

CHINA BOOM: RURAL CHINA IN THE 1980s

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The year 2008 marked the 30th anniversary of economic reforms in China. Major symposiums and conferences—convened by government officials and scholars alike—were convened across China to mark this momentous date. The common refrain in these celebrations is that China has achieved enormous progress during the 30 years of reforms.

While not disputing this claim, the implied assumption behind these pronouncements—that the 30 years of reforms were a homogenous and progressively liberal process—deserves a careful scrutiny. By a critical measure of policy evolution, namely the capital allocation, by far the most liberal period was actually in the 1980s. The decade of the 1990s, especially the period between 1993 and 2003, in fact was an extraordinarily difficult period for a vast number of private entrepreneurs located in rural China. (Their urban counterparts fared much better.)

The argument put forward is twofold. First, the true China miracle actually occurred in the 1980s, rather than in the 1990s. The enormous entrepreneurship unleashed by the liberal and progressive policies of the 1980s laid down the foundation for what many outside analysts associate with the China miracle—i.e., rapid poverty reduction and fast income growth. The second and the related point is that our knowledge of the 1980s remains starkly scant and incomplete. China became important as an economic power in the 1990s, thus inviting much outside scrutiny into various mechanisms of growth in the country. Research environment improved materially in the 1990s for outside academics, enabling many to conduct in-depth research and implement surveys in the 1990s.

Thus our empirical knowledge of the decade of the 1990s is far superior to that of the decade of the 1980s and given this knowledge gap many researchers simply make backward inferences about—rather than directly documenting—what happened in the 1980s.

One of the most remarkable phenomena in Chinese economic history was the rapid rise of rural entrepreneurship in the 1980s. In the 1980s, small and impoverished rural entrepreneurs started businesses easily, operated their stalls in urban areas with freedom, accessed bank credits, and had growing confidence in the security of their assets. There was also financial liberalization and even some privatization.

Another aspect of China of the 1980s is worth mentioning. Private entrepreneurship was developing most vibrantly in the poorest and the most agricultural regions of the country. Yes, the entrepreneurship of the 1980s was exclusively a rural phenomenon, but keep in mind that China in the 1980s was a predominantly rural society, with 80 percent of the population living in the rural areas. Thus, private entrepreneurship had a huge impact on the largest segment and the poorest of the population.

This perspective—that private entrepreneurship played a vital role in China’s initial takeoff—is quite different from the established wisdom on this issue. Although the agricultural success is widely believed to have been the result of private-sector development, such as the household contract responsibility system, the consensus among academics is that township and village governments spearheaded China’s massive rural industrialization. This is the famous township and village enterprise (TVE) phenomenon. However, the vast majority of TVEs were actually private in nature.

THE TRUE CHINA MIRACLE

In the 1980s, Chinese peasants experienced the most rapid income gains in history. Per capita rural income between 1978 and 1981 grew at a real rate of 11.4 percent; the urban/rural ratio of the purchase of consumer goods fell from 10 to 1 in 1978 to 6 to 1 in 1981. According to a rural survey, rural per capita income more than doubled between 1978 and 1984 and real rural per capita consumption increased by 51 percent between 1978 and 1983 (Riskin 1987 , p. 292). Rural poverty also declined dramatically in the 1980s, as is well known.

One easy way to showcase the achievement of the 1980s is to compare that decade with the later period, comparing the annual average growth rates of rural household income during three distinct policy periods. The first policy period can be described as the period of

rural entrepreneurship between 1979 and 1988. The second period is the era of Jiang Zemin and Zhu Rongji, and the third period is that of Hu Jintao and Wen Jiabao.

Rural household income in the 1980s grew at an extraordinarily robust rate. The average growth for the 1978–88 period was 12.2 percent (after inflation is excluded). A legitimate issue is the reliability of the data. Naughton (2007) points out that the data for the earlier period are inaccurate because the rural consumer price index understates rural inflation (and thus over-states growth). This is an important insight. It explains an otherwise paradoxical contraction of income growth in the mid-1980s when rural policies became even more liberal. Whereas there may have been some reduction, the more important reason is the correction in the data series rather than a real policy change.

Assuming the income growth for the entire decade of the 1980s to be at the rate prevailing in the second half of the 1980s – 7.2 percent rather than 12.2 percent. Even by this conservative estimate, the 1980s were still substantially stronger than the 1990s. During the 1990s, average growth rate was 3.8 percent, a reduction almost by 50 percent compared with the rate during the second half of the 1980s. Since 2002, the rural income growth recovered somewhat, to 5.5 percent.

The annual difference between the rural entrepreneurship growth rate of 7.2 percent and the growth rate of 3.8 percent is not an abstract matter. It entails real and substantial income and welfare implications for hundreds of millions of Chinese peasants. This is not only because of the difference in the two growth rates, but also because of the extraordinarily long tenure of the Jiang–Zhu leadership – thirteen years. If, in the 1990s, the income of Chinese rural households had grown at the rate prevailing in the 1980s, i.e., 7.2 percent as opposed to the actual 3.8 percent between 1989 and 2001, compounded over thirteen years, the two rates translated into a massive difference in the levels of rural income. Roughly, a Chinese peasant was 52 percent poorer than he would have been under the lower of Zhao’s growth rates (i.e., assuming 7.2 percent for the entire decade of the 1980s).

One objection to the above interpretation of the 1980s and the 1990s is that in the 1990s there was a larger scale of rural labor migration and a higher level of migrant labor income. It is important to stress that the Chinese rural household surveys specifically asked

for and included migrant labor income in their questionnaires. While it is possible that not all the migrant labor income is reflected in the data, the data reported here do capture the labor income earned by household members working in locations outside the residence of the polled households. The other objection is that the rural income growth should come down naturally in the 1990s because the base was higher. That rural income growth began to recover since 2002 would cast this objection in doubt. The base was definitely higher in 2002 than it was in 1989 and yet the growth was faster than in the 1990s. Something else was driving the pattern in the data.

THE RURAL ORIGINS OF CHINESE CAPITALISM

That rural income growth recovered somewhat since 2002 illustrates the importance of policy. It is widely known that the Hu–Wen leadership began to address the rural problems in a proactive manner, even copying the format of the 1980s by issuing consecutive No. 1 policy documents dedicated to rural issues. We can debate whether their measures are adequate to the monumental task – many of these measures were designed to reduce the rural tax rates rather than to augment income growth, but there is no doubt that Hu and Wen take rural issues more seriously than did the Jiang–Zhu leadership.

The rapid income growth in the 1980s was a result of economic policies during that decade. The foremost characteristic of the rural policy at that time was liberalization. China scholars have researched this phenomenon extensively. The consensus view is that the rural reforms accounted for the largest segment of the income gains. Administrative measures, such as price increases, played a smaller role. According to one analysis, one-fifth of the increase was due to price increases; the rest, by implication, came from improving allocative efficiencies (Riskin 1987, p. 293). These include improving labor productivities, as evidenced by the fast growth of per capita production of food grains and edible oil, and income diversification opportunities to become involved in non-agricultural activities. Let me add another factor – the flourishing of rural entrepreneurship.

Chinese researchers documented cases of remarkable entrepreneurial success stories in the 1980s. In the construction business, for example, rural construction firms – not just rural construction workers – began to bid successfully for some large projects in the major

cities. In Beijing, the International Hotel and the Bank of China buildings were awarded to a rural construction company based in Henan province (Zhang Houyi and Ming Lizhi 1999, pp. 180-181). As early as 1986, private entrepreneurship had already gained a substantial foothold in the transport sector. Outside the traditional state sector, in 1986 private businesses accounted for 67.6 percent of shipments and 77.6 percent of sales (Editorial Committee of TVE Yearbook 1989, p. 84).¹ Rural entrepreneurs from Evergreen township in Beijing even began a direct flight from Beijing to Shantou of Guangdong province (Editorial Committee of TVE Yearbook 1989, p. 84).

UNDERSTANDING TVEs

It is not an exaggeration to say that TVEs drove much of China's growth in the 1980s and the early 1990s. TVEs are believed by many economists as publicly-owned enterprises (albeit at the local level). Nobel laureate in economics, Joseph E. Stiglitz, an eminent professor at Columbia University and a former chief economist of the World Bank, is probably one of the most prominent proponents of China's development strategy. TVEs, he argues, are a unique form of public enterprise that can solve what he views as an extremely serious problem afflicting transitional economies – the stealing of assets by private investors. Monitoring institutions are under-developed, he goes on, and therefore public ownership is needed to minimize stealing. TVEs seem to have the best of two worlds – they prevent asset stripping and they mimic the efficiency of private enterprise.² There have been elaborate models built on the idea that TVEs are public. All of these theoretical conceptualizations about TVEs are predicated on one empirical detail – that TVEs are public. But perhaps economists should have asked themselves before they began to model: Are the TVEs really public?

The TVE label owes its origins to the commune and brigade enterprises created during the Great Leap Forward. In part because of this lineage, some Western scholars came to believe that the Great Leap Forward laid the foundation for the TVEs in the 1980s.³ This is not really the case. In 1978, there were only about 1.5 million commune and brigade enterprises (Zhang Yi 1990, p. 25), but by 1985, there were already 12 million businesses labeled as TVEs (Ministry of Agriculture 2003). Clearly, the vast majority

of TVEs had nothing to do with the Great Leap Forward. As a product of the reforms, they were completely new entrants during the first half of the 1980s. This is an important observation because the supposed Great Leap Forward lineage of the TVEs implicitly reinforced the view that the TVEs were a collective institution.

The term, TVE, first appeared in a policy document issued by the State Council on March 1, 1984. This document, entitled “Report on creating a new situation for commune and brigade enterprises,” coined the term TVE. This coinage was to replace the previous term, “commune and brigade enterprise.” The new term was necessary, as this historic document pointed out, because many new forms of rural businesses had arisen in the first half of the 1980s. This was not just a semantic change. The label, “commune and brigade enterprise,” was used to refer to the collective rural firms from the Great Leap Forward era. But only a few years into the reform era, a large number of private businesses entered into China’s rural corporate landscape. This raised two complications. First, the TVEs began to compete with SOEs on the product and factor markets, which created a sense of unease on the part of planning bureaucrats. The 1984 document was to affirm the high-level political support for the new entrants. Second, the old label was no longer accurate. So the 1984 document dropped the old label of commune and brigade enterprises and provided a concise working definition of TVEs. The second paragraph of the document – known famously in China as document No. 4 – defined TVEs as follows (Ministry of Agriculture 1985, p. 450): “TVEs include enterprises sponsored by townships and villages, the alliance enterprises formed by peasants, other alliance enterprises and individual enterprises.”⁴

Enterprises sponsored by townships and villages are the collective TVEs, the kind the Western economists assume to represent the entire TVE sector. The rest of firms under the TVE label are all private businesses or entities. Individual enterprises refer to household businesses that typically have fewer than seven employees. The alliance enterprises – in Chinese *lianying* – are a 1980s euphemism referring to larger private-sector enterprises. These are private-sector firms with multiple investors and with more than seven employees. In the official documents adopted in the late 1980s, references to alliance enterprises were gradually replaced by the term private-run enterprises, *siying qiye*, after a major 1987

Politburo document began to explicitly use the term private-sector firms (Editorial Committee of TVE Yearbook 1989, p. 138). (*Siying qiye* is the standard term for large private-sector firms employing seven or more employees.)

The private TVEs discussed here are not “red-hat” firms. “Red-hat firms” are typically those very large private-sector firms that are registered falsely as collective firms. Kelon is a classic example. When it began operations, it recruited 4,000 workers. Even though there was more employment flexibility than suggested by the seven-employee rule, in the 1980s it would have been difficult to register a firm with thousands of workers explicitly as a private-sector firm. The private TVEs were fully private and their private ownership identity was fully known to the government. The issue here is one of definition: the official definition and the official data include both TVEs controlled by townships and villages and TVEs controlled by private entrepreneurs.

HOW LARGE WERE PRIVATE TVEs?

TVEs, as used by the Chinese, are a locational concept – enterprises located in the townships and villages. Western economists, on the other hand, understand the term from an ownership perspective – that they are owned by townships and villages. This huge gulf between the two understandings of TVEs has contributed to massive confusions in writings about TVEs.

There is confusion even about some basic facts, for example, how many TVEs there were. Brandt, Li, and Roberts (2005, p. 524) remark that by the early 1990s “there were more than 1.25 million of these local government-owned and run enterprises, employing 135.1 million individuals...” The data the three economists refer to are for 1996. In that year, there were actually 23.4 million TVEs, of which 1.5 million were collective. (The 1.25 million figure cited by the three economists apparently refers to collective TVEs at the village level only.) It was the entire TVE sector of 23.4 million firms that employed 135.1 million individuals. The collective TVEs employed only 59.5 million individuals.⁵

In terms of establishments, the overwhelming majority of TVEs, even at the early stage of the reforms, were actually private TVEs. In 1985, according to Ministry of Agriculture data, there were over 12 million TVEs, of which 10.5 million were private. In

addition, a huge portion of the collective TVEs were concentrated in a few rich, coastal provinces. In many other provinces, the private TVEs completely dominated the TVE pool.⁶

One effect of the No. 4 document is that it changed the statistical reporting procedure by the Ministry of Agriculture,⁷ the agency in charge of collecting and reporting on TVE data. The Ministry of Agriculture began to consolidate all the rural firms under the category of TVEs in its statistical reporting starting in 1985. The Ministry of Agriculture data provide detailed ownership breakdowns of the TVEs: (1) collective TVEs, (2) privately run TVEs, and (3) self-employment household businesses.

Private TVEs absolutely dominated the total pool of TVEs. The highest number of collective TVEs in 1986 is 1.73 million. In contrast, the lowest number of household TVEs in 1985 is 10.1 million. It is true that before the mid-1990s, there were more collective TVEs than private-run TVEs. In the four years between 1985 and 1988, the number of private-run TVEs more than doubled, from 530,000 in 1985 to 1.2 million in 1988, whereas there was almost no change in the number of collective TVEs (from 1.57 million in 1985 to 1.59 million in 1988). In 1988, the collective TVEs outnumbered the private-run TVEs by only 300,000. In subsequent years, the number of private-run TVEs would decline, due to the Tiananmen effect. Without the 1989 Tiananmen interlude, the private-run TVEs would have surpassed the collective TVEs within three to four years.

Stiglitz (2006), for example, believes that the rise of TVEs challenges the standard claims of economics. He explains: "Many of the new enterprises were created in the 1980s and early 1990s by township and village enterprises (TVEs). These were public enterprises and the standard ideology would have said that you cannot succeed with public enterprises; but they were enormously successful." His assessment is not even remotely close to reality. In 1985, there were 1.57 million collective TVEs; by 1996, as pointed out before, the number of collective TVEs was still 1.5 million. But during this period, the total number of TVEs increased from 12 million in 1985 to 23.4 million in 1996. Assuming that the entry and exit rates of collective and private TVEs were similar, every single new entrant during the reform era was a private firm.

However, as both Oi (1999) and Naughton (2007) stress, the private TVEs were individually smaller than the collective TVEs so their employment and output shares were

smaller as well. Household businesses are single proprietorships, with a very small number of employees. Although some private-run TVEs were large, they were fewer in number. Employment in the collective TVEs was larger than employment in the private TVEs. In 1985, the collective TVEs employed 41.5 million people as compared with 4.75 million in the private-run TVEs and 23.5 million in household businesses.

There is nothing surprising or unusual about the statically large collective sector. Collective TVEs were founded in the late 1950s and had more than 20 years of development. Private TVEs were a result of rural reforms and began only in the early 1980s. Despite their statically small size, the dynamism was on their side, not on the side of the collective TVEs. Private TVEs were growing rapidly to claim an ever larger share of employment. In 1989, private TVEs accounted for 49 percent of employment and in 1990 they accounted for 50 percent. In 1989, the private TVEs claimed 58 percent of the after-tax profits and 45 percent of the total wage bill of all TVEs. By the end of the 1980s and just within a single decade of reform, the private TVEs were on the verge of overtaking the collective TVEs across a number of dimensions. The static advantage of the collective TVEs quickly eroded as private TVEs accumulated growth momentum. From a dynamic perspective, the TVE miracle took place entirely in the private sector, not in the collective sector.

Some scholars cite the smaller share of private TVEs in industrial output value to support their view that the main source of growth came from collective TVEs. Apart from the static and dynamic stories, there is an inherent data bias in this view. As mentioned before, in the 1980s private businesses first ventured into the service sector rather than into industry. By definition, the industry data will understate the importance of the private TVEs. By 1987, private TVEs already accounted for 32.1 percent of the gross output value in the entire TVE sector, compared with 23 percent of the industrial output value.⁸ Private TVEs were still smaller than collective TVEs by the output measure but their share was by no means insignificant as of the mid-1980s.

In fact, even the 32 percent of the output value by private TVEs understates the economic importance of private TVEs. The 32 percent is the average of the private shares of TVEs in all provinces implicitly weighted by the economic size of the provinces. This

introduces a subtle bias. Private entrepreneurship and private TVEs first started in the poorer provinces, which have a smaller GDP and therefore their economic weight is small in the calculation of the national means. The weighted average shares of private TVEs in the output value reflect the size of the private TVEs but also reflect the size of the provincial economies. Private TVEs would necessarily thus appear small simply because they were clustered in the poorer provinces.

The weighted average figure is the correct statistical measure of private TVEs but it may not be the correct economic measure. Private TVEs were sizeable in the poor provinces and if so, we need to know how big they were in those provinces. Because the poor provinces lacked many alternatives as compared with the rich provinces, it is important to examine the role of private TVEs in those provinces. The unweighted average of the private TVEs' share of gross output value in 1987 is 40 percent, 8 percent higher than the weighted average. This is because the poorer and smaller provinces in the 1980s had a larger private sector.

According to data from the Ministry of Agriculture in 2003, in 1987 Hebei had the highest percentage of private TVEs in the gross output value of the entire TVE sector across all twenty-nine provinces in China, at 70.4 percent. The lowest share is Shanghai, at 6 percent. This is an extraordinary range. At the bottom of the private TVE output shares, three out of the five provinces are cities – Shanghai, Beijing, and Tianjin. The other side of the argument that capitalism is rural in origin is that socialism is urban in China. Another interesting finding is that the province that became a private-sector success story in the 1990s, Zhejiang, in fact had a fairly small private TVE sector in 1987. Its output share of private TVEs was only a bit larger than that of Jiangsu: 16.3 percent in Zhejiang compared with 10.7 percent in Jiangsu. The basic difference between Zhejiang and Jiangsu is that Zhejiang continued with the 1980s' model of incremental and spontaneous private-sector development in the rural areas, whereas in the 1990s Jiangsu adopted the urban-centric development model.

As of 1987, private TVEs already contributed more than 50 percent of the TVE output in eight provinces. In another fifteen provinces, private TVEs accounted for between 30 and 50 percent of the output value. Although we do not have data, in the late 1970s,

the private share would have been close to zero. This is indicative of the rapid private-sector development in the 1980s. Within only eight years of the reform era, private TVEs already produced the majority of the rural output in one-third of the Chinese provinces and accounted for a sizeable share of the rural output in another half of the Chinese provinces. It is difficult to reconcile this finding with the view that the TVE miracle occurred exclusively in the public-sector domain.

RURAL ENTREPRENEURSHIP AND POVERTY REDUCTION

Although it is seldom cited by academic economists writing about TVEs, by far the best study of TVEs in the English language is China's Rural Industry, a collaborative research project between World Bank economists and Chinese researchers from the Chinese Academy of Social Sciences (referred to hereafter as the World Bank TVE study).⁹ A key insight from the World Bank TVE study is that collective ownership of TVEs prevailed in a few rich regions of the country while private TVEs tended to be dominant in the poorer regions.

This is in part because the poor regions lacked a viable collective alternative and in part because the poorer regions by definition were also more rural. Herein is the connection with the rural origins of Chinese capitalism: More rural regions had a stronger version of residual capitalism. For example, in Jieshou, one of the poorer research sites in the World Bank TVE study, 73 percent of the TVEs were private, despite their TVE designation (Luo 1990, p. 147). As was true elsewhere in the country, private TVEs were individually smaller so their employment share was smaller, at 49.4 percent of the TVE workforce, but still a substantial size.

The average of the ten provinces with the largest shares of private TVEs is 56.8 percent, compared with 21.4 percent for the bottom ten provinces. The ten provinces with the largest shares of private TVE output were substantially poorer and much more agricultural as compared with those ten provinces with the smallest shares of private TVE output. The average per capita GDP among the top ten provinces was 855 yuan in 1987, compared with 1,946 yuan among the bottom ten provinces.

The provinces in the top ten also had a smaller GDP, less than half of those of the bottom ten provinces. They were far more agricultural. The agricultural population accounted for 81.3 percent among the top ten provinces but only 67.2 percent among the bottom ten provinces. The private TVEs are negatively correlated with per capita GDP and with the provincial shares of Chinese GDP and positively correlated with the agricultural share of the population.

These are specific illustrations of a central point – Chinese capitalism is an overwhelmingly rural affair. A related point is that Chinese capitalism – in the 1980s – was also a poor man’s affair. As the case of Mr. Nian shows, poor people and poor provinces went into the rural entrepreneurship in the 1980s. This is one of the most remarkable and under-rated attributes of rural entrepreneurship in the 1980s. Capitalism in the 1980s was not only vibrant; it was also virtuous. Rural entrepreneurship was one of the few feasible mechanisms to transition out of low value-added agriculture and to move beyond the abject poverty. In this sense, it is much more meaningful to study the development of private TVEs in poor regions of China than to study the development of collective TVEs in the rich regions of the country heavily researched by Western academics, such as Jiangsu and Shandong. The policy implications are far more significant.

Private TVEs also affected a large number of Chinese people. As mentioned before, in 1987 there were nine provinces in which private TVEs accounted for more than 50 percent of output in the TVE sector and another fifteen provinces in which they accounted for between 30 and 50 percent of TVE output. Those nine provinces were home to 260.2 million rural Chinese (30 percent of China’s rural population); the additional fifteen provinces accounted for another 427.8 million rural Chinese and 49.7 percent of the rural population.

The case of Guizhou is especially interesting. Completely land-locked Guizhou is China’s poorest province. Yet, it had many private TVEs. Guizhou had the second highest private TVE output share in the country, at 63.9 percent in 1987. Guizhou managed to have doubled this share in just three years. In 1984 the private TVEs accounted for 31 percent of the output value in the TVE sector in Guizhou. (In the 1990s the private TVEs in Guizhou, relative to the collective TVEs, stagnated.)

By contrast, the richer provinces had far smaller private TVEs. In 1984, Jiangsu, a rich, coastal province, had only 4 percent of the private TVE output value (Zhang Yi 1990, p. 192 and p. 200) and in 1987 the share was 10.7 percent. The per capita GDP in Jiangsu was 1,462 yuan in 1987, almost three times that of Guizhou (546 yuan). Another example can be found in Shandong province, also a coastal and relatively well-off province (per capita GDP in 1987 was 1,131 yuan). Shandong also had a much smaller private TVE sector. Shandong's private TVEs contributed to 23.2 percent of TVE output value. According to a survey of eighty-four villages in Shandong, in 1988 township-level enterprises dominated the pool of TVEs across the board – in terms of number of business establishments, employment, size, and so on. There were 350 TVEs among these villages, 283 of which were at the township level. These township-level firms accounted for the vast majority of employment and the stock of fixed assets.¹⁰

This contrast between Guizhou on the one hand and Jiangsu and Shandong on the other is deeply meaningful. In general, the developed parts of China – such as its urban centers and industrialized provinces – were more state-owned. The under-developed and agricultural parts of the country were more privately owned. If we accept the premise that welfare gains of GDP growth are greater in poor regions than in rich regions, then it is not so much the aggregate size of private TVEs at the national level that is of first-order importance. Rather it is the size of private TVEs in poor provinces to which we should pay special attention. Private TVEs, more than collective TVEs, contributed to Guizhou's fast growth in the 1980s. Between 1981 and 1984, Guizhou's per capita GDP grew at a real double-digit rate. In other years of the 1980s, the per capita annual GDP growth was consistently around 7 or 8 percent (National Bureau of Statistics 1996, p. 731). This is the true China miracle.

Guizhou also had a very large sector of individual businesses (i.e., single proprietorships). According to a survey on individual businesses conducted in 1991, in terms of the amount of registered capital as a measure of the size of the entrepreneurial ventures. Surprisingly, the size of the entrepreneurial ventures in Guizhou was very large compared with those in the more developed regions of the country. During the 1979–83 period, the average amount of registered capital of self-employment businesses was 1,717

yuan in Guizhou, compared with 2,145 yuan in the city of Shanghai and 1,813 yuan in the city of Chengdu. Guizhou had exactly the same median registered capital as these two much richer cities (500 yuan).

Given how poor Guizhou was, the scale of private businesses in Guizhou was considerable. We can demonstrate this point by calculating the ratio of the registered capital of these entrepreneurial ventures to the per capita GDP of the region. This is a proxy for the state of private-sector development in a province relative to the general level of economic development. By this measure, the private sector in Guizhou was “over-developed.” We compare the average value of the registered capital for the 1984–89 period with the per capita GDP for 1988. In 1988, Shanghai’s per capita GDP was 3,471 yuan, the highest in the country. Guizhou’s 406 yuan per capita GDP was the lowest in the country. The ratio of the average registered capital to the per capita GDP was 8.31 for Guizhou and only 1.27 for Shanghai. Interestingly, Guizhou’s ratio was quite similar to that of Guangdong (8.55), a province that is widely acknowledged to be a pioneer of the reforms in China (Vogel, 1989).

This is another lesser known story: Some of the poorest provinces in China undertook far-reaching reforms in the 1980s.¹¹ In Guizhou, agricultural household contracting was adopted at a faster pace than in the country as a whole. According to one source, by the end of 1981, 98.2 percent of households were already operating on a contracting system. (China as a whole reached this ratio by 1984.) Guizhou had a very liberal private-sector policy. In Guizhou, almost the entire TVE sector was private. In 1987, there were over 405,000 TVEs in the province, of which 395,000 were completely private. These were labeled as “household” TVEs and as of 1987 the household TVEs in Guizhou accounted for over 97 percent of the total number of TVEs, 77.4 percent of the TVE employment, and 66.2 percent of the output value. The few remaining collective firms were put on performance contracts and in effect were rendered private in terms of their control rights. As of 1988, according to a survey of seven regions in Guizhou, 1,033 out of 1,516 collective TVEs were leased to either managers or outsiders. The provincial government openly sanctioned the conversion of the “official sponsorship” of firms to “civilian

sponsorship” (Editorial Committee of Ten Years of Reforms in Guizhou 1989, p. 262). This was a code word for privatization.

The liberal policy enabled private businesses in the province to scale up their operations. By the mid-1980s, private TVEs had already developed to a level whereby they began to source capital and technology from other regions. In 1984 and 1985, Guizhou’s TVEs imported 100 million yuan, entered into 300 technology licensing agreements, and recruited 3,000 technicians and managers from other provinces (Editorial Committee of Contemporary China Series 1989, p. 206). According to a detailed province-by-province study, some of the rural businesses in Guizhou reached a substantial scale.¹² One family founded an agricultural service business and contracted with the local government to run an agricultural machinery station. From that base, the family branched out into manufacturing and established seven factories, producing everything from alcohol to vinegar. The family business employed some 342 workers and realized sales of 51,000 yuan in 1984. It accumulated 200,000 yuan in fixed assets.

What is interesting is that this business was located in the poorer part of Guizhou – in Zunyi county. Zunyi county’s per capita annual income was even smaller than that in Guizhou as a whole, about 200 yuan. To appreciate how substantial fixed assets valued at 200,000 yuan were, let me point out that in 1984 the entire fixed-asset investment credit line of Zunyi’s banking system was slightly more than three million yuan.¹³ It is quite impressive that this one household was able to accumulate such a large quantity of capital equipment so soon after the reforms began. And this household was not alone. Some rural entrepreneurs even in this most impoverished province had already begun to venture into capital-intensive businesses. An entrepreneur in Zunyi county ran a trucking operation. His long-distance trade netted some 20,000 yuan per year, a huge sum of money in a province where the average rural income was 260 yuan (National Bureau of Statistics 1986). Another rural entrepreneur operated a flour mill and earned an annual income of 10,000 yuan.

In this poor province, the purchase of capital equipment, such as a milling machine or a long-haul truck, necessarily required external financing. This gets to one of the least known stories about rural China in the 1980s – private-sector financing from the Chinese

banks was sizeable. In Zunyi county the rural credit cooperatives – a critical financing vehicle for private-sector development in the 1980s – increased their lending by sixty-five times in just three years between 1979 and 1982. In 1979, lending to rural households was 4.53 percent of that to collectives. In 1982, the lending to rural households was 3.5 times of that to collectives. Between 1982 and 1988, lending to households rose sharply, from 14.6 million yuan to 22.8 million yuan, while lending to collectives – including collectively run firms – remained roughly constant during this period.

There was also some nascent financial liberalization. The provincial branch of the People's Bank of China – an institution that in the 1990s would crack down harshly on informal rural finance – described an increasingly diverse financial scene in Guizhou in very positive terms: “A large number of shareholding and collectively owned financial institutions emerged, while informal finance and individual borrowing and lending developed rapidly.”¹⁴ The rapid rise and the scaling up of the private economy in Guizhou provide one answer to the question of why rural poverty declined so rapidly and so substantially in the first five years of the 1980s – this was not just an agricultural success but a broad veritable entrepreneurial revolution.

CONCLUSION

The decade of the 1980s is little understood but it was massively important. Not only did the decade lay down the foundation for the China boom, it was likely the major part of the China boom itself. It is imperative to get the story of the 1980s right.

Only by getting the story right will we understand the true sources of the China miracle. One of the most important achievements during the reform era is the sharp reduction of the number of people living below the poverty line. But without knowing much about the 1980s, many analysts assume that this poverty reduction was due to globalization rather than rural entrepreneurship. World Bank economists are the most vocal in touting the benefits of globalization. David Dollar, the director of development policy for the World Bank, has referred to China as a hugely successful globalization story. The World Bank cited from official Chinese sources that the number of rural poor in China fell from 250 million in 1978 to 34 million in 1999.¹⁵

As in all aspects of the Chinese economy, details matter. The two data points cited by the Bank convey the impression that poverty reduction was a smooth, continuous process between 1978 and 1999. Nothing is further from truth. Let's look at the same official data used by David Dollar.¹⁶ In 1978, the number of rural poor stood at 250 million (as defined by the Chinese poverty line) but in the first 10 years of reforms this number already declined to 96 million in 1988. The poverty headcount declined by 154 million. In the next 10 years of reforms from 1989 to 1999, the poverty headcount declined only by 62 million. This was a fraction of what China achieved in the 1980s.

The record of FDI and globalization in poverty reduction does not even come close to matching the record of rural reforms.¹⁷ This is not a criticism of globalization but a matter of framing the issue with the right perspective. Globalization is the story of the 1990s, not of the 1980s. In the 1980s, FDI and international trade were minuscule. In 1988, China received just three billion dollars in FDI, half of what India – widely viewed as an FDI laggard – receives today. And yet China's record in poverty reduction in the 1980s is substantially more impressive than its record in the 1990s. Other social indicators, such as literacy performance, also show the 1990s in a poor light. By loosely referring to China's poverty reduction during the entire reform era, the World Bank economists vastly understate the achievements of the 1980s and overstate the achievements of the 1990s by the same margin. They also exaggerate the effects of FDI and trade on poverty reduction and completely neglect the role of indigenous private entrepreneurship.

It is both timely and beneficial to take a look at its policy model and its achievements in the 1980s. That decade offers valuable lessons for China today. To return to a sustainable growth pattern, China needs to carry out deep institutional reforms in the countryside and to provide supportive conditions for the revival of rural entrepreneurship. Since 2002, the leadership of Hu Jintao and Wen Jiabao has taken some tentative steps in this direction but they need to do far more to combat the impact of the global slowdown.

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NOTES

¹ That many rural entrepreneurs operated in the services sector, which we cannot examine due to a lack of data, further implies that the usual measure – industry share of the private sector – would understate the significance of the private sector in the 1980s when service data were not collected by the government.

² As recently as 2006, Stiglitz remained a proponent of TVEs despite the fact that many of the collective TVEs had failed in the late 1990s Stiglitz, J. E. (2006). The transition from communism to market: A reappraisal after 15 years. European Bank for Reconstruction and Development Annual Meeting. London.. His thinking on TVEs is heavily influenced by the modeling effort that shows that TVEs served as an effective bulwark against predation by the central state Che, J. and Y. Qian (1998). "Institutional environment, community government, and corporate governance: Understanding China's township-village enterprises." Journal of Law, Economics, and Organization 14(1): 1-23.. It should be noted that this model relies on two potentially incompatible assumptions to reach its conclusion. One is that the national government is predatory and self-serving. The other is that the same predatory national government trusts the local governments precisely because the latter are viewed as effective in public goods provision.

³ For a historical account of the TVEs, see Whiting Whiting, S. (2001). Power and wealth in rural China: The political economy of institutional change. Cambridge, Cambridge University Press..

⁴ A Chinese academic also notes this definitional change provided in document No. 4. See Zhang Zhang Yi (1990). Zhongguo xiangzhen qiye jianxin de licheng [Chinese township and village enterprises: A history of hardship]. Beijing, Falu chubanshe..

⁵ Naughton Naughton, B. (2007). The Chinese economy: Transitions and growth. Cambridge, The MIT Press. also states that during the 1978–96 period “most TVEs were publicly owned,” but Naughton fully acknowledges the heterogeneous nature of the TVE phenomenon. Figure 12.2 on p. 286 of his book clearly shows that very early on private TVEs accounted for a significant share of TVE employment. In 1985, collective TVEs were only slightly larger than private TVEs in terms of employment (40 million vs. 30 million) and by 1988 their employment size was quite comparable. So the data in his book actually do not lend to the notion that “most” TVEs were collectively owned.

⁶ The data in this section are based on Ministry of Agriculture Ministry of Agriculture (2003). Zhongguo xiangzhen qiye tongji ziliao (1978-2002) [Statistical materials of township and village enterprises in China 1978-2002]. Beijing, Zhongguo Nongye Chubanshe.

⁷ At that time, the ministry was formally known as the Ministry of Agriculture, Husbandry, and Fishing. I have shortened it to Ministry of Agriculture for expositional ease.

⁸ The TVE data used in this section are from Editorial Committee of TVE Yearbook Editorial Committee of TVE Yearbook (1989). Zhongguo xiangzhen qiye nianjian (1978-1987) [China TVE yearbook (1978-1987)]. Beijing, Zhongguo nongye chubanshe.. The TVE output data are broken down by economic sectors as well as by TVE ownership.

⁹ The World Bank and Chinese researchers conducted field trips and surveys of four counties in 1986, the results of which form the basis for this chapter. It offers a rich, nuanced, and accurate depiction of the complex ownership structures of TVEs. For example, the World Bank researchers reported that some of the private TVEs each employed more than 100 workers Lin, Q. (1990). Private enterprises: their emergence, rapid growth, and problems China's rural industry W. A. L. Byrd, Qingsong New York Oxford University Press 171-188 . They also reported that although the collective TVEs had the size, the private TVEs had the momentum – they grew much faster than the collective TVEs. Between 1980 and 1986, the private TVEs grew at an annual average real rate 2.64 times that of the collective TVEs and by 1986, the private TVEs accounted for 21.3 percent of the entire TVE output value, up from only 5.4 percent during the 1980–83 period Byrd, W. A. and Q. Lin (1990). China's Rural Industry: An Introduction. China's Rural Industry. W. A. Byrd and L. Qingsong. New York, Oxford University Press: 3-15.

¹⁰ Micro data on the rural economy of Shandong are summarized in Shandong Rural Social and Economic Survey Team Shandong Rural Social and Economic Survey Team (1989). Shandongsheng nongcun jingji tiaocha ziliao 1988 [Survey materials of Shandong's rural economy 1988]. N.P., Shandong Rural Social and Economic Survey Team.

¹¹ Data in this section are from Editorial Committee of Ten Years of Reforms in Guizhou Editorial Committee of Ten Years of Reforms in Guizhou (1989). Guizhou gaige kaifang de shinian [Ten years of reforms in Guizhou]. Guiyang, Guizhou renmin chubanshe. and Editorial Committee of Contemporary China Series Editorial Committee of Contemporary China Series (1989). Dangdai Zhongguo de Guizhou [Guizhou in contemporary China]. Beijing, Zhongguo shehui kexue chubanshe..

¹² See Rural Policy Research Office and Rural Development Research Office Rural Policy Research Office and Rural Development Research Office (1987). Zhongguo Nongcun Shehui Jingji Dianxing Diaocha [A representative study of China's rural society and economy]. Beijing, Zhongguo shehui kexue chubanshe..

¹³ All the data on banks cited in this section about Zunyi are from (Editorial Board of Financial History of Zunyi 1992).

¹⁴ The quote from the Guizhou branch of the People's Bank; other details are provided by Editorial Committee of Ten Years of Reforms in Guizhou Editorial Committee of Ten Years of Reforms in Guizhou (1989). Guizhou gaige kaifang de shinian [Ten years of reforms in Guizhou]. Guiyang, Guizhou renmin chubanshe..

¹⁵ See <http://209.85.165.104/search?q=cache:b2JPcTT-19MJ:www1.worldbank.org/economicpolicy/globalization/dollarqa.htm+David+Dollar+China+World+Bank&hl=en&ct=clnk&cd=2&gl=us>, accessed on February 15, 2007.

¹⁶ The official source is the NBS rural household survey. See NBS National Bureau of Statistics (2007). China Yearbook of Rural Household Survey 2007. Beijing, China Statistics Press..

¹⁷ The World Bank advocates globalization as the reason for China's poverty reduction despite the contrarian evidence marshaled by its own economists. Ravallion and Chen Ravallion, M. and S. Chen (2007). "China's (uneven) progress against poverty." Journal of Development Economics 82(1): 1-42. devised their own poverty line that shows a higher number of poor people than that given in the official statistics. According to them, in 1980 602 million Chinese rural residents lived in poverty, as compared to only 99.5 million in 2001, an enormous reduction indeed. But what is lost by merely looking at these two points in history is that an overwhelming portion of the poverty reduction took place in the 1980s. According to the same measure by Ravallion and Chen, by 1988 the number of rural people living in poverty was already reduced to 190.7 million. (In fact, in 1985, the poverty level was down to 183.1 million.)