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Reform From Below: The Private Economy and Local Politics in the Rural Industrialization of Wenzhou*

Yia-Ling Liu

Since the introduction of economic reform in late 1978, rural China has undergone an impressive economic transformation. On the one hand, decollectivization has culminated in the disbanding of the people's commune and the development of individual household farming. On the other, the re-emergence of the market has brought about a growing commercialization and industrialization of the rural economy.

As far as rural industrialization is concerned, a wide spectrum of possible paths for local development, ranging from collective to private industry, has emerged across China. In spite of the disparaged position of the private sector, which is seen as alien to the socialist system, and the second-class citizenship of peasant entrepreneurs,¹ Wenzhou in Zhejiang province became the first place to be economically dominated by the private sector and, therefore, to draw nationwide attention from Chinese authorities and scholars.²

What is peculiar about the development of Wenzhou to date is that since the early 1980s the supremacy of private industry over both the state and collective industries in net production value has threatened the very sustenance of the local socialist economy. In addition, many economic practices prevailing in Wenzhou actually began as devia-

*I am grateful to William L. Parish, Theda Skocpol, Tang Tsou and Gale D. Johnson for their comments and support for this research. I would also like to extend my thanks to Su-Jen Huang, Michel Oksenberg, Jean Oi, Andrew Walder and Ezra F. Vogel for their helpful comments and criticism. An earlier draft of this paper was presented at the annual meeting of the American Sociological Association, San Francisco, in August 1989. The research was supported by a research grant from the Center for Far Eastern Studies at the University of Chicago.

1. The description "peasant" in China has gained almost a legal status. It is determined by the rural residency registration and is irrelevant to actual occupation. A rural resident who has long been separated from farming is still officially identified as a peasant. If he runs a manufacturing enterprise, he will be called a peasant entrepreneur. If he engages in commerce, he will be called a peasant merchant or peasant businessman.

2. There are other areas in which a predominant private sector has emerged in the local economy. They include Quanzhou in Fujian (see Yu Zuyiao, "Xiangzhen qiye fazhan de di er gaochao: Fujian jingjingxian yu anxixian xiangzheng qiye fazhan de duibi kaocha" ("The second peak in the development of rural industry"), in Zhongguo Shehui Kexueyuan Jingji Yanjiusuo (ed.), *Zhongguo xiangzhen qiye de jingji fazhan yu jingji tizhi* (*The Development of Chinese Rural Industry and Its Regime*) (Beijing: Zhongguo jingji chubanshe, 1987), pp. 77-123; Chen Feitian and Jiang Huakai, "Quanzhou xiangzhen qiye gufen jingji de kaocha" ("A study on partnership enterprises in rural Quanzhou"), *Zhongguo nongcun jingji* (*Chinese Rural Economy*), No. 8 (1988), pp. 45-50 and Qinghe county in Hebei province (*Jingji ribao*, 4 November 1988, p. 2; *Renmin ribao*, 3 March 1989, p. 3). However, the predominance of the private economy came much earlier and is greater in degree in Wenzhou than in these places.

tions from state policies, if not as outright illegality. How could this occur in a centrally controlled, socialist society? If the private sector is prescribed by the state only as a supplement to the socialist economy, how could it be allowed to predominate over both the state and collective sectors in Wenzhou?

Five arguments are provided by Chinese scholars and officials to account for the rise of private industry in Wenzhou: the historical tradition of entrepreneurship, the lack of state investment and the weakening of state control because of Wenzhou's geographic isolation, the destitution of local economic life, the state reform policy, and the open-mindedness and willingness to take risks found among Wenzhou cadres. I believe that all these arguments, though valid, are insufficient to explain why Wenzhou is the first area in China to achieve a predominance of private industry, and would argue instead that it is the unique historical legacy of the 1949 political transformation in Wenzhou which ultimately accounts for the faster development of the local private industry. The "self-liberation" by an independent local guerrilla force in 1949 provided the Wenzhou cadres with exceptional coherence and solidarity that has enabled them to marshal a collective resistance to the state-imposed collectivization and to protect the local private economic activities in which a coincidence of interest between cadres and peasants has been embedded. It was this protection by the local authority that sheltered the household farming and peasant sidelines before 1978, and that eventually enabled the private sector to dominate the local economy first across rural China after the 1978 reform.

A study of local deviation from state policies and its historical roots also inevitably raises the question about the degree of control of a socialist state. It will be argued in this article that the concept of a sporadic totalitarian state, which denotes a state with strong despotic power but weak infrastructural power, can best explain the vicissitudes of economic activities in Wenzhou since 1949. First, however, the events in Wenzhou since 1978 need to be examined.

*The Private Economy in Wenzhou*³

Wenzhou, located in the south-east corner of coastal Zhejiang province, is a harbour city near the mouth of the Ou river. As an administrative unit, Wenzhou municipality covers 11,800 square kilometres, including two municipal districts, one inland city, and eight rural counties. Among its 6.3 million residents, 520,000 reside

3. For more detailed discussion of sweeping privatization and marketization over the local economy in Wenzhou, see Peter Nolan and Dong Furen (eds.), *Market Forces in China: Competition and Small Business – The Wenzhou Debate* (London: Zed Books, 1990).

in the municipal districts and 5.78 million in rural areas.⁴ The development of the local economy in Wenzhou since 1978 can be characterized as privatization, marketization, and local deviation from state policies.

Privatization. Since the state eased its control over the economy in late 1978, privatization has been sweeping through almost every economic sector in Wenzhou. As early as 1985, local private industry, service, transport and construction have taken the lead over their counterparts in the local socialist sector in net production value and transaction proceeds.⁵

As far as private industry is concerned, it began with household industry, based on individual household handicrafts and semi-mechanical production. Its production value since 1984 has accounted for nearly 60 per cent of the net industry output in Wenzhou, far beyond that of both the state and collective sectors combined.⁶ As household industry triggered labour mobility and capital flow, it paved the way for the rise of a private factory industry based on enterprises whose fully or semi-mechanical production is separated from the individual households, and which usually employ non-family workers.⁷ By 1986, Wenzhou already had more than 10,000 private enterprises.⁸ Since for political reasons the private enterprises are usually listed as collective enterprises in official statistics, their actual weight in the economy is difficult to determine, but it would appear that most so-called collective enterprises in Wenzhou nowadays are actually private enterprises.

The rapid development of both household and private factory industries in Wenzhou has been transforming the local economic structure from agriculture to commerce and industry. The data in

4. He Rongfei, *Wenzhou jingji geju: women de zuofa he tansuoxing yijian* (*The Economic Structure of Wenzhou*) (Zhejiang: Zhejiang renmin chubanshe, 1987).

5. For instance, as early as 1985, 70% of local transport and 70% of food services in Wenzhou were provided by the local private sector; the total value of transaction proceeds in private commerce was at least equal to, if not greater than, that of the state sector. See "Wenzhou nongcun shangpin jingji kaocha yu zhongguo nongcun xiandaihua daolu tansuo" ("A study on the commodity economy in rural Wenzhou and the investigation on modernization of rural China"), *Jingji yanjiu* (*Economic Studies*), No. 6 (1986), pp. 3–18.

6. The production value of the household industry accounted for 58.8%, 60.5% and 59.5% of the total industrial output in Wenzhou in 1984, 1985 and 1986 respectively, according to local statistics.

7. Interestingly, in his discussion of the development of factory industry in medieval Europe, Weber pointed out that, among other things, the separation of a household from production is one of the most important conditions in distinguishing factory from household industry. It seems that this process is universal in both east and west in the development of a factory industry. See Max Weber, *General Economic History* (New Brunswick, New Jersey: Transaction Books, 1981), pp. 153–177.

8. Lin Bai *et al.* (eds.), *Wenzhou de jueqi* (*The Rise of Wenzhou*) (Nanning: Guangxi renmin chubanshe, 1987), p. 103. It should be noted that a private enterprise is officially defined as an undertaking which employs more than eight workers. The 10,000 private enterprises might not be exclusively industrial enterprises. They may include non-industrial undertakings with more than eight employees in the service, transport and food sectors.

Table 1 indicate that since 1985 the industry and service sectors together have accounted for two-thirds of the total gross production value of Wenzhou. Since industrialization is dominated by private industry, it can be concluded that the development of private industry is the key to Wenzhou's economic transformation.

Table 1: The Changes in the Economic Structure of Wenzhou: The Proportion of Sectors in Gross Production Output

<i>Year</i>	<i>Agriculture %</i>	<i>Industry %</i>	<i>Service %</i>
1978	63.4	17.5	—
1980	68.4	26.7	4.9
1984	33.8	47.4	—
1985	31.3	52.55	16.15
1986	29.8	53.5	16.7

Sources:

1978 and 1984: Zhang Dexi (ed.), *Wenzhou moshi* (1986), p. 13.

1980 and 1985: He Rongfei, *The Economic Structure of Wenzhou*, p. 98.

1986: Statistics provided by cadres in the municipal government.

The development of a factory industry has also created a process of "capitalization," a transition from self-employed petty bourgeois commodity producer to capitalist entrepreneur that has gone far beyond the process in rural Hungary which features only small private household farming.⁹ An adventurous entrepreneur in Wenzhou now usually employs more than 100 or even 200 workers and is willing to take risks for reinvestment. This newly emerged stratum of peasant entrepreneur has not been allowed to function alone in the economic sphere. In fact, many prosperous entrepreneurs in Wenzhou have been targeted for recruitment into the Party.¹⁰ The local authorities apparently believe that an entrepreneur with Party membership is easier to control than otherwise. As far as the entrepreneur is concerned, Party membership means political protection.¹¹

Because the higher efficiency and larger margin of profit in private

9. Ivan Szelenyi, *Socialist Entrepreneurs: Embourgeoisement in Rural Hungary* (Madison, WI: The University of Wisconsin Press, 1988).

10. The Chinese Communist Party and government have altered their favourable attitude toward the private economy since the incident of Tiananmen Square, increasingly seeing entrepreneurs in the private sector as a threat to social and political stability. As a result, entrepreneurs are no longer eligible for Party membership. See *Shijie ribao* (*World Journal*), 3 October 1989, p. 32.

11. In fact, many Party members have joined the camp of capitalist entrepreneurs, using their political connections to advance their economic interest. A 1986 study pointed out 330 such cases, though I believe the real figure must be higher. See Chen Ruiming, "Dui Wenzhou nongcun guyong dahu de chubu fenxi" ("A primary analysis on the large employers in rural Wenzhou"), *Jingji yanjiu ziliao* (*Materials for Economic Studies*), No. 8 (1986), pp. 28–36.

industry lead to higher wages,¹² about 80 per cent of the workers in both local state and collective enterprises have either asked for leave or taken second jobs in the private sector.¹³ Consequently, the influx of technicians and skilled labourers into the private sector has weakened the technical support and morale in both state and collective enterprises in Wenzhou. Many state and collective enterprises are now on the verge of collapse, and many devices have been designed to safeguard them, such as leasing them to individual contractors or converting them into joint ventures between private and collective partnership. Because of privatization, the weight of the state sector in the total industry output of Wenzhou has declined from 31.44 per cent in 1980 to 18.45 per cent in 1985.¹⁴

Marketization. Since 1980, the number of local market places has grown rapidly. It was reported that there were already 472 throughout Wenzhou in 1985, among which 120 specialized factor markets featured one single or several particular commodities.¹⁵ The growing number of market places has helped integrate local economic activities into the national economy by attracting many outside traders (*gongxiaoyuan*), brokers, merchants and expeditors to meet locally. This means that the local small commodity production of household industry, based on the reprocessing of factory waste, is closely tied to the market. In fact, many household enterprises have already altered production lines several times in response to swift changes in market demand in the past decade. Besides producing for distant markets through mail order,¹⁶ many individual household enterprises in Wenzhou rely mainly on peasant traders, who organize production through subcontracting.

Local deviant economic practices. Privatization and marketization are made possible only because the Wenzhou municipal government has adopted an acquiescent attitude toward certain semi-legal or

12. It is estimated that the ratio of capital to output in the state sector is 1:2 in the textile industry, as opposed to 1:10 in the private sector of the same industry. As a result, the pay in the private sector is much higher than that in the socialist sector. See Yuan Enzhen, *Wenzhou moshi yu fuyu zhilu (The Wenzhou Model and the Road Towards Affluence)* (Shanghai: Shanghai shehui kexueyuan chubanshe, 1987), p. 10.

13. Lin Bai *et al.* (eds.), *Wenzhou de shichang (Markets in Wenzhou)* (Nanning: Guangxi renmin chubanshe), 1987, p. 54; Zhao Renwei, "Wenzhou nongcun shangpin jingji fazhanzhong geren shouru de chaju wenti" ("The problems of income gap in the development of the commodity economy in rural Wenzhou"), *Jingji yanjiu ziliao*, No. 8 (1987), pp. 36–42.

14. Zheng Honglian, "Wenzhou chengxiang jingji yunxing tedian ji tizhi Beijing" ("The characteristics and institutional backgrounds in rural Wenzhou"), *Jingji lilun yu jingji guanli*, No. 2 (1987), pp. 51–56.

15. Lin Bai *et al.*, *The Rise of Wenzhou*, p. 26.

16. One 1987 report indicates that about 30% of household enterprises in Jinxiang township market their products by mail order. These household enterprises send their catalogues and order forms to state and collective enterprises, department stores and supply and marketing companies in other areas which may be interested in their products. See Lin Bai *et al.*, *Markets in Wenzhou*, pp. 99–101.

illegal economic practices which deviate from the existing state policy but are indispensable to the smooth operation of the private economy. One of the most fascinating of these is business affiliation, on which a private household enterprise or a peasant trader has to rely in order to obtain legal status for business transactions. Since the household enterprises and individual traders are not officially recognized as economic entities with corporate status in a socialist economy, they cannot legally engage in business with other enterprises. They therefore need to borrow, for a fee, an official identification from a local collective or state enterprise, together with titled stationery, officially issued invoices and a bank account, all provided by the collective enterprise, in order to undertake business deals. In this way, the practice of business affiliation also helps to disguise the dubious sources of products produced by the household enterprises.

Another example of deviance is the local capital market. Ninety-five per cent of the total capital needed by the local private sector has been supplied by “underground” private financial organizations, such as money clubs, specialized financial households and money shops that have set their own interest rates since the very beginning. In order to compete with these private financial organizations, as early as 1980 a local collective credit union, without informing the superior authority, abandoned for the first time the fixed interest rate and adopted a floating interest rate which fluctuated in accordance with market demand but remained within the upper limit set by the state. Despite the dubious legality of the floating interest rate, the local state bank branches and all the credit unions in Wenzhou had already adopted it before the central state officially ratified it in 1984.¹⁷

A third example is the practice of land transfer among peasants. In the early 1980s, as the local peasants took up manufacturing and commerce, many abandoned farming and leased the land to others or simply hired farm labourers. The practice of land transfer among peasants, likened to the traditional landlord/tenant relationship, was prohibited by the state at that time. However it became inevitable as the private economy emerged and the municipal government tended to look the other way. Land transfer was eventually officially sanctioned by the state in 1983.

Such semi-legal or outright illegal economic practices tolerated by the local government in Wenzhou are numerous. It is reasonable to assume that without the bold steps taken by local officials to shelter deviant economic practices, it would have been very difficult for the private sector to come to dominate the local economy in Wenzhou.

17. Wenxian Yanjiushi, “Zhonggong zhongyang guanyu yijubasinian nongcun gongzuo de tongzhi” (“The instructions on the rural administration in 1984 by the Central Party”), in Wenxian Yanjiushi (ed.), *Shierda yilai zhonggong wenxian xuanbian* (*Collections of Central Documents since the Twelfth Congress*) (Beijing: Renmin chubanshe, 1986), pp. 424–441 at p. 430; Liu Zhengui and Chen Jianfa, “Weishi de silu chuangzaoxing de shijian: Wenzhoushi fazhan jiating gongshangye de diaocha” (“Pragmatic thinking and creative practices”), *Renmin ribao*, 8 July 1986, p. 2.

Explanation of the Rise of Private Industry in Wenzhou

The sweeping privatization and marketization of the local economy in Wenzhou is not only unique in China but apparently also against the very principle of socialism. A number of views have been offered by both Chinese scholars and local officials in attempts to explain how this could come about. They can be roughly categorized into five basic arguments: historical, economic, geographic, state policy and local policy.

Historical reasons. Many mainland Chinese scholars suggest that today's Wenzhou is simply the historical continuation of its past. Private business, commerce and petty commodity production were old economic practices in historical Wenzhou.¹⁸ The city was also a major trading port in south-east China as early as the tenth century.¹⁹ However, after the communist takeover, the practices of household handicrafts and private businesses were severely denounced and suppressed in the political campaigns of collectivization, the Great Leap Forward and the Cultural Revolution. Those which managed to survive were driven underground. However in Wenzhou, as the state eased its tight control, household industry and private business once again prospered. According to some scholars and officials,²⁰ it is this covert entrepreneurial skill and spirit among the peasants which made today's Wenzhou possible.²¹

Economic reasons. According to many Wenzhou cadres, the rise of the private economy was necessitated by the poor conditions of economic life in Wenzhou. Since mountains comprise 78.2 per cent of its total area and plains only 17.5 per cent, there is little arable land relative to the large size of the labour force, and much of Wenzhou's population were living under the poverty line. Most peasants needed extra income from sidelines or handicrafts to subsist, and the private sector boomed once the political ban was lifted.²² Moreover Wenzhou, located right above Fujian province, was regarded as part of the military front against Taiwan and had thus received little state investment in agriculture and industry since 1949. This led to a weak

18. Wu Xiang, "Lun fazhanzhong de Wenzhou nongcun shangpin jingji" ("On the developing of the commodity economy in rural Wenzhou"), *Renmin ribao*, 4 August 1986, p. 5; He Rongfei, "Wenzhou moshi de xingcheng: teding lishi tiaojianxia de chanwu (1)" ("The formation of the Wenzhou model (1)"), in Lin Bai *et al.*, (eds.), *Wenzhou moshi de lilun tansuo (Theoretical Investigations of the Wenzhou Model)* (Nanning: Guangxi renmin chubanshe, 1987), pp. 89–91.

19. Yuan Enzhen, *The Wenzhou Model and the Road Towards Affluence*.

20. Dong Xihua and Zhou Jinghao, "Jingshen yinsu de zuoyong" ("The effect of the spiritual factor"), in Lin Bai *et al.*, *Theoretical Investigations*, pp. 113–16.

21. In an official briefing in 1987 at Wenzhou municipal government, many cadres reported the local tradition of entrepreneurship as one of the most important conditions that contributed to the boom in private industry in today's Wenzhou.

22. Gu Yikang, "Wenzhou moshi de xingcheng: teding lishi tiaojianxia de chanwu (2)" ("The formation of the Wenzhou model (2)"), in Lin Bai *et al.*, *Theoretical Investigations*, pp. 91–93.

industrial foundation in both the state and collective sectors, as well as weak central control over Wenzhou's economy, compared to areas receiving significant state investment such as southern Jiangsu. Accordingly, as opportunities emerged after the reform, it was no accident that the private economy in Wenzhou grew more quickly than the local socialist sector.

Geographic reasons. Wenzhou is located in the mountainous coast of south Zhejiang and is surrounded by mountains. Its traffic routes inland are restricted to several rough roads through mountains, and its contact with other coastal cities relies upon underdeveloped maritime shipment.²³ Many Chinese scholars regard this geographic isolation as the most important factor in explaining the rise of the private economy in Wenzhou.²⁴ On the one hand, isolation reduced central intervention. On the other, it prevented Wenzhou from exposure to the benefits of large industrial cities, such as capital investment, technical support and market demand. This is in sharp contrast to areas like southern Jiangsu which has received long-term capital and technical support from the metropolitan area of Shanghai.²⁵ Accordingly, while southern Jiangsu is subjected to rigid state control and its economy is dominated by collective industry, Wenzhou is relatively free from state intervention and its economy is more privately oriented.

State policy reasons. Many Wenzhou officials attribute the rapid growth of the private economy in Wenzhou entirely to the state's reform policies in the late 1978 Third Plenum of Congress. Without the state's loosening of its control, according to these officials, private business would not have been restored.²⁶

Local policy reasons. For many Chinese scholars, the Wenzhou cadres' pragmatism and willingness to take risks are the keys to the

23. It is reported that a newly-built airport in the suburban area of municipal Wenzhou has been open to commercial flights since July 1990. *Renmin ribao*, 19 June 1990, p. 1.

24. In my discussions with a group of researchers from Zhejiang Shehui Kexueyuan, Jinjixue Yanjiusuo (The Institute of Economics, Zhejiang Academy of Social Sciences) in 1987, they pointed to the geographic isolation from central control as the most important condition determining the rise of the private sector in Wenzhou. They used the popular Chinese dictum, "The Emperor is as far as the sky" (*tiangao huangdiyuan*) to describe the geographic isolation of Wenzhou.

25. Zhou Xiaohan, "Sunan moshi he Wenzhou moshi de bijiao ji zhongguo nongcun fazhan de xuanze" ("A comparison between south Jiangsu and Wenzhou models and the selections among the paths of Chinese rural development"), *Zhejiang xuekan*, No. 2 (1987), pp. 4-9, at p. 5.

26. Lin Bai *et al.*, *The Rise of Wenzhou*; Liu Zhengui and Chen Jianfa, "Pragmatic thinking"; Yang Yi, "Fangchu laide he chuanxia laide," in Lin Bai *et al.*, *Theoretical Investigations*, pp. 94-96.

speedy development of the private sector.²⁷ Many of Wenzhou's economic practices, such as business affiliation, land transfer among peasants and the floating interest rate, were all regarded as deviations from state policies in the beginning. They were nevertheless tolerated by local cadres, and in the long run became prevalent and acquired official sanction. It seems that the Wenzhou cadres implemented state policies in accordance with their own interpretation, which took local interests into account. Even though they did not overtly support deviant practices, they did not take any serious action against them, and this made the private economy possible.²⁸

These five reasons are important in understanding the development of Wenzhou in general and of the rise of the private economy in particular. However, the first four seem more to explain the development of the private economy in Wenzhou after the 1978 reform than to suggest why Wenzhou was the first major instance of private industry in China. For instance, southern Jiangsu and Guangdong, like many other regions in south China, have long been well known for their peasant sidelines in the silk and textile industries, and are characterized by a severe shortage of arable land. Why does collective rather than private industry dominate their local development, even today? The historical and economic accounts apparently cannot provide a satisfactory answer. On the other hand, geographic isolation and the lack of state investment are common to mountainous areas across China. Yet the private economy has achieved predominance in Wenzhou far sooner than in other regions. If the prevalence of private industry in Wenzhou can be attributed mainly to the 1978 reform policy, why has the same phenomenon not occurred in other places which have also been affected by the reform policies? Even if all four factors are combined, there are other regions in China which share them but which have not developed private economy. For instance, Ningbo and Shaoxing in east Zhejiang, which are less than 100 miles from Wenzhou, are dominated by collective industry.

These accounts are therefore necessary, but not sufficient, for explaining Wenzhou's development. Another factor must be added: the local cadres' "open-mindedness" and willingness to shelter the local private interest from state interference, as the local policy account has pointed out. It seems that this fifth factor is the key to explaining why Wenzhou was the *first* area in China to develop a predominant private economy. However, there are three serious problems with this account as it is presented by Chinese scholars. First, in failing to specify what motivates local cadres to be open-

27. Lin Bai *et al.*, *The Rise of Wenzhou*; Liu Zhengui and Chen Jianfa, "Pragmatic thinking"; Yang Yi, "Fangchu laide he chuanxia laide," in Lin Bai *et al.*, *Theoretical Investigations*.

28. Lin Bai *et al.*, *The Rise of Wenzhou*, pp. 229–252; Liu Zhengui and Chen Jianfa, "Pragmatic thinking."

mindful and pragmatic, it falsely depicts Wenzhou cadres as exceptionally altruistic. Secondly, it fails to specify when the local cadres' open-mindedness and pragmatism began, seeming to imply that it was only after the 1978 reform, which is false. Thirdly, in failing to specify why Wenzhou cadres could behave like this under an unforgiving state, it renders a voluntarist account which is hardly plausible under the current regime. Altogether, it fails to explain why Wenzhou cadres are more likely to take political risks and to tolerate deviant economic practices than cadres elsewhere in China.

According to interviews with Wenzhou peasants, it appears that the local cadres' motives lie in the coincidence of interest between them and peasants in the private sector, rather than in their altruistic orientation. Moreover, their inclination to be open-minded and pragmatic began long before the 1978 reform. It probably began as soon as they came to power in 1949. Finally, it is the legacy of a unique local revolutionary history that has enabled Wenzhou's cadres to be more open-minded and pragmatic under a repressive state than cadres elsewhere. These three points, effectively modifying the simple-minded account of local cadres by Chinese scholars, will be discussed later. Before proceeding to these points, local deviation from state policies in the form of political protection of private industry in Wenzhou needs to be further elaborated.

Local Protection of Private Industry

Very few private factory enterprises interviewed in Wenzhou were willing to be identified as "private," despite the state's passing of the 1988 regulations on private enterprises in which a private enterprise was officially recognized as a corporate body for the first time.²⁹ Instead, most private factory enterprises in Wenzhou like to be called either "local collective enterprises" or "partnership enterprises" (*hegu-qiy*e). There appears to be greater psychological security in joint ventures because the higher degree of collectivization provides a kind of "safety in numbers" in volatile Chinese politics. Moreover, a partnership enterprise, though privately owned, is treated as equal to a collective enterprise by the municipal government and therefore enjoys the same favourable treatment. For instance, a newly-opened private joint venture in a poor area enjoys a tax exemption for the first three years, and its income tax rate is the same as that for collective enterprises,³⁰ which is much lower than the official rate for private

29. See *Renmin ribao*, 30 June 1988, p. 3. According to a Chinese official from a policy research institute under the State Council (1990), the passing of temporary regulations on private enterprises seems to have no substantial effect in increasing the entrepreneurs' confidence in state policy or in reducing political discrimination against the private sector. The majority of peasant entrepreneurs would therefore not bother to change the registration of their enterprise from collective to private.

30. Wenzhoushi xiangzhen gongye guanliju, *Wenzhoushi xiangzhen qiye zhengce huibian* (*Collections of Policies on Wenzhou Rural Industry*) (Wenzhou: Wenzhoushi xiangzhen gongye guanliju, 1987), p. 18.

enterprises. It seems that the local government in Wenzhou is sheltering private industry from political discrimination, and this protective policy serves to promote local development in Wenzhou.³¹

The local governments not only protect private factory enterprises, but also show support for household industries. For example, about 90 per cent of the peasant households in Liushi township in Leqing county are involved in the household production of low-voltage switches. They use reprocessed copper wire instead of silver as the contact for electricity flow in the switches, but electrical resistance is stronger in copper than in silver, so the life of switches produced in Liushi is rather short. They do not use silver because it is subject to state distribution and not available in the market. The poor quality of low-voltage switches produced in Liushi was exposed in *Renmin ribao* in 1984. Since then, the township government of Liushi has made several efforts to upgrade the technical skills and equipment of the local industry, and established a test station to enforce quality control. Despite all this, in June 1987 a joint order issued by six ministries in the State Council finally decreed that the household enterprises were prohibited from producing low-voltage electrical products without a licence from the Mechanical Industry Ministry. Clearly, no single household enterprise qualifies for the production licence. However, this caused no interruption whatsoever in the production of low-voltage switches among the household enterprises. It is obvious that the cadres of Liushi did not enforce the policy. If it were put into effect it would destroy the entire household industry in the Liushi district.

Another example of protection of private industry by local cadres is the business affiliation mentioned above. According to the local peasants, the practice of business affiliation began as early as the 1960s in Yishan district, but its scale expanded in the late 1970s. One case indicates that a build-up of large quantities of unsold reprocessed cotton cloth produced by the local household enterprises forced local cadres to look the other way when the local collective marketing company licensed peasants with political connections as expeditors who would travel long distances to sell the troubled products. According to a Yishan official, the first Party secretary of the Yishan district appealed to the authority of Cangnan county in 1978 to permit peasant household enterprises, commercial business and long distance transport, without daring to mention the business affiliation long involved in the local economy. In 1981, as state officials were sent down to Yishan to inspect the rise of the household industry and the prosperity of the market economy, they concluded that even if business affiliation resuscitated local commodity production and helped to raise the local income, it had deviated from state policies. Accordingly, the Party secretary of Yishan district was reprimanded,

31. In fact, anxious about the politically risky capitalist tendency in the local economy, the municipal government of Wenzhou has been encouraging joint ventures rather than individually-owned large enterprises.

and the practice of business affiliation was prohibited. Without its help the textile industry in Yishan soon became stagnant. Within one and a half months, the Party leaders in Yishan district had to appeal to the municipal authority to restore the experiment in business affiliation. It took six years for the municipal government to make a decision. In October 1987, after Wenzhou had long been designated by the state as one of the experimental coastal cities, the municipal government finally promulgated a series of provisional acts regulating both parties in the practice of business affiliation. At that time, with the acquiescence of each level of local government, it had already been widely practised everywhere in Wenzhou. It should be noted that although business affiliation has now been approved by the Wenzhou municipal government, it still lacks the official sanction of the central state.

Why are the local cadres in Wenzhou so tolerant of private and household enterprises? One apparent reason, which is always avoided by local cadres and Chinese scholars in their versions of the Wenzhou story, is that local authorities and cadres themselves benefit, either legally or illegally, from the huge income generated by the private economy.

The Benefits to Local Authorities and Cadres

The rapid growth of private industry and commerce in Wenzhou has enriched local coffers. For instance, the tax revenue generated by the local industrial and commercial sectors has accounted for more than 90 per cent of total annual revenue for the Wenzhou municipal government in recent years.³² In addition, each year the local governments have received many “voluntary donations” and locally imposed fees from private enterprises for public utility and infrastructure construction, such as roads and bridges, water and electricity supply, sewage and drainage systems, and parks and recreation areas. Even the construction of new office buildings of the township and district governments are dependent upon “the goodwill” of the enterprises. In fact, most of the enterprises I interviewed are burdened with “donations” and various unauthorized fees imposed by the local governments. Their only function seems to be to reduce bureaucratic harassment.

The development of the private economy has apparently also brought tremendous personal income for local cadres. For example, 2,000 of the 7,000 new apartment buildings in Longgang, a new town constructed entirely with private funds, belong to them.³³ They also

32. He Rongfei, *The Economic Structure of Wenzhou*, p. 152.

33. Xia Xiaojun, “Wenzhou moshi yu changzhenhua: dui Wenzhou jizhen fazhan de diaocha he sikao” (“The Wenzhou model and urbanization”), *Nongcun jingji wengao* (*Articles of Rural Economy*), No. 4, pp. 19–27.

own one-quarter of the four-storey apartment buildings in Qianku, a near-by commercial town.³⁴ These figures suggest that an economically privileged group has emerged among the local cadres.

All these facts contradict what cadres told me everywhere in Wenzhou. According to them, the beneficiaries of the reform are peasants, whereas cadres are victims because their salaries are fixed. In fact, I was told, some Wenzhou cadres have taken moonlighting jobs in the private sector to supplement their salaries. A few of them have even left government jobs and made their way into the private economy.³⁵ Moreover, to increase their income and to improve their morale, the Wenzhou municipal government has permitted the local cadres' spouses and other family members to run private businesses. More often than not, however, the real operators behind the scenes of these businesses are the cadres themselves. The good personal connections they have with the local bureaucracy obviously benefit their private businesses, which otherwise are subjected to bureaucratic harassment. Not surprisingly, the private businesses run by cadres' families prosper much more easily than those run by ordinary peasants. This explains why so high a percentage of new apartment buildings in the localities are owned by cadres.

Another means of making money, more dubious than running a business after office hours, involves the so-called "power share" provided by the local partnership enterprises. Although partnership enterprises have been nominally treated as collective enterprises in Wenzhou, as private businesses they are actually afflicted with a confidence crisis. In fact, private undertakings have been the main target of attack in many political campaigns since 1980, and the majority of entrepreneurs in Wenzhou are fearful that their private businesses and property might be confiscated and they might be denounced once the state changes reform policies.³⁶ To reduce the anxiety and fend off bureaucratic harassment, many large private partnership enterprises have developed the "power share." By means of this device, owners of private enterprises give free shares to powerful cadres in exchange for political protection and favours. Since political backing is one of the most important conditions for a private enterprise to survive and succeed in China, it seems safe to guess that most private enterprises have offered the "power share" to

34. This figure was provided by a local cadre when I took a tour of Qianku township.

35. For instance, a cadre left his job as a township Party secretary in Yongjia county, and undertook a business in a commercial orchard instead. See Lin Bai *et al.*, (eds.), *Wenzhou duihualu (The Dialogues in Wenzhou)*, (Nanning: Guangxi renmin chubanshe), pp. 40–41.

36. This indeed happened in the 1982 campaign "Cracking down on economic criminals," and in the 1986 campaign "Against bourgeois liberalization." In the 1982 case, eight of the richest peasant entrepreneurs in Liushi township were indicted and subsequently seven of them were arrested on the charge of "fraudulent capitalist activities." In the 1986 case, many rich entrepreneurs of Wenzhou fled as far as Eastern Europe. After so many political campaigns against the private economy, the local peasant entrepreneurs' confidence in state policies has been shaken, despite subsequent reversals by the state.

cadres. When I conducted field research in Wenzhou, the owner of a large private enterprise insisted on handing me a free stockshare, because my "shareholding" would be considered as a foreign investment, which adds political protection to enterprises in contemporary China.

The vulnerable position of private industry in a socialist economy and the way private enterprises pursue political support have undoubtedly exacerbated bribery, extortion and other kinds of corruption among local cadres. The chaotic taxation system in Wenzhou provides a good example. One private factory in Liushi township which produces spare parts for radios is burdened by a progressive income tax, whereas another factory in the same township which produces switches for television sets is subjected to a mild flat tax of one per cent of the production value. This unequal taxation led the owners of the former factory to suspect that they were being punished for not bribing the local tax office sufficiently.

It therefore appears that cadres are willing to shelter private industry not because of altruism, but because this serves their own interests rather well. Either they themselves engage in private industry, or they gain illegal benefits from peasants' private businesses, or both. It seems that it is this coincidence of interest between the local cadres and peasants in the private sector which inclines the cadres to tolerate local deviant practices and bypass state policies, and to allow private industry in Wenzhou to take the lead in local development. In other words, there is a conflict between the state's interest in socialism on the one hand and peasants' interest in the private economy on the other. This conflict not only provides local cadres opportunities for illegal gains in law and policy enforcement, but also forces them to stand with peasants in resisting state policies that might harm the local economy.

However, conflict of interest between the local authorities and the state has actually been a serious problem across China since 1949, and localism based on the coincidence of interest between local cadres and peasants is a common occurrence everywhere in rural China. Since cadres at team, brigade and even commune levels are recruited primarily from the grass roots, their interests are tightly intertwined with those of local peasants.³⁷ Quite often the local cadres have to adopt a variety of measures to manipulate, deceive and disguise in order to resist state encroachment and thus to protect the local

37. Michel Oksenberg, "Local leaders in rural China, 1962-65: individual attributes, bureaucratic positions, and political recruitment," in A. Doak Barnett (ed.), *Chinese Communist Politics in Action* (Seattle: University of Washington Press, 1969); Vivienne Shue, *The Reach of the State: Sketches of the Chinese Body Politic* (Stanford: Stanford University Press, 1988); John P. Burns, *Political Participation in Rural China* (Berkeley: University of California Press, 1988).

interest.³⁸ Indeed, the ways in which the local cadres of Wenzhou deal with private industry, including joining it, power share, bribery and overlooking local deviation from state policies, is not unique to Wenzhou. Rather, they seem to have become widespread in rural China. For example, the agricultural responsibility system, the first step in rural decollectivization, began in Anhui province nine months before the state officially sanctioned it.³⁹

If the coincidence of interest between the local cadres and peasants is indeed common in rural China, then the question still remains as to why Wenzhou was the first place to be dominated by private industry. The answer lies in the fact that the coincidence of interest between local cadres and peasants has been worked out more thoroughly in Wenzhou than elsewhere. The reasons for this are Wenzhou's earlier beginning and the stronger ability to assert local interests in the face of state pressure. These points are now considered.

The Economic History of Wenzhou from 1949 to 1978

My research in Wenzhou suggests that the partnership between local cadres and peasants in running local sidelines and petty commodity production began not in 1978, as the local cadres try to insist, but much earlier, when the private economy was under severe state pressure.

For instance, the first experiment with private household farming took place in Wenzhou in 1956, a result of strong local resistance to collectivization. This experiment began in the villages of Yongjia county, where the land was divided and a production contract was assigned to either production teams or individual peasant households, a variant of today's agricultural responsibility system. Household farming, regarded as a setback to communism, was later denounced as anti-revolutionary and the cadres who supported it, including the deputy Party secretary of Yongjia county were purged in the 1958 Great Leap Forward movement. Nevertheless, peasant household farming was never completely eradicated in Yongjia county in the following years. As soon as each political campaign subsided it returned.⁴⁰ This back-and-forth struggle, with peasant household farming pushed from below and collectivization imposed from above,

38. John P. Burns, "Rural Guangdong's 'second economy' 1962-1974," *The China Quarterly*, No. 88 (December 1981), pp. 629-644; Anita Chan and Jonathan Unger, "Grey and black: the hidden economy of rural China," *Pacific Affairs* (Autumn 1982), pp. 452-471; Shue, *The Reach of the State*.

39. Andrew Watson, "Agriculture looks for 'shoes that fit': the production responsibility system and its implications," in N. Maxwell and B. McFarlane (eds.), *China's Changed Road to Development* (Oxford: Pergamon Press, 1984).

40. From 1966 to 1973, small household farming was found among villages in Yongjia county until the local cadres who tolerated it were purged in 1973 and 1976. For details see Lin Bai *et al.* (eds.), *Wenzhou de ganbu (Cadres of Wenzhou)*, (Nanning: Guangxi renmin chubanshe, 1987), p. 85.

meant that the commune system imposed by the state never really took root in Wenzhou.⁴¹

Moreover, peasant sidelines, such as spinning and weaving in Yishan district, had remained an important source of income since 1949, despite a series of attacks from the state in the political campaigns of collectivization, the Great Leap Forward and the Cultural Revolution. In each of these campaigns the work teams organized by the superior authority were sent into the locale to assume the local power, and many local cadres who supported the peasant sidelines and petty commodity production were immediately denounced and purged. Despite these purges, peasant sidelines and handicrafts resurfaced after each campaign subsided, and the local cadres took part in them, side by side with the peasants.⁴² In addition, many skilled workers in Rui'an county, capitalizing on the chaotic infighting among factions in the municipality during the Cultural Revolution, stealthily initiated traditional handicrafts in knitting and hemp cord manufacturing, and some even built up underground factories producing machine tools and other small commodities for the distant market.⁴³

It is clear that both peasant household farming and petty commodity production in household industries were common practices in Wenzhou most of the time after the 1949 revolution, even in Mao's era. In fact, in the early 1970s, many workers in collective enterprises had already contracted work from their enterprises to produce at home rather than on the shop floor.⁴⁴ The collective enterprises functioned as a subcontracting system. In other words, long before the state initiated the current economic reform in 1978, Wenzhou had already quietly practised individual household farming, household industry and private marketing whenever the state turned its attention away. It is this kind of long-term underground development that enabled the private economy of Wenzhou to boom once the path to reform was opened in 1978, and eventually enabled Wenzhou to become the first place in mainland China to embrace a predominant private economy.

So, one cause of the unique predominance of the private economy in Wenzhou was its early start. More precisely, the private economy became predominant in Wenzhou first because it was never effec-

41. Zhou Xiaohan, "A comparison between south Jiangsu and Wenzhou models," p. 5.

42. According to a Yishan peasant, many Yishan cadres and their families had been engaged in the local textile industry in the past 40 years. Moreover, cadres could always make more money from their business than peasants because they could get higher prices when they sold their products to the local supply and marketing companies because of their position in the local hierarchy.

43. Lin Bai *et al.*, *The Rise of Wenzhou*, pp. 32–33.

44. According to the recollection of a local specialized household member, when she worked for a local collective enterprise in Wenzhou city in 1975, she contracted production from the enterprise and worked at home instead. When political control tightened later on, she closed the household enterprise and returned to the shop floor of the collective enterprise.

tively eradicated there by the socialist state. Moreover, Wenzhou's private economy was able to survive state suppression during the difficult years between 1949 and 1978 because it had a body of local cadres sympathetic to the private economy who were able to marshal a collective resistance to the state's encroachment. Some cadres have had to pay for their sympathy for the private economy with their careers in repeated political purges, but even this did not change the course of local development. It seems that as long as the state does not remove the entire body of local cadres, it will not be able to uproot this deviant local political tradition. Thus the question is how the body of Wenzhou cadres developed their unique capacity for collective resistance against undesired state encroachment in the face of repeated purges in the past four decades.

The Revolutionary Legacy

In the mountainous area of Wenzhou I accidentally came across some historical monuments dedicated to the local communist guerrillas who fought both the Japanese and Nationalists during the 1930s and 1940s. I was told later that the "liberation" of Wenzhou in 1949 relied mainly on the local guerrilla forces rather than on Mao's Red Army, and I wondered whether this unusual local politico-military history affected Wenzhou's economic development after 1949. My research appears to confirm a linkage.

According to historical sources, the communists of Wenzhou began to organize branches as early as 1924, first at Yongjia county.⁴⁵ They drew members primarily from local intellectuals. Because of the difficulty and sometimes impossibility of contacting the Central Authority of the Chinese Communist Party at Shanghai, which was then suffering severe suppression by the Nationalist government, the Wenzhou communists were from the first basically self-guided and self-supplied. Branches soon spread from Yongjia to other counties of Wenzhou, and members began to organize peasant associations and poor peasants' leagues in villages, and indoctrinate peasants to oppose their exploitation by landlords. Eventually, branches in several counties developed their own militia and Red Guards and initiated many sporadic peasants uprisings on a local scale, all without a unified leadership or any direction from the Party centre.

In 1930 a move was made to consolidate the communist organizations in Wenzhou. The local military forces were incorporated into a Thirteenth Red Corps under the command of an officer invited by the locale.⁴⁶ It continued armed struggles in Robin Hood fashion, without rigid political programmes, until it collapsed after being defeated in

45. Ye Dabing, *Zhenan nongmin baodong he hongshisanjun (Peasant Uprisings in South Zhejiang and the Thirteenth Red Corps)* (Hangzhou: Zhejiang renmin chubanshe, 1982).

46. *Ibid.*

an attempt to seize the seat of Pingyang county at the end of the same year. The remaining force then retreated to the mountainous area of Pingyang county for safety. In 1935, the leader of the communist party in Pingyang proclaimed himself to be the secretary of the south Zhejiang provisional special committee (*zhenan-linshi-tewei*), and appointed many aides,⁴⁷ all without the acknowledgement of the Party centre which was then experiencing the trauma of the Long March.

Also in 1935, a branch of Mao's Red Army, consisting of less than 500 soldiers, was left behind during the Long March and reached the mountainous border area between Zhejiang and Fujian provinces. The political commissar of this so-called "advance division"⁴⁸ (*ting-jin-shi*) soon proclaimed himself to be the secretary of the provisional provincial committee of the border region between Zhejiang and Fujian (*minzhebian-linshi-shengwei*), without the acknowledgement of the Party centre.⁴⁹ In fact, three communist groups in Zhejiang proclaimed themselves to be the provincial committee at the same time.⁵⁰ After a period of hesitation and reluctance, the self-proclaimed secretary of the south Zhejiang provisional special committee submitted to the command of the newcomer.

In 1938, after the start of the Sino-Japanese war, the advance division finally established contact with the Party's South-east Sub-Bureau and was ordered to leave Wenzhou to join the New Fourth Army in southern Anhui. The organization and armed force left behind were put under the command of Long Yao, a former member of the advance division, who was now named the secretary of the

47. Huang Xianhe, "Zhenan diqu renmin baizhe bunao hongqi budao: qi 1930 zhi 1937 nan zhenan de dixiadang he hongjun youjidui" ("The Communist Party and guerrilla force in South Zhejiang, 1930-1937"), *Zhejiang geming shiliao xuanji (Selections of the History of the Revolution in Zhejiang)*, No. 7 (1982), pp. 71-88 at p. 87; Yang Jin, "Zhenan hongjun youjidui he Shanghai dangzuzhi lianxi de jingguo" ("The liaison between the South Zhejiang guerrillas and the Communist Party in Shanghai"), *Dangshi ziliao congkan (The Journal of Party History)*, No. 3 (1981), pp. 44-48.

48. The "advance division" was originally the advance guard of the Tenth Red Corps, which had engaged in the guerrilla wars on the border between Zhejiang and Jiangxi after the main force of the Red Army left Jiangxi on the Long March. The advance division first came to the mountainous areas in south-western Zhejiang and built up a guerrilla base there before it was defeated by the Nationalist public security forces. It then moved to south Wenzhou on the border between Zhejiang and Fujian, attempting to build a new base. See Su Yu, "Huiyi zhenan sannian youji zhanzheng" ("Recollecting guerrilla wars in South Zhejiang"), in *Zhejiangsheng Junqu* (ed.), *Zhenan Sannian (Three Years in South Zhejiang)* (Hangzhou: Zhejiang renmin chubanshe, 1984), pp. 1-42.

49. *Ibid.* p. 17; Ye Fei, "Mindong suqu de chuangujian he sannan youji zhanzheng" ("The establishment of soviet government in East Fujian and the three-year guerrilla wars"), in *Yi nanfang sannian youji zhanzheng (Recollecting Three-year Guerrilla Wars in the South)* (Shanghai: Wenyi chubanshe, 1987), pp. 306-351 at p. 337.

50. Yang Siyi, "Kangri shiqi zhedongdang pianduan huiyi" ("Scattered memories of the Communist Party in East Zhejiang during the Sino-Japanese war"), in Xinsijun he huazhong genjudi yanjiu shi Zhejiang fenhui (ed.), *Zhedong kangzhan chunqiu (The Memoranda of the Sino-Japanese War in East Zhejiang)* (Hangzhou: Zhejiang renmin chubanshe, 1986), pp. 9-11 at p. 9.

south Zhejiang special committee.⁵¹ In the following years this organization had to look after itself during war and suppression, and after the provincial committee was destroyed by the Nationalist government in 1942 it once again lost contact with the Party centre.⁵²

During these difficult years the Wenzhou Communist Party under Long Yao, struggling for survival in a mountainous area, had to adjust to local reality and therefore suspended radical revolutionary programmes.⁵³ It did not establish a Soviet government and carry out full-scale land reform in its occupied area.⁵⁴ Rather, it contented itself with reducing the heavy rents paid by tenants to landlords, abolishing oppressive taxes and debts owed by peasants and collecting “anti-Japanese” levies from landlords.⁵⁵ To increase its available resources, it even encouraged export of local forest products and helped merchants to do business in its occupied area. This economic policy, aimed at promoting the local commodity economy, successfully gained the goodwill and confidence of local landed and commercial elites, who in turn supplied communist guerrillas with much-needed resources, including weapons and ammunition.⁵⁶ Thus, lacking support from the Party centre and independent of its control, the Wenzhou Communist Party and its guerrilla force developed an alliance with local landlords and business circles during the years before 1949.

When the communist victory finally came to Wenzhou in 1949, it did not at first come with Mao’s Red Army. With the help of the mutinous Nationalist garrison and officials, the Wenzhou communist guerrillas under Long Yao, now called the South Zhejiang Column, took Wenzhou and many other adjacent counties before the Twenty-First Corps of Mao’s Third Field Army was able to arrive.⁵⁷ This ensured that members of the local party and guerrilla force enjoyed a

51. Long Yao, “Huiyi Zhenan youji genjudi de douzheng” (“Recollecting guerrilla wars in the occupied areas of South Zhejiang”) in *Zhenan Sannian (Three Years in South Zhejiang)* (Hanzhou: Zhejiang renmin chubanshe, 1984), pp. 43–86.

52. Su Yu, “Recollecting guerrilla wars in South Zhejiang.”

53. It is true that most communist guerrilla forces in south-east China at this time adopted a more moderate policy toward fiscal and land issues in order to survive and win the support of the locales. See Gregor Benton, “Communist guerrilla bases in south-east China after the start of the Long March,” in Kathleen Hartford and Steven M. Goldstein (eds.), *Single Sparks: China’s Rural Revolutions* (New York: M.E. Sharpe, Inc., 1989), pp. 62–91.

54. Only a small scale of land redistribution was implemented earlier by the advance division in the remote border area between Zhejiang and Fujian. See Long Yao, “Recollecting guerrilla wars in the occupied areas.”

55. Long Yao, “Recollecting guerrilla wars in the occupied areas.”

56. Su Yu, “Recollecting guerrilla wars in South Zhejiang.”

57. Zhang Ze, “Wenzhou chuxian gaikuang” (“The early fall of Wenzhou to the communists”), *Zhejiang yuekan*, Vol. 6, No. 1 (1969), pp. 28–29.

greater share of power in the new local authority than they might have otherwise.⁵⁸

The history of the Wenzhou Communist Party and its military force thus distinguish it from other local parties in several ways. The crucial distinction was that it was initiated by local cadres and was built from the bottom up, without direction and help from the Party centre. For most of the time before 1949 it did not even maintain constant contact with the Party centre. It therefore enjoyed a very long history of independence and autonomy. In contrast, the local organizations and guerrilla forces in the communist strongholds of north China had come under the rigid control of the Party centre since its arrival at Yen-an in 1935 after the Long March.⁵⁹ Although many other local Communist Party organizations in south China also enjoyed a long history of independence and autonomy before 1949, they rarely had the chance to “liberate” their locales by themselves; and to be “liberated” by Mao’s Red Army from the north meant that most important positions in the new communist local authority would be taken by Red Army veterans from outside the area. This was the case in Guangdong, where local communist guerrillas had long engaged in an independent armed struggle, but most of the local powerful political positions have been filled by outsiders from the north ever since liberation by the Red Army in 1949.⁶⁰

With this understanding, a tentative explanation of the events in Wenzhou arises. In the years following liberation in 1949, the leading positions in Wenzhou’s local authority would tend to be taken by native cadres who had joined the local guerrillas before 1949.⁶¹ Since they are more likely than non-natives to have links through relatives, friends, neighbours and other local social ties, they are therefore more vulnerable to social pressure in conducting their official duties. Also, they themselves are more likely to join the local private economy if the opportunity arises. Thus Wenzhou’s local authority, in which native cadres dominate more than in other areas, is more likely than other local authorities to take into account local opinions and

58. Historical resources show that a conflict over the distribution of power in the new local authority took place between the Wenzhou Communist Party and the Twenty-First Corps, which arrived later, straight after the “liberation” of Wenzhou in 1949. Nevertheless, many leading positions in the local authority were taken by the local Party members. For instance, both the first Party secretary and the mayor of municipal Wenzhou, Long Yao and Hu Jingxian, were leaders of the local guerrilla force.

59. Mark Selden, *The Yen-an Way in Revolutionary China* (Cambridge, Mass.: Harvard University Press, 1972).

60. Ezra F. Vogel, *Canton under Communism: Programs and Politics in a Provincial Capital, 1949–1968* (Cambridge, Mass.: Harvard University Press, 1969).

61. The native cadres here refer to those who have Wenzhou origins and those who came from the adjacent districts or provinces but had joined the Wenzhou guerrilla force before 1949. For instance, the outsiders who came with the advance division from Jiangxi province had stayed and worked with the Wenzhou guerrilla force since 1937. The common experience shared by Wenzhou natives and their Jiangxi comrades in their long-term struggle against both Japanese and Nationalist troops had enhanced the outsiders’ localization. Those outsiders are therefore loosely regarded as natives because their interest was deeply associated with that of the local people.

interests, and the coincidence of interest between the local cadres and peasants is more deeply reinforced than it is elsewhere in China. If the local interest in the private sector contradicts state policy, as has so often happened since 1949, Wenzhou's local authority is more likely to deviate from state policy in order to protect both local and its own economic interests.

Furthermore, as the local Party of Wenzhou not only tolerated but also encouraged commercial activities during its guerrilla years, it is probable that after they took power the cadres were reluctant to carry out those measures of the state's radical policy which appeared to threaten the local economy. At the same time, the solidarity developed between comrades in an isolated and independent military force during the guerrilla period obviously helped to unite local cadres in collective resistance to state encroachment. This is why Wenzhou's cadres have been more "open-minded" and more willing to take risks in the past four decades in caring for local economic interests. This is also why repeated purges of leading local cadres before 1978 for failing to uproot capitalism did not prevent their successors from committing the same offence. This is not a problem of a few individual cadres, but one of local political tradition. Unless the state disposes of the entire body of local cadres, there seems to be no means of changing Wenzhou's course of development. It appears therefore that it is this revolutionary legacy that has enabled the coincidence of interest between cadres and peasants to persist, in combination with such factors as the local handicraft tradition, geographical isolation, the lack of arable land and state investment, and the 1978 reform policy, which made Wenzhou the pioneer of private economy before 1978, and eventually the first place in mainland China to be dominated by private industry.⁶²

The Sporadic Totalitarian State: A Theoretical Remark

In studies of existing socialism, a socialist state has long been characterized by the predominance of the state bureaucracy over both the appropriation and distribution of economic surplus, as well as over the society as a whole.⁶³ Many scholars would not hesitate to call this a totalitarian state. In this kind of conceptualization the socialist state is seen as almost omnipresent, and more often than not as suffocating the society under its iron-fisted control. The problem is

62. My explanation of the success of Wenzhou was confirmed in May 1990 by a Chinese official at a policy research institute under the State Council, who said that the cadres of Wenzhou have since 1949 been very proud of their capacity to resist the central government. Their courage in standing up against the central state is based on their ever-remembered glorious history of the 1949 "self-liberation."

63. Włodzimierz Brus, *Socialist Ownership and Political System* (London: Routledge & Kegan Paul, 1975); Eric O. Wright, "Capitalism's futures," *Socialist Review*, No. 68 (1983), pp. 77–126; Rudolf Bahro, *The Alternative in Eastern Europe* (London: Verso, 1984); Tsou Tang, *The Cultural Revolution and Post-Mao Reforms: A Historical Perspective* (Chicago: The University of Chicago Press, 1986).

that this cannot explain those phenomena that deviate significantly from apparent state policy, such as what has occurred in Wenzhou.

In contrast to the totalitarian approach, a new idea has emerged in recent studies of socialist society in which the socialist state is portrayed as a functionally fragmented bureaucracy which contains tensions, bargaining and conflicts of interest between different sectors and between different levels.⁶⁴ With this new approach, many scholars of China see an autonomous process in the lower echelons of state bureaucracy, in which state enterprises, local governments at the team, brigade and commune levels, and militia organizations in villages pursue their own interests at the expense of the state.⁶⁵ Some even see this socialist state at the local level as easily penetrated and influenced by society through patron–client networks or other informal relationships.⁶⁶ An extreme view is to regard the autonomous locale as existing in a form of honeycomb isolation, a historical legacy which characterized the relationship between imperial central authority and the peasant periphery and which has continued to haunt rural China since the socialist transformation.⁶⁷ To a certain extent this new approach seems more promising for explaining the development of the private economy in Wenzhou since 1978. After all, it can certainly be attributed to the differences and conflicts of interest between the locality and the state. However this approach is not without problems. It would be difficult to explain, for example, why Wenzhou's private economy failed to prosper before 1978, and why other areas with similar economic backgrounds have failed to develop a predominant private economy. It seems apparent that a private economy failed to develop in Wenzhou before 1978, and in other areas even today, exactly because there is a totalitarian state insisting on socialism.

Combining the strength of these two approaches leads to the

64. Ferenc Feher, Agnes Heller and Gyorgy Markus, *Dictatorship Over Needs: An Analysis of Soviet Societies* (Oxford: Basil Blackwell, 1983); Alec Nove, *The Economics of Feasible Socialism* (London: Allen & Unwin, 1985); Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes* (Princeton: Princeton University Press, 1988).

65. Andrew G. Walder, *Communist Neo-Traditionalism: Work and Authority in Chinese Industry* (Berkeley: University of California Press, 1986); Anita Chan, Richard Madsen and Jonathan Unger, *Chen Village* (Berkeley: University of California Press, 1984); Victor Nee, "Between center and locality: state militia, and village," in Victor Nee and David Mazingo (eds.), *State and Society in Contemporary China* (Ithaca: Cornell University Press, 1983), pp. 223–243.

66. Jean Oi, "Communism and clientelism: rural politics in China," *World Politics*, Vol. XXVLL, No. 2 (January 1986), pp. 238–266; Victor Nee, "Peasant entrepreneurship and the politics of regulation in China," in Victor Nee and David Stark (eds.), *Remaking the Economic Institutions of Socialism: China and Eastern Europe* (Stanford: Stanford University Press, 1989), pp. 169–207.

67. Shue, *The Reach of the State*. The tendency toward cellularization of Chinese villages after the socialist transformation was earlier discussed by William L. Parish and Martin King Whyte in *Village and Family in Contemporary China* (Chicago: The University of Chicago Press, 1978). But Shue's characterization of the local autonomy of the peasant periphery in socialist China is much more extreme than what Parish and Whyte had described.

suggestion that a socialist state such as China should be characterized as a sporadic totalitarian state with strong despotic power but weak infrastructural power.⁶⁸ With its strong despotic power, what the Chinese communist state has been able to carry out in the past 40 years are radical socio-economic transformation and the suppression of any group of people daring to challenge its power. The 1989 crackdown on the student movement for democracy in Beijing is a vivid example of the despotic power exercised by the state. On the other hand, the infrastructural power, the organizational capacity of the Chinese state, is so weak that it has not been able to sustain its radical transformation policy in the countryside on a day-to-day basis. The most revealing evidence of this paradox is that the Chinese state always relies on temporary work teams brought in from outside to carry out the required radical changes in a target locale during political campaigns.⁶⁹ Land reform, collectivization and many other political purges were accomplished in this way. In fact, even the political purges within the central state ministries, such as those after the Tiananmen Square massacre, have to be carried out by work teams from outside.⁷⁰ The state is simply incapable of forcing the native cadres to carry out in their own villages or work units a policy which is deemed too radical or too bloody by the locale. The job has to be done by outsiders.

However, a political campaign cannot last for ever. After radical changes or purges, the temporary task force has to leave so that its members can return to the units in which they regularly work. Then the daily routine begins to return to the victim village or unit, people gradually recover from the shock, and the radical policy imposed by the work team is gradually compromised. The magnitude of compromise varies from case to case. How far it can go depends, among other things, on the coherence and solidarity of the village or unit. If the compromise goes too far and the denounced old practice returns, another work team may be brought in to repair the damage. Thus the circle has repeated itself again and again in the past 40 years. The fragmentation and conflict of interest within the state bureaucracy always allow a certain degree of latitude from the totalitarian control envisaged by the radical top leaders. In this sense, although the Chinese state is indeed totalitarian, its totalitarian control is only sporadically fulfilled because of its weak infrastructural power. It seems that this concept of a sporadic totalitarian state can best explain the vicissitudes of the private economy in Wenzhou.

We have seen the ebb and flow of the private economy in Wenzhou before 1978. During the high tide of each of the state's political

68. Both concepts are derived from Michael Mann's analysis of state power. See his "The autonomous power of the state: its origins, mechanisms and results," *Archives of European Sociology*, No. xxv (1984), pp. 185–213.

69. Jean Oi, *State and Peasants in Contemporary China: The Political Economy of Village Government* (Berkeley: University of California Press, 1989).

70. *World Journal*, 29 December 1989, p. 1.

campaigns the work teams organized by the higher authorities were sent in to take over local power and to carry out attacks on the peasant sidelines and private handicrafts.⁷¹ Many local cadres who supported the local private economy were denounced and purged. No one seemed able to resist the radical policy imposed by the work team. However, each time, after the campaign subsided and the work team left, the old practice of private business gradually crept in again. Sooner or later, this privatization process became strong enough to provoke another attack from the state. This cyclical process shows that the strong despotic power of the state exercised during a political campaign can indeed suppress social resistance to imposed radical socio-economic changes. But the state's weak organizational capacity prevents it from resisting compromise after the campaigns. It thus has to repeat the cycle of political campaigns in order to maintain the achievements of socialism. It is because of this sporadic fulfilment of the state's totalitarian control that the private economy failed to take off in Wenzhou before 1978. However, the unique revolutionary history of Wenzhou cadres apparently created an unusually strong coherence and solidarity that enabled them to return to their own ways after each political campaign subsided, and therefore to allow private undertakings to re-emerge in Wenzhou when they were shunned in other places.

Although the Wenzhou experience is unique in China, its causal explanation can, to a certain extent, be applied to the development of private economies elsewhere. The economic reform across rural China is generally initiated from below, originating from the coincidence of interest between the cadres and peasants. But cadres elsewhere, without the solidarity enjoyed by the Wenzhou cadres that is a legacy of their revolutionary past, are less able to resist the undesirable encroachment of the sporadic totalitarian state. The development of a private economy elsewhere therefore occurs much more weakly and much later. Yet the basic dynamic is always there, waiting for an opportunity to materialize. In this sense, the sporadic totalitarian state in China, despite its iron-fisted control over society, allows a piece of hope for reform from below—the forging of an alliance between the local government and peasants in the private sector to press for the realization of local interests as a whole.

71. Lin Bai *et al.*, *Cadres of Wenzhou*, p. 51.