Issues & Studies 34, no. 11/12 (November/December 1998): 1-28.

Chinese Rural Enterprises in Transformation: The End of the Beginning*

NAN LIN AND XIAOLAN YE

This paper argues that China's rural enterprises are currently undergoing a second phase in transformation. In contrast to the first-phase transformation, which involved shifts in user rights, the second phase has been characterized by the transfer of asset rights from the collectives to local corporate leaders. The process was accelerated particularly after the Chinese Communist Party's Fifteenth National Congress which opened the door for diversified forms of public ownership. The argument is supported by a case study conducted in an enterprise in Daqiuzhuang in rural Tianjin. The case clearly shows that toward the end of the first phase, the enterprise transformed itself from a collectively-owned entity into a shareholding system. Yet, the asset ownership was not tied to shares. Since September 1997, however, this ownership has been tied to shares, remaining nominally public, as the majority of the shares remain under control of the local community, the enterprise, and other cooperative enterprises. In essence we see a dramatic increase of shares controlled by corporate leaders in the new ownership structure, as they serve as representatives of the community and enterprise shares and own a substantial portion of the individ-

---

Nan Lin is Professor of Sociology and Director of the Asian/Pacific Studies Institute at Duke University. His areas of research interests include: social networks, social stratification and mobility, stress and coping, and social transformations in mainland China and Taiwan.

Xiaolan Ye is a doctoral candidate in the Department of Sociology at Duke University. She is interested in the life course of the stress process, social support and coping, urban and rural life in China, and research methodologies.

*Revised version of a paper presented at the 27th Sino-Amiercan Conference on Contemporary China, Institute of International Relations, National Chengchi University, Taipei, June 15-16, 1998. The project was in part supported by a grant from the Chiang Ching-kuo Foundation.

ual shares. It is argued that the ultimate objective of this transformation is to move the control of enterprise assets into the hands of corporate leaders. We also speculate, based on available information, that this phenomenon is not idiosyncratic to Daqiuzhuang but is rather a nationwide trend currently under way in China's rural enterprises.

Keywords: property rights; shareholding; rural enterprises; Daqiuzhuang; local elites

* * *

The current Chinese rural reforms have drawn substantial research attention.[1] To a large extent, the impressive growth of rural enterprises has furnished the engine for dramatic national economic growth (averaging over 12 percent gross domestic product [GDP] per year during 1995 and 1996) in China. Furthermore, much of this impressive growth reflects the development and growth of the township-village enterprises (TVEs) in rural China,[2] especially in the coastal provinces.[3] According to official statistics, the proportion of economic growth (the gross industrial output value) attributable to the TVEs grew from 15 percent in 1985 to 26 percent in 1995.[4] In addition, the work force employed by industrial TVEs rose from 6 percent of the national labor force in 1978 to 11 percent in 1985 and 17 percent in 1995.[5] Changes in the institutions of these rural enterprises

---

[1] Gene Tidrick and Jiyuan Chen, eds., *China's Industrial Reform* (New York: Oxford University Press, 1987); Cyril Zhiren Lin, "Open-ended Economic Reform in China," in *Remaking the Economic Institutions of Socialism*, ed. Victor Nee and David Stark (Stanford, Calif.: Stanford University Press, 1989), 95-137; N. C. Sen, *Rural Economy and Development in China* (Beijing: Foreign Languages Press, 1990); Rural Development Institute of the Chinese Academy of Social Sciences (CASS), *Rural Industries in China* (Beijing: CASS, 1990).

[2] Li Yiandong, "Town and Village Enterprises: Reform and Consolidation," in *Annals of Chinese Economic System Reform 1989* (Beijing: Gaige chubanshe, 1989), 15.

[3] Lu Xueyi, *Dangdai Zhongguo nongcun yu dangdai Zhongguo nongmin* (Contemporary Chinese villages and Chinese peasants) (Beijing: Zhishi chubanshe, 1991); Chun Chang and Yujiang Wang, "The Nature of the Township-Village Enterprise," *Journal of Comparative Economics* 19 (1994): 434-52.

[4] State Statistical Bureau, *Zhongguo tongji nianjian* (Statistical yearbook of China), 1991, 1992, 1995, and 1996 issues (Beijing: Zhongguo tongji chubanshe).

[5] Ibid. The national labor force figure represented employments in both the industrial and agricultural sectors, while TVEs included only those in the industrial sector. Thus, the percentage of TVEs in the industrial sector labor force should be considerably higher.

have also provided experiences for the state and local governments in formulating policies concerning transforming urban state-owned enterprises.

What is little documented, however, is the dramatic transformation that has taken place since September 1997 in the essence and character of these enterprises. An understanding of the continuing changes of the nature of these enterprises is thus a vital key to gaining an understanding of the transformations taking place not only in the rural areas but also in the changing economic, political, and social dynamics of the Chinese system. In short, we conceive that the institutional transformation of these rural enterprises can be best understood in terms of the transfer of two types of property rights.[6]

The present paper will make the argument that since late 1997, *transformation of the rural enterprises has entered a second and critical phase.* The initial phase, starting in the late 1970s, was characterized by *the transfer of user rights* from the state to local government-enterprise executives.[7] These cadre-corporate leaders were granted the rights to manage production processes and allowed to share and distribute surplus income. At the same time, the enterprises themselves were considered to be owned collectively; the rights to the assets (their appropriation and transfer rights) remained in the hands of the local governments, as agents of the state and "the people."

Beginning in the mid-1980s, and with the encouragement of the state, a new organizational institution emerged in the form of shareholding system. The government considered this system as a viable alternative to individual/household enterprises and ways to combine smaller collective and

---

[6]For discussions of property rights, see Armen Alchian, "Some Economics of Property Rights," *Il Politico* 30, no. 4 (1965): 816-29; Armen Alchian and Harold Demsetz, "Production, Information, Costs, and Economic Organization," *American Economic Review* 62, no. 5 (1972): 777-95; idem, "The Property Right Paradigm," *Journal of Economic History* 33 (1973): 16-27; Eirik G. Furubotn and Svetozar Pejovich, *The Economics of Property Rights* (Cambridge, Mass.: Ballinger, 1974).

[7]Martin L. Weitzman and Chenggang Xu, "Chinese Township-Village Enterprises as Vaguely Defined Cooperatives," *Journal of Comparative Economics* 18 (1994): 121-45; Jean C. Oi, "The Role of the Local State in China's Transitional Economy," *The China Quarterly*, no. 144 (December 1995): 1132-49; Jonathan Unger and Anita Chan, "China, Corporatism, and the East Asian Model," *The Australian Journal of Chinese Affairs*, no. 33 (January 1995): 29-53.

state enterprises into larger-scaled and more resourceful enterprises.[8] Throughout the coastal regions, rural enterprises began turning themselves into shareholding companies. These companies mostly distributed shares to their managers and employees so as to provide incentives, in the form of annual dividends or bonuses in proportion to shares and profits, to the workers. However, seldom were the shares representative of assets, as the asset ownership remained with the state or local government. Thus, the shareholding system itself should not be construed or equated with any shift in asset ownership.

However, since late 1997, a new phase of the transformation has been unfolding in rural enterprises in China, one that we argue is signaling *the transfer of asset rights*. In this second phase, local corporate leaders are attempting to shift the rights to the assets of shareholding enterprises. We argue that the ultimate objective of this transformation is to transfer the control of enterprise assets from the local government to the hands of the corporate leaders.

Organizations, Actors, and Asset Ownership

To understand the significance of the second-phase transformation and the entangled dynamics of organizations, actors, and asset ownership, a brief review of the nature of the rural enterprises since the reform began in the late 1970s is in order. Rural collective enterprises in the form of TVEs were initially organized by the local political (government-party) leaders as a way to break out from the reliance on agriculture as the primary means of economic production and resolve simultaneously the problem of surplus labor and the need to make economic gains. These leaders either assumed corporate leadership themselves or delegated the managerial responsibilities to trusted lieutenants, often their kin. The relationships

[8]Nan Lin and Chih-jou Chen, "Local Elites as Officials and Owners: Shareholding and Property Rights in Daqiuzhuang Industry," in *Property Rights and Economic Reform in China*, ed. Jean C. Oi and Andrew G. Walder (Palo Alto, Calif.: Stanford University Press, forthcoming).

Table 1
Organizational Forms, Organizational Hierarchy, Actor Roles, and Asset Rights in the Two Phases of Transformation

	Phase I – Stage 1 (1979-91)	Phase I – Stage 2 (1991-97)	Phase II (Nov. 1997-present)
Organizational Form	Collective enterprise	Shareholding company	Shareholding company
Power Hierarchy	Government over enterprise	Government over enterprise	Enterprise autonomy
Actor Role	Cadres as corporate leaders	Cadres as corporate leaders	Corporate leaders as cadres
Shareholder Rights	Not applicable	Bonuses/dividends	Assets
Asset Rights	Government	Government	Shareholders (corporate leaders)

among the local government and enterprise, actor roles, and asset rights can be seen in the first column in table 1.

In the initial stage of the first phase (late 1970s to early 1990s), the TVEs were clearly collective in nature. As such, they belonged to the local government, which had the complete authority over user and asset rights. The local government appointed the corporate managers who also occupied positions in the local party-government apparatus. The assigned corporate leaders were often delegated the responsibility for personnel decisions (hiring outside workers) and decisions to allocate residual income (after tax and fees to the local government) as reinvestments and annual bonuses. However, the local government maintained the authority to retain or change the managers, to set limits on salaries, and provide welfare and services to all local residents. From the property rights perspective, the local government retained complete control of assets and much of the user rights as well. Furthermore, most of the corporate leaders were also local cadres. These actors managed the enterprises on behalf of the local government and were thus government agents first of all and then corporate agents.

As early as the late 1980s, various enterprises experimented with the shareholding system. The system's legitimacy was confirmed with the approval of the Company Law by the Standing Committee of the National

People's Congress on December 29, 1993 and its enactment on July 1, 1994. At that time, shareholding companies began to emerge as a popular organizational form for collective enterprises. We may characterize this phase as the second stage of Phase I, as represented in the second column of table 1. At this stage, shares in most of the TVE shareholding companies were arbitrarily constructed for exclusive distributions to employees within the enterprise. The shares were meant to achieve a more transparent means to distribute annual bonuses and dividends. Shares were not tied to the assets; ownership of shares had no claims on the assets themselves. However, the shareholding form of the organization set the stage for experimenting with ways to refine definitions of shares and the meaning of the shares themselves. It also raised the question about the asset ownership, even though no blatant challenge to the collective ownership of the enterprise was possible.

The intriguing dual roles of the leaders in these enterprises also began to change in the late stage of Phase I. While corporate leaders continued to maintain dual roles as corporate and government leaders, there was a subtle shift in role priorities. In contrast to when they served first as agents of the local government, these leaders began to recognize themselves and sought to be recognized foremost as corporate leaders acting on behalf of the enterprise. Roles in the local government remained important because they allowed these leaders to claim legitimacy in accessing local resources (the labor force, the use of land, public services, and social welfare) and avoided challenges that the "collective" enterprise was being privatized. Yet, it became clear that they were acting more on behalf of the interest of the enterprise rather than as agents of the local government.

This stage turned out to be short-lived. First, it was clear that the corporate leaders were not satisfied with the fact that although their leadership and efforts had created enormously profitable enterprises, a significant portion of the profits were being absorbed by the local government through taxes and fees. Furthermore, concerned with their own ages and the issue of leadership transition, corporate leaders were anxious to lay claims to asset rights. Such anxiety and frustration were reflected in repeated changes in the shareholding system with which they were experimenting. An increasing number of shares were falling into the hands of these leaders, yet at the same time shares remained independent of the assets themselves, which continued to remain collective in name and legality. The opportunity to change the lack of linkage between shares and assets and the legal stature of the enterprise came rather suddenly in September 1997.

Opportunities and Strategic Actions in the Transformation of the Asset Ownership

At the Chinese Communist Party's (CCP's) Fifteenth National Congress in September 1997, Jiang Zemin declared that "public" ownership "can and should take multiple forms in its realization." His report stated:

> The joint-stock system is a form of capital organization of modern enterprises, which is favorable to separating ownership from management and raising the efficiency of the operation of enterprises and capital. It can be used both under capitalism and under socialism. We cannot say in general terms that the joint-stock system is public or private, for the key lies in who holds the controlling share. . . . If the state or a collective holds the controlling share, it obviously shows the characteristics of public ownership.[9]

The report proceeded to add, "There have appeared a large number of diverse forms of joint-stock cooperative ventures in the urban and rural areas. These are new things arising in the process of reform. We should support them, give them guidance, constantly sum up their experience, and improve them." While these statements were vague, they hinted at two significant flexible approaches which were not available or understood before the CCP's Fifteenth National Congress.

First was that for a shareholding company, as a form of the joint-stock cooperative system, ownership of the assets may be tied to shares. Previously, shares in most shareholding companies were designed mainly for distributing year-end bonuses. Owners of shares did not represent owners

---

[9] Jiang Zemin, "Hold High the Great Banner of Deng Xiaoping Theory for an All-Round Advancement of the Cause of Building Socialism with Chinese Characteristics to the Twenty-first Century" (Report at the CCP's Fifteenth National Congress, Beijing, September 12, 1997; passed on September 18, 1997).

of the assets. The proclamation now sees the joint-stock cooperative system as a means to separate ownership from management, and if the collective holds the controlling share, the enterprise is still regarded as a public company. Such statements thus suggest that shares might be linked to asset ownership. So long as the "public" holds the controlling shares, the company is publicly owned, and individual or private shares become permissible as long as they do not constitute the "controlling shares." Thus, it becomes possible to define "control" or ownership of the assets in terms of control of the shares; furthermore, the public company does not exclude the presence of both public and private shares.

Second, this proclamation left undefined what, in a joint-stock company, "public" shares entail. A joint-stock company may retain its public character, as long as the public maintains the controlling shares. However, the concept "public" might contain collective as well as other public elements. Rather than attempting to seek clarification, many local corporate leaders took the opportunity to supply their own interpretations which, in their own judgments, were deemed consistent with the intent of the notion of the "public."

For example, in the case study which we shall report, this more "flexible" interpretation has led to the understanding that assets in a shareholding enterprise, as a form of a joint-stock company, can be delineated into four types of shares: (1) *collective* shares (*jiti gu*), representing the portion of the asset value originally invested by the local government in the construction of the enterprise, (2) *enterprise* shares (*qiye gu*), representing the portion of the asset value accrued by the enterprise since its inception, (3) *cooperative* shares (*hezi gu*), representing the portion of the asset value invested by other enterprises, and (4) *individual* shares (*geren gu*), representing the shares distributed to and held by individuals and, in most cases, by employees in the enterprise. The collective, enterprise, and cooperative shares are all interpreted as public shares. Thus, as long as these shares constitute the majority of total shares, then the enterprise is declared to have met the requirement of being a public enterprise. A collective enterprise (an enterprise initiated and run by the local government) may still be seen as a public enterprise. On the other hand, a public enterprise may be one in which the majority of the shares consists of any combination of collective, enterprise, and cooperative shares, as long as their total shares exceed those owned by individuals.

When the shares are linked to asset rights, and certain shares, deemed public, must represent controlling shares, the next issue to be resolved by the local corporate leaders is to gain control of the shares for themselves. Control could not be gained by merely cornering the individual shares, since these shares remain in the minority of the total shares. The issue was resolved by utilizing their dual roles as both the corporate leaders and the local cadres. As the corporate leaders, they could claim to represent the enterprise shares; as the cadres in the local government, they could represent the collective shares. By claiming representation of the collective and enterprise shares, and by claiming a substantial portion of the individual shares, these corporate leaders gain control of the shares, and, thus, the asset rights.

A final issue to be resolved was the legal status of the enterprises, as they had been established as collective enterprises and were registered as township or village collectives in the county governments. So long as the companies were registered as collectives, the local government retained the authority to take over management and assets. One way to make a clean break was to transform the enterprise from a collective to a public company. Changing the nature of the company could be accomplished by legally de-registering the collective enterprise and reconstituting it as a public enterprise. This step would accomplish two goals. First, the old collective enterprise, inevitably bound by law with the local government, would be declared dead. Second, the reconstituted public enterprise would now be controlled by shareholders, and as long as the public shares constituted the majority of shares, it would be considered as a public enterprise. Since the collective shares, representing the original investment of the local government, constitute a significant portion of the shares, the collective interests would presumably be represented in the new company as well. Because the corporate leaders themselves would control the majority shares (e.g., as representatives of the collective and enterprise shares and a significant portion of the individual shares), they would become de facto majority asset owners of the company.

Parallel to the transformation of the asset ownership of the enterprise/

company is a corresponding transformation of the roles of the local leaders in charge of the company. Most enterprise leaders had also been cadres of the local government. In this duality of roles, they were primarily agents of the state and the local government, holding important political positions in the community (party secretaries or members of the village/township party committees) as well as in the enterprise (party secretaries), and secondarily as agents of the enterprise (as CEOs or chairmen of the board). The local leaders were the ones playing the critical role in devising types of shares and methods of distributing shares for the newly constituted shareholding company as well as implementing the conversion of collective enterprises into shareholding companies. It is these leaders who gained control of the majority shares (as representatives of the collective and enterprise shares and owners of a significant portion of the individual shares). Since the conversion, many of them have continued to hold their dual roles as agents of both the local government and the company. However, there has been a major transformation in the priority of roles. Now these leaders act in the interest of the company first, rather than the local government. Many of them continue to hold political and social administrative roles as party secretaries of the companies. This is important because at this stage, only party and government representatives can continue to represent the collective shares. They now see themselves, however, as corporate leaders (chairmen of the boards and CEOs) first and political leaders secondarily. These changes are represented in the third column of table 1.

In sum, shareholding, as practiced in its early phase during the 1980s and early 1990s, allowed the local elites to continue consolidating their rights to *the management and use of surplus income* of these enterprises under the umbrella of the local governments of which they were also the leading cadres. In contrast, we argue that the currently unfolding phase of transformation taking place in rural enterprises will allow these elites to wrest *asset ownership rights* away from the state and local governments. Thus, we argue, the new phase represents a decisive move on the part of the local elites toward converting "collective" enterprises into privatized enterprises.

At present, there have been many variations in the implementation of the "new" shareholding companies. Some TVEs have yet to embark on the second phase of transformation; they have remained under the control of the local governments as collectives. Other enterprises have turned themselves into shareholding companies, but thus far have left the majority of shares in collective-enterprise hands. Still others have categorized different types of shares, and corporate leaders have wrested control of the majority shares, but without de-registering the "collective" enterprise itself. Yet, we contend that the development and sequence described above reflect the still-unfolding trends in coastal rural regions where the TVEs have dominated.

To illustrate these transformations, the remainder of the paper will be devoted to a case study of one village (now a town) in Tianjin, Daqiuzhuang, the richest village in China (until its "promotion" to town [*zhen*] status in 1993).[10] The first section provides a brief description of the first-phase transformation in the village. In this phase enterprises were developed and managers given the user rights, and the village, through its leading cadre, retained rights to the assets. The next section reports a peri-

[10]Our data comes from various sources: local informants, a participant observer, and extensive local and informal documents—e.g., Yu Zuomin, *Zongjingli de baogao* (Report of the CEO) (Daqiuzhuang, mimeographed, 1988); idem, *Daqiuzhuang jueqi de mimi* (The secrets of the rise of Daqiuzhuang) (Daqiuzhuang, mimeographed, 1988); idem, *Sishinian de zhuiqiu* (Forty years' pursuit) (Daqiuzhuang, mimeographed, 1988); idem, *Shijian he gouxiang* (Implementation and conceptualization) (Daqiuzhuang, mimeographed, 1989). The senior author has visited the community numerous times (at least once a year) since 1988, including the most recent trip in December 1997. During these trips, he conducted interviews with local leaders (including party secretaries of the village and village heads), enterprise executives (including several directors and deputy directors of the boards and the CEOs), key actors (including Liu Wanmin, the steel worker who helped start the first plant) and workers (both local and hired hands from outside). Journals were kept for all interviews and voice-recordings were made whenever allowed. Inconsistencies were found in different documents. Most of the inconsistencies, we felt, were due to the lack of sophistication and imprecision of calculations in the accounting system in earlier years and the habit of using rounded numbers, rather than deliberate falsification. In such cases, we use the figures reported in most recent documents, and estimates repeated in different documents. While these figures may only be approximate, they cannot be deliberately construed because certain figures are publicly verifiable (taxes, wages, bonuses, investments in schools, the hospital, and payments to retirees). Errors are inevitable and the figures should be seen as illustrations of general trends rather than precise estimations. Other information (e.g., number of hired laborers—the outside workers and their conditions, actual benefits of the top managers, and relationships among them) is not documented and must be obtained from informants whose provision of information had proven to be valid in general. At best, these estimates provide only a general picture and trends.

od of transition when the leading cadre fell from authority and the county government attempted but failed to wrest asset ownership from the village. The last section describes the current phase of transformation wherein the corporate leaders have been gaining asset rights.

Daqiuzhuang: Enterprise Development

Daqiuzhuang, a village about fifty kilometers southeast of Tianjin and a population 3,886 (in 1989), became the richest village in China by the mid-1980s under the dictatorial leadership of Yu Zuomin, its party secretary and corporate boss.[11] In 1997, the projected total production value from about 360 enterprises reached 13 billion *yuan*.

These achievements are astonishing for such a small village and for such a short period of time.[12] As details of its rise and development are available elsewhere,[13] we only briefly recount its development. The breakthrough came in 1977 when Yu Zuomin with the help of an associate, Liu Wanmin, decided to put together three steel-pressing machines with old parts and built a factory with an investment of 160,000 *yuan*. The factory went into production in 1978 and turned in an income of 200,000 *yuan* the same year.

By 1989, the Daqiuzhuang Agricultural-Industrial-Commercial United Corporation (Daqiuzhuang nonggongshang lianhe gongsi) owned 117 enterprises, manufacturing over 300 products in 20 industries. Under the Corporation, there were Four Big Groups (*sida jituan*), each of which

[11]For details of the reform developments in Daqiuzhuang, see Nan Lin and Mai-shou Hao, "Getting Rich First at Daqiuzhuang: A Cast Study of Rural Development in China" (Durham, North Carolina, 1991); Nan Lin, "Local Market Socialism: Local Corporatism in Action in Rural China," *Theory and Society* 24 (1995): 301-54; Nan Lin and Chih-jou Chen, "Local Elites and Shareholding: Property Rights Transformation of Rural Enterprises in China" (Paper delivered at the Conference on Property Rights in China, Hong Kong University of Science and Technology, 1996); Lin and Chen, "Local Elites as Officials and Owners."

[12]This section is based on interview with Liu Wanmin, June 1994.

[13]Lin and Hao, "Getting Rich First at Daqiuzhuang"; Lin, "Local Market Socialism"; Lin and Chen, "Local Elites as Officials and Owners."

had their own subcompanies (*zigongsi*) and enterprises (*qiye*).[14] Underneath its economic organizations, Daqiuzhuang had a social structure not unlike those of many other villages in China. Of the Four Big Groups, Liu's brother was the CEO of the First Group; Yu's cousin was the CEO of the Second Group; his son-in-law, Zhao, was the CEO of the Third Group; and a Mr. Zhang, from another big family in Daqiuzhuang, headed the Fourth Group. A fifth group, in charge of all agricultural production, was in the hands of the husband of Yu's niece.[15]

In terms of property rights, each group and each enterprise was allowed flexibility in the allocation of its residual income and management decisions, but the assets themselves were owned by the United Corporation and, therefore, part of the village collective. In reality, Yu as the local leader of the party and village commanded the enterprises. All top-level executives (chairmen of the boards and the CEOs) of each group were also members of the village party committee. The top executive of each enterprise served the dual roles of being both the business manager and party representative in each enterprise. Thus, *the political apparatus controlled economic resources*.

Daqiuzhuang Enterprises in Flux

The fortune and fame of Daqiuzhuang took a dramatic turn in December 1992.[16] A controller in the First Group was accused of doctoring accounts and subsequently beaten to death. On April 15, 1993, Yu Zuomin was arrested, along with several other village and group officers, including one of his sons who was in charge of the First Group. In August, Yu and seven others were found guilty and sentenced to jail. Yu was specifically

[14]Later on, a fifth group was created for the agricultural sector.

[15]In addition, a Miss Shi was the director of the Office of Administration, and her family members were in charge of the electricity office, the electronic company, and Daqiuzhuang's branch offices in Tianjin and in the Development Zone on the coast. As it turned out, Miss Shi was Yu's mistress and bore him a son. Lin, "Local Market Socialism," n. 90.

[16]Lin and Chen, "Local Elites as Officials and Owners."

found guilty of concealing and hiding the four persons accused of beating Wei to death, organizing and commanding innocent villagers to interrupt legal investigations, and bribing an investigative officer.[17] In November 1993, Daqiuzhuang was "elevated" from a village to a town. As a result, the Jinhai County sent in one of its vice-mayors as the new town party secretary, the Corporation was abolished, and the Four Big Groups were converted into four "administrative streets" (*jiedao*) similar to the street committees in cities and towns. On paper, the village corporation was now under the direct command of the county, through the town government. The village collective enterprises seemed to have become county enterprises.

However, authorities soon discovered that the Fifth Group, the Agricultural Group, had a debt exceeding 300 million *yuan*. The county itself could not repay or refinance the debt. In fact, the town found itself incapable of sustaining the costs of managing the huge industrial complex and enormous obligations in public services (maintaining schools, hospital, utilities, communications, etc.). The county negotiated with the Big Four and achieved a solution. With a promise to share and possibly absorb the debt incurred by the bankrupted Fifth Group, the Big Four would absorb the enterprises and the land allocated to the Fifth (Agricultural) Group. Furthermore, Daqiuzhuang would be divided into four neighborhood committees and each group would take up the responsibility of managing one neighborhood committee. As such, each group was given jurisdiction over the land, the population, the housing, the schools, the clinics, and other community functions associated with each neighborhood committee. Leaders of each group assumed the leadership of each neighborhood committee. Thus, the party secretary of the group (also its chairman of the board) also became the party secretary of the neighborhood committee. The original cadres and officials (except those in prison) not only retained their positions and titles with each group, but now also assumed parallel

---

[17]Yu was sentenced to a twenty-year prison term. His son was sentenced to ten years, Miss Shi one year, and five others received sentences ranging from two to four years (*People's Daily*, Overseas edition, August 28, 1993). On August 27, eighteen more were sentenced, including one with a death sentence (to be delayed for two years), two with a life sentence, and others ranging from five to fifteen-year prison terms.

positions in the neighborhood committee.

Thus, with the abolishment of the General Corporation,[18] the paramount village leader, Yu Zuomin, in prison, and the county and town government losing control over the economic and neighborhood affairs, the Big Four essentially became four independent local socioeconomic corporations, each with its own neighborhoods, land, enterprises, and population. Each group submits an annual administrative fee to the county, a portion of which is then returned to the town so that it can manage what remains of the town affairs. In interviews with us, the township leadership claimed that this arrangement "separates economic affairs from political affairs" (*zhengqi fenjia*) of the town and leaves the economic affairs in the hands of the groups. But in reality, because of its jurisdiction over the land, the population, and all affairs associated with the neighborhood, each group assumes the primary economic as well as social and political authority in its territory. Each group runs its own infirmary, schools (nurseries and elementary schools), cares for its senior citizens, and hires its own managers, technicians, and outsider workers.[19]

In the meantime, productivity has continued to grow. Production value officially reached 2 billion *yuan* (but unofficially may have reached 4 billion *yuan*) in 1992, 4.5 billion *yuan* in 1993 (unofficially 5.6 billion *yuan*), and 7 billion *yuan* in 1994 (with a profit of 5 million *yuan*). In 1995, the enterprises employed 23,000 outside workers. In 1997, more than 360 enterprises employed 24,000 outside workers, and produced a projected production value of 13 billion *yuan*. Rough estimates of the production and size of these enterprises are presented in table 2. The power and resources assumed by each group offer the opportunity for each group to contemplate further transformations in the property rights of the enterprises under its control.

[18]The Daqiuzhuang United Corporation was changed to the Daqiuzhuang General Corporation in the early 1990s.

[19]All workers since the mid-1980s have been from outside the village, as all Daqiuzhuang residents have become managers.

Table 2
Corporate Groups at Daqiuzhuang*

	Group				
	Y	H	M	W	DQZ
Industrial Production Value (in 100m *yuan*)#					
1992	15				40.5
1993	20				56
1994					73
1995					93
1996	53.9	25			106
1997 (projected)	60	30	21		130
Number of Enterprises					
1996			20^{+}		
1997	80	6	4		360

*The table only contains entries with available data.

#The term is usually applied to total production value, but it is sometimes mixed with total sales value.

Ownership Transformation

Practicing Shareholding

Nominally, the enterprises remained collective and their assets—built over the years with investments of public (village) capital—remained under the control of the public (the town). In 1992, however, transformation of asset ownership rights began taking place. The mechanism by which this process was made possible was to turn enterprises in each group into shareholding enterprises. Initially, each group tried defining shares in each enterprise in various ways; two of the most common were: (1) the collective shares representing public capital and assets, and (2) the individual shares to be distributed among leaders and workers in each enterprise as well as leaders in the group. A significant portion of the individual shares, free of cash, were given to the leaders in compensation for their contributions, called the "contribution shares," while the remainder of the shares were purchased by managers, employees and workers in the enterprise and in the group with cash. However, a quota system was established to determine how many shares could be purchased by an individual. Usually the system favored larger shares going to the group and enterprise leaders, either through a proportional system relative to the "contribution shares" (the more contribution shares a person held, the more cash shares that person could purchase) or the ability to pay cash. Since each enterprise was under a group, the group leaders (the chairman of the board, the CEO, and other top executives) were also given significant contribution shares of every enterprise under its control and the options of purchasing significant portions of the cash shares in each enterprise. The group leaders tended to exercise their options to purchase cash shares relative to each enterprise. The decision was largely profit-driven. In profit-making enterprises, the group leaders claimed the maximal shares allowed them, and in other less-profit-making enterprises, they purchased less or even refrained from purchases entirely. Thus, in the end the overwhelming majority of the individual shares of profit-making enterprises fell into the hands of the leaders in the group. Furthermore, when expanded, shares would proportionally go to the share holders as bonus shares. In essence, the unequal distribution of shares between the large and small holders would increase over time, with the bulk of new shares going to the group leaders.[20] Since they also represented the collective shares, they essentially controlled the overwhelming number of shares for shareholding enterprises, especially those making profits.

Despite these shareholding maneuvers, the enterprises and groups remained nominally the collective enterprises under the administration of the county government. First, the collective shares retained a significant portion of all shares. Second, the definition of shares was symbolic in that they were not tied to the assets. Instead, they were meant to designate how bonuses were to be distributed. Each year an enterprise generated revenues and presumably some profit. A portion of the profit was submitted to the county as taxes and fees, another portion was returned to the group for fur-

---

[20]Group Y is also exploring another method: the joint-stock system. For enterprises which are bigger and more profitable, the joint-stock method would be used to absorb more cash and technology. For example, the group's steel plate plant attracted twelve outside companies (customers) who contributed 230 million *yuan* of the total 660 million *yuan*, to establish a second thin-plate steel plant with a production goal of 120,000 tons per month. Another company, the Jin Mon Steel Tube Plant, has amassed assets of 120 million *yuan* in cooperation with an Inner Mongolian company. This system has no individual shares.

ther investment and development, and still a third portion was reinvested by the enterprise, with the residue distributed to shareholders as bonuses. Since shares cannot be transferred or traded, and must be forfeited when a worker leaves the enterprise, the shares themselves did not have any cash value.

It was clear that this was not the final design by group elites in turning these enterprises into shareholding systems. Beginning in 1994, the groups hoisted a new banner: "Second-Stage Enterprise Construction" (*erci chuangye*). Initially, the term (whose origin is unclear) meant to promote diversity of production from labor-intensive to technology-intensive means, expand capital, elevate the scale of economy, and substantially increase marginal profits. In field interviews conducted in 1995, 1996, and 1997, the group and enterprise managers argued that in first-stage enterprise construction (between 1978 and 1994), the village and township enterprises were created and snow-balled in a primitive cumulative process. In this process enterprises were built, expanded, or multiplied on the cumulated assets and capital from productions of existing enterprises. This cumulation was labor-intensive, low-quality, and primitive. While these enterprises filled the production gaps of the state enterprises and met the demands of the growing market, their efficiency and marginal utility gradually declined. Their primitive production and distribution systems could no longer meet the demands of the market, where an increasing number of high-quality and low-cost goods were becoming available. Therefore, the leaders argued, there had to be a renewal process for the enterprises themselves. In essence, they sought to transform the enterprises as a fundamental institution.

What was hidden behind these rhetoric arguments was the intent to reconstruct asset ownership. The reason this objective was hidden was because there were little guidelines as to whether and how collective enterprises could be turned into "non-collective" enterprises. The occasion and pronouncement of the CCP's Fifteenth National Congress opened the floodgates for converting the asset ownership of the enterprises.

"Following the Spirit of the CCP's Fifteenth Congress"

This section highlights how the process of one group in Daqiuzhuang (designated as Group M) carried out ownership transformation. Similar steps have been taken by every other group, even though the pace of conversion from a collective to a public enterprise has varied in each case.

Group M started as a small iron and steel processing enterprise in 1980 with 26 employees and 90,000 *yuan* of capital. According to group officials, by the fall of 1997 the firm had developed into a multi-million enterprise with 9 companies, 67 enterprises, and had accumulated a total asset of 2.19 billion *yuan*. Its net assets equaled 610 million *yuan* and employees numbered at 6,500. In 1996, it reported a sales income of 3.3 billion *yuan* and a net income of 208 million *yuan*. Currently, it is ranked 197th among the 500 biggest enterprises in China. "Group M" is the 7th largest township enterprise in China and ranks 5th among all township enterprises in terms of the tax and profits turned over to the state.

According to group leaders, "second-stage enterprise construction" was carried out in three stages, starting from the end of 1995. At the first stage, Group M divided the shares into four types: (1) community (*shequ*) shares, (2) the team (*shetuan*) shares, (3) social-entity (*shehui faren*) shares, and (4) natural individual (*ziranren*) shares. The community shares represented the original investment in the enterprise by the local government and the team shares represented the accumulated assets since the inception of the enterprise. To assess the community and team values, the group evaluated the current net worth of all its enterprises and determined that the total amounted to 350 million *yuan*. Net assets belonged to the community and the group collectively, since the community (the local government) made the original investment and the efforts of the group accounted for growth and gains. These total assets were then divided into two parts: 55 percent (187 million *yuan*) was considered as being owned by the community and 45 percent (163 million *yuan*) by the group (the team). When asked how the 55-45 split was determined, we were told that this was "in accordance with the guidelines of the national leaders that the community, the ultimate collective, should retain the majority of the assets."

At the second stage, Group M restructured its subordinate companies and distributed the team shares among the staff and workers. For each company, the shares were divided into two portions. About 10 percent were given to those who made "special contributions" according to "their seniority, position, and contributions." The remaining 90 percent were distributed as matching shares for cash shares. The matching shares were team shares allocated to individuals in proportion to the shares they purchased. The ratio was not fixed; rather, it varied with the magnitude of individual cash contributions. The range was between 1:1 (matching shares to purchased shares) and 3:1. The more cash contributions from an individual, the higher the ratio he/she enjoyed. Staff and workers in the enterprise as well as executives and officials from the group headquarters and the supervising company could purchase a maximal number of shares, depending on their relative positions. The higher the position, the more cash shares one was entitled to purchase. Therefore, top executives are entitled to a significantly greater amount of free matching shares.

Thus, in this pyramidal scheme the group leaders at the very top of the hierarchy can own many shares from many companies at a substantial discount rate due to their relative positions and entitlement to matching shares. However, it is up to these leaders to purchase actual shares; they can forfeit their privileges. In other words, these elites can invest in companies making profits and refuse investing in companies that are not doing so well or losing money. Finally, as demands of good shares (especially for profit-making companies) have continued to be high, additional shares have thus been made available. Between 1995 and 1996, staff and workers bought shares with a total cash value of 47 million *yuan*, with a 93 million *yuan* projection for 1997. Fundamentally, only individuals own shares. They cannot be traded, transferred, or inherited. Currently, the value of each share is fixed, since there is no market. Each share is guaranteed an annual dividend of no less than 20 percent of its value.

A further mechanism to accelerate the asset ownership transfer employed by the corporate leaders has been to increase the non-collective shares of the company. New shares have been created in two ways: (1) through cooperation with or investment from other enterprises and companies (e.g., the cooperative shares) or individuals from outside the companies, and (2) incremental increases of shares for the company and its employees through profits. In the meantime, the community shares, representing the original asset value of the company contributed from the state or local government, have been held constant. Thus the new shares will continuously shrink the proportion of the collective shares.

The group absorbed capital from outside the group, principally from other enterprises, to create the social-entity shares. In 1997, eight enterprises alone drew 80.1 million *yuan* from seventy-two social entities in twenty provinces, sixty-five of which joined the board of directors in these enterprises. For all enterprises which underwent restructuring, the ratio between the capital owned by the enterprises and that invested by social entities was 1:0.8.

In the third stage, after restructuring, old enterprises "with unlimited responsibilities" have been de-registered and new shareholding limited ones registered. The assets and debts of old enterprises have been transferred to the new enterprises through various legal procedures. Further actions have been taken to separate management from ownership. There are three levels of hierarchy in Group M: the group, secondary companies, and tertiary enterprises. The group will invest in companies and companies in enterprises. However, higher-level units only participate in the activities of lower-level units as shareholders. Each enterprise is an independent corporate body. In each enterprise, three bodies have been constructed: the Board of Trustees, the Board of Supervisors, and the Executive Committee, thus establishing checks and balances to defend assets and shares.

In sum, Group M has engaged in a series of reforms concerning ownership rights since the end of 1994. Following the CCP's Fifteenth National Congress, this group has taken drastic steps to further its reforms and transformed the old collectives into new public companies. The distribution of the shares and values over the four types for Group M in 1996 and 1997 is summarized in table 3. The erosion of the community and team shares is evident even during this short one-year period.

Many of the activities described to us during interviews in 1995, 1996, and 1997 were still being implemented, modified, and documented at the time. Many changes are still in the works. However, it is clear that by the spring of 1998, Group M had legally and socially transformed itself into a public, privatized corporation. Under the broad meaning of public ownership, public-owned shares comprised those from all the first three sources (the community, enterprise, and social shares), which accounted for 92.42 percent of the total capital in 1996 and 82.9 percent in 1997. The

Table 3
Four Types of Shares and Values in Group M (in million *yuan*)

Year	Community shares	Team shares	Social-entity shares	Individual shares	Total
1996	187 (30.16%)	163 (26.29%)	223 (35.97%)	47 (7.6%)	620 (100%)
1997	220 (26.8%)	181 (22%)	280 (34.10%)	140 (17%)	820 (100%)

trend is clear: community and enterprise shares will continue to erode, to be replaced by individual shares.

A similar process of this transformation is taking place among all four groups in Daqiuzhuang, albeit at different stages. The second-phase transformation is more than a process of transferring ownership through shareholding. Simultaneously, each group is selling small and medium-sized enterprises which had shown a net positive asset. The profit is then incorporated into the group's capital. Each is actively interacting not only with other TVEs and enterprise groups, and foreign investors, but also with state-owned enterprises for possible merging and collaborating. Together with the state-owned enterprises, each group explores a variety of possible relationships: forming collaborative relationships in production or/and capital, joining forces in making new enterprise ventures, or even buying state-owned enterprises. Many of these options will no doubt go through a period of trial-and-error and risks (e.g., still to be determined is what will happen to the workers and staff of the absorbed state enterprises who had lifetime employment guarantees). Nevertheless, it is clear that each group is behaving as the owner of its enterprises.

Transformation Fever

It should also be noted that this transformation is not unique with Daqiuzhuang or the northern plane. In fact, some "models" which were used to describe stereotypical enterprises in various regions are quickly losing their attributed characteristics and converging to the same process of transformation.

TVEs in southern Jiangsu (Sunan), long considered the model of local collectives,[21] have joined the trend. Zhou Haile, an authority on the Sunan model, indicated that the Sunan enterprises had a head start in the 1970s in the formation of collective enterprises.[22] The total production value of these enterprises in Suzhou, Wuxi, and Changzhou rose from 2.68 billion *yuan* in 1978 to 18.9 billion in 1984, 54.43 billion in 1988, and 168.9 billion in 1993. However, production and profit peaked in the early 1990s, as supply outstripped demand, and capacity and capital reached their limits. Fundamental changes have since taken place. By 1997, 251 foreign enterprises had made investments in the local enterprises, 70 percent of the enterprises had become cooperative ventures, and 64 percent of the private enterprises had included foreign investment. The scale of economy and forms of organizations showed "a complete different face" from those characterizing the Sunan model. More stunningly, the shareholding system was first adopted by some enterprises as early as 1992 and conversion accelerated during 1995-96. Soon after the CCP's Fifteenth National Congress, the overwhelming majority of TVEs turned themselves into shareholding companies. By the end of 1997, 80.2 percent of the TVEs in Jiangsu (73,000) had transformed into shareholding companies. In Suzhou and Wuxi, for example, this transformation into shareholding companies has allowed the enterprises to exercise many options, including organizing into shareholding limited companies, limited companies (i.e., collaborations among several enterprises), and share-cooperatives (joint investment by several enterprises). A large number of medium-to-small enterprises have been sold or rented to private operators. Zhou Haile complained that the transformation process was "lacking in rules, reflecting individual be-

[21]Zhou Haile, ed., *A Report on the Development of Suzhou, Wuxi, and Changzhou Regions* (Beijing: Renmin ribao chubanshe, 1994); Zhou Haile and Zhou Dexin, eds., *Research on the Developmental Characteristics of Suzhou, Wuxi, and Changzhou Regions* (Beijing: Renmin ribao chubanshe, 1996); Xu Yuanmin, Shi Xunru, and Zhou Fachi, eds., *Jiangsu xiangzhen qiye xinlun* (Jiangsu township-village enterprises: New perspectives) (Nanjing: Jiangsu renmin chubanshe, 1997).

[22]Zhou Haile, "Changes in the Sunan Model" (Paper delivered at the Workshop on the Recent Trends in Rural Development in China, Nanjing University, December 1997).

haviors, and resulting in loss of public properties." The assessment of net assets of collective enterprises was "arbitrary and full of problems," as distribution of the shares involved "sentiment" (*renqing*) and "relations" (*guanxi*).

According to Zhou Haile, these "normless" actions—all resulting from interpreting "the spirit" (*jingshen*) of the CCP's Fifteenth National Congress—have resulted in somewhat chaotic changes: many enterprises are turning from collectives to household operations; from unidimensional production into multidimensional productions; from barter transactions to cash transactions; and from savings to consumption.[23] In addition, there has been extensive pollution of the land, air, and the waterways. At the same time, government cadres are experiencing "transformation of authority." As "monks in a poor temple," they are being corrupted and are thus having a difficult time maintaining "public security and safety."

It is clear that the shareholding system, legitimized by the CCP's Fifteenth National Congress, has allowed the overwhelming majority of the TVEs, at least in the coastal regions, to openly wrest ownership from the state and local governments, and many private enterprises have successfully resisted local government efforts to infuse collective elements. The acclaimed Sunan model has suddenly and decisively lost its characteristic distinction.

Economic Transition and Social Transformation

The current trends and fragmented evidence strongly suggest that the Chinese economy, at least in the rural sector, is undergoing a dramatic transition from a collective institution to a capitalist institution.[24] Yet the

---

[23]Ibid.

[24]Christine P.W. Wong, "Between Plan and Market," *Journal of Comparative Economics* 11 (1987): 385-98; Victor Nee, "A Theory of Market Transition: From Redistribution to Markets in State Socialism," *American Sociological Review* 54 (1989): 663-81; idem, "Social Inequalities in Reforming State Socialism: Between Redistribution and Markets in China," ibid. 56 (1991): 267-82; idem, "The Emergence of a Market Society: Changing Mechanisms of Stratification in China," *American Journal of Sociology* 101, no. 4 (1996): 908-49.

transformation in social institutions is much more complex than that which meets the eyes of the public or the press. Several trends in social transformations are highlighted here.

First, we argue that the shareholding system has become an important means by which *the local elites have wrested the control of collective assets from the public sector*. It is clear that a transfer of ownership rights is taking place. Local elites in control of the corporations are no longer content to share the fruits of their enterprises with the local authorities. They have taken decisive steps to claim ownership from the local government while at the same time keeping it away from the workers. At this point, worker-stockholders have little say in how shareholding is operationalized or implemented, and the local government seems either unable or unwilling to wrest the power from the corporate elites. The particular shareholding mechanisms adopted in each location represent an ad hoc and active series of actions on the part of the corporate elites to implement this transformation.

Second, *there has been a shift in socioeconomic institutions from hierarchies toward networks*. One visible trend is the convergence of the corporate elites and local elite family networks. The transfer of corporation property rights signals the rising power of local elites whose power derives from social and economic capital rooted in their local networks. Shareholding becomes the means by which these elites shift their power base from a largely political one (cadres in the local government and party apparatus) to a largely social and economic one (network of powerful families).[25]

At the same time, there is a diverging trend between corporate leadership and political leadership.[26] In the first phase of reform, the local elites

[25]Nan Lin, "Chinese Family Structure and Chinese Society," *Bulletin of the Institute of Ethnology* 65 (1989): 382-99; Lin, "Local Market Socialism."

[26]Victor Nee and Lian Peng, "Sleeping with the Enemy: A Dynamic Model of Declining Political Commitment in State Socialism," *Theory and Society* 23 (1994): 253-96; Andrew G. Walder, "Property Rights and Stratification in Socialist Redistributive Economies," *American Sociological Review* 57 (1992): 524-39; idem, "Corporate Organization and Local Government Property Rights," in *Changing Political Economies: Privatization in Post-Communist and Reforming Communist States*, ed. Vedat Milor (Boulder, Colo.: Lynne Rienner, 1994), 53-66; idem, "The Decline of Communist Power: Elements of a Theory of Institutional Change," *Theory and Society* 23 (1994): 297-323; idem, "China's Transitional Economy: Interpreting Its Significance," *The China Quarterly*, no. 144 (December 1995): 963-79.

were mostly local cadres who also took on the role of corporate leaders. The duality of roles allowed them to claim, as government cadres, that they were the protectors of collective nature of enterprises, while at the same time mobilizing resources to develop the growth of the enterprise without government interference. The dual roles have continued into the 1990s as the enterprises were being transformed into public enterprises. These corporate leaders now face the choice of either continuing this dual role or shifting into a primary role. Economic power supersedes political capital, and so long as political interference remains a real threat, many leaders will continue to hold on to their cadre roles. In the judgment of the authors, most are prepared to abandon their political role when political interference is minimized. The stage is now set for the new phase where networks, rather than hierarchies, will characterize economic organizations in rural China.

Third, it seems puzzling that the transformation has been left ad hoc in design and implementation by the central government. Leaders in each location and, indeed, each enterprise can interpret the "spirit" of statements made by Beijing's top leaders in claiming ownership and control of enterprises for themselves. It should be apparent to the leaders of the central government what is actually transpiring, but they seem content to let these local initiatives proceed. One interpretation may be that this tolerance will be maintained as long as the economic progress continues.

However, we may venture a second hypothesis concerning the deliberately vague statements and guidelines pronounced by the national leaders. That is, the vagueness may have been by design, if in fact *the desire of these national leaders is also to privatize the economy and transfer the property rights into private hands* without using the label and terminology of privatization. This hypothesis gains credence with the recognition of two facts. First, the government should have by now gathered sufficient information and knowledge about what is actually taking place and have had ample opportunities to make "corrections." Our interviews showed that the enterprise leaders are all prepared to quickly step back and hide under the public ownership banner if instructions came down from the central government insisting on the "people's" ownership. They are not prepared to resist the central government openly. Yet the fact remains that national leaders have so far refrained from providing specifics of the public nature of the enterprises and complaining about what has actually been done locally (although Premier Zhu Rongji was quoted in the overseas press in early 1998 as having stated that "not every enterprise should adopt the shareholding system" and that too many enterprises have been converted into shareholding companies).

Second, by now many former collective enterprises have already been de-registered and other small-to-medium ones have been sold. It is no longer feasible to go back and reclaim them for the "people." Local governments, accepting these transactions and providing legal recognition, are hardly in a position to enact these transfers without the tacit understanding and approval of the central government.

If this hypothesis is valid, then what we are witnessing is not that local elites are rational actors who take initiatives under certain structural constraints. Rather, it is a process engaging *two rational parties*: the government leaders and the local elites. These two parties are coordinating, at least tacitly, the transformation of the economic and social systems, without openly challenging the official political ideology. What is occurring is the staging of a series of actions and reactions by the rational actors in the actual transformation of the institutions without the proclamation of the actual intent. This seems to be the optimal choice in that actual proclamation by either party could trigger the mobilization of ideologues in a confrontation that would surely deter economic and even political changes desired by both parties. When the transformation of the actual economic and social institutions is substantially complete, and the majority of the actors enjoy the fruits of this transformation, then the national leaders merely need to formally state the fait accompli as being the wish of the people, in the hope that sharing of economic wealth, even though very unequal, will silence any protests.

There are serious risks involved in this transformation. For example, workers in rural enterprises have largely been disfranchised in this process. Many continue to draw minimal salaries. As long as business thrives and the workers receive the dividends from their shares, the workers will go along with this game. If and when the economy turns sour, either the elites must share the accumulated wealth with company workers to survive the hard times, or business leaders will act as rational executives in a private company by firing or laying off the workers. As the overwhelming majority of the workers in many locations actually come from other communities, the situation could be explosive. It would add a much more volatile dimension to the already severe unemployment problem faced by the millions of laid-off state-owned enterprise workers.

The demarcation of responsibilities between the enterprises and the local community has also been muddied. Many shareholding companies have continued to share responsibility as neighborhood and street committees. They run schools and clinics and take care of the retired, the elderly, and the disabled. Eventually, the enterprises would prefer to return these functions to the local government, so that they become exclusively economic entities. Continuing to lose revenues, however, local governments will be hard-pressed to take over these services. How the local community and the enterprises resolve these issues will constitute another phase of changes in which both the process and solution will be diverse and ad hoc.

Finally, the ownership of land itself may be a focal point for another transformation. So far, the user rights to land seem to have reverted to enterprises. The current transformation will likely proceed to deal with the land itself. When that occurs, there will be not much left as the property of "the people." Without land ownership, the political system would lose its foundational claim of being a communist system. This would signal the end of the second phase of transformation and the beginning of an entirely new political and economic order.

In conclusion, we are currently witnessing a major transformation of China's rural enterprises. With the central government's tacit support, most of these enterprises will in the near future become private enterprises, with the asset ownership shifted to the control of the local corporate elites. We speculate that it will not be far in the future when most of these economic entities will gain autonomy from the political lineage which enabled their emergence less than two decades ago. The consequences of this transformation for the political, economic, and social institutions will be dramatic and path-breaking.