

CHINA in
TRANSFORMATION



CHINESE VILLAGE, GLOBAL MARKET

NEW COLLECTIVES AND RURAL DEVELOPMENT



TONY SAICH
and **BILIANG HU**



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CHINA IN TRANSFORMATION

China in Transformation will publish outstanding works of original research on, as well as translations and analyses of, the debates about China today. Critical and interdisciplinary in its outlook, the series seeks to situate China in its historical, regional, and international contexts, and to locate global trends with reference to China. As a flexible endeavor to identify longer-term problems and issues, the series is not constrained by discipline, perspective, or method. It launches a new perspective on China and the world in transformation that contributes to a growing and multifaceted scholarship.

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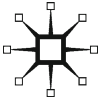
Chinese Village, Global Market: New Collectives and Rural Development

By Tony Saich and Biliang Hu

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*Dedicated
To the Memory
Of
David E. Apter
Who taught me that research should
Not only be intellectually stimulating
But also
Be Fun*

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FOREWORD

The “rise of China” is a cliché that resonates in China as in the rest of the world. It is now more than a century and a half since China’s self-sufficient economy was forced by gunboats and treaties to open up to an incipient global interest in a fabled market offering the vista of innumerable consumers for endless commodities. By the same token, the prospect of an “awakening” China also conjured up a fearfully racist specter of a “yellow peril” flooding the world with inscrutably industrious Chinese. The political breakdown of the country and its nationalist and socialist revolutionary struggles through much of the twentieth century deferred the market dreams. However, China has now been reconstituted as a bastion of cheap labor and manufacturing for the global market. In place of earlier communist fantasies, the present reality is variously viewed as a model of globalization or as an ugly capitalist dystopia.

Starting around 1980, China has transformed itself again and the dream of a “rising China” has been reanimated, inviting excited speculation about the coming “Chinese century.” The nightmare of a Chinese takeover of the world—demographic as well as financial and military—has been reawakened. Within China itself, the precipitous “rise” of the past two decades has provoked a series of critical reflections along with nationalistic jingoism. At the same time, China’s financial power and its capacity for investing huge shares of GDP have generated much attention to the mechanisms of the state-market dynamic. The continued hegemony of the Communist Party, which presides over a fundamental transformation of Chinese society along the ostensible lines of capitalist—or state-capitalist—production, presents endless paradoxes and contradictions. The regionalization of its economy and the local variations in directing its transformative energy create opportunities for structural, institutional, and grass-roots innovations within the overall national pattern.

How can we understand the “rise of China” along with the internal and global transformations that it implies? How can we peel away

the layers of cliché—historical and contemporary—to arrive at analytically rigorous scholarship about China’s current situation and its role in the world of which it is an increasingly important part? How can we dissect the meaning of “China’s rise” without buying into reified fantasies and dystopias that characterize much current journalism and scholarship about China and the world?

For this series *China in Transformation*, we hope to identify and publish outstanding works of original research on, as well as translations and analyses of, the debates about China today. Critical, interdisciplinary, and global in its outlook, the series seeks to break through the myths and ideologies surrounding the “rise of China” to arrive at a reasoned perspective on China and the world. We seek to situate China in its historical, regional, and international contexts, and to locate global trends with reference to China, so as to reflect in a comprehensive way what has happened, where events/trends might be going, and why we should care.

The series is intended to be a flexible endeavor to identify longer-term problems and issues. Not constrained by discipline, perspective, or method, it launches a new perspective on China in transformation that contributes to a growing and multifaceted scholarship.

CARL RISKIN, LIN CHUN, AND
REBECCA KARL
November 2011

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ROMANIZATION AND CHINESE UNITS OF MEASUREMENT

The system of Romanization for Chinese characters used in this book is the *Pinyin* system, as used by the People's Republic of China and scholars in the West. Thus, Canton as it is more familiarly known in the West is rendered as Guangzhou.

CHINESE MEASUREMENTS

<i>Liang</i>	two ounces of silver
<i>Mu</i>	measure for land equal to one-sixth of an acre, often spelt <i>mou</i>
<i>Yuan</i> or <i>Renminbi</i>	Chinese currency unit. The value varies by in early 2012 there were 6.21 yuan to the US dollar

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ABBREVIATIONS

ABC	Agricultural Bank of China
BMIFE	Basic Medical Insurance for Formal Employees
CCP	Chinese Communist Party
CHS	Community Health Station
FDI	Foreign Direct Investment
FIE	Foreign Invested Enterprise
GLF	Great Leap Forward
GP	General Practitioner
MOH	Ministry of Health
NRCMS	New Rural Cooperative Medical Scheme
PLA	People's Liberation Army
PRC	People's Republic of China
PRD	Pearl River Delta
<i>Rmb</i>	<i>Renminbi</i> (Chinese currency)
SARS	Severe Acute Respiratory Syndrome
SEZ	Special Economic Zone
TCM	Traditional Chinese Medicine
US	United States
WHO	World Health Organization
WTO	World Trade Organization

“BECOMING GLOBAL”:
YANTIAN VILLAGE IN CONTEXT

In 1976, one of the authors walked across the Luohu (Lowu) Bridge that linked Hong Kong to Shenzhen to board a train to Guangzhou, People’s Republic of China.¹ At the time this was the only way for a Westerner to enter China, and the walk revealed a countryside covered in rice paddies with water buffaloes as the main beasts of burden. The rhythm of rural life seemed to have changed little over the centuries, despite the tumultuous upheavals of the nineteenth and twentieth centuries. Historically, with its ample rainfall and abundant sunshine, the Pearl River Delta (PRD) was one of the major grain baskets of southern China. On the surface, the PRD looked like a rural idyll but beneath the surface was repression of farmers’ desires and potential. The Maoist polices of economic isolation and suspicion of foreign trade cut the PRD off from the potential that investment and trade from over the border with Hong Kong could bring. Returning in the late nineties, the paddy has been replaced by highways, the water buffaloes by lorries carrying products to the global market, and the land has disappeared under high-rises and factories that are part of a booming export-led economy. You will be lucky to find much more than a sliver of agricultural land!

This book is the story of one village, Yantian, and its remarkable economic and social transformation since the late seventies.² Yantian village forms a part of Fenggang Town, which is itself a part of the administrative jurisdiction of Dongguan City, Guangdong Province. The study analyzes the interaction between policy initiatives in Beijing and local interests, and how this interaction shaped the transformation of the sleepy, rural village. Yantian’s world changed forever with the launch of the Shenzhen Special Economic Zone (SEZ) in August 1980 and especially in 1985 when Guangdong Province adopted new regulations to encourage foreign investment across the PRD. Lying

close to Hong Kong and Shenzhen, the village nests in the PRD that comprises a key part of the global reorganization of manufacturing and production.³ As China's leaders pushed to bring the Chinese economy out of its self-imposed isolation, Yantian's and Dongguan's proximity to Hong Kong's manufacturing and capital enabled them to become key destinations for foreign direct investment (FDI) and the shift of manufacturing over the border in search of cheaper land and labor.

A massive cluster of global processing and manufacturing plants arose and Dongguan has become the largest global site for production and processing in the electronics industry. At its peak, 40 percent of the world's magnetic heads used in personal computers and 30 percent of its disk drives were manufactured here (Chang, 2009, 30). In just three decades, the whole region transformed from an agricultural economy (primarily rice and sugarcane) to a global manufacturing center with most of these goods destined for export. This rapid economic growth has attracted a large labor force to the region and urbanization has proceeded apace. The area has been at the leading edge of demographic, economic, and social change generated by the forces of modern globalization.

The rapid growth, the decline of agriculture, and the rise of new urban centers have created fresh challenges of how to govern and manage change. Yantian offers an interesting point of entry to study how these changes combined with global integration have impacted on traditional governance. While the focus is the village, the study sheds light on the broader questions of the changing role of local government in development and state-society relations. No institution has been left untouched by reform and the relationship between the various levels of government and between state and society has been fundamentally altered. For example, the provision of basic welfare services has become more diversified with responsibility spread across networks of government agencies, market-based institutions, families, and nongovernmental organizations. As in Yantian, networked governance has gained prominence in providing important basic services. One general imperative that transcends more economically developed and more resource-constrained localities is the need to derive one's own sources of revenue. The resultant fiscal inequalities that arise from this system have contributed to the enormous variation in the provision of public goods and services. A village such as Yantian has presided over rapidly growing revenues, providing it with a much greater ability to invest in resource provision. However, as this study shows there can also be enormous variation in terms of what one gets

within the community, depending on one's status. Village resources are clearly first and foremost for registered villagers, not the migrant workers. Despite greater government support for health and education expenditures, localities are still heavily dependent on local revenues, on and off budget, to supplement resources. How these revenues are divided and who decides has become an important political issue.

YANTIAN VILLAGE—A SNAPSHOT

Yantian lies in a large plain that covers 60 percent of the village's 24 square kilometers. The villagers describe it as a “cornucopia” capturing their aspirations. Surrounding the plain are dozens of hills and mountains, the highest of which is Wanghai to the southeast that rises to 188 meters. Two rivers wend their way through Yantian. The Dongshen River brings fresh water to Hong Kong via Shenzhen, while the Shuibe River originates in Pinghu Town and joins the Dongshen River in the village. The presence of these two rivers provides adequate water supply for industry, agriculture, and the daily needs of the population.

The abundant water supply and its location within the subtropical monsoon climate zone meant that Yantian boasted of triple cropping (two crops of rice plus a winter crop of small grains) and had a good harvest of many tropical fruits (lychee, pineapple, banana, longan, peach, and plum). Annual temperatures are a balmy 22 degrees Celsius with an average low of 13 degrees Celsius in January and a high of 25 to 30 degrees Celsius in July and August. The wet season runs from April to October with an annual average rainfall of 1,800 millimeters. With these natural advantages, it is not surprising that agriculture played an important part in Yantian's development. However, almost none of the registered inhabitants of the village are engaged any longer in direct production. This is because of the most spectacular development under reforms—the rapid growth of foreign-invested enterprises.

The best way to approach Yantian is via Shenzhen; it is barely an hour's drive from the airport and even less time from Shenzhen's Luohu railway station. Thus, although administratively it falls under Dongguan City, approximately 60 kilometers to the northeast, it is physically closer to Shenzhen (figure 1.1). Downtown Shenzhen is a mere 30 kilometers to the south and Hong Kong is not much further away. Fenggang Town is nearly 6 kilometers away.

The village is well served by transportation routes, which provide important domestic linkages and also provide easy access to

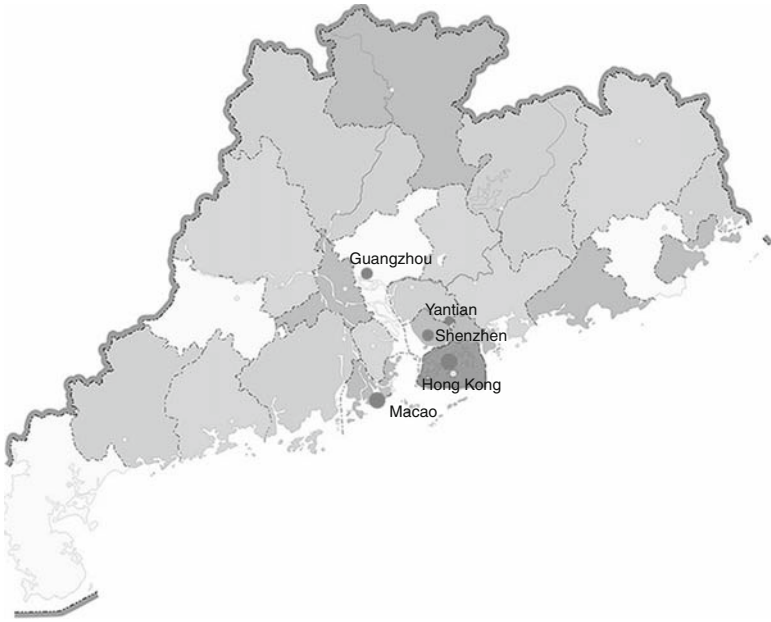


Figure 1.1 Yantian's Geographic Advantage.

Hong Kong. Lying to the southeast of Dongguan City and adjacent to Shenzhen City, the Dongshen highway runs through Yantian from north to south on its route from Qiaotou Town (*zhen*) (Dongguan) to downtown Shenzhen. The Danping highway runs east–west through the village linking Danshui Town (Huiyang District, Huizhou City) to Pinghu Town (Longgang District, Shenzhen). In addition, the Yanheng highway links Yantian directly with Henggang Town (Longgang District, Shenzhen). The railway that links Guangzhou to Hong Kong lies only 6 kilometers to the west in Pinghu Town. These transport arteries were all in place well before the reform period began and provided major advantages for local production once it became politically acceptable.

For some time after its initial settlement, Yantian was called “Pengtian” (deserted sludge land). Limited labor meant that the land remained barren through the Yuan Dynasty (1271–1368) despite some small land reclamation. It was only when several families (Deng, Liang, Yang, and Chen) moved in during the Ming Dynasty (1368–1644) that the land was transformed to enjoy “green mountains, blossoming trees, clean water canals and well-planted farmland” (Deng, ed., 2003, 3). The environment provided an ideal habitat for

the wild geese that migrated from the north after the fall equinox. The warmer weather was good for passing the winter before flying back north after the spring equinox. For this reason, the name of the village was changed to "Yantian" (*Yan* meaning goose and *tian* meaning field).

The definition of land in rural China is important as it determines what local governments can and cannot do with it, and whether they can use it to generate income. Agricultural land is owned by the rural collective and is usually contracted for use by farmers; construction land can be used for nonagricultural production (public infrastructure and industry) and is usually owned by the rural collective but can be rented. Residential land is for the farmers to build housing and is also owned by the collective, but, in theory, it should not be rented out or its registration transferred. Thirty percent of Yantian's land is reserved for construction, 60 percent is held for ecological protection, with only 10 percent dedicated to agriculture (mainly vegetable production). Of the construction land, villagers' housing accounts for 23 percent (2,530 *mu*), factories and workshops cover 42 percent of this land (4,560 *mu*), with other public facilities such as public parks, schools, hospital, and village offices covering 9 percent (971 *mu*). Of the ecological or environmental protection land, 42 percent (9,070 *mu*) is forested, 12 percent (2,500 *mu*) is covered by orchards, and 1–2 percent (350 *mu*) is used for fishponds. The remainder of the mountain and hill area is not fully utilized.

The village is unrecognizable from 30 years ago and, in fact, one could be forgiven for not realizing that it is still a village. To the outsider, it looks like the kind of thriving town that has been a product of industrialization and urbanization around the globe. Yet Yantian is still registered as an administrative village and this has significant consequences for management of the economy, interaction with formal levels of government, welfare provision, and the benefits to which people living within the village are entitled.

Under the Yantian administrative village are nine natural villages, five of which (Dongyi, Donger, Nanfang, Xifang, and Beifang) are in the administrative village center, while the remaining four ring the periphery. Buxin and Shuibei are located in the northwest, while Shijie and Changbiao lie in the south and southeast, respectively. Donger covers the largest area, and has the biggest population with 640 inhabitants while Shijie is the smallest and has only 140 dwellers.

The proximity to Hong Kong meant that once the experiment to set up the Shenzhen SEZ began and foreign investment was encouraged beyond the zone, Yantian was well placed to benefit. It also had

the entrepreneurial Deng lineage, who were able to mobilize family connections in Hong Kong and beyond to invest back in their “ancestral” village. The important role of resuscitated lineages is discussed further below. The economic boom that followed not only enriched the local villagers but also led to the influx of a large migrant community. Guangdong Province is home to some 30 million migrants; in 2010 Dongguan was home to 5.2 million migrants out of a total population of 6.95 million; Fenggang Town had a registered population of 20,000 but 300,000 migrants, 80,000 of whom lived in Yantian.⁴

The migrants in Dongguan and Yantian are referred to as “*Xin Guaner*” (New Dongguan People) as opposed to the “*Yantianer*” (Registered Yantian Inhabitants) who have a formal household registration in the village. Those who enjoyed official registration in the village totaled 3,489 by the end of 2008. This distinction is important as official registration carries with it political status, social identity and access to certain welfare benefits, and considerable financial advantages.⁵ Not surprisingly, it is difficult to find accurate statistics for the “*Xin Guaner*.” The household registration statistics held by the local public security bureau underestimate the actual number as many do not register even though they live and work in Yantian. Public security and village officials thought that the real number was around 80,000, approximately 10,000 more than the official statistics. However, the group of migrants is not homogeneous, and this also has consequences for how they are treated in the village, with investors treated far better than those working in the factories. In addition, there are a number of migrants engaged in agriculture and some private entrepreneurs running small businesses. Even daily necessities such as vegetables are provided by migrants who have subcontracted the land from the village collective. Most importantly, the migrants are not eligible for any dividend payout from the village collective that has provided the relative wealth for the official residents.

The vast majority of the migrants find employment in the 180 or so foreign-invested enterprises vested in Yantian.⁶ The “Three Supplies for Processing and One Compensation” companies (processing of supplied raw materials, processing according to supplied samples and assembling of supplied parts, and compensation trade) and foreign-funded companies (wholly foreign-funded companies, equity joint ventures, and contractual joint ventures) are especially important. The number of such companies hit a peak of 400 in the mid-nineties. However, by 2009 with relocations and the impact of the 2008–2009 global financial crisis, the number of foreign-funded

companies in Yantian dropped to 205 and then further to 180 by the end of 2011.⁷ Nonetheless, industry now dominates economic life. From 1984, the value of total industrial output exceeded that of agriculture, with agricultural added value only contributing a very small percentage to the village total. Taking 2008 as an example, the total value added of the Yantian economy was 5.5 billion yuan, and agriculture only contributed 12.56 million yuan (0.2% of the total), while the total value added from industry reached 4.8 billion yuan (87.3%) and 689 million yuan was from the service sector (12.5%).

The influx of foreign-funded companies created a positive outcome for residents and investors, and one could argue even for the new migrants. The village collective received income from leasing workshops and factories, as well as by providing services; villagers also rented factories or workshops to some companies, but mostly derived income by leasing houses to migrant workers; foreign investors could deliver substantial quantities of processed products to the international market by taking advantage of low-cost labor and other resources in Yantian, thus generating greater profits. These developments created a new economic community that is more open than the traditional village community with the interests of diverse actors needing to be accommodated.

The influx and the increase in the number of enterprises created a demand for land. To respond to these demands, the Yantian village collective began to take back rural land that had been assigned to individual households during the 1979–1982 period.⁸ Early in the reforms, central government policy had required that land be contracted to the household for production purposes under what became known as the “household responsibility system” (see [chapter 2](#)). Yet already in 1985, the village collective began to reclaim the land and the process was completed in 1992. From this time on, with the exception of a few households that had contracts for fruit orchards on the slopes, Yantian local residents abandoned farm production. Management of industry created growing economic wealth for official residents.

The Organization of Rural China

Since 1999, Yantian has been classified as an administrative village, which means that it is a self-governing community below the lowest level of formal government—the township (Fenggang Town). The scope of formal administrative jurisdiction in the countryside, despite various name changes, has remained remarkably stable but policies

and incentives have varied significantly. The people's communes that oversaw rural life from their establishment in the Great Leap Forward (1958–1960) until their abandonment in the early eighties were usually coterminous with the traditional marketing areas. Most communes are now townships as many had been before the communes were established. Below the township is the administrative village (former production brigades) such as Yantian and below this are the villagers' groups (former production teams) that are natural divisions or hamlets within the village (Yantian has nine).⁹ These groups are roughly comparable to the *jia* of the Ming and Qing (1644–1911) Dynasties.

The central government in China has transferred a much greater percentage of expenditure responsibilities to the local government than is normally the case. The Maoist slogan of “self-reliance” reinforced the idea that each administration should minimize “dependence” on support from higher levels of government and this continued throughout the reform era. This has resulted in subnational expenditures of 80 percent as a share of total public spending, a very high figure,¹⁰ a figure that has risen from 52.6 percent when reforms began in 1978. This means that local governments are engaged in strategies to increase transfers from the central government or the next higher level of government or have to find ways to increase their own revenue base to meet their obligations. Subnational levels of government provide 98.9 percent of spending on education, 98.4 percent on health, 94 percent on safety nets, and 98 percent on environmental protection. Only transportation is much lower at 77 percent (<http://www.stats.gov.cn/tjs/ndsj/2010/indexeh.htm>). Local government finances in many areas have become even tighter since the government converted all fees to a single agricultural tax in 2002 and then abolished the tax entirely in 2006.

The county-level administration is being developed into the fiscal center for the rural areas and it is eclipsing the township. This expansion of responsibility has been conducted under the slogan of “taking the county as the lead” (*yixian weizhu*); spending at the county level now accounts for about one-quarter of all public expenditures. Most important was the decision in 2001 to shift the fiscal responsibility for teachers' salaries to the county from the township (*People's Daily*, June 14, 2001).

The expenditure responsibilities for the township (town) are similar to those of the county, although they often have a weaker financial base and they carry the heaviest load for social spending. The county and the township together account for 70 percent of budgetary

expenditures for education and 55 to 60 percent for health (World Bank, 2002, 34, 94, and 111). Prior to the 2001 reform, education had been the largest expenditure for townships, approximately two-thirds of expenditures nationwide. A study in 2002, just as the new reform was to be implemented, discovered that 78 percent of compulsory education costs were covered by the town/township and village, with a further 9 percent covered by the county, and 11 and 2 percent by the provincial and central governments, respectively (Kennedy, 2007, 49). Despite the lightening of the burden, the township remains responsible for subsidies for teachers, and also for the maintenance and upkeep of school premises. One major impact of fiscal reform has been the continued decline of the township. While resisting the suggestion of some reformers to abolish the township entirely as a level of government, policy does seem to promote its withering away through mergers and conversion into towns (*chexiang bingzhen*). There were just over 34,000 townships in 2009 down from 72,153 in 1985 and 47,136 in 1995. Guangdong has been at the forefront of town development over townships. The township reforms were intended to shift them from being extractive entities into "service-oriented" agencies but pressures from above and below have caused many to "hollow out" and become an administrative shell.¹¹

Villages also have significant expenditure responsibilities even though they have no independent fiscal powers. They have inherited many of the obligations of the old collective economy, such as salaries, care for the elderly, and even part of the support for health and education (Wong, 1997, 174). As described below, this pushed the village leadership to develop new collective structures of economic organization to deal with these obligations. In addition, village officials used to be responsible for collecting the agricultural tax before its abolition,¹² making sure family planning quotas are met, and that basic public services are provided. For rural inhabitants, the administrative village (such as Yantian) is the most important organization that determines economic and social outcomes. It is the "moral universe" where most important networks of social and economic exchange take place (Hillman, 2005).

There have been a number of formal changes in rural organization since 1949, and before 1999, Yantian's administrative classification was unclear. For the first ten years after 1949, it was classified as Yantian Township, with a township government and not a village administration overseeing its affairs. With the formation of the people's communes, from 1958 to 1961 Yantian became part of the third battalion (*ying*) of Tangxia People's Commune and was subject to a militarized

style of administration. From 1961 to 1983, Yantian became a production brigade under the Fenggang People's Commune, with integrated "political and management functions" (*zhengshe heyi*). As commune members, villagers had no real economic or political rights, with all major decisions taken by the commune leadership and imposed on the various production brigades.

With the effective dismantling of the communes, Fenggang People's Commune was renamed the Fenggang Subcounty Administrative Office (*qugongsuo*) and thus between 1983 and 1986 the Yantian Production Brigade once again became the Yantian Township. The management committee of the production brigade was converted into the "township government," which directly administered community affairs. However, from 1986 Fenggang was reclassified as a town and consequently Yantian Township was renamed the Yantian Management Area (*guanliqu*), with all matters related to community development directly administered under the town government (Deng Yaohui, ed., 2003, 327). It was not until June 30, 1999, 11 years after the trial implementation of the "Organic Law of Villagers' Committees" and six months after the 1998 revised law was passed that the Yantian Management Area was finally converted to the Yantian Villagers' Committee. This means that the organizational structure of village self-governance evolved gradually and then developed more systematically after June 1999 (for more details see [chapter 8](#)).

Reforms introduced from the late seventies led to considerable restructuring of administrative arrangements in rural China. Most importantly, the adoption of the household responsibility system led to the management of many agricultural activities shifting back from the collective to individual households. During the Great Leap Forward, the commune was institutionalized as the highest level of economic and social organization in the countryside and as the lowest level of formal government. For most farmers, the production team was the most important entity as teams made the final decisions concerning both the production of goods and income distribution in line with the number of work points accumulated. The adoption of the household responsibility system pushed many key decisions down to the household. The old commune system lent itself to central planning, large-scale production, and unified distribution, and facilitated government policies to extract a surplus from the countryside for industrialization and urbanization. Initially introduction of the household responsibility system was not intended to entail any significant undermining of the collective; however, by 1980 it was clear that household

contracting was not only becoming widespread but also rendering the old collective structures obsolete. Consequently the 1982 State Constitution returned the political and administrative powers of the commune to the resurrected townships. In theory, the collective structures were to retain their economic functions but they soon became an economic shell as decollectivization proceeded apace. In 1983, the household responsibility system was officially endorsed and this was reconfirmed in 1984 when farming land contracts were extended to 15 years and measures were introduced to concentrate land in the hands of the most productive family households. Abandonment of the old collectives as the key economic unit in the countryside was complete. This transition has been well documented, but at the same time, another institutional innovation was taking place that initially received less attention: village self-governance. Pilot projects to promote “grassroots democracy” began in the early eighties and by the end of the decade had reached a high point.

The abandonment of the collective economic institutions and the focus on the individual household unraveled the “integrated economic and political administration” (*zhengshe heyi*) producing an administrative and political vacuum in the villages. Structures embodied in the “three-level system of management with the production team as the basic unit” (*sanji suoyou, duiwei jichu*) that had overseen decision making on village affairs collapsed or were rendered ineffective. Projects for irrigation, village security, and the protection of collectively owned forests, which were previously looked after by production brigades or production teams, were left unattended. Eventually, while the township took over the government functions of the commune, a new organization called the villagers’ committee was to take over those of the former brigade.

The administrative vacuum led farmers in some areas to take the initiative to organize themselves to discuss community development; this included experiments with various organizational forms and also with democratic elections. The first experiments, according to a number of scholars, began in February 1980 in Guozuo Village, a natural rather than an administrative village (Hezhai production brigade, Sancha Commune (now Pingnan Township), Yishan County in the Guangxi Zhuang Autonomous Region). Leaders of the six production teams under the Guozuo natural village set up the Guozuo villagers’ committee and called on each household to send one representative to attend a villagers’ meeting. They elected five representatives, who were appointed as head and deputy head and members according to the votes received (Xu Yong, 2000, quoting from Luo Pinghan,

2006, 24). In a discussion on July 14, 1980, drawing on traditional practices, they worked out “The Village Codes of Conduct” (*cungui minyue*), while the name “villagers’ committee” was decided based on the notion of the urban residents’ committee. By the end of the year, 12 villagers’ committees had been established across the Hezhai Production Brigade, basically one for each production team. The new committees helped restore social order and provided a framework for decision-making about how to manage public affairs. Theft and gambling were brought under control and they were able to protect the assets of the collectively managed forest (Luo Pinghan, 2006, 24, 25). The institutional innovation was soon replicated by many other villages and was eventually adopted nationwide.

The evolution of villagers’ self-governance developed through the efforts of both villagers at the grassroots and decision-makers at the central government levels. In the new Constitution adopted on December 4, 1982, article 111 formally recognized the committees stating that “the neighborhood and villagers’ committees, established among urban and rural residents on the basis of their place of residence, are mass organizations of self-management at the grassroots level.” The article stated explicitly that the residents should elect the chair, vice-chair, and members. It also noted that the villagers’ committee should set up committees for dispute settlement, public security, public health, and public welfare within their jurisdiction and mediate civil disputes, help maintaining public order and relay the views of residents and demands to the people’s government (<http://wenku.baidu.com/view/3ba2ab4ac850ad02de804106.html>).

Shortly thereafter in 1984, the Ministry of Civil Affairs began work on the “Organic Law of Villagers’ Committees (Draft)” to provide guidance to such committees nationwide. The draft law drew inspiration not only from the experiments in the villages but also from the system that had been implemented in Taiwan in the fifties and even more importantly the CCPs own experiences during the thirties and forties with village elections in the Jin-Cha-Ji Revolutionary Base Area (Saich 1996, 975, 1017–38). It is important to note that Peng Zhen, who had championed the Jin-Cha-Ji experiments, was head of the National People’s Congress in the eighties and was the main driving force behind ensuring that the new regulations were adopted. Naturally, the specific environment of the eighties was different but the logic was the same for the establishment of villagers’ committees. It was necessary to rebuild state power in many villages after the introduction of the household responsibility system. The draft law was deeply contested, and

it took four years before it was passed. It went through nearly 30 rounds of amendments by the Ministry of Civil Affairs and 3 rounds by the Standing Committee of the National People's Congress. The “Regulations” were renamed as the “Draft Organic Law of the People's Republic of China of Villagers' Committees (Trial)” and was adopted on November 24, 1987. It came into effect on June 1, 1988. The passing of the “Draft Organic Law” led to nationwide pilots of village self-governance; the earliest and most prominent of which was launched in Laixi City, Shandong Province. Later, the central government requested that pilot programs be established in every township across all provinces. Following analysis and reflection on these experiments, the fifth meeting of the Standing Committee of the Ninth National People's Congress adopted a resolution on November 4, 1998 that the term “draft” be eliminated and then the “Organic Law of the People's Republic of China of Villagers' Committees” (“Organic Law”) was adopted. Significant amendments were adopted in 2010 (see [chapter 8](#) for more details).

The “Organic Law” laid out the framework for organization in Yantian village after it was established as an administrative village in 1999.¹³ As an administrative village, Yantian organizes village elections every three years and the elected villagers' committee together with the general party branch form the major decision-making entities. The latter is seen as the decision-making organ and the former as the implementing agency. Any village with over three party members is required to form a party branch with the secretary and deputy secretary either “elected” by all party members in the village and then appointed by the higher-level party organ or appointed directly by the higher-level agency. Yantian has adopted the former strategy and, given the number of party members, has five subbranches under the general party branch. As is the trend in most villages, the head of the two committees had originally been the same, although this changed after the villagers committee's election of 2005 (see [chapter 8](#)).

The third agency that forms an important part of the power structure in Yantian is the village shareholding economic cooperative. The development of this cooperative has shifted much of the economic decision making away from the villagers' committee to the shareholding cooperative membership congress and the board of trustees and board of supervisors that it elects. The shareholding cooperative decides on the disbursement of the year-end profits and the village budgets and investments. The creation of this organization keeps the village assets in the hands of the registered inhabitants. Needless to say, the vast majority of the village population, that is, the migrants,

are not involved in any of these bodies. One group that is heavily involved is the Deng lineage. Over 60 percent of the official residents belong to the Deng family—the dominant group in the village—among whose number were many of the enterprise heads and the village party secretary.

YANTIAN IN CONTEXT: NEW COLLECTIVES AND RURAL ECONOMIC GROWTH

Despite increased financial support from Beijing under the policies of General Secretary Hu Jintao and Premier Wen Jiabao, most problems still have to be solved *in situ* and thus local resources and their distribution determine the majority of people's lives. While most observers agree that the economic powers of the local state have been enhanced through control over local industry and extra budgetary funds, there has been considerable disagreement about the emerging relationship between the local state and society. In fact, the considerable empirical research to date questions the viability of one model to describe the nature of local government in China. China is a patchwork of different relationships, each of which is negotiated through a complex interaction between agencies of government at the same level, between those at different levels, and between the agencies of the local government and society. What explains the significant variation that we see on the ground? What explains the particular outcomes of development in Yantian and how does this compare with development in other rural areas? The precise outcome will be dependent on a location's historical legacy, resource endowment, leadership, and social structure.

The first key element is the comparative advantages or disadvantages that the locality possessed when new opportunities were presented at the start of the reform period. These historical legacies suggest that outcomes are “path dependent” on the economic structure and resources that existed on the eve of reform. Analysts have dwelt primarily on the economic relationship between the local state and the economy. The tendency for both Chinese and Western scholars has been to focus on the fusion of political and economic powers at the level of the local government. This has been accompanied in Western writing by an emphasis on property rights relationships.¹⁴ Three major factors are important in determining the nature of authority at the local level: the capacity of the local authority to generate revenue and how it is redistributed, the relationship with higher levels of government, especially the political contracting system, and the structure of the local society and the degree of community organization, its

homogeneity or heterogeneity. Many local officials may well be party members but they are also members of the local community. Formal institutions such as village elections and transparency may provide moderate accountability, but certainly in Yantian it is the informal institutions that provide the greatest set of controls on behavior (see Saich, 2002).

Jean Oi was the first researcher to outline how reforms provided incentives for the explosive economic growth that took off in the eighties and continued into the nineties in areas such as Southern Jiangsu (Sunan) and Shandong.¹⁵ She viewed local officials as rational actors who would respond to incentives and constraints. Two institutional changes in the early eighties significantly altered incentives. Decollectivization removed the access of townships and villages to the income from agricultural production while fiscal reforms tightened budget constraints. At the same time, local governments were given the rights to and the use of surplus revenues generated from local enterprises. This meant that for those leaders willing to take up the challenge there was a major opportunity to develop the rural industrial economy. In Oi's view "collectively-owned industrial enterprises served better both the political and economic interests of local cadres during the initial stages of reform" (Oi, 1999, 11). The legacy from the Maoist period of commune and brigade enterprises provided a base for local government investment in economic development: "local state corporatism" (Oi, 1999, 11–14). The proximity of these enterprises in Sunan to cities such as Shanghai and Wuxi meant that there was a ready market as they expanded by absorbing the surplus labor moving off the land as a result of decollectivization.¹⁶ Importantly, the dominant state-owned enterprises were not set up to provide the kind of goods and services that economic reforms demanded.

Thus the ability of local officials to profit from the opportunities was, to a large extent, "path dependent" on the prereform legacies. However, local leadership and social structures were also the determinants. These factors together account for the variation we see in local development and underlie the different outcomes that have been observed by researchers. Variations on corporatism have included analysis of the local government as "entrepreneurial" or "developmental."¹⁷

One can see the relevance of these influences in Yantian, but there are also very substantial differences with the village developing a new collective economy based on ties of solidarity that derived from the cohesion of the Deng Lineage. The village leadership enjoyed continuity pre- and postreform, and only three different Deng's have

served as party secretary from the fifties onwards and they invested heavily in infrastructure that facilitated foreign investment once it was politically acceptable. In Yantian, the economic take off did not come from officials setting up enterprises through use of funds that were owned by the village to be operated in a corporatist or clientalist fashion, although early on some investments were made that fitted better the corporatist model.¹⁸ These models, especially the clientalist model, while entailing reciprocal obligations and exchange are essentially vertical in nature with asymmetric obligations (on this see Putnam, 1994, 174–75). This kind of relationship would not provide the reinforcement of social norms that the lineage-based networks provided for the basic organizational form in Yantian.

The village did, however, set up a shareholding economic cooperative to manage the money that accrued to the village from factory rentals and management. The village leadership, dominated by the Deng lineage, made crucial decisions on reinvestment, welfare provision, and the division of profits among Yantian's registered families (see chapters 3 and 4). Members of the Deng family were heavily involved in enterprise management with profit maximization primarily for the benefit of their families and other formally registered inhabitants.

The huge transformation in Yantian came after 1979 once the decision was made to set up the Shenzhen SEZ.¹⁹ In the Maoist years, Yantian had been unable to exploit its comparative advantage of proximity to the Hong Kong capital and through this to global markets. The SEZ became a pilot for reform of the rest of the Chinese economy with new laws and regulations being experimented with before being assessed and implemented nationally. Yantian as a part of Dongguan lies to the north of the zone and benefitted from the more relaxed policies. The transformation of Yantian was integrally linked to the development of Hong Kong and was promoted by the positive experience of the Shenzhen SEZ that was adjacent and the subsequent decision to open the Inner PRD to foreign investment and export processing.

By the late seventies, manufacturing in Hong Kong was running into problems with labor costs rising and suitable land increasingly hard to come by at a decent price.²⁰ Just at this time the Beijing leadership was moving to allow Guangdong Province to exploit its comparative advantage. While Dongguan was not included in the Shenzhen SEZ, it did benefit from the encouragement to form an export processing zone within the Inner PRD. By January 1985, it was clear that the strategy had evolved to establish three large development

triangles along the coast based around the PRD, the Min River, and the Yangzi River. In February 1985, the cities and counties of the Inner PRD were officially grouped together as the PRD Economic Development Zone (Vogel, 1989, 161). Related to this, Dongguan became a city and an independent municipality in 1988. Officials in Southern Guangdong and those in Yantian did not need a second invitation to take advantage of the new situation to develop their local economies. Hong Kong's business investors were attracted by the availability of land and abundant labor even if it was not trained for modern manufacturing. Incentives were provided for foreign enterprises and joint ventures and initially were designed to absorb overseas Chinese investment. For Dongguan, potential investment was facilitated by the huge numbers of residents who had fled across the border. Local officials estimated that there were 600,000 residents in Hong Kong who either came from Dongguan or were descendents and 20 percent of the young had escaped to Hong Kong over the previous three decades (Vogel, 1989, 176). In the process, many Hong Kong millionaires were turned into Hong Kong billionaires.

Initially, the local Yantian leadership followed a strategy that resembled that of village-run enterprises but this would soon change. Yantian lacked the investment capital that the village and townships in Sunan or Shandong possessed. The first collective enterprise was a stone quarry that was developed with the money from a Deng family member in Hong Kong. Lacking their own substantial investment capital, village officials soon turned to family members based in the New Territories of Hong Kong for further investment to develop a different model based on manufacturing for the global market. The new village collective once constituted has remained supreme and, despite the presence of private enterprise in the form of foreign-invested enterprises, the village has controlled the appointment of enterprise managers and access to factories and materials. Yantian is significant because, despite this influence of the village collective, the economy is run privately.

In this respect, Yantian resembles another township and village not far from Hong Kong, which Chan and Unger have researched. Their study of Xiqiao Township shows how the criteria for success in private enterprise and public office are beginning to converge. The local township government did not need to levy any general taxes on village households even before the practice was banned and has been strongly in favor of local private business. As they conclude, this experience counters the general writing on local government in two significant ways (Unger and Chan, 1999, 73). First, local officials do

not necessarily give priority to publicly owned industry over the private sector and secondly they do not insist on relationships in which private enterprises are subordinate to and dependent on them. Their study together with Madsen of Chen Village shows how the development of manufacturing owed little to its own innovation, lacking manufacturing expertise and knowledge of the market (Chan, Madsen, and Unger, 2009, 315).

Our study of Yantian lends support to these arguments. Private business dominates and practice is guided by the market with no interference in production. In a more collectivist vein, however, the village government has reinvested substantial funds to develop welfare services and to build “social citizenship” among registered inhabitants (see [chapters 6 and 7](#)). In fact, the relationship between local officials and business is symbiotic. As with Xiqiao Township, the village leadership does not prioritize local government owned business, nor is it necessary to prioritize because as a collective they benefit from the business and decide on the distribution of revenues. Besides, there is a group of village enterprises in development and it will be interesting to see how the priorities of this sector are set by the village leadership and how they may respond should the priorities conflict with those of the foreign-invested, private sector.

Already by 1992, the village had taken back all the land that had been redistributed to the individual households under the household responsibility system and by the mid-nineties virtually none of the inhabitants were engaged in agricultural production. It holds true across China that those villages that have grown wealthy have done so by developing nonagricultural employment, invariably organized in some form of collective or corporatist structure. The registered villagers have developed their wealth through income derived from renting land to investors to run their manufacturing plants and the dividends paid out through the new collective. Subsequently, the collective has revived attention for its own enterprises.

In fact, in 1981, the village had established ten enterprises of its own but quickly shifted away from serving local markets to encouraging the development of processing industries dedicated to the promotion of export-led growth. The first foreign-invested enterprise was actually founded by chance rather than by design. A Hong Kong entrepreneur visiting a former People’s Liberation Army colleague decided to set up a wool mill making use of the village hall. The former village party secretary, Deng Jiuquan, was sent to be the plant manager. Further investment by Deng family members in Hong Kong followed swiftly (see [chapter 3](#)). In addition to paying the relevant government

taxes, the foreign companies pay rent for land and factory buildings as well as fees to the Yantian Village collective for the services that they provide (see [chapter 4](#)).²¹ By 1998, the number of foreign enterprises peaked at 430 but has declined progressively to 180 in 2011. With the number of outside investors dropping, the village collective decided to breathe life into its own enterprise development. The Enterprise Development Company had actually been set up in 1989 and it became active in real estate and also as an active and passive investor in the stock market. The village also encouraged investment from domestic enterprises to offset the decline in foreign enterprises.

The two sets of revenue are brought together under the village collective that is managed by the shareholding economic cooperative. This organization manages the financial affairs of the village and pays out a dividend to all village members at the end of the year. On November 6, 2003 this process was formalized when regulations were adopted that outlined how distribution should be made between the government, the collective, and individuals. The village collective made a net profit of 130.5 million yuan in 2008 that could be redistributed among the members of the collective. The three committees (village party branch, villagers' committee, and the shareholding economic cooperative) following a discussion with the shareholders' representatives decided that 53 percent of the net profits (69.17 million yuan) would be held for the public reserve fund and welfare. This left 61.43 million yuan as the dividend for collective and individual shares. The regulations stipulate that the collective share should account for 38 percent of the remaining profits, in this case 23.31 million yuan. The collective share was used for important construction projects and public goods' provision and services that were important for the development of the village community. Through these funds, the village has been able to provide high levels of medical and education services for the registered inhabitants (see [chapters 6 and 7](#)). This left 38.03 million yuan to be shared by 761 shareholder families, comprising 2,988 individuals. Therefore, each individual shareholder was to receive 12,727 yuan, an average of roughly 50,000 yuan for each household.

This model has emerged as a distinct form of development particularly in Southern Guangdong where lineage ties are strong. Chan, Madsen, and Unger (2009, 341–42) notice the same phenomenon in Chen village with the creation of the Village Shareholding Company Inc. (*cun gufen youxian gongsi*). In 2003, when drafting the new charter of the village shareholding cooperative, the Yantian leadership decided to fix the number of shareholders and give permanent ownership of

individual shares to each of the villagers. This regularized the process of dealing with reallocation of shares along with demographic changes within the village. No new shares were to be issued but they would be transferable to other family members on death, thus effectively privatizing them. In September 2007, Guangdong Province institutionalized this arrangement through the trial “Charter for Rural Joint Shareholding Economic Cooperatives and Shareholding Economic Cooperatives” (*Guangdong sheng nongcun gufen hezuo jingji lianheshe he gufen hezuo jingjishe shifan zhangcheng* [*shixing*]). This structure is important given possible future changes in rural governance and attempts to incorporate migrants into economic, social, and political structures in the actual places where they live and work rather than where they are born. The economic structure of the shareholding cooperative ensures that the wealth generated by the village remains in the hands of the formally registered villagers, especially the Deng lineage. It will not be shared with outsiders.

Following the work of Robert Putnam (1994) on norms of reciprocity and civic engagement in Italy, there has been a revival of interest in social capital and how social structures are important in determining outcomes at the local level. This is especially true at the village level in China. While the collective structures in Yantian may be new and a product of the opportunities afforded by reforms, they rest on a social structure that long predates communist rule, the lineage. As Hillman (2005, 30) has perceptively pointed out, in the eighties and nineties as farmers began to reorganize and promote their interests, unable to form official organizations such as farmers’ associations, they mobilized around informal social networks such as clans and lineages. This is certainly the case in Yantian where informal institutions provide the backbone to the formal ruling village institutions.

The dominance of the Deng lineage has been the crucial factor determining outcomes in Yantian. One could spill a lot of ink on whether the Dengs in Yantian qualify as a lineage but they have certainly used the family name to control power within the village and to connect with Deng family members in Hong Kong and beyond. James Watson defines a lineage as a “*corporate group* which celebrates *ritual unity* and is based on *demonstrated descent* from a common ancestor” (1982, 594). Certainly, they can be viewed as a “dominant lineage” in Rubie Watson’s definition (1982, 69) having made dependents out of their neighbors and controlling the market centers. The structure also parallels Duara’s definition of an “ascriptive village association” that includes everyone who could be defined as a village member.²²

As we have noted, the members of the Deng family derive benefits from the shareholding cooperative that jointly holds their assets. Admittedly, officially registered members bearing other surnames in the village also partake of the benefits, but undoubtedly the Dengs dominate the process. In addition to the party secretary always being drawn from the Deng lineage, in 2003, for example, for 24 major enterprises for which data were available, 17 plant managers carried the Deng family name. In February 2009, of the 65 key leaders of the village, 43 were members of the Deng family (66.2%) (Deng, ed., 2003). The Deng family dominated the party branch, the villagers' committee, and the shareholding economic cooperative. In 2011, six of the seven members of the party branch, four of the five members of the villagers' committee, and six of the seven members of the shareholding economic cooperative came from the Deng family.

The Deng lineage also traces a common ancestor and their role is inseparable from the history of Yantian village.²³ While the village traces its roots back to the Yuan Dynasty (1279–1368), it was in 1413, during the Ming Dynasty, that Deng Zhentian, the ancestor of the Deng family, moved in from what is now Xialang village in Qishi Township, Dongguan City. It was during the Qing Dynasty that Yantian witnessed the largest inflow of population. Members of the Deng lineage are spread across all nine natural villages, whereas the other major families are located in just one natural village, for example, the Li family in Buxin, the Chens in Changbiao, and the Zengs in Shuibei.

Since arriving in the village, it is clear that the Deng lineage, through its growing size and clan influence, has played the decisive role in Yantian's development. It is by far the most influential family no matter whether it is in terms of family size (61% of Yantian's current population), its political power (the Deng family has led village politics since ancient times), or historic contribution. Without studying and analyzing the Deng family it is impossible to understand fully Yantian's past and present.

As with Deng families in other localities, the Yantian Deng family originates from Dengzhou City, Henan Province (Xi, 2008).²⁴ In the Xia, Shang, and Zhou Dynasties (from the twenty-first century until 221 BC), Dengzhou City (renamed Deng Xian in 1913 and Dengzhou again in 1988) was considered a state—the “Deng State.”²⁵ According to the Deng Family Book, Wuding, the king of the Shang Dynasty, named many lords among whom was his uncle, Mangong, also known as Deyang, who was assigned to Dengzhou, where he established the Deng State. Down to the present, all families

in the Deng State adopted the name Deng. The Deng family has a history of over 3,200 years from the day Mangong was awarded the family name (Deng, ed., 2003, 3). In the Northern Song Dynasty (960–1127 AD), five Deng brothers who had settled in Jintian, Hong Kong, made an arrangement to leave one brother behind to take care of family business, while the other four moved to Guangdong to establish new businesses. It was not until 1413 that Deng Zhentian settled in Yantian, having moved from Yuetang Village, Hengli Township, Dongguan. He pushed the family fortunes forward by engaging in three sets of activities. First, they began a vigorous program to reclaim land so as to be able to pursue farming; second they established private schools to provide the necessary skilled labor; and third they developed good relations with other families. Over the next 23 generations, these three elements enabled Yantian to develop successfully. In terms of human resource development, Yantian villagers performed exceptionally well both in the imperial examination system and in the current college entrance examination system. According to incomplete statistics, Yantian delivered 48 *Jiansheng*, 7 *Gongsheng*, 1 *Juren*, and 1 *Jinshi*, all from the Deng family.²⁶ After 1949, roughly 200 students from Yantian have enrolled in colleges or universities. Of the 117 students enrolled in colleges and universities during the years 1949 to 2002, 100 were from the Deng family (85.5% of the total, Deng, ed., 2003, 301–06).

Ritual plays an important role in building unity and the Deng leaders have clearly used ritual to promote investment within the village. Relying on kinship ties, in 1986, Party Secretary Deng Yaohui led a group of village leaders to Hong Kong to visit those with close connections to Yantian. It is calculated that there were almost 3,000 people in Hong Kong with close family or neighborhood ties with Yantian. As early as the *Qingming* Festival in 1979,²⁷ Yantian leaders attempted to use lineage connections to promote investment in the village. As Deng family members living in Hong Kong returned to pay their respects to their ancestors, village leaders convened a workshop to cement bonds by recalling a common ancestry and history while discussing the development opportunities that the new policies could offer. They also visited 95 percent of all potential entrepreneurs who belonged to the Deng lineage or who had migrated to Hong Kong from Yantian. To consolidate the connections, the village invested time and money establishing a revived Deng community. For example, between spring 1998 and December 2003, they developed the *Chronicle of the Deng Family* to cement a common history, invested heavily in the *Deng Memorial* in Yantian, and

sponsored various meetings such as a representative meeting of the five major Deng family groups. The Deng Memorial, the ancestral shrine, is lavish, overlooks the village, and contains a modern twist to give even greater legitimacy to the lineage. One part is dedicated to Deng Xiaoping who the villagers claim is related through the merger of another branch several hundred years ago.

Although the Deng family claims to live in harmony with the other families, undoubtedly, it is the most influential family in Yantian. It is clear that the Dengs enjoy an absolute advantage in numbers, economics, political, and social affairs, and exercises indisputable control and influence over Yantian's overall development.

Recent research has shown just how important these traditional associations such as temples or social networks, including lineages and clans have become, especially with respect to welfare provision (see Saich, 2008, 199–203). The role of informal institutions in contemporary China has been explored by Hu (2007) and Tsai (2001, 2002, 2007, and 2011) who show how membership of social networks becomes important given the low investment in village public goods by most local governments.²⁸ Tsai (2007, 4) notes that if social boundaries overlap with administrative or political ones, the social norms that are generated can "reinforce or even substitute for the *public* obligations and responsibilities of officials and citizens that the state is supposed to establish and enforce." These norms generated by the informal institution of the Deng lineage are especially important as it was only formally designated as an administrative village in 1999.

These "solidary groups," as Tsai (2007, 13–14) terms them, have two key structural characteristics: encompassing, meaning that all in the jurisdiction can participate, and embedding, meaning that local officials are members of the group. Certainly, the Deng family and its manipulation of the ancestral temple has provided a key role in embedding village officials within the local community. The Deng lineage while providing benefits for its members also reinforces state authority and legitimacy. The fact that the lineage and its ancestral hall only serves the village community and those with family ties means that it is not seen as a threat to the power of the higher level authorities or the communist party. The Deng family members seem to move easily between their role running the village business, the affairs of the lineage, and fulfilling their obligations as the local embodiment of the Chinese Communist Party.

The last of these roles raises interesting questions about the nature of the communist party at the local level. Are the party members

from the Deng lineage importing the policies and values of the party into traditional village associations? Or are traditional networks of lineage association being imported into the party? There is evidence of both. For example, the party branch has been able to ensure compliance with key central policies such as family planning. Besides, it implemented the policy of returning farming to the households at the start of the reforms and it had followed the twists and turns of agricultural policy through the fifties to the seventies. Yet, once the village decided that household farming was not in its economic interests, land was recollectivized contrary to national policy. In addition, it is clear that the party branch dominated by the Dengs has proved to be an important vehicle in the reform period to protect village and lineage interests. While the shareholding cooperative is new, its inclusive nature reflects the role of the production brigade during the “old” collective period. All registered villagers benefit from the cooperative and distribution is on an egalitarian basis. As Oi (1999, 79) notes, in highly industrialized villages, the reforms have “led not to the end of redistributive socialism but to a new form of redistributive corporatism.” In Yantian this is strongly based on lineage. The migrants have, of course, been excluded. The structures have also facilitated the relatively high level of investment of village profits in village infrastructure.

The model of economic organization and state–society relations in Yantian appears to be common across the PRD and has certain distinctive features. While it is the case that many of the successful village economies are based on some form of collective economic organization, the precise structures vary. Oi’s “local state corporatism” was based on enterprises established and run by the local government.²⁹ Although most of the enterprises have been privatized during the nineties, local government has continued to play a major corporate role.

For those villages where local government did not have the prior enterprise base or the necessary capital for investment they either become predatory on their own villagers or have had to accommodate private enterprise. The best-known model of villages developing private enterprise is from Zhejiang and Wenzhou in particular. Here capital was raised either within the local community or through links with Taiwan to fund the small-scale private enterprise. These enterprises then developed nationwide markets for their goods and, in some cases, global markets.³⁰

Yantian, as with a number of other villages in South China and along the coast, has profited from foreign investment, supplemented

by a number of enterprises set up by the village collective. Lacking its own capital once opportunities were presented by the reforms, the Deng family turned to its members in Hong Kong to invest back in the “ancestral village.” While the village collective controlled the revenues and oversaw the businesses on behalf of the registered inhabitants, the economy was essentially private. This was a new form of collective that was based on both the evolution of policy under communist party rule and the traditional association through the lineage. The former means that all registered inhabitants of the village could share the benefits, in terms of both financial and welfare provision, while the latter means that political power and decision-making is controlled by the dominant Deng lineage. The following chapters outline how this economic transformation took place and examine its distributional consequences.

I

ECONOMIC MANAGEMENT AND ECONOMIC ORGANIZATION

The chapters that form Part I tell the story of the end of centuries of agricultural dominance within the village and the rise of a global manufacturing base. They highlight the important role of the “new collectives” and especially the Deng family in shaping events. The initial experiments resembled other areas such as those described by Jean Oi in Shandong and Southern Jiangsu that set up village-run enterprises to take advantage of the new reform policies. By 1981, ten such enterprises had been set up. However, relatively quickly the village strategy shifted away from village enterprises serving local markets to development of processing industries designed to promote export-oriented growth. This followed the decisions of the Central government to give Guangdong Province greater flexibility to attract foreign investment. However, initially these firms were also classified as collective enterprises as the legal representative was chosen from among the villagers. Interestingly, despite the dominance of the Deng family, the first manager of a foreign-invested enterprise in Yantian was not a Deng. As the first enterprises were set up, the village sent a management team of four to oversee the business but as the numbers increased, the demand on the local labor force became too great and the village reduced the number. The various fees received by the village collective from these enterprises provided the increased wealth for the villagers. In 2008, the cumulative fees amounted to 97.24 million *yuan*. Also, the demand for land to build the factories and accommodate the large numbers of workers who came to Yantian meant that land was taken back from the individual households and placed under the collective. Eventually, the village collective saw the possibility of making the investment itself work better and not just rely on fees from other investors. The results were mixed and most of the income came from real estate development and construction

of spas and resorts. The collective in Yantian operated at two levels: at the administrative village and also with villagers' groups in each of the nine natural villages that operate under the administrative village (see [chapter 1](#)). The administrative village collective paid out a dividend to all villagers at year-end and most of the villagers' groups contributed to welfare payments. The development of these two collective entities not only increased the wealth available but also led to a smoothing of the income differentials within Yantian.

“CLEANING THEIR FEET”:
THE DECLINE OF
AN AGRICULTURAL VILLAGE

U ntil the mid-eighties, as elsewhere in rural China, agriculture played the dominant role in Yantian's economy. When the People's Republic of China was established in 1949, the gross output value of industry was only 10 percent of the national total, with the traditional handicraft sector dominant and industrial development in the rural areas extremely limited. In Yantian, favorable natural resources and weather were beneficial for agricultural production, especially rice, sugarcane, peanuts, lychee, and longan. However, low-grade technology, weak scientific research, and the flawed system of agricultural management meant that the potential for agricultural development was constrained both before and after 1949.

Following the Third Plenum of the Eleventh Central Committee (December 1978), agricultural reforms brought dramatic changes to the way of conducting business in Yantian. The plenum placed economic modernization at the heart of all party work, with ideology and class struggle, which had dominated the previous two decades, downplayed. While initial change was moderate in urban areas, it was rapid and dramatic in the rural sector. Policy making became more pragmatic and economic policy revolved around the promotion of market mechanisms to deal with the inefficiencies of allocation and distribution that were products of the central planning system. The plenum ratified a policy to encourage agricultural production by approving substantial increases in procurement prices and by modernizing agriculture through investments by the brigades and teams (Watson, 1984, 83–108). Besides, policy was relaxed to let different regions benefit from the “law of comparative advantage.” Rolling back the policies of the Cultural Revolution, farmers were allowed

to work on private plots and engage in sideline production. To allow farmers to sell their products, for example, their above-quota grain, private markets were again tolerated. However, policy kept the collective at the center of activity and initially there was nothing radically new. Policy was modeled on those adjustments that had been introduced to aid economic revival after the disasters of the Great Leap Forward (GLF; 1958–1960). However, the increased purchase prices and investments put a major strain on the government budget leading to more radical changes that placed key decision-making powers at the household level.

Other policy initiatives would have an even more radical impact on economic life in Yantian. In the early to mid-eighties, the establishment of the Shenzhen Special Economic Zone and the Inner Pearl River Delta (PRD) Economic Development Zone marked a concerted effort to encourage investment from Hong Kong and further afield providing a major boost to the PRD. The economic focus shifted dramatically from agriculture to processing and manufacturing. Even within the agricultural sector, production changed significantly with the limited remaining farm work contracted out to migrant workers.

INSTITUTIONAL CHANGE AND REFORM OF THE AGRICULTURAL SYSTEM

Before 1949, agricultural work was in private hands with the household as the focus of production and operation. However, there was significant variation in the scale of operation between the households. The first three families to move to current Yantian were Luo, Zhu, and Li (in the early Yuan Dynasty) and, not surprisingly, they occupied all the best available flat land. Thus, when Deng Zhentian arrived in 1413, all that was available was a strip of low-lying barren land along the river that ran from the North to the West Gate. Deng and his four sons reclaimed the land to grow rice and also opened up another patch of dry land in the Phoenix Mountain to grow other cereals (Deng, ed., 2003, 28). Families that followed (Liang, Yang, Fang, Chen, Lu, He, and Zeng) were left with the option of opening up barren mountain land or buying or renting land from the earlier settlers. This established the uneven pattern of land holding in the village. In addition, some families reclaimed land in other regions or purchased land elsewhere. Thus, by the end of the nineteenth century, all the families based in Yantian owned over 10,000 *mu* of fertile land, much of which was not in Yantian,

but scattered across the neighboring areas of Pinghu, Egongling, Xixiang, Xintian, Longgang, and Buxinhu. The normal practice was for the Yantian villagers only to cultivate the land close to their own doorstep and to collect rent from the land further afield from nearby villagers (Deng, ed., 2003, 117).

Both double and triple cropping (two crops of rice and one crop of other cereals) was possible, but output was low with a rice yield per *mu* of over 100 kilograms in good years and around 100 kilograms normally. Despite the moderate rice output, the quality was very good. In local markets there was a common saying that “houses are best in He’ao,¹ while grains are best in Yantian.” For this reason, the local grain market flourished and expanded from a seasonal operation to a permanent all-year-round business. The rice production and associated trade brought initial prosperity to Yantian. The service sector was promoted and street markets took shape. In the early years of the Republic of China (1911–1949), Yantian had over 20 grocery stores, 10 casinos, 7 tobacco houses, 3 jewelry stores, 2 department stores, 2 restaurants, 2 hotels, and over 30 temporary booths and stands (Deng, ed., 2003, 118). It was a lively environment with many business people coming from Hong Kong. This changed after 1949 and fortunes fluctuated with a series of institutional changes.

Initial Post-1949 Reforms

On assuming power in 1949, the Chinese Communist Party (CCP) launched a series of policies not only to revive the war-torn economy and tame inflation but also to moderate the gross inequalities of the old system. For the rural sector the most important piece of legislation was the 1950 Land Law. While the countryside was dramatically transformed, a more radical socialization of agriculture was not implemented immediately, although this would also soon transform Yantian. Land reform was modeled on policies adopted in the revolutionary base areas that the communists controlled before 1949 and was seen as a crucial step to break up the traditional social order and power relationships in the countryside. Politically, land reform had the advantage of forcing an identity of interests between the peasantry and the CCP by redistributing land to the rural households. However, it is clear that in some areas the process of land reform ran out of control with many poor peasants seeking revenge on their former lords and masters. Some calculate that up to 800,000 landlords were killed across China in the land reforms campaigns (1950–1952) and many more were beaten and humiliated (Teiwes, 1993).

The Land Law was an attempt to regularize the process and to bring rural reform back under close party control and try to restrain the excesses that had occurred across the country. To help cadres unravel the complexities of rural land ownership patterns, a simple fivefold categorization based on property relations was drawn up. The law sought to ensure that land was redistributed to the farm laborers and the poor peasants while not alienating the group of middle and rich peasants. Land belonging to landlords was, except under special circumstances, to be confiscated or requisitioned for redistribution. The land of rich and middle peasants, including those designated as prosperous peasants, was to be protected.

In 1951 it was the People's Liberation Army (PLA), rather than the CCP, which implemented the first reforms in Yantian.² The PLA had moved south in advance of the party. Besides, rather than carrying out land reform, the PLA oversaw a campaign to reduce rent with a guaranteed return. This had been the policy in the pre-1949 base areas and was seen as an integral part of raising farmers' political consciousness (see Mao, [1943] 1965).³ Policy favored the poor by reducing the grain rent they paid to the landlords by 25 percent and any excessive interest on loans was ordered to be returned to the farmers, meaning that they did not have to repay loans. This political movement and revolution in previous political practices created a significant redistribution of wealth within Yantian.

It was not until the spring of 1952, later than in much of the country, that systematic land reform began under the leadership of army officers and the land reform work team. This work involved setting up farmers' associations, sorting out the class status of the households, confiscating the property of landlords, expropriating the surplus land of rich peasants, and redistributing the properties and arable land that had been confiscated to landless and land-poor farmers. Once this work was completed in late 1952 and through early 1953, officials from higher levels of government were dispatched to review the land reform to ensure that class status had been assessed correctly and the redistribution of arable land had been carried out properly.

The 1952 division of class status was as follows (Deng, ed., 2003, 166): among the 784 households (3,054 villagers in total), only 18 households (78 people) were classified as landlords and 16 households (76 people) as rich peasants. The two groups accounted for 4.3 percent of the total households and 5 percent of the total population. Yet, together they owned 6,870 *mu* of paddy, 96.4 percent of the total (7,130 *mu*). Consequently, the other categories, the middle and poor peasants, farm laborers, small land renters, small peddlers, the

self-employed, and migrants, who accounted for 95 percent of the total population, owned 3.6 percent of the total paddy fields. It is interesting to note that in contemporary Yantian, nearly 3.5 percent of the population (the registered villagers) control the village income. In terms of per capita land holdings, the average per household was 202 *mu*, with landlords and rich peasants holding 44.6 *mu* per person. The other classes and groups had a mere 0.35 *mu* per household and less than 0.1 *mu* (0.09 *mu*) per person. The prereform inequality of land holdings was clear for all to see.

The purpose of the land reform was to confiscate all land, housing, farm cattle, grains, and clothing of landlords, expropriate part of the lands of rich farmers and redistribute them to poor farmers who were landless or lacked land, food, or clothes. The land reform work team organized a mass rally, and to ensure obedience, two landlords (Deng Xufu and Deng Zhongyi) were executed on the spot, while another landlord (Deng Xiaochu) was criticized and denounced. This served as a warning to other members of the powerful Deng lineage. Such pressure ensured that land reform in Yantian was basically finished in September 1952. A review of implementation discovered that some middle peasants were wrongly classified as rich peasants but corrections were made immediately.

However, it was never a possibility that the CCP would tolerate a household-based farming system for long. As CCP leaders began to think about pushing ahead with socialism, a rural sector based on private farming and markets was anachronistic. CCP policy makers worried that small plots of land would make rational use impossible, the popularization of new farming techniques difficult, and large-scale capital construction projects problematic. In addition, with the first five-year plan being drafted, interest in the Soviet model of development was growing. The CCP planners took on the notion that bigger was better, that fast growth regardless of quality was paramount, and that to be modern was to be urban and industrialized.

This mentality led to the abandonment of gradualism and an agricultural system with the household at its core was abolished. The rural sector was reorganized into progressively larger collective units and the role of rural markets was curtailed. The Soviet-style emphasis on heavy industry in the new plan meant that little capital was available for investment in agriculture, yet more efficient agricultural production was necessary to feed the program of industrialization. The solution was to move forward with the cooperativization of agriculture. The process began slowly, but then gathered pace culminating in the crash program of communization in the late fifties.

Of course, national policy impacted on Yantian⁴ moving farming through three levels of cooperatives: mutual aid teams through lower stage agricultural producers' cooperatives to higher stage agricultural producers' cooperatives. Based on the village elders' information in February 1953, less than six months after the poor peasants had received their land, the CCP Central Committee issued the official document—the “Resolution on Mutual Aid and Cooperation in Agricultural Production (Draft).” This document had been distributed to party committees at all levels earlier for trial implementation, and this policy promoted the formation of mutual aid teams. Then in December 1953 the Central Committee “Decision on the Development of Producer Cooperatives” confirmed that the transformation of rural China would progress through the three stages. The “Resolution” and “Decision” surprised the villagers as they felt that even if individual household farming might have flaws, there had hardly been any time to expose them. In fact, most of the peasants were still elated that they had recently received land. It was explained to them that the “Resolution” had been issued out of concern about the gap between rich and poor and the polarization that existed because of the variation in labor between households. Nonetheless, Yantian began to implement the “Resolution” and, in the summer of 1953, organized mutual aid teams. The groups started as temporary but were soon made permanent. Initially, there were only two permanent groups (the Donggao mutual aid team in Dongfang led by Deng Zhian, and the Xifang mutual aid team led by Deng Chungui); both were small scale with only about 10 households participating. However, by the end of autumn of 1953, the number had expanded to 36 and by spring of 1954 the farmers had voluntarily set up an additional 102 teams. As a result, in less than one year, 556 households (74% of the total) had joined the mutual aid teams (Deng, ed., 2003, 170).

The promulgation of the “Decision” in December 1953 led Yantian to establish its first lower stage agricultural producers' cooperative. This was in October 1954 after the fall harvest. Members were drawn primarily from Nanfang and Xifang, with a few members from Shuibe and Buxin and this cooperative was called the Nanxi lower stage agricultural producers' cooperative. It had 168 households as members and was headed by Deng Lianhuan (Deng, 2003, 170). Mao Zedong's July 31, 1955 report “On the Question of Agricultural Cooperativization” [*guanyu nongye hezuohua wenti*] led to Yantian setting up another three such cooperatives. Mao's report called for the establishment to be voluntary but he outlined their necessity and

feasibility. The cooperatives were set up under the guidance of a work team sent by the higher levels of government. The three were: Beifang (incorporating 140 households, led by Deng Bingjia); Donggao in Dongfang (incorporating 172 households, led by Deng Zhu'an); and Changshi in Changbiao and Shijie (incorporating 68 households, led by Chen Xiulin). As a result, by the end of 1955, 548 households (71% of the total) in Yantian had joined the lower stage agricultural producers' cooperatives.

In 1956, political pressure from the CCP Central Committee increased to have all households in cooperatives, pushing the formation of higher stage agricultural producers' cooperatives to replace the lower stage ones. In Yantian, the Nanxi lower stage cooperative took the lead and absorbed a further 46 households to become the first higher stage cooperative. It included 214 households with Deng Lianhuan remaining as chairman of the cooperative. The three remaining lower stage cooperatives then also absorbed new households to upgrade themselves to higher stage cooperatives and kept the same leaders. It is clear that in Yantian, as elsewhere, the process had been top-down following documents and policies issued by the center and work teams sent by higher levels of government to oversee the process. While farmers had been more proactive with land reform, they had just responded to central directives during cooperativization. By the end of 1956, nationwide 96.3 percent of peasant households had joined the agricultural producers' cooperatives. As in urban China, private enterprise was being extinguished. Developments in Yantian paralleled that noted by Friedman, Pickowicz, and Selden (1991, 271) in their study of the North China plains that “extra-village relations once mediated by the market and by travel were attenuated by statist restrictions.” Similarly, the farmers in Yantian lost out to a party system that sought to penetrate society in order to attack tradition and break up social structures to exert greater control over clans and lineages. Having begun to lose the land they had gained under initial post-1949 reforms, worse was yet to come for Yantian's peasants.

The creation of mutual aid teams did not change land ownership. Animals, tools, and the redistributed land remained in private hands while labor was pooled with members helping with each other's farm work or engaging in labor exchange during the busy seasons. There was no joint compensation or redeployment of the means of production. This began to change as the mutual aid teams became permanent work groups. Work was now collective and farm machinery was shared but land and other important means of production remained

in private hands; however, this would be transformed with the formation of the cooperatives. Lower stage cooperatives were still, in theory, voluntary associations but now not only labor but also property, land, farm implements, and draught animals were pooled. Peasants could keep a small plot of land. The higher stage cooperatives were larger in scale and also entailed significant managerial changes, with remuneration decided on the basis of work-points earned. Peasants paid money for shares to become members and a cooperative committee was elected with a chairman, a vice-chairman, and three or four members to run it. Leadership was centralized with the chairman exerting overall responsibility and the vice-chairman in charge of agricultural production with the other members taking on specific tasks. Work was conducted according to a plan worked out by the cooperative and the production process was centralized with the leaders distributing work to the teams and team leaders deciding on the work plans for individuals. Similarly, income distribution was centralized with work-points accumulated for each day's work with any surplus distributed according to the number of points accumulated. Men earned ten points for each day of labor and women eight points. Individual farming had now been transformed into a socialist collective. However, the rural revolution did not stop there and policy radicalized even further.

The ground for further radicalization was laid with the decisions taken at the Third Plenum of the Eighth Central Committee (September–October 1957) that paved the way for the GLF. The cooperativization movement had already created a radical atmosphere at the center, but this socialization drive had begun to run against the material interests of both the workers and the peasants. Evidence suggests that peasant withdrawal from the cooperatives in the winter of 1956–1957 was extensive and the withdrawal was dubbed a “small typhoon” (Teiwes, 1987, 140). There were also problems with acceptance of a more radical policy in urban China. Research by Perry shows that the new working class did not universally approve of the socialization of industry (Perry, 1997). By early 1957, reforms had led to a decline in real income for workers and loss of input into decision making, leading to an increase in strike activity and other industrial actions. Those protesting, on the whole, were rejecting the process of socialization. The radical atmosphere was heightened further by Mao's reaction to the criticisms of Stalin in the Soviet Union and the fall out from the clamp down on China's intellectuals in the anti-rightist campaign. One result was the decision to press ahead quickly to complete the socialist transformation.

The GLF marked a complete break with the Soviet model of development and represented a return to the mobilization techniques for development used in the pre-1949 period in the revolutionary base areas. The GLF was based on the premise that the enthusiasm of the “masses” could be harnessed to promote economic growth and industrialization. More efficient agricultural production would increase the amount of capital that could be accumulated for investment. A CCP Central Committee work conference in Chengdu in March 1958 adopted “Opinions on Appropriately Merging Small Agricultural Cooperatives into Big Ones,” while Mao criticized those who had opposed moving ahead quickly. Mao proclaimed that a “rash advance” was not foolhardy but rather was “Marxist.” Most importantly, a politburo meeting held in the second half of August at the summer retreat of Beidaihe adopted the “Resolution on Setting Up People’s Communes in the Rural Areas.” The resolution referred to the communes as the “best organizational form for the construction of socialism and the gradual transition to communism.” Problematically, communism was not seen as existing in some distant future but was seen as achievable in a short period of time. This led to a nationwide movement to set up people’s communes, and a concurrent decision to double steel output to 10.7 million tons led to a frantic effort to produce local steel.

This shift in development strategy was quickly felt in Yantian. The program of communization was an integral part of the GLF and, in the latter half of 1958, in response to demands from the CCP Central Committee, Yantian began to set up people’s communes. The communes were large-scale entities and were run on almost military lines. Initially, Yantian formed the third brigade of the Tangxia People’s Commune, with Deng Chungui as its head. The most notable features of the people’s communes were their large scale and high degree of public ownership. In addition, they were expected to carry out not only agricultural work but also things such as industrial production, trade, education, military affairs, health, village administration, and social welfare. The commune owned land collectively as well as other means of agricultural production within its jurisdiction and thus they could be shared among the commune members free of charge. The communes were both a level of government as well as an economic entity and its multifunctional nature meant that it was a highly integrated organization with a diverse membership incorporating workers, military personnel, students, and businessmen alongside the farmers. Work was carried out collectively and work-points were allocated for each day’s labor. A ration system was introduced for grain

and other daily necessities. In some areas, collective living was also organized with some couples required to live separately with others of the same gender.

Nationally, 24,000 communes were formed from the 750,000 cooperatives. The unwieldy size and lack of enough skilled managerial personnel created problems and this led to a reduction in size. The Tangxia People's Commune was so large that it ran into problems coordinating producers and suppliers, and so in June 1961 it was dissolved and replaced by the Fenggang People's Commune and Yantian was transferred under its jurisdiction. A three-tier structure of organization was introduced with commune, brigade, and team. In general, the brigade was equivalent to the higher stage cooperative and the team to the lower stage cooperative. More authority was placed in the hands of the production team that became the basic accounting unit. The smaller scale of the production team allowed it to take on a larger role in decision making and peasants' properties were no longer registered to the larger entity and they were allowed to keep a small plot of private land (0.1 *mu* per member in Yantian). As a result, agricultural production began to take a turn for the better.

During the high tide of the commune period, Yantian also actively joined in the steelmaking campaign to enable China to exceed British production and catch up with that of the US. In the winter of 1958, Yantian villagers designed and built a blast furnace on a nearby mountain. The villagers were then encouraged to contribute their own old iron farm tools such as sickles, hoes, ploughs, and household pots and pans. Iron ore was also collected from the nearby mountains. To fuel the furnace, nearly 1,000 lychee and longan trees were cut down to produce the 30 tons of scrap steel that was eventually turned out (Deng, ed., 2003, 173). As elsewhere in China the campaign proved a diverting waste of energy and resources.

To release more labor for agricultural production, Yantian built ten public canteens to feed between 100 and 600 people; however, half a year after their establishment, food rationing had to be introduced because of insufficient food supply. The grain ration, mainly rice, was set at 0.1–0.15 kg per person per day. The resultant starvation combined with the heavy labor of the deep plough farming caused many to die of hunger or disease in 1960 (for good general accounts of the GLF see Becker, 1996 and Dikötter, 2010). The economic dislocation caused by GLF policies and the human suffering that resulted caused the Central Committee to moderate policy. By the end of 1960, commune members were allowed to operate a small plot of private land and to reclaim barren land or to engage in some family

sideline activities to ensure subsistence. Through March to May 1961, the “Regulations on the Work of Rural People’s Communes” were adopted and amended. They officially abolished the distribution system and the communal canteens and restored family-based life. By 1962, the rural organizational system settled down into a structure that persisted more or less until the early eighties. The number of communes was increased from 24,000 to 74,000, making them more manageable units, and the three-tier structure of commune, brigade, and team was reaffirmed, with the team functioning as the basic accounting unit. The size of the teams was decreased to comprise only 30 to 40 households. The team became the most important unit in the countryside as it could make the final decisions concerning both the production of goods and the distribution of income.

The struggle over the level of organizing production in the countryside continued, and it is clear that many families, when given the choice, preferred the household to be the focus of work. For example, in March 1961 the Anhui Provincial Party Committee tried the field management responsibility system, under which output quotas were fixed for each piece of land and responsibilities were contracted to individuals. By the fall, 85.4 percent of brigades and teams in the province had adopted the system and 20 percent nationwide. This was initially supported by Mao Zedong but by December 1961 he had changed his mind and rejected the practice claiming that rather than returning to individual farming the team should form the basic unit (*History of the Chinese Communist Party*, 1991). However, the practice continued, and as late as May 1962, 20 percent of all rural households adopted a household-based system of responsibility; by the summer this figure rose to 30 percent. This was unacceptable to Mao as it would have marked a step away from his view of the transition to socialism.

AGRICULTURAL ORGANIZATION UNDER REFORMS

The Third Plenum of the Eleventh Central Committee (December 18–22, 1978) ushered in a series of reforms that resulted in a dramatically different approach to economic development. As noted above, the Plenum placed economic modernization at the heart of all the party’s work and began the process of introducing market reforms to stimulate economic growth and production. Rural towns began to emerge as bustling centers of exchange. However, practice began to move ahead of policy as farmers tried to shake themselves free of the state control that ran through the collectives. By the end

of 1978, some rural areas in Anhui Province began to contract land to farmers to operate independently. In return, the farmers had better harvest and submitted more grain to the state and to the collectives, while they could retain more for their own use. Through 1979, more poor farmers began to abandon the collective and experiment with the family responsibility system with remuneration linked to output (household responsibility system), but this was contrary to official policy and thus kept secret. Gradually, however, the practice began to spread through other rural areas. The abandonment of the collective, while opposed by many local cadres, received tacit support from pro-reform cadres (Zhou, 1996; Zweig, 1997, 12–15 and [chapter 2](#)). Even Deng Xiaoping was unsure as late as 1981 whether the practice was good or bad (personal communication from Fred Teiwes).

Yet as practice at the grassroots radicalized, the center could do little but stand by and make policy recommendations to try to catch up with reality. Once more, the rural household was becoming the key economic unit for agricultural production, working on a clearly stipulated piece of land for a specific period of time. The land was still collectively owned but was allocated for use to each household. The method for distribution varied but the most common practice was to base the size of landholding on the number of family members. This enshrined the practice of separation of land ownership from its management and operations. The contracts that were set up included all raw materials, except land rights, of course, and access to irrigation facilities. The latter rights were made available by the collective. In addition, the households had to meet quotas for the state and ensure that there was sufficient funding for the collective. The remainder would be left to the household.

Yantian was not at the forefront of adopting the household responsibility system and only moved as it became increasingly politically acceptable. Thus, the process only began in the summer of 1979 with only one production team adopting the system (Dongda in Dongfang). The other 18 production teams adopted the system in 1980. Yantian adopted the easiest method of dividing up the land, basing the division on the numbers of household with the state monopoly and purchase quotas assigned equally across the households (Deng, ed., 2003, 174). On average, each family household received about 5 *mu* of land, generally an equal mix of paddy and dry field. As the new system was implemented, grain output and yield (only rice) showed satisfactory growth from 1979 to 1981.

However, from 1982 with increasing amounts of land appropriated for factories, more labor shifted out of agriculture, especially grain

production. While total production fluctuated, grain yields increased continuously. Thus, shortly after the introduction of the household responsibility system, the influx of foreign capital meant that Yantian farmers abandoned their fields. This shift was referred to locally as “cleaning the feet and getting out of the fields”; people were getting out of the rice paddies and putting on socks and shoes to engage in other business. The low level of mechanization and agricultural inputs and the underdeveloped social services and grain market meant that rice planting was drudgery with very low returns. What they did after “cleaning their feet” was linked directly to the change in the rural economic structure. Two favorable conditions in Yantian prompted the rapid economic restructuring. The end result was a great improvement in the quality of life for official villagers.

The first favorable condition was the abundant water resources and the mountains that allowed crop production and animal husbandry in addition to planting rice. Prior to the Third Plenum, Yantian farmers were shackled by party policies and institutional constraints that required a concentration on grain production. On January 2, 1983, the Central Committee of the CCP issued Document Number One that called for improvement with the responsibility system for agricultural production while developing further forestry, animal husbandry, sideline production, and fishery. As a result, Yantian extended the household responsibility system to forests, fruit trees, and fishponds. In 1986, the village collective called on the villagers to contract forest land with the result that not only were vast mountain forests contracted to villagers free of charge but also fruit tree seedlings were provided free to family households. Although no official contracts were signed, the actual tenure was 70 years, with ownership retained by the village collective. During the first 15 years of tenure, 40 percent of the proceedings from the forest and fruit trees went to the village collective, with the remainder retained by the households. From the sixteenth year, only 30 percent was turned over to the collective.

The impact on the families was dramatic. For example, Deng Songtian contracted nearly 100 *mu* of land in Shuangluokeng and planted lychee trees, becoming one of the specialized producers of fruit trees. Several dozen families followed suit, greatly boosting fruit production in Yantian. Deng Zuoxing contracted a dozen fishponds amounting to over 100 *mu* of surface water. He became a famous fish farmer and not only met the local demand but also enriched his family. Chen Quanmei built a pig farm in the mountains near Donger, with an annual total of 1,000 slaughtered pigs. She became one of the most famous specialists in pig production.

The second favorable condition was the strength of the Deng family throughout the region. The Deng family had moved from Henan via Jiangxi to settle initially in Jintian, Hong Kong. During the Northern Song Dynasty (960–1127 AD), the five Deng brothers decided to leave one brother (Deng Yuanliang) in Hong Kong to look after the established family business while the other four moved to Guangdong to open up new businesses. Over the next millennium, the family business expanded significantly in Hong Kong. In addition, during three different waves,⁵ many Yantian people fled to Hong Kong resulting in a large group with strong links to Yantian and centered on the Deng family. This meant that there were approximately 3,000 people in Hong Kong who have very close relations with Yantian now, which is roughly the same number as the inhabitants of Yantian itself. These people with close blood and geographical ties to Yantian were crucial to its development once the policies of reform and opening up were launched. They began to shift their investments from Hong Kong to Yantian. While the decisions were pragmatic business ones based on profit calculations, the decisions were shaped and guided by their familial roots, reciprocity, and kinship ties.

The influx of foreign-invested companies increased the demand for labor and the exit from the rice paddies snowballed as farmers saw the chance to make more money (see [chapter 3](#) for more details). With the liberalized government policy and the ever-expanding market, after quitting the paddies, some Yantian villagers started their own business. The long-standing trade relations with Hong Kong and the commercial traditions of Yantian when combined with the influx of foreign capital meant that the service sector began to develop: hotels, restaurants, shopping centers, entertainment, and transportation. Therefore, by 1984, when the output value of industry exceeded that of agriculture for the first time, the local agricultural laborers were almost fully absorbed into the nonagricultural sectors. This expansion of manufacturing required increasing amounts of land while the new factories required more labor than was available locally. With local labor having quit agriculture, the village collective took back land and subcontracted it to outside labor.

In 1986, Yantian set up an Agriculture Office to resolve the problems of industrial land use and the growing demand for food supply for the expanding population. With land equally distributed following the introduction of the household responsibility system and with the growing number of factories, land use became the most pressing issue. The village leaders were fully aware that the only solution was to take back some of the farmland from the individual family

households placing it under the village collective. They needed to report and get approval from the higher authorities to change land use from agricultural to construction. The village leaders thought they would need a strategy gradually to take back the land use rights from the households. To their surprise, not only did the villagers not object but they also actively supported the village to use all the lands collectively. The process went smoothly with no conflict between the villagers and the collective. Moreover, the villagers did not request any compensation. This is quite distinct from a number of other villages in China where land confiscation by higher level authorities for development combined with a lack of transparency has led to unrest. Following this process, the village collective turned over the taxes to the government on behalf of the villagers and grain taxes were replaced by cash transactions. With virtually no farmland remaining, villagers began to purchase their grain on the free market.

Three reasons explain why this process went so smoothly. First, as noted before, Yantian people were unwilling to return to the fields, and many believed that only by returning the land could they be rid of farming. Second, the years 1985 to 1988 were ones of rapid economic growth, especially in the industrial sector. By contrast, agriculture was not profitable given the low rates of return and the heavy taxes and fees. Third, with industry developing rapidly and proving profitable, almost all the Yantian villagers found better paying work outside of agriculture. As a result, Yantian villagers were quite happy to return the land to the collective.

In 1989, the village collective took back over 3,000 *mu* of land without compensation. The substantial part was subcontracted to outside laborers for vegetable production. Initially, the fee for one *mu* was under 1,000 yuan, but by 2010 it had risen to 2,000 yuan per *mu* of paddy field and 1,500 yuan per *mu* of dry land. It was in the summer of 1991 that the first outsiders began to contract farmland and grow vegetables (Deng, ed., 2003, 207). A migrant worker from Chaozhou, Guangdong Province found that vegetable prices at the local market were very high in Yantian because local production could not meet the demand, meaning that most vegetables sold at the market were brought from other places. Thus, not only were the prices high but also the vegetables were not fresh. As a result, he decided to grow vegetables instead of working in manufacturing and he discussed his idea with the local leaders. With the approval of the village leaders, he rented three *mu* and his success drew in others from outside, so that in less than a year there were over 100 specialized vegetable growers (households) from outside. The mid-nineties saw both a surge of

foreign investment in Yantian and a peak in the number of vegetable growers from outside. Some found that rice prices were attractive and thus shifted part of their rented land to rice production.

Statistics for January 1997 show (Deng, ed., 2003, 208) that there were already 346 specialized vegetable and rice producers and Yantian's village collective had leased 1,569 *mu* of land, an average of 4.5 *mu*, with a maximum of 8 *mu* and a minimum of 0.9 *mu*. Broadly speaking, 30 percent of the land was cultivated for rice production, with the remaining 70 percent dedicated to vegetable growing. The rent ranged from 900 to 1,200 yuan. Most of the people who were renting hailed from Guangdong and nearby Guangxi provinces, with a smaller number from Hunan.

In July 2008, when we looked at crop production on land rented by people from outside of the village, we discovered a number of changes. First, the number of outsiders had dropped to only 165 specialized vegetable growers. Second, there were no outsiders growing rice anymore; they only grew vegetables on both dry land and paddy field. Third, the amount of contracted area dropped to an average of 1.86 *mu* for each household, less than half of the average acreage in 1997. Of the 165 growers, the largest producer contracted only 3.5 *mu* with the smallest holding only 0.6 *mu*. The largest producer was Pan Ruichong, from the Chenghai District of Shantou City, Guangdong Province who grew cabbage and water spinach for both the local and the Hong Kong markets. Fourth, most of the vegetable growers mainly supplied the Hong Kong and Shenzhen markets, with only 57 growers (34.5%) supplying the local market. Fifth, only 49 of the growers who came to Yantian up to and including 1997 were still planting vegetables in the village in 2008. This comprised only 29.7 percent of the total renters, indicating the high mobility of the migrant population. According to the present study, the average net income for vegetable growers is quite low, that is, between 13,000 and 15,000 yuan per *mu*, which means an average income of 24,000 to 28,000 yuan per household per year (based on an average of 1.86 *mu* for each vegetable grower). Of course, there is a large variation between the different producers. In our discussion with several producers, we found that some earned less than 10,000 yuan per year and are living a very hard life.

Although the village collective took back all the farmland, the land intended for construction was strictly controlled by the state. This meant that with the exception of the land contracted to outsiders for vegetable production, much of the land was not used effectively. Counting the mountain land, over 4,000 *mu* were not used

effectively. Thus, in 1997, the Yantian village collective once again encouraged local villagers to contract land to grow fruit trees with the tenure remaining at 70 years. This time the appeal was more attractive, and in 1999 over 60 households signed contracts with the village collective for over 2,500 *mu* of forestland. The contracts ranged from 350 to just 2 *mu*, with just three Deng households accounting for 810 *mu*. The two main fruits were lychee and longan.

In addition, nearly 1,000 *mu* of land lay idle within Yantian, and the village collective wanted to find ways to use this land effectively. The government had issued a number of favorable policies such as providing direct subsidies to farmers on the basis of the extent of land that they had the use rights to, subsidies to help farmers purchase improved seeds, farm machinery, or other means of production. The problem for Yantian was that the villagers could not benefit from such schemes because the collective had taken back all the farmland. In addition, Yantian villagers no longer cared about such subsidies. In 2006, the use of these subsidies from government stopped entirely. In 2010, of the total 36,000 *mu* in Yantian, about 10,000 are forested, around 2,500 *mu* are contracted to local fruit tree growers, and around 450 *mu* are contracted to outside vegetable growers, and nearly 10,000 *mu* are used for construction purposes. The rest of the land lies idle. It is clear that some of the remaining land will be authorized for construction and some will be used for public recreational areas.

The end result of these tumultuous changes is that now agriculture contributes very little to the village income. The income from the agricultural sector now mainly consists of fees from subcontracting 360 *mu* of paddy and 70 *mu* of dry field. In fact, if all the inputs are included in the calculations, the agricultural sector as a whole in Yantian does not make a profit at all. For example, to help the outside vegetable growers to settle down, the village collective made a one-time investment of 1.5 million *yuan* to build 121 houses equipped with water and power, with each house covering 30 square meters. In return, each household paid a monthly rent of 200 *yuan*.

“BUILDING NESTS TO ATTRACT
PHOENIXES”: LINEAGE, MARKET,
AND THE RISE OF A GLOBAL
MANUFACTURING BASE

Industrial output value exceeded that of agriculture for the first time in 1984, heralding a major change of Yantian’s economic structure. Since this time, industry, manufacturing, and especially the processing industry developed rapidly. By 1993, Yantian was acknowledged by the National Bureau of Statistics as one of the “Townships with 100 Million Yuan Output.” More correctly, Yantian is a village with an output of 100 million yuan! In a historic change, the village has become a base for export-oriented manufacturing and processing that is home to international investment that sells its products on the global market. A number of factors have wrought this historic change and both formal and informal institutions have played an important role.

According to Douglass North, institutions are the “rules of the game of a society,” which are composed of formal rules, informal constraints (rules), and the characteristics that enforce both. Formal institutions include constitutions, legal statutes, common law, property rights, contracts, and regulations; conventions, norms of behavior, and self-imposed codes of conduct are informal constraints or rules (North, 1990, 36; and Hu, 2007, 11, 12). In the context of Yantian Village, the formal institutions that drove the rapid growth of manufacturing and processing were market forces, among which the constant influx of foreign capital (international capital flows and the capital market) and the in-migration of abundant labor (labor mobility and the labor market) provided critical factor inputs. The foreign capital and migrant labor, coordinated by the Yantian village

collective, led to the evolution of a fairly competitive industry. The contribution of informal institutions was also pivotal in the critical early stage of manufacturing and processing development. Informal institutions here refer mainly to the lineage system and family businesses, people's relationships such as bloodline, spatial relationships, local place association, and their common beliefs, faith and values based on these particular relationships. These factors impacted on investment opportunities and economic development. For example, worship of a common family ancestor and a strong affinity with a local place (such as the village) or a shared memory of folk culture and tradition may cause people to develop an appreciation of their ancestors. These special affinities and moral sentiments may translate into concrete actions, such as investing in one's hometown or providing financial support to people of the same lineage. For the purposes of this study, this is the essence of informal institutions. This chapter analyzes the impact and significance of formal and informal institutions on the development of the manufacturing and processing industries in Yantian. First and foremost these industries benefited from informal institutions. The lineage or family system was a precursor and necessary foundation for the impact of the capital and labor markets and the later engagement of the state-owned economy. Before discussing these informal and formal institutions, the origins and history of industrial development in Yantian need reviewing.

INDUSTRIAL DEVELOPMENT IN YANTIAN

Yantian always had a tradition of handicrafts, yet development proceeded in stages. Before the twentieth century, Yantian resembled other rural localities with the handicraft industry mainly serving local needs. Businesses included tailors, carpentry (tables, chairs, stools, doors, beds), construction (house building), hardware (kettles, barrels), and bamboo work to name just a few. In the early years, such handicraft businesses did not have simple workshops but rather most services were delivered to the door of individual households. Later, some businesses began to develop more permanent structures such as brick kilns, lime production, sugar mills, or oil refineries.

Yantian had already become famous in the early twentieth century for its lime production, when in the twenties the Yantian Industrial Company was set up. A contract operation model was introduced with the highest priced bid gaining the right to run the business. In 1943, Deng Zhenfu set up the Huayi Kiln Factory with a branch factory in Heao close to Yantian. Importantly, these two enterprises also

served Shenzhen and Hong Kong and proved to be very profitable (Deng, ed., 2003, 125). Sugar and oil refining were also important, as, historically, all households in Yantian planted sugarcane and peanuts. By the early nineteenth century, Yantian already had a dozen sugar and oil mills, but because of outdated technology and equipment, the supply was only enough for local consumption.

After the establishment of the People's Republic of China, Yantian resembled most areas in China with handicrafts as the main pillar for industry. People were still engaged in conventional businesses such as lime production, sugar refining, wood and bamboo processing, iron products, and construction. For example, there were six private sugar mills employing 200 workers, a Deng-run lime factory with 30 employees, and a village collective-run timber processing group with 10 workers. Except for sugar and lime where markets expanded beyond Yantian, most businesses consumed local raw materials, used local labor, and produced for the local inhabitants.

After initially tolerating private enterprise, as the more radical atmosphere pervading the rural sector spread, CCP policy shifted to take over individual handicrafts enterprises. This began in earnest in Yantian in 1956. First, individual handicraft enterprises were transformed into cooperatives, operated, and managed by full-time staff assigned by the village collective. Second, workshops that were engaged in producing similar products were consolidated into more formal processing factories. Thus, among others, the Yantian sugar mill was set up in Daditang with Chen Xiulin as factory director employing 15 workers; the Yantian Brick Factory headed by Deng Qingyan employed 30 workers and operated across various natural villages. Showing the importance of agriculture, the Yantian Grain and Feed Processing Plant (Deng Runzhu as director with 18 employees) and the Yantian Farm and Machinery Workshop and the Edible Oil Factory (headed by Deng Zhixiang) making peanut oil were established. Production mainly served the needs of the local villagers, with few products sold elsewhere.

As agricultural collectivization moved apace, industry was marginalized and development slowed down. With the exception of the zealous steel-making campaign in 1958, there were no businesses run by the various production teams, although the Yantian collective was engaged in a number of businesses such as the brick and tile factory, the food processing plant, the farm machinery repair workshop, the fish hatcheries, the construction team, and forestry teams. The food processing plant and the fish hatcheries did turn a profit each year, approximately 40,000 yuan but other businesses were largely in deficit.

LINEAGE AND THE INFLOW OF FOREIGN CAPITAL

As outlined in [chapter 2](#), the Third Plenum of the Eleventh Central Committee (December 1978) set in motion reforms that triggered rapid development of the agricultural system with the whole village shifting to the household responsibility system within two years. Yantian leaders also began thinking about village collective industry. Following discussion and debate they came to the unanimous view that one feasible way to expedite village collective industry was to borrow from those who had left Yantian for Hong Kong, especially the affluent members of the Deng family. They could run the businesses and be repaid once they began to be profitable.

Once agreement was reached, village leaders began to move swiftly. The Qingming Festival of 1979 provided an excellent opportunity. This was a time when members of the Deng family living in Hong Kong would return to Yantian to pay respects to their ancestors. Village leaders convened a workshop to recall the history of the Deng family in Yantian while also discussing a detailed plan for development of village collective industry under the new policy environment. Surprisingly, Hong Kong members of the Deng family, such as Deng Chengfa and Deng Jing, rejected the idea of lending money to Yantian, and instead, they offered to donate 400,000 Hong Kong dollars to Yantian as a seed fund for developing the village collective industry. They also worked with leaders in Yantian to use the money to procure rock breakers and set up two mechanized stone quarries in Shilongkeng and Shuangluokeng. Several factors meant that it made sense to start collective industry with stone quarries. Yantian was surrounded by numerous mountains and, importantly, quarrying did not require a complex technology and the necessary equipment was not especially expensive. Most importantly, there was a large market for stone, not just from the local market but also from other areas. The stone quarries made a net profit of over 100,000 yuan by the end of their first year of operation.

While developing the stone quarries, village leaders also set about upgrading some of the old village collective enterprises and establishing some new ones. They wanted to seize on the new policy opportunities to increase village wealth through the development of dynamic village collective enterprises. By 1981, just two years after the Third Plenum, they had set up ten such enterprises either through the consolidation of existing businesses or through the establishment of new ones. All the new enterprises were headed by Deng family members.

The largest employer (120) was the Huanan Clothing Factory headed by Deng Zhihua; and the two stone quarries employing 60 people were headed by Deng Wande. The fertilizer plant (headed by Deng Jianhua) added to the service provision for agriculture and five cassava powder plants were set up in the different production teams. In addition, there was the Hengfang Glass Factory, the Changfa Paper Plant, the Wastewater Treatment Plant, and the Guoji Plastic Molding Machine Manufacturing Plant (Deng, ed., 2003, 216).

While this vigorous expansion of village collective industry was being promoted, a new opportunity arose that would open up a different pathway to development. This heralded a shift from a model that relied on the development of village collective industry based on local resources and serving a local market to one that was based on export-oriented growth underpinned by the processing industries. This was referred to as the “Three Supplies for Processing and One Compensation” companies (processing of supplied raw materials, processing according to supplied samples, and assembling of supplied parts, and compensation trade, *sanlai yibu*, “Three Supplies”)¹ and “Three Types of Foreign Invested Enterprises” (wholly foreign-funded companies, equity joint ventures, and contractual joint ventures). These were supported by foreign capital and served overseas markets.

In 1980, an entrepreneur (born in Huiyang, Guangdong but having migrated to Hong Kong) planned to start up a business in his hometown. To his disappointment, he found that Huiyang did not meet his expectations and thus abandoned the idea. Before returning to Hong Kong, he visited one of his former comrades-in-arms who worked in the local military department of Fenggang Town, Dongguan City. His friend accompanied him on a farm tour of Yantian Village, six kilometers away from Fenggang Town. The entrepreneur was quite impressed by Yantian and proposed establishing a wool mill making use of the village hall (60 meters long and 10 meters wide) as the workshop. Hence, the first “Three Supplies” enterprise was established in Yantian by a Hong Kong investor—the Yantian Zhengxin Wool Mill (Hu, 2007, 189).

To ensure the effective performance of this first, foreign-funded enterprise in Yantian, village leaders decided to send Deng Jiuquan, the former village party secretary, to serve as the plant manager and selected over 100 well-educated, loyal, and hardworking young village men to work in the plant. To address transportation concerns, Yantian pooled all the adult labor in shift work to complete a road to the gates of the wool mill within one month. The Zhengxin Wool Mill reaped a decent economic return in its first year of operation and

the village collective received a net profit of 250,000 yuan from the enterprise.

The success of the Yantian Zhengxin Wool Mill inspired the Yantian villagers to tap further the potential of foreign capital to boost their export-oriented processing industry. It also provided a compelling case for the entrepreneurs of the Deng family in Hong Kong. In 1981, the first enterprise of a Yantian emigrant to Hong Kong was launched—the Yantian Huayi Plastics and Hardware Factory. Deng Yirui, the investor, had fled to Hong Kong from Yantian in the fifties. In 1982, a second such enterprise, the Yantian Hardware Factory was opened by Deng Yonglong. In the following years, many other members of the Deng family in Hong Kong followed suit. By the end of 1985, Yantian had ten export-oriented processing enterprises run by Hong Kong entrepreneurs and most of them were managed by Deng family members.

In 1986, to attract more Hong Kong entrepreneurs, especially those with close ties to Yantian, or the Deng Family in Yantian, village party secretary, Deng Yaohui, headed a delegation of village leaders to visit Hong Kong. He visited 95 percent of all entrepreneurs who either belonged to the Deng Family in Hong Kong or had migrated to Hong Kong from Yantian. He promised them the best service and the most favorable conditions that national policies would permit. As a result of the visit and follow-up communications over the next few years, more than 30 Hong Kong entrepreneurs who were members of the Deng family or who came from Yantian set up factories (table 3.1 provides partial information).

Through family and local connections, Yantian people in Hong Kong managed to channel over 40 non-Yantian Hong Kong and overseas Chinese to invest in the village. This encouraged many other international entrepreneurs with no prior connection to Yantian to follow suit. In the six years covering 1986 to 1991, overseas investors launched 146 “Three Supplies” enterprises in Yantian, averaging two a month—a remarkable acceleration.

This period laid a sound basis for overseas networking. The Deng family in Hong Kong paid more attention to Yantian and the ties between the families based in Yantian and Hong Kong became stronger. The returns for foreign investors proved good given the substantive improvements in road construction, water and power supply, and service delivery, as well as the general rapid economic growth. As result, the period 1992–1995 saw even more foreign capital investing in Yantian with 211 factories setting up, 4.4 per month (for details see Deng, ed., 2003, 222). This sharp increase was followed by a more

Table 3.1 Certain Export-Oriented Enterprises Established by Hong Kong Investors Originally from Yantian

Factory Name	Investor	Year of investment	Investor relationship with Yantian
Yantian Huayi Hardware & Plastics Factory	Deng Yirui	1981	Originally from the Beifang Production Team (Deng family)
Yantian Hardware Factory	Deng Yonglong	1982	Originally from the Donger Production Team (Deng family)
Yantian Dongda Hardware & Plastics Factory	Deng Guanren	1986	Originally from the Dongyi Production Team (Deng family)—moved to Hong Kong in the early sixties
Yantian Fuwei Toy Factory	Deng Yunning	1986	Originally from the Dongyi Production Team (Deng family)—moved to Hong Kong in the early sixties
Yantian Qianji Hardware Factory	Chen Jinquan	1987	Originally from the Changbiao Production Team—moved to Hong Kong in the late fifties
Yantian Libao Hardware Factory	Chen Zhiqiang	1987	Originally from the Changbiao Production Team—moved to Hong Kong in the late fifties
Yantian Xinli Plastic Tooling Factory	Deng Zhaoping	1988	Originally from the Donger Production Team (Deng family)—moved to Hong Kong in the late fifties
Yantian Dacheng Toy Factory	Deng Zhiqiang	1988	Originally from the Donger Production Team (Deng family)—moved to Hong Kong in the early fifties
Yantian Heqin Paper Box Plant	Deng Manlin	1988	Originally from the Beifang Production Team (Deng family)—moved to Hong Kong in the late fifties
Yantian Xiangfa Hardware Factory	Deng Qiu	1989	Originally from the Dongyi Production Team (Deng family)
Yantian Xinyi Furniture Plant	Deng Guohong	1990	Originally from the Donger Production Team (Deng family)—moved to Hong Kong in the late seventies
Yantian Jiada Clothing Factory	Deng Ruijia	1990	Originally from the Beifang Production Team (Deng family)—moved to Hong Kong in the early sixties
Yantian Glass Factory	Deng Jianbiao	1994	Originally from the Donger Production Team (Deng family)
Yantian Watchstrap Factory	Deng Jinshen	1995	Originally from the Donger Production Team (Deng family)

Source: Interviews with Yantian villagers; Deng, ed., 2003, 357.

moderate rise from 1996 with just 24 factories built up to and including 1998, an average of eight per year. Of these 24 factories, 17 had members of the Deng family as plant managers.

By 1998, the number of foreign enterprises peaked at 430,² but subsequently the number began to decline as some relocated to Dongguan: there were 326 at the end of 1999, and 300 in 2001. After 2003, new problems arose such as shortage of workers in the coastal region and *renminbi* appreciation, and this slashed the number of foreign enterprises to 230 in 2007. By the end of 2011, the number had declined further to 180. The global economic downturn had clearly had an impact as did enforcement of the new Labor Contract Law from January 1, 2008 (see [chapter 9](#)).³

Clearly, the “Three Supplies” enterprises funded by foreign investors provided Yantian with significant opportunities, and within a short period of time the villagers’ income rose quickly and provided employment for many migrant workers. The question arises as to what attracted these investors to come to Yantian? Naturally, the establishment of the Inner PRD Economic Zone was crucial but a detailed analysis of the roughly 400 foreign enterprises established in Yantian between 1980 and 1998 revealed two important additional features. First, based on the statistics provided by Deng (2003, 361), 391 of the foreign enterprises were from Hong Kong (92.3% of the total). Of the remaining 30 non-Hong Kong enterprises, 19 were from Taiwan. Despite a low total overall (4.9%), Taiwan-invested enterprises comprised 63.3 percent of the non-Hong Kong enterprises. There were 10 Japanese enterprises (2.6% of the total, 33.3% of non-Hong Kong enterprises), and only one from the US (0.3% of the total, 3.3% of the non-Hong Kong enterprises).

Second, of 391 foreign enterprises, roughly one half were established by three kinds of people who had close relations with Yantian: some were from the Deng family in Hong Kong; others were those who had fled Yantian in the fifties, sixties, and seventies; and investors who were business partners with Deng family entrepreneurs. Family ties were the most prominent.

We have noted already the key role played by the Deng family in Yantian, comprising over 60 percent of the officially registered village population. Although the Deng family migrated to Yantian via Hong Kong, some members stayed in Hong Kong to carry out family business and to look for opportunities. Before 1949 and for a considerable time thereafter, the backward economy and hard life drove many villagers to the nearby “dreamland” of Hong Kong: around 400 migrated in the fifties, 600 in the sixties, and over 300 in the

seventies. There were almost 3,000 people in Hong Kong who were either Dengs who had remained there or who had fled after 1949 or who had geographic ties. Most of them live in the New Territories, Sheung Shui, Kowloon, Lung Yeuk Tau, Tai Po, Shatin, and Tsuen Wan, with many of them running factories or investment businesses. In addition, there are over 300 former villagers in more than 10 countries, mostly in Southeast Asia, Europe, and America. The pull of tradition causes many overseas Chinese to invest in their ancestral town or where their families reside. This is reinforced by the low levels of trust in doing business with those who are not well known. Realizing this, the Yantian village leaders made a major effort to tap into this community. In addition to visiting Deng family members in Hong Kong, village leaders put a lot of effort into the development of the Chronicle of the Deng Family (the work lasted from the spring 1998 to December 2003). They made a substantial investment, reportedly 13 million yuan, to build the elegant and stately Deng Memorial (the project commenced on June 27, 2002 and was completed in August 2004) inside Yanhu Park adjacent to the Phoenix Mountain. It resembles a Qing Dynasty garden. Yantian also sponsored or attended various family activities such as the attempt to search for members of the Deng family across the world, the council meeting of the Deng family held in Hong Kong, liaison activities for offspring of the Deng family, and the representative meeting of the five major Deng family groups that are descended from the five brothers who moved to Hong Kong and Dongguan (including Yantian). All these efforts directly contributed to closer ties between the Deng family in Yantian and those in Hong Kong and other countries, and consequently encouraged overseas members of the Deng family to invest in Yantian.

FOREIGN-FUNDED ENTERPRISES

There are other features of the foreign-invested enterprises (FIEs) that are worth noting.⁴ First, if we look at the typology of foreign enterprises, 153 fall under the category of “Three Supplies” (75.7% of the total). There were 30 (14.8% of the total) wholly foreign-funded companies; equity or contractual joint ventures (between Yantian and foreign investors) numbered 19 (9.4% of the total). All those established before 1991 fall into the category of “Three Supplies.” In spite of the rapid growth of other enterprises from 1992 to 1995, these enterprise firms enjoyed their heyday and outpaced all other enterprises. During these years, “Three Supplies” enterprises remained over 70 percent of the total but from 1996, their growth in

numbers began to slow down (for an account of 26 Dongguan FIEs in 1996–1997, see Yeung, 2001). Especially from 2001, only one to three such enterprises opened per year resulting in a substantial decline in their share of the total.

From 1992, Yantian began actively to promote joint venture development,⁵ in a strategic shift that they described as moving from “building nests to attract phoenixes” to “building nests together with phoenixes.” This fostering of the common development of the collective economy with foreign enterprises led to a rapid growth in joint ventures from 1993 to 1995. This shift also suited foreign investors as it was relatively easier for them to get government approval. For Yantian village, it was a useful test to see if this type of cooperation and business model would support long-term economic development. However, subsequently, joint ventures were not formed. A major reason for this was the lack of symmetry in information. Villagers felt that they had little control over price information about material supply and product pricing on the international market. This was often not forthcoming from the foreign partner. This was a problem as under the joint venture model the villagers would have to take on greater responsibilities, including legal ones. As a result, officials in Yantian preferred a system that guaranteed a fixed return for the village collective.

As far as the foreign investors were concerned, they were not keen to involve the villagers in business management. They wanted to keep control themselves and usually held a 70-percent stake in the enterprise, the highest accounting for 90 percent. Investment by the village collective was most often below 30 percent. Besides, many foreign investors were not keen to list Yantian as a shareholder, especially in international markets. For the village, there was no incentive to become more involved in the management and operations of the enterprise as there was no difference in revenue from wholly foreign-owned enterprises. As a result, the village collective put into operation a counter-contracting model (*fanxiang chengbao*). Following agreement by the two parties, the foreign investor made a fixed payment to the village in return for being allowed full autonomy in business operations (Wang, Zhang, and Yao, 1996, 128). In 1993 wholly foreign-funded companies began to develop and after slow growth over several years, they gained momentum after 2001. From 2002, the number of new enterprises equaled that of the “Three Supplies” enterprises and exceeded them from 2004. The heyday for “Three Supplies” enterprises was between 1987 and 1995 with the peak years from 1990 to 1995.

Second, while there is a large variety of products produced by the foreign enterprises, electronic products and electronic components (including small household appliances and electrical materials) dominate. In 2008, there were 41 foreign enterprises making electronic products, 20.3 percent of the total; 39 making plastic products (plastic mold, plastic covers, plastic hangers, plastic video tapes, plastic boxes, but excluding plastic toys), 19.3 percent; 28 hardware manufacturers (including hardware components), 13.9 percent; 20 clock, watch, and accessories plants, 9.9 percent; and 14 toy factories (including plastic, metal, cloth, and woolen toys), 6.9 percent. Other products included clothing, shoes, and hats (including handbags), jewelry products (including silver products and semi-gem products) and accessories, paper products (paper boxes, paper bags, envelopes), ink and paint (including coating), glasses (including goggles and magnifiers), mini-motors, golf clubs, kitchen utensils, wooden furniture, metal racks, magnetic particles, sailing accessories, leather belts, and glass products.

If we compare the structure of production between the 202 foreign enterprises in 2008 and the 316 foreign enterprises back in 1994, we can see that there has been upgrading: assembly of supplied parts for toys and textiles in the early eighties, primary processing in the late eighties, and a focus on electronic products and whole-set products in the nineties. There has been a slight shift to the three pillars of electronics, plastics, and hardware (46.2% in 1994 in comparison with 53.5% in 2007). Producers of the five main products still dominate, although there are minor changes in the ranking with more plastic product suppliers, and fewer producers of clothing, shoes, and hats.

Third, in terms of employment, in 2008 the 202 enterprises employed 41,409 workers, an average of 205 employees per enterprise. However, employment size varies greatly—the largest employer being the Dongguan Xinnong (Shinano Kenshi) Motor Ltd. Co. (established in 1994) with 3,300 employees. Other large foreign enterprises include Lianya Clothing (Dongguan) Ltd. Co. (a wholly foreign-owned factory set up in Yantian in early 2005) with 2,000 employees; the Dongguan Fenggang Yantian Jinjing Handicraft Factory (built in October 1984, a “Three Supplies” enterprise, producing artificial trees, fruits, and silk flowers), with 1,700 employees; and the Dongguan Fenggang Yantian Hongde Electronics Plant (a “Three Supplies” enterprise established in 1995, producing small motors and loops), with 1,500 employees. The smallest enterprise only employed two staff, while others had five or six employees. In terms of business type, average employment was 172 in “Three

Supplies” enterprises, 260 in wholly foreign-funded companies, and 37 in joint ventures.

Last, in terms of annual revenue, 195 foreign enterprises earned a gross revenue of nearly 4.5 billion yuan in 2007 (revenue data for seven enterprises were unavailable), averaging almost 23 million yuan. This would produce an average labor productivity of just over 110,000 yuan.

MIGRANT LABOR

In addition to the investment of foreign capital, the continued inflow of cheap migrant laborers has contributed to rapid industrial growth. Our survey in July 2008 discovered that 95 percent of the 41,409 employees in the 202 foreign enterprises came from outside of Yantian. Leaders of the Yantian Police Station under the Fenggang Branch of the Dongguan Public Security Bureau estimated that even in the sluggish economic environment, a conservative estimate would still arrive at 50,000 migrant laborers in Yantian. This number only represented the registered population who applied for a “short stay permit” or a “permit for rent” at the Yantian Service Station under the Service Center for Migrants. In fact, some migrants who were introduced to Yantian by their relatives or friends for interim work did not apply for those permits. More often, a permit for one person would automatically cover his/her families. This means that even when the export-oriented “Three Supplies” enterprises were hit heavily by the global economic downturn, migrant workers and the migrant population remained a huge number.

Of course, there is a distinct decline in comparison with previous years. According to the leaders of the Yantian Police Station, the peak period for migrant worker inflow was in 1999 and 2000, when the Yantian migrant population totaled around 150,000.⁶ The migrant population has remained around 60,000 in other years. Migrant laborers fall into three categories in terms of the work they carry out. The first category is factory workers and this includes almost all the 40,000 plus workers in the foreign enterprises. In the early nineties, the migrant workers in this category accounted for more than 80 percent of all migrant labor—86.9 percent in 1993 and 85.2 percent in 1994. The proportion was still 82 percent in 2008.

The second category comprises the professionals who provide management or social services. Among those in this category, some are employed by the branch office of state organs in Yantian village, such as the police station, the post office, and banks; others are

employed by the village collective, for example, secretaries working in the village committee and teachers in the village-run schools (some of whom were employed after retirement). Some decided to settle in Yantian while others only take temporary employment.

The third category covers the self-employed, namely private business people. This category can be broken down into those in private agriculture and those in industrial and commercial business. The former group comprises the specialized vegetable farmers, which at its peak numbered almost 400 but had dropped to under 200 by 2008. Private service providers dominate the latter group. A rough estimate shows that Yantian has around 2,600 shops and stores and nearly 6,000 private business people engaged in the service sector. Most shops and stores are for clothing, food, or groceries, with some others such as barbershops, grain and oil stores, and specialty stores. In the nineties, the second and third categories accounted for around 15 percent of all migrant laborers, increasing after 2000 with the drop in the number of enterprises and reaching 18 percent in 2008.

Clearly, migrant workers are the major source of labor and together with foreign capital have provided the driving force for the development of the processing industry. In the early years of industrial development, there was no migrant labor, for example, in the late seventies when Yantian was engaged in developing collective industry and in the early eighties when the export-oriented processing industry began to sprout. At that time, finding employment in a foreign enterprise was considered exciting and an honor and the village collective leadership paid special attention. This situation was especially true in the early period from 1980 to 1982 when the “Three Supplies” enterprises were launched by Hong Kong investors. On the one hand, there was no strong demand, while on the other hand, the underdeveloped domestic labor market did not support cross-regional labor flows.

As more foreign capital was invested in Yantian, demand grew with the construction of more factories. The local labor pool was far from sufficient to meet the growing demand but the labor market in China was developing and opening up, thus speeding up the flow of migrant labor to Yantian. One of the authors, Hu Biliang, participated in a survey in the early nineties showing that in 1989 there were already 6,355 migrant laborers,⁷ of whom 4,892 (77%) were from other provinces. In 1991, there were 8,000 migrant laborers, including 6,500 (81.3%) from other provinces and in 1992, 8,500 laborers, including 6,500 (76.5% from other provinces). In 1993, migration increased dramatically to 31,230, of whom 27,130 were employed in foreign-invested factories and this number rose further in 1994 to

34,448, with 29,340 working for foreign enterprises (Wang, Zhang, and Yao, 1996, 186).

Leaders of the Yantian Police Station noted that apart from those coming from within Guangdong Province, Sichuan, Hunan, Guangxi, and Hubei were among the largest providers of migrant labor. This confirms our findings from the sample survey conducted in Yantian in the mid-nineties, which found that among 163 migrant laborer interviewees, those from Guangdong accounted for 25.8 percent, followed by Guangxi (19.6%),⁸ Sichuan and Hunan (16% each), and Hubei (8%). The remaining 14.7 percent came from various other provinces. The migrant laborers are mostly relatively well educated. The survey showed that 95 percent finished a middle school education, and of these 46.6 percent completed their secondary school program. Only 4.9 percent had just primary school education or were illiterate (Wang, Zhang, and Yao, 1996, 195).

The survey discovered that a considerable number of migrant workers were satisfied with their income, as well as the welfare they enjoyed from the enterprises (employees get accommodation free of charge and some meal allowances). The biggest concern was the large gap between the local villagers and the migrant workers in terms of access to social services because of the dual structure of social development. For example, children of migrant laborers had to go to separate schools, migrant laborers could not share dividends from the village collective, and they are in a disadvantageous position in comparison with local villagers in terms of access to social security programs such as medical and pension insurance (see [chapters 6 and 7](#)). Moreover, the two groups are divided by a large communication gap. Essentially, migrant workers suffer from a low social status, which might explain the finding that only 18.4 percent reported that they would like to settle in Yantian for work and to live, while the remaining 81.6 percent either were very clear that they would not stay long in Yantian (58.3%) or did not provide a clear answer to the question (Wang, Zhang, and Yao, 1996, 214). Leslie Chang (2009, 31) is less charitable in her assessment of the relationship between migrants and villagers in Dongguan, describing it as one of mutual contempt.

THE STATE-OWNED SECTOR IN YANTIAN

The state sector has been engaged in rural China ever since the founding of the People's Republic of China. This section also highlights the establishment of branch offices of state-owned entities in Yantian following the development of export-oriented processing, such as the

post office or banking facilities. State engagement comprises a significant component of the multidimensional village economy that comprises the Yantian village collective, private business, foreign investors, migrant workers, and state-owned enterprises.

In the early fifties, state agencies began to control rural markets, especially the grain market, in order to subordinate it to the demands of the planned economy. On July 13, 1954, the CCP Central Committee issued a directive calling for tighter control over the market and reining in private commerce.⁹ Private wholesalers were gradually replaced by state commercial enterprises and, not surprisingly, the turnover ratio of private retail trade decreased from 47.2 percent in 1952 to 25.6 percent by the end of 1954. In the countryside, state-owned agencies came to play a larger role with respect to grain procurement and marketing. In November 1953, the “unified purchase and unified sale” system for grain and oil-bearing crops was introduced. This move was originally prompted by grain shortages in the cities following the rapid urbanization that was taking place. The objective was to ensure stable supplies at a reasonable cost. This was followed over the next few years by similar policies for other agricultural products. Private grain wholesalers were driven out of the market and purchase was monopolized by state agencies. This policy approach supported the programs of industrialization and collectivization that were getting into full swing.

From 1954 when the policy of monopoly grain procurement and distribution was implemented until the early eighties, in the absence of grain storage facilities, the Yantian Grain Station simply supplied grain¹⁰ and edible oil to the nonagricultural population (including teachers, medical doctors, employees of commercial entities, and staff of the Dongshen Water Supply Project Management Bureau) (Deng, ed., 2003, 238). It was only in the early eighties that Yantian built a grain storage facility allowing villagers to deliver their grain to the government through the Yantian Grain Station. This practice lasted until 2004 when the central government finally abandoned the contract purchase of grain and opened up the grain market. In fact, by this time, Yantian no longer produced grain as by 1992 they had returned their contract land to the village collective. This meant that they did not sell quota grain to the government. The grain quota was fulfilled either by contracted migrant workers or through handing over cash payments. Grain production in Yantian reached its peak in 1981 with 2,551.5 tons but dropped to 1,248 tons in 1988. With the smaller amount produced, the percentage purchased by the state was 77.8 percent of the total as opposed to

46.9 per cent in 1981. The only other year when state purchase had been so high was in 1969: 74 percent of the 2,155.9 tons produced. From 1988, the state purchase quota of grain for Yantian village was fixed at 970.6 tons; however, if the village could not meet the state purchasing quota, it could fulfill the requirement by paying cash according to the market price.

In addition to the state grain station, the planned economy also bequeathed a government pharmacy and a government food store to Yantian. The pharmacy was formed through the consolidation of two former private pharmacies during the 1956 private–public cooperation campaign. It still operates in the village and offers traditional Chinese medicine, western medicine, as well as self-grown herbal medicines. The food store regulated the procurement and distribution of swine, as well as the quota procurement of poultry and eggs. Villagers had to hand over to the government their fixed quota of pork, chicken, duck, and geese, while those who consumed commercial grain purchased pork, poultry, and eggs from the store with their ration coupons. Currently, the food store is mainly engaged in swine slaughter and inspection.

Unlike these legacies from the planned economy era, the state-owned entities that have begun operations in Yantian since the early nineties are all linked to the needs of the export-oriented processing and industrial businesses. For these state-owned enterprises, expansion meant more market opportunities and market share. The state-owned postal service was the pioneer in exploring Yantian's market. In 1990, as the "Three Supplies" enterprises reached 150 and employed nearly 10,000 migrant workers, the demand for postal services grew by leaps and bounds. By then, the one staff member (Lu Lianjiu) working in the post office on Gongyi Street (the office was set up by the Fenggang Town Post Office) could no longer deal with the amount of in-coming and out-going mails. In January 1991, the Fenggang Post Office of the Dongguan Post Bureau discussed with Yantian village leaders about setting up the "Yantian Branch Post Office," which would serve the three villages of Yantian, Guanjingtou, and Youganpu. The service covered an area of 40 square kilometers, and served 120,000 people. The postal department invested 3 million yuan to build a five-storey building (5,104 square meters) in Yantian, and began operations in January 1992. The major services offered included domestic and international mail, foreign exchange, package delivery, press distribution, EMS, e-commerce, domestic and international telecommunications, as well as the sale of postal communication instruments. In its first year of operation, the post office

had a gross revenue of 11 million yuan, increasing to 80 million yuan by 1997 (Deng, ed., 2003, 246). The Yantian Branch Post Office was disbanded in 1998 for a number of reasons, including the separation of telecommunications and postal services. However, the Fenggang Post Office set up two post offices within the Yantian jurisdiction to provide services.

Finance drives modern economic growth, and bottlenecks in financial support hold back growth. The rapid economic growth of Yantian during the eighties and nineties created the demand for better financial services while, at the same time, creating a greater market for such services. By the early nineties, the major state-owned banks saw this potential and the Agricultural Bank of China (ABC) was first to set up a branch in the center of the village, and began to provide a full range of services for individuals, collectives, and state-owned enterprises. From 1993 to 2001, the Yantian branch of the ABC took in nearly 500 million yuan in deposits, and issued 200 million yuan in various types of loans (Deng, ed., 2003, 254). By the end of 2010, the branch's deposit had reached 1 billion yuan. Following the ABC, the China Construction Bank set up its branch in March 1996, and by the end of 2010 had accumulated deposits of 600 million yuan. The Industrial and Commerce Bank of China set up the “Fenggang Yantian Office under the Dongguan Branch of the Industrial and Commerce Bank of China” and by the end of 2010, it had accumulated deposits amounting to 330 million yuan. In November, the Bank of China (BOC) arrived in Yantian setting up the “Fenggang Yanming Office of the Bank of China” in Fengtian New Village. It had accumulated deposits of 780 million yuan in 2010.

Yantian village has transformed from a rural community into a core hub in the global production chain. As a part of this transformation, it has developed a wide range of economic institutions with multiple forms of ownership. The development has not only brought unanticipated wealth to the villagers but also a huge number of migrants who have had to be integrated into the community. How the village and households have managed this new-found wealth is the focus of the next two chapters.

“NEW WINE, NEW BOTTLES”:
THE EMERGENCE OF A NEW-STYLE
VILLAGE COLLECTIVE

A robust collective economy was an important foundation for governance in Yantian, especially for the provision of public goods and services. Why has the collective driven the economy more effectively than in most other places where the collective existed in name only? With the inflow of foreign investment into the village, how did the relationship between the village collective and foreign-invested companies develop? What are the major sources of collective revenue and how are they distributed? This chapter provides a preliminary analysis of these questions.

THE VILLAGE AS A COLLECTIVE
ORGANIZATION

Yantian’s social structure and the influx of foreign investment were the two main factors that caused the village to revive an economic structure dominated by the collective. Unlike in many other cases where the appellation of collective was used to legitimize *de facto* private activity, the collective in Yantian was a real entity with enormous impact on the villagers’ lives. First, as noted, the strength of the Deng lineage had long been a prominent feature of Yantian’s social structure. Their economic strength obviously exceeded that of other families; its members were more united and its numbers grew more rapidly than all the other families. According to preliminary statistics, on the eve of the founding of the PRC, the total population of Yantian was 4,274, and of these some 3,400 had the family name Deng (nearly 80% of the total population, Wang, Zhang, and Yao, 1996, 164). In June 2006, we were provided with a detailed household registration

book, which showed that Yantian's total population in April was 3,106, with 1,842 surnamed Deng (61.1% of the total population). The Deng family accounted for over 70 percent of the population in Shijie (79.7%), Donger (71%), Nanfang (72.7%), and Xifang (73.8%). Buxin and Shuibei were the two natural villages with the lowest percentages at 17 and 24.3 percent, respectively. While the proportion had thus dropped compared with pre-1949, the Dengs still enjoyed an absolute majority.

More important than the numbers is the political dominance of the Dengs. Four of the first group of five Yantian villagers to join the Chinese Communist Party (CCP) were members of the Deng family: Deng Chungui, Deng Wandu, Deng Lianhuan, and Deng Ruihong. They joined in January 1951, the year that the Yantian party branch was set up. Since its foundation, six members of the Deng family have served as party branch secretary: Deng Chungui, Deng Xulin, Deng Jiuquan, Deng Wandu, Deng Yaohui, and Deng Zerong. Of these, Deng Yaohui served for 30 years from 1981. Since the establishment of the party branch, there has only ever been one deputy secretary, Chen Guangsheng, who was not a member of the Deng family. As far as village administration is concerned the village head was also a member of the Deng lineage. From 1951 to the present, eight members of the Deng family had served in this position: Deng Wanjiu, Deng Chungui, Deng Xulin, Deng Wandu, Deng Jiuquan, Deng Yaohui, Deng Zerong, and Deng Manchang. Similarly, only one non-Deng family member, Chen Guangsheng, has served as the village head, and then only for one term (1985–1988). The Deng lineage's pre-1949 political dominance was thus carried over into the CCP era. This dominance of village decision making by the Dengs facilitated the primacy of the collective in the village.

In 1995, we were provided with a list of telephone numbers of Yantian officials and other staff. Of the 43 leading officials in the village, only six were not Dengs, meaning the Deng lineage accounted for 86 percent of the leadership (Wang, Zhang, and Yao, 1996, 164). In February 2009, we compared the latest list, and of the 65 listed village leaders, 43 belonged to the Deng family (66.2%), reflecting a decline but still revealing the lineage dominance. Most importantly, Dengs occupied key posts in the three most important agencies in the village: the CCP general branch, the villagers' committee, and the shareholding economic cooperative. In 2011, six of the seven members of the general party branch, four of the five members of the villagers' committee, and six of the seven members of the Shareholding Economic Cooperative were Dengs. Such statistics clearly indicate

that the Deng lineage held key political and economic power in the village. Any discussion of village affairs is intimately intertwined with the interests of the Deng family. Many public infrastructure projects are named after members of the Deng family, such as the Zhentian School, Zhentian Road, and the Yantian Deng Lineage Memorial Hall. Such conspicuous naming reinforced the authority of the Deng lineage within the local community.

Two particular traditional institutions helped consolidate the power of the lineage: the *Tangkou* (family manor) and *Zutian* (family-owned public land). However, they also reveal inequalities within the lineage. *Tangkou* is a common name given by the Cantonese to describe the housing complex built by an affluent family, a manor house for the wealthy family. At the center of the *Tangkou*, there were luxurious houses for the rich family, surrounded by gardens. In the complex, there were also designated learning halls for children and for the practice of martial arts, processing plants that supported people's daily needs such as oil and sugar mills, and in some cases, warehouses and other supporting infrastructure. The complex was enclosed by walls with guard towers that were manned both day and night (Deng, ed., 2003, 116). In general, one *Tangkou* was home to over ten households, all descendants of the same ancestor. Thus, dozens of people lived together in such a manor (Wang, Zhang, and Yao, 1996, 170). Written records show that in the middle of the nineteenth century, the relatively large *Tangkou* in Yantian included the numerous important buildings that revealed the strength of the Deng family. The *Tangkou* consolidated their strength and further united the family members. It is worth noting that of the three branches of the Deng lineage, the oldest brother's branch owned more and larger *Tangkou*. Xianji, Qianji, and Honghoutang were all built by the oldest brother's branch. This revealed the variance in the economic and political strength among different branches of one big lineage, and some of the differences have persisted down to the present day. In general, the emergence and development of *Tangkou* strengthened family cohesion, and this was especially true for households within the same branch.

Zutian refers to the public land owned by one family (family-owned public field). These public fields were rented to tenant farmers (some to family members) and the income was used to fund important family activities such as ancestor worship and for handling important family matters. On occasion, some of the grain harvested from the family public fields was distributed to the elders and newborns in the family. Thus, the family public field played a positive role in

maintaining the internal cohesion of the lineage and protecting its interests. According to village elders, before 1949, the Dengs owned nearly 3,000 *mu* of such public fields, mostly around the periphery of Yantian (Wang, Zhang, and Yao, 1996, 168). Clearly, the *Zutian* institutional arrangement was conducive to shaping notions of collectivity as a precursor to the “new” collectives of the reform era.

To some extent, the collectivism was shaped by the geographic environment. Yantian folk migrated and settled down in the current area rather early and they spoke the vernacular language (Cantonese). Residents living in the surrounding areas were largely Hakka who did not speak Cantonese. Also, there was a gap in income and social and political status between Yantian people and the surrounding Hakka community (the whole of Fenggang Town had 12 administrative villages, while only 2 of them, Yantian and Tiantangwei were dominated by locals) and this caused frequent friction and conflicts to erupt between the two communities. In 1944, for example, Yantian villagers bought 50 rifles and 2 machine guns via family members and relatives in Hong Kong to protect their own interests from the majority Hakka families (Wang, Zhang, and Yao, 1996, 167). The harsh living environment and the external pressure helped to nurture a spirit of cohesion and cooperation among all the Yantian villagers (not just the Deng family). Thus, a strong, cohesive community with the Deng family as its backbone took shape early in Yantian’s history. The dominant position of the Deng family was key and this dominance was recognized by the other families in the village. Naturally, the consolidation of family power was translated into the consolidation of village power as a whole.

After the founding of the PRC, Deng family members in Hong Kong helped with the development of Yantian’s collective economy. In 1957, with their help, the village bought its first power generator, resolving the challenge of providing lighting and power supply for milling. Between 1958 and 1962, relatives of Deng in Hong Kong twice helped Yantian to buy three vehicles for village transportation. As noted in [chapter 2](#), shortly after implementing the household responsibility system, the village collective took back the land as a result of the rapid inflow of foreign capital. As the land was owned by the collective, naturally it represented Yantian in negotiations with foreign investors about factory construction and building rentals. The factory buildings for rent could only be built and provided by the village collective, with the collective retaining the proceeds. In addition, the influx of foreign capital required that key infrastructure such as roads, water, and power supply needed to keep pace. If the government

could not cover the necessary public expenditures, especially in the early phase of development, they had to be covered by the village collective. When foreign investment began to flow, Yantian locals staffed all the “three supplies for processing and one compensation” (“three supplies”) enterprises. From the mid- to late eighties, working for a foreign-invested enterprise was considered a great honor for Yantian locals, while the village collective coordinated labor relations. The continuous inflow of foreign investment increased the demand for public goods and services, increasing the village collective’s coordinating role. As a result, the collective organizations became a key element to help push forward the rapidly growing village economy.

THE VILLAGE COLLECTIVE AND FOREIGN INVESTMENT

Economically, the Yantian village collective and the foreign companies share a very close relationship. Foreign companies pay taxes and various fees in accordance with China’s laws and regulations as well as the agreements reached with the village. In return, the village collective is obliged to do its utmost to provide all the necessary services to the foreign companies, including settling land use issues, providing appropriate factory buildings, staffing them with management professionals as coordinators to tackle specific issues in the company, improving infrastructure, and helping coordination with government, the public, the media, local residents, and migrants.

In addition to paying the required government taxes¹ and land and factory building rentals, the foreign companies also have to pay rent to the Yantian village collective for the “comprehensive services” provided. First, foreign companies pay rent to the village collective for land use. Our 1995 survey showed that most of the enterprises rented land (76.7% of the 30 sample enterprises, while only 16.7% purchased the land use rights (Wang, Zhang, and Yao, 1996, 149)). At that time, land tenure ranged from 10 to 50 years, with over half of the 30 enterprises holding 50-year land contracts. For those purchasing land use rights, the general tenure was 50 years, with very few cases of 30 years. We also discovered that of the then over 300 foreign enterprises in Yantian, 40 percent purchased land use rights, yet they accounted for 60 percent of the total investment. This showed that the enterprises that purchased land use rights tended to be those that were economically strong (Wang, Zhang, and Yao, 1996, 150). The current situation has changed somewhat with the overwhelming majority of foreign companies no longer renting land but rather

purchasing 50-year land use rights and paying the village collective an annual land management fee (the actual land use fee). The fees vary from 0.8 to 2 yuan per square meter per month depending on the location and topography. In the early nineties, the rent and management fees totaled approximately 1 million yuan per year, before rising steadily in 1999 from 4.5 million to 18 million in 2006. The fees dropped again to 12.1 million yuan in 2007 and rose to just over 20 million in 2008 (field survey data, February 2009).

Second, foreign enterprises pay rent for the factory buildings,² which varies according to the age and location of the building. The general rental contract is fixed for five years but is liable to a 25 percent increase for the following five years. In 2007, for example, the average rent for a factory building was 10 yuan per square meter per month³ and foreign companies paid a total of 39.7 million yuan in rent to the village collective and a further 2 million plus yuan in factory rent to the villagers' groups. In 2008, the amount paid in rent to the village collective went up by 15.5 percent to 45.87 million yuan. The amount stayed stable at around 17 million yuan until 2003 when it jumped to 21.8 million and almost 29 million in 2009 (field survey data, February 2009).

Third, the foreign enterprises also pay a foreign exchange retention fee (also called the earnings in exchange settlement) to Yantian village, Fenggang Town, and Dongguan City. The "three supplies" companies import raw materials from outside of China for processing and manufacturing in Yantian, thus involving a foreign exchange remittance from overseas. The foreign exchange retention means that 25 percent of the remitted foreign exchange after deducting commission (22% since 2002) is reserved for the town and village, with the village getting the larger share (17%). During the peak years (from 1994 to 2004), foreign companies paid as much as 50 million yuan in this way to Yantian village (49.03 million yuan in 2000), while the amount dropped to 28.59 million in 2007 and then to only 24.73 million yuan in 2008.

Finally, foreign companies pay a "comprehensive service" fee (also referred to as the management fee) to the village collective, this comprises 0.8 percent of the export value. Foreign companies paid 11.85 million yuan in 2007 but only 3.77 million yuan in 2008, reflecting the downturn in the global economy.

These are the four major fees paid by foreign companies for business operations. In 1999, the cumulative value was 77.61 million yuan, rising to 93.26 million yuan in 2007. Despite the negative impact of the global financial crisis the amount collected still rose

4.3 percent to 97.24 million yuan in 2008 (field survey data, February 2009). A simple division of the amount of revenue by the number of foreign-invested companies reveals that on average a company paid the village collective 238,000 yuan in 1999, 405,000 yuan in 2007, and 481,000 yuan in 2008. In return, the village collective provided foreign companies with a wide range of services to ensure their continued effective functioning in Yantian.

To provide effective service, the village adopted a number of measures. First, it selected the best qualified villagers and assigned them to suitable enterprises. This was particularly effective during the early eighties when foreign capital first invested in the village. At that time, village officials deliberated repeatedly over who was the most appropriate person for each new foreign company. In the eighties, when the first Hong Kong company invested in Yantian, the village appointed its ex-Party Secretary Deng Jiuquan as the general manager, and selected a number of its best qualified young people to work in the company.⁴ With the continuing increase in the number of foreign companies and given the limited labor supply in Yantian, from the late eighties, the village usually only sent three managerial staff (a manager, an accountant, and a customs specialist)⁵ to each foreign company to help with their main business. When the number of foreign companies increased to 400, the village would have had to send at least 1,200 senior management staff but this was a difficult target to meet. After deducting the number of persons who worked in the public sector (teachers, doctors, and bank clerks) and those who were self-employed (shop and restaurant owners), the labor supply was only about 1,600. The only feasible option was to reduce the number of local managerial staff for each company. Thus, all Yantian locals were managers or general managers.

Obviously, working as an accountant or a customs specialist was demanding technically, while the general manager's work was more flexible. The village collective hoped that all the dispatched managers could become its permanent ambassadors to the companies and form a bridge between them.⁶ Therefore, the village attached great importance to the quality and competency of the dispatched managers. In general, a minimum of secondary education was required but now almost all those dispatched are college graduates, and increasing numbers of graduates who hail from Yantian are keen to return as they are given priority when staff for foreign companies is considered.

In addition to this “software” provision, Yantian also invested heavily in the necessary “hardware.” To improve infrastructure, the village collective mainly concentrated on three aspects. The main

principle was to concentrate production of similar products as well as investors from the same geographic area. As a result, Yantian planned and built ten specialized industrial zones.⁷ The construction of the industrial zones helped to cut costs and aided environmental protection. Second, the collective built village roads and connected them to the surrounding major roads and industrial zones.⁸ Finally, the village also improved telecommunications, built water plants, power distribution stations, petrol stations, and other basic projects to ensure that the foreign companies had sufficient supplies.

In terms of “software,” in addition to providing qualified personnel, the village put a lot of time and effort into providing high-quality and timely services for the foreign companies. The key agency, the Foreign Processing and Assembly Office (Processing Office), was set up by the village in 1988. From 1988 to 1994, Deng Yaohui, village head and Village Party Branch Secretary, doubled as the director of the Processing Office, and Deng Xushu, director of Village General Office, served as the deputy director. From 1994 to 2004, Chen Guangsheng who had extensive business management experience served as the director. From 2004 to 2008, Deng Huixin served as office director and then Li Huibang took over. All the staff were considered highly competent and were, of course, well-connected village officials. The Processing Office serves three functions. First, it coordinates all manner of relationships between the foreign companies and the relevant local government departments and the village collective in order to help the foreign companies deal with all specific issues relating to their investment. Second, it conducts the administrative and business management of all foreign companies in Yantian. Third, on behalf of the village collective, it appoints or fires general managers, accountants, customs specialists, and other important personnel in the foreign companies.⁹ After its establishment, the Processing Office served as the gateway for foreign companies providing a whole range of services, including consultation, contract signing, registration with the industrial and commercial bureau, custom declarations, and direct links with Hong Kong. For most foreign investment projects, the office can make all the procedural arrangements in one working day. Even when it was necessary to import equipment, usually it took less than a week and no more than two weeks to finish all the required procedures, including acquiring the official permissions, consultations, and transportation of the equipment into the factory.

In addition to the Processing Office, the village collective exerted much effort to obtain local government approval to set up a police station in Yantian to help maintain social order and maintain orderly

production. In addition, in the mid-eighties, the village collective built a cinema for company staff and local residents and opened dedicated schools for children of migrant workers. For medical care, the village collective and relevant companies jointly invested and built a joint-stock hospital mainly to serve the heads of the foreign companies (see chapters 6 and 7).

THE VILLAGE COLLECTIVE ENTERPRISE DEVELOPMENT COMPANY AND ITS INVESTMENTS

The village shareholding economic cooperative is the main vehicle for ensuring the collective interest and handling revenues and their disbursements. Between 1992 and 1995, the village witnessed an upsurge in foreign companies coming to Yantian, an average of 4.4 companies per month, while between 1996 and 1998 there was an average increase of eight enterprises. However, from 1999 a combination of factors caused a decline. Internationally, there was a negative impact of the Asian financial crisis (1997 to 2001), the bursting of the IT and real estate bubbles, and the SARS outbreak in the early 2003. Domestically, there were also a number of factors. First, policies adopted to stimulate domestic demand led to a significant improvement in the infrastructure of some inland areas. This combined with the lower prices for raw materials and the lower pay for laborers caused some enterprises to relocate their production base from Guangdong to the inland provinces, including some foreign enterprises in Yantian. Second, this created a fierce competition among the coastal areas of Guangdong to retain foreign enterprises. In consequence, some areas offered lower prices than Yantian for purchasing land use rights and renting factory buildings. Third, the appreciation of the *Renminbi* and the increase in the social security benefits drove up operational costs, which resulted in some factories shutting down. All these changes had an impact on Yantian. In addition, Chen Guangsheng, the vice chairman of the Village Shareholding Economic Cooperative, felt that the Guangdong policy overemphasized enterprise restructuring, bringing psychological pressure to some businessmen. Consequently, the number of foreign companies in Yantian dropped swiftly from 2003 so that by mid-2008, there were only 202 foreign companies, a 53 percent decrease compared with the peak year of 1998. The fees paid by each enterprise to the village collective also dropped, directly eating into the village collective's revenue. To maintain the growth of the village collective and improve its balance sheet in such

an unfavorable situation, an important decision to develop independently was taken.

In fact, the Enterprise Development Company (“development company”) had been set up as early as 1989. It was an investment entity that was able to enter into various economic contracts independently. Primarily, it had three main functions: contacting foreign enterprises to invest in Yantian; to enter into various economic contracts with joint ventures, cooperatives, and solely foreign-owned companies on behalf of the village collective; and conduct different investments on behalf of the village collective. The first major investment project was the Dongguan New Century Science and Education Ltd. Co. in 1991 in which the development company took a 17 percent stake (30 million yuan) but it was not successful.

Besides, in 1992, together with a Hong Kong investor, the development company set up the Dongguan Dongshan Jewelry Ltd. Co. to produce semijeweled ornaments. The village collective invested 1.5 million yuan in the name of the development company to take a 25 percent share. Thereafter, the development company partnered with foreign investors to set up joint ventures, such as the Dongguan Bingshun Lacquer Ltd. Co., the Dongguan Guoji Plastic Molding Machine Manufacturing Ltd. Co., and the Dongguan Yongcong Magnetic Mixed Fertilizer Ltd. Co. However, unfortunately, all these investments later encountered problems. These joint ventures mostly engaged in the processing and compensation trade and were controlled by foreign investors with the materials imported and the finished products exported. As a result, it was very difficult for the village collective to get a full picture of the joint ventures and genuine participation in management was problematic. By the end of 1995, all these joint ventures were restructured into contract responsibility enterprises and finally into wholly foreign-owned enterprises. This changed the pattern of profit distribution between foreign investors and the village collective from profit sharing to the payment of comprehensive service fees.

In the early nineties, in addition to setting up joint ventures, the development company also tested the water in the real estate sector. Around 1992, in the name of the development company, the village collective bought shares through the Dongguan Yantian Industrial Zone Development Ltd. Co. in a real estate project called “Fengtian New Village” with a plot of land in the village center priced at 9.6 million yuan. Initially, the collective held only 30 percent of the shares but in 1997 and 1998, some shareholders withdrew their investment and as a result the village collective share rose to 55 percent. The

project was concluded in 2007. A rough estimate shows that between 1992 and 2007, the project earned the village collective a net profit of around 100 million yuan, with the bulk of the earnings coming after 2000. In 2005 and 2007, the net profits had been 22 and 33 million yuan, respectively.

Investment in the “Fengtian New Village” project demonstrated to the village collective the profits that could be made in real estate and, as a result, committed itself to another real estate project in Shanghai—“Datong Garden.” Over the next three years, the development company invested over 100 million yuan and turned a 40 million yuan net profit. In 2000, the development company invested 48 million yuan in a real estate project in Guangzhou (the village collective held 15% of the shares) through the joint establishment of the Guangzhou Zhengxin Investment Ltd. Co. Within two years, the project made a net profit of 22.95 million yuan. Another real estate project in 2004 netted 4.31 million yuan, while the collective expected to make between 30 and 50 million yuan from the “Zhongyin Garden” project.

The onset of the global financial crisis (2008) caused a lull in real estate profits but the sector was still viewed as having the potential to generate major revenues. In 2006, the development company, together with its old partner in the “Fengtian New Village” project, developed the “Cuihu Luxury Garden” taking a 55 percent share. While the first phase of the development sold out within three days, the second phase came on stream in mid-2008 just as the impact of the global financial crisis was being felt. As a result, almost no houses were purchased until early 2009 when the market picked up sufficiently so that by April around half of the houses were sold without any discounts. The village still expected to earn a net profit of at least 150 million yuan. From late 2008 to early 2009, the development company partnered with another real estate developer to set up the Dongguan Jiazhaoye Real Estate Development Ltd. Co. with a three million yuan investment to take a 20 percent share. This project was a reconstruction of the old city with an old factory plant and surrounding houses to be torn down to make way for the construction of commercial buildings.

The real estate bug led them to invest in spa and resort development. In 2000, the village collective invested 271 million yuan to build the Yangjiang Hot Spring Holiday Resort in Heshan Town, Yangjiang City, Guangdong Province, but at the time of writing the project had not yet made money. The development company also invested in two hotels through the Dongguan Baolin Entertainment

Ltd. Co.: the Fengtian Hotel, a three star establishment and the Yi'an Hotel, a four star hotel in the village. The former investment was not especially profitable but the Yi'an Hotel operated under a contract that provided a fixed annual return of 900,000 yuan before 2002 and only 750,000 yuan from 2003 on.

The development company also became an active and passive investor in the stock market, although results were mixed. In 1991 and 1992, the village invested 30 million yuan for a 17 percent stake in the New Century Elite School, a private school set up by the Dongguan New Century Science and Education Extension Ltd. Co. in Yantian. The majority shareholder of the school intended to list the school on the stock market, and in 2000 acquired a listed company, Jinlong Joint Stock, with the result that the Yantian collective's investment was fully converted into shares of Jinlong Joint Stock. From 2000 to 2003, the market price fell and so the village decided to sell short its shares of the Jinlong Joint Stock and only recovered eight million yuan. Although it was a failed investment, it did promote the development of local education, discussed further in [chapter 6](#).

Instead of dampening Yantian's enthusiasm, the failure boosted village confidence in the stock market. In 2001, the development company invested 2.25 million yuan to buy Minsheng Bank stock and received relatively good returns. In 2007, the village collective sold short and earned a total of 19.02 million yuan over five years. By contrast, the 2003 4.3 million yuan investment in the Guangdong Development Bank ended in failure. By 2009, not only had this investment not reaped any profit but also a large part of the original investment was lost. At the request of investors and local villagers, in 2002 together with some private investors, the development company invested nine million yuan (30% of the total) to build the Dongguan Guangji Hospital. By the end of 2008, the hospital became self-financing and accumulated 120 million yuan in total assets. This marked a sound investment in terms of both economic and social returns.¹⁰

Thus, the strategy of the village collective was to use the development company to invest in companies and projects to form a base for economic development. The major mechanism was to use joint-stock companies, usually with the development company as a minority stakeholder. Its experience of setting up joint ventures with foreign companies was generally unsuccessful with most of the dozen or more enterprises ending in failure. One relatively successful experiment was the Dongguan Bingshun Lacquer Ltd. Co. In 1996, the village collective invested 5.03 million yuan to take a 25 percent stake in the

company for 12 years. The contract was completed smoothly in 2008 and the profit amounted to nearly 30 million yuan. However, while the investment brought economic rewards, it did not contribute further to the long-term development of Yantian. The village collective was hardly involved in the management and simply collected from the foreign investors a fixed amount through the contracted fees (a little over two million yuan per year). Thus, after 12 years when the contract ended, the village collective withdrew from the company.

Reviewing the various investments, it is clear that the development company and the village collective gained the most profit from the real estate sector. In 2011, there were two projects under construction, namely Cuihu Luxury Garden in Yantian village and Zhongyin Garden in Dongguan, with the village collective as the largest shareholder. Despite attempts from the central government to cool the real estate market, it looks as if real estate will remain the spur for future development. In 2011, Dongguan and Fenggang were still proving attractive to Shenzhen real estate developers and inhabitants, in part because of the power prices. It takes only 90 minutes to travel to downtown Shenzhen. Moreover, Shenzhen authorities imposed purchase limits as a part of the central government's attempts to curb property speculation and inflation. These policies prohibit a Shenzhen-registered resident (*hukou*) from buying a third home (*Shenzhen Standard*, January 5, 2011). However, prices in Dongguan were unstable and through 2011 only picked up in October after falling in the previous months (see www.nddaily.com, October 14, 2011).

This has consequences for the development of the hospitality industry in Yantian, despite its poor performance to date. Investment in the stock market, initially passive and later active, has not provided satisfactory returns and is unlikely to provide a source for long-term development for the collective economy. Logistics present a relatively important and promising sector but it is subject to the vagaries of foreign demand. This makes it an unpredictable source for future development.

Over the two decades, the development company did turn a profit for the village collective. Especially from 2000 to 2007, it made a total profit of 256 million yuan from its investment portfolio, generating an annual return of 32 million yuan. Over these eight years, almost 175 million yuan of the total profits was paid out as dividends to the villagers, an average of 21.85 million yuan annually (accounting for 68.3% of total profits; the remaining 31.7% was retained for the company's own expansion; field survey data, February 2009).

THE VILLAGE COLLECTIVE'S FISCAL PICTURE AND YEAR-END PROFIT SHARING

Guangdong is an economic leader in China, and Yantian's economic development is among the best in Dongguan. In 2007, Yantian was ranked third in economic development in Dongguan, with its disposable income ranked fifth among all Dongguan's administrative villages while its net assets at the village committee and the villagers' group level ranked first. Nationally, while not the best, it certainly ranks fairly high. Having reviewed the basis for the strength of the collective and the major sources of revenue from collaboration with foreign investors and its own development company, it remains to review how the collective distributes its revenues. Income for individual families comes through both the level of the administrative village and also the villagers' groups (natural village).

Income and Expenditure of the Village Collective

The large number of foreign companies significantly improved Yantian's finances through their payment of the land management fee, rent for the factory buildings, the "comprehensive service" fee, and the foreign exchange retention. The village collective also made money through the independent investment of the development company, and these two sources provided a stable income source. Below we use the data from 2007 and 2008 to analyze the fiscal situation and profit sharing of the village collective. This sheds light on the village's fiscal management and helps us understand the income and living standards of its residents (see also [chapter 5](#)) as well as the source of funding for public goods and services that discussed in [chapters 6](#) and [7](#).

According to the 2008 public financial report, the total income of Yantian village was 199.04 million yuan, up 5.5 percent on 2007. Total expenditure was 68.54 million yuan, 4.55 million yuan, up 7.1 percent. Therefore, the net profit for 2008 was 130.5 million yuan; an increase of 4.6 percent on 2007 despite the impact of the global financial crisis.

Income derives from four main sources. First, there are the above-mentioned four fees paid by the foreign companies; second, store rents for industrial and commercial premises paid by businessmen from outside of Yantian; third, fees for contract farming paid by migrants growing vegetables or planting rice; and fourth, fees paid by other outside contractors according to their particular business. We

classify these as income from external sources.¹¹ In 2008, these payments totaled 106.18 million yuan (up 2.2% on 2007), 53.3 percent of the total village income (199.04 million yuan). In addition to these fees, the village also has its “self-generated income” that the collective derives primarily from the development company. In 2008, this amounted to 92.86 million yuan (46.7% of the total income for the village collective).

Among the external sources, the four fees from the foreign companies accounted for 91.6 percent of the total income of 2008 (97.25 million yuan). Factory rent accounted for almost half of this amount (47.2%, 45.87 million yuan), foreign exchange retention for one-quarter (25.4%, 24.73 million yuan), land use fees paid by the foreign companies also contributed almost one-quarter of the total income (23.5%, 22.87 million yuan), while the comprehensive service fee made up only 3.9 percent of the total (3.77 million yuan). Individual businessmen paid 5.34 million yuan in rent (5% of the total paid by nonlocals), contracted farmland accounted for only 1.7 million yuan (1.6% of the total), and other outside contractors paid 1.89 million yuan in various fees (1.8% of the total).

By comparison with 2007, rent for factory buildings and the land management fees increased significantly (5.8 and 9.3%, respectively), while the foreign exchange retention and the comprehensive service fee dropped significantly (5.3 and 9.8%, respectively). The increase in the first two categories reflects the direct increase of production costs for foreign companies, while the fall in the latter two indicates the decrease in the import of raw materials for processing and product export. This reflects the increase in the burden of foreign enterprises operating in the region and also the drop in economic efficiency.

In 2008, self-generated income came mainly from three sources. First, there were the charges for public utilities’ provision, which included 30.55 million yuan for power supply (27.50 million yuan paid by the power control station and 3.05 million yuan paid by factories); 6.91 million yuan in water charges (paid to the village collective through the water plant); 5.5 million yuan from the collection of fees for market facilities and market management (paid to the village collective by the market management office); and income from fees for property management, tickets for Yanhu Park, and the service fee from the processing office. This accounted for 50.1 percent (46.53 million yuan). Second, investment income accounted for 40.6 percent of the total (37.67 million yuan). This money was generated mainly by the Yantian Enterprise Development Company, which

paid 32 million yuan (85% of all investment income) to the village collective. Other investment income came from the industrial zones and property management. Third, income was generated from the village collective's savings, interest on loans, and currency exchange gains. In 2008, this amounted to 8.68 million yuan (9.3% of the total self-generated income).

In terms of expenditures, the major outlay was for water, electricity, and other public goods, totaling 40.56 million yuan (59.2% of the total outlay of 68.54 million yuan). This meant that there was still a net profit of 5.97 million yuan, not a large amount but at least the village collective did not lose money while providing these public goods. The major part of the outlay was the cost of electricity paid to the power distribution plant (27.32 million yuan) and to China Southern Power Grid (4.72 million yuan). The depreciation cost was 4.40 million yuan and the fees to the Yuehai Company for operations and water charges were 3.69 million yuan.

There were also expenses connected with leasing the village collective assets, the largest of which was the depreciation costs that totaled 14.97 million yuan (82.1% of the total leasing expenses). There were also plant maintenance fees and the return of foreign exchange retention for some factories, this amounted to 26.6 per cent of total expenditures (18.24 million yuan). Remaining expenditures included management costs (7.37 million yuan, 10.7% of the total) related to the village collective's investment activities, taxes (property tax, business income tax, land use tax, 1.17 million yuan, 1.7% of the total), and other expenses (including the cost of bad loans and net loss from fixed assets disposal, 1.21 million yuan, 1.8% of the total).

Year-end Profit-Sharing

The question remains as to how the 100 million yuan net profit for 2007 and 2008 was distributed. The "Regulations of the Shareholding Economic Cooperative of Yantian Village, Fenggang Town" ("Regulations," *Fenggang zhen Yantian gufen jingji lianheshe zhangcheng*) adopted on November 6, 2003 stipulate three basic principles for this distribution. First, the interests of the state, the collective, and individuals should be balanced appropriately. Second, the village collective is permitted to retain a minimum of 40 percent of the net profits each year as a public reserve and a public welfare fund. These funds are to be used mainly for the expansion of production and collective public undertakings. Third, the remaining net profits

are to be used as dividends of collective and individual shares, with the collective share accounting for 38 percent of the total stock, individual shares accounting for 62 percent. In fact, the state's interest is taken care of through taxes from the various processes on production, exports, and consumption. Thus, the year-end profit-sharing is mainly intended to balance the interests of the village collective and individual villagers.

As noted, the 2008 village collective income was 199.04 million yuan with a total expenditure of 68.54 million yuan, yielding net earnings of 130.50 million yuan to be distributed at year-end. The first task was to identify the quota of the public reserve and public welfare funds. The amount was decided after consultation by the three committees (the Village Party General Branch, the Villagers' Committee, and the Village Shareholders' Economic Cooperative) and discussion by a meeting of the shareholder representatives of the Village Shareholding Economic Cooperative.¹² The consultations determined that 53 percent (69.17 million yuan) should be held for these funds, leaving 61.34 million yuan for the collective and individual shares. Of this amount, the collective share was 23.31 million yuan (38%) to be used for those important construction projects and public goods' provision and services that were deemed important for the development of the village community. This account had both income and expenditures, with expenditure usually far exceeding income. For example, in 2008, the major items of expenditure were nearly 30 million yuan on various construction projects (road and bridge rebuilding and upgrading), over 7 million yuan for environmental protection and sanitation, over 6 million yuan for public security, over 2 million yuan for elderly care, and over 1.5 million yuan for education. In addition to the collective share of the year-end profit, which was the largest revenue source, other revenues brought the fund to 27.42 million yuan. Other revenues included over 2.5 million yuan from operational charges from the sewage treatment plant paid by the town to the village and over 600,000 yuan of allocations and awards paid by the town. In 2008, the account ran a huge deficit of 38.09 million yuan, with expenditures of 65.51 million yuan.

Finally, the distribution of the 38.03 million yuan in dividends for the villagers had to be decided. The village had 761 shareholder households or 2,988 shareholder individuals. Therefore, each individual shareholder was to receive 12,727 yuan, with the final dividend verified at 12,730 yuan. This was an average of roughly 50,000 yuan per household, roughly the same as in 2007.

Villagers' Group Economy

The second level of the collective economy is with the nine villagers' groups. Since the villagers no longer engage in farming, administratively the villagers' group had very few things to deal with independently. Infrastructure such as roads, power, and water supply within the village jurisdiction and social services such as schooling, hospitals, family planning, environmental protection, public security, and social security were all arranged and managed at the administrative village level. Even the farming contracts were taken care of by the village. Their few remaining important activities include organizing various meetings and coordinating all departments to deal with family planning, environmental protection, and house rentals. However, as an economic organization, each villagers' group had a shareholding economic cooperative, generally staffed by one director and two members. Usually the director would double as the villagers' group leader and the two members as assistant group leaders. This shareholding economic cooperative usually has two financial staff (an accountant and a cashier) and three members of the board of supervisors. To ensure the financial independence of the group, the accountant and cashier of each villagers' group had to be drawn from a different villagers' group.

With very few locals engaged in farming, the major tasks for the shareholding economic cooperative are to introduce foreign investors, manage all properties, and try to raise more rental income. The village collective also encouraged all villagers' groups to use effectively their specific advantages to attract more foreign investment. The administrative village stipulated that for foreign investors introduced by the group, it would provide land free of charge but take 8 percent of the earnings made by the group for the village-level collective.

All nine villagers' groups have successfully attracted foreign investors with Xifang having the most and Buxin also attracting a significant amount. Donger and Shijie attracted relatively large foreign companies; for example, one Japanese company located in Shijie employed nearly 4,000 workers. All nine villagers' groups had brought in individual businesses from outside of Yantian and leased stores to them, with Nanfang leasing the largest number of stores. Generally speaking, the more foreign companies and stores run by outsiders, the more rent and year-end dividends the villagers received.

If the cooperative yielded good economic returns, in addition to the basic salary (generally 2,000 yuan per month), the director

and members could get a bonus of 5–10 percent of the net profits. Shareholders of the villagers’ group could also receive dividends but year-end profits varied across them. Our July 2008 survey revealed that in 2007, Shijie had the largest net profit of the nine groups, totaling over 4 million yuan, providing its shareholders with the highest dividends. The group leaders told us that the dividend per person was 9,000 yuan in Shijie, 5,500 yuan in Buxin, 3,000 yuan in Changbiao, and 2,000 yuan for Shuibe and Xifang, 1,000 yuan for Beifang and Nanfang and no dividend for Dongyi and Donger. Taking Shijie, the group with the largest net profit as an example, the total per capita dividend in 2007 was 21,160 yuan. This was the total of the individual shareholders dividend from both the village collective and the group collective. This amount did not include salary or income from the leasing of family houses.

To get a clearer picture of economic activities and profit distribution at the level of the villagers’ group, we made a detailed analysis of the nine groups in 2005,¹³ based on the data we collected during a field visit to Yantian in 2006 (table 4.1).

Based on the statistics in table 4.1 we can make the following observations. The main entity is the group’s economic cooperative that oversees economic activities independent of those of the administrative village and the family household economy (discussed in chapter 5). Second, all the villagers’ group economic cooperatives generated their own independent income but the amount varied significantly. For example, in 2005 the net profit for the highest earner, the Shijie Economic Cooperative, was 2.85 million yuan, while the lowest earner, the Dongyi Economic Cooperative, made less than 1 million yuan. The difference was even sharper in terms of income per capita with the Shijie villagers’ group enjoying 18 times the income of the Dongyi villagers’ group (see table 4.2).

Third, only four of the nine villagers’ groups had investment returns at the group level. With the exception of Shuibe (42.7%), the investment return for the other three groups accounted for a very low proportion of the total income, only 0.5 percent for Xifang, 1.5 percent for Shijie, and 4.3 percent for Beifang. Although the provision of water and electricity generated some income, no net profit was created given the high cost. With the exception of the Buxin and Xifang villagers’ groups that provided water and electricity to factories, group members, and other nonlocals, the proportion of the total net income was very low. For Buxin and Xifang it was 31.7 percent and 26 percent, respectively, but only 12.3 percent for Beifang, 8.9 percent for Changbiao, 1.3 percent for Nanfang,

Table 4.1 Survey of Income, Expenditure, and Profit Distribution of Villagers' Groups (Unit: 10,000 yuan)

	Dongyi	Donger	Nanfang	Xifang	Beifang	Buxin	Shuibe	Shijie	Changbiao
Total income	128.66	286.37	323.04	652.20	277.81	860.55	179.76	670.97	555.26
Rent and contracting income	127.33	263.35	231.83	278.07	115.84	264.05	46.94	388.57	218.68
Rent and contracting income to the total income (%)	99.0	92.0	71.8	42.6	41.7	30.7	26.1	57.9	39.4
Factory building rent and store rent	114.13	246.23	209.84	216.93	107.73	80.02	19.14	296.27	169.08
Factory building rent and store rent to total income (%)	88.7	86.0	65.0	33.3	38.8	9.3	10.6	44.2	30.5
Factory building rent	67.53	180.12	127.43	189.94	71.97	69.74	12.24	289.25	169.08
Factory building rent to total income (%)	52.5	62.9	39.4	29.1	25.9	8.1	6.8	43.1	30.5
Income from water and power provision	0	15.04	29.16	367.29	131.88	595.75	0.67	241.13	335.02
Income from water and power provision to total income (%)	0	5.3	9.0	56.3	47.5	69.2	0.4	35.9	60.3
Income from power supply	0	12.91	24.15	367.15	131.88	594.62	0	241.13	334.76
Income from power supply to total income (%)	0	4.5	7.5	56.3	47.5	69.1	0	35.9	60.3
Net income (net profit)	99.45	219.69	194.76	214.80	100.82	236.30	124.86	284.89	145.07
Net income from rent and contracting 1	102.97	240.60	167.91	178.93	79.08	184.71	12.84	282.00	154.47

Net income from rent and contracting 1 to the total net income (%)	103.5	109.5	86.2	83.3	78.4	78.2	10.3	98.99	106.5
Net income from rent and contracting 2	98.12	213.07	130.22	152.12	58.37	160.58	-7.96	243.17	130.53
Net income from rent and contracting 2 to the total net income (%)	98.7	97.0	66.9	70.8	57.9	68.0	-6.4	85.4	90.0
Net income from water and power supply	0	-1.36	2.49	55.84	12.36	74.97	0.67	0.45	12.98
Net income from water and power supply to the total income (%)	0	-0.6	1.3	26.0	12.3	31.7	0.5	0.2	8.9
Public reserve fund (10,000 yuan)	59.83	208.87	128.89	89.65	27.26	99.72	59.81	139.61	63.08
Proportion of public reserve to net income (%)	60.2	95.1	66.2	41.7	27.0	42.2	47.9	49.0	43.5
Public welfare fund (10,000 yuan)	2.00	0.82	10.06	7.95	6.48	7.55	5.78	10.68	16.02
Proportion of public welfare fund to net income (%)	2.0	0.4	5.2	3.7	6.4	3.2	4.6	3.7	11.0
Per capita welfare distribution (10,000 yuan)	28.62	0	34.50	91.5	52.24	105.00	44.20	112.00	50.00
Proportion of welfare distribution to net income (%)	28.8	0	17.7	42.6	51.8	44.4	35.4	39.3	34.5

continued

Table 4.1 Continued

	Dongyi	Donger	Nanfang	Xifang	Beifang	Buxin	Shuibe	Shijie	Changbiao
Villagers' group leaders compensation (10,000 yuan)	9.00	10.00	16.00	18.00	8.00	20.00	12.00	19.00	14.00
Proportion of leaders compensation to net income (%)	9.0	4.6	8.2	8.4	7.9	8.5	9.6	6.7	9.7
II. Total expenditure	29.21	66.68	128.28	437.40	176.99	624.25	54.90	386.08	410.19
2.1 Leasing cost (depreciation etc.)	24.36	22.75	63.92	99.14	36.76	79.34	34.10	106.57	64.21
2.2 Electricity bills	0	13.66	21.67	311.11	119.52	519.85	0	240.68	322.04
2.3 Water bills	0	2.74	5.00	0.34	0	0.93	0	0	0
2.4 Management costs (hospitality, staff compensation, etc.)	4.02	15.00	33.10	22.28	19.76	23.53	15.63	35.67	20.33
2.5 Business tax	0.83	12.53	2.12	1.23	0.95	0.60	0.17	2.18	1.09
2.6 Other expenditures	0.002	0	2.47*	3.30	0	0	5.00	0.98	2.52

* This item was general depreciation cost, not relating to leasing.

Source: Field survey of Yantian Village, June 2006.

Table 4.2 Income and Income Per Capita Distribution Among Different Villagers' Groups

	Dongyi	Donger	Nanfang	Xifang	Beifang	Buxin	Shuibe	Shijie	Changbiao
Population (in 2005)	497	645	345	301	481	218	222	143	206
Total income (10,000 yuan)	128.66	286.37	323.04	652.20	277.81	860.55	179.76	670.97	555.26
Income per capita (yuan)	2,589	4,440	9,363	21,668	5,776	39,475	8,097	46,921	26,954
Index of income per capita*	1.0	1.7	3.6	8.4	2.2	15.2	3.1	18.1	10.4
Net income (10,000 yuan)	99.45	219.69	194.76	214.80	100.82	236.30	124.86	284.89	145.07
Net income per capita (yuan)	2,001	3,406	5,645	7,136	2,096	10,839	5,624	19,922	7,042
Index of net income per capita**	1.0	1.7	2.8	3.6	1.05	5.4	2.8	9.96	3.5

Notes: * Index of income per capita—taking the lowest Dongyi villagers' group's income per capita as 1, then using other villagers' groups' income per capita numbers dividing by Dongyi villagers' group number.

** Index of net income per capita—also taking the lowest Dongyi villagers' group's net income per capita as 1, then using other villagers' groups' net income per capita numbers divided by Dongyi villagers' group number.

Source: Field survey in Yantian village, June 2006.

0.5 percent for Shuibe, 0.2 percent for Shijie, and a loss of 0.6 percent for Donger (table 4.1).

Because these villagers' groups did not have independent investment operations and providing water and electricity was not profitable, they tended to generate income from renting factory buildings to foreign companies, renting stores to nonlocal business people, and contracting farm land or other means of production to outsiders. With the exception of the Shuibe villagers' group, leasing and contracting were the major source of net income for all other groups (see table 4.1). In Shuibe, this amounted to only 26.1 percent while in Dongyi it accounted for 99 percent.

Fourth, with respect to profit distribution, all villagers' groups retained the largest share of net profit for the public reserve fund so as to promote better the group's economic development in the following year. There were major variations between the villagers' groups. Donger retained 95.1 percent for the fund but the group did not arrange any welfare distribution. Seven groups retained between 41.7 percent and 66.2 percent for the reserve fund (Xifang, Buxin, Changbiao, Shuibe, Shijie, Dongyi, and Donger) while Beifang retained the least (27%). Except for Dongyi and Donger, all the other villagers' groups provided subsidies for the elderly; the Nanfang villagers' group also provided a subsidy for families of soldiers and martyrs within their group. The other eight groups did not (table 4.1). In all the villagers' groups, the compensation of the villagers' group leaders was under 10 percent, with Changbiao (9.7), Shuibe (9.6), and Dongyi (9.0) the highest and Donger the lowest at 4.6 percent. Changbiao distributed the highest percentage (11%) to the public welfare fund and Donger the lowest at just 0.4 percent. In monetary terms, this was a difference of 160,000 yuan and 8,200 yuan, respectively.

Fifth, none of the nine groups paid dividends to villagers directly but arranged noncash welfare distribution according to the population size in 2005. Beifang arranged for the largest share, 51.8 percent of its net income; Buxin was the second highest with 44.4 percent; three of the nine arranged over 30 percent of their net profits. Only Donger did not arrange any welfare distribution to the villagers in its group.

The foundation of the village economy is based squarely on the capacity of the collective institutions that operate at the level of both the administrative and natural village. The strength of the collectives draws on the ties of solidarity that derive not only from the dominance of the Deng lineage but also from the pre-1949 relationship

between villagers and outsiders. The wealth was produced primarily by the arrival of foreign investors, supplemented by income derived from the villagers' own development company. The economic cooperatives at both levels decide on distribution of revenues and allocation of expenditures. Participation in the collective by the villagers seems to have raised the level of trust in these organizations. In addition to these collective incomes, there is also a thriving family and individual economy to which we turn in the next chapter.

“FROM TRACTORS TO AUTOMOBILES”: HOUSEHOLD ECONOMIC MANAGEMENT

Chapter 4 showed just how important the administrative village collective and the villagers’ groups are for the individual inhabitants of Yantian. The former provided diverse public goods and services as well as the year-end dividends. The latter, depending on performance and development, offered some welfare to villagers in the group. However, the current village collective differs significantly from the village collectives of the commune period and although individuals enjoy the public services and welfare offered by the village or group collective, individual villagers do not give up their independence to conduct their own economic activities. On the contrary, we can witness the coexistence and complementary interaction of economic, political, and social development at all three levels—the administrative village, the villagers’ group, and the individual family household. The social and political issues are taken up in subsequent chapters while in this chapter we focus on economic management at the family household level.

In March and April 1995, Biliang Hu participated in a systematic survey that looked in-depth at household economic management¹ and in July 2008, we reviewed this again.² This chapter draws on data from these two surveys to aid the analysis of the household rural economy. In 1995, five households were chosen from each villagers’ group—two better-off households, two with a moderate income, and one poor household (45 households from nine villagers’ groups).³ In 2008, we sampled four to six households from each villagers’ group but only surveyed seven of the nine villagers’ groups (Dongyi and Changbiao were not included in the survey).⁴ The 1995 survey covers data from 1994, and the 2008 survey covers 2007.

INCOME SOURCES AND HOUSEHOLD STRUCTURE

The two rural household surveys found commonalities and differences. The most obvious common factor was that agriculture was not a major source of income for villagers but, not surprisingly, there were more differences than similarities.

From the 1995 survey, we found that 3 of the 44 households had already returned their farmland to the village collective in 1985. This land covered 58 *mu*—52 *mu* of which was irrigated land, 4 *mu* dry land, and 2 *mu* of private plot (*ziliudi*). The 3 households had 20 members, including 6 laborers. One household received 2,400 yuan in compensation from the village collective, while the other two households could not remember the specific compensation. In 1987, a fourth household had land covering 19 *mu* (14 *mu* irrigated and 5 *mu* of dry land) taken back by the village collective. The household had five members, with two laborers, and got 2,000 yuan from the village collective as compensation. The farmland of the remaining 40 households was gradually taken back by the village collective between 1988 and 1992.⁵ Almost all those interviewed recalled receiving some compensation from the village collective but specific information was mixed (Wang, Zhang, and Yao, 1996, 71–73). Effectively, the village collective took back all Yantian farmland for collective use within the space of five years and it seems that villagers were satisfied with the compensation and, unlike in some areas, the process did not create conflict with the village collective. Potential conflict was mediated by the job opportunities that arose with the foreign-invested companies. Communal farmland was redistributed to individual family households in 1982 but already in 1983 four Yantian households proposed subcontracting their farmland to their relatives or friends, with the subcontractors paying the agricultural tax or a lump sum subcontract fee of 220–400 yuan per *mu* (Wang, Zhang, and Yao, 1996, 70).

Not surprisingly, income came from off-farm activities, and our colleagues introduced the term “new sideline activities” (*xin jianye-hua*) to describe the situation where villagers were not only employed full-time by enterprises but also ran other sidelines as part of the household economy. These sidelines included both farm operations and businesses either in industry or in the tertiary sector. The “new sidelines” were distinct from traditional “sideline activities” where villagers not only focused on farming but also engaged in some nonagricultural activities. Among the 44 households, in addition to household heads working as directors or managers of enterprises or in the village administrative departments, members of households also

ran other sidelines: seven households operated fruit orchards, three households raised pigs, and 16 derived rent from leasing their houses (Wang, Zhang, and Yao, 1996, 81).

Grouping the categories together, 38.5 percent of income (2.28 million yuan) came from household businesses (animal husbandry and aquaculture, fruit and vegetable farming, construction, stone excavation and processing, commerce and transportation, as well as repair and maintenance). Income from salaries (employment in foreign enterprises, serving the village committee, and working in village education and health sectors) provided 28.6 percent of the total (1.69 million yuan), while income from property rentals provided 32.9 percent of the total (1.951 million yuan).

Information on income from interest, stock dividends, and dividends from the village and group collective was unavailable but at the time such income was minimal. Despite this, we can discern two important characteristics of income structure in 1994. First, even though farmland had been taken over by the collective, various household economic activities were still the most important for income (38.5% of the total). Second, property rentals were extremely important for household income supplying almost 33 percent of the total as was employment in foreign enterprises (21.9% of the total). Sixteen of the 44 sampled households had leased their houses to migrants.

Before 2007, several important changes occurred in the local economy that impacted on household income: the number of foreign enterprises in Yantian expanded, more outside businesses had set up operations, and increasing numbers of migrant workers sought employment in foreign enterprises. These trends all created greater opportunities for rental income. With the strengthening of the collective economy, the dividends paid out took up a greater share of household income and the upgrading of infrastructure provided more opportunities for nonagricultural activities by household members. As a result, the 2008 survey found that income generated from household businesses had declined significantly, while income from dividends from the village or group collective, which had been negligible in the 1995 survey, now took up a major share not only of property income but also of overall household income (see [table 5.1](#)).

For 1994 and 2007, the share of salary remained roughly the same (28.6% and 31.9%, respectively), while the share of transfer income is negligible.⁶ The operational income from family household economic activities witnessed a dramatic decline of 27.7 percentage points, while income from property rose by 22.2 percentage points. Dividends for households from the village and group collectives surged from a

Table 5.1 Income Source of 39 Sample Households in 2007

Source of income	No. of households		Income (10,000 yuan)	Share (%)	
				Share in category (%)	Share of total income (%)
I. Income from household economic activities	7*		108.2	100.0	10.8
1.1 Forestry	2		15.0	13.9	1.5
1.2 Industry and construction	2		69.3	69.3	7.5
1.3 Services	4		18.2	16.8	1.8
II. Income from salary	36**		318.7	100.0	31.9
2.1 Employment in local enterprises	25		123.5	38.8	12.4
2.2 Other labor income in the local area	16		45.2	14.2	4.5
2.3 Income generated from outside the village	4		21.0	6.6	2.1
2.4 Employment in local administrative agencies (mainly village administrative agencies)	16		129.0	40.4	12.9
III. Income from property	39***		549.7	100.0	55.1
3.1 House rental	36		318.9	58.0	31.9
3.2 Dividends from village/group collective	39		228.2	41.5	22.9
3.3 Interest income	11****		2.6	0.5	0.3
4. Transfer income*****	12		21.6	100.0	2.2
Total	39		998.2	—	100.0

Notes: *One household was engaged in two family household economic activities, making the number of households seven rather than eight.

** As there are often more than one member in employment in a household, 36 does not represent the sum of breakdown figures under this category.

*** As there may be multiple sources of property income for an individual household, 39 here is not the sum of households with diverse sources of income under this category.

**** We believe that all households had interest income; however, most interviewees were reluctant to share such information, as this would reveal the family savings, which is not welcomed by most families.

***** Transfer income includes: (1) income taken home or remitted by migrant workers out of his/her home town; (2) donations from relatives and friends; (3) relief funds; (4) disaster relief allowances; (5) insurance annuity; (6) retirement pension; (7) pension; (8) subsidy to grain growers; (9) subsidy for purchasing hybrid seeds, and the procurement of farm machinery and means of agricultural production; (10) other subsidies. For some villagers in Yantian, they received minimal income from transfer payments, mainly old-age pension or other subsidies delivered by the villagers' group.

Source: Data collected and calculated by the authors based on field investigation in Yantian village, July 2008.

minimal figure in 1994 to almost 23 percent in 2007, these all represent the significant changes to the source of family income. Thus, it was house rentals and dividends from the collectives rather than household businesses or employment that drove the increase in income.

In 2007, over 50 percent of household income came from house rentals and the dividends from the village and group collectives (31.9% + 22.9% = 54.8%), 31.9 percent came from the salaries of the family members, and only 10.8 percent from the operational income of household economic activities, and just 2.5 percent from other sources. In general, the houses are leased to migrant workers employed by foreign enterprises and businessmen working in Yantian; the dividends from the village and group collectives are mostly generated from the various charges and payments made by foreign enterprises to the collectives (factory rent, land use charges, foreign exchange retention, and the comprehensive service charge); and Yantian villagers had more employment opportunities from the flourishing foreign investment. As a result, in 2007, household income was highly dependent on foreign investment in the village and the increase in villagers' income was largely underpinned by the growth of foreign enterprises. Self-generated income accounted for only 10 percent of the total.

INCOME DISPARITY AMONG FAMILY HOUSEHOLDS

One would expect an income structure dominated by family household businesses to have large disparities at the household level, as individuals have different capabilities and households differ with respect to the possession of material, human, and social capital. Yet, the situation in Yantian was quite different as household economic activities only made a small contribution to the total income. There are significant differences, but the dividends do provide a cushion for the poorer households.

In 1994, the average income was 135,000 yuan ranging from a high of over 900,000 yuan, to a low of only 10,000 yuan. Most of the households (37, 84%) had an income of less than 200,000 yuan, and 12 earned less than 50,000. Four households with an annual income in excess of 300,000 yuan derived this principally from household economic activities rather than from house rental or salary from industrial employment. The most affluent household in 1994 (900,000 yuan) took 400,000 yuan in house rental and another 500,000 yuan from the family's construction business, mainly through contracts in Yantian. By contrast, for the three households with the lowest annual

income, this came from factory employment, with no rental income and minimal income from household business activities. Households with access to at least two sources of income (for example, house rental and a factory salary; or income from a household business plus a factory salary) could reap about 100,000 yuan each year.

In 2007, the average income had risen 89.6 percent over 1994 to an average of 256,000 yuan per household. The richest household reported a total income of 795,000 yuan, and the poorest 83,000 yuan, marking a significant narrowing of the differential in comparison with 1994. The main factor driving this change was the surging share of the collective dividend and the dwindling share of the household economic activities. While the highest income was lower than in 1994, on the whole, the income was considerably better in 2007 with only 43.6 percent of households earning an income of less than 200,000 yuan.

The income structure for the highest and lowest earners was similar, with collective dividends, income from household interests, and transfer income. For the four poorest households, there was no income from their own economic activities whereas two of the four richest ran their own businesses, one in fisheries and one in the industrial sector. The latter household also earned 100,000 yuan from a private industrial activity (making 650,000 yuan in total). However, such households were rare in Yantian as household economic activities surveyed only contributed 10 percent of income. Among the richest households, one individual who was a key leader of the villagers' committee enjoyed an income of 387,000 yuan, with an annual salary (including bonuses) of 306,000 yuan. This was, of course, an exception. If one excludes such exceptions, the case can be made that house rental was the major cause of household income disparity. The four richest households enjoyed an average rental income of 162,000 yuan, while three of the four lowest-income households had an average rental income of 27,000 yuan. The house rental income of the richest households was six times that of the lowest-income households, which is roughly comparable to the 6.5 times difference in the overall income. This marked a significant shift from 1994 when certain economic activities were the primary cause of income disparity rather than rental income.

EXPENDITURE STRUCTURE OF THE SAMPLED HOUSEHOLDS

There were three main household expenditures: costs of production, household consumption expenditures, and other outgoings such as property and transfer expenditures. As production expenditures and

other expenditures were not covered in the 1995 household survey, the only comparable data is family consumption expenditures.

We reviewed 12 items of household consumption in 1994: including staple foods, nonstaple foods (such as meat, eggs, dairy products, vegetables, cigarettes, and liquor), dining out, clothing, fuel, medical services and drugs, livelihood commodities, tuition fees, transportation, water and power charges, and telephone charges. The 2007 survey contained a few new items: petrol consumption as few people had private cars in 1994, consumption of services (although negligible), and household appliances/articles that were roughly comparable to livelihood commodities in 1994. Thus, the two data sets for household consumption are roughly comparable.

In 1994, the average consumption expenditures were 43,000 yuan per household (Wang, Zhang, and Yao, 1996, 101). In 2007, this had risen to an average of nearly 80,000 yuan, 1.8 times that of 1994. If we exclude petrol consumption and service consumption the total for 2007 would average 73,000 yuan, 1.7 times that of 1994. In the following discussions, these two items have been excluded to make a closer comparison.

A comparison of 1994 and 2007 reveals some variation. First, the share of food consumption (staple and nonstaple foods, and dining out) dropped sharply from 51.7 to 40.5 percent. Second, clothing expenditures also dropped from 10.6 to 7.7 percent. Accordingly, the share of other consumption expenditures rose by 14.1 percent, the largest rise being in cultural, education, and entertainment consumption, up 5.3 percent, followed by water and power charges (up 3.8%), and medical services (up 3.4%). This reflects both positive and less positive developments. On the one hand, one could argue that the increase in cultural, educational, and entertainment expenditures reflect a better quality of life for the villagers. On the other hand, living costs were rising as seen by the increase in expenditure on power, water, fuel, medical services, transport, and communications.

A number of interesting trends emerge from a comparison of 1994 and 2007. First, there is a positive correlation between total household income and consumption expenditures. For example, in the 1994 survey, the richest household spent 203,000 yuan on consumption out of its total income of 900,000 yuan, while all the other four high-income households reported annual expenditures of over 40,000 yuan. By contrast, four of the five poorest households spent less than 20,000 yuan on living expenditures. The fifth spent 31,000 yuan.

Second, the share of consumption expenditure in total household income was also affected by level of income. In both 1994 and 2007,

not surprisingly, low-income households devoted a much higher share of income to consumption; an average of 78.7 percent for the five poorest households in 1994, and even 130 percent for the poorest one. For the five richest households, the share was only 16.3 percent. In 2007, the shares were 56.4 percent and 23.8 percent, respectively. Noticeably, the share fell for the poorest households but rose for the highest incomes.

Of course, the main cause is that low-income households have to spend most of their income to meet their basic livelihood needs. In this chapter, we discuss the share of living consumption expenditures in total household income rather than in net household income. If the former was above 50 percent, presumably all net income of a household was used for livelihood consumption, which indicated a still challenging task to increase income of poor households and lower the share of expenditure on livelihood consumption. This would also argue for delivering public goods and services at a lower cost to aid poorer households, even in such a rich village as Yantian. These issues will be discussed in detail in the subsequent chapters.

In addition to livelihood consumption, households had various other social and production functions that entailed consumption costs. No systematic data are available from the 1994 survey for these items, although we were able to get some information from subsequent personal interviews. We have tried to use this to make some preliminary observations about other forms of consumption in comparison with 2007.

In 2007, only 8 out of the 39 households (20.5%) were engaged to any degree in production activities. One household did engage in orchard farming, however, the family derived no income as they gave away all the fruits, such as lychee and longan, to friends of the family. Thus, we have only considered the household businesses and the income generated from the activities of seven households and income averaged 155,000 yuan per household but with a variation from a high of 650,000 yuan to a low of only 30,000 to 50,000 yuan. In terms of categorization, we classified three households as managing forests, three as running industrial and construction enterprises, and two operating commercial and service provision.

Two issues emerge from this classification. First, the average costs for those households engaged in business were not high (only 20% of total household income), a lower share than the amount of living consumption expenditures (29.8%) and also lower than the average share of living consumption expenditures of total income for the five richest households (23.8%). Second, investment returns were decent for the eight households—the annual cost–profit ratio being 334 percent for forestry and fruit, 103 percent for commerce and services, and

56 percent for industry and construction. This shows a great potential for investment in these activities in Yantian. This raises an interesting question, given that there are such attractive returns on investment why have the number of households engaged in business been shrinking over the 13 years? Perhaps they prefer the more convenient and less risky revenue streams of house leasing and collective dividends. This reliance on guaranteed income has perhaps contributed to a lack of entrepreneurial spirit among Yantian villagers. This question is worthy of further research.

For the villagers, their major household expenditures were not for daily consumption or family business costs but rather for house building and vehicle purchase, categorized under household property expenditures. Of the 39 households, 16 incurred such expenditures in 2007 (41% of the total) with an average of 541,000 yuan, with a low of 30,000 yuan and a high of 1.2 million yuan. The lower average derives from the fact that three households spent between just 30,000 and 50,000 yuan.

We also looked at transfer expenditures that included donations, remittances, relief, assistance to relatives and friends, and costs for maintaining interpersonal networks (*guanxi*). In 2007, 22 of the 39 households incurred such expenditures with an average of 7,773 yuan per household ranging from a high of 36,500 yuan to a low of 1,000 yuan. In 1994, expenditures to build and maintain interpersonal relationships dominated transfer expenditures, with 30 out of the 44 households making such expenditures, at an average of 4,733 yuan per household. Weddings were a major expenditure. The household with the largest outlay was 30,000 yuan, similar to 2007. However, building interpersonal relationships also generated revenues as well as entailed costs. In 1994, the difference between revenues and outlays for these activities was 58,000 yuan (Wang, Zhang, and Yao, 1996, 113–14). In 2007, we discovered that most people no longer counted spending on interpersonal relationships, only a few hundred yuan, as an expenditure item. It is reasonable to presume that transfer expenditures are probably higher than we have in our calculations.

HOUSEHOLD FAMILY ASSETS

Property expenditures translate directly into household assets. Some assets were accumulated, some were carried forward, and some were only acquired in recent years. Our 1995 household survey highlighted three findings. First, household assets primarily covered three categories: houses, means of production, and consumer durables.

Second, the 44 households had total assets of 16.71 million yuan in 1994, an average of 380,000 yuan per household and 75,000 yuan per capita. Third, the distribution of assets across households was extremely unequal, with the richest owning 162 times the assets of the poorest (Wang, Zhang, and Yao, 1996, 93–99, 100).

As in 1994, the most valuable family asset in 2007 was housing, followed by consumer durables. The most significant difference was that there were no longer any fixed assets for agricultural production such as farm vehicles, tractors, walking tractors, seeders, transplanters, and drainage and irrigation machinery. Given these changes, our 2007 survey of household assets is limited to the possession of houses and consumer durables. Thirty-seven of the 38 households built their own houses, and one young person bought a commercial apartment from the local housing market. Thirty-eight households owned 79 properties, including 72 independent buildings and seven commercial apartments. Of course, many of these properties were acquired in order to rent them to migrants.

Thirty-six of the 38 households leased their properties, in part or entirely, to migrant workers. On average, villagers leased more than two-thirds of their own properties to migrant workers or outside businessmen in Yantian, and resided in the remainder. Twenty-two households (57.9%) owned two or more properties and eight households (21.1%) possessed three or more properties. One household owned five properties while another owned nine properties, including three independent buildings and six commercial apartments. For those with only one house, the family normally lived on the ground floor, renting out the other floors.

In 1994, property accounted for 51.1 percent of total household assets, followed by consumer durables (27.6%) and means of production (21.3%) (Wang, Zhang, and Yao, 1996, 93). However, in 2007, no household reported means of production. Even households that had a family business did not have any means of production or only had some simple farm tools and thus were not included in the asset analysis, meaning that household assets consisted of just property and consumer durables.

While 17 items were included as consumer durables in 1994, just seven items were included in 2007 (vehicles, color televisions, refrigerators, washing machines, air conditioners, computers, motor cycles, and mobile phones). Comparing the two years we see that the possession of consumer durables was not only much higher than the national average for the countryside but also the urban average for both years (table 5.2). Second, possession of consumer durables rose

Table 5.2 Comparison of Family Consumer Durables in 1994 and 2007

Major consumer durable	1994		2007		Increase in consumer durables from 1994 to 2007	Average consumer durables in urban and town households of China in 2007	Average consumer durables in rural households of China in 2007
	Total for the 44 Yantian households	Average for the 44 Yantian households	Total for the 38 Yantian households	Average for the 38 Yantian households			
Vehicles	27	0.6	43	1.1	1.8	0.06	—
Computers	1	0.02	70	1.8	90	0.54	0.04
Mobile phones	23	0.5	143	3.8	7.6	1.65	0.78
Color TVs	84	1.9	117	3.1	1.6	1.38	0.94
Refrigerators	59	1.3	71	1.9	1.5	0.95	0.26
Air conditioners	82	1.9	148	3.9	2.1	0.95	0.09
Washing machines	43	1.0	54	1.4	1.4	0.97	0.46

Source: Survey data for 1994 are from Wang, Zhang, and Yao, 1996, 97; survey data for 2007 collected by the authors in Yantian; the average consumer durables per family household in urban and town households and in rural areas of China are taken from the National Bureau of Statistics, 2008, 323, 347.

sharply over the 13 years—an 89-fold per capita increase for computers, 6.6 times for mobiles, 1.1 times for air conditioners, and an 80 percent increase for vehicles.

In 1994, there was a large variation in the possession of family assets with the richest household holding a monetary value of 2.83 million yuan and the poorest household holding only 17,000 yuan, (Wang, Zhang, and Yao, 1996, 100). With the development of the economy in Yantian, most households no longer count items such as television sets, washing machines, and refrigerators as family assets. Instead, they now think of those assets that enhance property value and household vehicles. These were used to review income disparity between households in 2007. In terms of property values, the lowest value was 500,000 yuan, while the highest value was 10 million yuan. However, most households (19) had property valued at between 1.01 million and 3 million yuan. In addition, 38 households owned a total of 43 vehicles, although one in ten households did not own any vehicles (26.3% of the total). Three households owned three family cars (7.9%) and 42.1 percent of the households owned one vehicle.

The two surveys reveal the significant changes in the economic structure of the village. With the economic growth over the past 30 years, especially with the large inflow of foreign investment into Yantian, the collective economy at the village and group levels has strengthened continually contributing an increasing share of dividends to household income. By contrast, household business activities became less important to household income. At the same time, the rise in the number of foreign investors, migrant workers, and business people increased the rental income for the local Yantian villagers, making up over 50 percent of household income. The collective dividend was distributed evenly according to the number of family members, while almost all family households obtained income from their private house rentals. There is a general trend toward common prosperity but significant income disparity remained among households as a result of asset possession and because of differing revenues from rentals. However, by 2007, it is also the case that for officially registered inhabitants, the income gap had narrowed substantially.

II

MANAGING THE PROVISION OF PUBLIC GOODS

Economic reforms have had an equally dramatic impact on the provision of public goods and services in Yantian. In Part II, we look at education and healthcare as well as governance. In this introduction we also look briefly at infrastructure provision. Education and healthcare provision has shifted from government, work places, or the collectives in rural China to local governments, families, and lineages, “new collectives,” and market-based institutions (see Saich, 2008). With the *de facto* dismantling of the collective institutions in the countryside, social support weakened or evaporated for many. This was especially the case for the migrant workers who flooded into Yantian in search of work. New forms of inequality emerged while old patterns were exacerbated and reforms have created new categories of citizens with different demands on the state.

Consequently, the central leadership began to pull together local experiments into a comprehensive framework for privileged groups in urban China. This involved transferring responsibility for social welfare from the workplace to local governments. However, these initial reforms still left most people in rural China and those working in the informal sector to their own devices. When General Secretary Hu Jintao and Premier Wen Jiabao assumed power in 2003–2004 they recognized that some of the problems of social development would not be solved by growth alone. This realization led to the development of a more coherent policy framework based on identification of vulnerable groups that were then provided with targeted support. Policy began to shift from the provision of short-term safety nets to developing a more integrated, comprehensive system. Policy sought to provide greater guarantees to China’s rural population and to integrate the growing numbers of migrants into welfare structures away from their homes. Thus, since 2002, experimentation with rural pensions

was stepped up; since 2003, there has been a major push to extend coverage of the rural cooperative medical insurance; in 2006, agricultural taxes were finally abolished; in 2007, rural residents no longer were required to pay miscellaneous school fees and free compulsory education was introduced for rural children; and in 2007, the leadership pledged to extend minimum living support payments across rural China. A number of measures were introduced in 2002–2003 to improve the lot of migrant workers, who, in theory, had been brought into pension schemes in 1999. Three experimental systems were set up, one of which was in Guangdong Province. The main problem with the model introduced in Guangdong is that the personal contributions may be withdrawn but not the amount paid into the pool. This would be a problem if a migrant were to leave the province and quit the insurance plan. This reduces the effectiveness as it is not portable.¹ In June 2002, it was announced that migrant workers should be able to take out industrial injury insurance; in November 2002, migrants were accorded the important status of being a part of the working class; in January 2003, the State Council confirmed that migrants be accorded equal treatment with urban residents when applying for work, and education departments had to recognize schools for migrant children and provide them with equal education access; and in 2006, the State Council set up a joint committee to coordinate rural migration affairs across different ministries. In June 2010, the State Council announced that the Central Government would gradually introduce a residence permit system nationwide that could replace the household registration system. The residence permits would enable migrants to enjoy the same social security benefits as urban residents and allow them eventually to apply for residency in the cities. The reform was being implemented in ten cities.²

How these policies have played out in Yantian is the topic of chapters 6 and 7. Has social policy become more inclusive and has citizenship become the basis for welfare provision? We can see that in terms of education provision a network of different schooling institutions was developed that served different communities within the village. As a result, all children who sought education were able to receive it but the quality of the educational experience varied significantly. This inequality of access is seen even more acutely with respect to healthcare and governance. As with education, reforms have created a range of institutions that serve the needs of different groups within the village. Those with official registration in the village had some form of insurance, either through the new cooperative medical insurance scheme or through the employees basic medical insurance.

By contrast, the migrants have had to rely on employers or have had to pay for services at a variety of licensed and unlicensed institutions.

The inequality of access is seen most clearly with governance, where those without a household registration have no formal channels through which to voice their views. Reforms have created two new significant governing bodies within the village: the villagers' committee and the shareholding economic cooperative. These complement the work of the general party branch, but it is clear that the party organization remains preeminent. In any case, all the formal and informal organizations within the village are dominated by the Deng lineage. This raises the interesting question of the extent to which the party exerts its authority through the Deng lineage leaders and to what extent the informal power of the Dengs is given authority through the party branch. The truth lies somewhere between the two. The shareholding cooperative has allowed the formally registered villagers to "corporatize" the village assets to ensure that any expansion to include migrants into the political process will not come at the expense of their economic control.

It is clear that despite progress, the migrants are still outsiders with respect to access to public goods and political power. This despite the moves by the Central Government to improve access and integrate them more effectively into service provision where they actually live and work. The study of Yantian reveals that despite enhanced access to education, problems of access and cost remain; even more so in the case of healthcare. Policy in the eighties and the nineties was dedicated to delinking employment from one's household registration (*hukou*) status, under Hu and Wen, policy has been to delink social services and welfare benefits from *hukou* status. The notion that migrants did not need welfare provided by the state as they had land in their home village as insurance had become untenable. Many migrants together with their families are now permanent fixtures in the urban areas and "urban villages" such as Yantian and may no longer have any land back in their place of registration. While *hukou* reforms of the earlier period until 2002–2003 benefitted mainly investors and those who are well educated (and reflected the more elitist thrust of General Secretary Jiang Zemin's and Premier Zhu Rongji's policy), the Hu–Wen leadership shifted the policy focus to providing training and social welfare coverage to migrant workers. We see a clear impact of the Jiang–Zhu policies in Yantian with the preferential treatment given to those who had made investments and to those who were considered to have made a significant contribution to its development.

Already in November 2008, Dongguan set up the first local government bureau in China to serve the migrant population. This bureau is intended to provide benefits to migrants in the areas of social security, employment, children's schooling, and medical insurance. The Dongguan party secretary noted that the intention was to see that the "*Xin Guaner*" were "given the same treatment as other citizens" (*China Daily*, October 15, 2008, 4). Migrants were to be issued a new type of "service card" that contains basic information, including name, ID number, address, workplace, and medical insurance. Other initiatives have been experimented with in major cities such as Beijing that introduced regulations in 2004 requiring employers to pay premiums for migrant workers that would give them the same coverage as urban residents for medical services and occupational injury (*China Daily*, August 23, 2004).

The lack of political voice remains the most important obstacle to progress for migrant workers. Unable to organize effectively to promote their policy preferences, they are forced to rely on informal mechanisms or the benevolence of the authorities to advance their interests. This is seen clearly in Yantian where there are some 3,000 registered inhabitants and at least 70,000 migrants. Only 300 migrants have been granted household registration. The registered inhabitants control the wealth of the village and political power. They share the dividends from the collective funds that are accumulated from the enterprise fees and benefit from the subsidies paid toward education and health. Most importantly, the migrants enjoy no political rights as they are not brought into the voting system, despite the amendment to the law to try to encourage this. Essentially, their benefits and general welfare depend on legislation from higher levels of government that demand the expansion of their access to welfare or the largesse of the local residents, dominated by the Deng family. "Political citizenship" even at the local level still seems some way off.

The village collective invested significantly in basic infrastructure, especially to ensure water and power supply and to build a sufficient road network. Improved water supply was needed for both expanding industrial and residential use. In the fifties, a system of hill ponds was built and this was followed by the construction of the massive Yantian reservoir during the Great Leap Forward. It was a classic product of the old collective era relying on mobilization by the commune and the efforts of the individual villagers, with very limited investment by the government. Last, two major canals were constructed. Hill pond and canal construction required no

government investment, while the reservoir had limited government funding. By contrast, the Dongshen Water Supply Project was funded by the Central Government with the objective of supplying water to the people of Hong Kong. The project was first approved by Premier Zhou Enlai and began to deliver water to Hong Kong on March 1, 1965. In the eighties with demand increasing, the village first built two water towers followed by a major water plant in the Shanshan mountain.

Before 1957, there was no power in Yantian and the first generator came in 1957 when a Hong Kong resident with Yantian roots donated a diesel engine and in the sixties the collective constructed three hydropower stations, one of which soon fell into disuse. As industrial development created more demand, the collective built a power plant (Yantian Power Plant), with the village collective holding a 50 percent stake, the villagers 10 percent and Hong Kong investors 40 percent. It supplies 70 percent of the villagers' needs with the rest bought from the China Southern Power Grid. It also fulfills 25 percent of industrial demand. In 2005, a major Voltage Adapter (VA) substation opened under the control of the China Southern Power Grid, even though initial investment came from the village collective. Finally, a number of investors built power stations in the industrial zones, either for use by their own plant or for sale. In the future, market forces will dominate power supply in Yantian.

In comparison with most Chinese villages, Yantian boasts an extensive road network. The village collective financed most roads, with a few exceptions that were funded jointly by the local government. Private investors are not involved in road development but foreign investors have had a strong say with respect to road building or expansion projects. In recent years, the village collective has invested 198 million yuan with very limited support from the township government.

“FROM PUBLIC PROVISION TO
A DIVERSIFIED NETWORK”:
EDUCATION SERVICES

The influx of foreign investment and the large number of migrants put tremendous pressure on the village educational services, leading to the establishment of a network of different schools catering to the varied needs within the community. The range of schools meant that almost all children in Yantian were able to find schooling irrespective of family background, but the quality and investment varied significantly. Most importantly, from 2008 the government budget covered the costs for migrant children helping overcome the biggest inequity of the previous years. Yet, differences remained with respect to the quality of the teachers and the infrastructure in the schools.

From the beginning of the economic reforms, Yantian stood out from most rural areas with its diverse educational structure rather than relying solely on government provision of elementary education. Yantian had government-run public schools, collective-run schools operated by the administrative village, shareholder schools financed jointly by the village collective and private investors, and private schools sponsored entirely by individuals. This structure derived from the different needs within Yantian. Domestic and overseas investors with businesses in Yantian wanted to send their children to good schools, even if the tuition fees might be more expensive than those for a public school. Yantian villagers also wanted their children to attend good schools, especially schools run by the village collective as the fees were lower. The migrant workers could neither afford to send their children to very good, elite private schools, nor did they have access to the schools run by the collective, which only enrolled children of local villagers. Before new policies were introduced in 2008, they could only send their children to special schools set up by the village collective.

HISTORICAL DEVELOPMENT OF EDUCATION IN YANTIAN

Although initially there was no formal education structure, in the Ming Dynasty (1364–1644), there was a form of private teaching called *Sishu*.¹ The originator of *Sishu* in Yantian was the Luo family. On arriving in Yantian, the Deng family introduced the practices of Luo and had their own *Sishu* private school. Initially, families brought in teachers to teach their children. Later, several families of a lineage brought their children together for a class, which was then developed into a class for all children in the lineage. Ultimately, several lineages or the whole village pooled resources to sponsor a school, while the classroom was shifted from an individual house to a dedicated public building. In this way, a formal school came into being.

It seems that during much of the Qing Dynasty (1644–1911) reign, the family-run *Sishu* was the dominant form of education in Yantian. *Sishu* operated in the natural villages of Dongfang, Nanfang, Xifang, Beifang, Buxin, Shuibei, and Changbiao. Normally there were a dozen *Sishu* in an administrative village, each of which recruited around 20 students, thus delivering education to over 200 pupils. In the later Qing Dynasty reign, a formal school was set up in Yantian (a nationwide campaign had been launched to abolish the imperial examination and set up schools), the Xiangsheng School, which recruited most school-age children in Yantian. There was no fixed rule for the length of schooling, but most students spent six to seven years at the Xiangsheng School comprising four years of elementary education and two years of junior education (Deng Yaohui, ed., 2003, 133). Yet students had to pass examinations to move from elementary to junior education.

In terms of funding, all expenses incurred by family-run *Sishu* were borne by the families themselves but if a lineage ran the *Sishu*, the expenses were shared between parents and the lineage. The parents covered most of the expenses and the lineage offered subsidies as appropriate from the revenue they derived from leasing their land. Parents gave the teachers a certain quantity of grain or cash (silver) as compensation. When schools were set up in the late Qing Dynasty, the government covered most of the operating expenses. At that time, a school would get nearly 800 *liang* (1 *liang* is equivalent to about 50g) of silver per annum from the government, while the villagers plugged any gaps in funding. Students were taught humanities, with no lessons in science and engineering. Lower-grade students learned traditional classics such as the Three Character Classics (*sanzijing*), the Hundred

Family Surnames (*baijiaxing*), One Thousand Character Primer (*qianziwen*), and Social Wisdom (*zengguang xianwen*). Higher-grade students were taught the Four Books: the Great Learning (*daxue*), the Doctrine of the Mean (*zhongyong*), the Analects (*lunyu*), and the Book of Mencius (*Mengzi*).²

In 1932, in response to a call by four insightful people including Deng Shaoting, Yantian established the Zhentian School, named after the ancestor Deng Zhentian. The school was set up in the most densely populated part of the village. There were three buildings, two two-storey academic buildings and one office building that also served as a dormitory for faculty. There were seven staff and over 200 students at the time, including students from adjacent villages and even other towns (Deng Yaohui, ed., 2003, 133). Funding came from three sources: partial funding from the “Taigong Fund” that was set up mainly with revenue from the lime factory, donations from some overseas Chinese, and parental contributions.

The Zhentian School was forced to suspend its activities during the anti-Japanese War (1937–1945) but resumed in 1947 after the war. After the founding of the People’s Republic of China in 1949, Zhentian School was renamed the “Yantian Elementary School.” In the 17 years from 1932 to 1949, over 1,000 students from Yantian and neighboring villages graduated and many went on to become key figures in the socioeconomic development of Guangdong Province, especially in Yantian.

In 1952, the government took over the school, making it a public school. From 1985, demand grew from the growing business community that wanted to find a neighborhood school for their children. One businessman proposed to the Yantian village officials that they collaborate to build an elite shareholding school funded jointly by the village collective and private enterprises. At the same time, the growing numbers of migrants in the village also created a demand for education for their children. Consequently, the village collective mobilized some resources to build a school dedicated for migrant workers’ children based on the foundations of the Yantian Elementary School. Later, the village collective established another school only for students with Yantian household registration. Thus, a network of educational institutions came into being in Yantian.

PUBLIC SCHOOLS IN YANTIAN

Public schools refer to those whose operating expenses are covered by the government budget and where teachers are assigned and

compensated by the government. In the 40 years from 1949 to the late eighties, there were basically no private schools in China.

When Guangdong Province was taken over by the CCP in October 1949, the Zhentian School was renamed the Yantian Elementary School.³ In 1950, it had 13 staff and recruited 280 students (Deng Yaohui, ed., 2003, 286). The School was managed by the School Affairs Committee (composed of the principal, dean, and teachers' representatives). However, the School Affairs Committee did not act independently, as all management work had to be conducted in accordance with the guidelines of the local government education departments (including the county, district, and town levels). In 1952, this private school created by the Deng family was taken over by the government and, the following year, was reorganized as a six-grade elementary school. It was a large village school, mainly financed through the government budget, with appropriate allowances from the town government and the village collective. Tuition fees were quite low, each student only needed to pay two yuan for miscellaneous charges (textbook charges included). As the school was large and quite successful, after the government took it over many students from neighboring villages came to study there.

The "Cultural Revolution" that started in 1966 brought fundamental changes to the way the school was managed. The role of the School Affairs Committee was taken over by the "Cultural Revolution Leading Group" (*wenge lingdao xiaozu*) that had been established in the school. Local poor farmers set up the "Poor and Middle Peasants' Dissemination Team of Mao Zedong Thought" (*pinxiazhongnong Mao Zedong sixiang xuanchuandui—pinxuandui*), which was stationed in the school and supervised political campaigns and teaching activities. Under this system, the principal, the dean, and teachers had to pull back and enjoyed no say over school management. Second, changes spilled over from the management system to textbooks and teaching methodologies: textbooks were no longer subject to consistent oversight from the Ministry of Education but rather were developed by local responsible education authorities or even by individual schools. Courses shifted their focus from teaching basic knowledge and theory to practices in agriculture, industry, and medicine and serving in the military. Students left their classrooms to go out into the fields, mainly to gain knowledge about and learn techniques for growing sugar cane, peanuts, and rice, and pig and fish farming, and engaged directly in production activities on the school-run farms.

In 1970 following Mao Zedong's dictum to "shorten the length of school study and revolutionize education," the Yantian Elementary

School reduced schooling from six to five years and began to deliver a two-year middle school education in the village. This practice lasted until 1983 (Deng Yaohui, ed., 2003, 287). Following Mao’s death in 1976, his widow and her closest supporters (the “Gang of Four”) were arrested⁴ and from 1977 school education was gradually restructured. The “Cultural Revolution Steering Committee” was abandoned and the “Poor and Middle Peasants’ Dissemination Team of Mao Zedong Thought” withdrew from the school. The principal was given the central role in school management once again and students went back to the classrooms to study basic knowledge and theories.

The growth of the collective economy allowed the village to invest 1.7 million yuan in 1988 to upgrade Yantian Elementary School, 1.2 million yuan to build a faculty apartment building, and 500,000 yuan for a four-storey teaching building with 25 classrooms. In 1993 the village collective again invested 700,000 yuan to build a small academic building, and 450,000 yuan to purchase some state-of-the-art teaching equipment and apparatus, upgrade sports facilities, and procure a number of books (Deng Yaohui, ed., 2003, 287). To address transportation difficulties for students in remote natural villages such as Changbiao and Shijie, the school arranged four shuttle buses to pick up them up and also to transport Yantian students who were studying at the school in Fenggang Town.

Zhentian School, financed by the village collective and dedicated to children of local villagers, was formally launched on September 1, 2003. As students with a local household registration were transferred from Yantian Elementary School to Zhentian School, the former was dedicated to the education of migrant workers’ children.

SCHOOLS RUN BY THE YANTIAN VILLAGE COLLECTIVE

If we define the collective in traditional terms, collective-run schools can be traced back to the fifties. Even if the school was situated in Yantian village, the real owner was the Tangxia People’s Commune, which supervised the Yantian Brigade. Such schools were called “Commune-run Schools” (*sheban xuexiao*—mostly middle schools). In the late eighties, collective-run schools reappeared but this time in the context of the fast economic growth that was taking place and the Yantian administrative village established a genuine collective-run school. Following national-level policy changes, ownership was transferred back to the government in September 2006.

The first experiment with a collective-run school was set in motion in 1958, when the government advocated parallel progress between public and collective schools. The policy was to promote collective-run schools (not private schools) while making good progress in advancing public schools (run by government). At the same time, the strong momentum of the People's Commune movement created a great need for human capital in agricultural operations, management, and research. Consequently, the Tangxia People's Commune created a collective-run agricultural middle school in the Yantian Brigade, the Hongqi (Red Flag) Middle School. The school recruited students from production brigades in the Fenggang area. In its first year, the school enrolled over 50 students, with Nanji Hall in Yantian as the classroom. The school provided full-time education, offering courses in Chinese, mathematics, geography, and history, as well as courses on agricultural science and technology. Integrating classroom education with labor and practices into a comprehensive curriculum, the school taught basic theories and knowledge on the one hand, and involved students in agricultural production and agricultural research on the other. Nonetheless, in 1959, one year after its establishment in Yantian, the school was merged with the Hongqi Middle School in Tangsha as a part of the reorganization of middle schools initiated by the county education bureau.

The second collective-run middle school in the era of the People's Commune was established in 1965, also in response to the government call for parallel progress in public and nonstate education and the guiding philosophy of "two systems of education and two systems of labor."⁵ Fenggang People's Commune created the Yantian Agricultural Middle School in the Yantian Brigade (Yantian was transferred under the Fenggang People's Commune once it was established). In its first year, the School recruited over 30 full-time students from different production brigades supervised by Fenggang People's Commune. The school borrowed classrooms from barracks of the local military and delivered basic courses in Chinese, mathematics, physics, and chemistry, as well as agricultural-related knowledge and practices. The students spent half a day studying basic knowledge and the other half in agricultural production or practical research. After two years, in the fall of 1967, the first generation of students graduated. The school recruited 40 plus new students after that. However, as the students became involved in the massive campaigns of the Cultural Revolution, the school was forced to suspend its activities and it never resumed them.

Given its growing economic strength through the eighties, in 1988 village party secretary, Deng Yaohui, proposed that the village collective build a middle school to provide convenient access for village children and, more importantly, to generate a talent pool for Yantian's long-term development. In 1989, receiving the support of the other village officials and villagers, the collective invested over 6 million yuan to build the Yantian Middle School. This was the first middle school in the countryside of Dongguan City not funded by the government. Thus, many people called it the “Yantian Nonstate Middle School.” To be accurate, it was not a private school but one established by the village collective. The honorary chairman of the school was Party Secretary Deng Yaohui, while Deng Zhipeng served as the director of board. Deng Zhipeng was enrolled in Northwest Normal University and had long been engaged in educational work (teaching in Guangzhou Normal University). The school recruited over 20 staff: mostly competent education practitioners recruited from different localities in Guangdong. The village collective financed the construction of several buildings: two four-storey academic buildings, one six-storey faculty apartment building, and one four-storey support building, with a total floor space of over 10,000 square meters. The school was well equipped with a library, reading room, physics and chemistry laboratories, and audio rooms. With a few exceptions, the Yantian Middle School only recruited local village students and children of staff working in the Dongshen Water Supply Project Management Bureau. In its first year, the school ran two classes for some 70 students. After two years, students excelled in several disciplines and a number of students won local Dongguan awards as did the school itself.

As the fame of the Yantian Middle School spread, Yang Zhimao, president of the Guangzhou-based Maohua Property Company, met with Party Secretary Deng Yaohui to propose building a more sophisticated private school on the foundation of the school. His vision was to introduce “advanced” education concepts and practices from abroad, develop talents to meet the demands of the twenty-first century, and explore new directions for education reform in China. Therefore, in 1993, the school was named the “New Century Talents School.” This put the school on a completely different track of commercial and market-oriented development.

The “New Century Talents School” is a shareholding school, recruiting students nationwide and with expensive tuition fees. This was not good news for Yantian villagers as it became much more expensive to send their children to school. The village collective

provided some subsidies, but it remained an expensive proposition. Moreover, with village children sitting in the same classroom as those from other regions, it made it hard for the school to offer customized education services to local students. As a result of the concerns, village leaders decided to finance a new collective school only for local students. Constructed between July 15, 2001 and September 1, 2004, the new collective school carried forward the name of the Zhentian School.

The Zhentian School—situated at the juncture of two villagers' groups, Beifang and Dongfang—is a comprehensive school including a kindergarten, elementary school, and middle school.⁶ The School has one academic building (40 plus classrooms, 20 plus teachers' offices, and over 20 laboratories, libraries, and entertainment centers), one dormitory building for students, and one apartment building for faculty (48 apartments). There is also a stadium in the school with rubber-covered track and diverse sports facilities. Construction cost 35 million yuan⁷ and was fully funded by the village collective. The authors learned that the village collective also appointed the school leaders. At the time of its establishment, the school followed national rules in terms of the development of teaching schedules and textbook use. However, it was a collective school that relied on the collective investment and it was managed directly for the benefit of the village children. Nonetheless, Yantian villagers still referred to the school as a “village-run public school.”⁸

When we visited the school in June 2006, Principal Deng Yinuo informed us that the school offered six elementary grades and three middle school grades, with two classes in each grade. Thus, the school had 18 classes in total with 660 students. In addition to Yantian students, the school also enrolled migrant children but mainly those whose family had contributed significantly to Yantian's development. These included children of investors who had started a business in Yantian, middle and senior management of foreign companies, those who had purchased commercial property in Yantian, and those who had served in the military. Tuition fees and charges varied depending on the students' background: local students (regular students) paid 240 yuan each semester⁹ while immigrant students (transient students) paid 845 yuan, 3.5 times the former. The school employed 80 staff in 2006, including 57 teachers and 23 support staff, who were directly employed and compensated by the village collective instead of by the government.¹⁰ The village collective was also responsible for organizing and facilitating the administrative work of the school. Thus, the village collective basically managed the school.

From 2006, China rolled out a major campaign to promote free elementary education in the countryside, with all expenditures to be borne by the government. With such a favorable policy in place, why would the village collective finance schools out of their own budget? In July 2008, Deng Jingzhong, the new principal, told us that after just three years of operations, the village collective had sent an application to the relevant authorities in Dongguan City to convert Zhentian School from a village-run to a government-run school, and shift the management responsibility from the village collective to the town government. Since no rural public school runs a middle school, the conversion meant that the Zhentian middle school branch would have to be abandoned if it was converted. Consequently, in August 2006, the village collective decided to abolish the middle school, leaving Zhentian School as a rural public elementary school.

The financial savings were significant. Village leaders told us that the village collective contributed over 3 million yuan annually to maintain the school's operations. According to Deng Jingzhong, the number of students increased to 944 in 2008,¹¹ each requiring a per capita expenditure of 1,200 yuan per semester. Much of the 3 million yuan in expenditures was covered by the village collective with supplemental revenue from tuition fees and charges. Thus, the local government takeover of the school's administration resulted in significant savings for the village. However, it is clear that the government subsidy does not cover all the costs of rural education and Yantian is fortunate in being an affluent community and thus the village collective could still afford to invest between 300,000 and 400,000 yuan as necessary to cover any shortfall in funding. Poorer communities are not so fortunate. Christine Wong (2007, 14, 17) has noted that the abolition of the miscellaneous education fees and their replacement by transfers to cover elementary education costs might actually end up causing a shortfall in income for local governments. The subsidy from the central government covers only a portion of the revenue that local governments used to derive from the various education-related fees and levies. The initial subsidy was 140 yuan for elementary school students and 180 yuan for junior middle school students. However, before the new program began, the costs were much higher; in one of the schools she visited, the cost was 1,000 yuan per student.

Among the 944 students recruited in 2008, 123 had a Yantian household registration, 223 students were categorized as “house-purchase students” (the parents were not local residents but had purchased commercial property in Yantian), or “factory-running students” (whose parents ran factories), or “contribution students”

(whose parents made a special contribution to Yantian's development); the remaining 598 students were children of migrant workers, who were often called the new generation of "*Xin Guaner*" (New Dongguan People). In 2008, the Zhentian School charged nothing, only a six yuan per capita fee each semester for a physical checkup to local students, "house-purchasing students," "factory-running students," and "contribution students." By contrast, the "*Xin Guaner*" paid 936 yuan for tuition and textbooks each semester.

In terms of admissions, local Yantian students are admitted automatically without any examination. The situation is different for children of "*Xin Guaner*;" they would have to undergo a strict interview. If they failed the interview, they would only have the choice of attending the Yantian School for migrant workers' children. The former public Yantian Elementary School was converted into a school for these children, which recruited not only elementary school students but also middle school students, and was renamed the Yantian School. Thus, there is a distinct disparity for admission standards and charges between local students, "house-purchasing students," "factory-running students," and "contribution students" on the one hand, and children of migrant workers on the other.

In 2008, only a dozen of Zhentian's 65 teachers were from Guangdong Province, with the others were drawn from ten other provinces or cities, mostly from Hubei and Hunan. All of the teachers had received a professional education at a teaching training college. Half of the teachers had received an "outstanding teacher" (*youxiu jiaoshi*) award, while 20 percent had received a "master teacher" (*teji jiaoshi*) award. These teachers received better compensation than the others. For example, the average annual salary for elementary and middle school teachers was 60,000 yuan in Dongguan City and 70,000 yuan in Fenggang Town, while teachers at the Zhentian School could receive a compensation package of nearly 80,000 yuan.

In discussion, the school management and teachers identified a number of weaknesses. First, there was limited autonomy. In general, teachers were mainly appointed by the villagers' committee instead of by the school. As a result, they felt that some of the teachers were not competent enough. Second, the school concentrated on teaching basic theories but did not pay sufficient attention to catering to the students' interests in areas such as sports and the arts. Infrastructure was also lagging and students could not find venues for basketball, painting, chess, and piano, and parents had to drive students on the weekends to Shenzhen for those activities. Third, not only was there a disparity in treatment but even discrimination in many respects

toward the students from migrant families. Fourth, some school leaders complained that they spent too much time embroiled in red tape, preparing reports and making presentations to government agencies at different levels. The school leaders and teachers hoped that the village collective could grant more autonomy to the school and spare the school leaders from unnecessary procedures so that they could be better engaged in school management and academic activities.

In September 2006, the governments of Dongguan City and Fenggang Town accepted the proposal from the Yantian Villagers Committee and formally converted Zhentian School from a “village-run school” to a genuine “public school,” thus ending the history of collective-run schooling in Yantian. This led to a further increase in enrolment. In addition to the local children and the three special categories (“house-purchasing students,” “factory-running students,” and “contribution students”), children whose parents worked in local police stations and hospitals were given equal standing. The economic burden of the village collective was alleviated substantively, dropping from about 4 million yuan annually to about 500,000 yuan.

THE YANTIAN SCHOOL FOR THE CHILDREN OF MIGRANT WORKERS

With the construction of the Zhentian School that was launched on September 1, 2003, this left the existing public school, the Yantian Elementary School, unused. Realizing that the educational difficulties faced by the migrant workers’ children was yet to be addressed, Yantian, in discussions with the Fenggang Town Government and with approval from the Dongguan City Government, decided to transform the Yantian Elementary School into a school dedicated to educating migrant workers’ children, the “*Xin Guaner*.” In 2003, there were still local children in the school but they were phased out with only one studying in the fifth grade in 2005 and none at all by 2006. Further consultations between Dongguan City, Fenggang Town, and Yantian Village led to the school ultimately being defined as a public school with a nonstate contribution. It was to be managed by the Culture and Education Office of Fenggang Town on behalf of the government, was renamed the Yantian School, and was the first school in Fengguan to be dedicated to the education of migrant children. The school has three academic buildings (including offices for the teachers), three faculty apartment buildings, a library (with 27,000 books), and a computer room (with 60 computers).

As a public school, it is required to observe the government's education plans and, more importantly, the government should provide the necessary funding to support the school's operations. Reality is different. The village collective donated the school properties free of charge, and each year provides some funding support. "Nonstate contribution" means that the operating expenses of the school are derived partially from private contributions, mainly student tuition fees and charges. The school charges pupils 885 yuan per semester (including 210 yuan for miscellaneous fees, such as for textbooks, physical checkup, and school uniforms); 1,770 yuan annually. Middle school students paid 1,400 yuan per semester (miscellaneous charges included) in 2003 and 2004, and 1,600 yuan in 2005; 3,200 yuan annually. If we take the year 2006 as an example it had 40 classes in total (six grades with two classes in each grade and also a seventh and eighth grade with two classes in each),¹² with a total of 2,222 students.¹³ According to the tuition charges for that year, the school received about 5 million yuan from the students but only received 1.3 million yuan from the government and collective: 1 million yuan from Fenggang Town Government and 300,000 yuan from the Yantian village collective. The contribution by the Fenggang Town Government had risen from 500,000 yuan. In light of the funding sources, it would be more accurate to characterize the Yantian School as a nonstate school with a public contribution.

The school was converted fully into a public school in September 2007 with migrant children enjoying the same treatment as local children. In theory, the school's operating expenses should be covered by the government, mainly by town government. However, in practice, even though the annual contribution by the town government did increase to 1.8 million yuan from January 1, 2008, the amount was still significantly less than what was needed. Tuition from the students remained the main source of funding. According to the latest information we obtained, from September 2009 pupils and middle school students were exempted from paying tuition and textbook charges but not the charge for the school uniform.

In 2008, the school had about 100 staff, including 83 teachers. Nineteen of the 83 teachers were government-paid teachers (*gongban jiaoshi*), while the remaining 64 were on short-term contracts.¹⁴ Over 56 percent of the teachers had received professional college training and 32 percent of the teachers had degrees from professional schools. In 2008, government-paid teachers received about 70,000 yuan; contract teachers were paid by the school and received about 50,000 yuan, essentially from the students' fees.

THE ELITE SHAREHOLDERS’ SCHOOL—NEW CENTURY TALENTS SCHOOL

The New Century Talents School (Talents School) is a boarding school developed on the foundation of the collective-run Yantian Middle School. Since public education services, especially quality services, were in chronic short supply in Yantian, Fenggang, and even across the whole Pearl River Delta, Yantian leaders explored the potential of tapping private business to deliver better and more diverse education services for children from different family backgrounds.

In 1993, Yantian Party Secretary Deng Yaohui reached an agreement with Yang Zhimao, chairman of the Guangzhou Maohua Property Ltd. Co., to establish jointly the Dongguan New Century Education Extension Ltd. Co. Through this vehicle they made investments to develop a first-class nonstate boarding school providing education from kindergarten to high school—the New Century Talents School. The initiative was immediately endorsed by the Dongguan government. As the Talents School was developed on the foundations of the former collective-run Yantian Middle School, the village collective decided to donate part of the land and existing infrastructure to the new school. Early on (1993), the school consisted of a kindergarten, elementary school, and middle school. The middle school was upgraded in 1997. In addition to the classrooms and offices, the school was also equipped with 38 functional rooms such as libraries (with over 60,000 books), a reading room, a computer room, music room, arts room, laboratories, and an indoor playing field. The initial investment was 120 million yuan with an additional 60 million invested in 1997 for the expansion of the middle school.

According to the 1993 agreement between the village collective and the Maohua Company, the collective held 30 percent of the shares in the New Century Education Extension Ltd. Co. This was calculated based on the land value and the tangible and intangible assets of the former Yantian Middle School. Yang Zhimao took the remaining 70 percent of the shares. Deng Yaohui served as the chairman of the company, while Yang Zhimao was the vice-chairman. The school introduced the “system of principal accountability under the guidance of the chairman” (*dongshizhang lingdaoxia de xiaozhang fuzezhi*). This meant that the board of directors appointed members of the School Affairs Committee and provided instruction on their work. The Board recruited a number of professionals, instead of local villagers, to serve as managers of the school. For example, the first principal Hu Bailiang, deputy principals Chen Xinwu and Zhang

Guihe were all from outside of Yantian and had been engaged in educational work for a long time.

The Talents School was formally launched on September 1, 1994, recruiting students and teachers from across the country. As it was a nonstate shareholding school, the government made no investment and provided no allowances. All the school's financial needs were covered by the company or through tuition fees. At that time, the Talents School charged parents to build a reserve fund in order to meet the financial needs of its development. Specific practices were:

- 1) Starting from September 1, 1994, parents paid 200,000 yuan, 180,000 yuan, and 150,000 yuan, respectively, for a reserve fund to send their children to elementary, middle, or high school.
- 2) The reserve fund was subject to use by the Talents School (and the company underwriting the school) before the students graduated from high school. Upon graduation from the high school, the Talents School returned the principal amount to the parents but not the interest.
- 3) In addition to contributing to the reserve fund, students paid tuition and other charges according to the different phase of schooling and the use of accommodation facilities. The kindergarten recruited 30 students per class. Day children paid 4,000 yuan per semester while boarding students paid double at 8,000 yuan. In elementary school, there were 40 pupils in each class, all boarders. Students paid 8,800 yuan per semester from first to third grades and 9,300 yuan per semester from fourth to sixth grades. In the middle school, there were 35 to 40 students in each class, 80 percent of whom were boarders. Boarders paid 9,000 yuan per semester (meal expenses not included), in comparison with 3,800 yuan per semester for day students. However, students with an outstanding school record (only 90 from Fenggang Town each year) could enjoy a preferential rate of 1,050 yuan per semester. There were two types of high school students: public students, namely students recruited according to the plan developed by Dongguan City, and nonstate students, namely those recruited outside of the government plan. The numbers were roughly equal. Public students paid 1,150 yuan per semester and a lodging fee of 225 yuan, while nonstate students (except for the 40 students with an outstanding record) paid 9,000 yuan per semester. Those with an outstanding record paid only 6,000 yuan per semester (not including miscellaneous charges). There were 45 students in each high school class.

- 4) Local students, no matter which grade they were in, only paid 3,000 yuan per semester; 2,000 yuan of which was covered by the village collective, with the other 1,000 yuan paid by the parents. However, after 2007, the village stopped paying the 2,000 yuan but the school offered a tuition waiver of 500 yuan per semester for local students, as well as for “house-purchasing students,” “factory-running students,” and “contribution students.”

In addition to the training, Yang Zhimao and the village collective also hoped to grow the education company into a publicly listed one. In 1997 when the Asian financial crisis dealt a harsh blow, such hopes looked quite bleak. On receiving a lump sum compensation (it was said to be 40 million yuan or shares of equivalent value), the Yantian village collective withdrew from the company, which was then converted into a purely private education company owned wholly by Yang Zhimao. Subsequently, in mid-1999 a new policy issued by the Guangdong government to mitigate the effects of the Asian financial crisis had a major impact on the funding mechanism. It stipulated that all nonstate schools charging an education reserve fund should return the contribution to the parents and, in future, only charge the reserve fund on an annual basis rather than receiving a lump sum up front. In line with this new policy, the Talents School returned contributions to the parents and moved to an annual charge. According to Principal Guo, the Talents School achieved financial balance in 2007. That year, revenue from tuition and various fees totaled almost 30 million yuan, while the cost incurred per student was 12,000 yuan (14,000 yuan including depreciation). The elementary and middle schools earned some profit but the kindergarten and high school suffered a deficit.

The school was quite popular. In its first year (1994), it recruited over 1,400 students and nearly 400 staff from across the country, including 180 teachers (Deng Yaohui, ed., 2003, 295). Later, the number of students rose to 2,200, including over 50 foreign students (mainly from Korea). In its early phase, most students came from Dongguan City with some from nearby Shenzhen, Guangzhou, Huizhou, and other cities. In addition, the School recruited over 100 students from Hong Kong, Macao, Taiwan, and Korea.¹⁵ As it developed, the student population witnessed a significant change. Only 10 percent came from Dongguan City, and over 80 percent were “*Xin Guaner*.” Not many local children studied in the Talents School. In 2006, only 31 out of 719 elementary pupils were the children of local villagers, only 4.3 percent.

In 2007, the Talents School had 401 staff, including 220 teachers (100 teachers for the middle school, 75 for the elementary school, and 45 for the kindergarten) and 181 support staff (including security, chefs, and logistics personnel). Ninety percent of the teachers were from other provinces, such as Hubei, Hunan, Jiangxi, and Heilongjiang. In terms of qualifications, elementary school teachers were required to have an education diploma from college or above; middle school teachers were expected to have at least a bachelor's degree in education, and kindergarten teachers had to have received professional training. All staff at the Talents School were recruited on a contract basis, thus many staff, most teachers in particular, still had their formal registration in their hometown. Some formally transferred their files to the Dongguan Talents Center and some teachers began to work after formally retiring so as to earn additional income. The average annual compensation was about 30,000 yuan for the kindergarten, 55,000 yuan for the elementary school, over 60,000 yuan for the middle school, and over 70,000 yuan for the high school.

The teaching philosophy of the Talents School also changed over time. Initially, the Talents School set its sights on aligning itself with best practices around the world, cultivating talents for the twenty-first century, and exploring a new pathway for education reform in elementary and middle school education. By 2001, the school put forward a new concept of "people-centered, personality-customized education, quality and efficiency." Later, the school began to try to target its education more to the needs of the children from affluent families.

The Talents School has been quite successful since its launch; many students have won prizes and in 2003, the Talents School was honored as one of the "Top Ten Private Schools in Guangdong Province," and a "Model School for Ethics and Moral Education among Elementary and Middle Schools Nationwide."

INDIVIDUALLY FINANCED PRIVATE ELEMENTARY EDUCATION

It is clear from interviews with leaders and teachers in Fenggang Town and Yantian village that there is a strong demand for high-quality education. Fenggang Town has a locally registered population of just over 20,000 but the number of migrants is over 500,000. Public schools are planned in line with the numbers of the locally registered population, thus excluding those without local household registration. This means that migrant workers have to seek out private schools for their

children. In the case of Fenggang Town, the planned public education system could only accommodate 8,000 students based on the 20,000 locally registered population. Originally, the approximately 20,000 children among the migrants had no access to public education. The situation in Yantian largely mirrored that of Fengguan and was reasonably representative of that across the Pearl River Delta. This is not surprising given the economic and social transformation, and it has created a huge need for educational access. While the government introduced preferential policies to increase spending on public education and the Yantian village collective increased its investment to promote collective education and explored the establishment of education companies through partnering with private businesses, the development of private schools also witnessed a strong forward momentum.

Private schools first appeared in Yantian in the nineties and have expanded in response to the soaring demand for education. In 2006, to monitor quality, Fengguan Town Government launched a comprehensive inspection of all private schools in Yantian. Those schools that passed the inspection were issued with an operating license; those that failed the inspection were requested to meet the standard within a defined period of time. If they had not met the standard by the deadline, they were shut down. As a result of the inspections, the number of private schools in Yantian plummeted, leaving only four private elementary schools and eight private kindergartens.¹⁶ Tuition levels for the private elementary schools were all fixed at the same rate of 750 yuan per semester set by the Dongguan authorities. Consequently, to make a profit, the schools have tried to recruit more students while curbing costs. All these schools recruited children of migrant workers; in fact, no local children study in these schools. On a random walk through the village one encounters several private kindergartens. Given the much higher tuition that a kindergarten can charge it is often much more profitable than an elementary school. Generally speaking, parents need to pay at least 2,000 yuan to send their children to kindergarten, and the fees may even exceed 3,000 yuan for the better ones. To alleviate employee concerns about childcare, companies financed their own kindergartens, some companies such as Jiali Kindergarten established by Jiali Group. The New Century Talents Kindergarten, for example, is an integral part of the New Century Talents School. After Yantian withdrew its share from the New Century Talents School, the Talents School and New Century Talents Kindergarten form the core of the private education business for Yang Zhimao.

The private kindergartens have survived and developed under market conditions. As with the elementary and middle schools, people of different social status send their children to appropriate kindergartens. For example, local villagers send their children to the New Century Talents Kindergarten or the Tongyu Kindergarten, while children of migrant workers went to various other kindergartens. Of course, tuition was a major factor but also awareness of social status played an important role in choice.

CONCLUDING COMMENTS

Rapid growth and the sharp transformations mean that Yantian is no longer a traditional village. The influx of outsiders for business, work, and farming has led to a dramatic increase in population, resulting in inadequate supply of certain services, education being one. According to village cadres, there were over 5,000 children of migrant workers in Yantian. In line with the national plan of education provision, it is often the case that several administrative villages share one public school. Public schooling in Yantian clearly fell far short of need and the only viable option was to diversify its structure to comprise a diverse network of public schools, collective-run schools, schools jointly financed by private investors and the collective as well as private schools. Ultimately, the 5,000 migrant children did find school places and, moreover, the quality of the education has been improving, not deteriorating.

Yet, there are also some clear weak links in this diverse network, the most critical being the disparity in the quality of education provision. Children of different family backgrounds experienced great variation in education services. For example, students at the New Century Talents School were mostly from high-income families; Zhentian School recruited students either with a local household registration or from the families of influential investors who made a significant contribution to Yantian's development; Yantian School recruited all its students from the families of migrant workers. This meant that the three schools have a great variation in terms of infrastructure and facilities. Our investigation in 2006 revealed that the amount of land per student, floor area, and computers per student for the New Century Talents School and the Yantian School were, respectively, 16, 12.6, and 5 times greater for the former than the latter. In 2006 the New Century Talents School had 34 students in each class, compared with 38 in the Zhentian School and 60 in the Yantian School.¹⁷

The 2006 survey also illustrated the financial situation. The New Century Talents School had a total revenue of more than 7 million yuan from tuition and miscellaneous charges, while the Zhentian School had a total revenue of over 4 million yuan, including 3 million yuan contributed by the Yantian village collective. By comparison, the Yantian School only received some 1.8 million yuan. The New Century Talents School had the same number of students as the Yantian School, slightly over 2,000, yet the former had a revenue stream four times that of the latter. The Zhentian School had less than half the numbers of students of Yantian School, but its operating expenses were twice that of Yantian School. There were also sharp differences in terms of teaching resources. In 2006, the ratio between teachers and students was 1:15, 1:12, and 1:28, respectively, for New Century, Zhentian, and Yantian Schools. A second difference was in terms of teacher qualifications. In 2006, the proportion of teachers with a bachelor's degree was 67.3 percent for New Century, 45 percent for Zhentian, and only 8.1 percent for Yantian. Moreover, teachers with a bachelor's degree at the Yantian School were more likely to move on. The large disparity in revenue among the three schools was a major factor; in 2006, teachers were paid nearly 60,000 to 70,000 yuan at New Century, 50,000 yuan at Zhentian, and less than 40,000 yuan at the Yantian School.

The exclusive public education system in rural Yantian has been transformed into a diverse network funded by multiple channels. In Yantian, contributions by rural community organizations on the basis of the village collective and by private investment played an important role in plugging shortfalls in local education services. However, this has not resolved the challenge of providing equitable educational services while increasing supply. This remains a significant challenge for the next stage of educational reform. From our field investigations, we believe that better cooperation and closer ties between government, collective organizations, shareholding companies, and private investors present a viable solution toward meeting this challenge. Government coordination had a critical role to play in an area such as Yantian, as the networked education structure delivered services far beyond the local village children.

“ONE VILLAGE, DIFFERENT WORLDS”: HEALTHCARE PROVISION IN YANTIAN

Economic reforms have had a dramatic impact on the provision of healthcare services in rural China and exacerbated preexisting inequalities with much of the treatment costs borne by individuals and households. Facilities and providers declined in rural China before renewed attention was paid to the problem in 2003. The number of beds in township health centers dropped from 0.78 million in 1980 to 0.69 million in 2006 before increasing to 0.85 in 2008. The number of beds per 1,000 rural residents dropped from 0.95 in 1990 to a low of 0.76 in 2004 before rising again to 0.96 in 2008 (<http://www.moh.gov.cn/open/publicfiles/business/htmlfiles/zwgkzt/ptnj/year2009/t-3.html>). There was also a dramatic decline in those with medical insurance. With the disbandment of the rural collective institutions, coverage dropped from 80 percent in 1979 to only 2 percent in 1987 before improving to 6.57 percent in 1997 (*Zhongguo nongcun*, 2000, 21). From 1997, there was first a gradual improvement with an increase in minimal coverage and beginning in 2003 the renewed promotion of the rural medical cooperative scheme. The new scheme was intended to address the two problems of catastrophic illness and poverty caused by medical bills. Since this revival, coverage has spread rapidly, with official figures claiming that coverage had risen in rural areas from 10.8 percent in 2004 to 75 percent by 2007. By the end of 2008, coverage was reported at 91.5 percent (<http://www.moh.gov.cn/open/publicfiles/business/htmlfiles/zwgkzt/ptn/year2009/t-3.html>). These same trends are visible with healthcare provision in Yantian.

The reform period witnessed the emergence of a varied set of healthcare institutions. Currently, there is a public hospital (Yantian

Branch Hospital of Fenggang *Huaqiao* Hospital), one public community-based health service center, one large private hospital (*Guangji* Hospital), 17 private clinics, and about 50 unlicensed private clinics and a dozen or so private-run drugstores serving 80,000 local villagers and migrants.

In Yantian, in the early fifties, all healthcare services were delivered by three private clinics: Feng Yongyi, Gong Ruilong, and Li Zhenxin clinics. Though small, these private clinics offered both western and traditional Chinese medical services. However, in 1954, once cooperativization was launched, the three were merged into one integrated clinic (with five medical workers in total). The system remained fee for service but once the people's commune movement began in 1958, Yantian introduced free healthcare services. However, this was short-lived and not long after the experiment began, it was abandoned as the village collective could not afford the heavy financial burden that free medical care entailed. In the early sixties, a new attempt was made as villages were instructed to introduce cooperative medical schemes. The farmers only had to contribute 2–3 yuan per capita per annum. This entitled them to free medical care and drugs, with a five cent registration charge for each clinic visit, the production team covered the remainder of the costs (Deng Yaohui, ed., 2003, 309). Once again the financial burden became too great for the collective to bear and from 1976 the villagers had to assume the full cost of medical care.

As elsewhere in rural China, some young farmers gained limited medical knowledge through short-term training and were allowed to treat villagers after a clinical internship. These were referred to as “barefoot doctors.” As village doctors they were remunerated through work-points instead of receiving a salary and participated in the welfare distribution of their respective production teams. Consequently, these “barefoot doctors” became the backbone for the collective healthcare workforce in Yantian.

The influx of foreign investors from the eighties brought about significant changes. The rise in off-farm employment led to income rises for local farmers as well as attracted large numbers of migrants mostly from inland China. This led to rapid population growth and increasing demand for health services. The meager resources of the cooperative medical schemes in Yantian were too limited to meet these new demands. Consequently, a diversified and networked management structure emerged with greater government intervention, an enhanced role for the private sector and with the village collectives playing a variety of roles.

PUBLIC HOSPITAL—YANTIAN BRANCH
HOSPITAL OF THE FENGGANG HUAQIAO
(OVERSEAS CHINESE) HOSPITAL

Established in 1958 during the Great Leap Forward and the creation of people's communes, the Fenggang *Huaqiao* Hospital was set up as a public hospital in Fenggang Town and was initially named the Fenggang Township Healthcare Center. Once reforms began in the early eighties, many overseas Chinese began to invest in Fenggang: some 20,000 are said to have their origins in Fenggang Town and they now live in 36 countries. In 1989, overseas Chinese donated several million Hong Kong dollars to expand and upgrade the Fenggang Healthcare Center to turn it into a brand new general hospital. In appreciation, the Center was renamed the Fenggang *Huaqiao* Hospital and was administered by the Dongguan City Health Bureau and Fenggang Town Government. The operation costs of the hospital are financed through a budgetary allocation from the Dongguan City Health Bureau, while specific matters related to hospital management are subject to the supervision of and instruction from Fenggang Town Government.

In 1991, shortly after the expansion and upgrading, the hospital won the first of many awards as an “Excellent Hospital of Guangdong Province.”¹ Importantly, the hospital is a designated healthcare institution for those with medical insurance in Dongguan City and provides medical, first aid, and preventative care services to 20,000 registered residents and over 500,000 migrants. The hospital catchment area covers 82.55 square kilometers, taking in 11 administrative villages and one town district. In addition, the hospital carries out some teaching and research.

When we visited in June 2006, the hospital had over 300 beds and 530 staff and, in 2005, had received over 700,000 visits and had over 10,000 hospitalized patients. According to Deputy Director Zhong Xiangyang, all registered residents of Fenggang Town had been enrolled in the rural cooperative medical insurance scheme and, thus, by and large, could afford to see a doctor. However, for migrants, access to healthcare services remains difficult and expensive. Zhong Xiangyang estimated that in 2005 the hospital was owed some 1.5 million yuan, 99 percent of which was owed by migrants. Between 2005 and 2008, the hospital was expanded to over 500 beds with about 500 hospital staff. In addition to expanding its headquarters, the hospital established branches in three densely populated villages (Yantian, Youganpu, and Guanjingtou) to meet better the healthcare demands of local people.

The Yantian Branch Hospital was set up in 1993 within the jurisdiction of the Dongyi Production Team. Shortly after its establishment, poor performance caused the branch hospital to be contracted out for private operation. However, improved performance and restrictions placed by national regulations meant that in 2002 it was taken back under government operational control and was placed under the direct administration of the municipal health bureau. This restored the more traditional practice of government control over revenue and expenditure and, even today, the Yantian branch enjoys no autonomy with respect to finance and staffing. Since its establishment, it has undergone four rounds of expansion and renovation. When we visited in July 2008, the hospital had 41 medical and six support staff including security and cleaning personnel, most of whom are not local. Fifty percent of the staff are formally employed, while the other half are on a contract basis. In 2008, the average monthly salary was 4,000 yuan for doctors and some 3,000 yuan for nurses. The Branch Hospital had nearly 30 beds, which met the basic demand as seriously ill patients were usually referred to Fenggang *Huaqiao* Hospital for hospitalization. The hospital is able to provide some basic chest, abdomen, facial, ENT, bone, and gynecological surgery. Its strength is with inpatient treatment, internal medicine, and pediatrics. It is worth noting that the hospital is especially proficient with immunization and prevention. Most Yantian residents as well as Shenzhen residents come for vaccinations.

Ma Ruicheng, director of the Yantian Branch Hospital, informed us that they received an average of 400 to 500 visits per day (June 21, 2006), a level that had remained constant at our next visit on July 9, 2008. Most of the patients are migrants, with local patients only accounting for 10 percent of visits. In 2005, the Branch Hospital revenues were in excess of 7 million yuan but dropped to 6 million in 2006 before rising again in 2007 to over 8 million (interview July 2008). The profit margin remained stable year on year and, normally, did not exceed 10 percent but all profits are turned over to the main hospital, meaning that payment defaults for hospitalization are limited, between 10,000 and 20,000 yuan a year.

According to Director Ma, adequate provision of healthcare services is not a problem in Yantian; on the contrary, healthcare services of various types are facing growing competition. Doctor Gu reiterated this view in a later interview (July 9, 2008), noting that formerly the branch hospital used to top all healthcare service providers in Yantian in terms of business volume. However, from 2008 the private *Guangji* Hospital had exceeded the branch hospital in terms of

business volume as it had more advanced equipment, better services, and more flexible operating models, leading to a number of patients moving there.

Both Director Ma and Doctor Gu noted that for those with a local registration, decent income, and medical insurance, healthcare services were seen as accessible and affordable. However, the situation was different for migrant workers especially in cases of catastrophic illness. This was particularly the case for those on contract employment with small private enterprises. On the one hand, most of such enterprises are reluctant to purchase medical insurance for their employees, while, on the other hand, with no incremental government spending, the increasing operating costs of the hospitals are naturally passed on to the patients.

THE GOVERNMENT-RUN YANTIAN COMMUNITY HEALTHCARE SERVICE STATION

Returning to Yantian in February 2009, we found a new type of village healthcare service provider had opened, namely the Yantian Community Healthcare Service Station (Yantian CHS station). This became the most important institution for many residents and was set up following a late-2008 initiative of Dongguan City. It falls under the jurisdiction of the Fenggang Town Community Health Center and enjoys no financial autonomy. The initiative has its origins in the early 1997 joint Central Committee and State Council Document that was drafted on the basis of discussions at a December 1996 National Conference on Health (see *Jiankang ribao* [Health Daily], February 18, 1997). The wide-ranging document drew on the experiences of developed countries with community healthcare services and summarized new policy initiatives and referred to the need to “reform the urban healthcare service system, actively promote community healthcare services and gradually develop a well-functioning and user-friendly healthcare service network.” More specifically, on February 21, 2006, the State Council issued Document Number Ten on developing urban community healthcare services that decreed they should be viewed as a public good and not be set up to turn a profit. They were to be run by government but could receive investment from other organizations. The priority targets for CHS services were to be women, children, the elderly, patients with chronic diseases, the disabled, and the poor. Where conditions permitted, all cities and county-level towns were to set up the system by the end of 2010 with one CHS center to serve every 30,000 to 100,000 people. State

Council regulations classified the CHS as a public service unit and local governments were expected to provide a fiscal subsidy to meet service procurement needs. Procurement models of procurement included concentrated procurement and distribution, zero mark-up for drug sales, and separation of drug prescription from dispensing (http://www.gov.cn/zhwngk/2006-02/23/content_208882.html).

Local implementation regulations then followed these national guidelines. On March 12, 2007, the Guangdong Provincial Government issued its proposals for all municipalities and small towns in the Pearl River Delta. Where conditions permitted, before 2008 the CHS was to strive to attain the goal of a “community-based solution to minor illness, prevention and health needs.”²² Township healthcare centers in city suburbs were to be converted into CHS centers. In terms of funding, the local government budget was to be used to develop community healthcare services, while basic medical services were to be compensated through service charges from medical insurance, medical financial assistance, and out-of-pocket payments. District/county-level governments bore primary responsibility for subsidies, while those services that met the appropriate criteria were to be incorporated into reimbursement from the medical insurance of urban employees. In principle, there were to be two or three general practitioners and one public healthcare doctor for each 10,000 people (and each GP was to be partnered with one nurse).

Importantly for Yantian, the Guangdong Provincial Government stated that, where conditions permitted, rural governments could also develop community healthcare services in line with the State Council’s “Guidelines” (http://www.chinabaik.com/law/df/gdong/1399112_4.html). This was followed on August 24, 2007, by Dongguan’s own document that required each township to set up one CHS center, with stations set up under it in villages where the population merited it and where there was sufficient demand for public services. Each CHS station was to have a catchment population of 8,000 to 12,000. In the calculations, the migrant population was weighted at only 70 percent of its actual total. For each 10,000 people there were to be three GPs and the CHS were to prioritize preventative health, maternal and child health, family planning, and rehabilitation from chronic disease. It was estimated that 60 percent of the outpatient expenses of the 5 million registered inhabitants of Dongguan would be reimbursed through medical insurance (Liu and Zhong, 2008).

The City Government recommended that the CHS institutions experiment with four innovative models: “Team-based CHS Service”

(proactive and outreach services), “Doctor–Family Twinning Model” (each GP looks after 700–800 families, covering 3,000–3,500 people), “Health Card,” and the “Community Healthcare Information Network.” The town residents’ committee (*chengzhen jumin weiyuan hui*) finances most of the operating expenses with limited subsidies provided by the city government. While government finances cover the basic expenditures of the CHS institutions, revenues are turned over entirely to a special earmarked government account. The income of medical workers was not to be linked directly with the revenues derived from service provision. The CHS institutions are incorporated into the basic medical insurance program, and certain services that meet specific requirements could be reimbursed through basic medical insurance. The share of out-of-pocket payments by the community was to be lowered progressively in order to attract more community residents to visit CHS institutions.

The first group of CHS institutions (one center and seven stations) was formerly instituted in Hengli Town on August 27, 2008, by transforming the operating model from “hospital ownership and operation” to “government ownership with hospital operation.” One local official declared that by 2015 Hengli Town (*zhen*) would establish 18 CHS centers and stations to create what he referred to as a “15-minute healthcare radius,” where local residents could have access to basic healthcare services within a 15-minute walk.

The establishment of the CHS center and stations in Hengli Township led to a flourishing of such institutions across Dongguan with 80 percent of the CHS institutions for the whole city established within two months (by October 2008). This included the CHS center and stations in Fenggang Town and Yantian that opened on October 1, 2008. The Fenggang CHS center with 20 staff and several departments offers 24-hour “six-in-one” services to residents of the township. In line with the Guangdong Province and Dongguan City documents, the Fenggang CHS Center is a public service unit under the Fenggang Town Government. There are 12 stations (in 11 villages and one residents’ committee) under its jurisdiction, and all are expected to provide consistent service in five areas (planning, standards, identification, equipment, and management). The objective is to realize a “five-minute healthcare radius” in Fenggang Town.³

The Yantian CHS opened on October 1, 2008, as a part of this attempt to realize a “five-minute health radius.” It serves both local residents and migrants and delivers the “six-in-one services.”⁴ It operates out of a rented building; is financed by a budgetary allocation from Fenggang Town; and employs eight medical personnel (three

doctors, three nurses, and two pharmacists), one cleaner, and one security guard. It is managed temporarily by the Fenggang *Huaqiao* Hospital, which covers all staff salaries, but the intention is to turn it over for the government to manage directly. The government will also take responsibility for salaries. Its operating principle will be “separate management of revenues and expenditures” that delinks income from service charges with all expenditures covered through a government budgetary allocation and all revenues turned over to the government.

Its main stated objective is to “deliver life-cycle quality community healthcare services to Yantian residents” covering pediatrics, maternal care, elderly care, immunization, detection and reporting of communicable diseases, community-based diagnosis and treatment of common diseases, on-site first aid, rehabilitation for disabled and mentally ill patients, and health record management” (Interview with Director Wang Jinxiong, February 19, 2009). Registered villagers who are enrolled in the medical insurance program run by the local labor and social security department can get 60 percent of their medical expenses reimbursed on presentation of their ID; the remainder is covered out of pocket. In fact, all Yantian villagers have been “compulsorily” enrolled in the medical insurance scheme with the premium deducted directly by the collective from their dividends. Most factories in Yantian have also purchased medical insurance for their employees, generating more patients for the CHS. This latter measure, of course, would benefit some of the migrant workers. Even those not enrolled in the medical insurance program could benefit as, in line with government regulations, the 100 or so drugs supplied by the CHS are procured directly from the manufacturer at factory gate prices (“zero mark-up drugs”). This can provide a saving of 15 to 20 percent.

Last, the CHS Station conducts free physical checkups for those villagers aged over 60 and has set up a system of health records for them. Vaccination services, such as cowpox vaccination, were being delivered by the Fenggang *Huaqiao* Hospital and its branch hospital in Yantian but the intention was gradually to hand this service over to the Yantian CHS Station.

GUANGJI—THE PRIVATE HOSPITAL

The most efficient medical institution in Yantian is the privately run *Guangji* Hospital in which the village collective enjoys a 30 percent stake. During our first visit to the hospital on June 21, 2006,

Chen Hongbin, a member of the management team, informed us that the proposal for Guangji Hospital was first put forward in early 2004 and was operationalized on May 17, 2005. Its operating license was issued on June 7, 2005 following an inspection by the Dongguan Health Bureau. The 400 million yuan financing came from the Guangji Property Investment Ltd. Co. and was designed as a tertiary-equivalent, modern, comprehensive hospital.⁵

Chen noted that the *Guangji* Group as well as its four affiliated companies are all private companies engaged in healthcare, medicine, and health management (manufacturing medical apparatus and supplying healthcare services). Within a short period of time, the company's growth has been impressive. In the first phase of the project, the village allocated 135 *mu* of land (with ten *mu* for a staff dormitory) for which the Yantian Village Collective took a 30 percent stake in the hospital. With a growing number of healthcare providers, *Guangji* Hospital invested heavily to the tune of 100 million yuan.

Guangji has several key features. First, it has a comprehensive mix of departments, including internal medicine, surgery, gynecology and obstetrics, pediatrics, dermatology, ENT, stomatology, traditional Chinese medicine (TCM), rehabilitation, an imaging diagnosis center, and a medical examination center. Second, on January 24, 2006, *Guangji* Hospital signed a deal with Southern Medical University (previously the First Military Medical University of the PLA) that accredited *Guangji* as its affiliated hospital. Specialists from the university visit regularly to conduct rounds of the wards and the emergency room and provide staff training as needs arise. Third, the hospital worked hard to create a user-friendly environment; the building is clean and neat; and there are some simple entertainment facilities for children in the waiting area. In addition to the direction boards, there is a full-time usher. In addition, *Guangji* Hospital tries to alleviate the financial burden of patients. For example, shortly after opening, the hospital abolished registration charges (two yuan at that time) and lowered the price of drugs. Last but not least, *Guangji* Hospital provides good service, for example, providing free transport to take patients to the hospital and send patients home.

Given its advantages, *Guangji* Hospital attracted many patients and not only those from Yantian but also others from the neighboring seven or eight towns within a 30-kilometer radius (including Pinghu Town and Guanlan Town, Shenzhen City). The majority of patients came, of course, from those working, living, and residing in Yantian, including most employees of the 180 or so foreign-invested enterprises. Some migrants and over half the number of local villagers

visit the hospital's doctors. Shortly after it opened, the Dongguan labor and social security bureau accredited *Guangji* Hospital as the designated hospital for social insurance in Dongguan City and by the Dongguan Health Bureau as the partner hospital for 120 emergency treatment services.

The peak of the hospital's daily outpatient volume (over 1,100 visits) occurred in its first month of operation (mid-May 2005) and then the volume settled down to about 800 per day. In the first month, the hospital had a total revenue of 3.53 million yuan, rising to 4 million yuan the following month. Rough calculations together with Mr. Chen show that *Guangji* Hospital can strike a financial balance with a monthly revenue of about 4 million yuan. If the hospital continues to advance in line with the growth in the early months, projections show that the hospital would meet the investors' expectations and that they recover their investment in eight to ten years.

To satisfy demand more effectively, *Guangji* Hospital expanded its own facilities and set up an outside network. First, it increased the number of beds and staff from 400 beds and 300 medical staff, including 208 medical staff to nearly 500 beds and the staff increased to 450, including 330 medical personnel.⁶ Externally, *Guangji* Hospital set up a clinic in Fengtian Hotel, Yantian village, and recruited 40 staff and also set up a branch hospital in Fenggang Town, with over 100 staff.

In an interview on July 9, 2008, Huang Junhe, deputy director of *Guangji* Hospital, outlined some of the most recent developments. First, after initial experimentation, the hospital settled on a management system of "director accountability guided by a board of directors" (*dongshihui lingdao xia de yuanzhang fuzezhi*). Under this system, the board takes major decisions related to hospital investment and other issues, while the day-to-day operations of the hospital are managed directly by the board-appointed director. In July 2008, the director was also the director of Dongguan Medical Association, a quite authoritative figure.

Second, *Guangji* Hospital exceeded financial expectations with a total revenue of 90 million yuan in 2007 and over 100 million yuan in 2008 (twice the breakeven amount we had calculated). As a result, investors will be able to recover their investment much sooner than the original projection. The profit margin is estimated to be around ten percent. Third, the excellent economic performance of the hospital meant that the hospital staff enjoyed a decent income. In 2007, staff salary and bonuses amounted to nearly 40 million yuan; the top-earning doctor received nearly 500,000 yuan and even the

lowest salaries for nurses who had just graduated from school were over 30,000 yuan. It is fair to say that there are strong financial incentives for those working at *Guangji* Hospital.

Fourth, there are two primary groups of patients who use the hospital. Factory workers account for about one-third of all cases and patients seeking gynecological and obstetric services took up another one-third. This latter group was mostly migrant women working in Yantian. The remaining patients had an array of complaints. Fifth, *Guangji* Hospital has been popular with people living in Fenggang Town, Yantian village, and the neighboring areas, and has also received recognition from the local government and even relevant central government departments.

THE PRIVATELY CONTRACTED VILLAGE COLLECTIVE HEALTHCARE SERVICE STATION

There are two further healthcare institutions in Yantian that are nominally under collective ownership but are actually run by individuals: the Yantian No. 1 and No. 2 Healthcare Stations. Our research revealed that they have largely been transformed from village collective ownership and operations to collective ownership with private operation.

Yantian No. 1 Healthcare Station began operation in 1994 under a contract system,⁷ but in reality it was run independently with no contract fee paid to the village collective. The village collective only exerts nominal ownership over the Healthcare Station, while its own management organizes its work.

The first contractor was Li Yuqi, a “barefoot doctor” in Yantian who began practicing medicine when he was 18 years old. He contracted to take over the Healthcare Station after its transformation. At that time, there were only two collectively owned healthcare stations in Yantian and, as a result, the No.1 Healthcare Station received many patients. While Li headed the station, there were only three doctors, three nurses, and three pharmacists. However, between 1995 and 1997, the station was receiving over 400 visits a day with Li himself receiving over 200 patients.

During a visit to the station on June 19, 2006, we were received by his son, Li Zhiren, who informed us that his father had passed away in 2004 and that he had taken over the business in 2005 when he formally started to practice medicine. The station was under a two-track management system: administratively it came under Yantian village, while technical supervision was provided by the Fenggang *Huaqiao*

Hospital. He also told us that in September 1995, the station had changed from a collective operation to an individual (private) one. At that time, his father invested 100,000 yuan and by 2006 the station had 15 staff and annual revenue of over 300,000 yuan.

On February 20, 2009, we visited again but this time to the station's newly rented building that was much larger than the original space. The new building was owned collectively by the Donger Production Group and had a monthly rental of 4,500 yuan. In addition to the healthcare station, Li also rented a two-room apartment to accommodate his staff, with a monthly rental of 600 yuan.

In the newly rented office, we noticed a framed listing, "Public Notification of Medical Institutions in Dongguan City," which defined the name of the Station as Yantian Villagers' Committee Healthcare Station of Fenggang Town. According to the Notification, the legal representative for the station was Deng Zerong who, at the time, was director of the Yantian villagers' committee and deputy secretary of the party branch. The station was registered to serve the "society" as a "nonprofit medical institution." The scope of registered business covered "internal medicine, surgery, and pediatrics." Li Zhiren mentioned that fierce competition was a major concern for him and although he had a good network of local people, his equipment was aging. Most importantly, his station had not been incorporated into the social security program and, as a result, patients could not be reimbursed for their expenses. His station had a net income of about 5,000 yuan per month, making an annual net income of some 60,000 yuan in 2008.

Yantian No. 2 Healthcare Station's status was also changed in 1994 from the village collective to private operation when the collective healthcare station was divided into the two stations—Yantian No. 1 and No. 2. The No. 2 Station was headed by Deng Zuyi, who we met on June 20, 2006. Deng Zuyi was born into a family of doctors and both of his grandfathers had practiced medicine. He started to practice medicine as a village doctor in 1973 and pursued some further study programs at the Huiyang Health School and Dongguan Health School in the seventies and eighties, respectively, and also participated in correspondence medical education. He worked in the Yantian Healthcare Station from 1973 to 1994, earning work points instead of salary, and this was equivalent to about 40 yuan a month. In July 1994, he teamed up with Li Guirong from Yantian village to contract with the village collective to establish Yantian No. 2 Healthcare Station, which formally began operations after papers were filed with Dongguan City.

He noted that the 1994 healthcare system reform was not new to Yantian as in 1981 it had introduced a contract system for medical services to replace the collective cooperative medical scheme. The contract system was also introduced in 1986 and 1994 when the contracting party no longer needed to pay a contract charge to the village collective. Instead, they were required to contribute a 6,000 yuan “promotion fee” to their technical supervisor, namely the Dongguan Healthcare Association.

The station is not spacious. It has no beds or inpatient services and has four doctors (including the two contracting partners), three nurses, two pharmacists, and one cleaner. The station receives nearly 100 patients daily in the off-peak season but during the summer (from July to September) the volume of visits often rises to 200. A rough estimate calculates over 20,000 visits per year; with a daily revenue of about 2,000 yuan making an annual revenue of nearly 1 million yuan. However, once costs are deducted, the net income is only about 30,000 yuan per year per person. Nearly 80 percent of the patients are migrants. Although there are quite competent TCM doctors in the station, over 80 percent of patients still choose to see doctors who prescribe Western medicine.

Local government regulations prevent village-level healthcare stations under a private contract from delivering CT services, X-rays, and ultrasound examinations. Thus, most patients visit for minor illnesses, with colds accounting for 40–50 percent, followed by bronchitis, tonsillitis, and stomach upsets (altogether over 80% of all cases). Patients do not spend much to have their minor illness treated: there is a one yuan registration fee, a 1.5 yuan diagnostic fee. Including the cost of medicines, the average cost per visit is only about 15 yuan. The most expensive prescription at the Healthcare Station only costs 70–80 yuan.

When we visited again on February 20, 2009, the two partners informed us that the volume of service had remained stable before 2008 (at around 100 patients a day) but that the global financial crisis had a major impact on the number of migrants in Yantian. After the 2009 Spring Festival, following which many migrants did not return from their homes, the number of visitors shrunk to about a half. While we were visiting, all the doctors and nurses sat in an open waiting room to watch a documentary film about Jet Li. Despite the uncertainties, Deng Zuyi was optimistic about the development of the Healthcare Station for several reasons. First, he and his partner had been practicing medicine for decades and are highly skillful; second, he felt that he and his colleagues treated the patients well;

third, the station offered services at a reasonable price. He was content with his job and income and still received patients as he loved the profession. He was also involved in managing the Healthcare Station with the result that he worked nine to ten hours a day, though he remained quite happy. With a monthly salary of 8,000 yuan for him and his partner, Deng felt proud of himself. His wife had retired from Fenggang Town Hospital where she had been working as a nurse and his two children made a good living—one as a civil servant in the Fenggang Town Government, the other as a bank clerk in Fenggang. Asked about his future plans, he replied “I have no future plans or demands. Everything is perfect for me now.”

OTHER HEALTHCARE SERVICE INSTITUTIONS AND PHARMACIES

In addition to the institutions already discussed, there are many small service providers in Yantian, including collective healthcare stations run by production teams, small clinics affiliated to foreign enterprises, licensed private clinics, unapproved private clinics, and many other pharmacies operating under different ownership forms.

In June 2006, we conducted a thorough survey of all the healthcare institutions within the geographical jurisdiction of Yantian village and found that the previously collective-run clinics in the four production teams (Shuibe, Buxin, Changbiao, and Shijie) had all been transformed into private-run clinics. Following a review and approval by the relevant government authorities they received private operating licenses. There are 13 other licensed private clinics including the Boai, Fengtian, and Yi'an clinics.

For the convenience of employees, teachers, and students, some large-sized factories and schools have set up in-house clinics, for example, the Jiali Group, Shinano Kenshi Motor, the Deli Clock Factory, and the New Century Talents School. The clinics vary in size from several medical workers to only one or two. They only provide services for their own personnel, with the medical expenses directly covered by the enterprise or school, not by individual patients.

There is another group of unlicensed private clinics that deliver some medical services. Most do not even have a name but still see patients. There are around 50 such unapproved private clinics in Yantian, which attract low-income migrant workers because of their low prices. Despite several rounds of investigation by the government, these unlicensed clinics remain active because of the demand from the migrants. Further there are ten pharmacies, four of which are quite

large: the Yongkang, Yantian, Fengtian, and Zhentian Pharmacies.⁸ Unlike pharmacies in other areas, Yantian pharmacies also see patients and almost all are staffed by full-time doctors and nurses, treating patients for some common diseases while selling drugs. They turn a blind eye to the government's objections. Although the Yongkang and Yantian pharmacies are privately owned, they are subject to management by the Fenggang Healthcare and Medicine Company. The Fengtian Pharmacy that opened in November 2000 is a subordinate unit of the state-owned Dongguan Healthcare and Medicine Company. This provides the company with a better selection of medicines with over 3,000 types of Western medicine and over 600 types of TCM. On September 19, 2001, the state-owned Zhentian Pharmacy Drug Store opened and is also affiliated to Dongguan Healthcare and Medicine Company.

MEDICAL INSURANCE IN YANTIAN

As elsewhere in China, economic reforms had a major impact on medical insurance within the village. From the early eighties, Yantian village started to transform its healthcare system from one based on a collective, cooperative scheme to one where village clinics ran on contracts. This meant villagers no longer enjoyed any guarantees for healthcare provision. Some of the wealthier families purchased commercial medical insurance, while certain production teams (such as Nanfang) set aside a partial fund from their collective revenues to subsidize members who suffered catastrophic or chronic disease and to provide a limited medical allowance.⁹ However, by 2000, Yantian village had achieved universal coverage for its residents through a three-phase development. There was a fourth phase launched by the Dongguan City Government but, at the time of writing, Yantian had not implemented it.

In 1999, under phase one, Dongguan City Government (November 8, 1999) enacted provisional regulations on providing basic medical insurance for formal employees.¹⁰ Starting from March 1, 2000, the regulations authorized collection of an insurance premium across the city with reimbursements starting from May 1. There were two types of medical insurance programs: comprehensive basic medical insurance and inpatient basic medical insurance. The former covered both inpatient and outpatient services, while the latter only reimbursed for hospitalization costs. The comprehensive basic medical insurance program introduced both social pooling and an individual account, with employers contributing the equivalent of 6.5 percent of the employee's

salary and individuals contributing 2 percent of their salary to the insurance program. While individual contributions went directly to the individual account, the employer's contributions were transferred proportionately into the individual account according to the age of employees—the equivalent of two percent of salary for those aged under 45, 2.3 percent of salary for those aged 45 and above, and 4.5 percent of the average salary for retirees. The inpatient insurance program required only employer contribution—two percent of the average staff salary in the previous year. There was no individual contribution. The individual account could only be used to pay outpatient expenses and other basic medical expenses that met certain criteria. The pooled fund was used mainly to reimburse patients for their inpatient expenses beyond the deductible,¹¹ subject to an annual cap.¹²

In the 1999 program design, the mandatory enrollment covered staff of government departments, public service units, and social organizations, state-owned enterprises, collective enterprises under the city government, foreign enterprises under city government supervision, central and provincial enterprises stationed in Dongguan, and laid-off workers of state-owned enterprises. Initially, the rural population was excluded. It was largely the same for basic inpatient insurance, only covering employees and retirees of township-level collective enterprises, foreign enterprises under township government supervision and private enterprises, as well as the staff of township individual economic entities. Again the rural population was not granted participation. However, from 2000, with the encouragement of the Dongguan City Government, farmers in Yantian began to enroll in the citywide urban employees' basic medical insurance. As of June 2006, 1,341 Yantian villagers were enrolled in the urban employees' basic medical insurance, accounting for 43 percent of all registered villagers.

In the second phase, Dongguan City and Yantian village responded to the Central Government's 2003 call to set up the new rural cooperative medical scheme (*Guoban fa*, 2003, NRCMS). This was defined as a voluntary public medical insurance with the household as the basic unit for participation. Already by May 22, 2003, 1,839 villagers had been enrolled in the scheme (64.1% of the total) with the remaining 35.9 percent enrolled in the employees' basic medical insurance. The percentages were fairly consistent across the nine villagers' groups, with Xifang the highest NRCMS enrolment at 68.7 percent and Shijie the lowest (59.2%). Given the fact that the central government document was only distributed nationwide on January 16, 2003, it is evident that Yantian was energetic in promoting the new policy.

However, shortly after the introduction of this scheme, on November 28, 2003, a third phase began when Dongguan City proposed a new model for basic medical insurance for farmers.¹³ First, the recently introduced rural cooperative medical scheme was incorporated into the basic medical insurance for farmers; second, village- or township/district-level pooling in the previous programs was upgraded into citywide pooling; and third, management responsibilities were shifted from the health and agricultural authorities to the labor and social security department. Under the new insurance program, residents with a local registration (both rural and urban residents) who were not enrolled in the employees' basic medical insurance could enroll in the basic medical insurance for farmers through the villagers' committee.¹⁴ Funding for the insurance was raised mainly through individual contributions, with collective support and government subsidy. It did provide farmers with some reimbursement for their medical expenses.

In early 2004, Dongguan City released the provisional regulations for the farmers' basic medical insurance and on June 1, 2004, citywide collection of insurance premiums began. There were two tiers (A and B) for the insurance premiums and villagers' committees could make their own choice depending on their level of economic development and the income level of farmers. In the first year, tier A had a contribution package of 90 yuan per year—60 yuan from individuals, and 15 yuan from the city and township governments, respectively; tier B had a contribution package of 220 yuan per year—190 yuan from individuals, and 15 yuan from the city and township governments, respectively. Fenggang Town selected tier B.

A lump sum payment was introduced for the insurance program and had to be paid before the end of June the following year. No exemptions or preferential treatment were allowed with respect to payment, while overdue payments were liable to a charge of 0.2 percent of the receivable amount per day overdue. Those enrolled were eligible to receive 70 percent of their basic medical expenses beyond the deductible reimbursed through the pooled fund.¹⁵ This was a lower reimbursement rate than that for the employees' basic medical insurance (95% for employees, and 100% for retirees).¹⁶ For outpatient expenses, the pooled fund would cover 60 percent of the expenses if the service items were covered in the outpatient service catalog and fell below the ceiling of the basic medical insurance provided in the insurance policy. The ceiling for reimbursement upon hospitalization and specified outpatient services through the pooled fund was not to exceed 35,000 yuan each year. The pooled fund would make a

lump sum pension payment of 2,000 yuan for enrollees who died from disease. Yantian also chose Tier B for premiums. The 190 yuan individual contribution was deducted directly by the village collective from their dividends. Statistical information from June 2006 showed that 1,780 villagers were enrolled in the farmers' basic medical insurance, 57 percent of total village population, the remaining 43 percent were covered by the employees' basic medical insurance.

In a fourth phase, Dongguan City decided to merge the basic medical insurance for farmers and urban employees so that all would enjoy the same benefits, although Yantian did not participate. The policy was implemented from July 1, 2008. Nevertheless, the two insurance programs are still financed through different sources. Furthermore, the policies only benefit those Dongguan people with locally registered identification (employees, people receiving a monthly pension or unemployment allowance, workers in the informal sector, as well as urban and rural residents) but not the "*Xin Guaner*," migrants to Dongguan. A basic principle is "multi-source funding with government subsidy," with the intention of establishing a citywide pool for medical insurance. A monthly contribution is paid into the fund equivalent to three percent of the monthly average salary of citywide employees in the previous year—2 percent for inpatient and 1 percent for outpatient (see table 7.1).

Although Yantian did not adopt the new system, in spite of the lower contribution rate required by the farmers' basic medical insurance, the new program created identical benefits for participants of the two programs, thus causing some villagers to shift from the employee's to the farmers' package. The number of participants in the

Table 7.1 Contributions for Social Basic Medical Insurance in Dongguan City

Category of participant	Benefit	Contribution			
		Employer	Individual	Government fiscal subsidy	Total
Employee in formal sector	Inpatient	2.0%			3%
	Outpatient	0.3%	0.5%	0.2%	
Worker in informal sector	Inpatient		2.0%		3.0%
	Outpatient		0.8%	0.2%	
Urban & rural resident	Inpatient		1.0%	1.0%	3.0%
	Outpatient		0.5%	0.5%	

Source: Dongguan Municipal Social Security Bureau, May 2008.

farmers’ basic medical insurance program exceeded 2,000, increasing its share of the village population from 57 percent in 2006 to 65 percent in 2009 while reducing the share of employee’s program participants among the village population from 43 to 35 percent.

CONCLUDING COMMENTS

The reforms in Yantian village transformed the healthcare system from a collective-run village healthcare station model to one where village clinics were owned by the collective in name only but operated under private contracts taken out by individuals. The role of the private sector has grown with the development of *Guangji* Hospital and the emergence of many other licensed and unlicensed private service providers. This transformation was supported by certain policies such as subsidies for the delivery of public goods in the form of tax exemption for the two healthcare stations even after ownership changed from collective to private.

Despite the increasing role of the private sector, the government’s role also increased. In addition to the one public hospital, the Yantian Branch Hospital of Fenggang *Huaqiao* Hospital—the local government established the Yantian CHS and a growing number of state-owned pharmacies. Government players have struck equilibrium with private players in delivering health services in Yantian, which in theory should help prevent and address market failure or government failure.

However, the ambiguous nature of several public facilities such as the Yantian Branch Hospital, whether or not they were for-profit or not-for-profit, or whether they should be run directly by government has meant that there is actually no government spending in the Yantian Branch Hospital. As a result, it has had to charge fees to cover costs and the diagnostic and treatment costs, at a so-called public hospital, are even higher than in their private counterparts. Instead of dealing with market failure under the reforms, this model has exacerbated it, making appropriate healthcare services inaccessible for low-income migrants and their dependents in Yantian. Poor people had little to gain from healthcare services delivered by the government-run hospitals. The absence of government spending has also had the consequence that there is little or no government spending on public health, with especially serious consequences for the large migrant community.

The risk can be seen in a number of areas, for example, with respect to children’s immunization, food sanitation inspection and

supervision, as well as in the prevention of occupational hazards. According to an official from the Fenggang *Huaqiao* Hospital, between 1996 and 2006 it received no government funding, even for public health programs. Hospital construction and major equipment purchases were often financed by bank loans and repaid through service charges.

For the two village healthcare stations, while the local government granted licenses and created favorable conditions to spur healthcare service delivery, it restricted the purchase of advanced medical equipment, which was detrimental to improving the quality of service. Furthermore, as the two private contracted healthcare stations were not incorporated into the social security insurance programs, patients could not receive reimbursement for their medical expenses even if they bought medical insurance. This has a direct impact on the sustainable development of the two healthcare stations.

While the government, private sector, and village collective (community organizations) are all involved in healthcare service delivery, there might be a case to set up a consultative and negotiation mechanism to manage jointly the market, prices, and the quality of healthcare services in which government would need to play a more important role. The absence of such a mechanism may lead to chaotic market competition, a concern aired by directors and doctors of several private service providers. They noted that the healthcare service market in Yantian is currently excessively open, leading to a situation of chaotic competition, and consequently waste of healthcare resources.

In terms of equity, registered local villagers enjoy significant advantages in seeking medical insurance and utilizing healthcare resources in comparison with the migrants. The two groups while living in the same village actually inhabit “different worlds.” A social security system still needs to be set up that does not exhibit prejudice based on place of birth and that can include portability of benefits.

“DENG’S VILLAGE”: GOVERNANCE

In the previous chapters we have examined economic organization and social development, and these enormous changes have led in turn to a significant restructuring of village governance. This chapter reviews the changes in village administration and the decision-making structures for policy implementation. One constant feature is the preeminence of the village party branch, but it is embedded in a network of institutions that manage village administration and economic life. It is important to note that the governing structure prior to 1999 was opaque to say the least. While, to all intents and purposes, Yantian was considered a village, it was actually classified as a “township,” from 1986 it was referred to as the Yantian Management Area (*guanliqu*). This meant that “village” leadership was appointed from above. Thus, village self-governance came late to Yantian and it was only in 1999, after passage of the revised “Organic Law of Villagers’ Committees” (“Organic Law”) that it was formally classified as a village and adopted an administrative structure more familiar to the rest of rural China. Yantian has adopted the system of villagers’ self-governance, village elections, regulations concerning transparency of village affairs, and villagers’ supervision. Of special importance in Yantian is the one further organization, the shareholding cooperative that manages the villagers’ economic affairs.

VILLAGE SELF-GOVERNANCE

In chapter 1, we outlined the basic structure of village organization and the experimentation in village governance that culminated in the adoption of the 1999 “Organic Law.” On June 13, 1999, in accordance with the “Guangdong Province Electoral Method for the Villagers’ Committee” (*Guangdongsheng cunmin weiyuanhui xuanju banfa*), Yantian held its first election. Not surprisingly, Deng Yaohui, party secretary of the Yantian Management Area, was

elected head of the first villagers' committee. Deng Manchang was elected deputy head together with five other members. In line with the regulation that elections be held every three years, voters turned out in January 2002, 2005, 2008, and most recently in April 2011. In addition to the elections, other important measures to regulate village affairs are those encouraging transparency, cooperation between the village governing organizations, and supervision over village officials.

Twelve years later on October 28, 2010, the seventeenth meeting of the Standing Committee of the Eleventh National People's Congress adopted a number of amendments to deal with challenges that had arisen from the changed situation in the countryside. In particular, the revisions sought to make the recall of elected deputies easier, to make meetings easier, and to improve oversight mechanisms in the village. As we have seen in previous chapters, a major challenge for village governance is that migration has frayed and often severed the links between actual residence and official household registration. Tens of millions of rural inhabitants no longer live in the place of their household registration (*hukou*). In Yantian, the 70,000 to 80,000 plus migrants do not enjoy any political rights in the village. The revisions to the "Organic Law" tried to shift the basis for rights from household registration to actual place of residence by extending voting rights in elections to those who had lived in the village for more than a year. However, this was accompanied by the proviso that approval must come from the villagers' assembly or the villagers' representative assembly. Not surprisingly, villagers, especially those in a wealthy place such as Yantian, are highly unlikely to open up the political process in such a way that would undermine their power. In the village election in April 2011, no migrant workers, or at best very few, participated.

The Constitution and the "Organic Law" provide the legal foundation for village self-governance and also highlight the need for democratic elections: the "three self-governance" and the "four democracies." Self-governance means that villagers can organize themselves to deal with their own public affairs and to discharge their rights and interests through self-management, self-education, and self-service. Self-management is interpreted to mean that villagers organize themselves in line with the law to manage jointly the village public affairs; self-education means that villagers can upgrade their knowledge and improve their management skills by organizing themselves to address public affairs; and self-service means organizing themselves to deliver all necessary services.

The “four democracies” covers democratic elections, democratic decision making, democratic management, and democratic supervision. Democratic election allows those villagers with voting rights to vote directly for members of the villagers’ committee, including the head, deputy head, and members, in accordance with the “Organic Law.” Democratic decision making means that important decisions affecting villagers’ rights and interests are taken through discussions in the villagers’ assembly. This includes the distribution and use of the collective-earned income and the collective properties, the mobilization of capital and labor to provide public goods in the village, determination of the contract-based land use plan, use rights of residential land, and compensation for land use. Democratic management means that villagers organize themselves in line with stipulations in the “Statutes of Villagers Self-Governance” (*cunmin zizhi zhangcheng*) or the “Village Codes of Conduct” (*cungui minyue*). Democratic supervision calls for villagers to oversee the work of the villagers’ committee and the conduct of village heads. The main mechanisms to ensure democratic supervision are transparency measures, assessment and evaluation of the work of the villagers’ committee, and the establishment of a village affairs supervisory board, and committee members are audited while in office and at the end of their period of service.

VILLAGERS’ ELECTIONS

Most writing on village democracy has focused on the election of the villagers’ committee and more recently on the election of the party branch by party members.¹ However, in Yantian elections also include the board members of the shareholding economic cooperative by its shareholders. Thus, there are elections for all three important village organizations: the party (party branch), the administrative organ (villagers’ committee), and the economic entities (economic shareholding cooperatives). First, we focus on the election of the villagers’ committee.

Election of the Villagers’ Committee

The revisions to the “Organic Law” adopted in October 2010 contain five main features to govern the electoral process.² First, direct election is mandatory, and a set of procedures to provide for the direct election of head, deputy head, and members is laid out. These procedures include the direct nomination of candidates by villagers (*baixuan*), a competitive election (*jingxuan*) with the villagers’

committee organizing the candidates to make presentations to the villagers and answer questions. No organization or individual has the right to designate, delegate, or revoke membership of the villagers' committee.

Second, there are a number of procedures to be followed. A Villagers' Election Committee (*cunmin xuanju weiyuanhui*) comprising a head and members is to be elected by the Villagers' Assembly (*cunmin huiyi*), the Villagers' Representative Meeting (*cunmin daibiao huiyi*),³ and the Villagers' Group Meeting (*cunmin xiaozu huiyi*). The election committee then presides over the election of the villagers' committee. If a member of the villagers' election committee is nominated as a candidate for the villagers' committee, he/she has to withdraw from the election committee. Third, the election is conducted through a secret ballot with a public count of the vote and the results announced on the spot. Fourth, the two "over half" (*liangge guoban*) principles are to be observed when assessing those elected: the result is valid only if over half of the enrolled villagers cast a vote (including delegated voters) and the candidate must receive over half of the votes cast.

Fifth, in addition to criteria such as candidates being over 18 years of age and not deprived of their political rights,⁴ there are new regulations concerning residency that were incorporated in the October 2010 revised "Organic Law." These permit those who are registered elsewhere (*huji buzai bencun*) but who have lived in the village for over one year to stand for election provided the Villagers' Assembly or the Villagers' Representative Meeting approve. If approved, they are not allowed to vote elsewhere.

The first Yantian villagers' committee was elected in June 1999 in accordance with the rules adopted by Guangdong Province and the "Organic Law." Naturally, no consideration was given to those not registered in the village and not surprisingly Deng Yaohui, who had overseen the village since 1981, was elected. In fact, the outcome was such a foregone conclusion that no campaign speeches and Q&A session were arranged. The villagers and village leaders felt that elaborate procedures for the "election" were "totally unnecessary." This corroborates the findings of He (2003) who suggests that in a one-surname-dominant village, people tend to vote for a candidate from the same lineage. By contrast, in multisurname villages, voters tend to focus more on the qualities of the candidate.

The electoral process in Yantian is as follows. First, the villagers elect members of the election committee (for the fourth and the fifth elections, there were all 11 members) and then the delegates of

the villagers’ representative committee (*cunmin daibiao dahui*) were elected.⁵ This represented the highest authority in the village and 90 delegates were elected for the fourth as well as for the fifth elections. Subsequently, the Villagers’ Assembly (*cunmin huiyi*) is held, where candidates for the villagers’ committee and their proposed position (the “two-in-one” model, *erheyi*) are elected through secret ballot. Once the candidates are decided, the Villagers’ Election Committee organizes the final direct vote for the head, deputy head, and members of the villagers’ committee.

In the election of the first villagers’ committee, in accordance with the regulations of the local government, there were 20 percent more candidates than vacant positions. Eventually, seven of the eight candidates were elected: Deng Yaohui (head), Deng Manchang (deputy head), Deng Gantian, Deng Xushu, Deng Zerong, Deng Yihuan, and Deng Senyang (members). The Yantian Villagers’ Committee was formally established on June 30, 1999. Yang Zhiqin, then vice mayor of Fenggang Town, addressed the event and issued the formal credentials to those elected (Deng Yaohui, ed., 2003, 384). In accordance with the regulations, the second election was held in January 2002 and the seven incumbents were reelected. On January 4, candidates and positions were recommended by the villagers’ nomination (*haixuan*), with no advance short list of candidates. The formal election was conducted on January 13.

The third round of village elections on April 12, 2005 was especially significant for Yantian as village head, Deng Yaohui, was ineligible to stand again having stood for two terms already. Deng had also been secretary of the general party branch since 1981. In addition, the number of committee members had to be reduced from seven to five in accordance with local regulations. This created some concerns but eventually the new committee was elected in line with the formal procedures. Deng Zerong, a member of the previous committee, was elected head while the deputy head retained his position. Deng Xushu was reelected while Deng Shunyi and Chen Limei (female member) were newcomers. Deng Zerong extended his tenure through reelection in the fourth election on May 15, 2008 as did Deng Manchang as deputy head. Deng Shunyi and Chen Limei remained as members and Deng Huixin was elected as a new member.

March to April 2011 was a busy time for elections in Yantian with the 90 members of the villagers’ representative committee elected on March 15, the 100 shareholder representatives on March 28, the election of the election committee to oversee the process for the

villagers' committee and the election of the heads of the nine villagers' groups. One notable feature of the 2011 election was the reassertion of the Fenggang Town party and government in guiding the process and proposing candidates. The election committee⁶ drafted the electoral rules that were prepared initially by Fenggang Town⁷ and the guidelines from the town applied to all the villages within its jurisdiction. They confirmed the voting procedures noted above and that there should be five members (a head, deputy head, and three members) of whom one should be female, elected through an independent ballot.

In a notable departure from previous elections, the party committee of Fenggang Town issued a list of recommended candidates for the villagers' committee.⁸ The town party committee claimed its suggestions were based on a review of the work of the current members and from targeted opinion polling. The town authorities were clearly satisfied with the current situation and did not want to risk any potential upset by submitting fully to the democratic process. Such attempts to control and "guide" democracy so that the outcome is known are prevalent throughout the system. Perhaps it was considered especially important at this time as Deng Yaohui, who had run the party apparatus since 1981, had retired as secretary in March 2011 to be replaced by Deng Zerong, the former head of the villagers' committee and party branch deputy secretary. Deng Manchang was proposed as the new village head, having served as deputy since 1999 and as deputy party branch secretary. Concurrent holding of the post of party secretary and village head ("two-in-one") is not advocated by the Dongguan authorities and thus branch secretary, Deng Zerong, also supported Manchang's election, although the "suggestions" noted that Zerong would not vote.

The nomination election was scheduled for April 4 with the full election to be held on April 10. The authors led a team to observe the elections and, given its importance within the village, they covered the April 4 nomination election at Donger Villagers' Group. Deng Manchang is a member of this group and it is the largest group in the village with 183 households containing 678 people, of whom 559 were over 18 years of age and thus enjoyed voting rights. In addition, 71 percent of the population are members of the Deng lineage. Each household was entitled to send a representative to vote but some delegated their vote to neighbors, relatives, or friends with the result that only 155 household representatives attended the nomination conference. A total of 558 ballots were distributed and 557 were returned (a response rate of 99.6%).

The nomination conference began at 9:30 a.m. with two items on the agenda: a briefing by Deng Jinling, a trustee of the Donger Shareholding Economic Cooperative (*Donger gufen jingji bezuoshe*), about candidate nomination; and the voting for the candidates and their positions.

The slate of candidates proposed by the Fenggang Town party authorities could not be displayed inside the voting venue but was displayed prominently outside. In addition, on the back of the sign indicating where people should vote (*xiepiaochu*) there was the list of proposed candidates and their positions. However, only two middle-aged women actually consulted it. Voters waited until the name of their household was called and then they came forward to cast their vote. There were two ballots for each voter: one for the head, deputy head, and two members; and one for the female member of the villagers’ committee. Voting took about an hour and then the ballot box was sealed and transported by four police officers to the central meeting venue.

The ballot boxes of the nine villagers’ groups were brought together and the votes counted. The counting area was cordoned off and only those designated to officiate the count were allowed inside. Each ballot box was guarded by at least one police officer. After one hour the results had been tallied and were announced.⁹ In line with the proposals of the town party authorities, Deng Manchang was elected to be village head with 83 percent of the vote (in fact, if the votes for him to be deputy head or a regular member are included, he received 89.8% support). Deng Shunyi received 82.4 percent of the votes to be deputy head and Deng Huixin and Deng Jinhao were elected members with 77.2 percent and 68.8 percent of the vote, respectively. Chen Limei was elected as the female member of the villagers’ committee with 90.1 percent of the vote. The “two over half” criteria were met: over half of the eligible voters cast a vote (2,604 out of 2,608) and all the candidates received over 50 percent of the votes cast. In light of this, the final election scheduled for April 10 was considered unnecessary and the nomination election was deemed sufficient and the election concluded.

The election seems to have met with general approval. Deng Shunyi and Chen Limei had approval rates of over 90 percent, while Deng Manchang had almost 90 percent and the average approval rating was 86.1 percent (see [table 8.1](#)). However, a number of other candidates were nominated by the villagers showing that not all simply followed the recommendations of the town party committee. In addition to the five elected candidates, a further 48 candidates were nominated.

Table 8.1 Votes for Candidate Nomination for the Fifth Villagers' Committee

Candidate	Votes Won			Total Valid Votes			Approval rate (%)			
	Head	Deputy Head	Member	Head	Deputy Head	Member	Head	Deputy Head	Member	Total
Deng Manchang	2162	145	32	2339			83.0	5.6	1.2	89.8
Deng Shunyi	150	2145	172	2467			5.7	82.4	6.6	94.7
Deng Huixin	57	130	2010	2197			2.2	5.0	77.2	84.4
Deng Jinhao	13	54	1791	1858			0.5	2.1	68.8	71.4
Chen Limei	0	6	2345	2351			0	0.2	90.1	90.3
Average				2242						86.1

Source: Field survey data by the authors, April 4, 2011, Yantian village.

For example, Deng Rujiao received 198 votes to be a member, Deng Shupeí received four votes to be deputy head and 111 to be a member and Deng Yaohui attracted two votes to be head, six votes to be deputy head and 106 votes to be a member.

Election of the Village Party Branch

It was only in January 1951 that the first group of five villagers joined the Chinese Communist Party (CCP), including Deng Chungui, Deng Dewan, Deng Lianhuan, and Deng Ruihong. They took their vows in the Fenggang Town Government office and the Yantian Party Branch was established in September 1951 recruiting three new members: Chen Xiulin, Deng Xulin, and Liang Zhaolun. By the end of 1959, the party branch had 37 members and recruited ten new members in the sixties, 27 in the seventies, only three in the eighties, and 29 in the nineties (Deng Yaohui, ed., 2003, 314–318). The first decade of the new century witnessed the largest increase with 48 new members.¹⁰ These trends reflect the revival of the party in the nineties and this century and its role as a key institution for connections and personal progress. In 2011 membership stood at 159, accounting for about 5 percent of the registered population, roughly the same percentage as nationally.

Throughout its history, the party branch has been led by three figures: Deng Chungui (the fifties), Deng Jiuquan (the sixties and seventies), and Deng Yaohui (the architect who guided reforms in the village from 1981). Yet, these three members of the Deng lineage led the village through very different transitions and epochs. Over a ten-year period, Deng Chungui led the villagers to embark on cooperatization and engage in constructing irrigation and water conservancy facilities. Over 20 years, Deng Jiuquan led the village through the roller-coaster of the Cultural Revolution while trying to promote scientific-based farming and agricultural development. Deng Yaohui was party secretary for 30 years and led the village through the initial reforms and then its integration into the global economy and the ensuing wealth creation.

The party’s operational history in Yantian can be divided into two phases. Before the eighties both during cooperativization and under the people’s communes, the party branch functioned mainly as a political agency carrying out commands from above to be implemented in the rural areas. The grassroots’ branch reported to the higher levels and had very little room for initiative and flexibility. Naturally, the secretary of the party branch was appointed by higher-level party organizations instead of through an election among party members in

the village. However, it is noticeable that during this period, the two party secretaries were from the Deng lineage. From the mid-eighties, Party Secretary Deng Yaohui began to advocate direct election by village party members. The election takes place in the same year as the villagers' committee election but is held in advance. Later, the synchronized election of two committees (party branch and villagers' committees) was extended to three elections to incorporate the village shareholding cooperative.

The rules governing the election of the party branch committee are determined by the "Statutes of the CCP" (*Zhongguo gongchandang zhangchang*) and the "Provisional Regulations for the Election of Grassroots Organizations of the CCP" (*Zhongguo gongchandang jiceng zuzhi xuanju gongzuo zanxing tiaoli*). Based on these two documents, five basic principles and priorities were set. First, all activities relating to the election are to be overseen by the incumbent party branch, including procedural activities and organizational work. Second, the size of the party branch is usually proposed by the higher-level party organization, namely the Fenggang Town party committee, and this determines the number of candidates. Thus, for the 2011 election, Fenggang Town decided on a branch committee of seven members with eight candidates to ensure that the election met the requirement in the "Provisional Rules" that the number of candidates should be 20 percent higher than the number of seats to be filled. Third, candidates are determined through recommendation by the general public, party members, and the party branch itself and endorsed by the township party committee. The shortlist is presented to all the village party members for discussion and the candidates are decided by majority opinion. Following this, village party members vote in secret ballot and the vote is only valid if over 60 percent of those eligible to vote do so. Last, once the vote is completed, the ballots are reviewed and counted in public. A candidate needs to receive over half of the positive votes of all eligible voters to be elected. If the number of candidates receiving over half the eligible votes exceeds the number of vacancies, party branch members will be determined in accordance with the total number of votes received. The reviewer reports the results to the village party members and the results are also officially announced to all village party members.

These procedures governed the election on August 12, 2004 that saw Deng Yaohui continuing to serve as branch secretary; Deng Zerong and Deng Manchang re-elected as two deputy secretaries; and Deng Senyang, Deng Gantian, Deng Shunyi, and Chen Limei elected

as members. On January 18, 2005, the Yantian party branch was chosen as a part of a pilot for reform of grassroots’ party organizations. With the growing number of members, the branch was upgraded to the Yantian general branch with five committees under it based on the production teams. If the teams were small, two production teams could form one committee. On March 12, 2008, the Yantian party branch held its election and all incumbents were reelected suggesting a reasonable degree of satisfaction of party members with their leadership.

The election for the village general party branch committee took place on March 8, 2011 with preparatory work having begun in late February. The first phase of work was to develop the short list of potential candidates. The canvassing went beyond just local party members. The 151 full party members participated (this excluded investors from outside the village and immigrants who were party members) as did the 100 villagers’ representatives and the 100 shareholder representatives. However, because of functional overlap the total number of those actually consulted was 180 and this group generated the short list.

The second phase of work constituted evaluation of the 14 candidates who had been nominated by the group of 180. This process was referred to as “democratic assessment” (*minzhu ceping*) and comprised a general evaluation of their current work performance, their knowledge of politics, their ethical standing, professional competency, entrepreneurship, and ability to work with others (see [table 8.2](#)). Following this assessment, the top-ranked eight candidates were reported to the town party committee for approval with a request to convene the election meeting and to approve its agenda. The village general branch formally submitted this request on March 4 with a proposed date of March 8 and a list of eight candidates. Deng Zerong and Deng Manchang were proposed as the only candidates for secretary and deputy secretary, respectively.¹¹ The Fenggang Town party committee replied the same day endorsing the proposal. It stipulated that the members when elected should be reported to the town committee, while the secretary and deputy secretary be reported for approval.¹²

The election went ahead as scheduled on March 8 with all 151 party members voting. Seven of the candidates were elected with over half of the votes, while Deng Senyang, a member of the previous branch committee, received the lowest number of votes and was thus rejected.¹³ Interestingly, the proposed secretary did not receive the most votes but rather with 142 votes the female

Table 8.2 Democratic Assessment and Opinion Solicitation (*zhengqiu yijian*) Form for Nominated Candidates for the Yantian General Party Branch

Name	Current Position	Fair	Unsatisfactory		
Performance in Current Position (please tick “√”)	Excellent				
Do you agree to recommend him/her as a candidate for the party committee member	Agree		Disagree		
(please tick “√”)					
Quantified Assessment	Specific Requirements	Excellent	Good	Fair	Poor
	Politics (<i>zhengzhi sixiang</i>)				
	Ethics (<i>zhixing daode</i>)				
	Professional competency (<i>yemou nengli</i>)				

	Coordination capability (<i>xietiao nengli</i>)	Being plan-oriented, systematic and forward looking, able to incentivize people, and handle properly work relations and interpersonal relations.			
	Entrepreneurship and innovation (<i>chuangxin nengli</i>)	Being innovative and creative in work (offer ideas and plans), being special and influential at work.			
	Ability in writing and expression (<i>wenzi biaoda nengli</i>)	Able to write official documents when necessary, accurate and logical in oral expression			
	Work performance (<i>gongzuo biaoxian</i>)	Follows rules of attendance, active in collective (public) activities, results-oriented, proactive, team spirit and shows strong commitment			
	Work efficiency and effectiveness (<i>gongzuo xiaolu yu xiaoyi</i>)	Able to complete work tasks and assignment from the supervisor, providing a quality outcome, quick response, and good performance.			
Please “√” in one column: excellent, good, fair, or poor.					
Overall performance and shortcomings:					

Notes:

1. Separate paper may be attached should more information be provided.
2. Democratic assessment tables will be returned to the town party committee for filing.

Source: Field survey by the authors, April 6, 2011.

representative for the villagers' committee did. Others not on the list received votes, some of whom represented the younger generation within the village, while former secretary, Deng Yaohui, also received one vote, despite his insistence that he would not contest. The first meeting of the branch then unanimously elected Deng Zerong as secretary and Deng Manchang as deputy. Further, it was decided that Deng Gantian would be responsible for discipline and organizational work and Chen Limei would be responsible for propaganda. These suggestions were then reported to Fenggang. This marked a successful transition of power within the village from Deng Yaohui to the next generation of Deng Zerong and Deng Manchang. As a result, the town-level authorities paid particular attention and, as with the villagers' election, had made their slate of candidates known.

Over the years, the Yantian party branch not only focused on party-building activities but also was a keen promoter of village economic growth, working to increase the dividends, improving welfare, and expanding job opportunities for the villagers. The party branch has directed substantial resources to improving infrastructure by building new roads, the electricity station, and the water plant. It has also focused on environmental quality, while striving to develop the private sector of the economy. In 2006, the party branch adopted its "Three-Year Plan for Yantian Village Party Construction" (*Yantiancun dangzuzhi jianshe sannian guihua*), which highlighted economic development as the primary focus with the slogans "seize the opportunity to develop the east side of the river (*bedong*) to attract more investment for a new surge in industrial development," and, echoing central policy, "improve the capacities of the villagers and strive to achieve a well-off society in the context of building a new socialist countryside." At the same time, the plan reiterated the need to "enhance party development and provide organizational guarantees to advance all social undertakings in the village." The branch clearly is dedicated to promoting the welfare of the registered inhabitants not only through generating higher incomes and creating more job opportunities but also by improving available welfare such as pension and medical insurance, while providing scholarships for the Yantian youth to study both at home and abroad. It is clear from the above that the party branch is the key institution in the village and directs many of the activities with respect to economic development and welfare that should reside with the villagers' committee and assembly.

Election of the Shareholding Cooperative

After 1949, rural China developed a tradition of elections for leadership of collective economic organizations. The “Model Regulations of the People’s Republic of China on the Advanced Agricultural Producers’ Cooperatives,” adopted by the National People’s Congress in June 1956, defined the cooperatives as socialist collective economic organizations established on a voluntary basis to provide mutual benefit. The regulations stated clearly that the cooperatives should be subject to democratic management with the heads elected by members and major decisions taken after discussion with the members.¹⁴ By contrast, the People’s Commune was a unit of political power as well as a collective economic entity. According to the “Draft Rules on the Work of the Rural People’s Commune,” adopted in March 1961, the communes had a three-tier management structure: commune, production brigade, and production team. The production brigade was proposed as the basic accounting unit and the teams owned most of the land and were responsible for income distribution. Unlike regulations for the producers’ cooperatives, the “Draft Rules” did not refer to democratic management but rather in line with the times that the communes should be organized in terms of democratic centralism (*minzhu jizhong zhi*).¹⁵ However, delegates of the membership congress, as well as members of the management committees and supervision committees at all levels were to be elected through secret ballot following full deliberation by the members.

Discussions with elderly villagers confirmed that these practices operated during the cooperative and commune eras. However, in the eighties, the collective atrophied with no substantial economic growth and there were no full-time collective economic bodies to supervise the collective assets. This all changed by the mid- and late nineties as the “new” collective economy took off causing significant challenges for management and supervision.

In 1999, shortly after the establishment of the villagers’ committee, extensive discussions among the villagers led the Yantian party branch committee to establish the Yantian Economic Cooperative. On December 16, 1999, the branch promulgated the “Charter of the Dongguan City, Fenggang Town, Yantian Economic Cooperative on the Land Shareholding Cooperation System” (*Dongguanshi Fenggangzhen Yantian jingji lianheshi tudi gufen hezuozhi zhangcheng*). The Charter installed the villagers’ representative meeting as the cooperative’s supreme authority. The villagers’ representative

meeting elects a board of trustees and a board of supervisors, including the director and deputy director. The meeting must pass all major decisions before they can be implemented by the board of trustees. These decisions include the budget, the settlement of annual revenues and expenditures, the distribution of collective profits, the disposal and distribution of collective assets, major investment projects for economic development and public goods provision, the investment of collective assets, and members' stock and dividend rights.

The Charter also calls for elections to be synchronized with those for the villagers' committee, with three-year terms with the possibility of reelection. Not surprisingly, in the first election at the end of 1999, Party Secretary Deng Yaohui was elected as director. Chen Guangsheng was elected deputy director and members of the board included Deng Manchang, Deng Xushu, Deng Gantian, Deng Senyang, and Deng Yihuan. One can see the influence of the party branch committee in the composition of the economic cooperative, with four members serving.

In August 2003, Yantian introduced a major reform of its shareholding system. As a result, on November 6, 2003, following a decision of the villagers' representative meeting, the Yantian Economic Cooperative was renamed as the Yantian Shareholding Cooperative and a new charter adopted—"Charter of the Yantian Shareholding Cooperative" (*Yantian gufen hezuoshe zhangcheng*—Charter). The new Charter included several points relating to democratic elections.

First, the Yantian Shareholding Cooperative was defined as an innovative organization developed from the collective economy to manage the assets collectively. Second, the ownership system was twofold, harmonizing collective and individual property with the shareholding cooperative as the legal person for collective property ownership, while individual property rights of natural persons refer to the stock acquired in accordance with the provisions of the 2003 Charter. This process was in line with regulations introduced in Guangdong with villages instructed to rename their organizations as village shareholding companies (*nongcun gufen youxian gongsi*).¹⁶ Production team assets were effectively "corporatized" with shares given to each individual villager. In practice, all net assets of the cooperative are divided equally for all shareholders, while individual shares are held jointly by the shareholders.

Third, the new Charter outlines the power structure. The shareholders' assembly constitutes the supreme authority of the cooperative, with one vote for one share. Under the shareholders' assembly, there is the representative shareholders' meeting with one representative elected for every 30 shareholders. Decisions made in the

shareholders’ assembly must be endorsed by over two-thirds of the representative shareholders attending the assembly, and are only valid if the number of positive votes exceeds half of the total shares. For the representative shareholders’ meeting, over two-thirds of the representatives must be in attendance and for a decision to be approved over one-half of the participants must vote in favor. The board of trustees serves as the standing committee to make decisions and manage the affairs of the representative shareholders’ meeting but the shareholders’ meeting retains control over its powers.¹⁷ The board of supervisors oversees the board of trustees and management to ensure that decisions are taken in line with the prevailing views of the shareholders’ assembly and the representative shareholders’ meetings and the cooperatives’ charter. Consequently, the supervisory board cannot include members of the board of trustees.

Fourth, the board of trustees implements the decisions of the representative shareholders’ meeting and the shareholders’ assembly. The board comprises seven persons, each with a term of three years. Board members may be reelected and serve concurrently as members of the village party branch committee and the villagers’ committee. All members of the board must be elected by the representative shareholders’ meeting but the director and vice director are elected by board members through secret ballot. Fifth, the board of supervisors consists of five members (including one director) and is elected by the representative shareholders’ meeting. The board of supervisors and the board of directors have the same term.

Again we see the interlocking directorate of village leadership. In line with the 2003 Charter, on December 26, 2003 the board of trustees was elected through secret ballot. Deng Yaohui, party branch secretary, was elected as the director, Chen Guangsheng as vice director, and Deng Zerong, Deng Manchang, Deng Shunyi, Deng Huixin, and Li Huibang as board members. Except for Chen Guangsheng and Li Huibang, the other five board members were all current members of the village party branch committee or the villagers’ committee. Deng Heling was elected at the representative shareholders’ meeting as the director of the board of supervisors, with the other four members being Deng Rongwen, Deng Shaohui, Deng Guixiang, and Liang Yaonan. Interestingly, none were members of the party branch or the villagers’ committees. The second round of elections for the two boards was held in May 2008, after the Yantian Shareholding Cooperative had been formally launched in August 2003.

The basic electoral measures are as follows: First, there are two methods for electing members of the two boards. One is a short

list drafted through discussions with the villagers' group (*cunmin xiaozu*).¹⁸ Besides, candidates could be recommended by a group of more than ten shareholders. If the number of recommended candidates is not more than double the number of vacancies (three vacancies for each board), the party branch committee and the villagers' committee can endorse them as formal candidates. Second, candidate selection is followed by a preelection and each shareholder family can recommend one adult member over 18 years of age to participate in the preelection. The person can vote their approval, opposition, or abstain. It is also possible to vote for a person not on the candidate list. However, the votes cannot exceed the number of positions fixed by the government. There were over 700 shareholder families in the village. Finally, there is a formal election at which at least two-thirds of the shareholder family representatives vote in a secret ballot. Again the representatives can vote either for those on the ballot or for others. Once the board of directors or board of supervisors is elected, those elected vote for the director and vice director. The shareholder family representatives do not participate in this vote.

On April 21, 2008, in line with the regulations, 100 representative shareholders were elected (one for every 30 shareholders)¹⁹ and on May 12, 2008, the new boards of trustees and supervisors were elected. Deng Yaohui was reelected as the director of the board, Chen Guangsheng as vice director, and Deng Zerong, Deng Manchang, Deng Huixin, Li Huibang, and Deng Shunyi as the board members. Deng Heling was reelected as the director of the board of supervisors, while Deng Zuhuan, Deng Rongwen, Deng Guixiang, and Deng Shaohui were reelected as members of the board of supervisors.

Work for the third election for the shareholding cooperative began in March 2011. On March 28, the villagers' groups elected the 100 shareholder representatives with one for each 30 shareholders and each group had a different number of representatives depending on the population. The largest number of representatives was from Donger with 21 and the smallest was from Shijie (5).²⁰ On March 6, the 11 members of the election committee met to nominate candidates for the board of trustees and the board of supervisors of the village shareholding cooperative.²¹ They sent their formal report to the Fenggang Town party committee and the town agricultural office recommending eight candidates, including new party secretary Deng Zerong, and Deng Manchang, who would be the new village head.²² The same afternoon the report and the candidates were approved by both township organizations.

Following the approval, the election committee worked out the regulations and set the election date for April 8 at 9:00 a.m. to be held in the village office building. The regulations had four main points.²³ First, the board of trustees should have seven members, including the director and one deputy director, while the board of supervisors should have five members. The director of the board was to be the party branch secretary and thus the position was not to be voted on. Second, the candidates for both boards were to be nominated by the election committee. Third, there was to be one more candidate than places to be filled. Last, for a candidate to be elected, two-thirds of the representative shareholders had to attend the meeting and the candidate had to receive two-thirds of the votes of those in attendance.

At the April 8 meeting, 99 of the 100 representative shareholders attended and all voted. Deng Shunyi received the most votes for the board of trustees (96) and village head, Deng Manchang, was elected with the lowest number of votes (70).²⁴ Deng Manchang, despite receiving the lowest vote, was then elected deputy director by the board members. Three of the shareholder representatives abstained from the vote for the supervisory board and Deng Zuhuan (91) received the highest number of votes. As with Deng Manchang, the person who received the lowest number of votes, Deng Guixiang (77), was elected by the members as director. The fact that the two directors received the lowest vote may indicate disapproval at being told how to vote by higher-level authorities. A report on the elections was then sent to the Elections Leading Group of Fenggang Town.

VILLAGE TRANSPARENCY

The “Organic Law” stresses that transparency in village affairs is a fundamental principle of village governance requiring villagers’ committees to use various means to inform all villagers about public affairs and those concerning the collective interest. Villagers should also be involved in administration and supervision (Yu Weiliang, 2002, 338). Even during the years of cooperativization and the people’s commune there were requests for transparency in collective accounts but implementation in many areas was, of course, a different matter. The 1955 “Charter for Agricultural Production Cooperatives (Trial Draft)” (*nongye shengchan hezuoshe sifan zhangcheng caoan*) and the 1962 “Amended Draft Work of Rules for Rural People’s Communes” (*nongcun renmin gongshe gongzuo tiaoli xiuzheng caoan*) both required

that the accounts of the cooperatives or people's communes should be publicized on a regular basis and that a list of public assets be disclosed at the year-end (Luo Pinghan, 2006, 111). In the eighties, villages with a more developed collective economy in provinces such as Jiangsu, Shandong, and Henan began to inform their villagers about collective revenues, policies on use rights of residential land, family planning, and various other items.

In October 1994, the Central government proposed that certain local experiments to improve transparency be implemented nationwide. These included putting up wall posters to disclose the collective financial situation, approval of residential rights, and information on family planning. The 1998 "Draft Organic Law of the Villagers' Committee" included the stipulation that "the villagers' committee may, upon discussion and decision by the villagers' assembly (*cunmin huiyi*), raise funds from village economic entities or villagers to finance public affairs and deliver public goods. The balance sheets shall be publicized regularly to ensure supervision by the villagers and village economic entities." Further it clearly stated that the "villagers' committee shall practice transparency in village affairs." This led to the dissemination of transparency measures across rural China. Already as early as 1988, 24 provinces had incorporated a clause in their respective local regulations providing for the timely disclosure of village finances concerning public affairs (see <http://baike.baidu.com/view/987139.htm>).

The 2010 amendments to the "Organic Law" promoted further information disclosure. Most importantly, it required the dissemination of (1) earnings of the village collective and their use; (2) the plans, fund-raising, and labor mobilization schemes for providing public goods in the village; (3) options for contract-based land use in the village; (4) residency rights; (5) the disposal of collective assets; (6) national policies on family planning and their implementation in the village; and (7) assistance provided to the government by the villagers' committee. Such disclosure was to be made at least on a quarterly basis but any significant activity involving collective transactions was to be disclosed monthly and any major event impacting on the village was to be publicized immediately. The amendments also suggested that some kind of supervisory institution, such as the supervisory board, be established to oversee the implementation of institutions to deal with transparency and disclosure (<http://wenku.baidu.com/view/6f78620ef12d2af90242e682.html>).

It was only after the "Organic Law" was passed in 1998 that these were introduced in Yantian. However, implementation was

random and superficial. After 2000, following requests from the Dongguan City and Fengguan Town governments, Yantian began to take transparency issues more seriously and focused on village finance. This intensified focus bore fruit and, in 2008, the Dongguan Party Committee and Government jointly noted Yantian as a model village so far as transparency and democratic management were concerned.

There are three key features of transparency work in Yantian. First, as noted above, it was only taken seriously after demands from the higher levels. Second, Yantian’s dramatic growth with the large number of construction projects meant that the village authorities began to pay close attention to tracking disclosure relating to major project identification, construction, and completion. Third, the measures concentrated on disclosing information to the villagers in a timely manner. All village financial information is made public, including the revenues and expenditures of the village collective, the contracts and financial balances of all projects, the contracts and leases for land transfers and the rental of workshops, and the salaries of village leaders. In July 2008, when visiting the village, we noted that there were four categories of financial information posted on the large bulletin board in the village center: disclosures from the start of the year (*nianchu gongkai*), the quarterly disclosure (*meiji gongkai*), monthly disclosure (*meiyue gongkai*), and immediate disclosure (*jishi gongkai*). Each year the previous year was reviewed, as were the development plans for the coming year. This review includes reports on major construction projects and new developments and also publicizes the salaries and annual bonuses of village officials. These salaries are actually decided by the Fenggang government and village officials have no discretionary power to decide their own salaries.

The quarterly disclosure generally covers the progress of various large construction projects rather than financial data and also includes reporting on medical and insurance programs. The monthly disclosure is mainly related to financial issues and includes: the monthly revenue of the Yantian Shareholding Cooperative; the monthly expenditures and income of the Yantian Shareholding Cooperative and its monthly balance sheet; the long-term borrowings and accounts payable of the Yantian Villagers’ Committee; and a monthly chart of accounts (primary) of the Yantian Shareholding Cooperative. Other important items are the revenue from land acquisitions, the borrowing and payments of the villagers’ committee, and any findings about construction projects by the supervisory board.

Financial information subject to immediate disclosure refers mainly to the monthly disbursement of capital construction projects. Detailed information is publicized for each and every project, so that villagers can understand the progress and budget implementation, and effectively supervise the projects. Among other things, it also includes contractual agreements, land transfers, the state of medical insurance, road repair, and school construction. For example, in 2003, Guangdong Province issued materials calling for information on 14 topics and suggested a timetable for regular disclosure.²⁵

At year's end, the villagers' committee prints a brochure outlining the revenues and expenditures of the village collective. The brochure is distributed to all households to provide better information and allow them to review and raise questions about village finances.

By way of a more detailed example, in our 2008 survey, we saw the following kind of information published in the start of year disclosure:

- 1) The 2007 income statement of the Yantian Shareholding Cooperative (after the December 2007 settlement), with a total income of 188.7 million yuan, a total expenditure of 64.0 million yuan, and with a current return of 124.73 million yuan. Date of disclosure: January 15, 2008;
- 2) The disposition of net income in 2007 (disclosed at the shareholder's assembly with accounts aggregated between the cooperative and the villagers' committee)—net income for the current year of 124.3 million yuan, with a disposable income of 127.0 million yuan, and the income available for distribution to shareholders of 87.5 million yuan (53.5 million yuan for collective shares distribution, and 34 million yuan for individual share distribution);
- 3) The balance sheet of the Yantian Shareholding Cooperative (after the December 2007 settlement), reporting year-end total assets of 2.1 billion yuan, comprising current assets (15.4 per cent) and long-term and fixed assets (84.6%). Agricultural assets (including livestock and forestry) were zero; owners' equity was 2.03 billion yuan, accounting for 96.9 percent of total liabilities and owners' equity;
- 4) The balance sheet of the Villagers' Committee after settlement, displaying total assets of 9.3 million yuan, with total liabilities of 39.3 million yuan, and owners' equity of -30.0 million yuan;
- 5) The chart of accounts of the Yantian Shareholding Cooperative after settlement—this only covered primary accounts and included the “opening balance,” “current actuals,” and “closing balance.” The credit and debits for 32 primary accounts were listed.

- 6) The chart of accounts of the Yantian Villagers’ Committee after settlement, also 32 primary accounts including the “opening balance,” “current actuals,” and the “closing balance,” listed, respectively, under “credit” and “debit”;
- 7) The revenue and expenditure table and distribution schedule of the Rural (Community) Collective Economic Organizations in Dongguan City;
- 8) Approval of the annual economic report of the Rural (Community) Collective Economic Organizations by the Dongguan City Government.

In July 2000, Fenggang Town introduced a new system to ensure the authenticity and objectiveness of financial data, and to reduce the risk of corruption. This was a system to rotate village accountants, referred to as the “accountant rotation system” (*kuaiji weipai zhidu*). Thus, in 2000, the first accountant, Huang Yingna, a villager from Youganpu Village in Fenggang Town was dispatched to Yantian. Yantian and indeed all the villages had to pay a fee into a pooled account that the town used to cover the salary of Huang and others. It is estimated that Yantian contributed 80,000 yuan in 2007 and 100,000 yuan in 2008. Of course, the accountant did not receive anything like this amount. The former Yantian accountant was dispatched by the town government to another village. In 2006, Chen Cuiyu, a villager from Tiantangwei village (Fenggang Town), came to Yantian to serve as the village accountant. Currently, Ms. Chen looks after all Yantian accounting work and regularly discloses financial data to the villagers.

In addition, Yantian also introduced an auditing system to monitor the finances of the village collective as well as an end-of-term audit of village officials. The village finances are audited quarterly by the accountant, who will spend four or five days reviewing the financial accounts. The audit findings are only released to the villagers once all outstanding concerns have been resolved. Based on the various measures it enacted, in 2003, Yantian received a score of 92 out of 100 according to the “Guangdong Province 2003 Quantified Scale of Measurement of Village Affairs Transparency” (*2003 nian Guangdong sheng cunwu gongkai gongzuo lianghua ceping biao*).

COLLABORATION AND SUPERVISION

The various institutions discussed above have to collaborate to deal with Yantian’s development challenges. In terms of collaboration, the

original “Draft Organic Law” and the 2010 revisions make it clear that grassroots party organizations (the village party branch) should play the leading role in the village. The “Organic Law” states that the party branch is to function as the leadership core (*lingdao hexin*) and lead and support (*lingdao he zhichi*) the villagers’ committee in performing its functions and powers and to support and guarantee the villagers in exercising directly their democratic rights (*minzhu quanli*) and to develop activities of self-governance. The “Organic Law” outlines basic principles for the relationship between the villagers’ committee and the collective economic entities. The villagers’ committee is expected to support and respect the autonomy of the collective economic entities in independently conducting lawful activities and safeguard their lawful property rights, other legitimate rights, and the interest of the collective economic entities, villagers, contractors, or contractor groups. Although the “Organic Law” provides no clear provision on the relationship between the party branch and the collective economic entities, the provision that the party branch plays the leading role implies that collective economic entities conduct their work under its guidance. In fact, as we have seen above, the director of the board of trustees of the shareholding cooperative is the party branch secretary. This would certainly ensure leadership over the village economic collective.

In Yantian, there are four prominent features concerning collaboration between the three major institutions. First, naturally, is party leadership. Both the villagers’ committee and the shareholding cooperatives work under the “guidance” (*zhidao*) of the Yantian party branch. In many respects, the villagers’ committee guides the work of the board of the shareholding cooperative but in practice, the shareholding cooperative operates under the joint guidance of the party branch and the villagers’ committee. Second, there is a rough division of labor and cooperation. In addition to party affairs, the branch also supervises economic activities and is expected to safeguard the rights and interests of the villagers. The villagers’ committee deals with all public affairs, including education, healthcare, security, environmental protection, pensions, and family planning. The shareholding cooperative deals with project investment and business development.

Third, there is the interlinked nature of power in the village. Before April 2005, the post of party secretary, director of the villagers’ committee and chair of the shareholding cooperative were all filled by one person—Deng Yaohui. Following the elections of April 2011, the dominance of the party branch was clear to see. The party secretary, Deng

Zerong, also served as the director of the board of trustees of the shareholding cooperative while deputy party secretary, Deng Manchang, served as head of the villagers’ committee as well as deputy director of the board of trustees (table 8.3). In addition, the deputy head and two of the three members of the villagers’ committee were members of the party branch committee. Two of the five members of the board of trustees were in the party branch leadership. Only two of the seven members of the party branch did not hold concurrent positions in the other two organizations and three held positions in all three.

Finally, joint meetings may be organized for village-level institutions depending on the subject. Sometimes, just two of the institutions might meet while for other issues all three may be involved. All major decisions affecting village development will only be implemented after discussion and deliberation through the joint meetings. This would include land use, the plan for the year-end distributions, and family planning objectives.

Any major construction project needs to be decided on by a joint meeting of the party branch committee, the villagers’ committee, and the shareholding cooperative. Once preliminary proposals have been adopted by the joint meeting, it is necessary to hold a big joint meeting that includes all party members, village officials, and villagers’ representatives, and they have to vote on the project and approve it before it can begin. For example, the village collective spent 16 million yuan in 2005 on phase one of the project to renovate Xiangxin road, 2.1 million yuan on the renovation of Zhentian

Table 8.3 Interlocking Leadership of Village Organizations, 2011

Party Branch Members		Villagers’ Committee		Shareholding Cooperative Board of Trustees	
Secretary	Deng Zerong	Head	Deng Manchang	Director	Deng Zerong
Deputy Secretary	Deng Manchang	Deputy Head	Deng Shunyi	Deputy Director	Deng Manchang
Members	Deng Gantian	Members	Deng Huixin	Members	Deng Shunyi
	Deng Shunyi		Deng Jinhao		Deng Huixin
	Deng Yongchang	Chen Limei	Li Huibang		
	Deng Huixin		Deng Guangnan		
	Chen Limei			Deng Yuehui	

Source: Authors’ compilation from 2011 election results.

Road, and 12.09 million yuan in building the Buxin Market. In 2006, the village collective invested 20.51 million yuan in phase one of the project for the workshop of the Wanjin Factory and 7.06 million yuan in road reforestation. In 2007, the village collective spent 19.89 million yuan in renovating the power grid, 48.7 million yuan in the phase two of the project on the Wanjin Factory workshop, and 12.51 million yuan in phase two of the project to upgrade Xiangxin Road. All the projects were proposed by the joint meeting and were then followed by multiple rounds of discussions in the village representatives' meeting and the village officials' meeting (*cunzu ganbu huiyi*).

Democratic supervision has been emphasized in recent years and this was highlighted in the 2010 version of the "Organic Law." First, the villagers' assembly (*cunmin huiyi*) or villagers' representative meeting (*cunmin daibiao huiyi*) is expected to exercise effective supervision over the villagers' committee and its members, including drafting an annual audit of the villagers' committee, reviewing the performance of members, and withdrawing or amending inappropriate decisions made by the committee. Second, an accountability audit is to be conducted of villagers' committee members both while they are in office and also at the end of their term of duty. This audit includes village revenues and expenditures, bonds and liabilities of the village and the management, and use of transfer payments and social donations. Third, supervisory bodies are to be established to review the work of members of the villagers' committee. Fourth, procedures should be established to enable villagers to recommend and remove members of the villagers' committee.

Regulations of Fenggang Town Government only cover democratic appraisal for the committees and members of the party branch committee and the villagers' committee (the "two committees"). Six indicators are used for the "two committees": (1) solidarity among the leadership; (2) efforts of the leadership to develop the collective economy; (3) soliciting public comments and suggestions; (4) fairness and justness in their work; (5) how strong have their efforts been to address any difficulties that have arisen with production and in people's livelihoods; and (6) performance in combating corruption and exercising self-discipline. The appraisal of committee members is based on eight indicators: (1) competence in their area of responsibility; (2) interaction with the public; (3) honesty and integrity; (4) unity with colleagues; (5) fairness and justness in their work; (6) their work method; (7) soliciting public opinions; and (8) anticorruption and self-discipline. Rankings are on a four-point scale from excellent to

bad. In the most recent appraisal, 90 villagers’ representatives (*cunmin daibiao*) and nearly 150 party members participated. The number of individuals was actually about 120 because many held concurrent positions. In addition, key leaders report to the villagers’ representative meeting at least once a year on their work and performance over the previous year.

In reality, the most important indicators for supervision and performance evaluation are economic and especially the distribution of the year-end dividend, the change in net collective assets, and any changes in the level of foreign investment in the village. In fact, villagers are very practical in terms of their appraisal and the economic focus has contributed to Yantian’s development since the late seventies: dividends have grown and social welfare improved. Not surprisingly, this has led most villagers to be satisfied with the members of the villagers’ committee and, to date, none has ever been removed because of poor performance.

CONCLUDING COMMENTS

The discussion in this chapter on the system for self-governance, the institutions involved and the relationship between them and also with the higher levels of government leads to certain conclusions about governance in Yantian. First, as with economic management, administrative management in Yantian is network based. However, it is not an open network system. Unlike during the old collective era, the village community constitutes the basis for governance within the village, not the formal government structures. Yet participation is restricted primarily to those who have a formal household registration in the village. Foreign enterprises, employees, and migrant workers have minimal impact on the network-based system of village governance.

Within this networked system of villagers’ self-governance, the party branch committee, the villagers’ committee, and the board of the shareholding cooperative constitute the governors, while the governed are mainly those villagers with a local household registration. Outside investors and migrants (the “*Xin Guaner*”) are excluded. For the village leadership and those registered inhabitants, reasonably viable mechanisms for collaboration and interaction exist. The interaction is mainly facilitated through the notion of villagers’ self-governance, village elections, and transparency and supervision initiatives.

It is clear that the higher levels of government see Yantian’s administrative system as successful. Dongguan City and Fenggang

Town have promoted Yantian as a model village and it has won several awards for being an “outstanding village,” making “excellent economic progress,” and “good progress in cultural advancement,” in the “Quantified Competition on the Performance of the Two Committees at Village Level” (*cunji liangwei gongzuo shiji lianghua pingbi*).²⁶ Yantian is also seen as a model village in maintaining social stability and exercising comprehensive management.

Despite this official recognition, there are problems. One problem is precisely the relationship between the three governing institutions (party, administration, and economic development). The practice in different periods is worth noting. Before the election of April 2005, the three institutions were all headed by one person, Deng Yaohui, a highly respected figure in the village. After the 2005 election, in line with government regulations and by his own decision, Deng ceased to serve as head of the villagers’ committee, resulting in theory of a separation of the management of party affairs from village administration. However, most if not all Yantian villagers hold the view that it is impossible to separate party, administrative, and economic affairs. In addition, Deng Yaohui was seen as crucial to the economic success of Yantian over the past 30 years and thus he maintained his dominant influence even after his position changed.

Second, while the governing structure of Yantian village is dictated by regulations from higher levels, there are certain features of Yantian that have facilitated its development. The village has been lucky to have leaders who have been good at providing direction. The formal institutions have gelled well with the informal institutions, especially with membership of the Deng lineage. This has facilitated trust, fidelity, and authority within the village. As Deng Manchang said in a discussion on July 3, 2008, “the success of Yantian lies within a good tradition, that is, we are closely tied by blood and with a strong sense of solidarity. Yantian is a village of the Deng Family, and secretary Deng (Yaohui) is a good person.” Of course, the success of the collective economy has been crucial. Since 2002, Yantian has been ranked first among all the villages in Dongguan City in terms of net assets and among the top ten in terms of disposable fiscal revenues. The economic success has enabled villagers to benefit from the direct dividends that are paid out and from the provision of public goods paid for from the collective assets. It is no surprise that this generates satisfaction among the formally registered inhabitants with the existing institutional arrangements.

Third, there is a challenge with economic organization, such as the role of the shareholding cooperative in village governance and

its relationship with the party branch and the villagers’ committee. Yantian has taken a first step by introducing shareholding reform and clarifying ownership. However, the next steps remain a challenge and questions exist as to whether the shareholding cooperative can be transformed into a corporate entity and managed on market principles and business norms and regulations. This potential development is linked to the village’s major economic challenge, namely can the village phase out its dependence on external capital, transform its mode of economic development and promote an upgrading of the industrial mix? The outcome of this challenge will determine the long-term sustainability of Yantian’s development. Whether the shareholding cooperative can transform in the direction of an independent corporate entity is a major question. Can the relationship between the villagers’ committee, the party branch committee, and the future corporate entity transform into one between the majority shareholder and the management team of the corporate entity? With further development, this corporate entity may need to diversify the shareholder mix, which naturally will lead to a new governance structure. This issue is of great significance to future development of Yantian.

Perhaps the greatest challenge is whether political governance can be transformed from exclusive to inclusive development. While the current political structures work well for those officially registered in Yantian village, 96 percent of the actual population (approximately 80,000 currently) is excluded from any formal political participation. Many have been working and living in Yantian for years but they are marginalized from the political process. They are not engaged with the transparency and supervisory systems and thus do not form a part of the system of self-governance. In addition, they cannot enjoy the full fruits of their labor as they are not included in the year-end dividends and are not enrolled in the village pension system. This is a crucial challenge not only for Yantian but also for many rapidly developing “villages” and new urban areas. Whether the challenge can be met successfully will vitally affect China’s future social stability.

YANTIAN: A MODEL IN TRANSITION

Yantian's development over the past 30 years has been remarkable, transforming the village into part of the south China hub of the global manufacturing industry. As people, money, and factories flowed in, the way of life changed forever. In some ways the story is a familiar one, with new wealth created through the construction of an export-processing zone, the shift from an agricultural community to an urban one with an abundant supply of labor (see Commission on Growth and Development, 2008). In other respects, Yantian has its own peculiarities that have shaped the specific development. Similarly, it now faces the kinds of challenges encountered by those areas of South Korea and Taiwan when the comparative advantages that had led to nearly 20 years of export-led growth in manufacturing began to give way, industry had to upgrade, and domestic companies had to become more innovative (for similar challenges see Yusuf and Nabeshima, 2009). It remains to be seen whether Yantian can meet these new challenges.

FEATURES OF YANTIAN'S ECONOMIC DEVELOPMENT MODEL

There are a number of key features that shaped the model of economic development in Yantian. First, the policy changes that originated in Beijing as leaders tried to develop their way out of the political catastrophe and economic mess of the Cultural Revolution were crucial. The downgrading of class struggle and the emphasis on economic development provided the opportunity for local village officials to attract foreign capital. It is noticeable that initially, unlike in some other areas, village officials were not especially innovative, tending to follow obediently the twists and turns of central policy. This was even more evident during the phases of land reform and collectivization. There was not the kind of opposition to collectivization that

happened in other parts of China; farmers did not abandon the collectives when the opportunity was presented. The villagers themselves acknowledged this, pointing out that most of those who were especially innovative or industrious had fled to Hong Kong at various times pre- and post-1949. The establishment of the Shenzhen Special Economic Zone and the subsequent opening of the inner Pearl River Delta (PRD) to investment were the crucial factors that provided the opportunities for development. Guangdong Province had been disfavored by the policies of the Mao years and had not been able to benefit from its close proximity to Hong Kong, international markets, and the manufacturing and trade expertise that developed in the then British colony. The PRD has been a major beneficiary of the reform era and these benefits have enabled Yantian village to develop a wealth that was unimaginable 30 years ago.

Second, the strongest phase of economic development was stimulated through foreign investment. Unlike some other villages in China, such as those in southern Jiangsu and Shandong, Yantian lacked a strong set of village- and brigade-run enterprises inherited from the old collective era. In addition, it lacked its own capital within the village to invest in new industry. Even the start-up of the successful stone quarry was funded with money from Hong Kong. This lack of village resources caused leaders to search further afield for investment, initially from Hong Kong and then from Taiwan and elsewhere. This search came at a time when manufacturing costs in Hong Kong were rising and the cheap land and labor across the border in China provided a good base to shift manufacturing operations to Yantian. At the peak there were over 400 foreign-invested enterprises (FIEs) operating in Yantian.

The boom was helped by consumer demand in the US, Western Europe, and elsewhere in East Asia that desired cheaper products. The fact that none of these nations set up barriers to trade or discouraged companies registered within their jurisdictions was a major help. Especially, the US saw a geopolitical advantage in bringing China into the global economy as a valuable ally in the Cold War struggle against the Soviet Union. This policy of openness was barely disrupted by the events of 1989 and accelerated rapidly after Deng Xiaoping's trip to southern China in 1992 to kick-start economic reforms and with China's preparations for entry into the World Trade Organization (WTO).

Third, there was the abundant cheap labor supply that could staff the factories. Although China has not abandoned the system of household registration (*hukou*), it did relax considerably controls

over the labor market and the freedom of movement. With the abolition of grain rations and other restrictions, there was the possibility of buying essentials on the market in places far from home. In addition to the pull factors of higher-paid off-farm labor in the burgeoning enterprises of the South, there were push factors. The return to household-based farming meant that there was a sudden release of much surplus labor that could be absorbed by manufacturing enterprises. For those areas that could not develop their own small-scale enterprises, the chances offered by migration, temporary or permanent, offered hope. Remittances from this mobile labor force began to play a significant role in the finances of village households far removed from the production bases in places such as Yantian. At the high point, there were estimated to be approximately 150,000 migrants living in Yantian, with an officially registered village population of about 3,000.

There are two features of the model that are particular to Yantian: the development of the new collectives and the role of the lineage. Fourth, it is clear to see that those villages that have been successful in terms of economic development have all adopted some kind of collective structure. These new collectives are quite distinctive from the old collectives of the commune era. However, there is considerable variance in how each village organizes its collectives. The main factor driving the outcome is land ownership. Rural land in China is collectively owned, usually by the village, and thus individuals cannot sell land or use it as collateral to obtain loans to develop business. This means that villages must find ways to exploit their land without engaging in outright sale. In many villages throughout the more affluent areas of rural China, farmers have returned, willingly or unwillingly, the land that they received when the collectives were disbanded and the household responsibility system was introduced. Farmers moved out of their original homesteads to live in modern apartment blocks so that more land could be exploited for financial gain. In Yantian, farmers seem to have willingly returned land for the village collective to manage and there is no evidence of significant dissent. The housing estates for the villagers are impressive containing landscaped grounds and exercise facilities. The new economic collectives differ from the old collectives in that all the registered villagers have a clear stake in the entity through their shares and receive an annual payout. The land under the management of the collective formed the basis on which it could then be rented out to FIEs as well as domestic companies. Without the collective ownership of land in rural China, the development model would have been very different. However, in

Yantian, despite village management of the land, the economy itself is clearly based on the market and is essentially privately run. In recent years, as the number of FIEs has declined, the village has tried to develop some of its own enterprises, attract more domestic firms, and expand more aggressively into real estate.

In Yantian, the shareholding economic cooperative is a closed shop in which only registered villagers have a share. The number of shareholders is now fixed and no new shareholders may enter. This has ensured that the wealth generated within the village remains in the hands of the villagers and can be passed on to subsequent generations. This closed structure is not the case in all villages. For example, in Zhenggezhuang, a village of approximately 1,400 in Changping District on the outskirts of Beijing, those who are not officially registered residents can take a stake in the collective. In addition to villagers, those working in factories and enterprises within the village are allowed to buy shares in the Hongfu Corporation (*Hongfu jituan*). On a regular basis, a share issue is made and is open to both categories of people to buy.¹ In fact, the chairman of the Hongfu Group, Huang Fushui, noted that to achieve genuine marketization it was necessary to break the control of lineages over the village collective.

Fifth, in Yantian the role of the Deng lineage has been crucial in shaping the development outcome. The Deng family dominates the politics and the economics of the village and has also played a crucial role in developing the new collectives. Four of the five members of the party general branch committee, including the party secretary, are members of the Deng lineage, as are four of the five members of the villagers' committee, and six of the seven members of the board of trustees of the shareholding cooperative. A Deng has always been party secretary of the village and the lineage also dominated life before 1949. The lineage has proved to provide the village's most powerful social capital. Those Deng members who had stayed in Hong Kong or moved there before 1949, or fled after 1949, formed the bridge to bring the necessary investment into the village. Once they had paved the way, further foreign investment soon followed. The village-based Deng members reinforced the continuity with the past and linkages through the lineage by developing a family history, arranging gatherings around events such as the Qing Ming Festival, and building a huge memorial hall (*citang*) to glorify the lineage, even making a link to the "father" of the reforms, Deng Xiaoping. Importantly, the lineage has insured itself against any future administrative reforms or expansion of the political franchise. The shareholding cooperative now has a fixed membership and thus no outsiders can enjoy the

benefits and year-end pay-out that have provided the most important source of income for registered villagers. However, we do see the impact of the old collective period as all registered villagers, not just the Dengs, are eligible for these benefits but there is no doubt that power and control reside within the dominant lineage.

CHALLENGES FOR THE DEVELOPMENT MODEL

Despite its obvious success, the model based on export processing has encountered a number of problems that affect its sustainability. Some of these problems are familiar to other areas that have based their development on export processing, such as a gradual rise in wages and other inputs that undermine the profitability of the low-margin enterprises. A number of companies with products that do not require great sophistication have relocated to other low-cost production bases such as Bangladesh or Vietnam or have moved inland. Japanese companies, given their particular vulnerability to the winds of popular opinion and official reaction, have for some time operated a policy of “China plus one” to ensure that any disruption in China is compensated for by a production base elsewhere. However, some of the challenges arise from the particularities of the policy environment in China. Looking to the future, there are challenges that relate to the economy, social development, and political inclusion.

In the economic realm, both international and domestic developments have eroded the profitability of the enterprises in Yantian and caused many of the FIEs to go bankrupt or to relocate elsewhere. The global financial crisis of 2008 that originated with the burst of the housing bubble in the US caused a massive drop in demand for products manufactured in China. It is estimated that in 2009, exports from China dropped by 15.9 percent, imports by 11.3 percent and that foreign direct investment (FDI) fell by 2.6 percent, causing some 20 million migrant workers to lose their jobs (Morrison and LaBonte, 2011, 22). In Yantian, the number of migrants fell from a peak of 150,000 to approximately 80,000. The 2011 fall-out from the European and US debt crises threatened to reduce product demand once again. While China remained the world’s largest exporter, exports dropped 14.5 percent on the previous year and were not expected to rise in 2012 (BBC, December 7, 2011 and *China Daily*, January 11, 2012).

The rise in the value of the *renminbi* (*Rmb*) has also cut down profit margins. From around 1994 until July 2005, the Chinese government kept the *Rmb* pegged to the US dollar as an integral part

of its development strategy to facilitate the growth of exports and to encourage FDI. The expectation was that this policy would provide jobs for those who were going to move off the land and to bring in Western technology. The former probably proved more successful than the latter. However, in July 2005, policy shifted not only because of foreign pressure but also because of the disruptive impacts on the domestic economy. Crucially, important were the intentions of the leadership under General Secretary Hu Jintao and Premier Wen Jiabao to boost domestic consumption and to rely less on the export economy that had been a key policy focus of previous leaders, Jiang Zemin and Zhu Rongji, and that had received a massive boost from China's entry into the WTO in 2001. As a result, between July 2005 and July 2008, the Central Bank allowed the *Rmb* to appreciate against the dollar by nearly 21 percent to 6.83 yuan. The global financial crisis caused sufficient concern within the leadership that they then halted the appreciation while adding a \$586 billion stimulus package to the domestic economy. In the second half of 2010, the Chinese authorities allowed a mild appreciation of 2.9 percent and by early 2012 the *Rmb* dipped under 6.3 to the dollar for the first time in 18 years. This currency appreciation has caused profit margins for a number of companies that had invested in the PRD to drop significantly.

The effect of this currency appreciation was compounded by increases in wages and benefits for Chinese workers. The intention of the Hu–Wen policies is to redirect some investment to inland China and deal with the income inequalities that have been a marked feature of China's development model. As Hu Jintao said in April 2010, pay rises are “the only way for China to boost effectively domestic demand to pursue sustainable economic growth” (Chung, 2010).

The passage in January 2008 of the new labor contract law strengthened workers' contractual rights, and this was followed by a series of strikes in 2009 and also in the summer of 2010 that put pressure on employers, especially foreign employers, to increase wage levels.² Labor disputes rose by 42 percent in the first quarter of 2009 and high-profile strikes in the Honda factory in Foshan and the suicides of workers in the Foxconn Factory of the Honhai group in Shenzhen pushed forward the movement to increase wages, a move seemingly supported by the Central leadership.

As a result of these actions, the Honda factory raised wages by 24 percent and the Honhai group by 30 percent (Chung, 2010). There also have been more systematic wage rises, especially for minimum wages. For example, in March 2011, Guangdong Province raised the

minimum wage to 1,300 yuan and Shenzhen to 1,320 yuan (*China Daily*, March 3, 2011 and *Lingdao juece xinxi*, October 2011, 26). Further, in April 2011, the labor authorities called for wages to rise by 15 percent per year for five years and the minimum wage by 13 percent annually (*China Daily*, April 20, 2011). Whether this can be achieved or not is difficult to say, but it reflects the aspirations of the Central leadership to push up living standards and attempt to upgrade the quality of products in the manufacturing sector. In the larger Yantian factories we visited in 2011, the average wage was about 2,000 yuan. According to a May 2011 report, the Boston Consulting Group estimated that the average manufacturing wage and benefits would be roughly 17 percent of that in the US, up from 3 percent in 2000 (Slaughter, 2011). This was confirmed in their August report that calculated further that, by 2015, much of the low-cost advantage that China had enjoyed for many items consumed in the US (not shoes and textiles) would drop to single digits when compared with low-cost destinations in the US. This would be caused by the continuing wage rises in China, shipping costs, and the higher productivity of US workers (Boston Consulting Group, 2011).

The rise in wages is also driven by labor shortages in the coastal areas and enhanced bargaining rights of workers. In part, this was a consequence of the large stimulus package that the Chinese government invested following the global financial crisis. Considerable investment went into rural infrastructure meaning that some migrants could find decent work closer to home. In January 2011, it was estimated that the PRD would be short of some 2 to 3 million workers (*Renmin ribao*, January 6, 2011). In July 2010, Guangdong authorities responding to the labor unrest proposed new regulations on enterprise management that would permit one-third of the board of an enterprise to be workers. Although this was resisted by a number of the FIEs (mainly those from Hong Kong), a guideline was adopted that one-third of the workforce could request collective salary negotiations.

The director of the Research Institute of Foreign Economic Relations under the National Development and Reform Commission, Zhang Yunsheng, commented that in five to ten years China would have lost its low-cost advantages and would have to seek its competitive advantage elsewhere.³ One can see the impact that these developments have had on the Dongguan area. According to the party secretary of Fenggang Town, Zhu Guohe, at their peak, FIEs accounted for 90 percent of all enterprises but this had dropped to nearly 40 percent in 2011. In 2007, there had been 1,300 FIEs but by August 2011,

the number had dropped to 660. In Fenggang, the focus was shifting away from these FIEs to domestic companies while helping the FIEs to access the domestic market (interview, Zhu Guohe, party secretary FenggangTown, August 3, 2011). In Yantian village, the number of FIEs dropped from over 400 to 180 but with an accompanying rise in the number of domestic private enterprises. The drop was, of course, affected by the fallout from the global financial crisis with a Ministry of Agriculture survey estimating that some 20 million jobs had been lost in coastal export centers, especially in Guangdong (*China Daily*, February 2, 2010).

The Dongguan authorities recognized the need to adjust the economic model before the financial crisis accentuated the problem. According to Cai Kang, deputy director of the Dongguan Bureau of Foreign Trade and Economic Cooperation (interview August 3, 2011), the government had begun to contemplate a major change in 2006–2007 and, at the 2007 meetings of the local people's congress and people's consultative conference (*lianghui*), the necessity to transition the economic and social development model was outlined. The meetings concluded that the success of the export-led strategy over the past 30 years would not be sustainable in the future. In part, the conclusion was based on a study of South Korea and Taiwan where they observed that the model was viable for about 20 years before enterprises started to migrate. Many of the early enterprises setting up in Dongguan came from Hong Kong and then later from Taiwan. However, Cai Kang noted that initially the lower-level government authorities in Dongguan did not recognize the problem and it took the global financial crisis to bring home the new realities to them. Thus, it was only around 2008–2009 that the Fenggang Town authorities started to transform their economic model (interview with Zhu Guohe, party secretary of Fenggang Town, August 3, 2011). According to Cai, the discussion shifted from whether or not to change the model to how to change the model and to change to what. Officials in Yantian noted, however, that they recognized that their development strategy was nearing its end at about the same time as the Dongguan authorities.

The policy emanating from Dongguan City is to shift from a model based on the quantity of enterprises to one of higher-quality products (*suliang gao de moshi zhuan dao zhiliang gao de moshi*). There is some general evidence that this shift is taking place. Shoes, textiles, and garments that had accounted for 40 percent of China's exports in 1996 amounted to just over 20 percent in 2010, while electronics had risen to almost 40 percent, up from under 20 percent in 1996.⁴ Party

Secretary Zhu noted that in Fenggang the factories that remained or that were now opening were about double the size of those that had left or had gone bankrupt. While the role of the FIEs is declining, looking to the future, there are two main policies. The first according to Cai Kang is that Dongguan will remain a center for electronics and that the benefits of cluster and local expertise and infrastructure would mean that not only would industry remain but also new enterprises would be attracted. He noted that Suzhou was more specialized with respect to notebooks as they had started to develop later, whereas Dongguan was more noted for desktop computers and larger systems.

Second, they have been developing as a service center for the FIEs helping them to expand in the domestic market. Officials were optimistic that regulations would change to allow companies that were set up for export to be able to sell more of their products domestically. In fact, in 2009, the Guangdong Department of Foreign Trade and Economic Cooperation announced a series of measures to help foreign manufacturers to expand their domestic sales, including establishing sales service networks, helping with branding, and enhancing financial support.⁵ This policy initiative has had an impact and Dongguan as the area most affected has played an active role. By mid-2011, a total of 200 commodity fairs had been held all over the country to promote sales of FIEs, the first of which was held in Dongguan between June 18 and 20, 2009. The fair had 2,500 booths that were offered free of charge (see <http://www.dongguantoday.com/subject/2009fecf/shownews.asp?id+3>). These measures seem to have had an effect. By mid-2011, domestic sales of Guangdong FIEs reached \$801.61 billion, which amounted to 32.7 percent of the overall export value. For Dongguan, sales were \$150 billion, a 12.8 percent rise over 2007.⁶

Further, officials hoped that Dongguan's development experience could be used to help those cities in Guangdong, such as Huizhou, which have not developed so quickly. The advantage for Dongguan is that Huizhou has a considerable amount of land that can be used for development.

Industry in Yantian has no special sectoral concentration and thus there are no real core enterprises that others could agglomerate around. The village leaders still feel that they cannot let industry dwindle and turn the village into a service-based economy. As a result, they have focused on attracting Chinese private enterprises and nearly 250 have invested meaning that the total number of enterprises has remained the same. One major factor constricting future enterprise development is the lack of land within the village. The largest employer, the

Japanese company Shinano Kenshi, has been obliged to open its new plant in Anhui as the village could not find sufficient land for it to build new production facilities on. In addition, the village is adopting an approach that is more familiar to other parts of China. They are expanding their real estate ventures, despite unfavorable central government policies and also are beginning to set up more of their own village-run enterprises.

In addition to these economic challenges, the development model has also led to social and political challenges. We have seen in chapters 6 and 7 how policy with respect to education and health-care has begun to be more inclusive. With 150,000 migrants at the peak and even with approximately 80,000 in 2011, there was a significant debate initially about whether to, and subsequently about how to, provide them with access to the public goods provided by the Yantian village authorities. More progress has been made with respect to education than with healthcare.⁷ The Dongguan authorities issued regulations that the children of migrants, as long as they met certain criteria, should be allowed access to public schooling (see Fenggang Education Office, January 2011). Thus, from September 2007 the Yantian Elementary School was converted for use by those migrant children who met the conditions for registration. However, as noted in [chapter 6](#), the facilities and teachers were noticeably poorer in terms of quality. In addition, there were other migrant children who could not register for the public school and had to attend private schools in Yantian. Access to healthcare has been more problematic. Social inclusion has made some progress as the economy has developed and the migrants have become a more permanent feature. Continued policy movement in this direction would resemble what T.H. Marshall calls, in the context of Western Europe, “social citizenship” that encompasses the right to economic welfare and social security. In China, this is likely to precede “political citizenship” (Marshall, 1950 and 1964). This fits in with the CCP’s preference for economic and social rights over political rights (see Saich, 2001) and reflects the policy focus of Hu and Wen, the remnant influences of socialist ideology on policy and the CCP’s claim to speak for all the nation’s people thus rejecting the need for any political opposition. However, it is clear that migrants in Yantian remain second-class citizens.

This exclusion is even clearer with access to village management and with political participation. Obviously, there are no migrants in the local party branch committee, the villagers’ committee, and the shareholding cooperative. Migrants did not participate in the 2011

village elections. The Dongguan authorities have recognized the problem and since 2010 they have been trying to promote a policy of allowing migrants to obtain a local registration (*bukou*). In Fenggang Town, in recent years, the number of registered inhabitants had risen by about 1,000 per year bringing the total to 24,000 from 20,000 and there are even four members of the town people's consultative conference who are drawn from the "*Xin Guaner*." However, Party Secretary Zhu (interview, August 3, 2011) said that there were still a number of outsiders who did not want to obtain local residency. There were two main groups: those who wanted to ensure that they kept their land back in their home village, and those who had a better education (including those who had returned from overseas) who had not yet decided where they wanted to settle. This political exclusion does not seem to have created problems as of yet but as a second generation of migrants grows up within the village but feels alienated, it could give rise to the problems familiar in other parts of the world where there have been problems in absorbing large migrant populations.

Developments in Yantian are representative of the development model that has brought unprecedented wealth to much of the PRD. While the model requires change moving forward, this is not to say that the export-manufacturing sector will erode entirely. Despite rising costs of inputs, it still retains a comparative advantage over other countries such as Mexico that could be considered as competitors. Clearly, much of the low-cost production has moved or will move abroad but the region has the opportunity to retain other industries that require more sophisticated production processes. The challenges of social inclusion are being dealt with gradually, although it is clearly the case that the migrants live in the same village but inhabit different worlds. Perhaps the most significant challenge will come with dealing with political exclusion and even if the franchise is expanded, in Yantian the migrant community will still be excluded from the benefits of the new economic collectives.

NOTES

1 “BECOMING GLOBAL”: YANTIAN VILLAGE IN CONTEXT

1. Tony Saich. This was as a student on a British Council Reciprocal Scholarship with China.
2. The focus is primarily on economic organization in the reform era and does not attempt to portray an anthropological or a sociological picture or describe in any systematic fashion the history of the village. For a masterful account using such approaches in a nearby village see Chan, Madsen, and Unger (2009).
3. For an insightful study of how China has integrated into the global economy and the institutional changes that this has wrought, see Steinfeld, (2010). Steinfeld has suggested that a key part of this integration is achieved through “institutional outsourcing,” a process of adaptation to global norms and practices. This study corroborates this to a certain extent but shows how informal institutions within the village have shaped the outcomes and have played a major role in the politics of distribution.
4. The figures for Dongguan and Fenggang are from <http://www.dongguantoday.com>. The figure for Yantian is from interviews with village officials. At the peak (1999–2000), there were estimated to be 150,000 migrants in Yantian. The official website claims that there are 700,000 people who originate from Dongguan and are living in Hong Kong, Macau, and Taiwan, with another 200,000 living further afield. For a fascinating account of the lives of female migrants in Dongguan, see Chang (2009). She notes that 70 percent of the workers on the assembly lines are female (2009, 125).
5. Of the 3,489 official residents, 501 did not enjoy the right to share the year-end dividends paid out by the village economic cooperative.
6. In July 2008, our survey revealed that of the 41,409 employees working in the then 202 foreign enterprises, 95 percent came from outside of Yantian.
7. The “Three Supply” enterprises (*sanlai yibu qiye*) accounted for 105, wholly foreign-owned enterprises 66 with just nine joint ventures.

8. Chan, Madsen, and Unger (2009, 274, and 331–32) note the same phenomenon but the process seems to have been slower with agricultural land only disappearing by the mid-nineties.
9. At the end of 2009, there were 40,858 townships in China (1,584 in Guangdong) and 599,127 administrative villages, both of which had witnessed a significant decline in numbers over the previous decade because of administrative restructuring.
10. The figure for 2009 is from <http://www.stats.gov.cn/tjs/ndj/2010/indexeh.htm>. This figure has been rising in recent years despite Hu Jintao's and Wen Jiabao's increase in government support for welfare and education in the countryside as much of the obligation falls on local governments. This percentage is higher than that in other countries in the region: for example, in Vietnam it is 48 percent, Indonesia 32 percent, and Thailand 10 percent (Mountfield and Wong, 2005, 86).
11. On this issue, see the insightful article by Graeme Smith (2010). The reasons for the fiscal problems at the township level are described well in Oi and Zhao (2007).
12. On a trip to a village in Yunnan on the Burmese border, Saich remembers vividly watching the village head getting ready to go out early one morning. Seeing him strapping on a couple of shotguns I asked whether he was going hunting in the hills to which he replied "No, tax collecting!"
13. For an important set of essays on village governance and politics more generally, see Zhao, 2011.
14. For an excellent set of essays that take this approach, see Jean C. Oi and Andrew G. Walder, *Property Rights and Economic Reform in China* (Stanford: Stanford University Press, 1999).
15. For her main statement see Oi (1999) and for earlier iterations see Oi (1992 and 1998). For others who have used a similar approach see Kung's study of Wuxi (1998) and the work by Nan Lin and Chen (1998).
16. Walder adopts a similar view with his analysis of Zouping County (Shandong Province). He views the local government as resembling an industrial corporation where revenue generation is paramount and the entire local government operates as a firm in a competitive environment (Walder, 1998, 16–23).
17. For examples of an "entrepreneurial" local state, see Blecher's study (1991) of Guanghan County in Sichuan and Duckett's study (1998) of real estate and commerce agencies in Tianjin. For a study of a local developmental state, see Blecher's study with Shue on Xinji Municipality, Hebei Province (1996).
18. Under the "clientalist" model, officials and entrepreneurs exhibit a patron–client relationship that pushes forward economic development with officials making full use of their political capital. Nan Lin (1995, 301–54) has noted a variant on local state corporatism that is based on the strong clientalist ties that existed in his study area. Gregory Ruf (1998) in his study of Meishan County in Sichuan noted strong

- clientalist pressures that reduced societal influence on local government. David Wank (1999) uses the term “symbiotic clientalism” to describe the relationship between officials and entrepreneurs in the Xiamen SEZ.
19. The zone was actually established on August 26, 1980. The move had been prepared in November 1979 by making Shenzhen (formerly Baoan County) a prefectural-level administrative division directly governed by Guangdong Province. It was granted the right to provincial-level economic administration in November 1988.
 20. For the development of Hong Kong and its importance for the PRD in the early years of reform, see Vogel, 1989, 43–75.
 21. Nearly 17 percent of the enterprises purchased land use rights rather than just pay rental. Most of these contracts were for 50 years.
 22. Prasenjit Duara, 1988, 120–132. This broadly corresponds to Lily Tsai’s use of “encompassing” that is discussed below.
 23. On the importance of organizing around claims of common descent, see Maurice Friedman, 1971.
 24. In her study of Ta Hsuen, Rubie Watson (1982, 75–75 and 85) notes that the Dengs there traced their ancestry to Deng Fuxie who had come originally from Jiangxi and had settled in Southern Guangdong in the twelfth century. In turn, his family had also originated in Deng Zhou as with the Dengs in Yantian. A number of the Deng lineage members had migrated through Jiangxi.
 25. The Xia Dynasty (twenty-first to sixteenth century BCE) is considered the first Chinese dynasty, the Shang Dynasty was established in 1675 BC and lasted for over 600 years, and the Zhou Dynasty ran from 1046 to 221 BCE
 26. *Jiansheng* are students selected to study in *Guozijian* (the highest school in the ancient Chinese educational system). The students mainly came from three sources—students who had outstanding academic achievements, foreign students from Korea, Russia, and elsewhere, and some who had bought the title. The *gongsheng* were the outstanding students selected from different provinces, prefectures, and counties all over the country to study in *Guozijian*. *Juren* are those who passed the examination at the provincial level (*xiangshi*), whereas *jinshi* are those who passed the highest examination (*Dianshi*) in the Forbidden City. The first place in the exam is what people called *Zhuangyuan* in ancient China.
 27. Also referred to as “tomb sweeping day.” It is the time in early April when people visit the tombs or burial grounds of their ancestors. In 2008, the Chinese Communist Party instated it as a national holiday.
 28. Hu (2007) shows the importance of “village trust” in setting up Rotating Savings and Credit Associations in Xiangdong Village, Zhejiang Province.
 29. This model can be found in a number of places, for example, in the village of Zhenggezhuang in Changping County on the outskirts of Beijing. An interview with a former Party Secretary of Changping.
 30. On financing see Kellee S. Tsai (2002). On the debate about Wenzhou, see Nolan and Dong Furen (1989).

2 “CLEANING THEIR FEET”: THE DECLINE OF AN AGRICULTURAL VILLAGE

1. Now He'ao Village, Henggang Town, Longgang District, Shenzhen City, Guangdong Province.
2. In much of the south of China, the first manifestation of communist power was the army and not the party. In addition, the collapse of the nationalists in the south came much earlier than anticipated by anyone in the CCP leadership. This meant that a number of compromises had to be made with serving administrators before the new government could put in place more loyal servants. This has led Shambaugh (1997, 127) to observe “it is essential to view the CCP's victory as an armed seizure of power following protracted military campaigns.”
3. For an excellent account of the CCP takeover of Guangzhou, see Vogel (1969).
4. According to the administrative division at the time, the area of Yantian was slightly different from the present.
5. The first wave was between June and September 1957 (the acceleration of collectivization); the second wave came in the difficult years of 1961–1962 following the Great Leap Forward; and the third was in 1972 (most being urban “educated youth” who had been sent down to the village).

3 “BUILDING NESTS TO ATTRACT PHOENIXES”: LINEAGE, MARKET, AND THE RISE OF A GLOBAL MANUFACTURING BASE

1. This form of business first started in Dongguan as early as 1978 and comprised mainly labor-intensive industries such as garments, metal products, and plastics. Foreign investors provided the equipment and operating capital for the enterprises and they exercised overall management over production and marketing. The Yantian village collective offered physical plant and other property to foreign investors, and charged them accordingly. These enterprises were mostly categorized as Yantian collective enterprises, having their legal representative chosen from among the villagers. However, Yantian had limited control over them. The foreign investors often made the major decisions such as profit distribution. With the “Three Supplies” as the main characteristic, these enterprises obtained all production materials from abroad and could only sell their products in foreign markets. Products from these enterprises could be supplied to other “Three Supplies” enterprises or joint ventures inside China but approval from customs was a precondition (see Wang, Zhang, and Yao, 1996, 128 and 139).

2. According to Deng Yaohui (2003, 229), the total of foreign-invested enterprises at the end of 1998 was 391.
3. “*Zhonghua renmin gongheguo laodong hetongfa*.” The law is overseen by the Ministry of Human Resources and Social Security. Most importantly, the law protected employees with ten years of employment from dismissal without cause and required employers to contribute to employees’ social security accounts and set wage standards for employees, including regulations on overtime.
4. This information is based on fieldwork conducted in 2008 of the then 202 foreign enterprises operating in Yantian.
5. These refer to enterprises jointly established by the Yantian village collective and foreign investors. Generally speaking, parties of the joint venture share decision making and management rights, as well as the business profit in accordance with the respective proportion of investment. Major decisions pertaining to business development must be made jointly by the two parties instead of by just one party. In their 1995 investigation, Hu Biliang, Wang Xiaoyi, Zhang Jun, and Yao Mei discovered that Yantian had 30 joint ventures, 19 with Hong Kong, 7 with Taiwan, and 4 with Japan. All these joint ventures had a large investment, advanced equipment, and technological intensive products (Wang, Zhang, and Yao, 1996, 125). Yet, by 2010, there were only nine joint ventures out of 202 foreign enterprises, indicating that most joint ventures had transformed their ownership structure, relocated to other areas, or were shut down.
6. This included 10,000 people and laborers in a Yantian industrial zone under the jurisdiction of a property management office of the People’s Liberation Army, and 2,000 people and laborers in a reservoir industrial zone managed by the Guangdong Yuehai Group.
7. The first “migrant worker tide” appeared in the spring of 1989 as the Chinese government started to relax its control over people’s mobility.
8. The study by Wang, Zhang, and Yao reveals that people from Guangxi were pioneers in migrating to work in Yantian. In their book they recount the story of an army man who served in the military in Yantian and married a local woman on demobilization. He observed the huge demand for labor by foreign enterprises in Yantian and that local labor was insufficient. He started to introduce his fellow villagers from Guangxi to work in Yantian. This probably occurred in 1985 (Wang, Zhang, and Yao, 1996, 194).
9. CCP Central Committee “Directive on Tightening Control Over the Market and Transforming Private Commerce.”
10. The quota amount supplied was determined by the intensity of the labor adults were engaged in and ranged from 13.5 kg to 16 kg per month. Delivery men and blacksmiths received 23.5 kg per month. They were allowed 0.2 kg peanut oil per capita per month.

4 “NEW WINE, NEW BOTTLES”: THE EMERGENCE OF A NEW-STYLE VILLAGE COLLECTIVE

1. In fact, before the tax reforms of 1994, the Chinese government offered very favorable policies to attract foreign investment, including income tax exemption for three years, and maintaining a certain level of tax reduction for a period of time after the first three years. According to our survey in the nineties, these favorable policies saved over 4.9 million yuan for the 30 companies we reviewed, an average of 160,000 yuan, providing a positive incentive for start-ups (Wang, Zhang, and Yao, 1996, 148).
2. For some time in the past, when setting up joint ventures with foreign investors, the Yantian village collective received some company shares by providing factory buildings. In such cases, the company had to pay village collective dividends in line with the share structure at the end of each year. The return was very high, generally around 25 percent of the investment at the time.
3. Foreign companies paid a higher factory building rent to the village collective in the eighties when they first set up, an average of 13 yuan per square meter per month.
4. One could argue that this was to provide a sinecure to the old party head. While this may be true, it is also the case that he would have the necessary connections and prestige to smooth over any potential problems or misunderstandings.
5. This agreement was reached with all foreign companies looking to invest in Yantian. Most probably, this served two purposes. First, it would allow the village collective to get timely information on the needs of the company so that the necessary help could be provided and, second, it would allow the village to control company finances thus avoiding any tax or fee evasion. It would ensure that the village collective was on top of all the activities of the company.
6. The same practice was noted in Chen village where they have the title of “Chinese-side factory head” (*Zhongfang changzhang*). Chan et al. describe this as a “disguised fee” even though the main duty is described as serving as a liaison between the village authorities and the factory. Chan, Madsen, and Unger, 2009, 337–338.
7. These are the the Yi’an Industrial Zone, the First Second, Third, and Fourth Industrial Zones, the Southwest Industrial Zone, the Beipu Industrial Zone, Shuibei Industrial Zone, Shijie Industrial Zone, and Changbiao Industrial Zone.
8. The town and higher levels of government have no responsibility to construct roads within the village.
9. Under the Processing Office are the general office, the verification division, exchange settlement division, customs declaration division,

statistics division, dispute settlement division, transportation division, and the fire fighting division.

10. Other investment projects included a parking lot and a bonded warehouse near the Yantian Customs. As of 2010, the collective had made a 30 million yuan profit from the parking lot but returns on the warehouse were shakier because of the decline in imports and exports.
11. For better illustration, we did not use the general classification of operational income, property income, and transfer income; rather we use two categories of income classification, namely income from external sources and self-generated income.
12. There were 100 shareholder representatives in the second Shareholding Economic Cooperative, who were elected by all shareholders in April 2008, and the same for the third in March 2011.
13. During our 2006 field survey, we concentrated on the economy at the group level; while in 2008, we focused mainly on economic activities at the family household level; and in 2009, more attention was paid to village political governance. Therefore, all the data about villagers' groups are data from 2005 and prior years.

5 “FROM TRACTORS TO AUTOMOBILES”: HOUSEHOLD ECONOMIC MANAGEMENT

1. Participants in the field survey included Hu Biliang, Wang Xiaoyi, Zhang Jun, Yao Mei, Tang Shengguo, and Li Jie. Findings of the survey were published in March 1996 (Wang, Zhang, and Yao, 1996).
2. Participants in the field survey included Hu Biliang, Zhang Bin, Liu Jie, Hu Di, Wang Jie, Chen Fang, and Li Jinping.
3. There were 44 valid responses, accounting for 6.5 percent of registered households (682) in Yantian. The sampled population was 224, 8 percent of the population in the village (2,786) at the time, with an average of 5.1 members per sampled household. The 2008 sample survey covered 39 households, 5.1 percent of the 761 registered households. The sampled population was 184, 6.2 percent of the registered population (2,988), with an average of 4.7 members per sampled household.
4. Unfortunately, as the raw data for the 1995 survey have been lost, it is not possible to confirm that all the sampled households are identical in the two surveys.
5. Ten households returned their land in 1992, seven in 1988 and 1990, six in 1991, and two in 1989. The remaining eight households could not remember the exact timing of the return of the land but were fairly sure that it was between 1988 and 1992.
6. However, it should be noted that the 2007 and 1994 data are not entirely comparable. There are more items under family household income in 2007, such as transfer income and the dividend income from the collectives, which are not included in the 1994 data. In 1994, income from

these sources was minimal and their omission does not affect the assessment of family household income. Yet if such items were overlooked for 2007, this would distort the analysis. In 2007, we excluded negligible items such as returns on stock investments.

II MANAGING THE PROVISION OF PUBLIC GOODS

1. The other two models are in Zhejiang and Shanghai. The Zhejiang model copies the urban basic pension plan but has lower premiums and lower criteria for enrollment. However, the payments are only slightly lower, which may create difficulties in the future in terms of covering payout. The Shanghai plan is a comprehensive one specifically designed for migrants with a relatively low premium. The benefits are on the low side and it will be more difficult to centralize pooling. See China Development Research Foundation, 2012, 60–61.
2. Four of the cities are in Guangdong and relevant to this study: Shenzhen, Guangzhou, Zhuhai, and Dongguan. The remainder are Shanghai, Cixi, and Jiaying in Zhejiang Province; Taiyuan in Shanxi; Dalian in Liaoning; and Changchun in Jilin. See *South China Morning Post*, June 2, 2010.

6 “FROM PUBLIC PROVISION TO A DIVERSIFIED NETWORK”: EDUCATION SERVICES

1. *Sishu* was a type of old-fashioned private school, distinct from government-run or public schools. As a nongovernment school it was unique to the Chinese context and boasted a long tradition. It appeared in the spring and autumn period (722–481 BC). It was a form of private teaching and some refer to the private lectures given by Confucius in his hometown of Qufu as *Sishu*, which made Confucius the first renowned private teacher. As a form of private education, *Sishu* was continued as a supplement to public education but it was abolished in 1905, although it continued to exert an influence for some time subsequently. It played an important role in disseminating traditional culture and advancing educational development. By the source of funding, *Sishu* can be divided into three types: *Zuoguan* or *Jiashu* where affluent families hired teachers to teach at their own home; *Cunshu* or *Zushu* (*Zongshu*) where the villages or lineages provided financial and property resources, recruiting teachers to teach children of poor families; and *Sishu* or *Menguan* (*Jiaoguan*, *Xueguan*, or *Shuwu*) where teachers taught in their own houses and charged students for education. *Sishu* is often small scale, with 20 or less attending. More details can be found at <http://baike.baidu.com/view/42498.htm?fr=ala0>. On the phasing out of *Sishu* see Deng (1997).

2. These were the Four Books of the “Four Books and Five Classics” (*sishu wujing*). The Four Books are considered to be the authoritative works of Confucianism written before 300 BC. The first two are chapters from the Classic of Rites (*Liji*), the third is a compilation of Confucius’ speeches and the fourth is a collection of conversations of the scholar Mencius.
3. While the PRC was proclaimed in Beijing on October 1, 1949, the PLA did not occupy Guangzhou until a couple of weeks later. See Vogel, 1980, 41.
4. The “Gang of Four” were arrested on October 6, 1976, and were criticized for pushing the radical education policies of the Cultural Revolution.
5. Liu Shaoqi put this forward in 1958 and he reiterated the idea again in 1964. The two education systems referred to a full-time system and a system integrating classroom education with labor or farming; the two labor systems referred to full-time labor and a system combining labor with classroom education. Schools subject to the latter system were called “farming and teaching schools.” The half-time work in production also included work in factories. By 1965, across China there were 7,294 half-time secondary vocational schools with 1.27 million students. See Tsang, 1991, 70.
6. Zhentian School has a middle school but no high school. Middle school graduates may go to high school in Fenggang Town or the Huaqiao High School according to their school performance. Some also choose the New Century Talents School in Yantian.
7. This does not include the cost of land or the annual incremental investments of over 2 million yuan once construction was completed. The village collective had made additional investments of nearly 10 million yuan between 2003 and 2008.
8. The school is a public school in name, but actually run by the Yantian village collective.
9. There are two semesters for each school year—spring and autumn semesters.
10. The average annual compensation for the teachers was nearly 50,000 yuan.
11. The number of faculty was 85 in that year, including 65 teachers (33 government-paid teachers).
12. The standard length for middle school in China is three years. However, the school was not qualified to issue a middle school diploma (its application was not approved by the relevant authorities) and thus could not run ninth-grade classes. Students had to find their own way after eighth grade. Students from better-off families would normally enroll in the private New Century Talents School for ninth grade; some went back to their hometown for ninth grade; and some just gave up in ninth grade and sought work in the Yantian factories. The middle school was mostly filled with graduates of the elementary school branch. Some

- students with an outstanding performance (around two dozen) chose to study in the Huaqiao Middle School in Fenggang Town or the New Century Talents School after elementary school. However, most students remained in Yantian School for their middle school education. As the Yantian School is a unique school, it could decide on the proportion of pupils who could be admitted to the middle school. With constraints on the number of teachers, classrooms, and venues, the school normally allowed only 50 percent of pupils to be admitted to the middle school.
13. At its peak, the number of students reached 2,400 but declined in 2009. There were only 1,792 students in the spring semester, 60 percent of whom came from Guangdong Province, mostly from Shantou and Chaozhou. Only ten students were from Dongguan City.
 14. Contract teachers usually signed one-year contracts with the school.
 15. Students from Hong Kong, Macao, and Taiwan paid tuition at the same rate as domestic students, while Korean students paid at a higher rate.
 16. These were the Caihua Elementary School, the Yinxing Elementary School, the Deli Elementary School, and the Kanglong Elementary School. The kindergartens were: the New Century, Tongyu, Tongxin, Yinxing, Kanglong, Jinxing, and Jinyaolan.
 17. Participants of the survey conducted about Yantian education management in 2006 include Hu Biliang, Li Guoxiang, Li Yuxiang, Liu Hongyu, Wei Peili, Jin Wenli, and Hu Di, and the materials used here were mostly prepared by Jin Wenli.

7 “ONE VILLAGE, DIFFERENT WORLDS”: HEALTHCARE PROVISION IN YANTIAN

1. In 1995 it was accredited as a “Baby-Friendly Hospital” by the Chinese Ministry of Health (MOH), UNICEF, and WHO, in 1996 it was accredited as a Second Class A Hospital by the MOH, and in 2006 was nominated as a teaching hospital for higher medical education institutions in Guangdong Province.
2. “*Guowuyuan guanyu fazhan chengshi shequ weisheng fuwu de zhidao yijian*” [State Council Guidelines on Developing Urban Community Healthcare Services (Guofa [2006]10)].
3. This was an objective of the attempt to set up “rural communities” (*nongcun shequ*) to improve the provision of public goods in the countryside. Experiments began in 2006 and the program was to be implemented nationally from 2009 but many local communities have deflected their establishment. Their establishment is part of the broader policy initiative to build a “new socialist countryside” (*shehui zhuyi xin nongcun*).
4. Disease prevention, basic medical services, nursing, rehabilitation, health education, and consultation on family planning techniques.
5. When we visited Yantian on July 9, 2008, the Hospital had not yet been accredited as a tertiary hospital. According to Huang Junhe, vice director

- of the hospital, they positioned it between a secondary and tertiary hospital for service delivery.
6. Employees from within the province only account for 30–40 percent, with the rest drawn from outside of the province. Sixty-nine of the medical staff had a senior professional title, up from 39 initially.
 7. Yantian launched two rounds of healthcare system reform centered on the contracting arrangements in 1981 and 1986, respectively; however, contractors were then required to pay some fee to the village collective.
 8. Yangkang and Yantian are privately owned, while Fengtian and Zhentian are state owned.
 9. From 1991, the Nanfang Production Team introduced a medical allowance to subsidize 30 percent of the medical expenses of its members who spent over 5,000 yuan in hospitalization fees.
 10. See “*Dongguanshi zhidong jiben yiliao baoxian zanzheng guiding*” [Provisional Regulations of Dongguan City on Basic Medical Insurance for Formal Employees (Dongguan City Government, November 8, 1999)].
 11. The deductible from the social pool varied across different hospitals in Dongguan City—600 yuan for tertiary and higher-level hospitals, 500 yuan for secondary hospitals, and 400 yuan for primary and other hospitals.
 12. Ceilings were set for participants in accordance with the time of enrollment in the insurance program and the insurance package they had been enrolled in (comprehensive or inpatient). There were three levels: participants with two to six months of membership (10,000 yuan in the comprehensive package and 5,000 yuan in the inpatient package), those enrolled for six months to one year (20,000 yuan in the comprehensive package and 10,000 yuan in the inpatient package), and those enrolled for over one year (75,000 yuan in the comprehensive package and 35,000 yuan in the inpatient package).
 13. The program was intended primarily to enroll farmers, but urban residents could participate on a voluntary basis.
 14. It was also possible to register through a residents’ committee.
 15. As with the employees’ basic medical insurance, basic expenses refer to the expenses upon deduction of out-of-pocket payments. Participants were reimbursed for their medical expenses upon deduction of out-of-pocket payments and the deductible. They had to cover the whole bill by themselves if medical expenses upon deduction of out-of-pocket payments did not meet the deductible.
 16. The main reason is that the percentage of retirees in the farmers’ basic medical insurance was multiple times higher.

8 “DENG’S VILLAGE”: GOVERNANCE

1. See, for example, Kelliher, 1997, Pastor and Tan, 2000, and He, 2003. For the unsuccessful attempts to raise the level of direct elections to the township, see Saich and Yang, 2003.

2. See “*Zhonghua renmin gongheguo cunmin weiyuanhui zuzhi fa*” at http://gov.cn.flfg/2010-10/28/content_1732986.htm.
3. A Villagers’ Representative Meeting (*cunmin daibiao huiyi*) is set up in villages that are densely populated or where villagers are widely scattered. The meeting is attended by village representatives who account for at least four-fifths of participants, with women accounting for at least one-third. Every 5 to 15 households can recommend one village representative or they can be recommended by each villagers’ small group (*cunmin xiaozu*).
4. The law states that family background and religious belief should not be criteria for eliminating a candidate but it does require that candidates consider the interests of the village as a whole and be just and in good standing with a certain cultural and educational level.
5. Delegates of the Villagers’ Representative Meeting are determined according to the population of the various villagers’ groups, thus groups with a larger population recommend more candidates. In the 2008 election, the number of delegates from different villagers’ groups was as follows: 14 from Dongyi, 19 from Donger, 10 from Nanfang, 14 from Beifang, 9 from Xifang, 7 from Buxin, 7 from Shuibe, 6 from Changbiao, and 4 from Shijie, making a total of 90.
6. The election committee for the fifth villagers’ committee included Deng Zerong, who was just elected as party branch secretary as director and Deng Gantian as deputy director and the heads of the nine villagers’ groups, only two of whom were not from the Deng family (from Shuibe and Buxin).
7. “Election Method for the Direct Nomination of Members of the Yantian Villagers’ Committee” (*Yantiancun cunmin weiyuanhui chengyuan zhi-jie timing xuanju banfa*)
8. “Suggested Opinions for Candidates for Membership of Yantian’s Fifth Villagers Committee” (*guanyu Yantiancun diwujie cunmin weiyuanhui chengyuan houxuanren jianyi yijian*).

This was an official document circulated under the heading of and sealed with “Fenggang Town CCP Committee.” The suggestions read as follows:

“To the Election Committee of Yantian Village,

According to the “Organic Law of the People’s Republic of China on Villagers’ Committees,” the “Electoral Method for Villagers’ Committees of Guangdong Province” (*Guangdongsheng cunmin weiyuanhui xuanju banfa*), and the “Method of Implementation for Villagers’ Committees of Guangdong Province” (*Guangdongsheng cunmin weiyuanhui xuanju banfa shishixize*), and considering the findings of the performance review of current members of the villagers’ committee and party branch of Yantian Village and the opinion poll targeting candidates for the villagers’ committee, the following list of candidates for the upcoming villagers’ committee is proposed following discussion by the town party committee:

Deng Manchang candidate for head of the villagers’ committee;
Deng Shunyi candidate for deputy head of the villagers’ committee;

Deng Huixin candidate for member of the villagers' committee;
 Chen Limei candidate for member of the villagers' committee;
 Deng Jinhao candidate for member of the villagers' committee.

It is advised that the election committee publicize these suggestions, explain them to the villagers, and organize the direct nomination of candidates upon full consideration of the voters of these suggestions, to ensure a successful election for the fifth villagers' committee."

At the bottom of the official document, "Note that Deng Zerong will not participate in the voting," is written by hand.

9. "Report of Yantian village on the Directly Elected Members of the Fifth Villagers' Committee through the Nomination Conference" (*Yantiancun diwuji cunweihui timing houxuanren dahui zhijie dangxuanren baogaodan*) submitted to Fenggang Town Government and released to the villagers. It read as follows:

"To the Fenggang Town Work Guidance Group for the Turnover of Village-level Organizations (*cunji zuzhi huanjie xuanju gongzuo zhidao xiaozu*): Yantian Village held the nomination conference on April 4, 2011, strictly in line with the relevant procedures. 2,606 villagers out of 2,608 qualified voters participated. 2,606 nomination ballots were issued and 2,604 were returned, 2,604 were valid and there were two abstention votes. After review by the villagers' election committee, and in line with the "two over-half" (*liangge guoban*) criteria, the following persons were directly elected:

Proposed Position	Person Nominated	No. of Votes	Gender	Age	Education	Political Affiliation	Current Position
Director	Deng Manchang	2,162	Male	42	College	CCP member	Vice Director
Vice Director	Deng Shunyi	2,145	Male	36	Junior college	CCP member	Member
Member	Deng Huixin	2,010	Male	39	Junior college	CCP member	Member
Member	Deng Jinhao	1,791	Male	32	Middle school	CCP member	Security Head
Member	Chen Limei	2,345	Female	38	Junior college	CCP member	Member

Ballot examiner: Deng Guozi Ballot counter: Deng Rujiao
 Ballot reader: Deng Tengfang
 Director of election committee (with signature): Deng Zerong
 Date of Reporting: April 4, 2011."

10. Five party members could not remember exactly when they had joined.
 11. The other candidates were Deng Gantian, Deng Shunyi, Deng Senyang, Chen Limei, Deng Huixin, and Deng Yongchang. See "Request to

- Convene the Party Electoral Meeting to Elect CCP Members of the Yantian Village Party General Branch Committee” (*Guanyu zhaokai Zhonggong Yantiancun zongzhibu weiyuanhui huanjie xuanju dangyuan dahui de qingshi*).
12. See “Approval on Agreement to Convene the Party Electoral Meeting to Elect CCP Committee Members of the Yantian Village Genral Party Branch” (*Guanyu tongyi zhaokai Zhonggong Yantiancun zongzhibu weiyuanhui dangyuan dahui jinxing huanjie xuanju de pifu*).
 13. Of the 165 members, 160 attended; of whom, 151 were full members with voting rights and 9 probationary members. The votes were as follows: Chen Limei 142 votes, Deng Shunyi 135, Deng Zerong 120, Deng Manchang 119, Deng Huixin 114, Deng Gantian 90, and Deng Yongchang 82. All of these were elected.
 14. “*Zhonghua renmin gongheguo gaoji nongye shengchan hezuoshe shifan zhangcheng*” at <http://wenku.baidu.com/view/fla05fd8d15abe23482f4d25.html>.
 15. “*Nongcun renmin gongshe gongzuo tiaoli (caoan)*” at http://www.lawyee.net/OT_Data/legislation_Display.asp?RID=7505.
 16. This was the case in Chen village in the same region, Chan, Madsen, and Unger, 2009, 340.
 17. For example, with respect to the review and approval of collective investment projects, those projects with an investment of less than 15 million yuan can be approved by the board of directors but projects with an investment of 15–30 million yuan must be approved by the representative shareholders’ meeting.
 18. Candidates had to be shareholders and over 18 years of age and eligible for election. In principle, candidates were also expected to have at a minimum of a middle school education and be under 60 years. It was also noted that they should be both “red” and “expert” possessing “political integrity” and “management skills.”
 19. The number of representative shareholders in each villagers’ group depends on its population. The distribution was as follows: 16 from Dongyi, 21 from Donger, 11 from Nanfang, 16 from Beifang, 10 from Xifang, 7 from Buxin, 7 from Shuibe, 7 from Changbiao, and 5 from Shijie.
 20. The others were Dongyi and Beifang with 16; Nanfang 11; Xifang 10; Buxin, Shuibe, and Changbiao 7 each.
 21. The members were the new party secretary (Deng Zerong), the branch member in charge of organizational work (Deng Gantian) and the heads of the nine villagers’ groups.
 22. The other candidates were: Deng Shunyi, Deng Huixin, Li Huibang, Deng Senyang, Deng Yuehui, and Deng Guangnan.
 23. Method for the Election of the Board of Trustees and the Board of Supervisors of the Yantian Shareholding Economic Cooperative (*Yantian gufen jingji lianheshe lishibui he jianshibui chengyuan xuanju banfa*).

24. The other votes were: Deng Huixin 89, Li Huibang 85, Deng Guangnan 76, and Deng Yuehui 74.
25. “Guangdong Province 2003 Quantified Scale of Measurement of Village Affairs Transparency” covered 14 items, such as the social and economic plans for the village; annual financial plans; collective assets; revenue and use of collectively owned land; any funds received for disaster relief and their use; any earmarked funds and government subsidies; levies and fees on the farmers; use of contributions to the rural medical cooperative scheme; salary, bonuses, and allowances for village officials; residency approvals; family planning information; and assistance to the township government.
26. The competition was organized jointly by the general office of the party committee, the general office of the government and the Bureau of Statistics of Dongguan City. The main economic indicators included: (1) gross industrial output value; (2) gross agricultural output value; (3) total investment in fixed assets; (4) total investment in fixed assets by the private sector; and (5) total investment in fixed assets by domestic capital from outside of Dongguan (actual investment in projects of over 500,000 yuan by capital from other provinces and cities).

9 YANTIAN: A MODEL IN TRANSITION

1. Interview with Huang Fushui, village party secretary and chairman of the Hongfu Group, Beijing, August 6, 2011.
2. “*Zhonghua renmin gongheguo laodong hetong fa*.” The law was mainly directed at domestic firms that were often not compliant with regulations.
3. Zhang also noted that most of the profits were taken out of the country by the multinationals that owned the brands. “Chinese Manufacturers Increase Trade Figures, but Multinationals Enjoy Most Margins,” *China Daily*, January 3, 2011.
4. “China: the end of the cheap? Not so fast...” at <http://blogs.ft.com/beyond-brics/2011/05/17/china-the-end-of-cheap-not-so-fast/>.
5. January 1, 2009 at <http://www.hktdc.com/info/mi/a/bacn/en/1X000E06/1/Business-Alert--China/five-Measures-by-Guangdong-to-Help-Enterprises-Expand-Domestic-Sales.htm>.
6. “Guangdong Government Effort to Help Foreign Trade Enterprises,” at <http://dollaritem.wordpress.com/2011/07/25/guangdong-government-to-help-foreign-trade-enterprises.htm>.
7. This was also noted by village head, Deng Manchang, in an interview on August 4, 2011.

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