Rural China Takes Off: Institutional Foundations of Economic Reform. By JEAN C. OI. Berkeley, California: University of California Press, 1999. 259 pages, 11 figures, 12 tables. Clothbound: US$45.00, ISBN: 0-520-20006-3; Paperback: US$19.95, ISBN: 0-520-21727-6.

Oi suggests that her model of local state corporatism, or LSC, aptly captures the evolutionary relationship that has occurred in the past two decades between Chinese governments at the county and township levels and rural enterprises. In the 1980s, LSC in the "corporate" mode (abbreviated here as LSC-1) meant that the local government directly intervened in the founding and operation of rural enterprises. The government-business relationship was similar to that of board of directors and functioning departments in a big corporation. What brought LSC-1 into existence was, first of all, national conditions: decollectivization which turned the commune cadres into *village* committee members who yet were deprived of agrarian revenues. The result of this step was that these ex-cadres were forced to develop village enterprises in order to make up for lost income. Another national condition was top-down financial reform, which partially transferred to counties and townships the right to business income flow. Under this change, in order to increase "extrabudgetary income," these local governments were motivated to develop local industries. The second factor leading to the creation of LSC-1 was local conditions—such as resource endowment, political and budgetary constraints, and cadre interests (pp. 67-68). The combination of national and local conditions produced different forms of LSC-1, what the Chinese have termed the "Sunan developmental pattern" (蘇南發展模式), "Wenzhou pattern" (溫州模式), and "Pearl River pattern" (珠江模式). However, all forms of LSC-1 shared three characteristics: they (1) helped in the shift from ideological to market-based planning, (2) changed the equal allocation system to one of preferential treatment, and (3) helped turn the Maoist bureaucracy into a source of information and technology for rapid industrialization (pp. 116-27).

Local state corporatism in the "corporatist" mode, or LSC-2, emerged in the early 1990s. This new form was characterized by a fresh governmental control style. This new approach included leasing collective enter-

prises to individuals or putting them in shareholding schemes. Other steps included the auctioning of the enterprises or directly lending money to private firms, all while preventing the private sector from becoming an autonomous class. To explain this shift from LSC-1 to LSC-2, Oi, in addition to the interaction of the national and local conditions, relies on the intervening factors of (1) post-1988 economic retrenchment, (2) competitive pressures resulting from successful rural enterprises in other regions, and (3) higher input costs that have pushed the local firms to focus on the export market (p. 80). Therefore, LSC, in both its corporate and corporatist modes, describes nicely the local government-business relationship over the past two decades.

The corporatist mode, as outlined in Oi's *Rural China Takes Off*, aims at restricting the economic power of the private sector. This reading probably derives from the long-term fieldwork done by Oi and Andrew Walder on the reform of rural enterprises in Zouping, Shandong (山東省鄒平縣). These two scholars have witnessed how the government in this county has implemented the policies of privatization, including leasing, shareholding, formation of conglomerates, bankruptcy declarations, and auction sales.[1] These drastic measures were, according to Oi's understanding, adopted for the purpose of "increasing efficiency of the remaining enterprises and to reconsider [the county's] attitude toward the private sector."[2] Hence the evolution of LSC in the 1990s has been moving toward tolerance of privatization in accord with local governmental concerns over revenues, efficiency, and the adjustment of its own attitude, namely LSC-2.

If Oi takes the case of Zouping as supporting her LSC-2 scheme, she clearly concedes that the developmental pattern of Wenzhou is an exception to her theory and the pattern approximates the process of privatization (pp. 69, 85). In a widely accepted account of the rise of the Wenzhou pattern in the 1980s, Fei Xiaotong (費孝通) suggests that the initiative of

[1]Jean C. Oi, "The Evolution of Local State Corporatism," in *Zouping in Transition: The Process of Reform in Rural North China*, ed. Andrew G. Walder (Cambridge, Mass.: Harvard University Press, 1998), 57.

[2]Ibid.

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the pattern came both from the domestic circulative network created by the export of Wenzhou workers to other provinces and from the commercial capital accumulated by workers-turned-itinerary-peddlers.[3] Oi also appeals to both this mobile population and its private source of funds (i.e., the local condition of resource endowment) to explain why the local government did not intervene in the rural enterprises from the very beginning.

With the property rights reform instigated in Wenzhou in the 1990s, private firms often proclaimed themselves to be "shareholding cooperatives." However, Oi still classifies these cooperatives as private enterprises and explains their behavior as an attempt to acquire political legitimacy in order to be able to withstand unexpected "capitalist-bashing." Throughout the past twenty years, Wenzhou has remained a case unaccounted for in terms of local state corporatism.

Furthermore, even in the neighboring region of Zouping County (i.e., in the Tianjin [天津] metropolitan area), sociologist Nan Lin (林南) describes a government-business relationship very differently from Oi's account. Lin's long-term observation of Group M in Daqiuzhuang (大邱莊) of Tianjin is related to the establishment of the enterprise group.[4] Group M was initially a rural enterprise belonging to Daqiuzhuang; by the end of 1997, the entity became a conglomerate with 9 companies, 67 enterprises, assets totaling 2.19 billion *yuan*, and 6,500 employees. Since the end of 1995, Group M has adopted its own version of the shareholding system.

Group M first divided its shares into four kinds: community shares, team shares, social-entity shares, and natural individual shares. The community shares represented the initial capital invested by the Daqiuzhuang government in founding Group M; the team shares represented the profits that Group M had accumulated since operation. In adopting the shareholding system, Group M had net assets of 350 million *yuan*, of which 55 percent (187 million) was divided among the community and 45 percent

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[3]Fei Xiaotong, *Fei Xiaotong xueshu lunzhu zixuanji* (Fei Xiaotong: Author's selection of academic writings) (Beijing: Shifan xueyuan, 1992), 675.

[4]Nan Lin and Xiaolan Ye, "Chinese Rural Enterprise in Transformation: The End of the Beginning," *Issues& Studies* 34, no.11/12 (November/December 1998): 19-21.

(163 million) to Group M itself.

The next step involved deciding how to distribute the team shares to Group M's employees as natural individual shares. Each unit in Group M retained 10 percent of the team shares that it received for the managers (these managers obtained their free shares according to their seniority, position, and contribution to the company). The remaining 90 percent was distributed to managers and employees alike in accord with the proportion range of one paid share to one-to-three free, matching shares. Note that a manager might assume different positions within Group M, drastically increasing the amount of his or her personal shares. In the meantime, each unit could issue its social-entity shares to outsiders in order to raise capital. At present, for all units that have adopted the shareholding system, the proportion of their own capital to the capital invested by outsiders is 1:0.8.

In the operation of these four kinds of shares, an interesting shift has emerged. Nan Lin documents that from 1996 to 1997 the ratio of the community shares to the total decreased from 30.16 percent to 26.08 percent, while that of team shares decreased from 26.29 percent to 22 percent. That is, those holding both community and team shares (which represented public ownership) turned out to be the big losers. The real winners were those who owned the natural individual shares, which increased from 7.6 percent to 17 percent. This shift in ratios, according to Nan Lin, points to the growing trend that is characterized by "the transfer of asset rights from the collectives to local corporate leaders."

In sum, in both the case of Group M in Tianjin and that of the Wenzhou pattern, what has apparently emerged in the government-business relationship in the 1990s is not local state corporatism as Oi claims. This development is rather privatization based on old-fashioned self-interest under a market situation. Oi's conceptual framework in her new book is neat and logically compelling; however, it fails to account for the government-business experience in coastal China in the 1990s.

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