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978-0-521-02841-7 - Power and Wealth in Rural China: The Political Economy of Institutional Change

Susan H. Whiting

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Power and Wealth in Rural China

The Political Economy of Institutional Change

Boasting one of the fastest growing economies in the world at the turn of the twenty-first century, China is simultaneously making the transition from agriculture to industry and from socialism to capitalism. China's rural industrial sector (also known as township and village enterprises) has been the engine driving much of the Chinese economy's dynamism since the initiation of economic reform in 1978. Thus, rural industry provides a uniquely valuable window on the issue of institutional change.

This book examines changes in the institutions governing rural industry. Susan Whiting explains not only the striking regional variation in the form of property rights in rural industry during the first decade and a half of China's post-Mao reform, but also the dramatic move toward privatization that has occurred throughout China since the mid-1990s. She further relates the evolution of property rights to changes in state extractive institutions. Property rights in rural industry shaped the development of local state extractive institutions during the first fifteen years of reform, and political conflicts created by these same institutions were an impetus for major national fiscal reforms in 1994. As dramatic as these changes in both property rights and fiscal institutions are, they can be readily understood in the context of the theoretical framework developed in the study.

Whiting develops a dynamic approach to the study of institutional change by theorizing across three levels of analysis. She argues that institutional change can best be explained by examining the complex interactions of individuals, institutions, and the broader political economy. Analysis at the individual level provides careful, empirical grounding for assumptions about individual behavior; analysis at the institutional level examines the ways in which local institutions create incentives for and constraints on individual actions; and analysis at the level of the national political economy focuses on how changes in the broader environment can transform the incentives and constraints imposed by local institutions. The analysis draws on research in political economy, cognitive psychology, and evolutionary economics to advance our understanding of institutional change in comparative politics.

Employing comparative case-study and quantitative evidence gathered during twenty-one months of field and archival research, Whiting also challenges two dominant interpretations of rural industrial development in China: the view that all rural industry was self-reliant from its inception, operating completely outside of state plans, and the claim that all rural industry was effectively disciplined by market forces even in the early years of reform.

Susan H. Whiting is Assistant Professor of Political Science at the University of Washington.

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For my family

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Preface

THIS book represents an effort to make the concerns of those engaged in the study of Chinese politics relevant to students of comparative politics, to extend the boundaries of comparative theory, and to shed new light – both empirically and theoretically – on the issue of institutional variation and change in China.

Empirically, the book focuses on the development of China's rural industrial sector since 1949. In theoretical terms, it develops a dynamic approach to the study of institutional variation and change by engaging in theorizing across three levels of analysis. Analysis at the individual level provides careful, empirical grounding for assumptions about individual behavior; analysis at the institutional level examines the ways in which local institutions create incentives for and constraints on individual actions; and finally, analysis at the level of the national political economy focuses on the ways in which changes in the broader environment can transform the incentives and constraints imposed by local institutions.

This approach allows me to explain in a systematic manner not only the striking regional variation in the form of property rights in rural industry during the first decade and a half of China's post-Mao reform, but also the dramatic move toward privatization that has occurred throughout China since the mid-1990s. Moreover, I show that the evolution of property rights and state extractive institutions are integrally related. Property rights in rural industry shaped the evolution of local state extractive institutions during the first fifteen years of reform, and political conflicts created by these same institutions were an impetus for major national fiscal reforms in 1994. As stark a departure from the previous policy environment as the post-1994 fiscal reforms appear to be, and as dramatic a repudiation of the past as the privatization of public

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enterprises appears to be, these developments can be readily understood in the context of the theoretical framework developed in the study.

Much of the recent research in the statist tradition in comparative politics has focused exclusively on the institutional level of analysis, thus overlooking many of the motive forces for institutional change. Research in the rational choice tradition has brought individual motivations into the calculus, but assumptions about individual motivations often lack adequate empirical foundation. Findings in cognitive psychology regarding the limited cognitive processing capabilities of human decision makers and the pervasiveness of imperfect information highlight the need for richer contextualization of individual decision processes. Research in the rational choice tradition has also focused on predicting unique, “first-best” outcomes. However, not only are individuals not perfectly rational, but also selection pressures in the environments in which individuals and enterprises exist are themselves imperfect and do not always lead to “first-best” outcomes. Nevertheless, when selection pressures in the environments change, outcomes are likely to change as well. In order to explain institutional change, therefore, we must take into account forces for change that come from both individual actions and the broader environment.

This study addresses both variation and change in institutions, and the research on which it is based spans both space and time. It is the culmination of twenty-one months of field and archival research conducted in China and Hong Kong between 1991 and 1999. The research was designed as a comparative case study of three locales, and it addresses developments over four decades, from the 1950s to the present, with a focus on the period of reform from 1978 to the late 1990s.

Although the conditions for fieldwork in China have improved dramatically since 1978, the fieldwork for this project posed many challenges. The original research design called for sites to be selected for variation in the concentration of property rights forms in rural industry, including public, private, and foreign ownership. Research sites in Songjiang County of Shanghai Municipality and Yueqing County of Zhejiang Province met the criteria for concentration of public and private ownership, respectively. However, gaining approval for the third site, the one in which foreign ownership predominated – a site originally intended to be in Guangdong Province – proved to be bureaucratically infeasible at the time fieldwork began in 1991 to 1992. As a result, I selected another site in which public ownership predominated – Wuxi County in Jiangsu Province. This unavoidable consequence of the research envi-

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ronment, by generating two sites in two different provinces in which public ownership predominated, ultimately enabled me to develop and test a new hypothesis about the effect of the provincial regulatory environment on revenue extraction from rural industry. Thus, the research environment not only threw up roadblocks but also created opportunities.

A second challenge involved the nature of the research itself. During the early 1990s, the very concept of private property rights was controversial in China – particularly among local government officials. As a result, probing questions – in interviews either with local officials or with enterprise owners and managers – about how an investor's claims on assets were enforced (or not) were perceived as politically sensitive by my informants. Similarly, questions about revenue extraction – particularly those involving tax evasion, not surprisingly – could be sensitive as well. What was surprising was the wide range of response styles to these questions among my informants. Informants were selected both through official introductions and through informal encounters, but response styles did not vary on this basis. Some informants were open and forthcoming in interviews – regardless of the nature of our introduction. By the same token, some informants stuck to the official line – again regardless of the nature of our introduction.

As this discussion suggests, protecting the identity of informants is of utmost importance. Therefore, the names of townships and villages where research was conducted have been changed, and informants are identified only by interview number in the text. An appendix links the interview number with the informant's position and institutional affiliation and the date of the interview.

Like the financial debts of many of the enterprises I investigated for this project, the personal debts I have incurred in the course of research and writing are too numerous to repay. While many of the people who helped me with this project must remain anonymous, I am happy to be able to thank some of the most important people by name. Official support in China was critical to coordinating with local cadres in each of the research sites, to setting up interviews with a complete set of local government bureaus, and to attaining as representative a sample of enterprises in each site as was possible. The Shanghai Academy of Social Sciences (SASS) provided an excellent institutional base. Zhang Zhongli, SASS president and a University of Washington alumnus, was gracious, enthusiastic, and most supportive. Xie Zifen, director of the

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This book began as my doctoral dissertation at the University of Michigan, and many thanks are due to the members of my committee: Michel Oksenberg, Kenneth Lieberthal, Robert Dernberger, Yasheng Huang, and Matthew Evangelista all provided invaluable advice throughout the project. I have also been privileged to have stimulating colleagues both at the University of Washington and beyond who have influenced this manuscript in innumerable ways, large and small. In particular, I would like to thank David Bachman, Tani Barlow, Yoram Barzel, Loren Brandt, Kiren Chaudhry, Madeleine Yue Dong, Gary Hamilton, Stephen Hanson, Stevan Harrell, Kent Guy, Nicholas Lardy, Margaret Levi, Jamie Mayerfeld, Joel Migdal, Barry Naughton, Victor Nee, Kevin O'Brien, Jean Oi, Albert Park, Elizabeth Perry, Kazimierz Poznanski, Scott Rozelle, Dorothy Solinger, Andrew Walder, Christine Wong, and Glennys Young. Naturally, responsibility for any remaining errors of evidence or interpretation is my own.

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Mary Child and Helen Wheeler of Cambridge University Press shepherded the book through the production process with great care and good cheer. Nancy Hearst, the librarian at the Fairbank Center for East Asian Research of Harvard University, brought her expertise to bear in proofreading. I offer my thanks to them for the roles they played in the publication of the book.

“Unofficial” support was also critical to this project. My brother, Van Whiting Jr., gave me my theoretical ambitions, and my parents, Sara and Van Whiting, supported me in all my endeavors to pursue them. To my family I express my love and appreciation in dedicating this book to them.