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DEVELOPMENT OF THE TOWNSHIP-VILLAGE ENTERPRISES AND THE RE-INSTITUTIONALIZATION OF THE FAMILY IN CHINA*

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Small farms, which have maintained flexibility throughout history, have long existed in China and the so-called “family household system as a cooperative organization” comprehensively playing a diverse socio-economic function has developed. In addition, trust derived from a unique environment based on a village structure where a few families dwell not to mention “everyone knows each other well” has also become institutionalized. In this setting, a complex and multi-dimensional property rights could have developed. Moreover, the Confucian order, historically institutionalized in China, has differentiated the respective roles of the public from the private and the center from the local through a network intertwined by relationships (guanxi-based network), allowing them to be relatively autonomous from each other (embedded autonomy). This institutional tradition of the Chinese society has re-emerged with the coming of the reform age. The reform reintroduced the revival of the traditional family household, as a cooperative unit for the insiders and, at the same time, as a competitive unit against the outsiders; and its renewed close relationship with the local governments have given birth to the township-village enterprises. Based on reforms of this nature, which have occurred from the bottom and approved by the center state ex post, China was able to experience the implementation a new form of transition to capitalism, i.e., rural industrialization. In this process, China’s guanxi-based township-village enterprises were able to secure the fitness to react to market competition despite their collective ownership nature.

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1. INTRODUCTION

After Mao took power, China got rid of private land ownership under its new socialist revolution, collectivizing the rural community while at the same time pursuing industrialization of the nation by creating large-scale owned industries in the cities. However, as economic development under socialism began to show its limitations, China chose to adopt a more pragmatic line of Deng in 1978 by gradually introducing market economy to its society. Accordingly, non-state-owned enterprises (非国有企业) in a variety of forms, including township-village enterprises (鄉鎮企業), private enterprises (私营企业), individually-owned enterprises (個體企業), and foreign-invested enterprises (外資企业) emerged (Lew and Lee 1997). Among these, the township-village enterprises (hereafter referred to as TVEs) have been making notable contributions to the Chinese economy through rapid growth rate reaching 30 percent per year (Jefferson & Rawski 1999).\(^1\)

Township-village enterprises (鄉鎮企業, xiang-zen qie) are those various forms of non-state-owned enterprises either owned or managed by farmers in rural areas. Even if it is based in the city, the enterprise managed by farmers, who are based in rural areas, is also within the boundary of TVEs (Lee, I. 1997). Its precursor are the commune-brigade enterprises (社隊企業), which were in charge of rural industrial production before the people’s communes were abolished. There are various forms of TVEs: the township enterprises (鄉鎮企業) owned by the township, the village enterprises (村級企业) owned by the village, the joint enterprises (聯戶企业) established by two or more farming families or households, and the individually-owned enterprises (個體企业) established and managed by an individual farmer (Kim and Kim 1996).\(^3\) However, regardless of the format, the TVEs have been established by farmers in the rural community and are managed by employing farmers, closely affecting the rural economy (Chang and Wang 1994).

These TVEs, unlike the public enterprises (国营企业) and the big collective enterprises (大集企企业) of the cities, carry out their activities outside the state’s economic plan. Accordingly, the TVEs are enterprises following the principles of profit and loss of market economy and behave according to the signals of the market. At the same time, however, the TVEs are leading the industrialization of the rural areas in close cooperation with the local governments. This "half public/half private" characteristic of the Chinese TVEs is raising many interesting debates.

Some view this characteristic as the result of "informal and disguised privatization" (Nee and Su 1996) formed before the exclusive property rights were established (Walder 1992; Li 1996) or a “hybrid organization” newly emerged (Nee 1992). Accordingly, they view that the TVEs will eventually fade out with the continued marketization process. On the other hand, another view puts forward the concept of “local state corporatism,” pointing out the internal characteristic of the TVEs (Walder 1995; Oi 1999). This position, in particular, makes note of the effective role of the local governments in monitoring the management and budget of the TVEs. Moreover, they claim that TVEs enjoy better performance than state owned enterprises despite their collective ownership because of their guanxi-based organizational characteristics, which can react swiftly to market competition (Woo 1999; Peng 2001).

This study, in principle, shares the view with the latter argument. But it attempts to expand the boundary of this argument. More specifically, it states that the correct understanding of the success of the TVEs can be reached only through an accurate awareness of the institutional characteristic of Chinese society shaped throughout its long history (Ortu, Hamilton, and Biggart 1997; Balazs 1964; Levenson 1965; Schwartz 1996). If not, we are unable to answer some of the following questions. For instance, similar to China, a variety of measures and institutions were provided for the private industrialization and marketization of the Eastern European countries and Russia. Despite the efforts, however, why is it that only China’s reform policies were successful and how did this success result in the form of this unique rural entrepreneurial organization known as the TVEs?

The next question is focused on whether China is maintaining successful economic growth by introducing the market instead of a central economic plan and by moving from public to private. If more marketization and privatization are carried out, will China’s growth accelerate further? If so, the public enterprises of the cities, which have tried to increase productivity by delegating management rights and instituting performance-based profit sharing, why aren’t they achieving the desired goals? The success of the rural reforms, or rather that of the TVEs is attributed mainly to privatization and marketization. But supposing that private market factors are not the only attributes to the success that it also incorporates collective and non-market characteristics, how can this be explained (Boisot and Child 1996)?

In order to answer these questions, we put forward three hypothetical arguments based on China’s institutional characteristic, which have been shaped throughout its long history. Small farms operated by families have functioned as important production units in China for a long time (Huang 1985, 1990). Our first argument is that, accordingly, the introduction of family household farms after the reforms and the development of the TVEs thereafter can be understood as the re-institutionalization of the family household as a production unit. Secondly, we argue that the traditional norm of rural societies where resources were secured through human connections and where role distribution was established through
close cooperation between local authorities and economically ruling class is manifested today in the form of the relationship between the local governments and the TVEs. This connection gives credit for the local governments to follow up the changes taking place in the rural community, and this mutually benefiting relationship between the public and the private is the context in which an effective decision making for the optimal resource allocation has been made (Standifird and Marshall 2000). Lastly, we argue that this dynamic change in the rural society is closely linked to China’s overall macroeconomic growth and that this is possible because of a unified management mechanism institutionalized from a balanced yet tight relationship maintained for a long time between the center and the local (Levenson 1965). This balance has been the background behind the specific direction of the reforms led at the local level.

2. INSTITUTIONAL APPROACH ON ECONOMIC ORGANIZATIONS

State, Market, and Economic Actions

In the neo-classical market, the actor holds full information about the given situation and therefore, it is a natural and rational economic phenomenon to have the ability to deductively arrive at making the optimum choice. In reality, however, this situation does not exist. For this reason, those in the economic sociology and neo-institutional economic schools have been critical of the unrealistic argument of the neo-classical economists, contending that human actions are embedded in social relationships and in an institutional context (Polanyi 1959; Granovetter 1985). The schools argue that the economic behavior we see today may not be explained solely based on the process of gaining self-interest by the individual. Rather, it should be understood from socio-cultural and -institutional contexts shaped through a long historical process. Especially those in these schools emphasize that economic behavior should be explored and understood within the context of human relationship and network patterns (Fliigstein 1996).

The actor finds one’s own legitimacy and rights according to the given position within this human relationship, structurally established and historically sustained. Some scholars call this differentiation “power” or “authority” (Mann 1988) while some have defined it as “hierarchy” (Coleman 1994). Power relations and hierarchical structure, connected in a web-like form do not only provide the set of rules by which the actor can play the given role but also render the resource and ability to carry out such role. This set of rules historically shaped through such social relationship is the institution (North 1990). The institution is important for it provides the frame for sensible behavior and thus eliminates uncertainties.

When we say, “human actions are embedded in social context,” it is easy to argue under the premise that structural conditions unilaterally impose the individual’s choice. On the other hand, however, the institution or the complex network of human relations, themselves are structures willingly created by human beings through their long history. The actor is embedded within this network while at the same time, also working on the embedding process through rational calculations (Kim 1996). This is no exception in economic behavior. Thus, an institution, which is in a mutually affecting format patterned through human being’s social relations, is not necessarily granted externally. It is an outcome socially created and historically formed throughout human being’s long history (Swedberg 1990; Yoo 1994).

Accordingly, if we do not understand the historical process by which the institution was created, we cannot have full grasp of the behavioral direction of those partaking according to the institution. In other words, in order to understand the characteristic of a country and its market, which has been constructed based on a network of human relations and its institutional environment, one must first have an understanding of the country’s unique historical development and the social structure patterned within it. There are numerous papers and researches attributing East Asia’s amazing economic advancement to the role and intervention of the state (Wade 1990; Johnson 1987). However, the role of the state in each of these countries was by no means homogeneous, and the method and scope of state intervention also very different (Orru, Biggart, and Hamilton 1991; Whiteley 1991). It is not a matter of being able to transcendentally recognize the efficiency and effect of state intervention; rather, the studies point out it should be understood according to the institutional and historical conditions and context of each country.

In this view, the neo-liberal notion, which dichotomizes state and market and presumes that the state’s intervention in the market hinders efficiency, has the problem of fossilizing the relationship between state and society into a point of denial. Especially, the perspective standardizes the attributes behind any kind of failure in the market as state intervention. From this stance, moreover, it would be impossible to explain the East Asian experience where state intervention was indeed effective; it would also be difficult to explain the different conditions, scopes, methods, and degree by which the state intervened in the economy. In other words, the neo-liberals would not acknowledge economic success through state intervention. Furthermore, the neo-liberal notion seems to ignore that the “small nation” argument put forward by Adam Smith and his utilitarian followers was merely an alternative contention to simply criticize mercantilist countries that were resorting to excessive protectionist trade policies and that Smith did not really mean through his argument that the state should forfeit its role (Kim 1998). The revitalization of the role of the state in implementing anti-monopoly laws in order to establish market function recently is backing the validity of such a rebuttal.
East Asian State and Market Embedded in Networks

East Asian economic development has been taking place with an economic organization based on social network, which is completely different from the assumptions of neo-classical economics. This is because East Asian people, who value social relations, recognize social order according to “relational terms” and behave according to situations determined by such human networking. Rather than rationally calculating profit and loss with the given information, they have been nourishing their economy exhibiting another type of logic that deals effectively with the relationship of the human networks. Undoubtedly, the concrete shape of the networks that constitutes the institutional background of East Asian economy is diverse.

In China’s case, even without the legal guarantee of the state, the complex network centering on the family and acquaintances is still displaying a powerful and distinct role (Hamilton 1985). Japan, on the other hand, has been advancing its economy based on stable network relations centered on commercial partnerships created in urban settings (Gerlach 1992). Both countries still use such institutional characteristics in the state bureaucracy or corporate governance (Lew 1999; Hattori 1988). Despite the differences in the political environment Chinese business organizations in Southeast Asia, Taiwan, and Mainland have all developed relying heavily on such family networks (Redding 1993; East Asian Analytical Unit 1995; Weidenbaum and Hughes 1996; Chan 2000).

Accordingly, we cannot but recognize the completely different effects that the character of the network, composition of institution and the forms linked within the institution can create to the concepts of market or the state, which we consider all to belong in the same category. And of course, the identity of the actor (for example, the bureaucrat or the business man) and the society to which the actor belongs (the state or market) can be understood differently according to the social relationship or human network to which the actor participates. The category that is associated with different background in time and space cannot be determined a priori, and the historical institutionalism, which claims that this should be understood within the context of social network, provides a useful insight (Somers 1993). It acknowledges that rules and relationships including both formal and informal create a scope as a whole, and the effects of this scope can be manifested in different ways according to the complex web by which these relationships are tied together (Thelen and Steinmo 1992).

Or, conversely, we must also accept that the identical economic output can be brought out by different institutional or structural arrangements, depending on social context. When Weber was analyzing China, he found neither legal institution nor state regulations necessary for rational calculations and objective predictability. For this reason, he concluded that it was impossible for China to develop capitalism (Weber 1951). However, subsequent studies suggest that a large-scale body of networks plays this law-enforcing role instead, which has made possible the economic development by creating a large scale commercial system (Hamilton 1985).

The economic structure, where state and market are intertwined, must be approached by observing the shape and character of the network that links them together. This is because the state’s policy decisions and effects of its market intervention are manifested differently according to the shape and character of the different official and unofficial institutional networks that link the state to the market. In this vein, the network that links the government and economic sectors may act as the variable which determines whether it can apply as a source to “cronyism” which accumulate inefficiency or as “social capital” that can reduce transaction costs in decision-making and implementation (Lew and Chang 1998; Lew 1999; Lew 2001; Lew, Chang, and Kim 2002).

Significantly, the position that notes the positive effect of such network asserts that the stable network that exists between the state and market makes possible the rapid procurement of capital in a similar method to the formation of internal capital market, not to mention delivery of rapid and accurate information (Haggard, Lee, and Maxfield 1993). Moreover, it maintains that this contributes to the economic development since it can effectively monitor the effects of the resources distribution (Chang 1994). In other words, these arguments explain that the existence of such network reduces transaction costs (Williamson 1988; Standifird and Marshall 2000). A study claiming that Korea, unlike countries in Africa, has not become a prisoner of private interest that pursues the maximum rent-seeking due to the embedded autonomy (Evans 1995) also concretely shows the variable outcome of such networks.

3. INSTITUTIONAL CHARACTERISTICS OF CHINESE SOCIETY

The Family (家) as a Cooperative Organizational Unit

The development of the TVEs has been realized as part of China’s rural reforms. In the process of dismantling the collective production system, family farms (家族農) were reintroduced in the rural areas, and township-village enterprises in various forms of ownership replaced the communes. In order to understand the changes in the grass-root rural areas, however, it is necessary to take a closer look at the basic social unit of “family” (家) in Chinese context. The terminology “family” is used instead of household because the concept goes beyond the private space that is occupied by the immediate household members such as parents and children in the
cannot but pursue efficiency as a business organization and making it a necessary element to have strict rules and order (Fei 1939). Of course, the scope and size of the family as a cooperative body is determined according to the size and type of the business.

This very principle for competition and cooperation has functioned as the fundamental driving force behind the history of China, a Confucian state centrally ruled for thousands of years (Balazs 1964; Levenson 1965; Redding 1993). The background behind the emergence of such a system based on state/family-farming in Chinese history can be attributed to the dynamic of the Spring and Autumn and Warring States (春秋战国) period. At the time, in order to find the means of enriching the nation while strengthening the military, the feudal lords asked the scholars and strategists to devise a new ruling system. In this process, a new property tax and conscription system was devised on an experimental basis. This resulted in the prompt expiration of the serf system in the history of China (Fairbank 1957; Swartz 1996).

Through this experiment, the Chinese state attempted to collect taxes directly from the farmers without going through the feudal lords or the owners of the properties (Boddle 1956). The family farms, established in this process, became the most elemental unit in the ruling by which the emperor curbed the feudal lords in the different regions (Huang 1985). Accordingly, it is ultimately difficult to explain the current changes and marketization of rural China without acknowledging the small farm system in connection with the family as a cooperative unit developed throughout China's history, as historical and institutional characteristics unique to China (Huang 1990).

Institutional Characteristics of the Chinese Village

A small society where people know each other well
The basic unit of Chinese rural society is the village. Historically, majority of the farmers lived in villages, and of course most of them were born there and died there. This characteristic was maintained even after Mao's socialist China since transfer of residence was not allowed under the population policy. A few families dwelled in the village and it was a society where everyone knew everything about each other. In this kind of society, rules come from habit. Habitual tradition becomes the status quo and the society and its members are considered part of a big family. Accordingly, in the rural areas, trust comes from “knowing well what is going on in the village.”

Signing or putting a seal on a document is considered too formal and not very personal (Fei 1939). For this reason, when one says, “let’s do it the legal way,” it is considered more like a threat than a solution. This kind of situation does indeed bring chaos to the legal system; however, habitual tradition can be effective...
in bringing about a very flexible outcome in the absence of a legal mechanism or when the policies mismatch the situation.

**Multi-dimensional property rights**

Traditionally, in a Chinese rural society, transaction of property did not take place freely. This was because the clan protected ownership of the land and without the consent of this group, it was impossible to sell land to someone outside the family. Moreover, with the exception of marriage, it was impossible for an outsider to settle in a village. Only when one was cultivating the land that he/she was accepted as part of the region (Fei 1939).

For this reason, the concept of land ownership in China is very different from the concept of private ownership in the West (Walder 1992; Boisot and Child 1996; Nee 1992). Farm ownership in China is distinguished between the “right to till the land” and the “right to receive rent.” In other words, even if a tenant is a tenant, he can exercise his right to till the land as his property right without the intervention of the landowner. Accordingly, a Chinese farmer could sell, pass down, mortgage or rent out his right to till as a landowner could do so with his land (Yang 1991).

Meanwhile, property owned by the state was something that in a way everyone could claim a bit of ownership. The example clearly points this out: “throwing garbage into the village brook because it is owned by the state” (Fei 1939). Of course, a similar situation under the socialist collective ownership which claims that “everything under heaven is public,” (天下為公) may have brought about greater inefficiency (Hsu 1948). The reintroduction of the family farm since the reforms is dismantling the concept of ownership under the socialist system. However, this phenomenon does not necessarily mean that it is similar to the concept of private property of the West.

Since 1978, arable land is being redistributed but the farmers may not hold ownership, though they can manage them independently. The farmers, however, are actually managing the property as if were their own private property. Not only this but the state is encouraging long term investment on the land through various kinds of tenure loans. This situation evokes the multi-dimensional property ownership that existed in the rural society before the socialist revolution. Without understanding the Chinese concept of property rights, it is difficult to understand the dynamics displayed by the Chinese market socialism.

**Local government and the gentry class**

The management of small farms in rural society required a collective cooperative work, such as developing irrigation systems, in order to increase productivity (Wittfogel 1957). Traditionally, this role was played by the state. Thus, the state was deeply involved in the relations among the producers for the stability of the rural society. For instance, systematic management was required in order to maintain an effective irrigation system; and this was carried out by the local governments. No matter how small the unit was, irrigation projects were taken care under the supervision of the local governments. Even if the project was carried out with the funding and labor of the farmers or the gentry class, it was customary for the project to be supervised and controlled by the local governments (Yang 1991). For a stable management of the small farmers, the very basis of the state’s power to extract taxes, the authorities, even if it basically had the same interests with the landowners, could not but exert efforts in controlling excessive exploitation by the landowners. In other words, there was a balanced three-way relationship that was created among the state, landowners and farmers (Levenson 1965).

The gentry who held special leadership and privilege as the property owners in the rural areas played a special social function in close cooperation with the local governments (Fei 1953). In order to protect the overall interest of the rural areas where they dwelled, they also paid attention to the promotion of welfare for the residents. The group voiced the interest of the region on behalf of the farmers, while actively taking part in projects initiated by the local governments including public irrigation projects, organization of security forces, collection of taxes, welfare activities, intermediary function and others. Of course, for the local governments this was a very beneficial arrangement especially since the local governments did not have the resources or the manpower to carry out such projects or work. In this manner, the gentry played the mid-management role through such activities (Chang 1955; Fei 1953).

Though the gentry took part in such projects on behalf of the state, they were not necessarily its tool. They took part in such activities out of their own will in order to protect their own status within the rural areas. It is true that at times, they received orders from the authorities but in the majority, they took the initiative in taking part of such projects out of their own will. At times, they also took the initiative in projects, which would leave the administrators no choice, but to follow. Most of the times, the administrator and the local gentry worked together in cooperation. But there are instances in which they also clashed. Needless to say, however, the gentry benefited a great deal from the close cooperative relationship with the local governments, reserving a privileged class within the region. They were sometimes exempted from taxes and corvée labor, and also obtained profit from projects taking place in the region (Chang 1955).

In this manner, the gentry as landowners were economically a ruling class but at the same time, they were also a leadership group that took part in the public activities of the region, receiving the respect of the local peasants. After the reforms, the leaders of the towns and villages, the so-called “able-men” (能人) of the rural society, were also leaders with technological and academic expertise and
vast social experience (Suh 1994). Unlike the private entrepreneurs of the cities, rural able-men have socio-political status, social recognition, and connection parallel to the local authorities, providing the reason to be instated as the leaders of the township-village enterprises.

Collaborative Differentiation between the Center and the Local Governments

China, as observed through the role of the gentry, is a society that has maintained autonomy in the regional areas. Unlike in Europe, however, it was able to maintain a unified order despite the division created by the autonomy. Not only in the past but even in the current reform era, local autonomy has advanced even further compared to other socialist countries (Naughton 1994). And despite the dynamic reforms, China has not become another Soviet Union, which after a period of transitional anarchic chaos has disintegrated into different small countries. Levenson explains this unique Chinese characteristic as the balance between the central and local governments and between national bureaucracy and the regional gentry groups (Levenson 1965). In other words, it is a phenomenon that resulted from an earlier establishment of a cooperative and harmonized differentiation between the state and society (Cho 1998).

According to economic anthropological studies, China had at least 9 to 10 large-scale economic zones that were self-sufficient. The center of such zones actually coincides with the major central cities of China today (Hsu 1948). For this reason, even under the umbrella of a united greater China, the country is divided into decentralized regional powers. The central government is able to govern the autonomous regions by encouraging participation to the civil service examination system that maintains the regional powers within the central bureaucracy (Balzis 1964).

The Chinese mentality of valuing harmony—the harmony which eliminates the distinction between “you and me” and which incorporates “you and me” into one entity, is also inhibited in its politics. The region exists within the center and the center within the region; this is the type of mentality that has easily brought about harmony and unity among the people. Under the circumstances, it is not possible to officially specify and regulate the respective rights and obligations of the central and local governments (Hsu 1948).

In this vein, the local governments of China after the reforms were able to independently implement measures suitable to their regions irrespective of policies and decision of the central government. The result of such measures approved by the central government ex post has in fact created changes nationwide. It is difficult to distinguish the advantages and disadvantages of the flexibility in a clear-cut manner. On the one hand, because of this elasticity, the responsibilities and power delegations are not sure only to find a dead-lock; however, on the other hand, when the lax regulations and procedures provide a loophole for the necessary changes, the flexibility can provide a breakthrough (Korea Chamber of Commerce 1994).

4. IMPLICATIONS OF THE SUCCESS OF TOWNSHIP-VILLAGE ENTERPRISES

Reassessment of the Success of Township-Village Enterprises

The annual growth rate of the TVEs gross production for the 16 years from 1979 to 1994 was 23.1 percent. In addition, the share of TVEs in gross output of the rural areas expanded from 24.2 percent in 1978 to 73.7 percent in 1994. From 1985 to 1993, nominal export rate of the TVEs jumped approximately 60 times and their annual growth rate was recorded at 66.9 percent. Considering that during the same period the annual growth rate of China's overall export was 26.4 percent, the growth volume of the TVEs was truly amazing (Lee and Suh 1996). Especially, according to the latest information based on the 1996 figures, the TVEs occupied 27.7 percent of the gross industrial output, employed 19.6 percent of the working force, and made up 20 percent of the national financial revenue, and 30 percent of the nation's export (Bank of Korea 1998).

The central government, which had been pursuing marketization and privatization, took credit for the amazing success of the TVEs as a result of its policy decision. However, if one looks back at the development of the TVEs, it can be concluded that the environment was actually not very favorable. At times, the very establishment of the TVEs was a topic of controversy (Ko and Lee 1994). Even at the peak of their development, if the economy faced difficulties, it was the TVEs that had to face the criticisms. However, despite this worst situation, the TVEs continued to grow. This is because regardless of the criticism, the farmers had no choice but to continue their businesses in order to maintain their family and living (Zhang 1992). Thus, the autonomous management of the farms and the development of the TVEs really have very little to do with the deliberation and decision of the center in Beijing.

Even before the official adoption of the reform policies, diverse ways for production rationalization and de-collectivization were being sought (Jang 1994). The TVEs even in their previous form, the commune-brigade enterprises (公社企業), were established independently from plans implemented by the state, procured their own capital and resources while taking part in autonomous sales activities. Accordingly, it is difficult to conclude that the advancement of the various non-state-owned enterprises in the rural areas is the result of the central government's active policy implementation. Rather, it is justifiable to conclude that their success
can be attributed to the efforts and drive made by the local governments, diverse local bodies, family farmers, which were approved by the central government ex post (Suh 1996; Lee 1994, 1996). In many local regions, in fact, private management was pursued ex post and in most instances, the central government was reluctant of this type of privatization move. Even the reformists are currently recommending for flexible and diverse management methods that fit each respective region.

In this regard, the liberalist interpretation that the success of the reforms was because the Chinese government actively sought to amend inconsistencies in the socialist system by introducing marketization and by pursuing private management instead of public ownership does not fully explain the changes in China. In fact, the family farms and the family production system reintroduced during the reforms are far more similar to the collective production system in employment and distribution than to the market relationships (Jang 1994). Not only this but also the role and intervention of the local government during the reform period were substantive both in degree and weight. Moreover, the central government did not instruct the reforms but rather ratified the changes after the fact. If that is so, where did the energy that created these changes from the bottom come from? Why did it derive from the rural sector and develop in the form of rural industrialization?

Re-institutionalization of the Family as a Cooperative Organizational Unit

China, as seen earlier, has maintained an agricultural production structure based on small farms since the Chin (清) and Han (汉) period. Studies that explain China’s uniqueness in terms of the “economic elasticity of the small farms,” state that capitalism did not develop in China for this very reason (Yang 1991; Chayanov 1966; Huang 1985). It is interesting to note, however, that the small farms, which were nominally extinguished for 30 years since the socialist revolution, were revived rapidly after the reforms. Of course, these small farms had continued to exist in the form of family farms. In actuality, since Deng Xiaoping’s reforms or open-door policies, it is difficult to find any trace of the socialist system experienced for 30 years since the revolution in the rural society which is undergoing the greatest changes. The de-collectivization of the agricultural industry in most regions has completely transformed in just a few years the socioeconomic lifestyle of 800 million farmers to a small-holding and tenant system that existed before the communist revolution (Jang 1994).

Some suggest that there was no choice but to adopt this type of strategy because family farming was the most desirable method to maximize employment and gross production in a society with a serious population problem. However, the rural reform that was being considered by the Deng Xiaoping regime was not confined merely to family farming. Nor was the dismantling of the commune system a conscious result of the reforms. Not only this but if family farming is the desirable system to deal with employment and productivity, this principle can also be applied to collective farming since its employment and distribution principle is closer to family farming than the market-based employment relationship (Jang 1994). In addition, Confucian states historically emphasized the ideology that the family must be in charge of setting order in the country under the ethics that the family should be in charge of welfare matters (Huhm 2000). This is the background behind the re-emergence and dynamism of China’s family farming.

What then is the relationship between the development of the TVEs and the introduction of family farming? Jang (1994) revealed in his study that the dismantling of the commune system and the reintroduction of household farming did not necessarily enhance agricultural productivity. However, it is assessed that at least the reintroduction of family farming stimulates economic activities in the diverse non-agricultural sector. It provides the setting for the farmers not only to cultivate the land rationed according to the number of family members, but also expand their business boundaries to the non-agricultural sector. When faced with the changes seen from the dismantling of collective farming, the farmers can consolidate the cooperative ties with family, friends and neighbors, pursuing such economic activities as joint purchase of material, establishment of joint ventures, and cooperative labor force. Such activities are possible because the industrial organization of the Chinese people is based on the family, which can be managed flexibly depending on different situations.

To become an effective part of the de-collectivized agricultural industry and also the manufacturing and services sectors, the farmers easily consolidate in a pragmatic manner the close ties with neighbors and relatives. Their priority is to receive compensation for the welfare of the rural communes that are falling apart. The family acts as the safest security measure, which is able to protect the psychological and material well being of the family in the rapidly changing political and economic environment. Accordingly, the reintroduction of family farming after the reform can be interpreted as the result of the revitalization of the close relations within the family. The withdrawal of collective management results in the reinforcement of the importance of the family system. In this connection, more recently, the interest on family lineage and family tree is reported to be increasing (Cho 1997).

The Effects of the Guanzxi Network

As observed earlier, for the Chinese “someone I know well (guanxi),” a relative or a neighbor, is within my boundary and therefore is part of me. The trust that exists in such a relationship is not based on a contract. Rather it is a natural arrangement
making with economic implication, such as the appointment of the TVE manager, is still very strong. Moreover, a “managerial contract responsibility system” (經營合同責任制) is adopted as a wage system between the local government and the TVE manager, thus, the local government’s assessment and supervision is of undisputable influence (Chen 1995; Child 1994; Suh 1996).

One of the major objectives of the local government in managing the TVEs is securing the “kickback money” to manage the enterprise. The local government considers the TVEs as its “small cashbox (safe)”, levying unofficial kickback taxes but also collecting allotment of various types. In return for the kickback levied and intervention in the affairs, the local government provides a variety of protective measures and policies for the TVEs well-being. These include active support in securing external funds including loans from banks or financial institutions, tax incentives or exemptions, supply of low cost raw material and energy, support for the establishment of marketing, and provision of technological and management information and know-how.

This mutually benefiting relationship brought about a very flexible situation in a setting where distribution of information and resources through the market is less developed. On the other hand, however, the mutually benefiting close link between the local government and the TVE creates the possibility to soften the budgetary restrictions of the enterprises. Fortunately, it is reported that this situation is not serious in the case of the TVEs (Lee 1994). This is because the local government, after remitting the pertinent sales and income taxes to the central government, is able to levy quasi-taxes such as various utility fees on enterprise revenues. For this reason, if there are no earnings for the TVEs, there are no revenues for the local government either. In other words, the local government and the TVEs share the common interest through this economic link that binds them together (Jeong 1995, 2000; Kim and Lee 1996).

What then is the force behind the competitive edge and productivity of the TVEs despite this link that exists with the local government? This is principally because, as stated above, the common interest of these two parties lies in maximizing the economic outcome. On top of this, the TVEs cannot exercise any monopolistic or oligarchic power in market share because they operate basically in small and medium size business scale. Most TVEs also operate within a domestic market competing with others of the same business category. In order to survive in this competition, they must continuously pursue efficiency including reduction of production costs and other means (Jeon 1995). It is true that the production growth rate of the TVEs from 1978 to 1995 increased dramatically, while their numbers increased only by 6.2 percent within this time period. In the fierce competition, many of these TVEs had to fold and though many others were established, their total number did not increase as much (Noh, Kim, and Suh 1998).

The only feasible tactic for the TVEs in order to survive in the price
competition is to maintain low costs including labor. As a result, the labor environment of the TVEs may be extremely poor and environmental pollution produced by such enterprises may also be serious. However, the greatest problem for the TVEs is the fierce competition among them in securing capital, raw material and energy resources although they depend heavily on the support of the local government in securing such raw material and resources.

The economic status of the private farmers has become differentiated in this rapidly changing rural condition. Farmers taking part in activities outside the agricultural sector, industrial, commercial, and services for instance, have increased and there is thus discrepancy in the income. For this reason, whether the farmer is able to take part in activities outside his/her rural agriculture and/or whether he/she has a relative either in Taiwan or Hong Kong who can send the necessary funding, determines the economic status of the farmer. Accordingly, income discrepancy in the rural areas has become wider than that in the cities, and inequality due to economic status deriving from having the right connections or not, has also become a grave social problem (Jun 1993, 1995).

For the Chinese, the enterprise is not merely a business but an expanded community based on a family-type *guanxi*. It is not only a production unit but it also functions as a comprehensive living unit that shares social and cultural values, and welfare role. For instance, the relationship between the employee and the employer in China models after that of the family (Bell et al. 1995). Because of this, the members of the enterprise consider such family occasions like wedding, birthday, and funeral as important social functions. These functions also play an important role in forming the so-called “social capital” for the individual and also the enterprise (Thi 1997). It is for this reason that workers in East Asia, no matter how bad the working conditions may be, do not feel that they are being repressed or abused. They genuinely believe that the success and prosperity of the enterprise, which in essence is their family, will provide them with greater wealth and distribution. The connection composed of people “I know well” which again is part of one's own being, is acting as the mediator of labor and management in a certain region.

5. CONCLUSION: DIVERSE CAPITALISM

Capitalism has been organized in various forms according to the different social, cultural and institutional contexts. This is an indisputable historical reality that cannot be explained with the neo-classical stance on efficiency. Accordingly, the diverse forms of capitalism that exist in different societies are an objective fact that has little relevance to what should be. As it is difficult to change the institutional and structural conditions formed throughout the long history in each society, it is also difficult to easily replace the character of the state or the market which has been shaped through social relations and networks. For this reason, what kind of outcome an economic strategy might bring depends on the historical context of its economic structure. This study has demonstrated this view by observing the marketization process of China.

The various types of capitalism that exist in this world and will come into existence will continue to develop through their respective crises and success processes. One particular model has not been applied to the economic development of East Asia, a region which had received so much spotlight until not too long ago. Rather, it is the consequence that has resulted from the institutional frame that suits the situation of the respective countries in this region (Lew 1999, 2000). For this reason, the process of the success and failure of capitalism which develops through various routes in different cultural and institutional environments, must be understood in the historical and socio-structural context of its formation. It is clearly a mistake to attribute the cause of the success or failure according to current economic outcomes just on this uniqueness without systemic interest of this context.

Since the economic crisis in 1997, the stance that global standard is more important than Asian values has been the leading opinion. However, the Asian crisis does not necessarily mean that a certain type of capitalism in fact has failed. On the contrary, the crisis has provided a clear direction of the tasks that Asian countries must overcome in the process of discovering their respective characteristics. The cause of the crisis must be analyzed in various social contexts; but if this is considered as attributes of the characteristic itself, the insights of economic sociology that “economic activities are embedded in social context” disappear. If so, a cold-blooded market will replace human values and we will be caught in a world of unlimited competition.

Many countries in East Asia have succeeded in overcoming the transitional period from an agrarian to a capitalist society. China is also joining this league. Countries like the advanced ones as Japan or the following one like China are also meeting their turning points, like the capitalist countries of the West, carrying out further developments. On the other hand, this situation can amplify as the capitalism that has developed according to respective conditions met with other forms of capitalism as the global environment changes.

The recent development in China shows that this prediction is not all that wrong. The rapid reshaping of the world order and changes in the economic setting for China thereafter—are conditions to which the TVEs must learn to adapt. More recently, China’s entry to the WTO in November of 2001 will gradually eliminate the favorable elements that made possible the growth of the TVEs. Not only this but the new setting might also be a hindrance to further development. Most importantly, the introduction of global standards which emphasize responsible
management and accountability based on transparency, will seriously challenge the traditional close relationship that has existed between the local government and the TVEs. The sudden drop of products to which the two-tier price system applies, due to the opening of the Chinese market to the global market, is greatly pressuring the TVEs. Moreover, as more partnership and foreign businesses penetrate the domestic market, many TVEs are being accused of unfair business practices.

Efforts by the Chinese government to overcome this situation are also starting to take new shape. The most noticeable example is the introduction of the “share-holding cooperative system” (株式合作制) (Kim 1997; Suh 1998). The system is being experimentally applied as a means to solve the current multi-dimensionality in the ownership of the TVEs in addition to getting rid of the close links between the TVEs and the local government. As a means to establish a rational ownership structure of the enterprises, this system takes on the principles of autonomy to enter the stock market, equality for the stock investors, fair distribution of profits and shared responsibility of the risks. In this manner, the new system attempts a new profit distribution in proportion to outcome of management and labor and investment amount. It seems as if this system may well replace the management of the TVEs that have been rented-out through the “management contract system” (經營請負制).

The TVEs have been investing much of their earnings to the welfare of the town and village residents rather than reinvesting to expand productivity. For this, the profit of the enterprise is not considered as the number one priority in the activities of the business. However, this attitude is being pointed out as the reason behind the inefficiency of the TVEs and new measures to change this situation are being sought. In the past, the TVEs could play this role under the assumption that one would dwell in his/her town or village forever. However, the active mobility of the work force will bring changes in the relationship between the residents and the TVEs.

However, no matter what the changes are, it is still difficult to figure out the image of the institutional frame of Chinese society historically shaped by economic organization based on human relations. All economic activities may manifest efficiency and dynamism only when an adequate method agrees with the historically shaped institutional environment. If the frame that leads the economic activities clashes with the given institutional environment, this economy will not be bound for progress. The increase of the transaction costs resulting from this clash will eventually hinder the economic efficiency.

Notes

1 In 1997, township-village enterprises taken together contributed 60 percent to the total value added and about 30 percent to the GDP (Ministry of Agriculture 1998).

2 Commune-brigade enterprises (社隊企業) refer to 2nd and 3rd industry enterprises established and managed by the people’s communes or production brigades.

3 The ownership of the TVEs are as follows: (1) township enterprises (鄉鎮企業): collective enterprises run by the township government or the merger union between two towns, township and public; (2) foreign or expatriate enterprises; (2) village enterprises (村企業): collective enterprises run by the village commission or the merger union between two villages, village and township, public, foreign or expatriate enterprises; (3) joint enterprises (合作企業): mixed ownership; they are difficult to categorize because their ownership is mixed. It refers to any enterprise set up under the following arrangements: consolidated management between two farms, merger between two production brigades, production brigade and foreign enterprise, among township and village residents, and farmers and township-village collective; (4) individually-owned enterprises (個體企業): any enterprise with private character, either privately owned or managed enterprise. In a privately invested and managed enterprise, if taxes are met according to the state’s regulations, residual economic profit is returned to the individual. At the initial stages of the reform, only a uniform collective ownership existed as either in the form of township or village enterprises. As of 1984, however, other forms of TVE ownership came into existence. With the emergence of the privately owned enterprises, the share of collectively owned township and village enterprises of the total TVEs, has dramatically dropped from 100 percent in 1983 to 66 percent in 1994. On the other hand, the share of privately owned enterprises increased to 90.3 percent in 1994. Despite the growth, however, because most privately owned enterprises are small in scale, the proportion of the output by the collective enterprises is much larger (Kim and Kim 1996).

4 Like other assumptions of the neo-classical economics, the dichotomy between “the state and society” or “the state and market” is just another outcome of Western modernity (Hahn 2000). The myth that the dynamic of market, led by bourgeoisie, could have started only after the dismantling of the constraints of the state has not been proven by the Western history. Since the state is playing an important role in a capitalist society, it is used to in a pre-capitalist society, the Western liberalism should be understood, not as the abandonment of the state control on the market, but as a strategy of the state to control the economy. It is a mistake to follow the idea of marketization or liberalization as a give-up of the state on behalf of the market. Polanyi (1957) also criticized the liberal belief, that the dynamic of market economy was only possible after the constraints of the state disappear, because it distorts the history. As such, it is important for us to escape from the Western bias and to be open to diverse courses of development in relation to different historical and institutional context. After all, the familiar notion of liberalism on the state and market is not telling any historical truth, but an ideology which developed along with the coming of liberal state.

5 Relational terms assume that the human being is not an absolute entity that possesses a Descartes-like ego or individual cognitive subjectivity in the manner of “I think, thus I
exist.” Rather, the human being is an entity, which can be defined relative to the relationship with someone else. For instance, the term “I” in East Asia does not exist as an absolute entity that possesses the “I” intrinsic attribute but recognized in relative terms—as a child to a parent, a student to a teacher, an employee to an employer. In this vein, the concept of human rights in the East is viewed not in absolute terms but in relative terms (Chan 1999; Lee, S. 1997).

Confucius placed importance on the fact that this boundary can also expand externally like in the meaning of 人.

When the debate over privately owned enterprises, which began to appear around 1981, became an issue, it is said that Deng Xiaoping proposed the “let’s wait and see” (看一下) step, to stop making hasty decisions. Since then, private ownership was tacitly accepted, providing the mood for further development in a quasi legal/illegal setting. By the late 1980s, after a rapid economic growth in 1984 and subsequently in 1985, it had developed into an integral part of the economic structure that could not be disregarded. Based on this influence, private ownership was officially recognized by the state ex post in 1988. 80 percent of these privately owned enterprises are TVEs in the rural areas where economic reforms started earlier and where market economy and enhanced income for the people took place faster (Suh 1994).

According to the theory of the neo-classical economics, the workers in a capitalist rural economy are employed only to the level of limited productivity of labor which match that of the cost of living. Thus, they explain if a capitalist labor market is introduced to an overpopulation setting, the land holders will sacrifice the overall employment and gross production of the entire society in order to maximize their profit (Jang 1993).

The rural reform could have included introduction of market incentives that can solve such issues like work incentive or supervision, maintaining the collective production organization, or emulation of experiences by advanced agricultural economics introducing quasi-capitalist production relations while making the most of the modernized large scale agricultural industry. However, the rural reforms in China did not take place in this direction. Moreover, the increase of land and labor productivity is a continuation from group farming period to individual farming period. There are some analyses that the earning of agricultural households increased not because of de-collectivization and private ownership but rather due to the government’s policy priority on the rural sector to include promotion of the production and change in composition of crops, etc. (Jang 1994).

Many interpretations are put forward in order to explain this phenomenon. Some explain that this is a phenomenon that appeared because of the abuse and misappropriation of state owned property and joint property during the transition from planned economy to market economy (Lee 1994). Others say that it is a discriminatory means of maintaining a non-standardized social connection created by the managers of the communes with certain farmers in a so-called patron-client relationship (Oi 1989). However, as observed earlier, in a setting where a state property is a little of everyone’s or where contracts and documents have little meaning between people that know each other well, the close mutually benefiting link that exists between the TVG administrator and the entrepreneur is a natural phenomenon.

Kornai (1990) claimed that the productivity of socialist enterprises does not enhance because of their soft budget constraint structure.

The complex distribution structure of the business profit reflects the diverse intervention by the local administration on the activities of the enterprise. The TVE must pay (1) sales and income taxes to the central government; (2) various taxes in kind, utility fee, and a separate payment to the local governments; and (3) contributions and running cost put forward by the local authorities. After deducting all the expenses in addition to payment of loans, the TVEs are left with approximately half of the profit (Lee 1994). Thus, the TVEs in principle place priority in a personnel management based on managerial skill and accomplishment even if the appointment of the manager may be through a connection (Noh, Kim, and Suh 1998).

It is a totally contrary situation from that of the former Soviet Union where in the process of economic liberalization, monopolized prices came about because power was not delegated even after autonomy was instituted.

The average wage of those employed by TVEs is 64.6 percent compared to that of employees in state owned enterprises and 88.1 percent that of employees in urban collective enterprises. Most TVEs in the southern part of China (Jiangsu, Jiangsu province), pay only a minimum living expense of 20 percent of the employees wages monthly while the rest is paid at the end of the year. This is done in order to use the money for more important running costs. Furthermore, in a survey of the Shanghai region, of the 366 TVEs polled, only 9 percent were able to provide a regular salary for their employees; the rest were able to pay the workers when conditions allowed. This type of flexible operation of the salary supplements short running costs, and plays a buffering role by maintaining the business during times when business is not so good. Working conditions are also extremely poor with noise and air pollution, inadequate room temperature, while also using facilities already deteriorated, passed down from the state owned enterprises (Noh, Kim, and Suh 1998).

The success or failure of the private enterprises in the rural areas depends on how much fund it can attain through private connections with officials in government bodies or financial institutions. For this reason, most private business owners are people with plenty of social experience and career, with the right network, who have successively held positions either as officials in a local administration, managers of commune-brigade enterprises or sales managers thereof (Suh 1994).

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