

INSTITUTE OF CURRENT WORLD AFFAIRS

**SUNAN: WHERE THE RURAL INDUSTRIAL  
REVOLUTION CHANGES CHINA'S LANDSCAPE**

**Part II**

**“A New Force Suddenly Coming to the Fore”**

Shanghai, China  
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Dear Peter,

If you read Chinese writings on township and village enterprises (TVEs, 乡镇企业), you will often come across the term *yijun tuqi* (异军突起), which literally means “a new force suddenly coming to the fore.” Deng Xiaoping, China's paramount leader, used this term to refer to TVEs when he was interviewed by foreign guests in the mid-1980s.

Chinese officials are, of course, not famous for their modesty. They are never willing to pass up a chance to give credits to themselves when they talk about China's economic growth. Nevertheless, they have to admit that the rapid development of TVEs has been as much a surprise to them as it has been to the rest of the world. As an article in The Economist noted, Deng expected the creation of the household contract responsibility system to drive up farm incomes and output, but “had no inkling of the rural industrial revolution that would follow.”<sup>1</sup>

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*This small town in Wuxi county sits in the midst of a bustling economy. The signs above the road show directions to various township and village enterprises in the area.*

TVEs emerged in the process of the structural transformation of the Chinese economy, from traditional agriculture to a modern form, from a subsistence economy into a market economy. The birth and growth of TVEs are spontaneous indeed. Rural industries are also called “grassroots industries” (*caoge gongye* 草根工业). As some Chinese scholars have described, TVEs are born in “the narrow space between traditional agriculture and modern industry.”<sup>2</sup>

TVEs have several organizational forms based on the different level of ownership and management. They include township-run enterprises, village-run enterprises, team enterprises, and private enterprises. Most TVEs are rural collective enterprises at the township and village level. Although the first two forms

are collective and are supposed to be run by officials of local governments, many of them are indeed private companies. It has been a common practice that private enterprises are registered under the name of a collective, or using a Chinese expression, having a “red hat.” This type of enterprises is called *guakaoqiye* (挂靠企业), a private firm under the name of a collective or co-operative.



*TVEs are born in the narrow space between traditional agriculture and modern industry. In the early stage of their development, many TVEs in Sunan produce crafts such as embroidery as shown in the picture.*

A sample study of TVEs shows that a large number of private enterprises (over 50%) are under the name of a collective. In 1992, Dalian, for example, had registered 2,938 private enterprises, but the private enterprises that had a “red hat” were believed to be 5,000.<sup>3</sup> According to Kristen Parris, a researcher who did a case study of Wenzhou, a coastal city in Zhejiang province, “a collective name not only allowed these firms to avoid political risk and the stigma long associated with private business in China, it also gave them greater access to credit and resources and certain tax benefits.”<sup>4</sup>

TVEs are engaged in various forms of business such as industry, construction, transportation, commerce, agriculture, catering, service industries and others. Most

TVEs, however, are involved in industries. In 1991, for example, rural industries accounted for three-fourths of the total output value of all the nation's TVEs.<sup>5</sup>

TVEs mushroomed in China during the mid-1980s. Four main factors contributed to the arrival of the rural industrial revolution. First, peasants began to have surplus capital as a result of rural reform, especially the household contract responsibility system. Prior to the economic reform in 1978, total personal savings in both urban and rural areas was 21 billion yuan. The savings per person in the rural area was only 7 yuan. Only after the economic growth in the late 70s and the early 80s, did Chinese peasants have the means to invest money in non-agricultural production.

Second, the abolition of the People's Commune system in the late 1970s led to the end of the "iron bowl" in rural China. Millions of surplus rural laborers were liberated from agricultural jobs and were allowed to work in the industrial and service sectors. They provided the great human capital for the rural industrial revolution.

Third, although the government did not make any favorable policies to help TVEs as it did for State-owned firms in terms of providing loans and subsidiaries, the government did let TVEs flourish in their own ways. Private enterprises were also allowed to exist in the late 1980s.



*The living standard of people in Sunan has greatly improved since the economic reform started in 1978. A fruit peddler in Bacheng, a small town in Kunshan, wears a Western suit. He does not look like the conventional image of a street peddler in rural China at all.*

Finally, commodity markets between urban and rural areas became extremely dynamic as economic reform accelerated in the 1980s. They provided great economic opportunities for the growth of TVEs.

China's rural industries of course did not start just with the Deng era. The origin of TVEs can be traced back to the late 1950s when a great number of commune-run enterprises (社办企业) were established under the impact of the Great Leap Forward. But TVEs differ from the previous rural enterprises in the following three aspects. First, the previous rural enterprises were under the control of the government; but TVEs have more autonomy and many of them are privately-owned. Second, before the reform, rural enterprises were largely autarkic because of the segregation between rural and urban economies; but by contrast TVEs have close links with urban industries and they cooperate with each other in capital, technology, labor and management. The third and the most important difference between TVEs and the previous rural enterprises is that TVEs get rid of the bondage of the planed economy. TVEs are the products of the market economy.

TVEs also differ greatly from State-owned enterprises. In a recent issue of Social Sciences in China, Wang Haijun, a Chinese scholar, has made a five-point summary of the salient features of TVEs in comparison to State-owned enterprises:

1. They are market-oriented and seek to maximize profits, in contrast to State-owned enterprises, which produce according to mandatory quotas or government guidelines.
2. TVEs have more autonomy in decision making, development strategy, pricing, marketing, and personnel administration. State-owned enterprises have less control in these areas.
3. TVEs are responsible for their own losses, whereas many state enterprises receive subsidies to cover loss.
4. In TVEs, workers' incomes depend more heavily on the performance of the enterprises than is the case with state enterprises. The disparity in earnings between workers is also greater, which has the potential to lead to more efficient management and the improvement of professional skills.
5. TVEs can hire and fire staff, and conditions of employment are flexible – this is not the case in State enterprises where employment is strictly controlled.<sup>6</sup>

The most salient phenomenon of TVEs, however, is its increasingly important role in the Chinese economy. In 1978, there were a total of 1.5 million non-state industrial firms in the countryside, employing 28 million people (9.3% of the total rural labor). By 1992 there were 21 million TVEs employing 112 million people (24.2% of the total rural labor).<sup>7</sup> This means that each town had about 150 TVEs on average in the country. The output of these firms has been growing an average of nearly 30% a year for more than a decade.<sup>8</sup>

Although the State has not done much to help TVEs, the State revenue contributed by TVEs quickly increased, from 2.2 billion yuan in 1978 to 45.86 billion

yuan in 1992. The percentage of tax paid by TVEs' in the total State revenue increased from 2% in the late 1970s to 13% in the late 1980s.

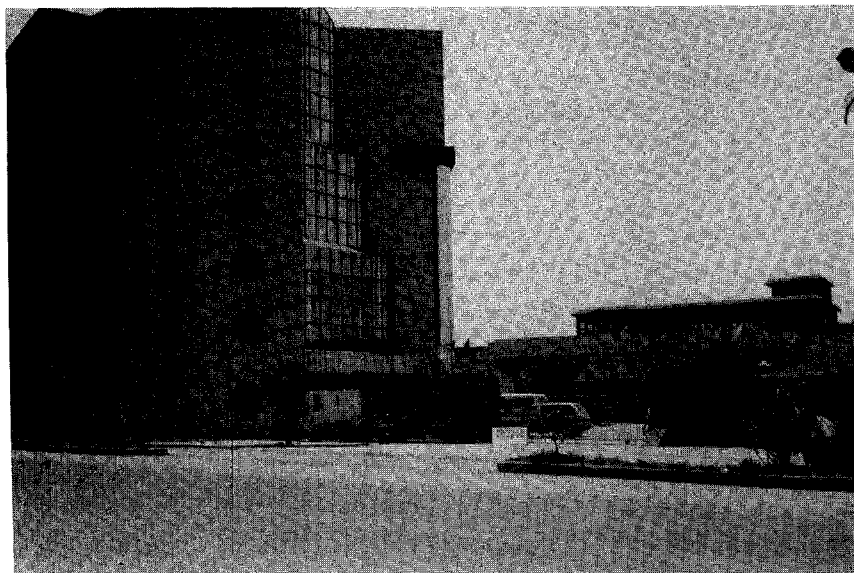
In 1987, the output value of TVEs accounted for 52.4% of the total output value of national agriculture. This was a historic turning point in China's agriculture because for the first time more than half of the output value of rural China came from non-agricultural production. In 1992, the output value of TVEs accounted for 66.4% of total agricultural output value.

Meanwhile, the percentage of rural industrial output in the total industrial output value also significantly increased, from 9.1% in 1978 to 36.8% in 1992 (see Table 2). According to an official from the Chinese government, industrial output value of TVEs is expected to exceed 50% of the total national industrial output by the end of 1994. This means that a half of China's industrial output comes from the rural areas.<sup>9</sup>

**Table 2 The Percentage of Output Value of TVEs in the Total Output of National Industry**

	1978	1981	1984	1986	1988	1990	1991	1992
% of Output Value of TVEs in the Total Output of National Industry	9.1	10.7	16.3	21.6	24.9	25.3	30.8	36.8

Source: China's Statistical Yearbook, 1993, p. 369, and p. 412.



*This large TVE in Wuxi county is an example of the fastest growing sector of the economy. Industrial output value of TVEs is expected to exceed 50% of the total national industrial output by the end of 1994. This means that one-half of China's industrial output comes from the rural areas.*

China's GNP has grown by an average of 9% since economic reforms started in 1978. The larger portion of the growth has been the result of the TVEs' contribution. According to a sample study conducted by the State Statistics Bureau, the industrial output value of State-owned firms increased only 3.2% in 1989 while the industrial output value of TVEs grew 22.8%. Although the fixed assets per person of rural industries are far lower than those of the State-owned firms, the former have a much higher rate of growth in total labor productivity than those of the latter (see Table 3).

**Table 3 A Comparison of the Total Labor Productivity between Rural Industrial Enterprises and State-owned Industrial Enterprises (1987)**

	Fixed Assets per Person (10,000 yuan)	Growth of Total Labor Productivity (%)	
		Total Growth	Annual Growth
State-owned Industrial Enterprises	1.88	49.5 %	5.15 %
Rural Industrial Enterprises	0.38	161.3 %	17.92 %

Source: Zhou Dongtao and Cui Quanhong, *Shizi lukou shangde zhongguo* (China at the Crossroad), (Lanzhou, Lanzhou University Press, 1992), p. 367.



*A poster in a textile factory in Shengze, Wujiang county, states the goal of 10,000 yuan in average income within three years.*

In their recently published book, Dragon Wakes (巨龙的苏醒), Sun Daiyao and Wang Wenzhang have made an interesting observation: it took 31 years for the total output value of China to increase from 100 billion yuan in 1952 to 1 trillion yuan in 1983, but it took only 7 years, from 1984 to 1991, for the total output value of the TVEs to achieve the same rate of growth.<sup>10</sup>

In another new book with a similar title, China Wakes, Sheryl Wudunn and Nicholas Kristof, The New York Times' correspondents in Beijing from 1988 to 1993, have also made some interesting calculations based on an international comparison. They write:

Britain was the first country to enjoy an industrial revolution, beginning in the late 18th century, and it took 58 years for per capita British gross domestic product to double. The American industrial revolution was a bit faster, with per capita output doubling in 47 years from 1839. Beginning in 1885, Japan doubled its per capita gross domestic product in 34 years. ... China is roaring along with its own industrial revolution, doubling its per capita output every 10 years.<sup>11</sup>

As a result of the household contract responsibility system and the development of TVEs, a total of 170 million Chinese peasants have risen from absolute poverty since 1978.

"China's rural industrial revolution," a World Bank official whom I met in Beijing commented, "has brought about the greatest improvement in human welfare anywhere at any time."

The rural industrial revolution is reshaping China's landscape, having a strong impact on all aspects of the Chinese society. Nowhere, however, is more strongly affected by this revolution than Sunan.

Sunan is widely recognized in China as the "Kingdom of Township and Village Enterprises" (乡镇企业的王国) and it well deserves the title. Within 12 years the output value of TVEs in Sunan increased 25 times, from 3.77 billion yuan in 1978 to 98.55 billion yuan in 1991. By the end of 1993, Jiangsu province had 386 rural industrial enterprises that each produced over 100 million in output value. Among them, 346 are located in Sunan. Their combined profits last year were 66.6 billion yuan. On average, each enterprise exported 31.3 million yuan worth of products.<sup>12</sup>

Although Sunan has only 0.88 percent of China's population, it produces 16.8 percent of the output value of rural industries in the country at present.<sup>13</sup> The output value of rural industries in Sunan has accounted for over 70% of the total output value in the region. In Zhangjiagang county, for example, the percentage of TVEs in the total output value was as high as 81.8% in 1991. In 1992, the county's GNP had an increase of 87% over the previous year.<sup>14</sup>

The vast rural area of the Sunan region has rapidly industrialized since the early 1980s. At present agriculture accounts for only 8% of the total industrial and





*The rural industrial revolution has also brought about a commercial revolution in Sunan. Previously poor peasants have now become consumers at department stores in cities like Wuxi (above) and Changzhou (left).*

agricultural output value in Sunan, and industry accounts for 92%.<sup>15</sup> Many industrial towns have emerged in the area and the distinction between rural and urban areas in the region has blurred.

One great achievement that Sunan has made over the past decade is that the region has absorbed a large number of surplus rural laborers, from both Sunan and elsewhere, in its rural industries. In 1986, TVEs in Sunan already successfully transformed 3,360,000 agricultural workers, which were 65% of the total labor force in the region, to non-agricultural employees.<sup>16</sup> According to local officials, there are no surplus rural laborers in Sunan. On the contrary, Sunan has absorbed over two million surplus rural laborers from other areas to work in the region.<sup>17</sup> This number does not even include the temporary workers hired without work permits or the "floating population."<sup>18</sup>

As China Daily recently reported, in some economically advanced market towns in Sunan, the number of non-local laborers has surpassed local residents.<sup>19</sup> In Shengze, a famous town for silk production in Wujian county, two-thirds of the workers in the silk and cotton mills are from other regions. According to a study, the "floating population" of Luoshe, a town of Wuxi county, is 6,000. About 88% of these migrants are engaged in industrial and construction work in the town.<sup>20</sup>

The rapid development of TVEs has provided a solution for China's surplus laborers – one of the most perplexing problems in the country. The experience of Sunan in absorbing surplus rural laborers from other areas is particularly remarkable, because Sunan itself is one of the most populous regions in China. Some scholars call Sunan's TVEs the "reservoirs of surplus rural labor."



*Sunan has absorbed over two million surplus rural laborers who have come from other areas to work in the region in the past few years. Over two-thirds of workers in this garment factory in Shengze, Wujiang County, are migrants from other areas such as Henan, Sichuan, Hubei, and Anhui provinces.*

The growth of rural industries in Sunan has also helped the agricultural development in the region. In the late 1980s, for example, TVEs in Sunan provided over 4 billion yuan to support local agriculture, five times the amount of money received from the State.<sup>21</sup> Most of the farmers in the region are equipped with advanced machinery. Because of the support from rural industries, grain production has increased in Sunan during recent years, although the number of the laborers who work on the farm land has greatly decreased. It was reported that a half of the output value created by farmers there has come from scientific farming.<sup>22</sup>

### **Problems and Prospects of TVEs in Sunan**

To make no mistake, the rapid development of TVEs in Sunan does not happen without its cost and problems. One of the most serious problems with TVEs, both in Sunan and the entire country, is that TVEs are scattered here and there in the countryside irrationally. As a result, not only has the construction and production cost of TVEs increased, but also precious arable land and other resources are wasted. According to the survey of the total 21 million TVEs in the country during 1992, only 1% of them were located in county seats (县城), 7% were in towns, an overwhelmingly majority of TVEs (92%) were scattered in the countryside.<sup>23</sup>

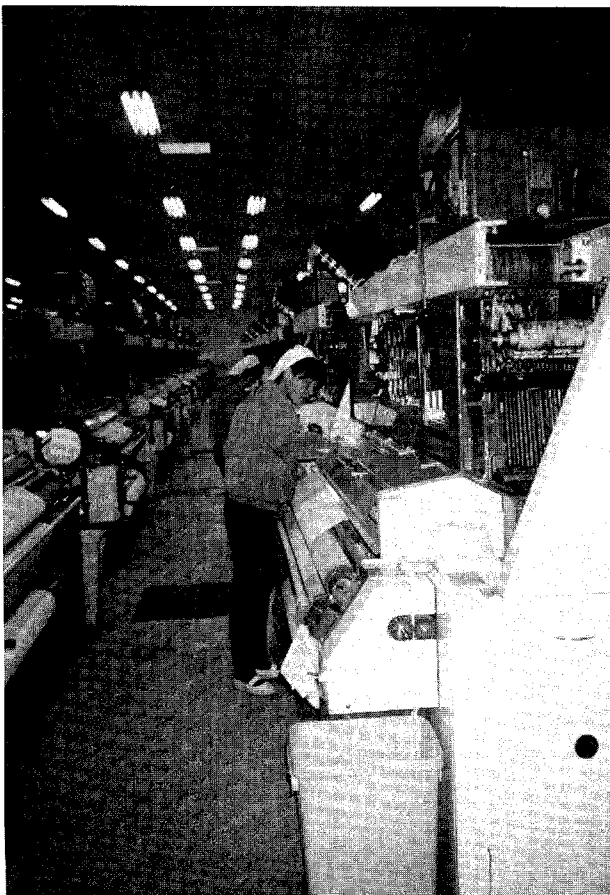
There were, for example, 15,000 TVEs in the rural area of Shanghai, but they were spread throughout as many as over 4,000 industrial sites. The dispersion of TVEs in the vast rural area has made the infrastructure (e. g. water and electric supply, transportation and road construction, and disposal of waste) more difficult and less efficient.<sup>24</sup> In Wuxi county, the ground water has not only been used excessively, but also polluted as the result of the lack of planning in the development of the TVEs in the region.<sup>35</sup>

The overall standard of TVEs is comparatively low at present; their technology is old and outdated, their equipment is crude and backward. Some of the advantages that TVEs used to have may become disadvantages in the future. The factors that influenced the rapid development of TVEs in the 1980s have now changed and TVEs at present face some new challenges. In the early 1980s, for instance, the small-scale of TVEs helped these firms to quickly respond to the demands of the market and better compete with over-burdened large enterprises. But now, as some Chinese scholars observe, their small scale often leads to "excessively high production cost, lack of specialization and competitiveness."<sup>26</sup>

Furthermore, the rural industrial sector in most areas is duplicated and this has led to two problems in some areas: the one is the shortage of raw materials and the other is an increasing imbalance in the industrial sector in the region. In the late 1980s, for example, a large number of TVEs in Sunan were cotton mills, but the cotton production in the region could meet only two-thirds of the need of these cotton mills.<sup>27</sup> The duplication of industries has also caused excessive competition for markets.

Another common problem of TVEs in Sunan is the lack of capital. Almost all the officials of the TVEs that I met in Sunan told me that their firms were faced with a shortage of capital as they were pursuing further economic development. In Changzhou, for example, 40% of construction projects could not continue because of the unavailability of capital.<sup>28</sup>

All these problems are not insignificant. The solutions to these problems, however, rely on how TVEs themselves adjust to the new socio-economic environment. Yang Xiaotang, Party Secretary of Suzhou, recently told journalists that Sunan will have a "new historical take-off by adopting three strategies: corporation (集团化), specialization (专业化), and internationalization (国际化)."<sup>29</sup> In his view, previously Sunan's development was largely limited to its own area. The scale of TVEs was usually too small. Profits of TVEs earned in the region were seldom used to invest in other regions or countries. According to Mr. Yang, Sunan's new strategies for its economic development will change all these old features.



*This textile factory in rural Suzhou is an example of many TVEs in Sunan, which now have advanced technology and equipment. Their competitiveness in the market, both domestically and internationally, has greatly increased. Most of equipment here is imported from Japan and Germany.*



*During the last two years, the rural industries of Sunan have rapidly expanded and more foreign capital has flowed into the region. Meanwhile, exports have also significantly increased. These garments made in a TVE in Changzhou are ready to ship to the US.*

Sunan seems ready for these new strategies for further development. It has become a common phenomenon in Sunan in recent years that smaller TVEs form corporate groups through mergers, leasing arrangements, sales, or other means. TVEs in the region have lately paid more attention to the development of new products and specialization. Wuxi, for instance, now produces two new products every day on average. From 1991 to 1993, the city invested 12.7 billion yuan on R & D (research and development) and introduced 1,381 technology-intensive projects.

About 80% of county-level enterprises have completed their technological renovation. The contribution of technological innovation now accounts for 42% of the economic growth.<sup>30</sup>

Meanwhile, about 50,000 TVEs in Sunan have established co-operative relationships of various kinds with over 1,000 research institutions, universities and colleges in the country. More than 10,000 scientists and technicians across the country have settled down in the Sunan region to help with economic expansion there. So far, Sunan has set up over 800 scientific research institutions employing 200,000 scientists and technicians.<sup>31</sup>



*Nine-year compulsory education has been popularized in all 12 counties of Sunan. At least 90 % of the rural industrial staff and workers in the region have received technical training. These well-dressed students attained school in Bacheng, a small town in Kunshan.*

In recent years, the rural industry of Sunan has kept expanding and more foreign capital has flowed into the sector.<sup>32</sup> In 1992 alone, Suzhou approved 2,162 foreign-invested firms and joint-ventures. This number was four times the total

number of foreign invested firms and joint-ventures in previous years. In 1993, TVEs in Jiangsu province established 140 firms in overseas, two times the total number in previous years.<sup>33</sup> In the first ten months of this year, four hundred more TVEs placed their branches overseas.<sup>34</sup>

All these efforts to promote TVEs in the new economic environment suggest that the rapid growth of Sunan will likely continue in the future. Many rural entrepreneurs whom I met in Sunan told me that the achievements that Sunan people have made in the past decade are just the beginning.

"The prosperity in Sunan may mean little to some foreign visitors from advanced countries," Mr. Guo Jilie, a middle-aged rural entrepreneur whom I met in Changzhou, said to me. "Because there is still a big gap between the economic condition of Sunan and that of advanced countries like the United States and Japan. But the achievements that TVEs have made are very important for us, I mean, peasant-turned industrialists. True prosperity is the result of well-placed confidence in ourselves.

"We, the people in Sunan, know that our rural enterprises are faced with some problems – new challenges for further development," Mr. Guo said. "Sunan's TVEs, like those elsewhere, were born in hardship. Neither God nor the government gave us much help. In 1991 Sunan experienced the largest flood in this century, but we survived. We never had enough capital resources for the development of our enterprises, but we managed and even flourished. We will accept these new challenges and will promote TVEs' development on a greater scale."

"You have confidence that if you have done a little thing well, you can do a bigger thing well too," I commented by quoting a Western proverb.

"Yes, precisely," Mr. Guo replied.

The following parts of the series on Sunan will take a closer look at how the TVEs in the region respond to the new challenges and what impacts they will make on foreign investment in the region and on China's urbanization and industrialization in general.

Sincerely,

  
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## Notes:

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