when depicting the experience of

retrenchment of their female characters. The main female characters are usually young, beautiful, educated and have professional skills. These images have effectively hidden from public's view the real experience of the middle-aged and aged women workers who are suffering from oppression and discrimination resulting from their gender, age and educational background. On the other hand, when the official leitmotiv attempts to make use of the classical socialist discourse—the working class is the master of society—to mobilise the masses and reintegrate the society while rendering invisible the earlier discussed processes, the working class is granted the collective image of men.

Secondly, on another level, as the objects of concern and discourse in the 90's of critical intellectuals concerned with social equality, the themes of class and gender are facing the problem of rendering each other invisible while drawing on each other's perspectives. Let us put aside for a while the fact that the theme of gender is often neglected among male intellectuals (even when they are critical intellectuals) who ignore its complex manifestation and cruel reality and are more concerned with the universal theme of class. Let us also put aside the fact that feminist theories and critical resources smack of the culture of western middle class white and the consequent limitation in the coverage of their concerns with respect to the real life and social problems of women. Even when we only look at the themes and the discourse of class and of gender, the way they draw on each other and render each other invisible shows that both theories and discourses face the problem of a profound inability and contradiction in articulating the reality.

For me, class differentiation and the reconstitution of gender order are both the most prominent and cruel reality of the Chinese society in the 90's. They are entangled in such deep and complex ways that they can hardly be separated from each other. But when we transform such a mainstream reality to a kind of critical language, when we turn our eyes to and use our speeches on the lower class people and women sectors which are becoming more and more marginalized, we find ourselves faced with the problem of the poverty of theory and discourse. The existing discourses on class and gender are embodied in a language that enjoys its dominant position due to its historical origin and is characterised by its function to enable the integration of a nation. Because of this, when they are put to practical use, what results might be an unforeseen effect of rendering each other invisible instead of manifesting each other. When we draw on Marxist theoretical resources and turn our eyes to the exploitation of the lower classes and the sufferings of the lower class people who are becoming increasingly invisible; when we, in the name of

class, engage ourselves in the practice to depict anew the process of social integration, we might be turning away from the factor of gender as we look at social processes that make selections on who would be making sacrifices. We might also be neglecting the fact that the reconstitution of the gender order has an ideological function in legitimising the reality of class.

On the other hand, when we, in the name of gender, attempt to unveil the dramatic regression, in the process of so-called progress, in terms of survival and the reality of culture as women have experienced it as a social group, we might have allowed the highly contrasting realities of different classes to remain hidden. We might be able to underline and weave into one picture the “second wives’ flats”, the bustling sex industry and their “contribution” to the local treasury, the struggles of the *xia gang nu gong*, the “full-time housewives” and the “white collar beauties”, the misery of the *wai lai mei* (girls coming from outside), the “absolute privacy” of the women entrepreneurs and the trafficking of rural women. But such integration often feels sort of light and unreal because of the absence of a class perspective. When we protest against the drastic fall in the proportion of women in the workforce of big and medium-sized state-owned enterprises due to the retrenchment of women workers, how do we account for the absorption and emission of women workers and child workers from the rural areas in the large numbers of enterprises jointly-owned or solely-owned by foreigners? More often than not, we are faced with such texts like “Private Life”, “Fragments of Passion” or “The War of an Individual” which quote from and appear to verify feminist theories, and which have definitely stepped on the sore toes of male chauvinism. When we express our support and approval of these texts, are we knowingly or unknowingly endorsing the idea that the women’s urban culture in the 80’s and 90’s and the middle class-to-be and intellectual women is the ultimate, if not the only, subject of women as a whole. When we applaud the fact that at the turn of the 70’s and 80’s, as a social group, women have finally made a breakthrough in the domination of the class theory and “rose above the horizon” again, are we aware that in these same moments, the survival, the experience and the reality of the lower class women are gradually being submerged?

Let’s look at other examples. When Wei Hui, who represents “the generation born in the seventies”, had her *Shanghai Baby* rave about her material desires, her middle class imagination and idolatry of the West in the name of the Alternative or Feminism; when at the turn of the century, women’s “body-writing”, in writing about women’s bodies and laying bare their desires, turn to behavioural art in supermarkets; when women writers

sell men's underwear on which are the writers' pictures; when the rituals of autographing books and crying out "Come, have a look at the breasts of Shanghai Baby" are expressed as imaginations about and idolatry of Henry Miller, as wishes for sadistic treatment in the hands of party guards, or as depiction of the life of leisurely women in bath tubs or at bar tables as the "Raging Blossom of an Injured Flower"—how shall feminists face up to such scenes and what have they to say?

In fact, in the year 2000 when Wei Hui (and also Mian Mian) became the most popular writers in the rather sombre book market, when she was the centre of a media hype, the representative of youth culture, the hot spot of internet culture which was in vogue, and the hottest topic on women and feminism, nearly all the feminists and critics of "women's literature" have maintained a cautious silence. If this is because Wei Hui has indeed given rise to a fad which can be said to be somewhat weird, can we ignore the debates on the web—the extremely complex yet real confrontations between the sexes in response to the comment of "beautiful women always bring disasters"—and the dark billows of male chauvinistic discourse? Can we ignore the fact that *Shanghai Baby* was finally banned—the publisher was ordered to stop distributing the book, destroy the die plate, and was later ordered to "stop operation for further inspection"? There is no doubt that all these might have involved intricate politics, but they have also shown the result of the rage of the male chauvinistic culture. Even though there was a banning order and it was rumoured that the circulation of the book was "strictly prohibited", they have only boosted the sale of other writings of Wei Hui. The web version of *Shanghai Baby* has been sound and safe and its click-in rate has accelerated. In fact the complex about banned books has resulted in pirated versions of *Shanghai Baby* flooding the market and numerous imitations with titles like "Small Town Baby" circulated widely.

Another interesting thing in this cultural phenomenon is when Mian Mian, a popular woman writer as much reputed as Wei Hui, became the object of a media hype, when she is dressed Rock n' Roll and she is in fact a Rock n' Roll person, when she came "in glint and glitter" onto the "same stage" with Wei Hui, talks of fad, of women and of "body writing", another aspect of Mian Mian's writing — an aspect which might have a meaning which is more real — is completely submerged. Having been a "problem girl", a Rock n' Roll youth, a former drug addict who had tried to kick off her addiction twice, Mian Mian's life experience at the bottom of the society (or say her "fall to the earth") shows us an invisible aspect of Chinese society in the 90's. In the words of the Germans, hers is "witness to the filthy life of the lowest class in China". She has not only given shape to

“the generation that ran away from home after hearing the Rock n’ Roll music of Cui Jian” and to the culture of the anonymous urban youths, she has also allowed us to have a glimpse of the lowest class which is often absent from vogue writings and women’s writings. However, in the noisy hype and the extremely confused debates about Mian Mian’s writings, the frequently quoted words of “a face of an eighteen years’ old but a vagina of an eighty years’ old” have completely submerged what could have been an important aspect of her work, and that is a synchronization of her experience in terms of gender and in terms of class. In the subsequent barrage of words between Mian Mian and Wei Hui which has so aroused the media and the web which are both dominated by men, Mian Mian accused Wei Hui: “You are not a real Shanghainese!” (you are only a woman adventurer coming from a small city!) and Wei Hui retorted: “You don’t have any respectable qualification.”

The excitement shown by the media towards the hostility and the hatred between women completely covers up an important aspect of Chinese society that is revealed in this case: class conflict in China is often disguised as or displaced to territorial confrontations. If we are to look at Wei Hui’s writings from this perspective, her representative work is obviously not *Shanghai Baby* but *Mad Like Wei Hui*. In this book, what we read is not so much “madness” as a female version of “the youth from other provinces”. The latter is a kind of syndrome that subverted Chinese culture in the 90’s and the story of Wei Hui is but a slightly different story of personal struggle and “gold-digging”. The prejudices expressed by the two writers on the media unveils a historical and real life context in a particular way: the strict household registration system of Mao’s era established the insurmountable boundaries between the rural areas and the cities and the hierarchy between major cities, cities in the periphery and the medium and small-sized cities. The system of admission of the universities has become a modern form of civil service examination and the only way and only possibility to cross such social barriers. As a consequence of institutional changes or the result of the capitalist process, not only have some positions within the socialist institutions promptly become a kind of intangible asset in certain industries, legal right to residence in the cities has also become a kind of asset leading to promotion to higher class status. If Wei Hui’s pride about her academic qualification and her “Fudan University sentiment” reveals the implication of culture as a symbolic asset in the new social system and shows that culture is the means to changing one’s “background” and the ladder to a new “higher” class, then Mian Mian’s rebuttal is also filled with territorial and class prejudice. However, in the enthusiastic performance of sex and gender,

factors that assume forms in such social syndromes have become a presence that is expressed in its absence.

Since the 1990's, until now, a paradoxical phenomenon in the representative structure of the culture of China has expressed itself in the dilemma of not being able to have both class and gender correctness in terms of "political correctness". Representations that have a clear class consciousness, a clear stand and a streak of social resistance often carry with them rather deep-seated, blatant and perhaps unconscious gender prejudice, if not discrimination. Women's resistance and their intense gender awareness and consciousness, in the meantime, seem to be restricted to the lives of middle class women intellectuals in the cities. On the other hand, in the construction of mass culture, the discourses on class and gender conspire and draw on each other. Compared with critical discourses, mass culture is able to do so more smoothly and the result is more exuberant.

An illustrative example is a small theatre drama entitled *Che Guevara* staged in April 2000. In Beijing, this drama has been a cultural shock and an intellectual impact which was neither too small nor too big. In a certain way, this drama could be said to be the first unofficial "revolutionary drama" ever staged since the Reform in China 20 years ago. Not only was this drama not authorised by the government, its staging was very far from the wishes of the government. Not only did this drama reiterate "revolution" in the name of Che Guevara, it has also used very strong terms (crude, simple and violent terms) to talk about the confrontations between the rich and the poor in the China of today and the injustice in distribution, and questioned why such social inequalities and injustices could be so blatant and so flamboyant.

Let us put aside the question of theatre as art or the question of rethinking history. This small theatre drama was a rare work in terms of political correctness on the level of class-consciousness and as a protest against the reality. But while speaking out in the name of Che Guevara, this drama also manifested a prejudicial and discriminatory gender subconscious. This subconscious was in fact the basic elements of the narrative structure of the drama: on the stage, the famous image of Che Guevara looked down on the platform from the ceiling, in the script which was structured in the form of a great polemic, three actors played the positive forces—the revolutionaries; the negative forces—the rulers and the classes with vested interests—were played by four actresses. Consequently, repression and resistance, counter-revolutionary and revolutionary, social prejudice and social justice, were embodied on stage as the conflicts and confrontations between the male figures and the female figures even though

the image, behaviour and cultural pattern of the so-called negative forces had obviously traits that characterised the dominant male culture.

The subtext on gender did not stop here. Feminism was obviously a trivial fad that had become the object of ridicule, if not criticism, in the drama. Feminism was presented in the following way in the words of the negative forces, "I believe I am going mad for being poor! I am not afraid of being poor. I can play with stocks, with stock index, with real estate and with Internet! I can play with feminism, womanism, or any isms related to women! I can play with postmodernism, premodernism, pre and postmodernism, post and premodernism! If that's still not enough, I can play Rock n' Roll. I can play experimental, avant-garde, bastard literature or strip myself in front of my foreign friends and play nude run. There are all kinds of games in the world, so why play with revolution?"

It should be pointed out that in the landscape of the Chinese elites or that of the mass culture, such kind of gestures and stand in terms of class representation was actually rare in the 90's while the rewriting of gender and discrimination were all over the place. Hysterical and unreasonable women and women who understand and suffer for the Cause have become the two extremes in the portrayal of women in the 90's. In women's writings and other writings, there are a lot of works with women's consciousness and the consciousness to rebel, but one can say in the affirmative that all these works are about the life of urban, middle class or middle-class-to-be, intellectual women (or women who have at least the characteristics of intellectual women). Writers of these kinds of work and the main characters in these works have never cast a glance of sympathy or recognition at women of the lower classes. The emphasis on and concealment of women as a social group is very obvious in literatures and women's writings produced in Guangzhou and in the special economic zones in its vicinity. Woman writer Zhang Mei, in her rather unique works, has unveiled the process of "intermarriage" and the transfer of social status between the red aristocrats and the gold aristocrats and the "painless groans" of a rather privileged group of women through her depiction of the life of a new class of "madams" (full time house madams?).

On the other hand, Zhang Xin, the most successful woman writer in the mid 90's and who excels in popular novels, was one of the first to portray realistically and meticulously, in her romantic novels, the imperceptible but painful fall of the urban middle class in the great wave of commercialisation in the early 90's and their soreness and bitterness. Digressing from the normal storyline in romantic novels, Zhang Xin has consistently allowed her women characters to sacrifice their romance for

friendship between women. If we say that women writers in the special economic zones, in their depiction of the "painless groans" of the upper middle class women, have painted women in a way as though they were working on restoring a picture, then the "reforms of the economic institutions"—the change of the system of ownership and the reorganisation of state-owned large and medium-sized enterprises—means that the ongoing differentiation between social classes remains one of the most important realities in social life.

But the fragmented and heterogeneous ideological representations have rendered the differentiation between social classes an anonymous reality in Chinese society. To "continue writing" about and legitimise class differentiation and the existence of class under the banner of a socialist ideology that advocates the elimination of class, the abrogation of exploitation and oppression, and the abrogation of all inequalities and injustices has been one of the most important tasks of the mainstream ideology in the 90's. It has adopted the rhetoric of economic pragmatism and consumerism, and has also drawn partially on the false promise of the vision of development theory (after "allowing some to get rich first", the general society will become rich and a society in which the middle class is the subject will appear). Despite these efforts, internally it must face (though it really could not have faced) the reality of the drastic process of class differentiation and its profound and acute conflict with the ideology of classical socialism that is up till now the basis that legitimises the present government, and which must be rewritten and smothered as a social and cultural element. If it is allowed to be too direct and "real", it might become the weapon of rebellion and spiritual resources for the lower class people who have been sacrificed in this process of class differentiation.

Even though China has, in the 80's, successfully transformed the historical and cultural choice of "saying farewell to the revolution" of the elite intellectuals to a social consensus (or "cultural hegemony", to put it simply), the exploitation, abandonment and impoverishment that have been the real experience of the lower class people (former workers of state enterprises, large numbers of peasants who have been displaced as a result of urbanisation) might still drive them to draw on the familiar discourse of socialism to fight for their own interest. For these reasons, the representation of class realities and the existence of class are important content in the construction of the legitimacy of the mainstream ideology in the 90's, but it is also faced with the problem of "paying tribute to" and integrating a socialist ideology of the past which has set limitations to the discourse the overcoming of which is nearly impossible.

On the other hand, for some intellectuals who speak from the standpoint of social resistance and from a critical stand, exposing and writing about the harsh and cruel reality of the process of class differentiation and the difficulties and sufferings of the lower class people means touching directly the taboos of a political reality which still exercises a strong control on people's thought. Faced with a socialist regime, it is also difficult for the intellectuals to simply return to classical Marxism while they refuse to accept both the former and the present "official rhetoric". Trapped in a difficult situation wherein they cannot provide any effective solution to the social problems they witness, they inevitably end up facing the reality of class differentiation in a state of loss of words. Consequently, representations of this reality of class differentiation have become a hidden form of writing that are omnipresent in Chinese culture in the 90's and have often drawn on other cultural metaphors. Topics of gender/women have been one of the most important metaphors which have been used to underline and conceal at the same time the reality of the existence of class.

In China in the 90's, one form of rhetoric widely adopted by the mainstream media and mass culture was to give widespread social problems a woman's face. For example, *xia gang nu gong* has become the nickname for the mass of unemployed workers who are receiving hardly any support in the social security system. *Wai lai mei* is the resounding name for workers from the rural areas whose numbers are much more massive than that of the retrenched workers. The use of these names has allowed some prevalent social problems to be looked upon as special situations faced by one particular gender. Using the history of capitalism as a reference for a vision of "progress", these problems are then depicted and interpreted as part of a "process" and a kind of "labour pain" on which one might, illuminated by "great humanist ideals", shower one's compassion and compliments while looking away from the cruel reality that is not so far off.

This can be seen in a number of ads for philanthropic purposes. In one such advertisement, the word *ren* (human beings) is placed vertically up and on top of the word *gang* (posts) that is falling on its side. The theme that is emphasised in this advertisement is: "Be a self-empowering and self-reliant retrenched person!" Another advertisement shows a middle-aged *xia gang nu gong* wandering in the marketplace for jobseekers, unable to accept the conditions offered for "reemployment". When she sees some children coming out of a school, she remembers her own child and returns "promptly and resolutely" to the marketplace and takes a job under the category of "social service".

Another more typical example is the movie, *Beautiful Mother*. Even though it flopped at box office in China, because of the hype surrounding the movie, it was a famous movie. It was famous partly because internationally known actress Gong Li played a *xia gang nu gong*. In fact Gong Li plays a woman who, driven by her great love for her child, had "volunteered to resign from her post". Sun Zhou, the male film director, said he "wanted to do some thinking on feminism", yet in this movie what he expressed was: "In the beautiful and bright smile of women, there's a cleft which men have never crossed and would never be able to cross." It is in this way that maternal love and the sacrificing spirit in maternal love are used to conceal both the sacrifice the society demands from women and from lower class people and the reality of the kind of sacrifices which the latter are forced to make. If we look at the media reports on this movie, we might have a glimpse of the realities that are entangled with each other but which also conceal each other. First, it is due to her image as the "loving mother" and not the image of a lower class woman that Gong Li received the prestigious title of the "Goodwill Ambassador" of the United Nations even though this title is much less glamorous than her title as the "Beauty Ambassador" of L'Oreal. Second, when, for the purpose of movie promotion, Gong Li and the son in the movie met in Beijing, the "Guangzhou mother" of the boy became only an obscure prop. Third were the reports on the seminar held between Gong Li and the Little Red Caps mothers. The sad stories of these women workers who appeared to be very touched in media reports were of course specially chosen and tailored. Despite this, from the stories of these "beautiful mothers" who were not that beautiful and who were probably leading a difficult life similar to that of the character in the movie, one might still be able to glimpse that their hardship arose more from a need and a struggle to survive than from great maternal love. Here we are faced with an interesting concealment. Though a large number of male Little Red Cap workers can be seen on the streets everyday, their survival in society and the reality of their lives were hidden behind the mask of women and maternal love. As a result, the situation of the retrenched workers and the reality of the existence of class and age discrimination that lie behind the stories of the Little Red Caps are buried deeper down in the invisible limbo. Fourth, when *Beautiful Mother* was released in China, all the media and websites were reporting more enthusiastically on Hollywood's election of "beautiful mothers". It is in these moments that the real meaning of "Beautiful Mother" seems to be revealed: they are "the stories of the motherhood and the maternal love of some glamorous, elegant and privileged beauty that belong to" the kind of "eternal and charming"

stories that have nothing to do with the cruel realities that we are witnessing in Chinese society and that which are placed high above the real life stories of survival of the lower class women.

However, as I mentioned earlier, a general discussion of the immediate reality of society and class in China might not reveal thoroughly the difficulties and the problems lower class women are facing (not to speak of the much larger numbers of rural women). Instead, up till today all kinds of general discussion about Chinese society have either ignored the profound and complex social problems faced by women, or considered these problems as "special" problems faced by a "minority group" and, therefore, as less immediate and lower in priority. Let us first put aside the contrasting stands and attitudes vis-à-vis Chinese society and the social realities in the 90's. The not too numerous intellectuals who hold a critical stand on society appear to think that raising the gender question as a premise means neglecting, if not denying, the reality of class. Feminism seems to imply lightness and extravagance. Contrasted with feminism is the complexity of reality and discourse and a heaviness that is unbearable. Such discussions on themes related with class imply not only a neglect of social problems related with gender/women that are also becoming increasingly acute. They might also mean drawing on dominant representations, whether old or new, which have been formed on the basis of the mainstream discourse or the male chauvinistic discourse of the former days and result in accelerating the oppression and exploitation of women.

Of course, themes of class and gender might not cover all the social problems of contemporary China. Representations of the question of ethnicity and race that have emerged in much more uncanny ways and the unveiling of age discrimination that has become much more explicit with class differentiation and the process of rewriting gender are all illustrations of the complex social reality of China in the 90's. These are problems that this paper can neither shelve away nor ignore. However, the importance of the themes of class and gender does not only lie in the fact that they involve the exploited and sacrificed majority. The paradox in the representations of class and gender in the culture of China in the 90's is in fact a manifestation of the social and cultural syndrome of China in the 80's and 90's, particularly from the 90's up to now. The complex processes of the interlocking historical evolvement of the advantaged/disadvantaged and the mainstream/periphery, and their relative relations with the many axes of power, are in fact linked in a complex way with the history of Mao's era and with what I have called the "historical debts and

legacies" of contemporary China. It is indeed an important mode and means to draw on or avenge these debts and legacies.

The interlocking narratives of class and gender in the specific historical context of China have consequently inaugurated a cultural performance on many levels: social dramas played by women who have become a social sign and a puppet on which all sorts of essentialist gender imaginations of society are projected. Light is also shed on some factors in the cultural performance of so-called women or feminist representations as the scene changes or the terms of reference change with the complex scenario and setting of globalisation. For me, it implies a multi-dimensional critical thinking on two levels: on one level, unveiling and critique of the cultural construction of new mainstream ideologies in their use of women, as typified by the mass media; on another level, reflection and critique of the dilemma facing Chinese feminism in its critical practice, which I have been engaged in.

*Translated by Cheung Choi Wan*

#### NOTE

1. Literally means "it's 'really' nice to be a woman", but a pun is played on the word "really" which also means "straighten" or "push up" in Chinese. The pun results in changing the meaning of the line to "Push up (your breasts) if you are a woman."  
— *translator*

# The Imagination of Intellectuals and the Role of the Mass Media

DAI JINHUA

## Abstract:

The following article discusses the historical construction of “intellectuals” as a social stratum in the People’s Republic of China (PRC), and its ambivalent yet necessary integration into the massive cultural institutions of the socialist state. The social positioning and self-imagination of “intellectuals” from the Mao Zedong era to the 1990s are traced to see how intellectuals relate to state institutions, the culture industry and, in particular, the mass media.

## **The historical construction, social positioning and self-imagination of “intellectuals”**

The general and “legitimate” use of the term “intellectuals” (literally “intellectual elements” – *zhishi fenzi*) started in 1949 with the establishment of the Communist Party regime in China. This signifier designated and incorporated an ambivalent yet necessary social stratum. Before 1949, a proximate term was “the intelligentsia” (literally “intellectual stratum” – *zhishi jieceng*), employed mostly by the left to refer to so-called liberal professionals: scholars in the arts and humanities, writers, and critics. After 1949, in the new hegemonic discourse, the class character, class nature and identity of intellectuals refer primarily to the level of education (overlapping with “the educated”), and their professional expertise in the process of modernisation. Hence, professionals in the sciences became the most symbolic image of intellectuals.

Accompanying the set-up of socialist institutions, in particular the formation of massive and comprehensive state cultural institutions, so-called “intellectuals” were totally co-opted into the state apparatus. There was almost no room for “the peripheral”, not to say space outside of the institution. Social sciences relatively shrank (sociology was totally done away with), the arts and humanities went through unprecedented development and expansion, and yet, in ideological articulation or articulation about intellectuals, intellectuals in the humanities retained an unnameable or dubious status. Within one of the concentric enclosed social structures, while “intellectuals” directly participated in the construction of socialist ideology and were subordinated to thought control and oppression, they at the same time benefited from the unprecedented social security provided by such a system, and hence are a low-profiled, ambivalent, privileged stratum. (They are the so-called “smelly bean curd” – delicious despite the stinking smell.)

#### Mao Zedong’s discourse on intellectuals and “the ugly intellectuals”

If one may say that the socialist ideological reform campaign and the discussions of the film *Biography of Wu Xun* and of the novel *Dream of the Red Chambers* re-affirmed the ruling predominance of socialist ideology and historical materialism, then, one may also say that they at the same time confirmed the embarrassing yet significant position of intellectuals as a sector in the socialist, or rather, statist, regime. Mao Zedong’s series of expositions on intellectuals, in particular during the Anti-Rightist Campaign of 1957 and the “Cultural Revolution”, confirmed the role of the “ugly intellectuals” in the power apparatus and ideological discourse: they are at the same time within and outside the system, as both indispensable and to be cautioned against. But it is precisely what is concealed by the later interpretations of this history, when the implications and practices of persecution and repression of intellectuals effecting from a discourse of risks and threats to intellectuals were highlighted, that such a role of intellectuals in Chinese society was exaggerated. The exaggeration, however, offered a rich historical space of imagination for intellectuals in the eighties up to now.

Secondly, the 1957 myth about intellectuals that was reversed or re-narrated in the Deng era was in fact a continuation of the social and official lie. The “rightist elements” of 1957 were later written as militants for freedom and democracy. The facts concealed by the official version of 1957 were further concealed in the new narrative, perhaps unintentionally: among the so-called rightist writings and sayings were a lot of radical left positions, doubting or critiquing the monopolies or privileges under the

Mao Zedong brand of socialist regime. It is for the same reason that the story of Zhang Zhixin was replaced by images of protestors such as Yu Luoke and Gu Zhun.

### **"Spectre of the 19<sup>th</sup> century" in contemporary Chinese culture**

I have in other papers discussed the so-called "19<sup>th</sup> century spectre" in contemporary Chinese culture, that is, the tradition of the humanities of the West from the Renaissance to the 19<sup>th</sup> century (to be more exact, the first half of the 20<sup>th</sup> century). This filtered cultural resource was the mainstay of Chinese socialist ideology, and was institutionalised by the socialist regime (such as the Central Translation Bureau and other massive translation institutions). After 1980, when this spectre appeared with another face – "Enlightenment", it undoubtedly became an immense resource for the self-imagination and social positioning of intellectuals. It is this "19<sup>th</sup> century spectre" roaming in the contemporary times that constructs an almost enclosed modernist genealogy of knowledge in contemporary Chinese culture.

### **"Liberal intellectuals" of the 1990s?**

The 1980s was a specific period of time for the so-called "intellectuals in the humanities" to step onto the centre of the stage in society, and to powerfully and effectively foster radical social changes. Setting aside the discussion of the official "rhetoric" of intellectuals of that time, like giving intellectuals the symbol and signifier of "scientists" by re-establishing its legitimisation through rhetoric like "patriotism" and "patriot", another more commonly used rhetoric or term of eulogy for "intellectuals" was the "Man" in capital letter, a term very much borrowed from the discourse of humanism<sup>1</sup>. This has become not only a focal site for intellectual debates and confrontations in the 1980s and early 1990s, but also a moment for the internal replacement of the image of intellectuals by scholars in the humanities.

However, the prominence of intellectuals in the humanities in the eighties – with their representative figures in the following order: poets, playwrights, writers, philosophers (with the heat of aesthetics), literary critics and scholars of literary history (with the heat of re-writing literary history and comparative literature) – was largely a result of a huge complex of state-affiliated cultural organisations and intellectual "groupings" formed in the Mao Zedong period (including the "Cultural Revolution"—the main authors of the post-Cultural Revolution "Literature of wounds and scars" were originally members of the writers' collectives formed in

the name of workers, peasants and soldiers during the “Cultural Revolution”). In some sense, this act of self-identified, long-lasting cultural subversions may be considered the last glory of the institutional supremacy which was the target of subversion. The profound intervention of these intellectuals in the humanities in changing the social system of this period was determined by their superior position in the original system. Of course, such intervention can only be realised by their being premised on a full identification of the ideology put forth by Deng Xiaoping or the reformists inside the Communist Party of China (CPC). Their main resource of thought also came from the internal cultural and intellectual resources accumulated in the Mao era: the reversion of 19<sup>th</sup> century culture of the West.

If one may say that the prominence of intellectuals in the humanities in the 1980s was ironically a manifestation of the supremacy of the socialist system, then the reluctance of the intellectuals as a sector to join the social movement of 1989 in relation to the students and citizens, and their incapability to present their own political quest, is fully comprehensible. In fact, in the 1980s, the alliance and confrontational relationship between the intellectuals and the system were relatively clearly structured according to the “line of struggle” between the so-called reformists and conservatives inside the CPC. The relative powerlessness of the former in the 1989 social movement was a direct consequence of their identification, trust and expectations directed towards the reformists.

This sort of judgment, however, easily neglects or conceals certain facts. If we say that there is a clear trace of ideological struggle and change in the 1980s, and a kind of consensus on liberalism and representative democracy was gradually formed among the mass of intellectuals, then, the reformist state power has successfully suppressed and defeated not only the orthodox and weak offensive of so-called conservatives or Marxists, but also the advocacy and reflection of socialist people’s democracy in many social movements, and the re-reading and re-consideration of Marxism as an ideological resource (such as the discussion of Marx’s *Economic and Philosophic Manuscripts of 1844* and the question of humanist alienation) among intellectuals in the 1980s. A historical fact neglected by most scholars was: the 1980s was also a period when there was systematic translation and introduction of many non-orthodox Marxist theories and Western Marxist theories<sup>2</sup>. As a matter of fact, this was also the first time for contemporary Chinese to harbour a critical perspective towards the capitalist reality of post-war Europe and America. Thus, the criticism toward socialism in the Mao era and its “Cultural Revolution” in the 1980s was not a negation of Marxism and socialist

thought as a whole. However, reflections on other possibilities like social democracy, equality and justice have been directly suppressed, persistently marginalised and neglected by the official/reformist authority. Perhaps at a certain level, the radicalism of the 1989 democratic movement was built on the essentialist understanding and even faith in the power of the CPC. If we observe the three different social forces — young students, intellectuals and the masses — separately based on certain viewpoints, then, we may agree that their respective political quests were quite diverse and different. The quest of the citizens or masses had more socialist characteristics like justice and equality, but the powerlessness and paralysis of the intellectuals were the result of not only their dependence on the regime, but also their dilemma regarding alternatives for society and their ambivalence towards the CPC.

At this level, what the violent suppression of June 4 destroyed was absolutely not the progress of Reform. Rather, it was the last faith of Chinese society in the CPC and the socialist regime, the reflection on possibilities for alternative socialist practice, and the space for the development of Marxist thought as a marginal and critical tradition that had existed in the 1980s at the margin and as an undercurrent. As an event that ended the special meaning of the 1980s in mainland China and ended the “short 20th century” in the context of drastically changing international politics, June 4 had in fact forcefully strengthened the so-called consensus for liberalism of the intellectuals, and paved the way for the full development of neo-liberalism in China in the 1990s.

Thus, the speech delivered by Deng Xiaoping in his trip to Southern China in 1992 that led to the acceleration of market capitalism in China was fully supported by the intellectuals. Despite the outbreak of the “debate on humanism” (*renwen jingshen lunzheng*) in China, the focus of the debate was on the different paths or strategies of modernisation in China: enlightenment or market, elite education or popular entertainment, etc. In this debate, post-modern theories and utterances formally appeared on the stage of Chinese culture. But interestingly enough, we instead see in this a distinct trace of modernist logic — historical teleology and developmentalism, and its harmonious relationships with the new order.

To a certain extent, it is the “debate on humanism” that gave rise to the naming of Chinese mass culture.

### The imagination of intellectuals in relation to the system and self-positioning

Perhaps the most absurd cultural scene of the 1990s in Chinese society was the obvious choice of an anti-institutional social position by the mass

of intellectuals (at least the main body). However, another integral part of this social consensus was the embrace of the market and Chinese entry into the process of globalisation. Some were even convinced that this was the only way to break the socialist dictatorial regime. If we say that the inter-dependence between the intellectuals and the state in the 1980s was built on the original system and cultural institutions, and more importantly, on identification and sense of mutuality with the reformists of the CPC, then, from 1993 onwards, their applause for the market and globalisation in fact created a position that was highly compliant with the state power. In addition, with similar discourse and position, they saw the US as “the world” and the ultimate prospect, and the economic boom of the Four Dragons of Asia as the only reference model and reference, adopting neglect or ignorance about the problems revealed by the Asian financial crisis. The hegemonic discourse adopted on the Four Dragons was: political dictatorships can reach economic boom by means of opening the market, and the inevitable result of economic boom is the establishment of political democracy. Identification with such logic, to a certain extent, became a tacit acceptance of dictatorship, or at least accepting the collusion of the dictatorship and global capital, and the betrayal of the subaltern masses, as an inevitable and indispensable process.

The imagination of the relationship between the subject position/stance of intellectuals and the system in such representation, or the so-called pro-institution and anti-institution, was only built on the relative relationship between the essentialist state narration and the original cultural institutions. In the 1990s, the most important set of key words or social rhetoric about contemporary China was “the state versus civil society”. Around 1994, discussion of public space and civil society was used as a theoretical base to support the binary oppositional thought and narration of the practice of political culture in China.

### Chaotic narratives from civil society

Since 1993, in the course of the explosive expansion of institutions of the Chinese mass media, the mass media, especially those controlled by non-state capital, was seen as a historical opportunity in which China's public space was able to emerge, and the voices of civil society were spread. During the 1993-95 period, the mass media and their producers – as the holders of the mediation of power – obtained unprecedented and vicious power of mediation. In fact, this was a mini-picture of the same process that was happening at the national level – transforming state-owned assets (media spaces, time, and ISBN etc. that were “owned” by certain reporters and editors) into individual capital, or at least individual interests. In the

same period, a new “stratum”, a privileged socio-cultural group that I call “media cultural persons”, including “professional VIPs” and media star-scholars, came into sight. These persons were, in fact, a result of one of the “right choices” during the “down to the sea” wave (transforming from intellectuals into businessmen). Setting aside the impacts of these two phenomena on the whole social configuration for the time being, what I want to stress here is the fact that the elevated expectation for and faith in the expanding mass media led to the establishment of a close relation between the mass media and a significant number of intellectuals in the humanities, especially those that later adopted an unambiguous neo-liberal position. In fact, in a relatively long period of time, the new mainstream mass media became the agent of diffusion and reproduction of the self-imagination of intellectuals. And bizarrely, it became the instrument that effectively displaced original common sense by liberal thought and various neo-liberal ideas.

Such realities reveal certain misperceptions or blind spots:

Firstly, although the rapidly expanding mass media culture industry and culture market have indeed become the meeting point of various powerful social forces and their interests, yet instead of calling this the surfacing of certain public spaces, it will be more accurate to say that there has emerged a shared space for the negotiation, conflict and complicity among various powerful social forces. Similarly, the mass media, just as the broken and diverse mainstream ideological representations, have been quite effectively incorporated into statism. Although the formation and its discursive forms are full of vertical and horizontal gaps, the mass media and culture markets are totally subordinated to national and local regimes. Therefore, even for independent writers and freelancers, as well as employees of existing institutions, they all depend on the statist cultural regime to various degrees, and are constrained by the existing bureaucratic system.

Secondly, in the 1990s, a significant number of intellectuals in the humanities explicitly defined themselves as anti/non-systemic intellectuals. Their notion of system specifically referred to the essentialised or imaginary socialist system. However, they either completely closed their eyes or committed themselves to the formation and establishment of the equally, if not more in the Chinese context, forceful global capitalist system or cultural consumerist system. They equally paid no attention to the existence of the super-powerful system of culture industry that became even more dominating due to its collaboration with the national and local political regimes.

Thirdly, there is no single non-governmental TV station, radio station, newspaper or publishing house in China today. With no exception, all cultural institutions of the national and local regimes are controlled by national ideology and a censorship system. Yet liberal and neo-liberal narratives have become the most powerful and effective force that constructs social common sense. In contrast, various classical socialist discourses have become extremely pale and rigidly redundant. Likewise, various narratives on revolution and class have actually become some kind of conventional taboo. This fact, to me, clearly reveals that national narrative or so-called national interest is in fact the existence of the complicit, or at least the shared, space between the ruling bloc's interests and the liberal utterance of the so-called anti-systemic intellectuals.

This explains indirectly the intrinsic reason of the division and conflict among Chinese intellectuals after 1997.

### **Celebration of freedom, cultural hero and the tide of "anti-intellectualism"**

In some sense, all the social and cultural events of 1990 that highlighted the self-imagination and social image of intellectuals, in particular liberal or critical intellectuals, were without exception turned into media events or acts of the culture market. Strangely enough, internal affairs or symbolic images of intellectuals became continuous selling points in the media or the culture market. Firstly, the "emptied-out" media and the culture market had no other choice: coexisting with the rapid expansion of the media was the state ideology which prohibited socio-political news or news of international politics, and put under tight control news about social violence, disaster and suffering. Thus, better having something than nothing at all, various trends, anecdotes, scandals or lawsuits in the intellectual circles became most favourite headlines. Secondly, this could be a transitional social and cultural phenomenon: within ten years of the 1990s, the Chinese media system and so-called mass culture underwent an accelerated growth and self-confirmation. At the initial stage, the mass media and mass culture, and even a considerable number of urban audience or readers, were looking up with reverence to "elite culture" and "elite intellectuals" of the 1980s. In other words, mass culture had not yet fully established its legitimacy and reception, and hence, one of the manifestations of its change (or so-called development) was the change from "fawning the refined" to "fawning the vulgar". A close observation of the trends or moves of the intellectual circles was some of the "fawning the refined" or "immature" acts of the mass media and market. Moreover,

quite importantly, quite a considerable number of intellectuals in the humanities, especially what came to be later named as the “liberal” intellectuals, in fact were the midwives and breeders of Chinese mass culture and mass media. They have “natural” harmony and frequent interactions with the media, and therefore, it was inevitable that they resorted to using the mass media and the culture industry. After 1997, academic websites have appeared in international Internet, and in its interactive relationship with transitional media, a new cultural scene/structure has been developed along similar but more complicated lines.

### Cultural hero and the ugly cultural person

Interestingly, up to now, the new mainstream media still keeps a close interactive relationship with intellectual circles; but this is not a prolonged honeymoon period. In fact, from the end of the 1980s to the turn of the century, a double narrative has been going on: the construction of cultural heroes and the strong anti-intellectualism have intersticed in the media and the culture market. This is not only the complex new ideology contained in the Wang Shuo Phenomenon (1985-1995), or the generational culture or cultural generational gap successfully constructed and marketed by the culture market, or even the contention between newly burgeoning mass culture and so-called elite culture; it was actually intensely linked to the disintegration of social identification of the 1980s, the changes of the cultural structure of 1990, the polarisations of the intellectuals, and the acute differences of designation of the social nature of contemporary Chinese society. It may perhaps be said that the image of the cultural hero constructed and marketed by the mass media and culture market, parallel to the narrative of the anti-intellectual, ugly cultural person or intellectual that is compellingly articulated by the media, together, without exception and in a rather violent way, present a caricature of the differentiations and controversies of intellectuals, even though mass culture has its own logic, intent, and development from “fawning the refined” to “fawning the vulgar”.

A rather outstanding and crucial logic is still the so-called binary myth of the state versus civil society, as well as the Chinese version of neo-liberalism, of developmentalism and marketism, that strangely and effectively support such a discourse. Whatever complies with developmentalism and marketism is regarded as belonging to civil society, progress, subversion and anti-institution. Whatever does not comply is regarded as belonging to the state, as “paws of the regime”, as conservative, and thus demonised by the mass media and the culture market.

Certainly, with stricter ideological control of the state regime since 1995, under the multi-layered influence of the globalisation of culture (mediated by international cultural and academic exchanges and the internet), such articulation has a form and content that is far more complicated; this is only one brand of the maturing mass culture market and its products.

*Translated by Lau Kin Chi, Chan Shun Hing and Hui Po Keung*

#### NOTES

1. The term "humanism" has many different Chinese translated versions that lead to different interpretations, like *rendao zhuyi*, *renben zhuyi*, *renwen zhuyi*, *renwen kexue*.
2. Another important but very different fact is, when China broke away from the Socialist bloc after entering into hostility with the Soviet Union in the 1950s and 1960s, there were huge amounts of works of Western theories and literature being translated and published in the form of internal bulletins. Yet these works were mainly from the rightist camp of Europe and America and very few touched on the new development of theories of Marxism and Socialism. The large volume of publications on politics and social theories of the West in the 1980s were actually the public and open re-printing of those materials. In some sense, the materials published before and during the Cultural Revolution provided ideological resource for the sprout of neo-liberalism in mainland China in the 1990s.

# New Development of Consumerism in Chinese Society in the Late 1990s

BY CHEN XIN

IN THE LAST FEW YEARS of the 20th Century, economic crises took place one after another in some of the major Asian nations (also known as the "financial storm" for they started from the financial sphere). Later the crisis spread to Russia, Brazil and other countries, bringing about tremendous impacts on the global economy. Affected by the Asian financial crisis, China underwent a rapid decline in both its export growth rate and its absolute value. In order to cope with the negative influences brought to China by the crisis, the Chinese Government made an immediate response to it by adopting a series of budgetary and monetary policies, with a view to propelling domestic consumption demands, alleviating the pressure resulting from decreasing foreign trade exportation, and promoting its national economic growth. For about two years, the Government allocated several hundred billion yuan for infrastructure construction, and the nation spared no effort to encourage consumption with an aim to maintain an 8 percent annual economic growth rate. For a time, it seemed that for this large, "modernization-yet-to-be-accomplished" nation with a huge population of 1.3 billion and relatively poor resources, the most dangerous threat was weak domestic demand and sluggish market. Thereby, various measures and policies to stimulate consumption came out one after another, with an aim to create new consumption fields and to expand consumption demands. They included raising government functionaries' wages, reducing bank rates, collecting additional taxes on interest, constructing projects throughout the country, "great clearance sales" by businesses, and actively developing consumer credits and

improving consumption environment. Weak consumption became the number one enemy facing the whole nation as if they were fierce floods and savage beasts. To help expand domestic demands, the Chinese economic circle fully displayed their talents to offer advice and suggestions. Consequently, between 1998 and 2000, China's economic growth rate remained over 7 percent.

The above facts serve as further proof that either in perception or in practice, China has in its entirety entered into a consumption society (despite its very low per capita income and the existence of 900 million low-income peasants and large numbers of low-income urban dwellers) and that the Chinese economy and society have got entangled in the production and reproduction logic of the present day world system.

Obviously, during the entire period of the late 1990s, in order to maintain economic growth, it was necessary for China to maintain and expand its consumption. As a result, China had entered into a surplus economy in terms of total macro value, manifesting the typical features of a consumer society. During the period, in order to cope with the Asian financial crisis, the Government no longer required its people to manage their families industriously and thriftily or to follow the tradition of hard struggle, but publicly called for and encouraged them to generously increase their consumption. This was the first time in the history of this ancient Chinese nation that generous consumption was given moral legitimacy in its entire sense, and even more, the consumerist lifestyle took on the nature of national ideology.

The above situation suggests that even in China, consumption has become the momentum for economic growth, and the production sphere, and even the entire national economy, can go on operating effectively only by encouraging, and stimulating consumption. It is not difficult to see that the logical premise has been altered: production is no longer for consumption, but conversely, consumption is for production! From this it can be further deduced that all demands that can be generated are reasonable for they can propel economic growth. However, what is paradoxical is that the rationality of consumerist lifestyle has practically been weakened instead of being strengthened.

So far, neither market ideology nor market reality has resolved the problem of how consistency may be maintained between the three elements – the common interests of society, the particular demands of specific consumers, and the interests of producers. Often, people believe that in the market economy, individuals making reasonable choices out of their own interests will eventually contribute to the maximization of the common interests of society.

Nevertheless, the reality generally does not look so bright and beautiful as the economic theory proposes. The strategy to promote economic growth by stimulating consumption is confronted with numerous obstacles. Figuratively speaking, China's one foot has just got into the consumer society, while her other foot is squeezed outside the doors. The dual contradictions of income structure and product structure have plunged the consumption driven national economy into a profound dilemma. Besides the environmental and resource pressures, the massive low-income groups, confronted with a new wave of consumption, still cannot afford to buy the huge amount of overproduced consumer goods. With anxiety they prudently and cautiously rack their brains over how they can manage to pay their social insurance premiums, their children's educational expenses, their pension reserves, medical fees, housing rents, as well as cope with probable lay-off or unemployment. At the same time, the high-income groups have shifted their attention to cars, luxurious housing, mobile communication items, various kinds of IT products and services as well as constantly upgraded luxuries, especially imported items. Therefore, they, too cannot make any contribution to the promotion of domestic demands. As a result, the enormous income gaps resulting from the pursuit for economic growth during the last twenty years of reform and opening up and the social inequality manifested themselves more clearly in this economic crisis.

Social injustices and opportunity inequalities are also shown in the fields of stock market plotting and market risk sharing as well as in the course of purchasing and annexing straddled state-owned properties by various kinds of capital owners. Since the beginning of the financial crisis, the broad masses of Chinese labourers, especially those working in labour intensive enterprises, have been trapped in a more disadvantageous position and the three problems related to the countryside and peasants are getting more serious and conspicuous.

Viewed from the international perspective, this economic crisis was created by U.S.-headed financial capital. During the whole course of the Asian Financial Storm, some Southeast Asian nations, regarded as models of the newly rising market economy, have one after another suffered currency devaluation, capital outflow, enterprise shutdown, bank bankruptcy, personnel layoff, social unrest and government collapse, whereas as much as US\$600 billion of net capital has flowed into the United States!

As China faces inadequate buyers' markets and domestic demands, quite a number of economists only worry about the fact that the Chinese economy still remains in a position of uneven and low-level surplus.

However, low-level economic surplus and the distorted consumption structure just reflect the serious dislocation of demands and desires. While the broad masses of low-income people are unable to meet many of their just demands, such as basic health care and education, they have begun to arduously follow the consumer examples staged by advertisements and the wealthy, and unconsciously come under the temptation of various sorts of living fashions promoted to them. In the mean time, high-income people profusely spend their money on luxury consumer goods, to show their identity and status and vie for social capital. For example, the real estate trade in Shanghai recently offers the latest luxury residence priced at 130 million yuan a suite.

It appears more rational to worry about the low-level surpluses than the high-level surpluses. However, the two are the same in essence, for both aim to pursue maximum profits in the production domain, and production for profit still remains the core of the entire economic activities. The framework shaped by the consumerist culture/ideology of large-scale consumption lifestyle and its legitimacy serves as the foundation of the established development mode centering on economic growth. But it does not mean the consumerist culture itself is reasonable. It is reasonable only when it plays a role in protecting the foundation, and large-scale consumption is essential only when it serves as the necessary condition for capital reproduction. The dominant power of both the consumerist culture and the predatory development idea conceals or blurs a basic fact: the established economic growth mode does not take its shape naturally, but is an outcome of human choice: the preferences of strong interest groups impose the formula for the choice of social development goals and modes.

Of course, it is completely possible that the interests of capital become a component of those of the entire society. This paper does not in general object to the interests of capital, especially the market economy itself, just as it does not object to the interests of labour. It merely points out that under the dominant political and economic global system, the interests of capital are not congruent with, and are sometimes in conflict with, the overall interests of society, the interests of common labourers and the interests of the disadvantaged groups. Viewed with prudent optimism, it is an alienation and distortion of the market economy, and what's more, this reality is not an inevitable and natural course that cannot be shifted by human will.

Nevertheless, as the cultural representative of the interests of global capital, the consumerist culture/ideology constantly entices, encourages, stimulates and even coerces people to unceasingly pursue unnecessary

consumer goods so as to ensure economic growth, even if such consumer goods have nothing to do with the improvement of people's living quality. Furthermore, such large-scale consumption is realized at the expense of large-scale labour and resource consumption and tremendous environmental damages. It has also created a meaning and value system to ensure the reproduction of the unequal interest pattern and its entire relative network, and through the global mechanism of consumerist culture/ideology, it is imposed upon the entire society, bringing individuals, enterprises and the nation under its control.

Since the beginning of the Asian economic crisis, governments of various countries have adopted policies to encourage active consumption. This, however, only suggests that the economic and political forces behind the phenomenon of the consumerist culture have objectively reached a consensus with the state and government in terms of the administrative functions. Therefore, it is not difficult to arrive at the conclusion that at least the industry of the consumerist culture has become the state's chosen means to realize its political and economic goals. After World War II, such marriage between the state and the consumerist culture has been an indisputable fact in the developed nations and many regions. For transitional nations, it is only since the mid-1990s, especially since the commencement of the Asian financial crisis, that they have been determined to follow consumerism. As a result, the consumerist culture/ideology and its entire set of lifestyle and conception have assumed legitimacy.

Of course, amidst the enthusiastic acclamations for the dominant political, economic and cultural forces, China as a developing country has few choices after all. Notwithstanding, China has to make innovations in terms of development conception and ways because in the coming fifty years it will have a population of 1.6 billion. Under the conditions of relatively poor fund, technology and resources and under the circumstances of ever worsening pollution and ecological environment, what consequences the consumerist conception and its lifestyle will bring about are an enormous challenge that we have to face, consider and resolve.

Can the Chinese population share the sumptuous feast of consumerism? According to the sample surveys conducted by the Income Distribution Project Group of the Economic Research Institute under the Chinese Academy of Social Sciences on income distribution of urban and rural residents between 1988 and 1995, China's gini coefficient rose from 0.382 in 1988 to 0.445 in 1995, overtaking some developed nations. This trend has kept going in the last years of the 1990s.

In a report entitled *Sharing the Continuously Rising Income* issued in 1997, the World Bank announces: China's gini coefficient reflecting its nationals' income disparity was 0.28 in the early 1980s, went up to 0.38 in 1995 and surpassed 0.43 in the late 1990s. The gap between the rich and the poor represented by these data is even wider than the developed nations, other nations in East Asia as well as the former Soviet Union and East European nations. Ironically enough, these data grossly contradict the theme of the Report. As the cake gets bigger and bigger, the problem of how to cut and distribute it justly and rationally is becoming more and more conspicuous. Obviously, since the 1990s the rich-poor gap in China has been widening, becoming an extremely outstanding social problem at the end of the 1990s, with the ever growing wealth failing to be justly distributed and effectively used. What's more, the consumerist culture has played a catalytic role in deteriorating social ethos and morals and official corruption.

Recent consumption investigations show that high-priced consumer durables represented by colour TV sets, refrigerators, washing machines and hi-fi systems, which began to get popular in China after the mid-1980s, were saturated, even extra saturated, at the end of the 1990s. Now, urban residents' demands for such goods lie mainly in buying or waiting for buying upgraded models. In the mean time, the consumption of high-priced family-use consumer goods that began to get popular in the 1990s has risen dramatically. On the other hand, the consumption of housing, high-grade family decorations and automobiles is on the ever rising side, becoming urban residents' actual expectations and making their way into their practical consumption choices.<sup>1</sup> The high-income group has entered the stage of spending tens of thousands of *yuan* on consumption while many of the rural consumer groups even cannot afford to buy a 1000-*yuan* colour TV set. The per-hundred-household possession of such major family appliances as colour TV sets, refrigerators, washing machines and tape recorders amounts only to 1/3-1/4 in ratio, compared with urban residents. The medium- and high-consumer groups profusely consume coca cola, milk, fruit juice and famous brand cigarettes and wines, while 50-60 million rural residents in China are still confronted with the drinking water problem, badly short of safe and sanitary drinking water for their daily lives. The medium- and high-income people spend several hundred or even several thousand *yuan* buying cosmetics and health commodities while the majority of the 900 million rural residents and urban low-income groups do not enjoy basic health care. Especially in the rural areas, low-income groups never see a doctor when getting a minor illness, and cannot afford to see a doctor when having a serious

disease. Consequently, it is only too common that diseases have reduced people to poverty and plunged those who have already become well-to-do back into poverty again.

For all the above-stated shortages of basic living needs on the part of the low-income groups, the consumerist lifestyle has failed to provide a solution. On the contrary, as this lifestyle spreads to the medium- and low-income groups, it has further aggravated the economic and psychological pressure upon the low-income groups in terms of non-essential living consumption. In their daily life they not only bear the actual living pressure but also have to resist the temptation of so-called modern consumption standards and prevailing consuming fashions. Poor economic conditions and consumption disparities have provoked among the nationals moods and actions of frustration, discontent, anger and antagonisms that must not be underestimated. The dual influences of the serious income distribution gap and the consumerist lifestyle are creating serious splits politically, economically, culturally and psychologically in the national economy, with new strata and class differentiations and antagonisms gradually taking shape. The growing tension of the relationships between the Party and the people, the leaders and the masses, and the employers and the employed are direct manifestations of such differentiations and antagonisms. Their growing trend and seriousness can be seen in the ever increasing and ever worsening illegal activities, criminal records, collective appeals to the higher authorities, protests and demonstrations, and even riots of various kinds.

Certain economist scholars maintain that these are nothing but the inevitable and natural "transitional" phenomena during the period of social institutional transition, due to the fact that the cake is not yet big enough and that the proper rules guiding the division and distribution of the cake have not been well established. This concept assumes that China's development can proceed along an established track. If so, then, the question of which model our "social institutional transition" is geared towards must be answered. To the American model or to the West European model? Or, to the Japanese model, or the models of Eastern Europe, North Europe, Russia or South America? If we make an analysis of the modern history of the developed societies in Europe and North America and simply list the necessary conditions for their development, then we can ask ourselves: is there any comparability between China and these nations in the fields of per-capita natural resources (farmland, fresh water, forests, etc.) and historic opportunities (including overseas colonization, emigration and large-scale aggressive wars)? How long has it taken them to realize their goals under their conditions and how long will it take us

to reach our goals? The reform and opening-up drive have already taken twenty years. We have spent the last fifty or even hundred years groping for the road of modernization. China's "institutional transition" has gone through twenty years, too. How many years more do we need? Twenty, fifty or a hundred years? During the course, will China continue to tolerate the state of "no norms", tolerate widespread corruption, tolerate large-scale pollution and tolerate nation-wide moral degeneration in order to wait for the accomplishment of "institutional transition"? Even if during the next fifty to a hundred years we really accomplish such "institutional transition" and even if China will become another United States or another Japan, does it mean the story is over?

One more question is: how large the cake should become? The big cakes of America and other developed nations are made big with the help of the entire world. Aren't these cakes big enough? Ask the developed nations whether or not they are satisfied with them.

The last question is: Who will stipulate the rules regulating the division and distribution of the cake? What is the legitimacy of the rules? Can the rules regulating the developed nations' division and distribution of the global cake serve our needs (both for within and outside the country), too?

Actually, China has never been short of norms, even in the "transitional period". During the "transitional period", China has a set of quite practical "norms" for its practical activities. Regrettably, they cannot match the criteria of just and sustainable development!

The consumerist culture/ideology provides a legitimate source for the America-modelled political and economic system and the large-scale consumption lifestyle. It has won people by presenting a picture of "happy life". The United States and other developed Western nations have materialized this picture to a certain degree. However, their way of life has been achieved on the basis of obtaining global resources and destroying the global environment. While continuing to supply the United States with the resources it needs under unequal exchange terms abroad, China has to acquire through the same unequal exchange terms the resources of the low-income groups and underdeveloped regions at home. Only thus can it support a small portion of the population to catch up with the consumerist life-style of high-income nations. In addition, it has to consume large amounts of other domestic resources in various kinds to support its more than one billion people to follow the life-style of large-scale consumption at the price of environmental destruction. If things go on like this, there will crop up more political, economic, social and environmental issues. Is this logic feasible? If it is considered feasible,

then there must be an assumption behind it: the majority of the low-income groups and rural residents will always remain fools.

There is one more paradox: When China fails to materialize for its nationals the "happy life" picture as presented by consumerism due to historical, political, economic, resource and environmental limitations, the consumerist culture will not provide the reality with legitimacy, but subversion, to be sure. Here, it will be helpful if we once again call to attention the historical significance of the dramatic "kitchen debate" between Khrushchev and Richard Nixon. The core of the debate was switched from the discourse of social justice and progress to that of consumerism, and finally to the dominant discourse of the West. Once Khrushchev got into this system, he was doomed to lose.

As far as the reality is concerned, for the Chinese socio-economic development, is it a panacea to promote the market economy through the consumerist culture? Such huge consumption disparities have created problems to the strategy aiming at propelling economic growth through stimulating consumption; the manufacture of consumer goods will more and more incline towards high consumption demands – the main source of high-rate profits, while the consumption demands of the medium- and low-income groups will comparatively be neglected. China's existing enormous productive capacity and production bases turning out cheap, practical and durable consumer goods will lie idle and wasted away, while the state has to create a new productive capacity through buying equipment with huge funds so as to satisfy the demands of the high consumption groups. As a result, the outcome of economic growth will further be distorted. On the one hand, the consumption of the high consumption groups has tended to saturation; only by providing new consumer goods and creating new hot sales spots can the stimulation of new consumption be realized. Nevertheless, such consumer goods production solely targeting at a minor portion of the population will only result in structural imbalance and market distortion and will not be able to propel economic growth. Moreover, it will bring about an enormous waste of resources, unable to make a reasonable use of the already very limited resources. We should not forget the hectic rush into the trades targeting at the high consumption groups like household appliances and real estates starting from the 1990s and their subsequent predicament, whereas the huge medium- and low-income groups do not dare to inquire about them for lack of money to purchase them. It is said that commercialising the ordinary education of higher learning aimed at the high-income groups can bring dramatic growth to the related enterprises. However, it should not be overlooked that this surely will make the broad masses of ordinary consumers reduce

their spending on other aspects. Therefore, it cannot push up the total volume of social consumption; on the contrary, it surely will aggravate social inequalities, turning higher education into an exclusive privilege for a few rich people's offspring during a specific period.

The supply of common products will also appeal to the specific flavours of consumerism and urbanism. The State can appropriate huge amounts of funds for sponsoring the Olympics, constructing expressways throughout the country, constantly upgrading government departments' automobiles, building larger and larger office buildings and spending more and more on administrative activities, but cannot give effective financial support to elementary education and basic health care in the vast rural areas, especially the impoverished areas. Can this be regarded as normal?

The main problem stems from the one-sided conceptual model of economic growth and institutional arrangement. Subject to such institutional advantage and conceptual model, the core problem of development has invisibly been reduced to the producers' profit targets and the government officials' preferences in terms of economic growth. Objectively, such a development model will surely cause an extremely embarrassing dilemma, regardless of how pure the subjective motivation is.

On the one hand, China as a developing nation boasts neither enough capital nor technological advantage. Currently, China's per-capita farmland amounts only to 1/3 of the global average; its water resources to 1/4 and its oil deposits to 1/8. Our so-called cheap labour resource advantage is based on unjust and inhuman exchange and even bloody plunder. Large-scale use of such "advantage" regardless of its consequences not only will generate obvious social problems at home, but also will continue to place China in a marginal position in the global market division of labour. Let us presume that China can break through the various political and economic restrictions imposed on her by the world system, that we overlook the negative social and economic effects brought about by the current development model and that China can bear the cost of the developed nations' development model. Then, in the coming fifty to a hundred years China will become four to eight times of present-day Japan. Objectively speaking, can the world accept such a reality? Can this globe accommodate an additional economic volume and an additional consumption supply one to two times larger than the combined total of the present West Europe, Japan, and the United States? Actually, some people in the world have already begun to watch over the so-called "Chinese (economic) threats", though much of such anxiety has actually been generated by our own irresponsible boastfulness. The developed nations and nations in other regions in the world, too, want to survive

and develop. When you rise rapidly, it will of course cause complicated political, economic, resource and environmental problems. How can these problems be resolved under the present dominating development conception and institutional model?

In order to make the above problems clearer and more concrete and present a rough picture of the development model characteristic of propelling economic growth through promoting large-scale consumption and its resulting consequences, it is necessary to reiterate the following simple statistics.

In the United States, the volume of electricity consumed the air-conditioning in the summer time exceeds China's annual total. To maintain a generally acknowledged high level lifestyle, an American needs to consume 10.3 hectares of the global area, a Hong Kong person 6 hectares, and a Beijing person 3.8 hectares. To ensure beef supply to McDonald's, every year in South America large stretches of tropical rain forests are destroyed and converted to livestock farms, meaning that each hamburger destroys a patch of forest equal to the area of a kitchen. The population of high-income countries is 16 percent of the total world population, but in order to maintain their present living standards, they consume almost 60 percent of resources of the world's total; their contributing percentage to the green-house effect is as high as 50 percent of the globe's total and they are responsible for the largest portion in terms of ozone layer destruction. The American-type lifestyle is based on large-scale resource consumption and enormous environmental destruction. The amount of heat and protein an American takes in a day almost equals to that of a starving African in a week. An American baby generates three times as much trash as a Brazilian baby, 35 times as an Indian baby and 280 times as a Haitian baby; an American discharges 20 times as much carbon dioxide to the air as an Indian (currently, the U.S. carbon dioxide discharge accounts for 22.8 percent of the world's total). In 1995, the energy consumed by the U.S. accounted for 24.8 percent of the world's total; the energy consumed by all the industrialized nations, 54.9 percent; whereas the energy consumed by all the developing nations was only 30.9 percent. In the present world, newly added garbage every year amounts to 10 billion tons, of which 500 million tons are toxic; as much as 90 percent of this is generated by the developed nations. In 1990, the United States alone shipped 571,000 tons of toxic refuse abroad.

China's average per capita GDP in 2000 was less than 1/25 of that of the United States, whereas its population will reach 1.6 billion in the next fifty years. That means if only China's total per capita average economic volume or consumption volume reaches 1/7 to 1/8 of the United States in

the future, it would equal the total present U.S. economic volume or consumption volume. If China's so-called total economic efficiency equals half of that of the United States, the world would see 6 more United States in terms of total economic output, total consumption and total pollution. What will happen if the whole world continues to produce for and consume like the consumerist lifestyle?

It seems that market fundamentalism and market romanticism both believe that the above problems can eventually and rationally be resolved through the functioning of the global market mechanism. It is said that building a global village based on the American value/culture and the WTO will provide a platform leading to global prosperity. For most of the Chinese nationals, including a lot of scholars and government officials, there are more approval, acceptance, illusion and fetishism than reflection and criticism of the WTO and the Western market system. The dominant position of the consumerist culture/ideology has reinforced the fetishism of the American culture and its liberal market idea. China is rather following the WTO global games manoeuvred by the developed world rather than participating in the WTO. In the name of equal participation, the WTO contains a hidden agenda of using the existing comparative advantages to consolidate the present global market division of labour and actual pursuit of interest. Certainly, China may be able to win in some sense in the WTO games. However, even so the various economic and social problems caused by following the consumerist lifestyle will not disappear. Viewed from a wider perspective, the prevalence of consumerism in China can only bring negative effects to common sustainable development of the world.

All in all, under the current economic system, political pattern and technological conditions, the consumerist lifestyle modelled after that of the high-income nations cannot be such a "happy life" shared equally by all. So far, nations, social strata and individuals "enjoying" such consumerist lifestyle are all sustained by unequal appropriation of common resources and deprivation of others. There will be no consumerist lifestyle and consumerism-propped production model without such unequal appropriation and deprivation. The era of so-called mass consumption equally shared by the entire society has always been a myth. Only one thing is true. Specifically, since the 1990s, the world has witnessed a rapid expansion of economic globalisation and consumerist culture/ideology, as well as the fastest widening of global income gaps and increasingly uneven development. And to some extent the consumerist culture/ideology has really played the function of further legitimising and consolidating human inequalities. In other words, the "happy life" picture modelled

after the consumerist lifestyle of the Western developed nations will be either an illusion or an exclusive privilege of a few.

The hegemony of the consumerist culture/ideology has led people to overlook or intentionally ignore the formation and development of the modern politics and economy over the past two hundred years that are closely linked with modern consumerism. This fact has cost mankind surprisingly high prices politically, economically and environmentally. Political inequality, economic disparity and resource and environmental pressure combined have made the last 200-year human history one of unsustainable development. During this period, mankind has experienced bloody colonial plunders, debates within the international Communist movements, two world wars, the great depression of the 1930s, the oil crises and the all-round economic recession of the capitalist world in the 1970s, the Latin American debt crisis of the 1980s, the Asian financial storm in the late 1990s, coupled with a series of ecological disasters including the pollution of atmosphere, oceans, rivers and land, the endangering of biological species and varieties, green-house effect and ozone holes.

In the predictable future, it is neither necessary nor possible to exploit the world's resources and environment to satisfy unchecked human desires for consumption. First and foremost, judging from the perspective of sustainable development, there do not exist the material basis and feasibility for an unchecked, large-scale global consumerist lifestyle, and the lifestyle of the developed nations cannot become the common orientation of worldwide development and the common way of life. Secondly, there does not exist an inherent positive link between the lifestyle encouraged by consumerism and the universal improvement and enhancement of the quality of human life.

China is a population superpower, with its population making up 1/5 to 1/4 of the world total. China's economic and social development process necessitates a global perspective. In the future, against the background of globalisation, a single move on the part of China in its developing process will cause repercussions throughout the world, and vice versa. While taking the market economy as an option for development, it is essential to clearly define the goals of development. Analysing and criticizing the consumerist culture/ideology and its development ideas are meant to point out that the consumerist lifestyle and production mode are not the only path for social development in the modern time, but a specific way of pursuing narrow interests for capital reproduction. While reflecting, criticizing, assimilating and updating the development conception, road and mode of the Western nations over the last three

hundred years, China should and must exert great efforts to make progress, innovations and contributions to the ideas and practices, roads and models of future human development. This is the need of China's development itself, and also the need of the development of mankind.

*Translated by Qian Yurun*

#### NOTE

1. Housing and automobiles have replaced household appliances as pilot consumer goods. In 2001, the entry of automobiles into urban families was obviously speeded up, beginning to replace household appliances as a new generation of pilot consumer goods. Experts point out that with the continuous rise of income and purchasing power, the consumption of Chinese urban dwellers is proceeding from the 1000-yuan level to the 10,000-yuan level.

Cars are making their way into the ordinary families at a rapid pace, with more and more people having their "car dreams" realized. Statistics show that in the first 11 months of the year 2001, China manufactured 2.14 million cars, an increase of 13% over the corresponding period of the previous year; the sales volume reached 2.15 million cars, up 16% over the previous year. They represented the biggest and fastest in the extent and rate of increase respectively for the recent years.

In particular, the year 2001 witnessed two obvious changes in car production and car sales. One was cars and mini-cars played the leading role in the Chinese automobile industry, accounting for 57.45% of the total automobile output. Of the increased output in the first 11 months of the year, the car output topped the list, with a net increase of nearly 100,000, representing 37% of the total; the net growth of sales volume was 120,000 cars, making up 42% of the total increased sales volume. The other change was that most of the car/mini-car buyers were private buyers. In 2001, private buyers bought 70% to 80% of all the cars sold that year. Take for example Beijing's Yayuncun Car Market; of all the Red Flag brand cars formerly used exclusively by high government officials, more than 50% was sold to individuals, an unprecedented phenomenon in the Market's history. "Private buyers" have begun to replace the "government buyers", becoming the main force of car buyers.

Real estate investment and marketing also assume a brisk scene rarely seen in recent years. In the first 11 months of the year 2001, investment in the real estate development amounted to 485.7 billion yuan, up 2.9%. The sales volume of commodity housing rose drastically, up 30% or so. Housing credit took the lion's share in the total unproductive bank credits.

Economists point out that it is an inevitable outcome of economic growth that 10,000-yuan-level commodities will become leading consumer items. In the 1970s, the 100-yuan-level "three major items" of bicycle, watch and sewing machine began to make their way into ordinary families. In the 1980s and 1990s, the 1,000-yuan-level "three major items" of TV set, refrigerator and washing machine became the leading consumer goods. Now, the popularisation ratio of colour TV set, refrigerator and washing machine has reached about 90% of the urban families. The 10,000-yuan-level cars and apartments will surely become a new generation of "pilot products" in the Chinese consumer sphere.

# Education in Yunnan Tibetan Area: Issues and Development Approaches

LU AIGUO

NOTWITHSTANDING the considerable progress achieved in the past decades, the overall level of schooling in Diqing Tibetan Autonomous Prefecture remains below that of the national and provincial average. The long term socio-economic development of the region requires a shift from the current pattern of "underdevelopment/ low income/ poor schooling/ job shortage" to that of "growth/ higher education attainment/ increasing job opportunities/ higher income". For this to happen, education plays a key role. At the present time, the development of education is constrained by a number of factors such as low income levels and an economic structure based on largely subsistent household production with very limited industries. Drawing on field research in 2000, this paper discusses some of the major issues in school education of the region. One of the policy implications is that the government budget expenditure on education has to be increased. Given the budget constraints of the local government to finance education, additional financial support must come from the central and provincial governments. With regard to resource allocation, priority should be given to compulsory education, especially to the improvement of primary education. Cognitive ability of the pupils should be emphasised in school teaching. The paper also calls for broader participation of local communities in education and the improvement of education resource utilisation.

## **Supply and demand**

Though economic development is essential, education attainment is affected by a number of other factors. In turn, education plays an important role in facilitating economic growth, while becoming an important channel

for social mobility. In terms of human development in general, education is an indispensable condition for the improvement of people's capability.

Ideally, all people should receive as much education as they desire. In reality, however, far from all people have access to education beyond the nine-year compulsory schooling, and especially to college education. The question is what education level can be considered adequate.

#### Below average education attainment

As with other poor rural areas in China, Diqing's education level remains low. The region is characterised by higher rates of illiteracy, lower rates of completion, and poorer education quality than either the national or the provincial average. By the year 2000, while most regions of the country achieved nine-year compulsory education, Diqing was still struggling to have six-year education. Only half of the six-year primary school graduates go to middle school, with a drop out rate of about ten percent. People that continue school after junior high school are even less. College education is within the reach of only a tiny proportion of the rural youth.

#### The lack of employment opportunities

While the education level remains low, there seems to be an "over-supply" of college graduates who are unable to find jobs. This problem became acute after the government changed its policy in recent years, withdrawing its role in job allocation for college graduates. The traditional employers of college graduates such as local government departments or schools are no longer available for the majority of these graduates. Given the low urbanisation and industrialisation of the region, the job market for alternative sources of employment is yet to develop. It creates a seemingly paradoxical phenomenon – on the one hand, there seems to be a "saturation" or "surplus" of highly educated people; but on the other hand, the general education attainment remains inadequate. This creates tensions.

#### Education and socio-economic development

The seemingly contradictory phenomenon can be explained in the following ways. First, as far as basic education is concerned, there is no such question as "over-supply"; second, the shortage of employment opportunities is largely due to the discrepancy between the expertise of the college graduates and the local economic structure, which is based mainly on small farming cultivation and animal husbandry; third, economic growth has not been fast enough to create job opportunities;

fourth, mobility of labour remains rather low, that is, for various reasons, college graduates choose to return to those regions where they have to compete for a few jobs available, rather than seek job opportunities elsewhere.

Such contradiction can thus only be gradually resolved in the course of economic growth, structural transformation, and increase of labour mobility.

### **Inputs and returns**

Education requires inputs, from both public and individual sources. Both expect returns. Returns of education strongly influence decision-making concerning the allocation of funds.

#### **Public inputs and returns**

The large proportion of inputs in education comes from the government budget. There have been changes in education schemes from 1973 onwards, from centrally allocated funding to province or village (local levels) allocated funding in education development. But, overall, the government has been playing a leading role in financing education in the region. In addition, in recent years, education funds are also being raised from diverse sources such as government institutions, various foundations, and other organisations or individuals.

Basic education aims to increase the general level of education attainment of the population, which would not only benefit local economic and social development, but also the entire society. Such effects cannot and should not be measured by immediate returns in money or material forms. It has to be made clear that budget support for basic education is the responsibility of governments at various levels, especially the central government.

#### **Individual and family inputs and returns**

Though the nine-year compulsory education is officially "free of charge", families of school students even at this stage do have to pay for certain expenses, mainly to cover the cost of textbooks, notebooks and other personal expenses related to schooling, with the amount ranging from 100 and 200 yuan for the first year or primary school, to far higher (a couple of thousand yuan) for middle school. These expenses can be a heavy burden for many village families, especially the poor. In addition, opportunity costs are much higher than in urban areas. In poor rural areas, children begin to participate in production at a rather early age.

Going to school thus means a loss in income, which constitutes an indirect cost. Not surprisingly, there is a relatively strong propensity to drop out. Given the lack of access to higher education and limited job opportunities, there is a tendency to pursue quick returns rather than to keep investing in education for some unreliable future returns.

### Conditions for facilitating education inputs and increasing returns

Returns on education investment cannot be quickly seen and gained. Education is a long-term investment, and should be viewed from a broader perspective, taking into consideration, for instance, the development of the country as a whole. Education investment has its own function too, as might other social and economic accelerators. What we should do is, on one hand, increase and improve inputs into education development and create a more skilled and able labour force; and on the other hand, develop the economy, broaden employment opportunities, and provide a favourable environment for the educated to apply what they have learnt.

### Mobilising and better allocating education resources

Critical reforms in education are focused on the following aspects:

- 1) improving physical facilities like school buildings and teaching equipment;
- 2) training school teachers; and
- 3) increasing subsidies for the students in poverty. In addition to mobilising new resources, it is equally important to improve the efficiency in utilising existing resources.

### Financial and administration resources allocation

Basic education should be the responsibility of the government; as such, the government should give full support to education and take up its role as prominent provider. Diqing local government has been cutting down its budget allocation to production (from 30 percent in 1985 to six percent in 1999) and increasing budgetary expenses on administration and social welfare proportionally. Government expenditure on education has remained rather stable over the years, despite the yearly fluctuation. The salary of teachers has been paid on time. Needless to say, a great deal of “hardware” – like physical facilities in schools – still needs to be improved. The government has been undertaking administrative measures to promote basic education, such as specifying and dividing the responsibilities among all parties involved, including government departments, relevant officials, schools and students’ families. Government

intervention has so far been the most effective way to promote education. Such a top-down approach at the same time has its limits. What is also needed is to mobilise community support and involvement.

### Geographical distribution of schools

Given limited and inadequate education funds, the location of the schools and the model of schooling is important with regard to efficiently utilising resources. A common type of school in the rural, remote areas is the so-called “one teacher, one school”. Such type of school has many drawbacks as a proper education center; but it also fulfills the critical need of access to education in scattered villages. Aiming at more efficient resource allocation in basic education, the central government has been promoting the consolidation of schools, especially the one-teacher type of schools. With transportation problems unsolved, this may lead to either the increase of education costs on rural families (because of the need to establish more boarding schools), or to the decreasing access to primary education, and, eventually, more drop-outs. At present, the gulf between the village schools and the city schools is also rather pronounced in terms of school facilities and teaching quality.

### Regular education and bilingual education

As a minority-centred area, Diqing faces another problem that other similarly poor areas do not have. This is how to strike a balance between the use of the Han language, which gets a higher value in mainstream national education, and the local language (Tibetan), which is pinned down in terms of official recognition and resource allocation. The Tibetan language is, to a large extent, being neglected in schools. Tibetan language teaching is losing its popularity and applicability for many reasons: 1) Tibetan is not the formal language used in school examinations, including the entrance examinations for universities and colleges; 2) Tibetan is not included in the province-level centralised education system, and even in Yunnan Province where many Tibetans live; and 3) Han language has already become the working language in the region.

The education department of the local government has taken measures to re-promote the use of Tibetan language. However, far greater efforts need to be made in this aspect. People's perceptions need to be changed, so as not to consider the learning of Tibetan mainly as a job-hunting tool. It needs to train bilingual educators and generate new talents/professionals. Promoting Tibetan as a language for knowledge and information exchange does not necessarily increase the burden of the students. Providing curriculum, books, and other communication forms in Tibetan will be useful in facilitating Tibetan language learning.

### **Mobilisation and application of the community cultural resources**

Diqing has inherited many favourable and local-coloured social customs, traditional culture, and religious beliefs, which can serve as “good soil” for education development. We should mobilise the community and cultural resources to benefit education development. Some elements, like the lack of a strong preference for boys, help ensure that females get high and fair participation, and can help eliminate gender inequality in education. Tibetan resources, such as the temples and monks, can also be mobilised towards the revival of Tibetan learning and culture. For instance, the monks can be Tibetan language teachers. And, if the brilliant legacy of Tibetan culture can permeate the formal school education, it may contribute to the improvement of the quality of life by, for example, reducing or preventing crime.

### **Issues of further education development**

From the economic perspective, education is a kind of human resource investment because labourers with knowledge, expertise and skills are resources for economic growth. At the same time, education can be also regarded as consumption because it relies on governmental finance and family expenses. In the development scheme for the western part of China, education should be given priority because education is a precondition for changing the poverty-stricken situation.

### **Emphasis on basic and compulsory education**

Basic education should be given the highest priority. Resources should be technically allocated to the needs of compulsory education from which majority of the people benefit. In Diqing, youngsters who are able to enter universities remain a very small proportion of the same age group; whereas 95 percent of the students have to go back to their villages after finishing primary or junior high schools. So higher education is not where public funds should be concentrated.

### **Emphasis on enhancing cognitive ability**

Education should not only be about concrete skills and the amount of knowledge that students gain, but should also involve the creation and enjoyment of various spiritual products. The latter has an even more lasting effect on peoples' lives. Therefore, quality education should give more emphasis to the enhancement of students' cognitive abilities, including their ability to understand and make judgments, so that they can more flexibly develop their potentials for work and also live fuller lives,

especially in today's rapidly changing economic society. Vocational education, education of local knowledge, and rural technical education should also be incorporated into school teaching, so as to encourage people to explore their own creativity while engaging in the practice of production and in their daily life.

**Increasing education inputs and improving the efficiency of schooling**

Increasing education inputs is the main duty of the government, and compulsory education should be entirely supported by government financing, as according to the education law. The question is which level of government should bear this responsibility. Due to the big gap in development levels among different localities, available resources, performance and achievement in education in different areas are very different. It is thus essential for the central government to take a leading role in supporting education in relatively poor areas. Ways by which the central government could improve the situation may include the relocation of education resources in favour of poor areas. Moreover, effective use of education resources can be done in a number of ways. For example, schools can be multi-functionally used as community centres in which community activities can be held and community solidarity can be generated. In such an environment, a favourable space can be created for parents to take part in discussions and decision-making related to education issues. The concept of education needs to be re-examined since education in China in the last decades has been increasingly brought into the realm of the narrow scope of "developmentalism", which tends to confuse the means of economic growth with the ends of the improvement of general human welfare.

*Translated by Lu Aiguo and Sung Hung Mui*

# The Destiny of Chinese Workers: Consequences of Group Social Acts

FENG TONGQING

## **Discussions on related issues**

Workers' social acts can be categorised in different ways. The acts discussed in my earlier chapter are social acts based on individual workers. There are acts based on groups, e.g., acts carried out by workers at grassroot level through organisations such as trade unions and councils of workers and administrative staff. Since the Reform, researchers have been concerned with consequences of group social acts of workers in enterprises. This research is focused on the nature, characteristics and evolution of workers' unions as well as issues such as the system of the council of workers and administrative staff. Many researchers are concerned with the enhancement of the representation of the union's interest. However, there are others who believe that such enhancement will not go beyond the boundary of the council of workers and administrative staff. They think that although the improvement in representation is the basis on which the unions' social acts are built, the arena of their social acts is still within the limit of the system of the council, and as such, the consequences of these acts embody more of their social functions. In this sense, trade unions in China should be defined by their basic characteristics in terms of their social functions rather than being considered as representatives of group interests.

## **Discussing trade unions as organisations representing workers' interest**

In the early stage of the Reform in China, particularly in the 1980s and the early 1990s, more and more researchers engaged themselves in discussions on trade unions as organisations representing workers' interest.

One important reason behind this move is the need for reflection on trade union history since the establishment of the People's Republic of China in 1949. In the early days of the Republic, leaders such as Deng Zihui, Li Lisan and Liu Shaoqi had already recognised the workers' union as an interest-representing organisation. They pointed out that as union organisers are in daily contact with workers, and as their work demands that they frequently safeguard workers' interest, it is only natural that they have stances and perspectives different from those of the administrative leadership. Such conflicts do exist and should be allowed to exist. They also pointed out that the union should represent, protect and satisfy the workers' appropriate interests, or the workers will get rid of the union and try to find other ways to realise their interests. Unfortunately, these arguments had been either criticised or withheld from the public. Yet they still persist. In the 1980s, some old comrades from All-China Workers' Union recalled that when Lai Ruoyu replaced Li Lisan as the leader of All-China Workers' Union, he did write articles attacking Li, but in practice, Lai soon stressed again the importance of protecting the workers' interests. They argued that every honest leader would have to comply with objective rules; although he ended up in the same misfortune as Li did, Lai was nevertheless an honest leader. And these old comrades added that rethinking this history helped to prove that the union is an organisation that represents the workers' interests.

The argument of considering the union as an interest-protecting organisation runs counter to the traditional views of seeing it as a production and political organisation, then later as an economic organisation.

Firstly, the union is not a pure productive organisation. In the past there were instances in which the union was allowed to manage production directly. And this turned out to be illusions. Although it possesses some production properties, the union's functions are richer than that. Even in the field of production, the union functions in different ways. This is because when the workers engage in production, in this process they have to be duly respected. Therefore, the union cannot be entirely preoccupied with production, and it cannot be simply termed as a production organisation.<sup>1</sup>

Secondly, the union is not a pure political organisation. We admit that in the present world, the union is becoming more and more political. Countries under the former system of central planning even tried to make it a pure political organisation as they tried to politicise all aspects of social life. However, the fact is there exist various demands of union members, including economic, social, cultural ones. During the transition

period of economic system, the political activities of the union should be based on objective economic analysis, and deal appropriately with the problems of the related economic interest. That is why the union cannot be considered a pure political organisation.<sup>2</sup>

Lastly, the union is also not a pure economic organisation. Before 1949, when the new Republic was established, the union lacked experience in economic struggles. In a long period after 1949, the union had been denied as an organisation with economic functions as part of its properties. In a sense the union is an economic organisation. When the country has shifted its focus to economic construction, the task of the union increases in respect to participation in economic activities. However, the economic properties are not exclusive ones. The union also has political, social and cultural properties. Considering the union as a pure economic organisation is only another way of going to extremes.<sup>3</sup>

What are the implications of taking the union as an interest-representing organisation?

First of all, the union is an interest-oriented organisation. It is called so because it is a social group whose members have common interests and who actively pursue these interests. The economic, production, political, social and cultural activities pursued by the union are not an end in itself, but are means through which it realises certain interests. Under certain circumstances, these activities are both a means and an end, yet the end is in the final analysis a means to realise certain interests. The interest properties of the union include various properties discussed above.<sup>4</sup>

Secondly, the union has the property of shared interests, which is revealed in its pursuit of interest. In contrast to the property of public interest, which aims at gaining interest for those outside the organisation, such as a political party or a government, an organisation of shared interest aims at gaining interest for all the members, such as the union. Traditionally, Chinese people place high the public interest, while self-interest is usually denounced. A rational view should do justice to the latter since without self-interest, public interest loses its conditions of existence, and the realisation of the former has to resort to the satisfaction of the latter.<sup>5</sup>

In addition, the union represents one party in a society of multiple interests. Under the earlier political system, emphasis was laid on the shared interests of the working class, so the union could not be a representative of a particular social interest. After the Reform, differences among working class interests began to manifest themselves, while within the government, demands for fighting against corruption and striking for

optimisation increase. And such demands also existed in enterprises: As such, compromises between the workers and the government and enterprises became inevitable. In order to establish a government that truly represents the interests of society, and see to it that managers represent the interests of the enterprises, a balancing mechanism must be established. And that includes the union acting as a balancing mechanism.<sup>6</sup>

Finally, the union represents the individual interests of all employees. Employees' interests can be categorised into general interests, collective interests and individual interests. The first kind is usually represented by the council of workers and administrative staff, the second by the legal person of the unit, and the last by the union. Here the individual interests are a collective concept involving not individual employees but employees as a whole. It includes issues concerning occupational options, remuneration for labour, working conditions, living conditions, sharing of property rights, democratic participation, technical training, etc. When we say the union represents the individual's interests, we mean that it should satisfy the individual's needs. But in so functioning, it should also give attention to general interests and collective interests.<sup>7</sup>

#### An interest-representing organisation or social function organisation?

Entering the 1990s, discussions on viewing the union as an interest-representing organisation continue, and a different perspective of viewing the union as a social-function organisation was also gaining place.

A typical article representing the first view is "Conflicts between the Union and Party-State: the Reform of the Trade unions in China since 1980s", written by Kevin Jiang.<sup>8</sup> The article concludes that the history of the workers' union in China, especially the Reform in the last 15 years, reveals a justified social role for the union as an interest-protector for the workers. Leaders of the traditional union "look like someone from the Party's committee or from administrative leadership, but never the workers." The union should strive to be a protector of the workers' interests. The Reform presents the union with two alternatives: to stand by the workers, or to continue to swing between party-state and workers, or employers and workers. I believe that the Reform in the last 15 years proves that the union cannot gain any substantial improvement if it still sticks to the rigid stance of "two safeguards" (safeguarding workers' specific interests while safeguarding the general interests of the people). If the union does not detach itself from the establishment, its claim of being a representative of the workers' interest becomes empty talk, and its very survival is at stake, with a likely consequence of social chaos. It seems such a move is the only alternative.<sup>9</sup>

However, there are different analyses on the status quo. Some people think the changes brought by the Reform help promote the identification of the union as a representative of the workers' interests, yet this role cannot be accomplished overnight. In the past, although the nature of the union called for it acting as a protector of the workers' interests, in practice it was difficult to define this role. The Reform has changed the labour relations, making the division between administrative staff and labourers more apparent. As an inevitable outcome of the market economy, the whole society has reached a consensus on the social role of the union as an interest-protector of the worker. But at the present stage, it will take a rather long period to establish a market-oriented labour relationship. In this period of transition, the Reform on labour relationship cannot be rushed. Besides, there are legal constraints. For example, there have been heated debates between union representatives and government authorities on how to define both the workers' and the union's rights and duties as well as that of the council of workers and administrative staff in the enterprise law and company law. It has been suggested that appropriate attitudes and methods are required to deal with this situation.<sup>10</sup> Those who advocate a cautious attitude toward the reform point out an existing fact, that is, the Reform at present is in a state of ambiguity and impasse.

Then, how to interpret such a state?

American researcher Jeanne L. Wilson and Australian researcher Anita Chan have analysed the changing union in China from the perspective of societal corporatism.<sup>11</sup> Their analyses may help us understand the situation. In their view, trade unions in China are social function organisations rather than interest-representing ones.

Their analysis suggests that in the fifties, eighties and nineties in the last century, trade unions in China were a kind of combined functional organisations. According to Leninism, the ideal role of trade unions is to link the central leadership of the Party and the mass workers. The dual functions trade unions were supposed to fulfil are to deliver, from the top to the bottom, state instructions aimed at mobilising workers in production, and to submit demands of the workers from the bottom to the top in an effort to protect workers' welfare and interests. Some people think this so-called "classical dualism" is self-contradictory.

Jeanne Wilson concludes from his analysis on the practice of All-China Trade Union that despite the self-contradiction of this dualism, as long as this concept is being applied in practice, the trade union movement in China can gain more autonomy than it did in Mao's era.<sup>12</sup>

Anita Chan believes that Jeanne Wilson is one of the few western researchers who have true understanding of the significance of the activities

of All-China Trade Union. Chan also suggests that as a corporative organisation, All-China Trade Union has played a role that is more significant than Wilson thinks. She analyses to the effect that under the existing political system, All-China Trade Union is a *de facto* representative of the workers' legitimate functions and its corporative nature is becoming more and more evident. This suggests that the state corporatism under the traditional system in China has undergone some changes. In this new stage of the development of state corporatism, interest differentiation has linked the top level and the bottom level, and hopefully its ideal form will resemble social corporatism. She predicts that All-China Trade Union will be drawing lessons from experiences of the trade unions in the former Soviet Union and East European countries. If such efforts are sufficiently effective, workers will hopefully recognise that the best way to promote their class interest is to make best use of the existing system; if so, the structure of state corporatism will probably change in a less risky way.<sup>13</sup>

In the late 1990s, Zhang Jing systematically introduces corporatism to China, and applies it to the study of trade unions in China.<sup>14</sup>

Zhang discusses researches conducted by some local and overseas scholars influenced by corporatism on a newly emerging combination of social power structure since the Reform began in China. They tend to think the atoms of society pushed by the inertia of the old system are being re-organised into parts of the state system. Speaking of their macro structure, the tendency is toward multi-coordination, mixed roles and mutual reliance. Recent changes indicate that China is becoming not a more structural or defined state and society, but one with more ambiguous divisions. Based on this judgment, research focus should not be on new social actors or organisations and how they can gain autonomy within the state control, but on re-organisation of different parts of the old system.<sup>15</sup>

Zhang observes that some researches on relationship between socialism and corporatism deserve attention. These researches suggest that social structural changes in a socialist country tend to give rise to development of corporatism since the structure of the latter has the potential of maintaining balance of traditional interests. Corporatism may be a way out for inheriting the old path of social structure through a departmental pattern that expresses common interest (a *de facto* "interest-group politics"). It can gain self-development through dual positions these departments enjoy. A possible outcome for this process will be a model of "socialist corporative cooperation." If the traditional state corporatism refers to a structure built by the state and controlled by state hierarchies, then one distinctive property of societal corporatism denoted here is its

departmental structure, which is a form of representing the interest of the grass roots as well as a form of interest-group politics.<sup>16</sup>

Zhang explains the implications of interest-representing organisations and social function organisations. The former rallies individual needs (preferences) to form and express organisational interest. In so doing, it becomes a kind of political power or pressure. Interest-representing organisations elect their own representatives to take part in political governance. As the mouthpiece of the organisation, they strive for protecting the interest of the organisation. They also overlook and check public authorities. As the supporting body, the organisation provides coordination and resources for them. Social function organisations have dual roles: interest-protector and mandatory agents for implementing government policies. This means the society and the state should benefit each other through cooperation: on the one hand, isolated social interests will be organised according to the principle of functional division and participate in an orderly way in policy-making processes; on the other hand, state authorities win a stable source of support and control through this structural mechanism. Social function organisations should appear both interest-oriented and demanding to public authorities, and “para-public” in terms of fulfilling certain social obligations. They have both an interest-representing identity and a “public identity.” This is because in modern society, the position of a social function organisation is decided not only by its competitiveness and range of representation, but also by the need to be recognised and legitimised into the state system. Social function organisations are in fact part of the formal system of the state. Therefore, they have to realise their self-interests on the basis of the general interests of society.<sup>17</sup>

In her research into the council of workers and administrative staff in enterprises, Zhang also touches upon the issue of trade unions. Her perspective takes trade unions as social function organisations rather than interest-representing groups.

Zhang conducted a case study on a state-run enterprise in 1994-95. She believes that the extensive application of council of workers and administrative staff since 1949 reflects the government’s intention to bridge the state and the grass roots in an effort to bring ordinary people’s views upward to the authorities and to deliver state instructions downward to bottom levels, and to rally mass workers around the establishment in facilitating administration and supervising enterprises. The original intention and design of the council is not to turn it into an organisation with a task to resolve conflicts of interests, or to spontaneously ease group tensions.<sup>18</sup>

Based on the above analysis, we should point out that since 1980 the design of the workers' council in state-run enterprises has changed considerably. It plays a more important role in easing interest conflicts. This is mainly due to the increasing tension between the leadership and workers in enterprises after the Cultural Revolution, as well as the repercussion of the Solidarity movement in Poland. [Chapter two of my book gives a more detailed account of this situation.] However, we still agree with Zhang's main analysis. Although in the last two decades or so, internal conflicts of interest and structures of state-run enterprises in mainland China have become more divided, the trade unions' coordinating role still functions within the boundary of the council. Zhang's case study was conducted in 1994-95, when the workers' council covered a richer variety of activities compared to that in 1980. Still, these activities were conducted along the old structural path.

Zhang's case study indicates the functions trade unions assume within the framework of the workers' council are more of social ones. For example, the union can draft rules for electing delegates to the council of workers and administrative staff according to the council charter and specific situation in enterprises then submit the draft to the Party Committee for approval before it becomes applicable. The union can recommend a list of candidates for members of the working committee of the council to the Party and administrative leadership for approval before the voting by delegates. Also, in the election of the presidium of the workers' council, the secretariat of the council consists mainly of union leaders. The fact is those who do full-time work for the union are charged with daily work by the workers' council. These union organisers keep close touch with the leaders in administration. The chairman of the union is a formal member of the leadership in an enterprise and entitled to participate in meetings of Party and administrative leadership.<sup>19</sup>

Zhang describes the council of workers and administrative staff as "a combined system of politics and administration" to indicate its dual functions of administrative management and interest delivery.<sup>20</sup>

From this analysis we can infer that the union under this system also has dual functions of interest-representing and social roles, with the latter becoming more evident.

### Searching solutions through field studies

The above review of the history of trade unions in China indicates that although there exist different views on the reform of trade unions in China, researchers are constantly readjusting and deepening their studies. My view has also undergone such a process.

Starting from 1998, I conducted several surveys on workers' conditions

in the nineties. Examining the collected data, I have reached some basic hypotheses:

One hypothesis is that interest-representing function of the trade union has been enhanced.

Especially from mid nineties onward, collective consultation and collective contract system (hereafter abbreviated as collective consultation system) has been established in enterprises of increased numbers. As a new system different from the workers' council, the collective consultation system features a systematic channel for the union to represent workers' interest. The Labour Law of the People's Republic of China clearly identifies workers and enterprises as two parties. According to Article 32 of this law, collective contract is to be signed between the party representing employees of the enterprise and the enterprise as the other party. Usually employees are represented by the union. Article 84 stipulates that disputes concerning collective contract that cannot be resolved by the two parties should be presented to government labour administration, labour arbitration committee or people's court. Clearly, as one of the two parties in the collective consultation system, the union is to represent workers' interest when signing and implementing collective contract. Of course, what is different to the practice in western countries is that here the emphasis is put on "consultation" rather than "negotiation" in the preparation of collective contract. Yet it is evident that the union in the enterprise should clearly feature its role of interest-representation. In general, collective consultation system also includes other mechanisms, such as regulation and arbitration of labour disputes. Surveys indicate an increasing recognition and need by workers of such a role of the union.

However, another basic hypothesis is that the social functions of the union are becoming more apparent than its interest-representing role.

The social functions of the union are usually manifested through the mechanism of the workers' council and other relevant mechanisms. The bylaw of the council emphasises strongly its social functions. The council consists of workers, technicians, managers and organisers. But it stipulates that the council performs under the principle of "democratic centralisation." This denotes the system lays emphasis not on representing the interests of all classes, but the social functions that go beyond these interests. For example, Article 3 of the council bylaw specifies the union committee in an enterprise as the working organ of the council, therefore stressing more on its social functions than its interest-representing role. Article 9 also specifies that in signing a collective contract or agreement, the president of the union will on behalf of the employees represent one party, while the manager of the enterprise represents the other. Because

the emphasis is laid on common goals for the development of the enterprise in the signing of collective contract, the union is supposed to fully fulfil its social functions. The system of the workers' council also includes other mechanisms, such as promotion of work competition and technical innovation, educational training programs and newly emerged campaign of assisting the poor and laid-offs. Surveys indicate that workers like to realise their demand through the council more than through other means. They prefer more to raise their demand through the union under the system of the workers' council than through the union alone.

In sum, if the union's role of interest-representation is demonstrated more clearly through the system of collective consultation to realise workers' demands, its social function role is demonstrated more clearly through the framework of the workers' council.

Now we will discuss some case studies and survey data to justify these hypotheses.

### **Enhanced role of the union in interest-representation in mainland China**

The theoretical debate on trade union started in the 1980s is not purely academic discussion but also a reflection of the actual practice. Case studies and surveys conducted in the nineties evidenced an enhanced role of the union in representing group interest.

#### **Raising the question of representation of group interest**

Such a role was first advocated in 1983 and fully defined in 1994. Chen Ji, former director of the policy-research office in All-China Trade Union, recalled:

During the preparation for the 10th National Congress of the All-China Trade Union, it was agreed that a brief working guideline should be presented to the central leadership of the Party for approval. All of us had no objection to the principle of focusing on the task of modernisation. We also had no disputes on the union's two major roles of guarding the interest of the workers and educating the workers. However, as to which role should receive more emphasis, there were different opinions. The issue was whether one should precede the other. When the issue was reported to the Party's central leadership, comrade Hu Qiaomu was reported as saying that if the women's campaign was considered as feminist movement, the working principle for All-China Women's Federation was to protect the legal rights of women and children, and so the union's role should

also be to protect the legal rights of workers. This view was later approved by the secretariat of the Party's Central Committee. Therefore, the union's role of protecting the interest of workers was very much emphasised at the 10th National Congress of the All-China Trade Union.<sup>21</sup>

However, in the following decade, the four basic roles of the union (protective, constructive, participatory and educational functions) were in fact advocated in parallel positions. By the end of 1994, the Chairman of All-China Trade Union, Wei Jianxing, proposed in the executive committee meeting of the 12th National Congress that the primary function of the union is to protect the interests of workers, and this function should be fulfilled through the frameworks of equal consultation and collective contract.<sup>22</sup> This is because in the newly enacted labour law in 1994 administrative employment was replaced by contract employment and labour reward was to be decided by the enterprise independently. In this changed situation, the union on behalf of workers naturally assumes the responsibility of initiating equal consultation and collective contract. Since 1994, the union's role as interest protector became more prominent.

#### Four extensive surveys

##### 1. 1996 survey on employees of shoe-making industry

This survey indicates a strong recognition by workers of the union's role in representing workers' rights.

In response to the question "What will you do when dispute occurs between you and administrative authorities of the enterprise", 27.2 percent of the surveyed employees opted for "giving up," 9.7 percent preferred (as a revenge) "not to work hard," 31.7 percent for "leaving the enterprise," 26.6 percent for "filing complaint to the union," 16.4 percent chose "going to labour arbitration committee", 6.3 percent chose to "going to higher party or administrative authorities," 5.6 percent "going to the court," and 5.8 percent for "revealing the dispute to the media." Apparently, when disputes occur, workers tend to rely more on the union than on other means.

In response to the question "From whom will you first think of getting help when your rights are debased, like working extra hours without payment", 29.8 percent opted for the union. Compared to other choices such as labour arbitration committee (12.8 percent), managers (18.8 percent), group leaders (23.2 percent), and party branch (2.9 percent), the union enjoyed the highest percentage.

When asked, "why did you join the union", 81 percent chose the reason "the union can protect my rights," 14 percent replied "following suit," and 5 percent agreed with the answer "the union fee had already been deducted from my wages, though I did not want to join."

Responding to the question "What do you think of the collective contracts the union signed with the administrative authorities of the enterprise", 57.9 percent said they are "very important" or "of considerable importance."

## 2. 1997 national survey on employees

This survey also indicates similar results, especially when it is compared with the one conducted in 1992.<sup>23</sup>

In 1992, 39.8 percent of the surveyed employees thought "the union can on the whole protect their rights." In 1997, the percentage increased to 59.1 percent.

The response to another question in the 1997 survey also reveals that the interest-representing role of the union was further recognised. When asked "what functions do you think the union in your working unit performs well", 34.6 percent chose "protecting employees' specific rights," 18.8 percent chose "participating on behalf of employees in management," 13.3 percent chose "promoting production," 16.4 percent chose "helping employees upgrade their quality," and 16.8 percent chose "none of the functions presented here."

## 3. 1997 survey on peasant workers

This survey again reveals similar attitudes toward the union of peasant workers.<sup>24</sup>

In response to the question "what will you opt for when your legal rights are debased", 10.2 percent chose "to go to fellow villagers or relatives for help," 31.2 percent chose "to go to related administrations for mediation or arbitration," 23.6 percent chose "to go for legal aid," 25.9 percent chose "to seek help from the union," and 0.6 percent chose "to seek chances for revenge."

In joint ventures and private enterprises, the percentages of seeking help from the union are even larger: 29.55 percent and 30.41 percent, respectively.

Why did these workers choose to rely more on the union? A woman peasant worker working in Fujian province said the union had helped them raise their salaries. A peasant worker from Sichuan province working in Shanghai praised the union as a collective organisation speaking for workers. His workmate, one from Shandong province, added that when

the union spoke, it did with force because it enjoyed a legal status. A peasant worker in Jiangsu province claimed that the union was a legitimate organisation and home for workers, and whenever they had difficulties they could resort to the union.

#### 4. 1997 survey on employees in private enterprises

This survey also indicates similar recognition of the union's role.

In replying to the question "why did you join the union", 72.7 percent chose the reason "the union can protect my rights, 18.8 percent chose "the enterprise demanded that I join the union," and 8.5 percent chose "by joining the union my welfare can be improved." In responding to the question "why didn't you join the union", 59.6 percent chose the answer "no one asked me to join," 14.1 percent chose "the union cannot represent and protect me," and 26.3 percent chose "as a casual employee, I am not entitled to join." On the whole, people join the union because of the rights and benefits they can derive from the union.

In answering the question "Do you think the union can protect the workers' rights", 51 percent chose "yes, it can" or "yes, sometimes it can and sometimes it cannot." The majority of the employees find the union relevant to their interest.

#### Four typical case studies

Data collected from case studies also indicate a similar situation.

After 1994, the All-China Trade Union identified and set up as models four successful trade unions from Shekou Industrial District, Bao An District, Huludao and Lishu County. These unions were all typical models in terms of performing their role of protecting workers' rights.

##### 1. Shekou Industrial District Trade Union

The earliest national model set up by the All-China Trade Union was Shekou Industrial District Trade Union.<sup>25</sup>

Leaders of Shekou Trade Union were genuine activists who kept close links with workers and truthfully represented their rights. In light of the union's organisational system, the union openly elected its chairman through direct vote, and all the leaders were selected through examination. These leaders were also subject to regular evaluation by the workers.

After the Reform in enterprises, trade unions in enterprises began to act as a parallel partner in management. The focus of the union was to protect the employee's basic rights, especially when they were jeopardised. For example, when over 1,300 workers in Kaida Toy Factory went on strike asking for an increase of their wages, the union, together with three

representatives of the factory workers, negotiated with the employer. The latter insisted that the workers' wages were above the minimum wage line set by the Shenshen local government. The union argued that because it included payment for working extra hours, the workers' wages were actually below the minimum. As both sides would not compromise, the issue was brought to the government's labour administration. In the end, local authorities specified in an official document "payment for working extra hours should not be accounted into the minimum wages. As a consequence, Hong Kong based employer agreed to raise the wages to the satisfaction of employees.

## 2. *Bao An District Trade Union*

The national model set up by All-China Trade Union in 1996 was Bao An District Trade Union in Shenshen.<sup>26</sup>

Through investigations on serious disputes between employers and the employed, the district union found that in places where union organisations were well structured there were fewer confrontations. So it set up a well-structured network of the union apparatus on three levels: general union of the district, township unions and union at village level. This network maintained close links between different levels, established internal systems of member participation, democratic procedures and management. It reformed the system of leadership assignment.

In this district, higher union leadership instead of the enterprise administration supervised election of union chairman in each enterprise. So the chairman of the union was not subordinate to the employer. Therefore he could better fulfil his role of protecting union members' rights through equal consultation and collective contract systems.

## 3. *Huludao Municipal Trade Union*

The national model set up by the All-China Trade Union in 1997 was the general union of Huludao in Liaoning province.<sup>27</sup>

In 1994, over 300 retired employees from a large state enterprise Yangjia Shangsi Mine took to the street, shouting slogans "We demand payment! We demand food!" They took possession of mining pits, blocked roads, and stated that they would go to Beijing to appeal to higher authorities. The head of the mine enterprise was asked to talk with the protestors and the situation was getting out of control. At this moment, the chairman of the general union came. He went in front of the crowd and persuaded: "Old comrades, I am the chairman of the general union who, as you all know, is a true organisation speaking for workers. I sincerely appeal to all of you to trust me and let me negotiate with the authorities." Silence fell,

the crowd became quiet, and the subsequent negotiation turned out to be a success.

Two years later, this same enterprise ran into trouble again when the electricity was cut off due to an overdue charge. The union of the enterprise began to organise a parade. It was immediately accused of its “anti-government attitude.” The general union declared to the local government that under such circumstances it was the duty of the union to stand beside the workers and negotiate by the law. The local government acknowledged the union’s position and the incident was peacefully resolved.

In this incident, the local party committee supported the union because the trade union is entitled to protect the legal rights of employees.

#### *4. General Union of Lishu County*

The national model set up by the All-China Trade Union in 1998 was the general union of Lishu County in Jilin province.<sup>28</sup>

Like in many places in China, the higher leadership conventionally assigned union leaders at the grass-root level. In the eighties, the general union of the county found through a survey that almost all local trade union leaders performed to a more or less degree a symbolic role. Their average age was 54 years old, and 95 percent of them were graduates of no higher than high schools. What was worse was the fact that they were responsible only to higher leadership. They often neglected the legal rights of union members, and did nothing to protect them. On the other hand, union members had no right to elect their own leaders. Therefore they did not care for the union at all.

Starting from 1984, all chairpersons of local unions were elected directly by union members, who also regularly evaluated his or her performance. To quote union members, “They are the spokespersons chosen by ourselves.”

In the following 14 years, 320 local unions in the county were led by directly elected leaders who were vigorous and devoted to their duties. They averaged 36.7 years old, and 69 percent of them were college graduates. They truly became the spokespersons of the union members.

#### **Trade unions in mainland China as social function organisations – from the perspective of workers’ individual acts**

Although the union’s role as a protector of workers’ rights has been enhanced, its social functions have become even more prominent. Examined from the perspective of individual workers’ social acts, workers pay more attention to the social functioning of the union. In other words,

the union's social functions are based on individual workers' social acts. I have examined three types of workers. They are skilled workers, technical workers and peasant workers from the countryside. Generally speaking, skilled workers have a sense of loss in terms of self-esteem; technical workers enjoy an improved status with self-respect; and peasant workers are a new type of employees. They are all typical. I selected data from a survey conducted by the All-China Trade Union in 1997 on manufacturing industry. In the survey on 15 industries, the manufacturing industry had more sound systems of workers' council and collective consultation. So it may reflect more clearly different influences individual workers had on the dual roles of the union discussed above. The survey sampled a total of 4,241 employees, of whom 1,134 were skilled workers, 1,007 were technical workers and 112 were peasant workers.

**Choice of action by skilled workers – paying more attention to the social functions of the union**

Skilled workers tend to emphasise the social functions of the union.

### 1. *Cognitive perceptions of skilled workers*

When choosing the best function the union served, 32.8 percent of the surveyed workers opted for "protecting workers' specific rights," 20.3 percent for "participating in management on behalf of workers," 12.6 percent for "promoting production," 15.7 percent for "helping upgrade workers' quality," and 18.6 percent for "none of the above mentioned functions." The first four functions are usually considered in China as social functions of trade unions. Since 1994, the first function has been fulfilled mainly by establishing the system of collective consultation, while the other three functions have been carried out within the framework of the workers council. The percentages added together of those who opted for the other three social functions are bigger than that of the first function.

Also, when evaluating the work of the union, 43.3 percent chose "very good" or "good," 47.1 percent for "ok," 9.6 percent for "bad" or "very bad." On evaluating the social status and function of the union, 38.8 percent chose "greatly improved" or "improved," 24.7 percent for "unchanged," 20.1 percent for "degraded" or "greatly degraded," and 16.4 percent for "not clear." These figures indicate skilled workers recognise the fact that to a certain extent "the union has limited means to serve its functions." Therefore, they are rather tolerant on the work of the union, but strict on the evaluation of its social functions. In other words, they think that what the union can do is limited by external realities and it cannot go beyond its social functions.

## 2. *Skilled workers' motivation of action*

Responding to the question "Do you think the union can protect you when your rights to labour are infringed", 57 percent chose "yes" or "basically yes," 10.8 percent chose "no," and 31.5 percent chose "hard to say." These answers indicate the extent skilled workers evaluate the realisation of their workers' rights. Since 1994, these rights have been substantiated more through the mechanism of collective consultation.

On evaluating workers' status as masters of their working units, 31.6 percent of them thought their status was "greatly improved" or "improved," 24.8 percent thought it "unchanged", and 22.2 percent described it as "declined" or "deteriorated." This indicates the extent skilled workers evaluate the realisation of their property rights. These rights are substantiated more through the mechanism of the workers' council.

The frame of reference of skilled workers' act includes at least the above two substantiations of their rights. Although the answers to the two questions cannot be directly compared, the response on the whole to the first question is clearly more positive (57.7 percent) than the response to the second question (31.6 percent). Also the second response reveals more of the unfulfilled wishes of skilled workers. In this sense, they emphasise more on realising their rights through the social functions the union serves than through its role of interest-protector.

## 3. *Acts of skilled workers*

When asked about the effectiveness of the union on implementing collective consultation, 29 percent answered "don't know about it," 18.2 percent said "not very successful" or "not successful at all." The first group demonstrated their neglect and the second group a passive act on the matter. They constituted nearly half of the skilled workers.

On the other hand, all the interviewees were aware of the work conducted by the workers' council with participation of the union, and no more than 20 percent thought the work "was ineffective" or "very ineffective." In other words, less than 20 percent of skilled workers neglected or reacted passively to the union's work.

This attitude was also reflected in the specific acts of skilled workers. 19.1 percent of them thought the union's role in participating in resolving labour disputes were "ineffective" or "very ineffective." 6.3 percent were "not very enthusiastic" or "not enthusiastic at all" about the participation in production races organised by the working unit. The attitude of the first group (19.1 percent) reflected a concern on the union's role as interest-protector. The attitude of the second group (6.3 percent) reflected a more positive act.

#### 4. *Consequences of acts of skilled workers*

The consequences of skilled workers' cognitions, motivations and acts reinforced the union's social functions.

In responding to the question "what do you think should be the focus of task of the union", 21.6 percent chose "the establishment of collective consultation mechanism," and 77.8 percent chose "the functioning of the system of the workers' council." The second group included those who chose "assessing managers of the enterprise" (17.6 percent), "participating in significant reform policies" (3.8 percent), "helping workers resolve difficulties" (42.7 percent), and "promoting educational and recreational activities" (2.7 percent).

Clearly, those who chose tasks concerning the functioning of the workers' council outnumbered those who chose the establishment of collective consultation mechanism. And obviously it is one of the social foundations for reinforcing the social functions of the union.

#### Technical workers' choices of action

Technical workers also tend to emphasise more on the social functions of the union, and compared to skilled workers, this emphasis is stronger.

##### 1. *Cognitive perceptions of technical workers*

In responding to the question "What functions do you think the union has served best", 28.5 percent opted for "protecting employees' specific interests," 21.8 percent for "participating on behalf of the workers in management," 17.5 percent for "promoting productive activities," 15.8 percent for "helping upgrade workers' quality," and 16.4 percent for "none of the above mentioned functions." Compared with the corresponding choices made by skilled workers (48.6 percent), technical workers' recognition of the union's social functions (55.1 percent) were higher.

Also, on evaluating the union's performance, 48.6 percent chose "very good" or "good," 42.0 percent chose "average," and only 9.3 percent chose "rather bad" or "very bad." On assessing the social status and functions of the union, 27.2 percent opted for "greatly improved" or "improved," 25.2 percent for "unchanged," and 10.7 percent for "not clear." Their evaluation on the work of the union was clearly more positive than on the social status and functions of the union (48.6 percent - 36.9 percent). They were also well aware of the objective limitations of the union, which could not go beyond its social functions. The percentage of technical workers who recognised the union's social functions was even larger than that of skilled workers (48.6 percent - 36.9 percent, 38.8 percent - 36.9 percent).

## 2. *Technical workers' motivation of action*

When responding to the question "Do you think the union can protect you when your right to work is infringed", 57.1 percent answered "yes" or "basically yes," 11.6 percent answered "no," and 31.3 percent said "not clear."

On evaluating workers' status as masters of their working units, 29.4 percent of them thought their status was "greatly improved" or "improved," 22.3 percent thought it "unchanged, and 31.6 percent described it as "declined" or "deteriorated."

Their answers indicate they were more dissatisfied about their status, which, compared to the answers to the first question, received less positive replies (57.1 percent - 29.4 percent) and more negative ones (31.6 percent - 11.6 percent). Although this comparison is not very accurate, it does to some extent help point out the problem. We can see that they have a stronger wish for the union to fulfil its social functions. What is more, this wish is more prominent compared to that of skilled workers (57.1 percent - 29.4 percent > 57.7 percent - 31.6 percent).

## 3. *Acts of technical workers*

When asked about the effectiveness of the union on negotiating collective contract, 30.6 percent answered "don't know about it," 19.2 percent said "not very successful" or "not successful at all." They constituted nearly half of the technical workers.

On the other hand, all the interviewees were aware of the work conducted by the workers' council with participation of the union, and no more than 25 percent thought the work "was ineffective" or "very ineffective." In other words, technical workers tend to react more positively to the union's social functions.

This attitude was also reflected in the specific acts of technical workers. 19.9 percent of them thought the union's participating role in resolving labour disputes were "ineffective" or "very ineffective." 6.1 percent were "not very enthusiastic" or "not enthusiastic at all" about the participation in production competitions organised by the working unit. The attitude of the first group (19.9 percent) reflected a concern on the union's role as an interest-protector. The attitude of the second group (6.1 percent) reflected a more positive act.

## 4. *Consequences of acts of technical workers*

The consequences of technical workers' cognitions, motivations and acts further reinforced the union's social functions.

In responding to the question “what do you think should be the focus of task of the union”, 15.7 percent chose “the establishment of collective consultation mechanism,” and 84.1 percent chose “the functioning of the system of the workers’ council.” The second group included those who chose “assessing managers of the enterprise” (19.9 percent), “participating in significant reform policies” (2.8 percent), “helping workers resolve difficulties” (46.1 percent), and “promoting educational and recreational activities” (4.2 percent).

Clearly, those who chose tasks concerning the functioning of the workers’ council outnumbered those who chose the establishment of collective consultation mechanism. And obviously it is one of the social foundations for reinforcing the social functions of the union.

### Choices of action of peasant workers

This group of workers also tends to emphasise more on the social functions of the union.

#### 1. *Cognitive perceptions of peasant workers*

In responding to the question “What functions do you think the union has served best”, 20.2 percent opted for “protecting employees’ specific interests,” 20.2 percent for “participating on behalf of the workers in management,” 14.7 percent for “promoting productive activities,” 25.7 percent for “helping upgrade workers’ quality,” and 19.3 percent for “none of the above mentioned functions.” The percentage for opting for the first choice was lower than that of the last three choices (20.2 percent+14.7 percent+25.7 percent-20.2 percent), indicating that these workers recognise more positively the social functions of the union. Compared with the corresponding choices made by skilled workers (48.6 percent) and technical workers (55.1 percent), their cognitive perceptions of the union’s social functions were even more positive.

Also, on evaluating the union’s performance, 39.6 percent chose “very good” or “good,” 50.5 percent chose “average,” and only 9.9 percent chose “rather bad” or “very bad.” On assessing the social status and functions of the union, 42.9 percent opted for “greatly improved” or “improved,” 20.5 percent for “unchanged,” 13.4 percent for “not as good as before” or “deteriorated,” and 23.2 percent for “not clear.” Although their positive responses to the first question were lower than to the second question (42.9 percent - 36.9 percent), their negative responses to the first question were also lower than to the second question (13.4 percent-9.9 percent). And those who answered “not clear” indicate more of a negative attitude. Therefore, we can also conclude that these workers were well aware of the

fact that the union's performance was limited by external constraints and it could not go beyond its social functions.

## 2. *Motivation of action*

When responding to the question "Do you think the union can protect you when your right to work is infringed", 49.5 percent answered "yes" or "basically yes," 17.1 percent answered "no," and 33.3 percent said "not clear."

On evaluating workers' status as masters of their working units, 40 percent of them thought their status was "greatly improved" or "improved," 9.1 percent thought it "unchanged," 14.6 percent described it as "declined" or "deteriorated," and 36.4 percent said "not clear."

Their answers indicate they were more unsatisfied about their status, which, in comparison to answers to the first question, received less positive replies (49.5 percent - 40.5 percent) and more negative ones (36.4 percent - 33.3 percent). Although this comparison is not very accurate, it does to some extent help point out the problem. We can see that they have a stronger wish for the union to fulfil its social functions.

## 3. *Workers' acts*

When asked about the effectiveness of the union on negotiating collective contract, 33.6 percent answered "don't know about it," 12.1 percent said "not very successful" or "not successful at all." They constituted nearly half of the total interviewees.

On the other hand, all of them were aware of the work conducted by the workers' council with participation of the union, and no more than 17 percent thought the work "was ineffective" or "very ineffective." In other words, these workers tend to react more positively to the union's social functions.

This attitude was also reflected in the specific acts of technical workers. 25.2 percent of them thought the unions' participating role in resolving labour disputes were "ineffective" or "very ineffective." 5.9 percent were "not very enthusiastic" or "not enthusiastic at all" about the participation in production competitions organised by the working unit. The attitude of the first group (25.2 percent) reflected a concern on the union's role as interest-protector. The attitude of the second group (5.9 percent) reflected a more positive act.

## 4. *Consequences of acts*

The consequences of these workers' cognitions, motivations and acts further reinforced the union's social functions.

In responding to the question "what do you think should be the focus of task of the union", 24.5 percent chose "the establishment of collective consultation mechanism," and 75.5 percent chose "the functioning of the system of the workers' council." The second group included those who chose "assessing managers of the enterprise" (12.7 percent), "participating in significant reform policies" (2.0 percent), "helping workers solve difficulties" (38.2 percent), "conducting vocational training" (11.8 percent), "organising production competitions" (4.9 percent), and "promoting educational and recreational activities" (5.9 percent).

Clearly, those who chose tasks concerning the functioning of the workers' council outnumbered those who chose the establishment of collective consultation mechanism. And obviously it is one of the social foundations for reinforcing the social functions of the union.

### **Trade unions in mainland China as social function organisations—from the perspective of workers' group acts**

The above analysis reveals that three typical groups of workers pay close attention to the social functions of the union.

Then, can we say that trade unions in mainland China are prominent in their social functions, or are they social function organisations?

Individual acts of the workers constitute the foundation of the union's basic features, which are in turn manifested by their group social acts. And union leaders' acts are an important indicator of this group's social behaviour.

In a certain sense, the acts of workers and union leaders are interactive. There is a possibility that union leaders' acts would lead or mislead workers' behaviour. Here, who leads whom is not important. What is important is whether union leaders' acts demonstrate more of the union's role as interest-protector or of its social functions.

We can find the answer to this question through a comparison between acts of union leaders and that of party officials/administrators. These acts have both differences and similarities. The differences reflect their different roles in representing group interest, while the similarities reflect their identical social functions. In the following comparison, we can see that their similarities are more prominent than their differences. Our data are selected from 1997 national survey on employees. Of all the 2,700 interviewees, party officials, administrators and union leaders each account for one third of the total. The survey examined their attitudes, opinions and evaluations on 24 questions. Of all the responses, those on 15 questions were more identical than different to each other, that is, they

are homogeneous. And those on other 9 questions were more different than identical, that is, they are heterogeneous.

### Examination on heterogeneity

Responses to the following questions show significant differences between union leaders and party/government officials.

The correct answer to the question "what is the main principle of the union's task" is "giving prominence to the union's role as interest-protector." 72.2 percent of the union leaders, 56.8 percent of party officials and 54.3 percent of administrators scored the correct answer. The difference between union leaders and others is obvious, and the significance= $0.00000 < 0.05$ .

The difference between union leaders and others is the biggest in choosing the most popular task the union implements, and the significance= $0.00034 < 0.05$ .

On the question how to enhance the union's attraction, the difference is obvious, and the significance= $0.00016 < 0.05$ .

On evaluating existing major problems of the union, the difference is obvious, and the significance= $0.00000 < 0.05$ .

On the question of whether the union should improve its role of protecting workers' rights under market economy, the difference is obvious, and the significance= $0.00000 < 0.05$ .

On evaluating the relationship between party/government officials and ordinary people, the difference is obvious, and the significance= $0.00008 < 0.05$ .

On evaluating the performance of the union leadership at a higher level, the difference is obvious, and the significance= $0.00000 < 0.05$ .

In answering the question of what they think the higher leadership of the union should concentrate on improving its work, the difference is obvious, and the significance= $0.00000 < 0.05$ .

On evaluation the social positions and functions of the union in the last two years, the difference is obvious, and the significance= $0.03333 < 0.05$ .

### Examination on homogeneity

Responses to the following questions show significance of differences between union leaders and party/government officials larger than 0.05, indicating homogeneity.

On evaluating the relationship between union leaders and mass workers, those who chose the answer "good" accounted respectively for 25.7 percent (union leaders), 23.4 percent (party officials) and 20.9 percent

(administrators), "quite good" for 58.4 percent, 58.9 percent, and 57.9 percent, "average" for 15.3 percent, 17.2 percent and 20.6 percent, "quite bad" for 0.6 percent, 0.5 percent and 0.6 percent, and "very bad" for 0.1 percent, 0 percent and 0 percent. Significance=0.08494>0.05.

On evaluating the integrity of the labour force of the working unit, those who chose the answer "very good" accounted respectively for 6.1 percent (union leaders), 6.7 percent (party officials) and 6.3 percent (administrators), "good" for 61.4 percent, 60.9 percent and 57.4 percent, "average" for 29.3 percent, 29.7 percent, and 32.4 percent, and "bad" for 0.6 percent, 0.4 percent, and 0.4 percent. Significance=0.63763>0.05.

In answering the question to what extent you think the union leaders in your work unit care about workers' rights, those who chose the answer "very much" accounted respectively for 42.0 percent (union leaders), 37.6 percent (party officials) and 35.1 percent (administrators), "quite" for 50.4 percent, 55.5 percent and 56.3 percent, "not quite" for 7.3 percent, 6.7 percent, and 8.3 percent, and "not at all" for 0.2 percent, 0.1 percent, and 0.3 percent. Significance=0.08027>0.05.

On evaluating whether the union leaders in their unit can meet the demand of workers, those who chose the answer "yes they can" accounted respectively for 23.1 percent (union leaders), 25.96 percent (party officials) and 25.1 percent (administrators), "basically they can" for 60.3 percent, 61.7 percent and 61.1 percent, "not quite" for 14.9 percent, 11.3 percent, and 12.3 percent, "not at all" for 1.32 percent, 1.1 percent, and 1.3 percent, and "not clear" for 0.5 percent, 0.0 percent and 0.2 percent. Significance=0.08027>0.05.

When answering the question what do you think are the main problems in signing and carrying out collective contracts, those who chose "inadequate equal consultation" accounted for 10.4 percent (union leaders), 10.7 percent (party officials) and 9.0 percent (administrators), "inadequate representation of workers' demand" for 16.7 percent, 17.6 percent and 14.3 percent, "terms in the contract were not exactly met" for 13.5 percent, 14.0 percent and 10.9 percent, "inadequate punishment on violation of collective contract" for 8.1 percent, 8.4 percent and 10.7 percent, "inadequate supervision on implementation of collective contract" for 9.9 percent, 8.9 percent and 9.9 percent, "immature objective conditions" for 28 percent, 26.8 percent and 27.7 percent, and "hard to say" for 13.5 percent, 13.6 percent and 17.4 percent. Significance=0.15636>0.05.

When asked which functions the union has served best, those who chose the answer "protecting workers' specific rights" accounted respectively for 44.4 percent, 41.7 percent and 39.1 percent, "participating

on behalf of workers in management" for 34.8 percent, 32.3 percent and 36.2 percent, "promoting mass production campaign" for 12.0 percent, 15.1 percent and 13.2 percent, "helping workers upgrade their quality" for 8.8 percent, 10.9 percent and 11.5 percent. Significance=0.08330>0.05.

On evaluating the effectiveness of the union in protecting workers' legal rights, those who chose the answer "very high" accounted respectively for 11.7 percent, 13.7 percent and 15.5 percent, "high" for 66.7 percent, 66.2 percent and 65.2 percent, "average" for 20.3 percent, 18.7 percent and 18.7 percent, "quite bad" for 1.2 percent, 1.3 percent and 0.7 percent. Significance=0.45003>0.05.

On evaluating the effectiveness of the union in promoting production, those who chose the answer "very high" accounted respectively for 16.1 percent, 18.1 percent and 16.5 percent, "high" for 63.7 percent, 60.6 percent and 58.3 percent, "average" for 18.6 percent, 20.5 percent and 22.5 percent, "quite bad" for 1.4 percent, 0.7 percent and 2.5 percent. Significance=0.05377>0.05.

On evaluating the task of the union in negotiating wages, those who chose the answer "very good" accounted respectively for 10.3 percent, 12.4 percent and 11.9 percent, "good" for 44.6 percent, 48.8 percent and 47.8 percent, "average" for 39.1 percent, 33.8 percent and 36.5 percent, "quite bad" for 5.2 percent, 4.4 percent and 3.6 percent. Significance=0.15197>0.05.

On evaluating the task of the union in social welfare and insurance, those who chose the answer "very good" accounted respectively for 14.0 percent, 16.2 percent and 16.2 percent, "good" for 51.3 percent, 54.4 percent and 52.5 percent, "average" for 29.7 percent, 26.1 percent and 28.3 percent, "quite bad" for 4.4 percent, 2.4 percent and 2.7 percent. Significance=0.22111>0.05.

On evaluating the task of the union for the poor and the needy, those who chose the answer "very good" accounted respectively for 23.3 percent, 27.1 percent and 24.9 percent, "good" for 52.6 percent, 52.5 percent and 52.5 percent, "average" for 22.0 percent, 19.2 percent and 21.3 percent, "quite bad" for 1.7 percent, 1.2 percent and 1.3 percent. Significance=0.34883>0.05.

On evaluating the task of the union in joint arbitration on labour disputes, those who chose the answer "very good" accounted respectively for 14.7 percent, 16.1 percent and 15.5 percent, "good" for 55.7 percent, 51.6 percent and 52.2 percent, "average" for 26.7 percent, 30.1 percent and 29.8 percent, "quite bad" for 2.2 percent, 1.8 percent and 2.5 percent. Significance=0.27578>0.05.

The above indicates that differences in opinion and evaluation between

union leaders and party officials/administrators are smaller compared to those of similarities. And differences on the whole are more on the problems of principle and understanding, while similarities are more on the problems of specific operation and action.

### Case studies supporting the data

The above data are supported by case studies.

In 1999 and 2000, I paid visits to a number of union chairpersons of very large enterprises, including Anshan Steel Works, Geshouba Group, Yisheng Chemicals, and Kailuan Coalmine Group. Here are two most typical remarks I recall: "Democratic participation is of paramount importance and there is still a lot to be done in this respect. In retrospect, the union represents workers in signing collective contracts with the enterprises, but in many cases this has been no more than paper work," and "When the director of a factory is sleepy, we hand over a pillow to him because he can help our work only when he wakes up."

Some researchers overseas conducted a survey on the union of Baoshan Steel Works, and reached similar conclusions. They think Baoshan Union is in general considered one that represents the workers, but it has limited influence under the shadow of very strong authoritative leadership of the party and the administration. However, it does have considerable influence in cases such as restraining the employer from firing workers (though in fact actual layoffs seldom happen).<sup>29</sup> This description of Baoshan Union is typical of Chinese trade unions in general. On the one hand, it is considered as representative of workers' rights, therefore it is different from party and government organisations. On the other hand, though its role is limited, sometimes it is not required to play an autonomous role (for instance, "in fact actual layoffs seldom happen") for workers' rights to be protected. This phenomenon reveals that to a certain extent it has homogeneity with party and civil institutions.

Some researchers overseas extend the above conclusion to cover all trade unions in mainland China. They believe that, especially since 1989, society has wanted more from trade unions: unions have been more active in participating in decision-making, their influence has been on the rise in enterprises, but they are subject to the party leadership and administrative authority, and that this has become a kind of basic contract and political arrangement between trade unions and party/administration authorities.<sup>30</sup>

*Translated by Xiang Long*

This is a chapter of a book by the same writer: *The Destiny of Chinese Workers: Social Action of Workers since the Reform (in Chinese)*. Beijing: Social Science Literature Press, 2002, pp.126-163.

#### NOTES

1. See Feng Tongqing: *The Origin and Nature of the Union*, pp. 208-212, Liaoning People's Press, Shenyang, 1990.
2. Ibid, pp. 20-208.
3. Ibid, pp. 20-205.
4. Ibid, pp. 197-213.
5. Ibid, pp. 198-199.
6. Ibid, pp. 199-200.
7. Feng Tongqing: *Problems and Solutions the Union Faces under Contracting, Leasing and Share-holding System*, pp. 31, 67-68. Workers' Press, Beijing, 1988.
8. *Social Sciences Journal*, (Hong Kong) No. 8, pp. 121-158, autumn 1996.
9. Ibid.
10. Feng Tongqing: *How should the Trade unions in China Deal with the Market Economy?* Pp. 5, 15-16, 24-25, 34, 36. Economic Management Press, Beijing, 1994.
11. Jeanne L. Wilson, "The Polish Lesson: China and Poland 1980-1990", *Studies in Comparative Communism*, No.3/4 (autumn/winter 1990). Anita Chan, "Revolution or Corporatism? Workers and Trade Unions in Post-Mao China", *Australian Journal of Chinese Affairs*, No. 29, January 1993. Anita Chan, "Revolution or Corporatism? —Trade Unions and Workers' Movement in Post-Mao China", *Studies on Contemporary China (USA)*, No. 4, 1994.
12. Jeanne L. Wilson, "The People's Republic of China", p. 244, in Alex Pravda and Blair A. Ruble (eds), *Trade Union in Communist States* (Allen and Unwin, Boston, 1986).
13. Anita Chan, "Revolution or Corporatism? – Trade Unions and Workers' Movement in Post-Mao Era", *Studies on Contemporary China (USA)*, pp. 8, 13, 21, 22, No. 4, 1994.
14. Shang Jing, *Corporatism*, Chinese Academy of Social Sciences Press, 1998, Beijing; "Corporatism and Its Research Application in China", *Social Theory Journal* (Hong Kong Polytechnic University), Vol. 1, No. 2, autumn 1998. Kang Xiaoguang also believes corporatist system should be built in China on a reformed foundation of market economy to facilitate the establishment of political democratic system. See *Chinese Social Sciences Quarterly*, p. 10, winter 1999.
15. Shang Jing, *Corporatism*, p. 152, 153, Chinese Academy of Social Sciences Press, Beijing, 1998.
16. Ibid, pp. 155-156.
17. Ibid, p. 73, 47, 74, 77, and 79.
18. Shang Jing, *Individual and Authority: How to Connect the Two? State and Society*, pp. 158-159, Shejiang People's Press, Hangzhou, 1998.

19. Ibid, pp. 166,169,171, 170.
20. Ibid, p. 185. Dr. He Gaochao from Hong Kong University of Science and Technology voices a similar view of "a disputing system of cooperation". He believes that in a sense, the political problems in modern China are due to the fact that no one knows how to find a way to let interest-representing organisations participate in the dispute process of interest-distribution. Workers participate only on individual or work unit basis, the result of which is hardly satisfactory because of excessive manager control. This fact features a non-existence of cooperation with disputes. Although it is not easy, a system of cooperation with organised disputes should be established.
21. Chen Ji, *The Union in Reform and the Reform of the Union*, p. 123, Chinese Workers' Press, Beijing, 1999.
22. Wei Jianxing, "Implementing the Labour Law and Promoting the Reform and Construction of Trade unions", *Workers' Daily*, Dec 12, 1994.
23. All-China Trade Union: *Chinese Working Class toward Socialist Market Economy—A Collection of Survey Data 1992*, p. 1163, Chinese Workers' Press, Beijing, 1993; Policy Research Office of All-China Trade Union: *National Surveys on Employees: Data Volume*, p. 1248, Xiyuan Press, Beijing, 1999.
24. Policy Research Office of All-China Trade Union: *1997 Survey on Peasant Workers*, p. 286, 366, 253, 256, 258, and 265, Beijing, 1998.
25. Policy Research Office of All-China Trade Union: *Shekou Model*, p.10, 8,41,96,10, pp. 159-61, Beijing, 1995.
26. Policy Research Office of All-China Trade Union: *Bao An Model*, p. 93, 9, 322, 76, Huacheng Press, Guangshou, 1997.
27. Policy Research Office of All-China Trade Union: *Huludao Model*, pp. 278-80, 290-92, p. 76, Chinese Cultural History Press, Beijing, 1998.
28. Policy Research Office of All-China Trade Union: *Lishu Model*, pp. 293-96, Chinese Cultural History Press, Beijing, 1998.
29. Elisabeth M. Freund, "Downsizing China's State Industrial Enterprises: The Case of Baoshan Steel Works", *Adjusting to Capitalism: Chinese Workers and the State*, p. 116-17, 1998 by M. E. Sharpe, Inc., New York.
30. Ng Sek Hong and Malcolm Warner, "China's trade unions and management," pp. 57-58, 1998 by St Martin's press, Inc., New York. In fact, the coexistence of heterogeneity and homogeneity in workers' participation is not a phenomenon limited to China. As Shu Rouruo stated, whether the participation of workers is effective depends on different motivation: it is social integration on the part of the government, democracy on the part of labourers, efficiency on the part of the employer; it cannot achieve overall success unless it is guaranteed by collective agreement or recognition of labours, employers and the government. See *Labour Problem in Time of Social Transition*, p. 278, Hongshi Press Inc., Taibei, 1998.

# The 1989 Social Movement and the Historical Origins of Neo-liberalism in China

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SINCE THE END OF THE 70S, and especially since 1989, the Chinese state promoted radical marketization at home and became one of the most enthusiastic participants in the global economy. On the one hand, the making of market economy in China was highly praised, the stagnancy of political reform remains to be criticized. There are only few who pay their attention to the interaction between the role of the state and the shaping of the Chinese market economy. Chinese reform, notably the urban reform from 1984 onwards, as a paradoxical process of the making of market economy, has led to a redistribution of wealth and a transfer and privatization of resources previously held by the State to the benefit of new special interest groups who seized the reform process and bent it to their own ends. Sharp new inequalities emerged as seen in the decline in social security, the widening gap between rich and poor, mass unemployment and inter-provincial migration from rural to urban areas. None of the making of market economy and the social differentiation could have occurred without the intervention of the State, a state that perpetuated the political system but shifted its other functions in society.

Following the process of Chinese reform (the new stage is China's entry into WTO), neo-liberalism has become the hegemonic discourse in China, which has deep influence on policy-making and media orientations. In the Chinese context, this dualism, political continuity and economic and social discontinuity, has lent a special character to Chinese neo-liberalism: it established its ascendancy thanks to state directed economic and social reforms, of which one of the principal purposes was to resolve

the State's crisis of legitimacy after 1989. To understand the historical origin of neo-liberalism in China that preempts all debates about alternate perspectives and goals, one must go back to the economic transformations (mutations) that took place from 1978 to 1989 and the failure of the 1989 social movement whose social and democratic aspirations were crushed on June 4 for observing the interaction between the role of the State and the making of market economy.

Though most studies have emphasized the role of students, intellectuals and of "reformist" pockets within the State, the social movement that led to Tiananmen in fact mobilized wider sections of society. Students did play a role of course, the intellectual liberation and enlightenment of the 80's having undermined old ideologies and opened new vistas for critical thought. But the spontaneity and the scope of the 1989 mobilization demonstrates a far broader and differentiated social origin. In fact, as a group, intellectuals proved unable to propose social goals that could be realistically implemented; indeed, they did not fully comprehend the real depth of the social mobilization.

Having made the socialist State the principal target of opposition, critical social thought was unable to perceive and understand the special characteristics of China's new social contradictions: while the pre-Reform State protected systemic inequality under the guise of equality through coercion and planning, the new "Reform State" transformed systemic inequality into income differences among classes and social strata, giving rise to sharp social polarization. In particular, critics failed to grasp that there were deep socialist leanings in the social mobilization of the 80's: not the "socialism" of the old state ideology, characterized by the system of state monopoly, but a new and not fully articulated socialism striving for social security, equality, justice and democracy in a context of continuing state monopoly and rapid market expansion. Despite its contradictions and the differing agendas of various interest groups, the movement was directed against monopoly and special privileges, and advocated democracy and social security.

It included workers, individual entrepreneurs, state cadres, teachers, and others. Even members of the Central Party Committee, of various Ministries of State Affairs, of the People's Congress, of various organs of the People's Consultative Congress (including such 'mouthpieces' as the *People's Daily*, the *Guangming Daily*, and the Xinhua News Agency) participated. With the exception of the peasants, who were not directly involved, people from all social classes in large and medium-sized urban areas were drawn into the movement. We are therefore speaking about a very broad mobilization of large cross sections of society that revealed growing contradictions within the State.

### The phases of reform

The social mobilization emerged out of the reform process itself. Without attempting a comprehensive survey of the successes and failures of the Reform, it is necessary to outline its main stages. The first phase, from 1978 to 1984, involved China's rural areas. The second, urban phase, began in 1984. The first proved somewhat of a success. By raising the price of agricultural products, encouraging consumption in rural areas, and developing local industry, the rural reforms gradually reduced the income gap between urban and rural residents. Though the partial introduction of market mechanisms played an ancillary role in the process, the reforms were in fact rooted in traditional Chinese land distribution practices based on principles of equality. The Chinese countryside moved from the people's commune model whose salient feature was State monopoly to a "small peasant socialist" anti-monopolistic model. This led to increased agricultural productivity and, for a time, mitigated the country's rural-urban polarization.

The urban phase (1984 onwards) that followed has been widely interpreted as the decisive moment of market expansion. But, from the perspective of its real social content, its core was the "decentralization of power and interests" [*fangquan rangli*], that is, the redistribution of social advantages and interests through the dispersal and transfer of social resources that used to be controlled and coordinated by the State<sup>1</sup>. This can be seen in the decline in public spending that occurred after 1978. Public spending averaged 34.2 percent of GNP between 1953 and 1978 (37.2 percent in 1978), but dropped sharply to 19.3 percent in 1988. In deflationary conditions where the scope of foreign investment and capital was greatly increasing, local governments were granted more autonomy and power<sup>2</sup>.

This trend led to tax evasion, mandatory fundraising for local government [*tanpai chengfeng*], local government control over bank payments, and even the large-scale development of smuggling<sup>3</sup>. According to a Chinese sociologist, "the reform policy of decentralizing power and interests did not in any way reduce the power of public entities (governments of all levels and their organs) in the distribution of people's revenue; it merely reduced the power of the central government... the use of administrative means to intervene in economic life was not in any way weakened, but rather strengthened. Moreover, this type of intervention was even more direct than that of the central government. The decentralization of power and interests in no way led to the disappearance of the traditional command economy, it merely led to the miniaturization of this traditional structure"<sup>4</sup>.

The major emphasis was the reform of state-owned enterprises (SOEs) which were given greater autonomy and were pushed to reorganize their activities and alter their management modes. Later on, mergers, assets transfers and plant closures changed productive relations themselves. Under the pressure of growing unemployment, the State privileged transfers over closures, but the basic direction was maintained. Because of the structure of China's industrial system, once the State started to relinquish its prerogatives in the arena of industry and commerce, moving from plan definition and implementation towards macro-economic adjustment, the inequalities in resource command of the old system immediately translated into new inequalities in benefits.

Urban industrial reform involved the whole national economic structure. In the absence of democratic supervision, and without a suitable economic system, it was almost inevitable that the process of redistribution of resources and of production would generate extreme social inequalities. The position and interests of workers as a group, and even of government officials as a stratum, were seriously undermined. This was expressed primarily in their reduced economic position, internal polarization within strata, the stagnation of workers' benefits, and the inability of the old, weak, ill, disabled and pregnant to receive security in their employment, among other manifestations.<sup>5</sup>

### **The Makings of 1989**

Nonetheless, the reforms were given an aura of legitimacy thanks to their undeniably liberating effects, the intellectual debate they stimulated and the participation of grassroots society. The stability of the State through the 1980s was not only based on coercion but on its ability to maintain this momentum.

In the mid 80's rising inflation and the threat of economic chaos and large scale social instability sparked a debate over how to proceed. The two issues were: choosing between radical property reform or structural adjustment under State guidance, and whether to move towards a market pricing system or the large scale privatization of State Owned Enterprises. The choice was to have price reforms lead market conditions while continuing to reform rather than privatize the SOEs. This path was successful in the main, because price reform posed obstacles to the old monopolies while also animating market mechanisms. The significance of these successes become apparent when compared to Russia's "spontaneous privatization".

However, it also created a series of problems. China had a "two-track

price system", the prices of means of production being set by the State plan, and prices of consumption items being set by the market. This dual system generated official malfeasance (that is, corrupt underground activities carried out by the state bureaucrats and official organs which used the dual price structure to their advantage). Meanwhile, despite official rhetoric about separating politics and economics, the SOE reform merely separated ownership and management. A majority of state-owned resources were "legally" and illegally transferred to benefit the economic interests of a small minority. In the power for money exchange, publicly-owned resources found their way into the pockets of "rent-seekers."<sup>6</sup> Moreover, the expansion of the "contract" system in 1988 allowing SOEs, local governments and government departments [*bumen*] to contract foreign trade agreements and financing, led to inflation and inequalities in social distribution through the conversion of products within the state plan into market products.<sup>7</sup>

To deal with these problems, the government announced in May and June 1988 that it would end the dual pricing system and move towards complete market pricing. But this led to panic purchases and large-scale social instability and the State soon after shifted back to greater supervision of the economy. The result was sharpening contradictions between the State and the creature of its own making: local and departmental special interest groups.<sup>8</sup>

But the motivating factor behind the 1989 social movement was the emergence of new deep social inequalities. In urban areas, income levels among the different strata became extremely polarized: the workers' "iron rice bowl" came under dire threat and incomes fell. Unemployment of SOE workers rose (though not to today's dramatic levels) and inflation raised costs while social benefits stagnated. Workers were not the only victims: it also had a big impact on the everyday lives of ordinary government officials by generating an income gap between ordinary government workers and other strata and between government workers who entered the market and those who remained in the public sector<sup>9</sup>.

Accompanying these trends were growing clashes of interest within the State itself. These contradictions affected intellectuals incorporated into the State system who participated in defining the reform process and in devising reform ideology and propaganda<sup>10</sup>. Moreover, the transformations in State function and in the social division of labor altered employment trends and social attitudes among intellectuals in important ways. If one adds the growing disenchantment in urban reform and the stagnation of rural reform from 1985 on, one has all the ingredients for a full scale crisis of legitimacy.

That crisis was shaped by the shift towards a market economy. That is not meant to imply that people approved of the previous planned economy. Merely that the systemic transformation started in the late 70's became suspect when the inequalities of the reforms became apparent. People began to question their legitimacy and their legal and political foundation. Whose interests was the State promoting? What were the criteria of redistribution? What procedures were being followed?

### **The demands of the movement**

The basic demands of the students and intellectuals included such constitutional rights as workable democratic politics, press freedom, freedom of speech, freedom of assembly and the rule of law (as opposed to the "rule of man"). In addition, they demanded that the State recognize the legality of the movement as a patriotic student movement. While the other social strata also supported these demands, they filled them with much more concrete social content: opposition to corruption and official malfeasance, to the princeling party (special privileged class), demands for stable prices, the reining in of Yangpu in Hainan Island (an area that was rented out to foreign capital), for social guarantees and social justice. The demand for democracy, in short, went hand in hand with demands for an impartial and fair redistribution of social benefits.

The point here is that while the 1989 social mobilization clearly criticized the traditional system and the "old State", it directed its demands to the new "reform-minded State" and the consequences of its policies. The distinction between "old" and "new" is not intended to deny aspects of continuity of the State, but rather to point out the transformations in State functions. For, in reality, the "new" State that was promoting markets and social transformation was utterly dependent upon the political legacy of the "old" State as well as upon its method of ideological rule.

As a movement for social self-preservation, the 1989 movement was a spontaneous protest against the proliferating inequalities spawned by the market's expansion and a critique of the State's handling of the process of reform. As a movement of social protest, however, it also carried out a critique of authoritarianism and the methods of authoritarian rule.

However, just as the distinction between different types of State above does not mean that there were in reality two States, the social protest movement also was a social movement that contained a number of complex elements. Among those strata participating in the 1989 social movement were special interest groups who had been big winners in the 1980s process of decentralization of power and benefits and who were now dissatisfied

with the impending adjustment policies. These special interest groups pressed their own demands, aiming to get the State to carry out yet more radical privatization programs.

Their demands unfolded in the space between the upper echelons of the State and the social movement: they used their ability to attract funds and to have a speaking platform to convey information and messages between the movement and the State. Hence, they were able to use (instrumentalise) the social movement to shift internal power arrangements within the State in directions that were beneficial to them (witness the role played by such groups as the Kanghua Company and the Sitong Company in the movement). This phenomenon was also evident among those intellectuals who had an intimate relationship to State power.

“Neo-liberal” ideology began to sprout here. Its core content was the radicalization of the trend towards the decentralization of power and benefits and, in the absence of democratic supervision, to push forward wholesale privatization, using legislative procedures to render it legal. This market radicalism, occurring in a time of crisis in State legitimacy, was initially articulated as “neo-authoritarianism” and “neo-conservatism” (that is, the use of State power and élites to radically expand the market). Chinese neo liberals recognized that the State plays a protective adjustment role in the context of globalization and the expansion of the domestic market. Market expansion demands State intervention. For their world audience, Chinese neo liberals painted themselves as opponents of the State, as fighters against “tyranny”. But within the country, they counted on the extraordinarily conservative State to push through their policies. We are talking about a complex relationship of mutual dependence.

### **The failure of the movement**

The problem was not reform itself but what type of reform. No matter whether it was students, intellectuals, or other social strata, all supported political and economic reform and democratization. They all wanted a deepening of reform. But what they expected of and what they understood by reform, and how they stood in relation to the benefits of reform, differed widely. From a wider perspective, the broad masses of the people expected far more than a set of proceduralist political and juridical arrangements. They hoped to re-organize politics and the legal system so as to guarantee social justice and the democratization of economic life.

They indeed wanted economic reform, albeit upon the basis of democracy and justice. And these demands were in fundamental conflict with those put forward by the special interest groups demanding more

radical privatization. At the time, this conflict was not grasped completely. These special interest groups had gained most from the reform process and participated in the movement to pursue their own advantage. In that sense, it is quite impossible to use a paradigm of "pro" and "contra" reform to understand the characteristics of the 1989 movement.

As we know, the demand for democracy, social equality and justice was crushed by State violence. And, because of the collaborative relations between Chinese "neo-liberalism" and the world order, the dominant analysis of the 1989 social movement became the one suggested by the special interests advocating radical privatization. This faction of self-proclaimed "radical reformers" concealed their complex relations with State power, and presented themselves to the world as the progressive expression of global markets and democracy.

### **The global significance**

The June 4, 1989 Tiananmen Incident undermined the historical possibilities contained within the movement. Its failure is directly attributable to the use of force by the State. Yet, indirectly, it is also attributable to the social movement's inability to establish bridges between the demands for democratic politics and demands for social equality. Moreover, it failed to form a stable social force.

In the context of the expansion of the domestic and global markets, the movement should be seen as part of a continuum leading up to the November-December 1999 Seattle, and the April-May 2000 Washington protests against the WTO and IMF. All of these mobilizations expressed the utopian hope for an association between egalitarian democratic reform and freedom. But rather than seeing this dual significance of the 1989 movement, the dominant global narrative of 1989 was monocausal: it was simply seen as proof of the excellence of the Western system. That took the real meaning and the critical edge out of the event, its historic significance as a critique, a protest against the new historical relations, the new hegemony, and the new, not merely the old, tyranny.

After 1989, the neo liberal narrative thus became hegemonic in China and the world. The modern Chinese market did not emerge spontaneously but was a product of State intervention and violence. The State continued to pursue reform and re-adjustment, accelerating it after Deng Xiaoping's Southern Tour in 1992. Because of the threat of violence, social dissent was compressed into a very small space. In September 1989, three months after June 4, the State implemented the two unsuccessful price reforms of the 1980s. Currency policy became one important tool of control; there

was a big adjustment in the price of foreign exchange, and exchange rates began to be unified, which promoted exports. Competition in foreign trade gave rise to the birth and growth of management companies; differences between the “dual-track prices” were reduced; Shanghai’s Pudong district was opened for development, and development areas soon sprouted everywhere.

The violence of 1989 put an end to the social upheaval that the market system had brought into being, and the pricing system was basically completed.

### **Neo-liberalism as a ruling ideology and uneven development**

In following years, income gaps among all strata of society, groups, and regions widened, and a new population of the poor grew quickly.<sup>11</sup> This historical turning point placed the old ideology (that is, the socialist ideology based on equality) into direct contradiction with practice, and the old functions of ideology could not be salvaged. After 1989, the State implemented the so-called “strong on two fronts” (ideological and economic) [*liangshou ying*] strategy, which, combined with the economic reforms, turned into a new method of tyranny. “Neo-liberalism” substituted itself for State ideology and became the new ruling ideology, providing basic direction and rationality to State policy, international relations, and the emerging values of the Chinese media.

The formation of a market society in the 90’s did not eradicate the conditions that caused the 1989 social movement. It *legalized* them. The basic problems that caused the 1989 social movement were never resolved. All the main social crises of the 1990s — corruption, privatization, the influence of special interest groups in public policy making, speculative real estate development in Shanghai, Hainan and other places, financial bubbles, the social welfare system, ecological crises, unemployment, etc. — are intimately related to pre-1989 social conditions. If anything, they have gotten worse, the scope of problems has become bigger and, because of globalization, the arenas involved are wider. Market expansion, in short, has played a key role creating social polarization and unevenness in destabilizing the foundations of society. And that expansion helped create conditions for authoritarianism and monopoly. In that sense, privatization is intimately tied to authoritarian politics.

This kind of authoritarian marketization is also visible in the rural sector, where agricultural labor has been commodified. Excess agricultural labor was channeled into the urban areas in the 80’s for infrastructure or

real estate projects, but migration was limited in scope by regional and local government regulations — recreating discriminatory policies based on socially fixed identities. The policy guaranteed the supply of labor while limiting the pressures on urban areas. Today, one tenth of China's population is constantly on the move in cross- and intra-provincial migration<sup>12</sup> and the economic downturn since 1996 has made the surplus rural labor into a huge social problem. This is the fundamental premise of contemporary China's "uneven development."

### **Rethinking modernity**

Of course, the economic reforms and opening have not only had negative effects. They freed China from its previous constraints and from the distortions of the Cultural Revolution and achieved great economic development. They have had liberatory effects and have been largely welcomed by Chinese intellectuals for that reason. However, seen from a historical standpoint, they have also left deep scars.

For the generation that grew up after the Cultural Revolution, the only worthwhile knowledge comes from the West, notably the United States. Asia, Africa, Latin America, not to mention Eastern Europe, Southern Europe, places of vital knowledge and culture, have completely fallen out of the intellectual purview of people. Repudiating the Cultural revolution has become a method of defending ruling ideology and state policy: nearly all contemporary critiques are dismissed as irrational regressions back to the Cultural revolution. Inversely, critiques of socialism and the Chinese tradition have become a kind of post Cold War justification for the adoption of Western developmental models and teleological modernization narratives.

But Western capitalism and its history of global expansion cannot become the standard against which China measures itself. It must, to the contrary, become the object of critique, not for the sake of critique, but to appreciate anew the significance of history and its new possibilities. The point is not to reject the modern experience, which is first and foremost a movement of liberation from historical teleology, historic determinism and system fetishism. The point is to render the historical experiences of China and other societies into resource for theoretical and system innovation.

Historically speaking, the Chinese socialist movement was a resistance movement and a modernizationist movement. To understand how the pursuit of equality and freedom ultimately slid into systemic unevenness

and social hierarchies, one must question the process of modernization itself and find a real path towards democratic processes that can avoid social polarization and social disintegration.

*Translated by Rebecca Carl*

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#### NOTES

1. See Zhang Wanli, "Twenty Years of Research on Social Class and Strata in China" *Shehuiwue jianjiu*, 2000, pp. 28-29. Zhang Wanli stresses the emergence of groupings from outside the old structural system and the great increase in the proportion of resources they commanded and, second, the transformation in position of groupings from within the old structural system.
2. Wang Shaoguang, "Jianli yige qiang youli de minzhu guojia—taolun 'zhengquan xingshi' yu 'guojia nengli' de qubie" [Building a Powerful Democratic State—On 'regime type' and 'state capacity'], *Dangdai zhongguo yanjiu zhongxin lunwen* [Essays from the Center for Research on Contemporary China] 1991 (4): 15-17.
3. *Ibid*, p 20.
4. "Twenty Years", *op cit*, pp28-29.
5. Voir (Zhao Renwei, "Zhongguo zhuanxingqi zhong shouru fenpei de yixie teshu xianxiang" [Some Special Aspects in Income Distribution during China's Transition Period], in Zhao, ed., *Zhongguo jumin shouru fenpei yanjiu* [Researches on Income Distribution Among the Chinese People] [Beijing: Shehui kexue chubanshe, 1994].) (Fang Tongqing, et al., *Zhongguo zhigong zhuangkuang, neibu jiegou ji xianglu guanxi* [The Situation of Chinese Laborers, Internal Structure, and Their Mutual Relationship] [Beijing: Zhongguo shehui chubanshe, 1993], et Zhang Wanli, "Twenty Years:" *op. cit*.
6. Hu Heyuan, "An Estimate of the Value of Rent in China in 1988," *Jingji tizhi bijiao* [Comparative Economic Systems] 1989 (7).
7. Guo Shuqing, *Jingji tizhi zhuangui yu hongguan tiaokong* [Transformation in the Economic System and Macro Adjustments and Controls] (Tianjin: Tianjin renmin chubanshe, 1992): 181.
8. On the main goals of the policy of "consolidation of control" [*zhili zhengdun*], see "Zhonggong zhongyang guanyu jin yi bu zhili zhengdun he shenhua gaige de jue ding" [Chinese Communist Party Central Committee Decision on the Continuation of Consolidation and Control and the Deepening of Reform]—published on November 9, 1988; In *Zhongguo jinrong nianbiao 1990* [Yearbook of Chinese Banking and Finance 1990], *Shinian jihua tizhi gaige gailan* [Outline of Ten Years of Reforming the Planning System] (Zhongguo jihua chubanshe, 1989).
9. On the changes in the cadre stratum before and after the reforms, see Li Qiang,

*Dangdai zhongguo shehui fenceng yu liudong* [Stratification and Movement in Contemporary Chinese Society] (Beijing: Zhongguo jingji chubanshe, 1993).

10. Of the people who played important roles during the period called "the new era" (1978-1988), the majority were older intellectuals who were university and research institute leaders. Some of the disputes among economists had their origins in intra-State policy debates. The labels of "left" and "right" in the intellectual arena actually arose from intra-State debates and factions. These splits were often mistaken for "left"/"right" splits among intellectuals in general. Even these days, some people use the model of intra-Party struggles to understand China's social polarization in terms of "left" and "right."
11. The "income distribution" group for economic research at the Chinese Academy of Social Sciences (Zhao Renwei, et al) has studied the differentials between peasant incomes from cash farming and gross rural income: the differential is one to two between those peasants who engage in cash farming and those who work in rural industries; of 2-5 with those who engage in commerce or are service-industry workers; of 5-8 with those who engage in the hauling business or in construction. Regional differentials are also very marked. For instance, peasant incomes in the Eastern, Central and Western regional incomes (where the Western region = 1), were 1.39, 1.11, and 1. In 1980, the average annual peasant income was 199.33 yuan. In 1983, average annual peasant incomes reached 921 yuan, but the differential expanded to 2.25, 1.75, and 1, respectively (or 1,380 yuan, 786 yuan, and 604 yuan). The income differentials between workers and owners expanded. The income differential among urban residents also expanded across the board: First, regional disparities expanded: for example, in 1983, the disparity in income for personal consumption between the Western/ Central and Eastern regions was 80 to 50 yuan (respectively 458 yuan, 493 yuan, and 543 yuan); while by 1994, these incomes had reached, respectively, 2402 yuan, 2805 yuan, and 4018 yuan, the differential had reached 1616 yuan and 1213 yuan, where, in comparison to the previous numbers, the disparity had increased by 14.2 and 32.3 times. Second, the disparity in incomes derived from different occupations grew; for example, such occupations as finance and insurance overtook such previously high-paying occupations as electric, coal and water production, and was more remunerative by 2.4 times than agriculture, forestry, husbandry and fishery work; the difference in the absolute value of these two types of occupations is even greater. Third, the incomes of workers in different ownership types of enterprises also differ; for example, in 1986, workers in mixed ownership enterprises had average incomes of 1527 yuan, representing 1.14 times the income of all other workers, with the absolute difference between the two being 200 yuan. In 1994, from January to February, the incomes of employees of mixed ownership and other economic enterprises continued to grow; thus, while the average growth of worker income in China in that year was 26.3 percent, the income growth of mixed ownership enterprise workers rose by 92.2 percent, over 41.7 percentage points faster than others. By 2000, the incomes of workers in mixed ownership and rural enterprises had exceeded the incomes of Party and state officials, researchers, and others by 2-3, or even more times. Fourth, the disparity in incomes of different types of workers within enterprises grew. This situation has two aspects: one is the disparity between owners and workers in private and mixed ownership enterprises; the other is the disparity among factory

directors, managers and workers in publicly-owned enterprises. In China, the incomes of middle managers in foreign-owned enterprises on average have already reached US\$6600, which represents approximately 10 times the incomes of regular workers; and the disparity between managers and workers in publicly-owned enterprises is commensurately large, represented by the fact that managers derive significant amount of income from various extra-salary benefits. Fifth, there is the emergence of the newly impoverished, which primarily indicates workers let go from reformed enterprises, temporarily unemployed workers, workers in bankrupt or half-bankrupt enterprises, retired workers, some portion of those who derived their livelihood from skimming from enterprise budgets, and migrant workers who have no residency in urban areas, etc. In sum, by 1994, the percentage of workers in difficult straits had risen from 5 percent to 8 percent of all workers nationally, with one hundred million citizens in impoverished circumstances, representing 8 percent of the Chinese population. The above research results are derived from Zhao Renwei, et al, *Zhongguo jumin shouru fenpei yanjiu* [Research on Income Distribution in China], Beijing: Zhongguo shehui kexue chubanshe, 1994. In addition, Zhang Yuanli's "Zhongguo shehui jieji jieceng yanjiu ershi nian" [Twenty years of research on Chinese social classes and strata] has a summary of these figures; see *Shehuixue yanjiu* [Sociology Research] 2000: 1, p36.

12. See Wang, "Chengshi fazhan yanjiu de huigu yu qian?" [A review of urban development and its precursors], *Shehuixue yanjiu* 2000 (1): 65-75.

# The State, Market Economy, and Transition

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WHAT ROLE should the state play in China's transition to a market economy? On this issue, a consensus seems to have emerged among Chinese economists, that is, the government should leave to the market what can be best handled by the market and only concern itself with what the market cannot accomplish, either inherently or for the time being (Gao, 1993). But the extent of agreement should not be exaggerated. Behind seemingly accordant statements, a great deal of room remains for argument over specifically what problems can and cannot be resolved by the market.

Accepting the neoclassic assumption of the naturalness, spontaneity, and efficacy of market, and public choice theorists' thesis of the state, some Chinese economists suggest that the role of the state should be restricted to providing defense, defining property rights, enacting and implementing a system of laws, enforcing contracts, and maintaining the value of the currency (Sheng, 1992; Jiang, 1993a; Jiang, 1993b). They believe that if the government leaves economic actors alone, unfettered competitive markets would work better in generating socially desirable outcomes.

In what follows, I argue that the state should play an active role in China's transition to a market economy. The argument is built upon three observations. First, even in mature market economies, state interventions are indispensable for remedying market irrationalities and for organising efficient markets. Second, market institutions cannot be properly installed without the support of the state. Especially, if China is to establish a

“socialist market economy,” the state has the obligation to mitigate the hardships and the cruelties caused by the market transition. Third, as a giant developing country, China faces many challenges which cannot be settled through voluntary transactions.

### **The Roles of the State in Market Economies**

In the West, economists often use the theory of market failure found in welfare economics as a rationale for government activity. Market failures here refer to situations in which voluntary transactions do not result in allocative efficiency. Many sources of market failure have been recognized in standard economics textbooks:

**Public goods:** Characterised by their broad use, indivisibility, and nonexcludability, “public goods” cannot be provided for through the market system, i.e., by transactions between individual consumers and producers. A classic example is national defense, which has to be provided by the state.

**Infrastructure** has some properties of public good. An economy is unlikely to take off unless its infrastructure is sound. Due to the presence of indivisibility, however, private investors may find the provision of infrastructure not profitable, at least in the short-run. That is why infrastructure is financed by governments in most countries (Kruger, 16-7).

Macroeconomics stabilisation may also be considered a “public good.” Market economies have always been characterised by fluctuations in the business cycle, by periods of boom and bust. Economic stability thus is obviously something desirable, for it benefits all. But precisely for this reason, few have incentives to make contributions to its realisation. The government therefore has to bear the responsibility of maintaining macroeconomic stability.

**Externalities:** Externalities occur when there is divergence between private and social costs or benefits. Wherever externalities exist, the actions of an economic agent (individual or firm) impose costs upon, or provide benefits to, third parties who are unlikely to receive compensation, or to be charged, through markets for what they get involuntarily. The result could be either too little or too much production or consumption. Some suggest that it is possible for people to voluntarily get together to solve the problem of externalities. If the number of third parties are large, however, the transaction costs for all those involved to negotiate a solution

tend to be prohibitively high. Moreover, externalities always exist, and at any given moment there may be many kinds of externalities coexisting at once. Thus, if the state does not come to the fore to internalise them, a great deal of people's time and resources would be wasted in endless rounds of unproductive negotiation.

**Increasing Returns:** Where economic activities are subject to increasing returns (and/or decreasing marginal costs), a free market will result in monopoly. Facing no competition, a profit-maximising monopolist will sell a lower output and charge a higher price than it would pertain under competition. The outcome thus will be inefficient. A recent development in economics – the theory of “contestable markets” – suggests that as long as there are potential entrants, the production of a good or provision of a service by a monopolist does not necessarily signify that he will be able to exploit monopoly power (Baumol, Panzar, and Willig, 1982). What is ignored in the theory is sunk costs. In the modern time, there is hardly any industry the entry to which does not involve sunk costs. As a matter of fact, such costs are often very high. Substantial sunk costs are an effective barrier to entry. Thus, monopolists are unlikely to be disciplined by the potential entry of competitors. In other words, government anti-trust policy is still necessary (Stiglitz, 1991a).

**Unemployment:** The competitive equilibrium model predicts full employment. However, due to downward rigidity of interest rates and nominal wages, the signaling mechanism in the capital and labour markets does not work in the ways neoclassic economists predict. As a result, high unemployment of workers and machines has often plagued capitalist economies. Although most economists do not treat unemployment as a market failure in its own right, but rather as a consequence of some other market failures, some economists believe that “high unemployment is the most dramatic and most convincing evidence of market failure” (Stiglitz, 1986).

**Incomplete Markets:** The neoclassic model maintains that competitive markets can ensure economic efficiency, because it assumes that there is a complete set of markets. But, that is not the case in reality. Private risk and future markets, for example, are far from adequate. Markets do not exist for many possible future contingencies, and many of the important risks that we face are uninsurable. Incomplete risk markets may lead to inefficient levels of investment. Moreover, prices cannot serve the function of coordinating decisions concerning the composition of capital formation

without a complete set of future markets (Arndt, 1988).

In the absence of a complete set of future and risk markets, each economic agent needs a model of the whole economy in order to make future-oriented decisions (like entry and exit). Without formulating expectations about the behaviour of other agents, his or her decisions can hardly be considered rational. If s/he does, however, s/he is in effect using as much information as would be required for a central planner. In such a conceptualisation of economic behaviour, as Arrow remarks, "the superiority of market over centralized planning disappears" (Arrow).

**Information Failure:** Information has two special features: Once information is produced, it cannot be destroyed; and giving it to one more individual does not detract from the amount others have. Efficiency requires that information be made accessible to all who want it. However, private producers of information have an interest in keeping it for their own exclusive consumption. For this reason, the private market is unlikely to provide an adequate supply of information (Stiglitz, 1986). This is true especially when information can be used to further an agent's own welfare, or where acquiring and transmitting information is costly. The government could play a part in remedying information failures. Given the asymmetric distribution of information between the consumer and the producer, for instance, the state may use regulations to protect former's interests. In addition, the state may offset externalities in the area of information by collecting, processing, and disseminating crucial information (e.g. information about foreign markets) to those who need it in the national economy.

While the traditional literature assumes that markets are efficient except for some well defined market failures, more recent studies reverse the presumption: it is only under exceptional circumstances that markets are efficient. Greenwald and Stiglitz show that whenever markets are incomplete and /or information is imperfect (which are true in virtually all economies), even competitive market allocation is not constrained Pareto efficient. In other words, there almost always exists schemes of government intervention which can induce Pareto superior outcomes, thus making every one better off (Greenwald and Stiglitz, 1986). Although the pervasiveness of market failures does not warrant the state's thrusting its nose into everything, the "optimal" range of government interventions is definitely much larger than the traditional "market failure" school recognises.

Even if a competitive market might generate a Pareto-efficient allocation of resources, there are still cases for government action, because

an efficient allocation of resources might entail great inequality. According to the Second Theorem of Welfare Economics, for any Pareto-efficient allocation, there exists a set of prices that support that allocation as a market equilibrium, but each with a different distribution of welfare. The problem is to decide which Pareto-efficient allocation conforms to society's notion of distributive justice. Obviously, the market cannot do it. The social welfare function is simply not a market construct; it must evolve from the political process.

Moreover, the Pareto principle can be pushed a step further to allow economic efficiency to encompass not just actual Pareto improvement, but also potential Pareto improvements. These are changes in which some persons gain while others lose, but in which there are overall net gains in the sense that the gainers hypothetically could compensate the losers and still be better off. The problem is that in the "spontaneous order" advocated by neoclassic economists there is no way to ensure that the gainers would compensate the losers (Boadway, 1989). Without institutionalised mechanisms to redistribute income, market forces thus tend to expose individuals to aggregate effects that expand the fortunes of some while reducing the fortunes of others.

Most people think it right to alter the distribution of income in helping the poor or in improving equity. But inequality is not just morally repulsive. Numerous studies have shown that economies in which wealth is very unequally distributed may cause serious incentive problems (Stiglitz, 1989). Inequality has also been found often associated with slower growth (World Bank, 1991; Alesina and Rodrik, 1992; Persson, 1994; Perotti, 1996; UNCTAD, 1998).

More important, the survival of a market economy may, to a great extent, depend upon social equity. If asymmetric rewards and punishments generated by market forces persist, and no adjustments through redistribution take place, then the gap between those who flourish and those who stagnate would continuously widen. As a result, social conflict may become intense and violence may begin to emerge. To contain the level of social disturbance below the suicidal destructiveness of national revolution, the market system must be embedded in a framework of institutions that provides for its own modification in response to social-economic pressures. Thanks to socialists' efforts and pressures from the working poor in the second half of the nineteenth century and a large part of this century, mechanisms of sharing the benefits of growth more equally have been, to various degrees, established in all advanced capitalist countries, which have helped to diffuse opposition against the market system. "If this lesson is not learned, if the appropriate instruments of

state are not created, the preconditions of socialism will be recreated and the history of the nineteenth and early twentieth centuries will be repeated" (Day, 1993).

### **The Roles of the State in Market Transition**

China is in the process of transition from a command economy to a market economy. Accepting Adam Smith's thesis that the natural human propensity to "truck, barter, and exchange" would automatically lead to market exchange, some people believe that once the stifling state is knocked out of economic realm, "market forces" would emerge full blown to put human society in perfect order. Such a blind belief in the naturalness, spontaneity, and efficacy of the market is probably one of the most dangerous illusions for market reformers. An effective government in fact is a precondition of transition to market economy. There are three reasons.

First, voluntary transactions cannot take place in an institutional vacuum.

A market economy cannot exist without effective legal, administrative, regulatory, and extractive institutions maintained by the state. Institutions are needed to perform, at a minimum, the following functions:

- to define property rights;
- to enact a system of laws;
- to enforce contracts;
- to collect taxes;
- to oversee banks;
- to supervise corporate entities;
- to promote and preserve competition;
- to supply entrepreneurs with information that reduces uncertainty, cuts transaction costs, and secures private sector confidence in making investment decisions;
- to dislodge and then prevent the reemergence of subnational barriers to free factor mobility;
- to facilitate communication and consultation with the private sector, labour organisations, and other important interest groups;
- to conduct strategic planning and macroeconomic analysis;
- to administer a social security system;
- to provide the legal context within which disputes between competing economic agents are resolved;
- to ensure that groups capable of sabotaging the expansion of markets are not excluded from the political process.

Those institutions provide the stability, certainty, and predictability necessary for facilitating efficient economic transactions. Historically, the creation of national markets coincided with the constitution and expansion of such state institutions in the West. Late developers in the Third World often failed to create functioning market systems and therefore resorted to interventionist regimes not because their governments were too "strong" but rather because their governments were too "weak." A weak state could be very intrusive, but at the same time lack the capacity to construct effective legal and regulatory institutions (World Bank, 1991). "There is evidence that under conditions of administrative weakness it is harder to create and regulate functioning national markets in goods, labor, and finance than it is for government to manage the bulk of production itself" (Chaudhry, 1993). In this sense, simply "shrinking the state" will not produce efficient market systems. To create competitive markets, new state institutions must be established and strengthened to perform the task of indirect regulation and administration, which is much more delicate and difficult than direct control.

Second, market institutions cannot spring up automatically.

Some people believe that market institutions would spontaneously emerge from voluntary transactions between economic agents if the state stands aside. This has never happened before and we have no reason to believe that it is going to happen now.

Market institutions, in a sense, represent the essential, irreducible minimum of "public goods" that must be provided if markets are going to work at all (Garnaut, 1991). Since they are public goods, people are unlikely to cooperate voluntarily with one another to provide them, just as they would not in regard to the provision of other kinds of public goods. Of course, if the state does not provide market institutions, private economic agents would have to develop some informal rules to stem uncertainty and introduce some level of predictability into commercial transactions. In the absence of state intervention, however, these agreements are likely to evolve into pacts that neglect the interests of consumers and small producers and reflect only the preferences of those who possess economic power. Thus, as "public goods," market institutions initially have to be brought about by non-economic forces.

Even after the establishment of market institutions, the state still cannot stand aside. Individuals have incentives to break market rules — to corrupt the legal basis of market exchange, to collude in anti-competitive ways, to misrepresent the nature of assets which are the subject of contracts, and so on. Enforcement costs of market-conforming behaviour can be extremely high. In countries where there already exists cultural and

ideological support for self-restraint in maintaining the rules of the marketplace, enforcement costs of market-conforming behaviour would be lower. In countries where the market economy is still in the making, however, it is necessary to have more explicit, extensive, and expensive enforcement of the rules by a strong state (Garnaut, 1991).

Third, the market transition is not a consensual but a conflictual process.

As indicated above, the market economy is not just embedded in state institutions, it also has its ideological and moral basis, which is what the economy in the transition is lacking. Neoclassic economists' transhistoric assumption about the human motivation may enable them to generate sophisticated models, but the simple fact is, as Leiberstein points out, people's behaviour has often been influenced by "habits, conventions, work ethics, partial calculation, and inertia" (Arndt, 1988). When a great institutional change occurs, they often find it hard to adapt. In the case of market transition, people would not accept market values and behave according to market rules simply because the government has announced that their country has adopted the model of market economy. It took a long time for European countries to develop attitudes favourable to the formation of market systems in the eighteenth and nineteenth centuries because, violating the "moral economy" that had preexisted the market economy, practices most consistent with market rationality caused a great deal of confusion and disturbance in those societies (Thompson, 1971).

The state socialist system in a sense was also a moral economy characterised by what Chinese call "iron rice bowl" (life-time employment) and "everyone eating from the same pot" (equal income distribution regardless of effort). To create a market economy, the "moral economy" has to be destroyed and a new ethic has to be cultivated or imposed, which is bound to trigger off protests against the logic of the market. Market development thus requires an ongoing process of "legitimation" supported by the armour of coercion.

Moreover, the market transition involves not only the transformation of norms and values but also the redistribution of resources and power. The transition may provide some social groups with opportunities of upward mobility, deprive others of traditional privileges, and threaten the livelihood of still others. The transition is also likely to create inequalities in income and wealth that do not match existing patterns of entitlements, status, and power. In one word, the transition tends to dislocate groups in both the political and the economic realms, which would inevitably give rise to social conflicts and political struggle (Chaudhry, 1993). The creation of market economy in England, for instance, was by no means a continuous

and consensual process. Rather, it was a product of power struggle among social groups attempting to shape exchange relations in their interests (Lie, 1993).

In former state socialist countries' transitions to market economy, as many studies have predicted, "whatever their long-term consequences, in the short-run reforms are likely to cause inflation, unemployment, and resource misallocation as well as to generate volatile changes of relative incomes" (Przeworski, 1991). Even in the best scenario, as in China, where everybody benefits, some people will gain much more than others. And very likely, some will benefit at the expense of others. The issue is who will get what, how much, and when, and who will bear the costs. The government of course can use its coercive power to impose the costs on certain social groups. In order to have a relatively smooth transition, however, it is better for the state to adopt measures alleviating transition pains by establishing new "safety nets" and somehow compensating those whose interests are threatened by the reform. This is a very expensive undertaking. The state has to be strong enough to amass sufficient resources for redistribution.

In his classic study of the rise of the market economy in England, Polanyi finds that the origin of market society is not "traceable to the mere desire of individual to truck, barter, and exchange." Instead, he believes that the very idea that human beings have a natural propensity to 'truck, barter, and exchange' was a product of market society; not the other way around. Since the market is not a natural and necessary manifestation of human nature, one should not expect the development of a market economy to be a spontaneous process. In the case of England, Polanyi finds that "the road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism" (Polanyi, 1957). Governments also provided dynamics in transforming other European countries into market societies (Garnaut, 1991). If there was nothing natural or automatic about the rise of market mechanisms in early developers, if "markets," as Chaudhry points out, "are conscious constructs in the same vein that command economies are deliberate arrangements" (247), we have good reason to believe that everywhere a strong state is required to enforce the rules, norms, and institutions that are necessary for establishing a functioning market economy.

### **The Roles of the State in Economic Development**

China needs not only to reform its system but also to develop its economy. In fact, development is the purpose of reform. What role should the

government of a poor country play in its economic development? The market failure arguments imply that market economies are all the same and that a theoretically optimal boundary between the market and the state can be found. But this is apparently a wrong assumption. Embedded in different structural situations with respect to the level of development, geographic location, the size of country, culture, and international environment, different economies have to deal with different kinds and different degrees of market failure, which requires them to devise different institutions to overcome such obstacles to their development. In other words, there does not exist a common model of state intervention that can solve market failure problems for all countries and at all times.

More specifically, we have reason to believe that markets may work less well in underdeveloped than in developed countries and that markets may work less well for underdeveloped than for developed countries.

Structural rigidities are the main reason why markets may work less well in underdeveloped than in developed countries. For a market economy to function efficiently, the three components of the price mechanism—signaling, response, and mobility—all have to work properly (Arndt, 1988). First, prices must be elastic in signaling changes in demand and supply conditions. Second, economic agents—producers, consumers, workers, and owners of factors of production—must be willing and able to respond to market signals. Third, factors must be able to move readily and easily. But, in practice, those conditions of market equilibrium are often lacking in underdeveloped countries. Prices, for instance, are often distorted by monopoly. Even if we assume that prices are right, responses may be inadequate and factors immobile.

Four problems may cause inadequate responses to market signals. First, influenced by traditional values, habits, conventions, work ethics, and inertia, people in underdeveloped countries may not seek to “maximise” their own material well-being as neoclassic theories posit. Second, information crucial for making rational decisions is often hard to come by in underdeveloped countries. For instance, price changes occurring somewhere else in the province, the country, or in the world may not be known to local farmers. As a result, there is no way for them to construct complete inventories of all the available and prospective alternatives relevant to their objectives. Third, due to low levels of education, even if economic actors in underdeveloped countries are willing to respond to market signals promptly and all relevant information is available, they may lack the ability to make rational decisions. For instance, they may not possess the cognitive and computational ability to compare alternatives, or, when facing uncertainty, they may not be able to estimate

the relevant probability distributions and rate of discount. Thus, the alternative they select may be far less than optimum. Fourth, the downward rigidity of interest rates and nominal wages is just as strong in underdeveloped as in developed economies, especially in those countries where populism prevails.

For those reasons, in a good many times, the responses to market signals are lagged, inadequate, or even perverse in underdeveloped countries.

Deficient infrastructure, bottlenecks, poor management, and other structural and organisational constraints can further thwart the "spontaneity" of the market mechanism. Due to those characteristic features of underdevelopment, factors of production are often immobile, unable to move quickly, or able to move but only at high cost (Arndt, 1988). High transport costs, for instance, may make sale of a product in the market uneconomic. The lack of mobility of resources, or more precisely, the inability of some of the productive sectors to adjust in a timely manner to changes in demand thus make price mechanisms less trustworthy.

Leibenstein envisages the economy as a "network of nodes and pathways". According to him, in this network, "the nodes represent industries or households that receive inputs (or consumer goods) along the pathways and send outputs (final goods or inputs for the other commodities) to the other nodes. The perfect competition model would be represented by a net that is complete; one that has pathways that are well marked and well defined, and in which each node deals with every other node on equal terms for the same commodity". If the above analyses are sound, then in the underdeveloped economy net, some of the nodes are hypoplastic, some of the pathways are clogged, and some portions of the economy are isolated from the others. In one word, this is a net which is full of "holes" and "tears" (Leibenstein, 1978), which may justify more government actions in underdeveloped than in developed economies.

Even if markets work as well in underdeveloped as in developed countries, they may still work less well for underdeveloped than for developed countries.

According to the neoclassic economic theory, the market is good at achieving Pareto efficiency. But the notion of Pareto efficiency essentially is a static one, which is concerned only about the allocative efficiency of given resources. However, static efficiency should not be the only, or even the chief, criterion for judging the performance of economic systems. Especially, from the underdeveloped countries' standpoint, dynamic value creation is far more important than static value allocation. As Suhartono,

an Indonesian economist, points out:

The context of the problem facing the developing countries is fundamentally different from that addressed by static analysis: it is not one of merely adjusting the allocation of given resources more efficiently, but rather it is a question of how to accelerate economic and social development... In economic terms, the problem involves an expansion in the production possibility frontier, not only a movement along it, through increasing productive capacities and through the productive employment of unutilized or underutilized factors of production. Since from the point of view of the developing countries the analysis for static gains addresses itself to the wrong question, it is not of particular relevance (Arndt, 1988).

Not only is allocative efficiency less relevant in developing countries, concern with it may also stand in the way of obtaining dynamic efficiency. Schumpeter contrasts an economy that optimises subjects to given constraints with an economy that develops its productive capabilities:

Since we are dealing with a process where every element takes considerable time in revealing its true features and ultimate effects, there is no point in appraising the performance of the process *ex visa* of a given point of time; we must judge its performance over time, as it unfolds through decades or centuries. A system – any system, economic or other – that at every given point of time fully utilizes its possibilities to the best advantage may yet in the long run be inferior to a system that does so at no given point of time, because the latter's failure to do so may be a condition for the level or speed of long-run performance (Lazonick, 67).

Long-run development involves many “big” industrial decisions that cannot automatically flow from decentralised, optimal decision making in the short run (Stiglitz, 1989). Since markets work only incrementally, the elasticities of supply and demand therefore are larger in the long-run than in the short-run. Thus, at best, the market can provide adequate signals only for marginal changes. If large changes have to be brought about in a short time, the price mechanism cannot be relied upon to induce the resources transfer necessary for such changes. Public interventions therefore are required both to invest directly to break critical bottlenecks and to nourish wholesome macroeconomic environment that encourages investment innovation from the private sector (Shapiro and Taylor, 1990).

To prepare economic take-off, underdeveloped countries first have to build up a solid infrastructure and alleviate bottlenecks that are creating disincentives to investment. Without a solid infrastructure in place, the costs of private entrepreneurial activities would be very high, which would clearly hamper industrialisation. There is little dispute that, as a public good, the infrastructure has to be provided by the government. As a matter of fact, state and local governments made sizable direct investments in infrastructure projects in the early economic development of the United States (Goodrich, 1968).

Motivated by "a passionate desire to organize and hasten the process of catching up," the state should probably also play a major role in planning and financing key investments of the economy. Typically, capitals in underdeveloped economies are scarce and diffused, especially in the early years of industrialisation. Moreover, with the desire to jump into the modern industrial sectors, those countries may want to use production technologies that require capital investments in excess of what individual investors are capable of amassing. Private entrepreneurs thus may not have the capacity to invest and innovate, even if they have the will (Gerschenkron, 1962). When they have the capacity, however, they may lack the will to do so, for two reasons.

First, the returns to some prospective socially desirable or necessary investments (including Research and Development, or R&D) may be too long-term and uncertain for private firms to undertake by themselves (Lazonick, 1991). Since the markets that are necessary for such investments to be efficiently allocated do not exist, private firms may lack the willingness to assume the risks. Managers of private firms often face intense pressure for short-run returns. Thus they may be very myopic about the future and highly oriented to maximising short-run profits. Frequently, private firms, *ex ante*, estimate private rates of return to long-run investments as too low, even though, *ex post*, private and social returns would be very high. As a result, investments may be socially suboptimal.

Second, large investments are often externality-intensive. An investment project could create opportunities for others elsewhere. For instance, such activities may enable industries downstream to take advantage of scale economies through production expansion, or induce greater specialisation among firms. It is commonly accepted that investments in human capital and R&D are essential to economic development. But, positive externalities arising from such investments tend to weaken private profit-making firms' incentive to engage themselves in those areas, even though they may pay over time, both privately and socially (Averch, 1990). Individual investors' profit and loss calculus

simply could not adequately capture such social benefits.

If investment and innovation are the two wheels of development, the above analyses show that the invisible hand is not adequate in guiding an economy on those two dimensions. State interventions may be needed to help the economy to achieve its full potential. By supporting the development of education, financial systems, communications networks, and other forms of physical and institutional infrastructure, the state can help private enterprises to employ their productive resources at lower unit costs or reap higher prices for their products (Lazonick, 1991). By sponsoring basic researches or demonstration programs, the state can give reluctant private firms incentives to undertake their own R&D projects. The state may also invest in building up nationwide information networks that keep track of emerging information in various industries relevant to other industries and disseminate such information. By providing missing information linkages between industries, the state can fill information gaps that impede innovation in production (Averch, 1990).

Of course, no government has a bottomless packet. Therefore, resources at the government's disposal need to be used wisely. Historically, no country has entered into modern economic growth without strategic targeting. Strategic targeting is necessary not only because capitals and talents available to the government of a country are always limited, but, more important, because there is evidence that the market alone cannot promote a right structural composition of industries compatible with the strategic goals of the nation. By employing various policy tools to adjust the industrial structure, the state can use its limited resources to stimulate particular lines of economic endeavor and make its economy internationally competitive.

"Virtually all cases of successful economic development have involved state intervention and improvisation of an industrial strategy" (Shapiro and Taylor, 1990). Industrial intervention in the United States during the nineteenth century was huge. The government then targeted railroads and farmers with land give-aways. It also played an important role in protecting the home market to permit business organisations to develop and utilise their productive resources to the point where they could attain competitive advantage in open international competition. In the United States, the strong protectionism did not recede until after World War II (Shapiro and Taylor, 1990).

The Japanese state has gone much further. It has played an important role in preserving the home market for Japanese firms. It has sought to limit the number of enterprise competing in major manufacturing industries, thus creating incentives for existing companies to incur the

high fixed costs necessary to attain competitive advantage. It has made efforts to shape the perception of producers and traders, leading them to hitherto unforeseen possibilities. It has promoted cooperative research and development among major Japanese competitors. It has ensured manufacturing corporations access to inexpensive finance. And the Japanese state has also provided industry with a highly educated labour force to fill blue-collar, white-collar, and managerial positions. Without those "disequilibrating" initiatives of the state, Japan's transformation from a backward economy into a heavyweight player in international markets might have to take a much longer time, if it was at all possible.

During the late 1970s and the early 1980s, the East Asian Newly Industrialising Economies (NIEs) were often praised as models of *laissez-faire* by neoclassic economists. Closer analysis, however, reveals the guiding hand of "strong state" in Japanese fashion in those economies (Hong Kong is an exception). In East Asia, rather than relying upon the market to shape the composition of industries, the governments have played a significant role in determining which sectors or industries are more important for the future growth of the economies than others. Moreover, they have tried to divert resources to targeted industries and firms through complex import controls, schemes of concessional loan, and export subsidies (Sabel, 1993). In the end, those governments have had a great influence upon the course and pace of industrialization and upon the evolving structure of the domestic economies.

The cases of the United States, Japan and the East Asian NIEs illustrate that industrialisation does not flourish in a fully free-market regime. Their cases also show that a country's comparative advantages are not always naturally endowed. Instead, they can be created if right industries are targeted and right policies applied to strengthen their international competitiveness (Amsden, 1989; Wade, 1991; and White, 1988). Those lessons are very important for developing countries that are currently constructing market economies, because the "market" that they are "transiting" to is a truly global one, which is dominated by mammoth multinational corporations. To make its economy internationally competitive, a late developer needs a national strategy to give privileged access to public resources to those national business organisations that can best develop and utilise these resources. At the same time, however, it should prevent those organisations from turning into inefficient geriatric "rent-seeking" lobbies. Only a strong state that is relatively autonomous from the influences of domestic and foreign special interests can undertake such a dual task.

## Conclusion

China is in the process of the transition from a command economy to a market economy. The transition, by definition, aims at gradually establishing the market as the central mechanism of resource allocation. In the course of transition, however, we should avoid what Galbraith calls "simplistic ideology" (Galbraith, 1990), what Przeworski calls "neoliberal fallacy" (Przeworski, 1992), or what Kornai calls "uncritical, mythical cult of the market" (Kornai, 1992). The market is not a panacea for solving all our socioeconomic problems. Nor is it a neutral, natural, apolitical, and ahistorical institution. Moreover, the market is not an end in itself. Rather, it is just a means to promote social and individual welfare. For this reason, the potential role of non-market means, including state intervention, in improving welfare should be neither dismissed nor underestimated. This essay argues that active state engagement is indispensable for facilitating both market transition and economic development, two items high on China's agenda. Even when China one day becomes a mature market economy, state interventions are still needed to correct pervasive market failures.

All governments intervene in the economy by default or design. Contrary to neoclassical theory, in the real world, less government intervention does not always produce a higher level of welfare for people. As many comparative studies have shown, it is in those countries where governments have played active roles that economic structural adjustment has been swifter, international competitiveness stronger, growth more sustained, and distribution of income and wealth more equal (Katzenstein, 1978; Johnson, 1982; Zysman, 1983; White, 1988). Of course, it does not mean that we should give a blanket endorsement of indiscriminate state interventions.

Markets fail, but so do governments. In recent years, public choice theorists have rightly emphasised that state intervention, for reasons both intended and unforeseen, often lead to inefficient outcomes. Arguing that government actions are no more than devices to benefit narrow interests and that government failures are far worse than market failures, they conclude that government should be prevented from intervening in the economy. A critique of the public choice school is beyond the scope of this short essay. In what follows, I will only list several obvious flaws of the theory of government failure.

First, the concept "government failure" is not clearly defined. According to the neoclassic economic theory, the market is supposed to result in a Pareto-optimal situation. Therefore, whenever the market results

in a less-than-optimal situation, we can call it a “market failure.” But we do not have such a yardstick to gauge if a government action is a failure. Unlike the private sector, the government must take care of things other than efficiency. In other words, it constantly faces many trade-offs, including what Arthur Okun calls “our biggest socioeconomic trade-off”, that between efficiency and equality (Okun, 1975). Therefore, even if a government action is not Pareto-optimal, it does not necessarily represent a case of government failure.

Second, if we settle with a narrow definition of government failure — a government action that leads to an outcome inferior to that which would be brought about under *laissez-faire*, then the problem becomes one of counterfactuals: we essentially use something empirically unobservable as the base for comparisons (Shapiro and Taylor, 1990).

Third, due to the lack of a satisfactory definition of government failure, whether market or government failure is worse is an inherently unanswerable question (Kruger, 1990).

Fourth, while claiming to be a positive theory, the literature of government failure has drawn its conclusion largely from preconceived model of behaviour, which is so constructed that “it cannot but result in the demonstration of government failure” (Musgrave, 1981).

Fifth, the public choice model has little room for behavioural complexity. According to this model, the state is little more than a machine to redistribute wealth and income, and every one in politics is seeking to maximising his or her personal gains. The model has two problems: one, it ignores the fact the human motivation is too many-sided and complex to be captured by the caricature of wealth-maximising bureaucrats and politicians (Musgrave, 1981); and two, it is devoid of institutions. Even if everyone is a self-interest maximiser, their behaviour may be constrained by various institutions. Because the human nature is complex and the institution matters, there could be good and bad officials and governments (just as there are good and bad managers and firms). What needs to be studied is precisely what kind of government is less likely to fail. Trying to find out what make state intervention more successful in some countries than in others is probably “more fruitful, both theoretically and practically, than condemning ‘the state’ as an inherently anti-development institution” (Evans, 1989). Although bad government is indeed a key obstacle to economic development, good government is indispensable. The fundamental challenge is to devise institutional arrangements that minimise government failure.

Finally, the literature of government failure is better at explaining failures than success stories, particularly cases of state-led industrialisation.

The East Asia evidence falsifies the idea that a high degree of state intervention in the economy is incompatible with successful capitalist development.

In general, the assertion that the government can do no better than the markets is simply false. As argued above, efficient market operation cannot be attained without government intervention. The fact that there may exist government policies that would be welfare improvements, of course, does not necessarily create a presumption that government intervention is always desirable. Especially, in the course of the transition from a command economy to a market economy, the role of the state needs to be redefined. The redefinition involves two changes. First, the range of state intervention should be narrowed. The state should concentrate its attention to macroeconomic issues while leaving microeconomic decisions to individual economic agents. Second, policy instruments need to be changed. Rather than relying on administrative commands, the government should try to affect production activity mainly through fiscal and monetary policies and regulatory policies..

The purpose of the essay is not to justify state intervention, but to argue against market utopianism. The central fallacy in the market utopianism is that the market and the state are necessarily separate and ever antagonistic, and that the former is benevolent and the latter not. We should refuse to pose the question as a simple choice between market mechanism and state intervention. Evidence from the cases of successful development suggests that when the state and market mechanism are in tandem, when they play complementary roles, the whole is greater than the sum. The wisdom thus lies in pragmatically developing a mutually supportive structure of market and non-market institutions.

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