Growing Out of Clientelism:

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ABSTRACT

It is generally believed that the partnership between local governments and rural enterprises is the key to the spectacular economic success of rural China. In addition, such close cooperation is also believed to be grounded in the personal networks (guanxi) between local cadres and rural entrepreneurs. Understandably, these networks are not immune from the influences of their sociopolitical context. Then, how do these networks change in rural China’s market transition? Based on data collected in a small town in north China (Beiyuan zhen), this paper seeks to examine the impacts of marketization on the patterns of interaction between local cadres and business entrepreneurs in rural China. In this paper, I argue that these networks have gradually moved beyond the clientelistic fashion. Although some entrepreneurs continue to rely on local cadres for government resources, many others especially these more successful in market competition are no longer dependent on state patronage and local cadres. In today’s rural China, many entrepreneurs seek alliances with other entrepreneurs to capture opportunities channeling through the market. Others, due to their financial ability to reward local cadres, have also raised their status vis-à-vis local cadres and thereby transformed their relationships with local cadres. For these entrepreneurs, government-business relationships are not as essential and lopsided as they used to be. Put differently, these enterprises have been growing out of clientelism.
Introduction

It is generally believed that the partnership between local governments and rural enterprises is the key to the spectacular economic success of rural China.¹ In addition, such close cooperation is believed to be grounded in the personal networks (guanxi) between local cadres and rural entrepreneurs.² Understandably, these networks are not immune from the


influences of their sociopolitical context. Then, how do these networks change in rural China’s market transition? Based on data collected in a small town in north China (Beiyuan zhen), this paper seeks to examine the impacts of marketization on the patterns of interaction between local cadres and business entrepreneurs in rural China.

Questions regarding changes in local-level government-business relationships are central to current debates concerning China’s socioeconomic transformation. Are they still crucial for the economic performance of today’s rural enterprises, or do they gradually lose their significance in a new market setting? In addition, do they remain as “patron-client relationships”? Or have they evolved into “horizontal market relationships between private
buyers and sellers\(^6\) under an emerging and changing business environment?

Most of the existing studies would describe the relationship between local cadres and rural entrepreneurs as clientelistic in nature.\(^7\) In this paper, however, I will demonstrate that these networks have gradually moved beyond the clientelistic model. More specifically, in rural China, although some entrepreneurs continue to rely on local cadres for government resources, many others especially these more successful in market competition are no longer dependent on state patronage and local cadres. Today, some of these entrepreneurs seek alliances with other entrepreneurs to capture opportunities channeling through the market. Others, due to their financial ability to reward local cadres, have raised their status vis-à-vis local cadres and thereby transformed their relationships with local cadres. For these entrepreneurs, government-business relationships are not as essential and lopsided as they used to be. Put differently, these enterprises have been growing out of clientelism.

The paper is divided into four sections. First is a summary of current interests and research on the topic, the transformation of government-business relations in rural China. The second section demonstrates how different rural enterprises at the field site have adjusted their guanxi networks with local cadres in the past two decades. The following section then


reviews some statistical tests on the hypotheses derived from my field experiences. A concluding section spells out some implications related to the Chinese model of market transition.

I. The Institutional Foundation of Economic Achievements

A. Government-Business Relations in Rural China

Two issues have been recurrent themes in many important studies of post-Mao China. The fist is how to explain China’s spectacular economic success of the past two decades. The second but probably more important issue is how to pinpoint China’s state-society relations given her amazing progresses in market transition. These two issues are central to our understanding of contemporary China. Both issues, I would argue, could be fruitfully elucidated through the study of government-business relations in rural China.

In terms of economic success, China is undoubtedly the world’s fastest-growing economy in past two decades. Her achievements are even more stunning once compared


10 According to World Bank data, in 1978-1994, China is either the world’s fastest growing economy if using China’s official deflators, or the world’s second fastest growing economy (next to South Korea only), if using alternative deflators, see World Bank, China 2020: Development Challenges in the New Century (Washington, DC: World Bank, 1997: 3).
with the records of other transitional economies. The question thus arises: how did China become so successful? A quick answer might be: China made it by following almost none of the formulas of orthodox economics textbooks.11 As a result, making sense of the “China miracle” have generated lots of academic interests and debates.12

Those who try to make sense of China’s success story often turn their attention to rural China.13 As official statistics suggests, enterprises in rural China—being collective as well as private—have been the engine of China’s economic growth. Between 1980 and 95, this sector has been expanding at an average growth rate of 34% each year and between 1990 and 1995, 53% annually. In 1998, these enterprises hired 126 millions workers, produced about one-half of China’s industrial output, paid one-quarter of China’s taxes, and brought in about one-third of the nation’s foreign exchange. According to Justin Yifu Lin and associates, these


enterprises are the real creator of the “China miracle.” Of course, they did not create the miracle by themselves, the township and village governments which either actually own or effectively control these enterprises also play a crucial role. The relationships between rural enterprises and local governments thus become the key to the understanding of China’s economic dynamism.

On the other hand, China’s post-Mao reforms have been proposed with a purpose to maintain the existed political institutions. Yet it is impossible to create an energetic market economy without giving people substantial freedom of exchange. The Chinese party-state thus loosened its grip over economic transactions and certain social activities. These liberalization measures, however, then set in motion processes in China’s society and politics. The social forces unleashed by the economic reforms thus would definitely affect the state-society relationships succeeded from Mao’s China, though all these have been developed under Maoist political institutions.

The paper traces changes in China’s state-society relations by following the relationships between local cadres and rural entrepreneurs. The reasoning is two-fold. First, to be able to grasp the blurred, elusive, and ever-changing boundary between Chinese state and society, the best strategy is to focus on their interface. The reach of the Chinese party-state ends at township and village governments. Therefore, township and villages are where state and society meet and cadres and entrepreneurs agents who stand for state and society interact. Their relationships thus reveals the balance of power between state and society. Secondly, local cadres might embody the interests of the ancien regime while rural enterprises represent emerging groups in reform era. Observing how local cadres interact with rural entrepreneurs

15 In contrast, urban-based SOEs and the higher-level governments (e.g., ministries or provincial governments) behind them seem quite irrelevant, see Edward Friedman. “Is China a Model of Reform Success?” in Edward Friedman. National Identity and Democratic Prospects in Socialist China (Armonk, NY: M. E. Sharpe, 1995), pp. 188-207.
17 Refer to works cited in Note 8.
18 Goldman & MacFarquhar eds., ibid. pp. 3-17. See also Pei, ibid.
not only indicates the relative strength (e.g., rising or declining) but also the relationships (e.g., in conflict or agreement) between the two exemplary social groups. In both senses, focusing on the relationships between local cadres and rural entrepreneurs may shed light on the transient state-society relations in rural China.

In conclusion, studying local-level government-business relations, or specifically, the relationships between local cadres and rural entrepreneurs, can help us understand the two most important issues in the study of China’s transformation. As a result, most studies on China, especially rural China—such as Marc Blecher & Vivienne Shue, Nan Lin, Victor Nee, Jean C. Oi, Dorothy Solinger, Sijin Su, Jonathan Unger, Andrew Walder, David L. Wank, Lynn T. White III, Susan H. Whiting, and David Zweig—have already concentrated their attention on this topic.20

B. Government-Business Relations in Perspectives

The rich and diversified studies on the government-business relations in rural China have reached more controversies than agreements. Broadly speaking, there are two competing analytical perspectives: the neo-classical convergence thesis and the path-dependency change perspective.21 The former underscores the institutional changes and explains China’s reform success in terms of emerging market institutions—that is, the demise of pre-existed sociopolitical institutions. On the other hand, the latter highlights the institutional continuities and understands China’s economic achievements through either the adaptation of pre-established institutions or the mix of markets and pre-established institutions.

The thesis begins with the assumption that the market and socialist economies are organized on the basis of two fundamentally different institutional principles: the “free exchange” and the “redistribution.”22 Therefore the emergence of market institutions would definitely lead to the decline of socialist institutions (i.e. a “displacement” process). Of course,

20 Please refer to works cited above.
these institutional changes are not limited within the economic realm. The communist cadres will lose most of their advantages in the new setting and play by the new rules. The expansion of market mechanisms and the logic of free exchange thus will modify or reshape the established sociopolitical order. This kind of market transition will without doubt end up as a convergence of market societies (i.e. Western-style “market societies”). According to this view, in economic transition, local institutions—such as the connections between local cadres and rural entrepreneurs—will be reshaped by the market. For example, Victor Nee claims that “[w]here market reform has resulted in bypassing hierarchies, the extent of vertical segmentation characteristic of socialist economies is reduced as horizontal market relationships between private buyers and sellers.”

The other more dominant view is the path-dependence change perspective. In contrast with the neo-classical convergence thesis, this view begins with a different assumption: the co-existence and/or co-evolution of different institutions. In other words, the newly emerged and the pre-established institutions do not “displace” each other. Instead, they usually co-exist, gradually shape, and finally support each other. This perspective is best illustrated by David L. Wank’s study of private entrepreneurs in Xiamen. In this study, he ably shows that private enterprises have been actually expanding through the pre-established clientelistic networks. In addition to the co-existence assumption, the path-dependence change perspective also features the continual adjustments of the pre-established institutions.

According to this perspective, after those adjustments, the institutional legacies of the ancien regime can be turned into the institutions underpinning the new socioeconomic system. For example, Jean C. Oi’s work on the development of the rural industrial sector has effectively illustrated such adjustment. In that study, she demonstrates that the shift in the goal of local governments and the support and protection from local governments are necessary for the growth of these rural industries. In this sense, market transition does not necessarily lead to the decline of the state. Instead, it may give the state an opportunity to

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adjust itself to be able to play a new and active role in the economy after the transition. Different from the expectation of neo-classical convergence thesis, according to the path-dependence change perspective, the market transition usually forces the old elite to adjust themselves to the market. After these adjustments, since the market will benefit anyone with resources, these former cadres usually seize the most profitable opportunities by employing the resources accumulated under the communist regime. In this sense, the old elite can turn their advantages in the socialist era (often in the forms of “political capital” and “social capital”) into market economy. Consequently, the old elite will not be replaced and the pre-established sociopolitical order will not be drastically modified.

Of course, the same logic also applies to the transformation of social networks. According to the path-dependence perspective, these networks, though being the institutional legacies of the past, can turn into the institutional foundation of the market era. For example, according to David L. Wank, “patron-client ties are not just pervasive in the market economy but are the institutional process of marketization, constituting the rationality of market action.” For him, the close personal ties between local officials and private entrepreneurs are not just efficient but also indispensable for market operations in China. Since they fulfill the needs of both officials and entrepreneurs (“reflecting a convergence of interests”), they can perpetuate their significance in the market economy (“being the equilibrium in market societies”).

When characterizing these networks, Wank claims that these ties are still grounded in power asymmetries—for all the changes brought by market transition “have no necessary consequences for state-society relations.” On the other hand, “durability,” “deeper obligations” and “unconditionality of support” still mean the “guanxi capital”—the efficacy of guanxi to bring in various benefits. In other words, the structure of the networks playing a major role in market economy remains the same: they are still largely vertical and as strong

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29 ibid. pp. 820-5.
as they were in the commune- and brigade-oriented economy.

Therefore, the path-dependence change perspective tends to stress the remaining role of state in economy and the persisting significance of social capital in transitional and even market economy. According to this view, the local networks in rural China basically remain the same—with most of their pre-existing structural features intact despite market forces. The differences in their expectations on the transformation of government-business relations between the two perspectives are contrasted in Table 1.

C. The Empirical Research

The essential part of my empirical research was an 8-moth long field trip in a small town in north China. The primary source of the empirical data is drawn from in-depth interviews with about 80 rural entrepreneurs in that town. Collecting ethnographic data in a single locale has become an increasingly popular strategy for the study of rural China for detailed accounts of local political and economic processes. Many important studies on the similar topic—such as Victor Nee (Fuzhou, Fujian), Andrew G. Walder and Jean C. Oi’s (Zouping, Shandong), and David L. Wank (Xiamen, Fujian)—also rely on similar research methods. In this section, I will briefly address my research site and the methods being adopted for data collection.

1. The Field Site

My research site was in Beiyuan, a town (zhen) in Jinan City, Shandong Province. With the Yellow River wandering to its north and Mount Tai in the south, the city Jinan has been for centuries the largest city between Beijing-Tianjin region and Shanghai-Nanjing region and the political-economic center of Shandong. The Beiyuan Town, historically part of the neighboring Licheng County of Jinan but being merged into Jinan in 1978, occupies the northern corner of the city. In 1991, this town, with fifty-eight villages (cun), occupied 18,227 acres and was populated by 132,114 residents. The average income was 5,005 yuan for labor workers and 3,511 for
In the Maoist era, Beiyuan (literally translated, “the northern [vegetable] garden”) has been the supplier of sideline agricultural produces and staple grains for Jinan. What made the town eminent, however, was its role in the Great Leap Forward: Beiyuan was known as one of the birthplaces of the People’s Communes. Beiyuan was also the leader in the Shandong Province in adopting agricultural mechanization and electric irrigation system. Most importantly, its rural industrial sector was well developed before the post-Mao reforms.

Beiyuan did not just lead the way in the collectivist years, however. In the reform era, once again, it is one step ahead in Shandong. Its agriculture diversified rapidly after the Household Responsibility System was consolidated. Its rural industrial sector then grew at an average of 68% annually from 1978 to 1998. The south corner of Beiyuan soon integrated into the expanding urban Jinan. It is now a nation-wide marketplace for lamps (largest in north China), electronic products, and furniture (both the largest in Shandong). Measured by any standard, Beiyuan is, as it is often called today, the “number one town in Shandong[Shandong diyi zhen].”

The town certainly has its unique characteristics in the province, but it is not exceptional when compared to other regions with well-developed rural industrial sector. In fact, when compared with other extensively studied regions (like Sunan and Wenzhou), Beiyuan is a far more typical case of rural industrialization. Of course, Beiyuan is not a miniature version of rural China. The arguments based on studying a town in central Shandong certainly cannot be generalized to a country as vast and varied as China. Neither is Beiyuan a town sui generis; it is similar to many other towns experiencing rapid socioeconomic transformation in the reform era. Research on Beiyuan can surely provide insights into the changes in China’s countryside.

2. Methods for Data Collection

Given the nature of the study—small case numbers, sensitive issues, and categorical variables—this research is essentially a qualitative project. Yet it also involves some

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quantitative analysis. Basically, this research project combines three research strategies: (1) in-depth interviews, (2) standardized survey interviewing (based on semi-structured questionnaires), and (3) intensive study of case history. All these methods have been proved effective by one or several successful studies on similar subject matter. The following discussion will explain how these methods were applied during my field research.

- **Collecting background information**: First of all, I need to collect general information regarding the local history, economic transformation, and the general contour of network dynamics of Beiyuan. Thus I interviewed local cadres, enterprise managers and people who were well-informed of local politico-economic dynamics. The selection of these informants was more or less subjective—just to make sure that the exchanges with them would be free and open-ended exchanges. Although I preferred one-to-one and uninterrupted dialogues, I had also made use of a variety of social occasions (say, banquets and dinner parties) to meet people.

- **Collecting specific information**: As for the information required for testing my working hypotheses, I relied on in-depth interviews with about 80 Beiyuan entrepreneurs. My goal was to understand the webs of guanxi networks surrounding and supporting these enterprises. Since these connections usually concentrated on their managers, I have counted on them for information regarding guanxi dynamics. To make cross-case comparison possible, I also designed around forty standardized interviewing questions. During my interviews, these questions were raised on the basis of a semi-structured questionnaire. Because of scheduling problems, among the 80 rural entrepreneurs I interviewed, I have only successfully finished 48 copies of questionnaires.

- **Selection of Cases**: In terms of case selection, I first excluded small family enterprises and non-industrial firms. Then, I chose the enterprises for further studies on the basis of their sizes, industrial sectors, enterprise ownership, economic performance, and among others. But after taking into account of the difficulties of “random selection,” I relied more on my personal guanxi with local government officials, business associations and other rural entrepreneurs. As a result, this study may not completely immune to the “selection bias.” But because of following three reasons, the “selection bias” seems not that a big problem. First, this project is essentially an illustrative study rather than a systemic test of large-sample data. Secondly, the principle of case selection (our guanxi) is not associated with the variables in my models (e.g. level of marketization and level of network transformation). Finally, I have been cautious

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not to rely on one agent for arranging my interviews.

- **Getting deeper understandings**: To gain deeper understandings and insights into the economic role of guanxi networks and their transformations, I have conducted participant observation for detailed information of case history. Among all the cases I have interviewed, I have made some friends to be my informants and to arrange interviews for me. In addition, they usually were more willing to provide reliable and critical information regarding guanxi networks.

II. The Rise and Decline of Local Pacts in Rural China

This section addresses the transformation of government-business relations in rural China. I will first develop an analytical framework for analyzing “local pacts,” that is, implicit contracts between local governments and rural enterprises. The claim is that the success of these local pacts is based on the asymmetrical interdependence between the two parties. The result then is clientelism, or vertical networks, between local cadres and rural entrepreneurs.

After that, I will focus on changes in political economic environment in rural China, stressing how marketization gradually undermines “local pacts” (and clientelistic relationships bolstering them). The claim here is that different types of enterprises may bear dissimilar “network costs” and enjoy dissimilar “network benefits.” As a result, different types of enterprises derive distinct incentives regarding whether to in these “local pacts.”

Specifically, successful enterprises tend to shift alliances with their business partners to take advantage of market opportunities. Since they can find resources from the marketplace, they can sever their connections with local cadres to reduce the extractions and interventions of local governments (i.e., the “breaking-off” approach). Of course, some may still keep those connections. In such cases, their relationships with local cadres have transformed from “asymmetrical reliance” into “mutual dependence,” or from “vertical ties” into “horizontal ties” (i.e., the “breaking-even” approach). Yet, enterprises that fail to survive in the marketplace usually prefer to tie themselves firmly to local governments, seeking instead to perpetuate their reliance on state patronage. After all, they have nothing to lose and no alternative source of resources.
In short, as rural China develops into a market economy, some business enterprises continue to depend on state patronage while others have gradually abandoned their clientelistic relationships.

A. Local Response to Market Expansion: The Rise of Local Pacts

As the author found during field research in Beiyuan, in the earlier stages of the market transition (throughout 1980s), almost all rural enterprises were heavily dependent on their local governments—for resources, protection, and various kinds of support. This government-business partnership was grounded in what I term “local pacts”: an implicit contract between local governments and rural enterprises. According to the contracts, local governments must offer assistance while business enterprises, once being successful, must reward the community and cadres in return. These “local pacts,” bolstered by personal networks between cadres and entrepreneur, functioned quite well in many parts of rural China (including Beiyuan town). The result was an explosive expansion in the rural enterprise sector in rural China’s market transition. In a sense, these local pacts can be considered as a successful local institutional response to the opportunities and challenges brought by the expansion of the market.

This section provides justification for the formation of government-business alliances as embodied in “local pacts.” The analysis will center on how these pacts may serve the interests of both local cadres and rural entrepreneurs and thus make their partnership possible.

1. Market Expansion in Rural China: Challenges and Opportunities

To trace the origins of “local pacts” and the “local developmental regimes” that based on them, we must first reexamine the local political economic environment during the early stages of market transition. In particular, we must consider the economic opportunities brought by the market. Back in the late 1970s and early 1980s, following agricultural de-collectivization, de facto limits on rural production were largely lifted. The market for the first time opened up to rural entrepreneurs. The market also brought about insatiable

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37 The term is used in, for example, Szu-Chien Hsu. “Two Local Regime Types in China’s Rural Industrialization: A Comparative Study of Four Townships in Fujian and Jiangsu,” Issues & Studies, 35: 1 (Jan./Feb., 1999), pp. 80-130.
consumers’ demands and numerous profitable opportunities. This was the golden age for rural enterprises. According to one Beiyuan entrepreneur,

“[t]he quality of our products does not matter at all. Who cares? There are always a whole bunch of rural people lining up to purchase whatever we have produced [paidui qiangzheyao].”
(Interview Case #99-1-07)

These market opportunities arose for two reasons. First, due to the “shortage economy,” the consumption demands of the Chinese peasantry have never been met. In the early 80s, agricultural reforms (the household responsibility system and related policies such as grain procurement policy) were introduced to rural China. Household family incomes consequently improved quite rapidly. With increasing wealth, many peasants adjusted their expectations about everyday life. In addition, most of the limits previously set on daily consumption (such as food stamps [laingpiao], cloth quotas [mianbu piao], and cooking oil quotas [shiyou piao]) were all abandoned. Secondly, state-owned enterprises, the major provider of industrial products, could not adjust successfully to the demands of rural markets. They were stuck in state planning assignments to produce heavy industrial products. In addition, these companies had no incentives to produce daily commodities. Even worse, among the small amounts of daily commodities made by the SOEs, most targeted urban-dwellers (high-quality and high-price). Markets for cheaper—and easier to produce—goods for rural consumers thus remained open to entrepreneurs in the countryside.

The markets and profits were there, but no one could produce something out of nothing: whoever wanted to establish industries to earn profits needed economic resources—including raw materials, investments or loans, machines and facilities, knowledge and skilled workers. Yet most rural entrepreneurs had none of these resources. On the one hand, they were outside of the state planning system; thus, they could not come by any scarce resources. On the other hand, the emerging market was also unfavorable to them; they had no assets—such as money or power—to trade for the resources they needed. Therefore, although profitable opportunities existed, they were out of the reach of rural entrepreneurs. These entrepreneurs needed support to help them capitalize on the new environment.

Local governments had most of the resources these entrepreneurs needed. Therefore, if rural entrepreneurs could find access to the resources controlled by local governments, they
would have no problem in setting up their industries (or other types of enterprises) and bring in huge profits. In this sense, the support of local governments became the key for the success of rural enterprises and, in the end, the achievement of communities. Local governments also wanted something from rural entrepreneurs in return, however. The cooperation could only achieved through meeting the demands of both parties. Put differently, the government-business alliances were possible only when, as Wank claims, they reflected “the convergence of interests”\textsuperscript{38}.

The following discussion will demonstrate why rural entrepreneurs and local cadres needed each other and finally achieved their alliances.

2. Why Local Pacts? Convergence of Local Interests

In rural China, government-business cooperation at the local level is grounded in “local pacts,” implicit contracts between local governments and rural enterprises. According to these implicit understandings, local governments must provide support in exchange for enterprises’ future contributions. In rural China, these local pacts generally played a central role in joining government and businesses together to improve the community’s prosperity. Of course, these agreements can be effectively reached mainly because they fill the needs of both local cadres and rural entrepreneurs. In the following discussion, I will develop an analytical framework to demonstrate why these local pacts are desirable and thus workable in rural China.

To begin with, there are two parties involved in local pacts: local cadres and rural entrepreneurs. The formation of local pacts thus poses two questions: Why do rural entrepreneurs need support from local governments? And why do local governments need the contributions of rural entrepreneurs?

3. Resources of Local Cadres

The answer to the first question is quite clear: local governments control almost all the resources and power necessary for the development of rural enterprises. But what exactly are these resources and power that make the support of local governments so indispensable? These resources and power can be summarized as follows:

\textsuperscript{38} David L. Wank. \textit{ibid}. 1999, p. 228.
Directly controlled resources: some resources are under the direct control of local governments. Typical examples are as follows.

- **Community properties**: Local governments control properties that previously belonged to the “communes and brigades” \(gongshe/dadui\). For example, town or village governments always have the power to appoint or lay off managers of enterprises owned by the townships or villages (i.e. their assets inherited from \(shedui qiye\)). In addition, only local governments can rearrange the use of land, which is one of the core concerns for setting up or expanding enterprises.

- **Valuable information**: Information that is diffused through bureaucratic channels can be very valuable for business decisions.

- **Administrative conveniences**: For example, only local governments can rearrange the “local residence” \(hukou\)—which is needed to get a place to live in the locality—for experienced managers or skilled workers from outside. They also have the power to re-allocate labor force in the locality. For example, they can send any villager to work for the “quota grains” \(shangjiao liang\) for next year. As a popular saying goes, “Even having being approved by thirty agencies \(sanshige gongzang\), [I am] still falling behind those with neighborhood relationships \(buru yige laoxiang\).”

Indirectly mediated resources: some resources must go though the mediation of local governments. Typical examples include:

- **Transactions or interactions with the state sector**: In comparison to SOEs, rural enterprises have long been discriminated against when dealing with the state sector—such as in terms of getting loans from state-owned banks, in transactions with state-owned enterprises (government issued invoices are needed), in requests for the use of state-owned land, and so on. To be able to conduct transactions with the state sector (getting loans from the local divisions of state banks is most crucial), rural enterprises must first receive an endorsement from their local governments.

- **Tax reduction/exemption**: The power to (1) register enterprises (related to their “tax status”—whether enterprises can get “reduced taxes” \(jianmian\))—and (2) evaluate an enterprise’s performance (total outputs and profits thus related to tax evaluation) all belong to local governments. If they so desire, local governments can save entrepreneur substantial
Job security: Only local government officials have the credibility to persuade villagers to work for rural enterprises—without guaranteed job security, villagers would never leave their subsistence agriculture.

Providing political protection: Protection is necessary for the investments and daily operation of rural enterprises. Local cadres are usually the ones who provide protection for these enterprises. As a popular saying in rural China states,

“No matter what the problem is [renni gongshi you duoda], A friend in charge will help [budi shure yiju hua]; No matter if one violates the law [buguan fanfa bufanfa], A friend in charge will exempt you [youren shuohua jiu bupa].” Political protection is important because of flooding reasons.

State policy: In general, rural enterprises need the protection of local governments because the legal status of these enterprises has not been formally recognized in state policy until the mid-90s.

Illegal dealings: Some enterprises need further protection because 1) many private enterprises may have “registered as collective enterprises” [dai hongmaozhi], 2) many enterprises are involved in “tax evasion” [taoshui] or involved in other illegal dealings, and 3) many others live by an “informal economy” [dixia jingji] or “black market.”

Other uncertainties: Some rural enterprises need protections in case where 1) negative state policies are suddenly to be implemented, and 2) business disputes arise over transactions with economic units in or outside the locality. Local governments can help in both instances.

The power to inflict harm: certain amount of power held by local cadres can be used to cast additional burdens on rural enterprises. Typical examples are:

Economic regulations: Local governments usually retain certain powers in regulating economic affairs. They can use such power arbitrarily to make it easier or harder for enterprises. For example, during the “reviewing process” [shenhe], they can delay the process. Sometimes, they can also turn down the application just due to trivial problems.

Arbitrary extractions: These governments also have the power (not legally) to levy “additional taxes” [yushuanwai shouru] such as toll taxes, various fines, “forced
investments” [jizi], and “obligatory donations” [tanpai]. The contents of these taxes are always arbitrarily decided. These have become known as the three major problems [sanluan].

- **Administrative annoyances**: These cadres can also harass enterprises by constantly checking on trivial matters such as hygiene conditions or fire-fighting facilities.

In short, local governments have retained a certain amount of power and resources throughout the 1980s and probably up to the mid-1990s. Since then, however, they have gradually lost some of their prestige and resources. From a resource-dependence perspective, once local governments have less to offer, their positions in these local pacts will be undermined. This will be saved for the next section.

4. **Resources of Rural Entrepreneurs**

On the other hand, in addition to what local cadres can offer to rural entrepreneurs, they also need contributions from the latter. These contributions are essential to these cadres because of following reasons.

Political performance: According to the author’s interviews with town and village officials in Beiyuan, the political performance of local cadres often depends on the following four elements.

- **Government budgets**: Local government officials need to increase their budgets to “show their merits” [biaoxian] in front of their superiors to receive promotion. A major source of income for the budget comes from the enterprises in their communities. Political performance is especially important for officials in charge of town/township governments.

- **Economic standards**: The central government normally establishes many economic standards [jingji zhishang] for local governments, such as those regarding industrial output, tax revenues, and returns in foreign exchange. Local governments need their rural enterprises to help them meet these standards.

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● **Unexpected needs**: Sometimes local governments may be asked by their superior governments to meet some standards without prior notification, such as donating some money to establish a collective fund or changing the deadline for collecting the cotton quota—local governments then must purchase cotton to meet that deadline. Only those who can handle these problems will be considered as “being capable.” To meet these unexpected demands, local governments officials thus need additional sources of income to take care of these emergent needs.

● **Public works**: Public works are another important aspect of their political performance.

Community recognition: Rapid development in rural enterprises usually brings local government officials a positive reputation in the community. Community recognition and support is especially important for cadres in charge of township and village governments because that variable may affect whether they can retain their positions. Such recognition mainly comes from following two sources.

● **Community employment**: Working in industrial enterprises can usually earn much more income for peasant households. Therefore, the development of rural industrial sector usually means additional job opportunities and, in turn, more communal support.

● **Community prosperity**: It is also understandable that wealth can add to the reputation of local government officials.

Personal income and resources under the control of local cadres: The financial contributions from rural entrepreneurs are not just good for the communities, they are also beneficial for government cadres themselves. Typical examples are:

● **Personal consumption**: The more these officials can get from their rural enterprises, the more they can spend on their personal use.

● **Personal political capital**: Likewise, the resources under their control can be used as personal resources to graft their superiors or to attract many followers. These resources then become their personal political capital.

To summarize, where local pacts are successfully negotiated, both prosperous enterprises abound and the market economy stays alive. In contrast, where local pacts cannot be successfully achieved, the development of rural enterprises is delayed and the communal
economy stagnates. Local pacts thus represent successful institutional response to the penetration of market forces into rural China. Under these circumstances, vertical ties dominate local networks.

From this analysis of the nature of these local pacts, we may notice two features. First, rural entrepreneurs need the support of local governments much more imperatively and urgently than do governments. Therefore, from a “resource dependence perspective,” the bargaining power between entrepreneurs and government officials is unequal. This asymmetrical relationship then affects personal connections between local cadres and rural entrepreneurs—the guanxi networks between officials and entrepreneurs are normally lopsided, often characterized as “clientelistic.”

Secondly, also from a “resource dependence perspective,” the asymmetrical relationships between local cadres and rural entrepreneurs can last as long as rural entrepreneurs need local cadres more urgently than do governments. Yet we find that these “local pacts” specify a sequential order of reciprocity: governments make contributions first and enterprises then follow. Therefore, once entrepreneur stop relying on their local cadres, the asymmetrical relationships will either shift or be abandoned. This is the topic of the next section.

B. Local Pacts & Local Responses: Survival Strategies of Rural Enterprises

As previously mentioned, in the early stages of market transition, local pacts that created government-business collaboration significantly affected the development of rural enterprises and the performance of community economy. But as the market has increasingly assumed the central role in China’s rural economy (since the early 1990s), these local pacts have been gradually become undermined under the pressures and opportunities brought by the market. Today, rural enterprises have developed their own survival strategies: each has its own project for survival and success between the government and market. These survival strategies are the central issue of this section.

41 Contrasting to Oi’s and Wank’s works cited above.
In the following discussion, I claim that these survival strategies are contingent on two factors: the costs of maintaining government-business connections and the capability for rural enterprises to break them off. Therefore, enterprises being successful on the market tend to shift alliances with business partners to capture opportunities channeling through the market. In addition, since these enterprises gain their resources from the market, they can sever their connections with local cadres to reduce financial extractions and interventions by local governments. Of course, some of the rural entrepreneurs still desire connections with cadres. But in those cases, their relationships with local cadres often have shifted from “asymmetrical reliance” to “mutual dependence,” or from “vertical ties” into “horizontal ties.” As for enterprises that failed to survive market competition, they usually want to tie themselves even more closely to local governments, seeking to perpetuate their dependence on state patronage. After all, they have nothing to lose and no alternative source of income other than through local governments. In conclusion, as rural China develops into a market economy, some business enterprises continue to depend on state patronage while others have been abandoning their clientelistic relationships with local cadres.

1. Double-edged Connections: Costs and Benefits of Local Pacts

The previous section has addressed what the author terms the “network benefits” entailed in connections between local cadres and rural entrepreneurs. To present a more balanced model for the analysis of guanxi networks, we should also take into account the negative effects and limitations associated with these networks. The following discussion will illustrate “network costs” of government-business relationships at the local level.

2. Costs of Networks with Local Cadres

Based on interviews with rural entrepreneurs in Beiyuan, the author found rural entrepreneurs, while acknowledging the contributions of local governments, consistently complain about burdens and problems associated with their connections with local cadres. I summarize these burdens and problems under the framework of “network costs.” Please note that they are “costs” only for business entrepreneurs.

- **Excessive extractions:** The local pacts or the government-business relationships have often
been employed to extract resources from rural enterprises. These extractions can be divided
into two separate categories: “extractions for the community” [tanpai] and “extractions for
personal use” [fubai].

Regarding the extractions, one of the rural entrepreneurs in Beiyuan told me,

“To save their face, I have always tried to not let them down. But they [local government
officials] just keep coming. Last year, I contributed two hundred thousand dollars because
of the flood damage. This year, they came again. In fact, it is the forth time they have visited
me. So what can I do? . . . . Every time, they have different reasons. But you know my
money is not easy money . . . . In the end, I have no choice. I cannot care about what they
feel. I have to stop.” (Interview Case #99-1-20)42

Therefore, because of their connections with local government officials, rural
entrepreneurs often bear a significant amount of expense. In the earlier stages of market
transition, such expenses seemed tolerable because contributions to rural enterprises were
obvious. But in recent years, more and more rural entrepreneurs began contesting these
obligatory donations and excessive extractions to local governments.

- **Irresponsible interferences**: Local governments not only ask for monetary contributions
  but also intervene in the management of rural enterprises. These interferences make these
  local pacts even more unpleasant.

At the early stages of the market transition, according to one of my informants,
“[government] interventions still looked fine. At the time, local cadres were among the most
experienced people in managing economy transactions.” In recent years, however, because
professional managers have been much more experienced in running their enterprises—“most
of suggestions from local cadres sounded quite foolish.” Such unintelligent and irresponsible
advice then became additional burdens on rural entrepreneurs and added to network costs.

42 According to a source (who is in charge of Beiyuan’s economic affairs), however, the entrepreneur
has not contributed anything since last year. In addition, according to this source, the government has
the right to do so because the entrepreneur has received so many subsidies and favors from the town
government and even from the party secretary himself. The entrepreneur has “changed another his tune
and denied all debts” [fanlian bu ren zhang].
3. Limitations of Local Pacts

- **Market opportunities**: As the market gradually assumes a more important role in distributing resources, resources controlled by and mediated through local governments have gradually decreased.

Today, more and more resources are circulating on the market. According to my informants, until the early 1990s, local cadres still controlled following the two powers 1) the mediation of bank loans (*dangbao*), and 2) arranging a use of land. However, banking reforms implemented in the mid-90s (part of Zhu Rongji’s reform programs) have taken away the leverage of financial power from local governments. On the other hand, there have been more and more houses and land sold on the market [*shangping fang/buchanghou qude youdi*], business enterprises do not need to go through the government-business connections to obtain a piece of land—though it might still be a less expensive approach.

- **Local boundaries**  (or the “small world problem”): Most local pacts are limited within the locality—corresponding roughly with the jurisdiction of the concerned local governments. They are limited in their influence and in their ability to provide assistance beyond this geographical boundary.

As the market expands, however, rural entrepreneurs must also broaden their *guanxi* networks to seek opportunities and resources outside a parochial locality. Most local pacts are not able to extend at the same pace because they are strictly limited within the boundary of the administrative jurisdiction.

Taking all these costs and limitations into account, government-business relationships do not always pay or, at least are not necessarily advantageous for all rural entrepreneurs. As such, many entrepreneurs may want to end their relationships with local cadres in order to avoid the costs entailed. Next section further analyzes this phenomenon.

C. Allocating the Benefits and Costs of Local Pacts: Farewell to Clientelism

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If government-business relations involve both rewards and costs, how do rural entrepreneurs deal with these local pacts? According to the author’s observations, there is no unique strategy: each entrepreneur chooses what best serves his or her interests. Consequently, some of them decide to enjoy “network benefits” and thus stay in local pacts. Others choose to sever their links with local governments in order to avoid “network costs.” As a result, “dual-social-circles” are common in many communities. As noted in my field notes:

At the table, I found that Mr. Gao, a rural enterprise manager, was quite close to the director of the tax bureau. This reminded me that Mr. Gao once told me that he had bargained upon the tax on his firm. Also, I found that all the guests, except a doctor and me, were working in the state sector. All of sudden, I realized that Mr. Gao must have been associating with these types of people everyday. Following that impression, I continued observing similar social gatherings. I then reached a conclusion: entrepreneurs dropping out of market competition are usually associated with people in the state or quasi-state (e.g., banking) sector. In contrast, entrepreneurs running competitive firms tend to be connected with other entrepreneurs (mostly their business partners). In other words, there are two separate circles of guanxi associations in rural China: one is “the circle of market guanxi” and the other “the circle of government guanxi.”

How can we make sense of this recent development? The following discussion will demonstrate how the unequal distribution of “network benefits” and “network costs” leads to different network strategies of rural entrepreneurs. Specifically, entrepreneurs who are more successful in the marketplace are expected to make contributions to the community and to cadres. Consequently, they bear more “network costs.” In contrast, entrepreneur who are less successful in the marketplace are allowed to prolong their dependence on state patronage (without making any payback). In other words, they continue to enjoy “network benefits.” As a result, successful rural entrepreneurs would seek to break off their connections while unsuccessful ones wish to retain their associations with local cadres. The differences between the two types of enterprises can be conceptualized as follows.

1. Costs of Local Pacts

Successful enterprises usually bear more of the costs of local pacts due to monetary contractions and wayward interferences from local cadres.
Excessive extractions: successful and profitable enterprises are more likely to be asked to make financial contributions to local communities and cadres.

Irresponsible interferences: successful and profitable enterprises are more likely to be subject to intervention from local cadres.

This dilemma has been vividly described in a popular saying among rural entrepreneurs,

“Deficit’s good [kuishun hao], Deficit’s good [kuishun hao],
Tax-collector won’t visit you [suhiwu bulailiao],
Obligatory donations have nothing to do with you [tanpai bujianliao],
Special beneficial policy will be granted to you [youhui shangmenliao], and
Awards must also count you in [jianjin shaobuliao].”

2. Limitations of Local Pacts

Successful entrepreneurs face increasing pressure from market competition. How to exceed the limitations of local pacts thus becoming pressing problems for these entrepreneurs.

Market opportunities: successful enterprises generally try to seize as many opportunities as possible in the market. Yet what local pacts can offer are mostly opportunities associated with local governments.

Local boundary: as markets grow more mature, successful enterprises have to make partnership with entrepreneurs outside the locality. Local pacts cannot help here either.

These enterprises thus must devote more attention to building guanxi networks with their business partners to capture more profitable opportunities channeling through the market. In contrast, these opportunities really have nothing to do with the losers in market competition. For enterprises that drop out due to market competition, they do not need networks with other entrepreneurs. They merely need to secure their resource flow from local governments. Hence, these enterprises will maintain their clientelistic ties with local cadres.

3. Ability to Leave Local Pacts
• **Alternative resource base:** other than state patronage, successful enterprises can draw resources from the market. Thus, they are more confident in ending their relationships with local cadres. For enterprises unable to obtain resources from the market, they are dependent upon state patronage and thus have to maintain such connections.

Therefore, rural entrepreneurs successful under market competition tend to avoid government-business networks and develop networks with other business partners. In other words, they will try to limit or reduce their reliance on vertical ties. On the other hand, enterprises failing under market competition tend to maintain, or even strengthen, their connections with local cadres to continue their access to state patronage. Their vertical ties with local cadres thus remain or become more lopsided.

In conclusion, this section addresses the transformation of government-business relations in rural China. These networks have gradually moved beyond the clientelistic model. Specifically, although some entrepreneurs continue to rely on local cadres for government resources, many others (especially these more successful in market competition), are no longer dependent on state patronage. For these entrepreneurs, government-business relationships are not as essential and lopsided as they used to be. Put differently, these entrepreneurs and enterprises have been growing out of clientelism. The findings in this section will be tested on the basis of survey data in Beiyuan. This will be the topic of the next section.

### III. Network Transformation in Market Transition

In previous section, I provide substantive analysis of the structural transformation of the relationships between local cadres and rural entrepreneurs. In this section, I will examine hypotheses drawing from previous analysis. Specifically, I will seek to verify three propositions concerning the pattern, the cause, and the consequences of network transformation. The data is drawing from my in-depth interviews and semi-structured questionnaires.
A. Some Hypotheses concerning Network Transformation

Section III can be summarized into three research hypotheses.

- Hypothesis One: In the past two decades, the structure of business networks in rural China has transformed from the domination of vertical ties to the co-existence of two major types of social ties: hierarchical ties and vertical ties.

In the early stage of marketization, nearly all business transactions of rural enterprises were mediated through government-business relationships. Local governments, on one hand, effectively controlled almost all economic resources in rural China. On the other hand, local governments played a critical role in channeling resources necessary for the production of rural enterprises. Government-business relations are thus crucial for every rural entrepreneur. In contrast, business connections with other entrepreneurs were much less relevant. Under these circumstances, rural entrepreneurs invested most of their time and energy in building and maintaining guanxi networks with local cadres—i.e. vertical guanxi networks. In this stage of economic development, vertical ties dominated the rural economy.

As the market assumed an increasingly important role in organizing the rural economy, these local networks gradually evolved into “two separate social circles.” In other words, some enterprises maintained their previous clientelistic guanxi networks with local cadres to secure and perpetuate their dependence on state patronage. At the same time, others severed their connections with local government officials. To obtain resources from the market, these entrepreneurs began to build guanxi networks with their business partners. Still others, due to their ability to reward local cadres and community, have raised their status and transformed their relationships with cadres into horizontal guanxi networks. In this manner, government-business relations in rural China have gradually diverged from vertical social networks.

- Hypothesis Two: The more deeply an enterprise is involved in market competition, the more likely its business networks transformed away from vertical ties.

In previous discussions, I argued that the primary force that promoted the transformation of local government-business relations was marketization. Participation in market competition
is the measurement for the level of marketization. Participation in market competition can include: 1) the years of an enterprise existing on market and 2) the ownership/property right status of an enterprise. However, the two variables are still reserved as alternative explanations for the transformation of *guanxi* networks.

- Hypothesis Three: The more complete the networks of an enterprise transformed, the more successful its economic performance has been.

Again, the transformation of local government-business relations can be understood as the intentional efforts of rural entrepreneurs to use their *guanxi* networks to mediate business transactions. These adjusted networks, because they help secure market opportunities and avoid interference and extraction from local governments, can contribute more to enterprises participating in market competition. Consequently, the effects of network transformation will be reflected in economic performance.

**B. Patterns, Causes, and Consequences of Network Transformation: Presenting the Empirical Results**

1. *Network Transformation: Divergence from Vertical Ties*

   In the early stages of marketization, business transactions were mostly mediated through local governments and the structure of government-business relations were characterized by vertical social ties. The results of my interview data are reported in Table 2. As we can see, in the early stages of market development, vertical ties played a central role in mediating and facilitating business transactions of rural enterprises (77.1% of them relying on vertical *guanxi* networks). In contrast, horizontal *guanxi* networks were relatively unimportant in the Chinese rural economy.

   (Table 2 about here)

   As the market economy expanded and offered greater pressures and opportunities, however, “the market” gradually became the main source of diverse economic resources. In
the new business environment, rural entrepreneurs strengthened their guanxi networks with business partners in order to pursue more profitable opportunities. On the other hand, once these entrepreneurs achieve success in market competition, their reliance on local cadres was largely relieved and their ability to reward cadres increased. Consequently, their relationships with local cadres evolved into horizontal ties. Yet, not all enterprises were successful in market competition. For those who could not make profits from the market, government protection and vertical ties with government officials were still crucial.

As shown in Table 2, in the more mature the stages of market development, the more remarkable the economic role of horizontal ties (52.1% of rural enterprises relying on horizontal ties). At the same time, however, vertical ties still maintain a significant presence in business transactions (47.9% of the enterprises staying with vertical ties). To further assure the relationships between marketization and the transformation of local government-business relations, we also find that the two factors are closely interrelated as demonstrated in the test (p being 0.010, much less than 0.05).

2. Marketization and Network Transformation

The second hypothesis claims that the transformation of government-business relations is influenced by the process of marketization. Regarding the adjustment of firm behavior in market transition, however, most existing theories stressed the external pressures on business enterprises—e.g., the longer an enterprise survives in the marketplace, the more pressure would be imposed on the firm and the more adjustment would be introduced. The property right argument represents another common perspective, which emphasizes the “internal incentive structure” of a firm. Both arguments have their theoretical and empirical grounds. Therefore, this paper takes both internal incentive and external pressure into account. This is why participation in market competition should be a better predictor for the adjustment of firm behavior.

(Table 3 about here)
The data reported in Table 3 clearly shows that the total years that a firm survives in the marketplace is not a good measure for the different levels of network transformation \( (p \text{ being } 0.145) \). According to hypothesis two, a firm’s level of participation, in contrast, is a rather strong indicator of a firm’s degree of network transformation \( (p \text{ being } 0.000) \). Yet contrary to this hypothesis, the analysis reveals that property rights or a firm’s internal incentive structure are also associated with network transformation \( (p \text{ being } 0.000) \).

However, a closer look at the test reveals, however, that the trend is quite different from traditional wisdom, as endorsed by the neo-classical convergence thesis. As showed in Table 3, private enterprises surprisingly do not lead the process of network transformation. In fact, most have experienced “reverse transformation,” that is, having sought guanxi networks with local cadres (75%). The reason is as follows. In early years, because of discriminating state policies, these enterprises could not find contacts with local governments. They were in fact outside the monitoring and regulation of local governments. Most existed in the informal economy and drew resources and income from the black market. As state policies gradually changed and the economy gradually opened up, the most pressing task for many private-owned enterprises was to establish connections with local cadres government protection or patronage, or at least avoid government interference. As a result, most private firms eagerly establish vertical government-business connections.

As we find from Table 3, village-owned enterprises have achieved a high level of in network transformation (50% of them have undergone the transformation). Yet most managers of village-owned enterprises still prefer continuing their close associations with local cadres (46.7%). Because economic successes in the past several years have made these managers more resourceful and influential in their communities, network transformation occurred through improvements in their status vis-à-vis local government officials. Only a fraction of village-owned enterprises has sought to cut off their personal ties with local government officials (3.3%).

Town-owned enterprises, being the core element of a town’s economy, also demonstrate an unexpected pattern of network transformation. Today, many of them look very similar to state-owned enterprises: they depend on government protection without trying to compete with other enterprises in the market (71.4% falling into this category). On the other hand, if managers of town-owned enterprises desired to shift their orientation and participate in
market competition, they must end their connections with local governments to avoid the latter’s wayward intervention (i.e., 14.3% of them).

In conclusion, from Table 3, two of the hypotheses have been validated, i.e., the hypotheses regarding “years surviving in the marketplace” and “participation in market competition.” Even though a firm’s property rights seem to have a notable impact on network transformation, their influences are not that straightforward—they do not follow the simple rules laid out in economics textbook. As a result, we still do not have an established alternative explanation to the research hypothesis regarding the transformation of government-business relations in rural China.

3. Network Transformation and Economic Performance

In terms of the third hypothesis, I have already argued that the transformation of local government-business relations derived from entrepreneurs’ efforts to transform their guanxi networks into an avenue for more resources and acquiring fewer responsibilities. Yet according to the neo-classical convergence thesis, engaging any personal relationships in business exchanges infers deviations from rational calculation, and thus, inefficiencies. The only efficient way to conduct business transactions is to avoid guanxi networks completely. Under these circumstances, only entrepreneurship pays and guarantees business success. As we can see from Table 4, the entrepreneurship is introduced as an alternative explanation for economic performance. On the other hand, according to the path-dependency change perspective, social and political capital matter in achieving business success in a transitional economy. Therefore, this author uses “care for building social networks” to represent social capital, “support from governments” for political capital, and “being well connected in the community” (maintaining social connections and political influences) as both social and political capital. We can now add three more competing hypotheses with respect to my creative transformation thesis based on the transformation of local networks from vertical ties.

(Table 4 about here)

44 Since both the level of specification of property rights and the level of network transformation are both based on ordinal level of measurement, I also test them with the Kendall’s tau-b statistics to further observe their relationships. The association between the two variables, however, turns out to be not statistically significant (Kendall’s tau-b is 0.039, p = 0.799). For related discussion, see B. S. Everitt. The Analysis of Contingency Tables (London: Chapman & Hall, 2nd ed. 1992), pp. 7-9.
As the results reported in Table 4 indicate, neither of 1) entrepreneurship, 2) government patronage, 3) concern over social relationships, and 4) being well connected, have exerted significant influence on the economic performance of rural enterprises. Specifically, those firms that have received more government support are mostly those now facing crises now (55.9%). Moreover, this is consistent with the finding that local governments tend to protect and save enterprises facing difficulties. In contrast, those without government support and thus have to rely upon their own ability to draw resources from the market have achieved much success (42.9%).

Let us now examine the effects of “care for social relationships.” To begin with, 35.7% of all enterprises still achieve a desirable economic performance despite the fact that they do not put much emphasis on guanxi networks. On the other hand, of those who are so interested, only 40.0% of the enterprises are making high profits and expanding rapidly. Their performance is not that different from those who invest little on building and maintaining connections with cadres (35.7%). The finding indicates that guanxi alone cannot guarantee economic success. As for entrepreneurship, its effects are significant only because they are negatively correlated with economic success. Entrepreneurs who are more cautious (50.0%) or at least somewhat cautious (55.6%) are more successful. Entrepreneurs loving to take risks often fall into trouble (71.4%), meaning risk-bearing alone only guarantee problems.

Regarding the usefulness of guanxi capital, as showed in Table 4, being well connected does not warrant success in business management (52.6% run into trouble). For those who are not as well connected, they can still achieve relative prosperity: among those who have few or no connections, 33.3% are successful while among those who have some connections, 50.0% are so. This seems to suggest that entrepreneurs who maintain good relationships with everyone in their community are often tied up in their social relations and social responsibilities. Consequently, they are not free to pursue their own interests. In this sense, being well connected is not always desirable, nor required for business success.

In conclusion, Table 4 suggests that network transformation from vertical ties is the only variable that is directly related to the economic success of rural enterprises ($p$ being 0.000). Specifically, among enterprises whose guanxi networks have experienced reversed
transformation (returning to vertical ties), all of them appear to be facing financial difficulties (100%). As for those who have not experienced manifest transformation, only a small percentage are successful (15%), as most still prefer to enjoy state patronage. In contrast, those whose government-business relations have experienced explicit transformation, most are quite successful. For entrepreneurs who took the break-even approach (adjusting their status vis-à-vis local cadres), 71.4% are successful. Similarly, for those who took the breaking-off path (cutting off their connections with local cadres), 100% are successful. Hence, through these statistical results, we find that the transformation process can make guanxi networks more efficient in bringing in resources channeling through market and avoiding wayward interference from local governments. It is such transformation that turns guanxi networks into social capital in the market economy.

IV. Conclusion

A. Summary of the Argument

The partnership between local governments and rural enterprises is often considered as the key to rural China’s economic success. As also found in many ethnographic studies, such close collaboration is grounded in the personal relations between local cadres and rural entrepreneurs. But after the past two decades of market transition, how do these clientelistic relationships change?

This paper examines the impacts of economic transition on local networks between local cadres and rural entrepreneurs. Drawing from in-depth interviews in Beiyuan, this paper has traced the transformation of these local institutions continually in attempting to sustain the development of rural enterprises. This study finds that these relationships can no longer be characterized as vertical ties (i.e., lopsided relations between un-equals) as they used to be. As government-business connections gradually lose their significance for certain rural enterprises, guanxi networks between other entrepreneurs and cadres also become more symmetrical. In other words, this paper addresses the transformation of local networks from the domination of “vertical ties” to the co-existence of vertical and horizontal ties. As rural China gradually develops into a market economy, some rural enterprises continue to depend on state patronage while others have abandoned their clientelistic relationships.
B. Some Implications

This study is an investigation of the dynamics of government-business relations in rural China. Even as a case study, it may shed new light on current debates over the strategies to craft economic transitions. As this study suggests, after market mechanisms were introduced, pre-existing social institutions (government-business relations in this case) began to adjust themselves gradually to the market economy. Evolutionary adaptations thus are proved viable and sound. On the other hand, if pre-established connections have the potential to play a positive economic role, the logic of dismantling old networks altogether may probably be totally unnecessary. In this sense, my observation on the transformation of government-business relations in rural China can help justify the “Chinese model” or the gradualist approach for the transition to market economy.

But does the reconstruction of the ancien regime have certain constructive sociopolitical implications? In this regard, this study illustrates the sociopolitical consequences of a market transition in light of gradual structural changes in interpersonal relations. According to the orthodox view, the prospects of democracy count on the development of civil society and civil society in China will flourish in the fertile soil of autonomous economic activities. As showed in Solinger’s and Wank’s case studies, however, the realities seem to point to the opposite direction: even private entrepreneurs are deeply entangled in the informal alliances with local governments so that “it is yet difficult to speak of any real autonomy of social forces.”

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In spite of admitting the prevalence of vertical alliances, the author’s observation of rural networks provides partial support for Mayfair Yang’s view: “relations of exchange between economic groups increasingly tend to take place without the vertical mediation of hierarchical administrative channels. Thus the horizontal integration of civil society is enhanced in the economic sphere, and civil society begins to detach itself from the state.” 49 This research has, however, placed a qualification on her bold prediction. According to findings of this research, this process only applies to the enterprises plunging into market competition. While some enterprises still depend on state patronage, many others, especially those who successfully handle market competition, have been “growing out of clientelism.”

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Table 1 Contrasting Two Different Theoretical Perspectives Regarding Expectations on the Transformation of Government-business Relations in Rural China

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<tbody>
<tr>
<td>Neo-Classical Convergence Thesis</td>
<td>Complete Elite Transformation</td>
<td>Radical Transformation</td>
<td>Horizontal Ties</td>
<td>Insignificant but Functional Role</td>
</tr>
<tr>
<td>Path-Dependence Change Thesis</td>
<td>Limited Elite Transformation</td>
<td>Gradual Adjustments</td>
<td>Vertical Ties</td>
<td>Crucial and Positive Role</td>
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</table>
Table 2 Marketization and the Transformation of Government-Business Relations*

<table>
<thead>
<tr>
<th>Level of Marketization</th>
<th>Enterprises Relying on Vertical Ties</th>
<th>Enterprises Relying on Horizontal Ties</th>
<th>(N)</th>
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</thead>
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<tr>
<td>Early Stage of Marketization</td>
<td>77.1</td>
<td>22.9</td>
<td>(48)</td>
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<tr>
<td>Later Stage of Marketization</td>
<td>52.1</td>
<td>47.9</td>
<td>(48)</td>
</tr>
</tbody>
</table>

* The statistical test is two-tail test and the significance level is 0.05

Chi-Square = 6.6558, d.f. = 1, p = 0.010
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<td>Sources of Transformation</td>
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<tr>
<td>Specification of Property Rights</td>
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<tr>
<td>Private</td>
<td>75.0</td>
<td>25.0</td>
<td>0.0</td>
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<td>4</td>
<td>Chi-square =33.16, d.f. =8, p =.000</td>
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<td>Village-owned</td>
<td>6.7</td>
<td>30.0</td>
<td>13.3</td>
<td>46.7</td>
<td>3.3</td>
<td>30</td>
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<td>Town-owned</td>
<td>0.0</td>
<td>71.4</td>
<td>14.3</td>
<td>0.0</td>
<td>14.3</td>
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<td>Years Surviving in Marketplace</td>
<td></td>
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<td></td>
<td></td>
<td>Chi-square =11.95, d.f. =8, p =.154</td>
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<td>Short term</td>
<td>0.0</td>
<td>66.7</td>
<td>8.3</td>
<td>8.3</td>
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<td>Medium term</td>
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<td>14.3</td>
<td>28.6</td>
<td>42.9</td>
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<td>Long term</td>
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<td>37.9</td>
<td>10.3</td>
<td>34.5</td>
<td>3.4</td>
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<td>Participation in Market Competition</td>
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<td></td>
<td>Chi-square =31.58, d.f. =8, p =.000</td>
</tr>
<tr>
<td>Low level</td>
<td>21.7</td>
<td>69.6</td>
<td>4.3</td>
<td>4.3</td>
<td>0.0</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Medium level</td>
<td>0.0</td>
<td>28.6</td>
<td>28.6</td>
<td>42.9</td>
<td>0.0</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>High level</td>
<td>0.0</td>
<td>11.1</td>
<td>16.7</td>
<td>55.6</td>
<td>16.7</td>
<td>18</td>
<td></td>
</tr>
</tbody>
</table>

* The statistical test is two-tail test and the significance level is 0.05
Table 4 Economic Effects of the Transformation of Government-Business Relations*

<table>
<thead>
<tr>
<th>Eco. Performance</th>
<th>Poor</th>
<th>Average</th>
<th>Good</th>
<th>(N)</th>
<th>Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Network Strategies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support from Local Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>None</td>
<td>42.9</td>
<td>14.3</td>
<td>42.9</td>
<td>(7)</td>
<td>Chi-Square=8.56, d.f.=4, p = .073</td>
</tr>
<tr>
<td>Medium-level</td>
<td>14.3</td>
<td>42.9</td>
<td>42.9</td>
<td>(7)</td>
<td></td>
</tr>
<tr>
<td>Full</td>
<td>55.9</td>
<td>5.9</td>
<td>38.2</td>
<td>(34)</td>
<td></td>
</tr>
<tr>
<td>Concern with Social Relations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Chi-Square=5.54, d.f.=4, p = .237</td>
</tr>
<tr>
<td>Little</td>
<td>57.1</td>
<td>7.1</td>
<td>35.7</td>
<td>(14)</td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>22.2</td>
<td>33.3</td>
<td>44.4</td>
<td>(9)</td>
<td></td>
</tr>
<tr>
<td>Primary</td>
<td>52.0</td>
<td>8.0</td>
<td>40.0</td>
<td>(25)</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurship (Risk-Bearing/Taking)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Chi-Square=8.79, d.f.=4, p = .067</td>
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<tr>
<td>Cautious</td>
<td>33.3</td>
<td>16.7</td>
<td>50.0</td>
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</tr>
<tr>
<td>Average</td>
<td>22.2</td>
<td>22.2</td>
<td>55.6</td>
<td>(9)</td>
<td></td>
</tr>
<tr>
<td>Strong</td>
<td>71.4</td>
<td>4.8</td>
<td>23.8</td>
<td>(21)</td>
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<tr>
<td>Connections in the Community</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Chi-Square=3.36, d.f.=4, p = .500</td>
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<tr>
<td>Few</td>
<td>25.4</td>
<td>14.3</td>
<td>33.3</td>
<td>(21)</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>25.0</td>
<td>25.0</td>
<td>50.0</td>
<td>(8)</td>
<td></td>
</tr>
<tr>
<td>Numerous</td>
<td>52.6</td>
<td>5.3</td>
<td>42.1</td>
<td>(19)</td>
<td></td>
</tr>
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<td>Adjusting Networks</td>
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<td></td>
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<td></td>
<td>Chi-Square=37.97, d.f.=8, p = .000</td>
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<tr>
<td>Reversed Transformation</td>
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<td>(5)</td>
<td></td>
</tr>
<tr>
<td>No Transformation</td>
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<td>0.0</td>
<td>15.0</td>
<td>(20)</td>
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</tr>
<tr>
<td>Implicit Transformation</td>
<td>16.7</td>
<td>33.3</td>
<td>50.0</td>
<td>(6)</td>
<td></td>
</tr>
<tr>
<td>Explicit Transformation (Breaking-Even)</td>
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<td>28.6</td>
<td>71.4</td>
<td>(14)</td>
<td></td>
</tr>
<tr>
<td>Explicit Transformation (Breaking-Off)</td>
<td>0.0</td>
<td>0.0</td>
<td>100.0</td>
<td>(14)</td>
<td></td>
</tr>
</tbody>
</table>

* The statistical test is two-tail test and the significance level is 0.05
耿 曙 美國德州大學奧斯汀分校政治系博士，國立政治大學國際關係研究中心第四所助理研究員，研究興趣包括中國大陸政治經濟、區域經濟、基層政商關係、地方經濟社會、以及兩岸經貿等。

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