

Commodifying Communism

*Business, Trust, and Politics
in a Chinese City*

DAVID L. WANK



PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE
The Pitt Building, Trumpington Street, Cambridge CB2 1RP, United Kingdom

CAMBRIDGE UNIVERSITY PRESS

The Edinburgh Building, Cambridge CB2 2RU, UK <http://www.cup.cam.ac.uk>
40 West 20th Street, New York, NY 10011-4211, USA <http://www.cup.org>
10 Stamford Road, Oakleigh, Melbourne 3166, Australia

© David L. Wank 1999

This book is in copyright. Subject to statutory exception
and to the provisions of relevant collective licensing agreements,
no reproduction of any part may take place without
the written permission of Cambridge University Press.

First published 1999

Printed in the United States of America

Typeset in Sabon 10/12 pt, in Quark X Press [BTS]

*A catalog record for this book is available from
the British Library.*

Library of Congress Cataloging-in-Publication Data

Wank, David L. (date)

Commodifying communism : business, trust, and politics in a Chinese
city / David L. Wank.

p. cm. – (Structural analysis in the social sciences)

Includes bibliographical references and indexes.

ISBN 0-521-62073-2 (hb)

1. Amoy (China) – Economic conditions – 1976– . 2. China – Economic
policy – 1976– . 3. Mixed economy – China – Amoy (China). 4. Free
enterprise – Amoy (China). 5. Entrepreneurship – Amoy (China).
6. Industrial policy – Amoy (China). I. Title. II. Series.

HC428.A5W36 1998

338.951'245 – dc21

98-16537

CIP

ISBN 0 521 62073 2 hardback

Contents

<i>Acknowledgments</i>	page xi
<i>List of Tables, Figure, and Maps</i>	xiii
Introduction	
1 Orientation of the Study	3
Communist States and Economic Reform	5
Overview of the Argument	9
Character of the Research	12
The Fieldsite	17
2 Institutional Commodification: Concepts and Categories of the Analysis	23
Contending Accounts of Private Business in Communist Orders	24
Commodification of the State Monopoly	33
The Rise of Commercial Clientelism	35
Synopsis of the Analysis	40
I. Instituted Processes of Commercial Clientelism	
3 The Structure of Commercial Opportunity of Xiamen	43
The Reemergence of Trade	43
Idioms of Opportunity	46
State Hierarchy and Trade Networks	48
Patterns of Competition	63
4 Symbiotic Transactions Between Private Firms and Public Units	68
The Preference for Clientelist Transactions	68
Idioms of Patron–Client Ties	70
Patterns of Clientelist Transactions	72
Measuring Gains from Transactions	81
Evolutionary and Regional Variations	83
5 Enhancing Expectations: The Social Organization of Contracts	93
Idioms of Social Trust	93
Popular Identities and Norms in Interactions	98
The Interplay of Popular and Statist Institutions	109

6	Entrepreneurial Paths and Capital: Personal Attributes as Competitive Advantage	116
	Entrepreneurial Paths	116
	Idioms of Societal Capital	121
	The Distribution of Advantageous Societal Capital	123
	Enhancing Societal Capital	136
	Converting Societal Capital into Economic Assets	144
	Societal Capital and Risk	147
II. Economic and Political Outcomes		
7	Comparing Economic Performance in China and Eastern Europe	153
	The Role of Local Government	154
	Possibilities for Local Government–Private Business Networks	156
	Variations in Institutional Culture	162
	The Efficiency and Equity of Commercial Clientelism	169
	Conclusion	174
8	The Transformation of Political Order	176
	The Classic Communist Order	177
	Shifting State–Society Relations	178
	Shifting Center–Local Relations	188
	Institutional Transformations in the Polity	197
	The Pluralization of Power	202
9	Epilogue: Evolutionary Trends in the 1990s	204
	Evolving State Monopoly	204
	Power and Entrepreneurship	207
	Neomercantilism in Business–Government Networks	215
	The Rise of Regional Idioms of Cooperation	219
	Conclusion	222
	Final Insights	225
	Commodification as System Transformation	225
	Commercial Clientelism as Market Equilibrium	227
	Capitalism and Bureaucracy	229
Appendixes		
	Appendix A: Glossary of Chinese Terms and Place Names, with Corresponding Chinese Characters	235
	Appendix B: Fieldwork in Xiamen’s Business Community: A Methodological Essay	244
	Bibliography	253
	<i>Name Index</i>	279
	<i>Subject Index</i>	283

Tables, Figure, and Maps

Tables

1.1	Xiamen's population and economy since 1949	<i>page</i> 21
2.1	Contrasting accounts of emerging private business in Communist orders	32
3.1	Selected items traded wholesale in Xiamen	44
3.2	Relative Chinese and world prices for selected products, 1984	50
3.3	Business lines of private companies in Xiamen	57
4.1	Predominant trading partners of private companies, by sales turnover of companies	82
4.2	Private companies' affiliations with public units, by sales turnover of companies	83
4.3	Participation in direct foreign trade, by sales turnover of companies	83
6.1	Prior occupation of entrepreneurs before obtaining business license	117
6.2	Entrepreneurs' fathers' occupations, by prior occupation category	126
6.3	Entrepreneurs' grandfathers' occupations (when the grandfathers were in commerce and the fathers were not), by prior occupation category	127
6.4	Entrepreneurs' educational attainment, by prior occupation category	130
6.5	Status of entrepreneurs' prior work unit, by prior occupation category	132
6.6	Entrepreneurs in the catering, hotel, and entertainment industry, by prior occupation category	142
6.7	Entrepreneurs' sources of startup capital, by prior occupation category	145
6.8	Entrepreneurs' customers, by prior occupation category	147
6.9	Entrepreneurs' average sales turnover in 1989, by prior occupation category	147

xiv *Tables, Figure, and Maps*

7.1	Share (%) of total output contributed by state enterprises in selected Communist economies	157
-----	--	-----

Figure

6.1	Onset of entrepreneurship, by prior occupation category	118
-----	---	-----

Maps

1.1	Southeastern China	14
1.2	Xiamen and environs	18

1

Orientation of the Study

The original purpose of the fieldwork on which this study draws was to discern the political consequences of emerging markets for Communist states and societies. Decades of scholarship had developed a view of these societies as highly bureaucratized orders. Power and privilege were defined by bureaucratic rank, and the citizenry were highly dependent on local officialdom. I had tasted this during two years of residence in a North China work unit from 1980 to 1982, experiencing firsthand the pervasive mediation of daily necessities and activities by local state agents. In mid-1988, at the close of the first decade of Chinese market reform, I returned to study the link between emerging markets, social structure, and political change.

I focused on private business, widely viewed as the furthest commercial departure from the classical Communist order. My assumption was that private business was creating new resources and careers independent of the state apparatus that were lessening citizens' bureaucratic dependence. The expectation was that interviews with private business operators would illuminate changes in local interactions between state and society, letting me document the increasing autonomy of citizens from the state apparatus.

My expectations were considerably diminished when, upon entering the field, I was unable even to clearly distinguish private businesses from public ones. Some entrepreneurs introduced to me as "private" business operators insisted their firms were "public." Others introduced as the operators of "public" firms claimed they ran "private" ones. Yet others maintained that their firms were "half-public/half-private." A few even claimed different statuses from interview to interview, although the legal registration of their companies had not changed. This situation frustrated my attempts to classify the abundant data flow. I spent much time thinking about classificatory schemes while almost every new interview presented anomalies defying my pigeonholes.

A turning point in my research direction was a conversation in early 1989 with an entrepreneur nicknamed Boss Short Pants (*Duanku*

Laoban), who ran a business group with a mix of privately owned and public firms. The Boss had previously impressed me with his no-nonsense style, indicated by his trademark casual wearing of short pants in hot weather. I made an appointment to talk to him, hoping to clarify what was “private” about private business. I figured that the Boss must have some scheme for distinguishing it – how else could he manage his commercial empire? During our conversation, I kept turning the topic back to legal property rights whenever Boss Short Pants veered away from what I deemed the crucial issue. He became agitated, finally blurted out, “Read the damn government policy if you want to know about property rights. But if you want to know about the business situation here then listen to what I’m saying!” After my profuse apologies he continued, “Property rights give you only a legal existence. But your market activities depend on the social environment (*yao kao shehui huanjing*). If your connections (*guanxi*) with officialdom are good, then your business can develop, but if they are bad then officialdom squeezes you and you can’t get anywhere.”

Boss Short Pants insisted that my concern with legal property rights was misplaced. Later I would realize the importance I placed on the issue stemmed from an uncritical, indeed unwitting, acceptance of the ideal-typical market image of standard economic theory. But this realization would not come until later; the immediate upshot of our conversation was that I resolved to stop wasting time trying to square data with the public/private dichotomy of legal property rights and listen to what entrepreneurs were telling me about themselves and their business. During the next year and a half I cast my net wide and deep, meeting many people in Xiamen, entrepreneurs and others, while socializing intensively with some entrepreneurs with whom I developed rapport.

I began to pay closer attention to what people were saying and how they said it. The realization dawned on me that private business operated in networks of personal ties centered on the local government. Personal ties with state agents enhance access to profit opportunities located in the state’s bureaucracy and protect subsequent wealth accumulations. Commercial rationality, therefore, also entails the social process of forging and cultivating the personal ties to local government through which business-enhancing resources flow.¹ Business strategies and competition are patterned by the different accumulations of personal ties through social background and skill in the “art of social relations” (*guanxixue*) of

¹ My use of the term “local government” corresponds to the *difang zhengfu* of Chinese official terminology, which denotes any level of government below the center (Huang 1996: 20–1); that is, it can refer to governments all the way from the provincial level down to urban subdistrict levels and rural villages and townships. When necessary I distinguish specific levels. The center is referred to as the central state or state elite, while the term “state” refers to the entire complex of central and local government.

specific firm operators. I also realized that the idiomatic ways in which entrepreneurs spoke of their business practices expressed continuities with as well as changes from the clientelist relations of the pre-market reform era.

When I left the field in the summer of 1990, I knew that my observations not only falsified my original hypothesis but raised entirely new concerns. My original question – What are the political consequences of an emerging market economy in a Communist order? – had been displaced by a new one – How does a market economy emerge from a Communist order? My dissertation, submitted in 1993, described the embeddedness of private business in social networks and political power as I came to understand it in 1988–90 after a decade of market reform. This present study, a more analytically sustained reflection on the field data, pays more attention to explaining the institutional process by which a Communist system transforms into a market economy. Why and how does private business operate through clientelist networks? What are the outcomes for economic performance? What are the outcomes for the polity? How does this differ from other post-Communist market economies and emerging market economies in general?

In this chapter I do four things. First, I give an overview of the classical Communist orders and the commercial departures from them. Second, I summarize this study's central thesis that the revival of private business gives rise to commercialized clientelist networks. Third, I describe the research strategy of the study. Fourth, I give a historical sketch of the fieldsite.

Communist States and Economic Reform

Observers of Communist orders have long pointed out that economic organization and political power are defined by the party-state's bureaucratic control of resources.² Central planning places allocation in the hands of Communist Party officials, while suppression of household and small-scale private enterprise and retail and wholesale markets creates a monopoly over the production and distribution of goods. This results in a lack of consumer items, the rise of in-kind distribution centered on workplaces, and the rationing of foodstuffs, housing, and other daily necessities. Andrew Walder observes that “all of this further served, for a considerable historical period, to reduce alternatives and reinforce dependence upon superiors for the satisfaction of needs” (Walder 1994a: 301). Access to daily necessities and career opportunities

² Classic statements of this point are Djilas (1957); Feher, Heller, and Markus (1983); Rizzi ([1939] 1967); and Trotsky ([1937] 1972).

was a function of one's power and influence in bureaucratic allocation procedures.

Much economic allocation and political power came to be embedded in clientelist networks.³ At the local borders of state and society, officials' discretionary allocation of goods and opportunities created patron–client ties. These ties not only allocated resources but also facilitated local governance as clients took the lead in demonstrating compliance with state initiatives and providing officials with information on societal resistance. Patron–client ties also created cross-cutting cleavages in society that reduced the likelihood of organized popular resistance to the state and local officialdom. Within the bureaucracy, clientelist networks between superiors and subordinates buttressed central authority by enhancing the compliance of lower officials. Promotions depended on the recommendations of one's immediate superiors, inducing the responsiveness of subordinates. The institutionalization of clientelist networks was idiomatically expressed as *guanxi* in China (Walder 1986: 170–85), *protekcio* in Hungary (Róna-tas 1990: 119), *dosjcie* in Poland (Wedel 1986: 79), and *blat* in the Soviet Union (Grossman 1983: 105–8).

For some time social scientists have speculated on the political implications of the introduction and expansion of markets in Communist systems. In 1978 the sociologist Ivan Szelenyi wrote that “the interests of the powerless and disprivileged can be best served with increasingly transactive (and consequently *market-like*) relationships in the economic system” (Szelenyi 1978: 63). He speculated that increased market allocation of resources would reduce the party-state monopoly on power and privilege that was maintained by bureaucratic redistribution. Analysts saw commercial departures from bureaucratic redistribution through popular activities like worker moonlighting and state initiatives like private agricultural plots as enhancing individuals' autonomy from the system. However, these activities were deemed incapable of changing the system. Some analysts considered them so petty as to be marginal to the main arenas of political struggle; others saw them as safety valves that helped to maintain the system by channeling popular discontent into individualized strategies of material gain.⁴

In the 1980s Communist states shifted to more comprehensive market reform programs to counter stagnating production, obsolescing technology, declining living standards, and labor problems. This stimulated scholarly reassessment of the political implications of emerging markets

³ Key studies in this vein include Baker (1982); Ionescu (1977); Oi (1985, 1989); Tarkowski (1983); Walder (1986); and Willerton (1979).

⁴ Key studies include Feher, Heller, and Markus (1983); Kemény (1982); Misztal (1981); and Sampson (1987). For China's second economy see Burns (1982); and Chan and Unger (1982).

in these systems. Such new commercial activities as foreign investment, expanded private business, and leasing of public enterprises were seen as transforming the system itself. In the words of sociologists David Stark and Victor Nee, market “reforms [are] redrawing the boundaries between the state and society and shaping new patterns of transaction, mediation, and bargaining across them” (Stark and Nee 1989: 16). The revival of private business is seen as one of the most consequential economic departures from orthodox central planning. The economist János Kornai concludes that “the rise of the private sector is the most important tendency in the economic sphere during the process of reform. It brings a deep change, since it affects the property relations and it does so in a radical way: private property appears alongside public property” (Kornai 1992: 433). In short, private business is widely considered the most far-reaching departure from the Communist order, with profound consequences for economy and polity.

The revival of private business reflects the growing concerns of Communist party-states to solve unemployment and provide more consumer goods, concerns that shifted their policies away from constricting private economic activity to a more tolerant stance. The reemergence of private economic activity varied in timing and pace by country. In regard to timing, the Hungarian private sector developed earliest, with policies expanding the scope of private farming and services in the late 1960s; this did not happen in the Soviet Union until the late 1980s. In regard to pace, the reemergence in China has been especially swift. On the eve of market reform in 1978 there were only 80,000 licensed private businesses nationally, mostly peddlers of farm produce and secondhand goods whose activities were an infinitesimal share of the national economy. A decade later there were at least 30 million private businesses of some sort, constituting the fastest-growing sector of the economy.

The revival of private business has followed a similar pattern in diverse Communist countries, although there has been considerable variation in pace and timing. Typically, it begins with the state’s reduction of restrictions on self-employment in privately owned family businesses (Róna-tas 1994). However, the state restricts their size by limiting the number of employees, permitting only limited shareholding or banning it altogether, and stipulating that private businesses must buy raw materials on retail markets and sell goods and services to individual consumers (Aslund 1985). This keeps private businesses small and prevents public resources and personnel from flowing to the private sector (Gábor 1989: 40). The next step in the revival is state condonement of private endeavors in the collective and state sectors through leasing, work partnerships, and cooperatives. New policies encourage useful aspects of private economic capital in creating jobs and meeting consumer demand while maintaining

public ownership of productive resources in accordance with socialist ideology. Again Hungary led in such innovations, while other countries such as China and the Soviet Union adopted similar policies later.⁵ The third step is the expansion of the sector of licensed private business as when the myriad policy restrictions against them are reduced to permit incorporated and limited-liability private companies. These firms are the legal equals of public enterprises, can engage in capital-intensive manufacturing and service ventures, and can sell wholesale to public producers.

A similar sequence has occurred in China.⁶ Policies from 1978 to 1983 encouraged small privately owned businesses – the so-called *getihu* (individual businesses) – to create jobs and meet consumer demands (Gold 1990a: 158–62).⁷ Out of ideological concern to prevent a “capitalist restoration,” shops were limited to seven employees,⁸ could not issue receipts larger than ¥100, could not use mechanized production or transport, were denied access to bank loans, and could not pool capital.⁹ Next, in order to expand the beneficial aspects of private business without challenging socialist ideology, the state permitted private management of collective and state sector firms and assets. Such arrangements spread in the mid-1980s through cooperative, leased, and contracted firms. This created jobs and met demand but caused administrative confusion; for example, it was difficult to distinguish a cooperative from a socialized collective firm in tax matters.¹⁰ To further expand the role of private

⁵ For cooperatives in Hungary see Rupp (1983); and Swain (1990). For China see Lockett (1988); and Sabin (1994: 948–54). For the Soviet Union see Jones and Moskoff (1991).

⁶ Private business has waxed and waned since the founding of the People’s Republic of China. After 1949, the party-state initially encouraged private business in order to revive the economy. The only businesses expropriated in the first years were so-called comprador firms connected to international capital and the state. In fact, many merchants prospered as inflation was checked and kidnappings of businessmen ceased. State tolerance evaporated during the Korean War, when competition between state agencies procuring war resources and private businesses caused inflation. The nationalization of private capitalist firms and the socialization of smaller shops into collectives in the mid-1950s led to the decline of private business. In 1950 private business accounted for 76.1 percent of wholesale trade and 71 percent of industrial output, but by 1955, only 4.4 percent and 18.3 percent respectively (Kuan 1960: 66–7). Private business flourished briefly in the early 1960s, when, because of economic disruption and famine following the Great Leap Forward and the halt of aid from the Soviet Union, the state permitted private stalls and shops.

⁷ Urban unemployment had swollen by the late 1970s to between 8.5 percent and 18 percent of the labor force (Gold 1990a: 160).

⁸ This figure is widely assumed to be derived from a hypothetical example in Marx’s *Capital*.

⁹ A 1983 policy revision eased restrictions and permitted joint ventures (*lianying*) with public enterprises, but the seven-employee limit remained.

¹⁰ The actual number of cooperatives is not known, as they are aggregated with socialized collectives in collective sector statistics: a 1988 national figure claimed 50,000 cooperatives, while local statistics suggest a much greater number. For example, according to one

capital while avoiding administrative confusion, the 1988 Private Enterprise Interim Regulation legalized limited-liability privately owned companies. These firms have no restrictions on employee numbers and can issue large receipts.¹¹ Further policies in 1994 permitted the incorporation of private companies and the issuing of shares on stock markets.¹²

The revival of private business in China has been especially dramatic. By one estimate, private sector share of the gross value of industrial output rose from 0.2 percent in 1980 to 36.5 percent by 1991 (Pei 1994: 92–3) and the private sector share of the retail trade grew from 2.1 percent in 1978 to 33.1 percent in 1993 (State Statistical Bureau 1994: 497).¹³ Yet private business also exhibited the generic characteristics of private business in the Communist world (Aslund 1985; Grossman 1987; Los 1990). While many restrictions had been removed, others still remained, most notably prohibitions against direct foreign trade and private ownership of real estate. The ideological legacy of hostility toward private business, sudden changes in policies and regulations by the state, and arbitrary regulation by local agencies created uncertainties. Much trade was dubious, consisting of activities that the state did not condemn outright nor explicitly condone. Legal property rights were ambiguous, and despite regulations against party officials conducting business on their own and working in private firms, many of the larger companies used personal ties with officials to gain access to business-enhancing public resources.

Overview of the Argument

The central thesis of this study is that the revival of private business does not lead to the decline of patron–client ties but rather to the emergence of new commercialized forms of clientelism. Thus rather than talk of the retreat of the state during the market reform era, I describe the

local survey published in 1989, 60 percent of all the collective enterprises in Fujian province are privately run (Lin 1989: 34). Given that there were 510,134 collective enterprises in Fujian province in the late 1980s, consisting of 446,694 village and township enterprises (1988 statistics, Fujian Province Statistical Bureau 1989: 43) and 63,440 trade and service enterprises (1985 statistics, Fujian Province Statistical Bureau 1992: 227), this would mean that the province alone had 306,081 cooperatives, a figure much larger than the national figure of 50,000 firms. According to a survey published in 1989, of 518 collective firms surveyed in Wenzhou municipality, 79.5 percent were cooperatives (Jia and Wang 1989). For problems of statistical measurement see Odgaard (1992: 234–50); Sabin (1994); Young (1995: 4–9).

¹¹ The companies are single-investor, joint-investor, or limited-liability. By 1994, there were also 374,700 legally private companies nationally (*China Daily* 1994).

¹² The petty private shops, cooperatives and leased firms, and private companies are described in greater detail in Chapter 3. Corporations are discussed in Chapter 9.

¹³ Pei's figures include legally private firms and rural village and township enterprises, which are often privately run.

commodification of its local bureaucratic power. Rather than speak of the declining role of *guanxi*, I show how entrepreneurs draw on preexisting ties and create new ones to influence local state agents. And rather than talk of enhanced entrepreneurial autonomy from the state, I describe new patterns of bargaining and alliance across the local boundaries of state and society.

Clientelist ties are a contractual transaction that reflects power asymmetries between exchange partners. Such ties are expressed in terms of personal identity and interpersonal sentiments and obligations; they intermingle potential coercion and exploitation with voluntary relations and mutual obligations, and they involve reciprocal and mutually beneficial exchanges that are labeled as dubious, illegal, and corrupt by the state (Eisenstadt and Roniger 1984: 49; Flap 1990: 237; Foster 1963: 1281; Schmidt 1977). The emergence of patron–client ties is linked to the organization of the state. Such ties are likely to flourish in a state that creates unequal distribution of resources through monopoly practices, has weakly developed standards of impersonal behavior, and has weakly developed class and occupational interest associations (Flap 1990; Scott 1972b: 42). In such a state clientelist ties do the following: they provide weaker parties with steadier access to resources, enabling them to manage their dependence on state agents; they enhance expectations on the likely behavior of others by embedding interactions in social norms and practices; and they provide parties with vertical ties that can be mobilized to meet diffuse challenges.¹⁴

The embeddedness of Chinese private business in clientelist ties reflects the evolving organization of the Communist party-state during market reform.¹⁵ It also reflects new interests and possibilities for profit seeking in the vast resources accumulated by the party-state through the structures of centralized economic planning and redistribution. But clientelist ties also mean that fewer resources reach local levels of the state through central redistribution, inducing local governments to seek profit through the resources they control, thereby lining officials' pockets and filling local government coffers. Clientelist ties also reflect the failure of the state to institutionalize universal standards, as by fully enforcing legal private property rights, in the market economy. Local governments interpret central regulations as they see fit while entrepreneurs cut their own deals with local governments to increase profits and provide security for wealth accumulations. However, the clientelist ties through which pri-

¹⁴ For general discussion of networks in economic life see Burt (1992); Granovetter (1973, 1985); Lazonick (1991); Powell (1987); Powell and Smith-Doerr (1994); and White (1992).

¹⁵ For uses of the concept of clientelism in other areas of China's emerging market economy, see Oi (1985) for the rural economy, Pearson (1997) for foreign enterprises, and Paltiel (1989) for a suggestive comparison with Mexico.

vate business operates differ from pre-reform clientelism not only in new commercial calculations but also in changing dependence: citizens' dependence on officialdom is much reduced as officials and local governments are increasingly dependent on entrepreneurs and their firms for certain resources. The new ties are therefore symbiotic.

The argument can be sharpened by distinguishing the clientelism I observed from other manifestations of it in markets. First, it differs from clientelized ties between buyers and sellers found in many third world and informal economies that are indicated by such local names as *pratik* in Haiti, *suki* in the Philippines, *onibara* in Nigeria, *casera* in Peru, and *sedaqa* in Morocco.¹⁶ These ties diffuse information and produce trust, processes that I too observed in China. But the key difference is that these other ties are horizontal ones of relative equality, whereas in China they involve asymmetries between those inside and those outside the state structure and are therefore more vertical. Furthermore, the entrepreneurs I observed view relations with officials as supportive and actively cultivate them; in contrast, third world traders see officials as predatory and seek to minimize contact with them through horizontal strategies.¹⁷ Nor do the Chinese clientelist ties conform to Southeast Asian "crony capitalism," which is characterized by commercial advantage to an entrepreneur derived by personal association with the head of state, because the ties I document operate in much lower levels of the government.¹⁸ Also, the concept of rent-seeking that undergirds crony capitalism is not particularly apt, as it presupposes a functioning market, whereas Communist orders lack markets; thus the analytic task is to explain the emergence of markets rather than their distortion. Finally, Chinese clientelist ties do not fit the East Asian model associated with Japan and Korea.¹⁹ In this model, a strong central state maintains economic guidance of the market economy through particularistic flows of policy directives and economic capital to commercial firms. The situation I observed differs: the central Chinese state condemns many market practices and seeks to suppress them. China's emerging market contains many practices that deviate from central directives and that proceed in networks of local interests distinct from the center's. These local devia-

¹⁶ See Granovetter (1993) for an overview of this kind of horizontal clientelism. Related terms in the Chinese context, such as *xinyong* (credit), refer to evaluations of honesty and dependability within the community of businesspersons (Barton 1983; DeGlopper 1972) and therefore also suggest horizontal relations.

¹⁷ See, e.g., MacGaffey's (1991) account of Zaire.

¹⁸ Kunio (1988) is the *locus classicus* for the concept of crony capitalism. The members of the so-called princes' party (*taizi dang*), the offspring of elite central officials, are more analogous to crony capitalists in the Chinese case. For the concept of rent see Bates (1981); Krueger (1974).

¹⁹ The East Asian model draws on Gerschenkron's (1962) classic discussions of late development (Amsden 1989; Johnson 1982; Jones and Sakong 1980).

tions and interests are institutional elements not found in the East Asian model.

The closest parallel for the ties I observed is the industrial districts of Western Europe, such as Emilia-Romagna in Italy, where market economies are constituted by cooperation between private business and local government, and private firms have extensive subcontracting not only with each other but also with state enterprises. These myriad links among local governments, state enterprises, and private firms are embedded in particularistic identities of person and region.²⁰

Character of the Research

Debate surges back and forth on the performance of post-Communist market economies and their political consequences. At stake are not simply academic theories but also perceptions of emerging markets in political policy debates and popular media images that help constitute the reshaping of the post-Communist world in the late twentieth century.²¹ This study considers the operation of private business, a quintessential market institution and potentially far-reaching departure from Communist orders. The goal is to explain an institutional organization of commercial behavior significantly different from the conventional ideal-typical market economy and to suggest the outcomes of this for economic performance and political change.²² The argument developed is an alternative to extant market transition, political economy, and traditional culture accounts of the causes and consequences of the emergence of private business in Communist orders. I call my argument the institutional commodification account.

The analysis embodies the core premise of economic sociology on the contingent nature of economic organization and behavior with respect to historical, cultural, and political factors, in contrast to the standard economic view of the market as a universal, ideal-typical form. I view the operating processes of the emerging market economy as the outcomes rather than the starting point of historical patterns of state and society.²³ It follows that there are numerous possible transacting configurations for markets: the actual transacting modes prevalent in an

²⁰ For Emilia-Romagna, see Lazerson (1988, 1993).

²¹ Chapter 2 reviews the academic debate in regard to private business. For an example of how this debate appears in media and policy circles see Blustein and Smith (1996).

²² For a discussion of a sociological analysis of the economy as contrasted with standard economic analysis, see Hirsch, Michaels, and Friedman (1990).

²³ For other classic statements of the economic sociology perspective, see Polanyi ([1944] 1957); and Weber ([1904–5] 1958, [1922] 1978, [1922] 1961). For recent formulations see Etzioni (1988); Friedland and Robertson (1990); Granovetter (1985); Smelser and Swedbord (1994); and Zukin and DiMaggio (1990).

economy or in the exchange portfolio of a firm are best determined by empirical investigation.

The methodology is primarily ethnographic and rooted in a single locale.²⁴ Ethnography gives the researcher insight into enduring relations and their manner of institutionalization.²⁵ I employed such standard fieldwork methods as formal and open-ended interviewing, socializing and conversations, and limited participant observation, as well as surveys of relevant published documents and brief visits to other locales to gain broader perspective. The data emphasize multiple points of observation in the locale to uncover the institutional pattern of relationships in the emerging market economy.²⁶ I pay close attention to the idioms used by people to express their actions and goals, as this sheds light on the institutional construction of values, firms, contracts, and bargaining, which constitutes markets.²⁷

The fieldsite is Xiamen, an old port city in Fujian province on China's southeastern coast, and one of the most economically dynamic locales in the reform era. It has a history of extensive overseas Chinese emigration and, since 1980, has been one of China's five Special Economic Zones designed to take the lead in establishing a market economy and attracting foreign investment.²⁸ I resided in this dynamic commercial city for eighteen months between June 1988 and June 1990; subsequent data were obtained by ongoing contact with a research assistant and several infor-

²⁴ Recently sociologists and anthropologists who study late and post-Communist societies, noting how poorly these emerging market economies approximate an ideal-typical market image, have stressed the need for ethnographically informed accounts of Communist market reform. See Parish and Michelson (1996: 1046); and Verdery (1996: 210–16).

²⁵ Institutions are cognitive categories and behavioral norms, whether expressed in legal codes or customary ways, that define entities and legitimate action in social relations. Institutionalized social relations are routinized in practice and have a “taken for granted” character. Institutions therefore shape the rationality of social action, defining ends and the means to obtain them (Meyer, Boli, and Thomas 1987; DiMaggio and Powell 1991; Hamilton and Biggart 1988; and Jepperson 1991).

²⁶ The fieldwork strategy is captured in Clifford Geertz's concept of divergent data, defined as “descriptions, measures, observations, what you will, which are at once diverse, even rather miscellaneous, both as to type and degree of precision and generality, unstandardised facts, opportunistically collected and for the simple reasons that the individuals they are descriptions, measures or observations of are directly involved in one another's lives” (Geertz 1983: 156).

²⁷ Idioms reveal the cognitive and normative constraints on practical action (Bourdieu 1979; Wuthnow 1987: 145–6). Theda Skocpol writes that “it [does] make a difference which idiom or mixture of idioms is available to be drawn upon by given groups. Indeed, the very definition of groups, their interests, and their relations to one another will be influenced by cultural idioms” (Skocpol 1985b: 91).

²⁸ I use such terms as “overseas Chinese” and “Chinese overseas” to refer to all Chinese who are not residing in the People's Republic of China, including Chinese who reside in Hong Kong (British territory at time of fieldwork), Taiwan, and Macao as well as ethnic Chinese in other countries.



Map 1.1. Southeastern China.

mants and by two weeks of follow-up research in mid-1995. Xiamen's liberal economic policies and cosmopolitan history were very conducive to ethnographic fieldwork by a foreign researcher. My sponsoring institution was Lujiang College, a new college for training administrative and office personnel for the special economic zone. I lived in a teachers' apartment dormitory and could come and go as I pleased. I had a private telephone with a direct outside line and could call businesspeople and others to make appointments or to chat. Foreign tourists and businesspeople often visit Xiamen, so it was not unusual for a foreigner to be roving about discussing economic matters with people. Consequently, my comings and goings were not visibly restricted and my interaction with members of the community was relatively uninhibited.

The core data are a sample of one hundred private companies and the entrepreneurs who run them. All of the entrepreneurs were interviewed at least twice by me, while numerous follow-up contacts with some were maintained by me or research assistants. In addition I socialized intensively with several entrepreneurs with whom I established rapport. Because of the importance of these data for the study, this aspect of the fieldwork is discussed at length in an appendix. I broadened my perspective by interviewing various other members of Xiamen's business world. These included other businesspeople – petty private shopkeepers, overseas Chinese businesspeople, Western businesspeople, and managers of state enterprises, foreign trade corporations, and collective trading firms. They also included administrative officials at the city, district, and sub-district levels of such relevant government agencies as the Industry and Commerce Bureau and Tax Bureau, and at state and cooperative banks. Finally, I interviewed officials and citizen-officers of state-sponsored business associations, such as the Self-Employed Laborers Association and the Artists and Entrepreneurs Association, and of some government-sponsored social organizations (*Shehui Tuanti*) under the authority of the Communist Party's United Front Department, such as the Xiamen Chamber of Commerce, the Xiamen Civic Association of Private Industry and Commerce, and the Young Factory Director and Manager Association. These wide-ranging contacts helped me place private business in broader contexts.

The fieldwork centered on Xiamen city's old downtown districts of Siming and Kaiyuan on Xiamen Island. About 70 percent of the city's wholesale companies and retail shops are located here as well as major hotels and department stores. Some interviews also took place on Gulangyu, a tiny island district five minutes by ferry from Xiamen Island. I also did fieldwork in Xiamen's suburban Jimei and Xinglin districts on the mainland. In addition to Xiamen-based fieldwork, I visited towns and villages in nearby Tongan, Longhai, Huian, and Jinjiang counties and

other southern Fujian cities, such as Quanzhou, Shishi, Zhangzhou, and Chongwu. Finally, I talked with entrepreneurs in Fuzhou, Fujian's provincial capital, in Guangzhou and Fuoshan cities in Guangdong, and in Taiyuan city and Taigu county in North China's Shanxi province.

Further insight was gained by documentary research. This included a thorough reading of the *Xiamen Daily* newspaper from 1978 through 1990 and selective reading of earlier periods, as well as local, provincial, and national publications obtained from city and university libraries. I also read local official documents on such matters as economic crimes, regulatory matters, and the floating population, and publications of the aforementioned associations. This was invaluable for grasping the central state's intentions in market reform and its implementation strategies through policies and programs. Reading about new policies and events in the daily newspaper and then discussing them with those affected provided many insights.

Although the observations are mostly gleaned from one locale, the study is comparative. The data do not represent China's market economy as a whole but rather a variation linked to liberal economic policies and access to transnational trade and capital through kin networks.²⁹ Focusing on processes in the locale and evaluating my hypotheses with my data provide insight into the organizational principles of the local market economy. Then, by comparing my findings with studies from other locales in China to note the differences and similarities, I can hypothesize on the sources of regional variation in the national market economy. Finally, I sharpen my interpretations with comparisons of the process of market emergence in other Communist countries.

Fieldwork is also shaped by the historical context in which it is conducted. During my fieldwork, two events occurred that entrepreneurs viewed as the most severe crises for private business since its revival in 1978: the Economic Rectification Campaign, launched in September 1988, three months after I entered the field; and the 1989 student movement, which occurred at the fieldwork's midpoint. The campaign was a massive bureaucratic action to combat the blurred boundaries of legally defined public and private property rights in the market economy. It merged with the crackdown that followed the student movement and did not end until the early 1990s. The student movement erupted in

²⁹ Regional heterogeneity is often noted in studies on market reform (Falkenheim 1988; Shirk 1989; Xie and Hannum 1996). In terms of William Skinner's (1977) division of late imperial China into seven macroregions based on the administrative and economic communication hierarchies and resource flows, Xiamen is in the "Southeast Coast" region, which includes the coastal regions of Fujian province and neighboring Zhejiang province to the north. However, in terms of its history of outmigration, and favorable concessions from the central state and inflows of foreign investment capital, Fujian province has more in common with neighboring Guangdong province to the south (Vogel 1989: 80-7).

the spring of 1989, reaching its bloody climax in Tiananmen Square on June 4. The severe political repression that ensued included a campaign against corruption and tax evasion in private business. The heightened political tension from 1988 to 1990 cast certain orientations and actions into sharper relief than would have been the case in less troubled times.

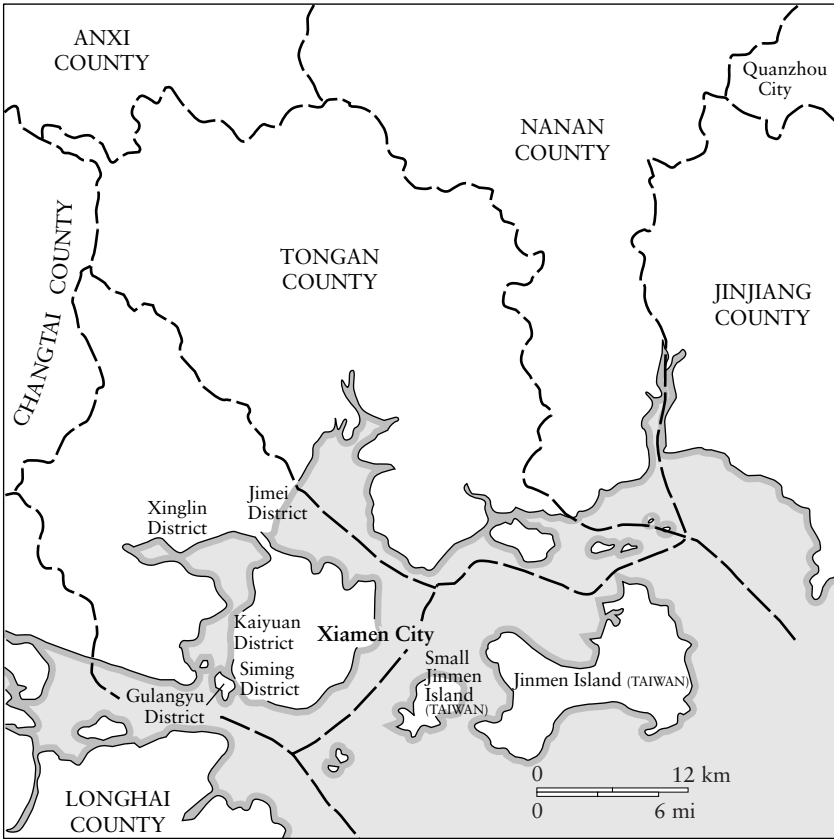
The Fieldsite

Xiamen has a long history as a commercial entrepot because of its natural harbor, one of the few along the southern coast capable of handling deepwater ships. Culturally, Xiamen is in the Minnan dialect region, which stretches 160 kilometers north of the city to Huian county, 300 kilometers south to the Chaozhou region in Guangdong province, and west into Fujian's mountainous interior. Minnan dialect is also spoken by 80 percent of the inhabitants on Taiwan, which lies about 150 kilometers to the east across the Taiwan Strait, and whose people's ancestors came from southern Fujian beginning in the seventeenth century. Approximately one-fifth of the world's overseas Chinese population have ancestral roots in southern Fujian, and Minnan dialect is widely spoken in overseas Chinese communities in the Philippines, Singapore, Malaysia, Indonesia, and Thailand.³⁰

Administratively, Xiamen is a city (*shi*), a term with several meanings. First and most broadly, it refers to Xiamen as an administrative region encompassing the 128 square kilometers of Xiamen Island and 1,385 square kilometers on the adjacent mainland, including rural Tongan county, with a total population in 1988 of 1,076,834. Second, it refers to Xiamen as a municipality of urban and suburban districts encompassing Xiamen Island and the districts of Jimei and Xinglin on the mainland, which are not part of Tongan county. Xiamen municipality has a total land area of 554 square kilometers and a population (1988) of 579,510. Third, it refers to the urban districts of Xiamen municipality, which encompass half of Xiamen Island and the tiny island of Gulangyu for a total of 66 square kilometers. This area's population (1988) is 371,000, with an average population density of 4,250 per square kilometer and a density of over 20,000 people per square kilometer in the old business section.

The history of transnational trade in southern Fujian province dates to

³⁰ For a general history of overseas Chinese, see Pan (1990). For the history of Chinese in Southeast Asia, see Fitzgerald (1972). For the economic activity of overseas Chinese in Southeast Asia, see Lim and Gosling (1983). For overseas Chinese entrepreneurs in the twentieth century with ancestral roots in southern Fujian, see Chan and Chiang (1994); and Yong (1989). For the economic sophistication of overseas Chinese from Fujian province, see Freedman (1959).



Map 1.2. Xiamen and environs.

the Song dynasty (A.D. 960–1127). At that time, Quanzhou, the Zaytun of Marco Polo's accounts, was the regional port for trade between China and Southeast and South Asia and the Middle East. The silting of its harbor shifted trade fifty kilometers south to Xiamen Island, where a natural deepwater harbor was favored by the oceangoing ships of Spanish, Portuguese, and Dutch traders in the sixteenth and seventeenth centuries. Following the defeat of the Ming dynasty by Manchu invaders in the mid-seventeenth century, Xiamen became a military base for Ming dynasty loyalists. The loyalists were forced to retreat to Taiwan in 1662, where they were defeated by the Manchu forces of the newly established Qing dynasty. The Qing set up a customs house in Xiamen in 1683 to control trade with Taiwan and prevent smuggling. By 1838, on the eve of the Opium War (1840–2), 140,000 people lived in Xiamen. Following China's defeat in this war it became a British treaty port, with the tiny Gulangyu district eventually becoming an International Settlement outside of China's jurisdiction. The collapse of the region's rural handicraft industry from foreign competition and a land squeeze from overpopulation pushed thousands of peasants to emigrate to Southeast Asia and the Americas as coolie labor. In the nineteenth century, Xiamen was the second largest exporter of coolie labor, after Guangzhou.³¹

The golden era of business in Xiamen, as elsewhere in China, began during World War I, when the war effort intensified demand for raw materials while reducing European and American business competition. Many southern Fujianese emigrants in Southeast Asia had prospered and their investment capital flowed back to Xiamen. Real estate and public utilities were developed with this capital from overseas Chinese (Lu et al. 1989: 119). The economy depended mostly on trade and services, including 5,000 shops and 1,000 restaurants, banks, and casinos, as well as about two dozen factories manufacturing opium, ships, and other products. By 1936 the population exceeded 200,000 and Xiamen accounted for 72 percent of provincial foreign trade and 5 percent of the national total. The golden era was brought to a close primarily by renewed foreign business competition after World War I and the world depression of the 1930s. The outbreak of World War II disrupted the sea trade routes essential to Xiamen's economic vitality. During the war Xiamen was a major Japanese supply base because of its excellent harbor and was bombed by American airplanes.³²

³¹ For the economic history of southern Fujian province from the third to the thirteenth century, see Clark (1991). For southern Fujian overseas traders from the thirteenth to eighteenth centuries see Ng (1973–4); and Wang (1991). For the economic rise of Xiamen in the late seventeenth century see Ng (1983).

³² I am unaware of English-language scholarly accounts of Xiamen during this period. However, an idea of it can be gained by reading the extensive literature on Shanghai in

After World War II, Xiamen was a Nationalist Party stronghold that was spared the ravages of the civil war. The economy boomed, as thousands of overseas Chinese streamed through its port to visit their ancestral homelands in Fujian. By the founding of the People's Republic of China in 1949, Xiamen was a site of very intense commercial activity. Contemporary census figures show a population of 263,406 in 56,805 households (State Statistical Bureau 1989: 26) and an economy with 21,875 shops and 3,837 registered street peddlers (Lu et al. 1989: 117). This means that roughly one of every three families or at least one in ten people could have been a business proprietor of some sort, a high proportion even for South China.³³

Xiamen was the Nationalist Party's last toehold on the mainland before its forces retreated to Taiwan in 1949; since then the city has been the front line of the cold war between Communists and Nationalists. From time to time, this cold war has heated up. In 1958 Communist forces shelled the Nationalist force occupying the Greater and Lesser Jinmen (Quemoy) islands, several kilometers off the coast of Xiamen, and artillery duels sputtered on for years. Even as late as 1990 huge loudspeakers on Lesser Quemoy blared Nationalist propaganda that was audible in Xiamen. Nevertheless, some development took place in Xiamen over the decades. A causeway built in 1955 linked Xiamen to the mainland and a link to the national railroad network was completed in 1957. Industrial growth through state investment took place in food processing, tobacco, textiles, ship-building, and light electrical equipment. To avoid Nationalist shelling, these factories were located in the new Xinglin Industrial District on the mainland.

The socialist transformation of industry, commerce, handicrafts, and stalls in Xiamen in the 1950s conformed to the national pattern.³⁴ Larger businesses were first nationalized in the early 1950s. According to city housing records, there were 950 families locally with "capitalist" labels (*Annals of Xiamen City Real Estate* 1989: 105). The nationalization of larger businesses was followed by the collectivization of private shops and peddlers in 1956–7. By the beginning of the Great Leap Forward in 1958, private business had ceased to exist. During the economic re-

the interwar period. See Bergère ([1986] 1989) for the situation of the Shanghai bourgeoisie; for relations between the Shanghai capitalists and the Nationalist party-state see Coble (1980). See Lin (1947) for a fictional chronicle of two families and their business ventures in Fujian during this era. Lin's account is sociological: he describes the rise and fall of the families in terms of the management of *guanxi*.

³³ According to a 1955 aggregate survey, one out of every 28.4 people in the major cities of Beijing, Shanghai, Tianjin, Canton, Wuhan, Shenyang, Chongqing, and Xian was in commerce. In Canton, where the historical situation most approximates Xiamen's, the figure was one out of every 13 people (Kuan 1960: 27).

³⁴ See Vogel (1969: 156–73) for the process in Guangzhou; for the expropriation of capitalist enterprises see Lieberthal's (1980) account of Tianjin.

Table 1.1. *Xiamen's population and economy since 1949*

	1950	1978	1980	1983	1985	1987	1992	1994
<i>Population (1,000)</i>								
Administrative region	454	908	934	988	1,027	1,061	1,154	1,194
Municipality	263	474	492	521	546	570	627	655
Island	169	237	251	271	349	n.a.	403	426
<i>Economy</i>								
Combined agricultural and industrial output (million ¥)	62	913	1,134	1,408	2,247	3,246	15,089	25,369
Gross industrial output (million ¥)	25	701	911	1,177	2,585	3,129	13,298	24,925
light industry (%)	94.2	70.8	69.0	68.7	68.3	64.4	70.1	68.2
heavy industry (%)	5.8	29.2	31.0	31.3	31.7	35.2	29.9	31.9
GNP (million ¥)	n.a.	n.a.	436	599	1,032	1,595	7,369	13,851
Per capita GNP (¥)	n.a.	n.a.	1,234	1,420	2,529	2,401	6,257	11,082

Source: Figures for 1950–87: Li and Zhao (1992: 229). For 1992: China Statistical Publishers (1993: 10, 22, 23, 32). For 1994: China Statistical Publishers (1995: 14, 21, 28, 183).

trenchment of the early 1960s, peddlers and artisans, who had been the last to enter the collectives, were allowed to leave. Some did so, using what remained of their original economic capital to set up shop once again. However, during the Cultural Revolution many were resocialized, while the few who remained in private business were harassed as “tails of capitalism” and conducted trade furtively. By 1978, on the eve of market reform, there were only 395 legally registered private businesses, mostly fruit vendors or peddlers of secondhand goods.³⁵

In 1980 a turning point occurred in Xiamen's economic development with its designation as one of China's five Special Economic Zones, created to attract foreign investment and lead the way in forming a market economy. The Special Economic Zone, originally confined to a small district, was expanded in 1984 to the entire island. Many infrastructural improvements were made, including the 1983 construction of the Xiamen International Airport and the construction of four deepwater berths for 10,000 ton container ships. Also, the Xiamen city government was given Special Economic Zone privileges, such as lower import duties and the authority to approve direct foreign investments not exceeding U.S. \$30 million.³⁶ The result has been the rapid growth of

³⁵ For Xiamen during the Cultural Revolution from the perspective of a Red Guard, see Ling (1972).

³⁶ For the Special Economic Zone policy with reference to Xiamen, see Howell (1993). For Taiwanese investment in Xiamen, see Luo and Howe (1995).

Xiamen's economy. From 1980 to 1987 gross industrial output rose from ¥911 million to ¥3,129 million, a 3.4-fold increase. The growth of services and commerce has been even more rapid; Xiamen's GNP, which includes nonindustrial activity, increased by a rate of 3.7 percent during this same period (Li and Zhao 1992).³⁷

Obviously Xiamen is not a typical Chinese city. Rather, it provides a window on some of the furthest departures from the classical Communist order in the reform era. I have woven my multiple observations from Xiamen into a tapestry depicting the institutionalized organization of business and its political and economic consequences as I came to understand them in this commercially dynamic locale on the South China coast in the late 1980s and early 1990s. This tapestry portrays the commingling of sentimental expressions of personhood and loyalty with instrumental concerns for profit and control. The story that unfolds is about the evolutionary transformation of Communist social structure and state power during market reform.

³⁷ For an ethnographic account of a suburban village on Xiamen Island from the revolution to the mid-1980s as narrated by its Communist Party secretary, see Huang (1989).