

# Into Leather: State-led Development and the Private Sector in Xinji\*

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Students of the local state in reform-era China behold a host of different forms. Scholarly research reports debate their defining characteristics, speculate about the political participatory and non-participatory possibilities each type seems to hold out for the future, scrutinize their implications for economic development or for income distribution, and ponder if the very plurality of local governance types now seen in play across the country will prove to be a durable or only a transitory state of affairs. In a recent, commendably lucid “state of the field” essay, Baum and Shevchenko grouped the many disparate observations and models to date into four main sorts: in their relationships to economic activity, local states have been found to be entrepreneurial, clientelist, predatory or developmental.<sup>1</sup> And

\*The authors are grateful to Lan Hai for energetic research assistance.

1. In entrepreneurial states, state agents and bureaucrats, even whole government bureaus, may go into business independently or enter into partnerships for profit; in clientelist states, officials promote and participate in the benefits of profit-making activity through personalized and particularistic ties to entrepreneurs in their localities; in predatory states, officials do not engage in business either directly or indirectly but utilize their positions instead to extract unproductive rents from producers and entrepreneurs through exorbitant fees, levies and fines; while in developmental states, officials intervene indirectly in the economy, “helping to plan, finance, and co-ordinate local projects, investing in local infrastructure, and promoting co-operative economic relations with external agencies.” In developmental states, local officials create an environment conducive to growth while not, themselves, engaging in business for profit and while “avoiding the formation of particularistic ties to ‘preferred’ enterprises and clients.” See Richard Baum and Alexei Shevchenko, “The state of the state,” in Merle Goldman and Roderick MacFarquhar (eds.), *The Paradox of China’s Post-Mao Reforms* (Cambridge, MA: Harvard University Press, 1999), pp. 344–45. The entrepreneurial state model has had its fullest elaboration in Jane Duckett, *The Entrepreneurial State in China* (London: Routledge, 1998), but see also Yimin Lin and Zhanxin Zhang, “Backyard profit centers: the private assets of public agencies,” in Jean C. Oi and Andrew G. Walder (eds.), *Property Rights and Economic Reform in China* (Stanford: Stanford University Press, 1999), pp. 203–225. Clientelist state forms have been very widely reported. For just two urban examples, see Margaret M. Pearson, *China’s New Business Elite* (Berkeley: University of California Press, 1997), and David L. Wank, “Bureaucratic patronage and private business: changing networks of power in urban China,” in Andrew G. Walder (ed.), *The Waning of the Communist State* (Berkeley: University of California Press, 1995), pp. 153–183; and for a rural example, see Gregory A. Ruf, “Collective enterprise and property rights in a Sichuan village: the rise and decline of managerial corporatism,” in Oi and Walder, *Property Rights*, pp. 27–48. Predatory state forms have also been widely reported in the growing literature on corruption in China. They are often associated with poverty, the heavy tax and fee burden placed upon the peasantry and with peasant protest, as in Thomas P. Bernstein and Xiaobo Lu, “Taxation without representation: peasants, the central and the local states in reform China,” *The China Quarterly*, No. 163 (September 2000), pp. 742–763. But predatory abuses are found also in more prosperous localities, as reported in Nan Lin and Chih-Jou Jay Chen, “Local elites as officials and owners: shareholding and property rights in Daqizhuang,” in Oi and Walder, *Property Rights*, pp. 145–170. As for the developmental state model, note that Baum and Shevchenko correctly classify Jean Oi’s concept of “local state corporatism” as a variant within the category of “developmental” states (p. 350). See Jean C. Oi, “The role of the local state in China’s transitional economy,” *The China Quarterly*, No. 144 (December 1995), pp. 1132–49; Jean C. Oi, “The evolution of local state corporatism,” in Andrew G. Walder (ed.), *Zouping in Transition: The Process of Reform in Rural North China* (Cambridge, MA: Harvard University Press, 1998); and Jean C. Oi, *Rural China Takes Off* (Berkeley:

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sometimes, to complicate things further, actual local state forms and behaviours may exhibit a mixture of these model types.

In some of our earlier fieldwork-based reporting on the relationship of state to economy in Xinji municipality in Hebei in the 1970s and 1980s, we described and classified the activities of the local state there as being of the developmental type. Xinji, we have argued, persevered in its generally developmental orientation through the high Maoist era and well on into the reform period as well.<sup>2</sup> Yet even as we noted the many continuities in local governance style to be found in Xinji over the otherwise economically divergent decades of the 1970s and 1980s, and attributed these in part to the powerful forces of path-dependency, we still had to wonder what changes the 1990s might hold in store. It seemed reasonable to hypothesize that the local state's pronounced developmental orientation in Xinji could prove, in the end, to be but an ephemeral and quaint holdover from the formative Maoist years, and that the 1990s would see the emergence of a more entrepreneurial mode of operations. The passing of time, the shifting national policy context, the spread of market-based relations, the rise of the private sector in the booming coastal economies, and the accession to power of a younger, more

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*Footnote continued*

University of California Press, 1999). For a recent critique and reassessment of the "local state corporatist" conception, see Sally Sargeson and Jian Zhang, "Reassessing the role of the local state: a case study of local government interventions in property rights reform in a Hangzhou district," *China Journal*, No. 42 (July 1999), pp. 77–99. But new examples of developmental state forms also continue to be found, as reported in Jonathan Unger and Anita Chan, "Inheritors of the boom: private enterprise and the role of local government in a rural South China township," *China Journal*, No. 42 (July 1999), pp. 45–74. Unger and Chan deal specifically, as we do here, with the relationship between local developmental states and the growing private sector.

2. See Marc Blecher and Vivienne Shue, *Tethered Deer: Government and Economy in a Chinese County* (Stanford: Stanford University Press, 1996). Lam Tao-chiu has argued that chapter five of *Tethered Deer* "describes a county government heavily involved in managing industrial enterprises" (*China Journal*, No. 38 (July 1997) p. 180; our emphasis), and that therefore we would have done better to remove what he implies were our rose-coloured (developmentalist) glasses and appreciate instead the state entrepreneurialism and profit-taking that were palpable everywhere in Xinji. But to gloss all the complex relationships of the state to the industrial and commercial economy that we encountered in Xinji as "managing" was seriously imprecise and did little to capture our efforts to provide a nuanced explication and analysis of the situation there. Agencies of the Xinji government related to enterprises in many ways during the 1970s and 1980s, including helping them get started, arranging for the various permissions and approvals they required, attempting to rationalize and regulate the markets in which they operated (to promote genuine competition among them), providing needed infrastructure, and engaging in strategic planning, including picking winning and losing sectors (but not firms). Yet, with only a few very small exceptions – some tiny firms spun off by one or two bureaus to employ needy retired workers – local government organs did not manage enterprises. The county government did, of course, benefit from revenue streams that the more successful of these enterprises produced, by way of taxes or profit remissions through what were then the normal state channels. But county offices did not directly tap into enterprise profits. The Industry Bureau of the county, for example, did not appropriate the profits of the factories under its purview. Depending on the category into which each firm fell, profits and/or taxes were remitted either to the next higher level of the appropriate vertical bureaucratic systems, to the county government budget, or to the county extrabudgetary fund. *Pace* Dr Lam, then, the agencies of the Xinji local government in the 1970s and 1980s could not be classified as entrepreneurial in any meaningful sense. (Xinji municipality is a county-sized jurisdiction. Formerly known as Shulu county, it was promoted to municipality status in 1986, and was then renamed.)

aggressive and less ideologically-minded generation of government leaders would all be likely to push the offices of the Xinji local state in a more entrepreneurial direction, or so we thought it sensible to suppose.

Thus we were somewhat surprised to discover, in the course of more recent research,<sup>3</sup> that throughout the 1990s, a period of very substantial economic growth and marketization in Xinji as elsewhere, municipal officials nevertheless continued to behave mainly in accord with the model of the local developmental state. As we endeavour to illustrate here, in our discussion of the project that was by far the municipality's most important economic undertaking of the decade, local state leaders began by "picking a winner" – the up-and-coming, predominantly private fur and leather goods sector. They then went on to use the full panoply of developmental state levers to push that sector to prominence, dedicating themselves particularly to the planning and development of an enormous industrial and commercial park for fur and leather goods producers and traders: the Xinji Fur and Leather Trade Centre (*pige shangye cheng*; hereafter FLTC). Municipal officials drew up plans for the construction of the ambitiously conceived FLTC within the context of their general urban planning functions. They mobilized the financial resources, managed the necessary administrative and bureaucratic co-ordination, and oversaw construction of the giant project. In doing so, most interestingly, they consciously aided and abetted the emergence of a greatly expanded private enterprise sector in Xinji, one whose members ranged from individual petty traders (*geti hu*) to large capitalists whose firms would employ over 1,000 workers. Xinji officials left the entrepreneurship to these privately-owned firms and to private investors, however, exercising control over their activities through indirect levers such as quality-control regulations, licensing, financial and other incentives, and the organization of state-led business groups.

Xinji authorities also approved the creation of a brand new horizontally-oriented organ of the local state, the FLTC Supervision Commission (*pige shangye cheng guanli weiyuanhui*; hereafter FLTCSC), a bridging unit designed to work closely both with Xinji's new capitalists and with the myriad agencies of the municipal government whose responsibilities brought them into close working contact with the FLTC and its hundreds of firms and residents. The FLTCSC sought to promote trade on both the input and output sides, to co-ordinate firm operations by establishing an FLTC *shanghui* (chamber of commerce or peak business association) used, in the very first instance of its joint action, to regulate and tame the local labour market. The Supervision Commission also undertook liaison work to encourage imports, exports and foreign investment, amongst other key roles. Yet the FLTCSC, and the local government more generally, left the firms that had set themselves up in the new trade centre with full autonomy over and responsibility for their finances and operations. Although our research revealed that some state offices did have a few holdings in the new trade centre complex, most of the local

3. We conducted field research in Xinji in May and June 1999.

state organs involved were not aiming to earn significant profits from risk-taking investments. The expected financial benefits to local state offices were to come instead primarily from rising industrial and commercial tax revenues. Likewise, most individual government officials sought their rewards not from direct personal participation in venture capitalist entrepreneurship, but from the increased political power that derives from presiding over a rapidly growing social and economic base, and from the promotions they hoped would come as their bureaucratic superiors in Hebei province and beyond noted their successes in pushing Xinji to the fore. Their goal, they were not too modest to point out again and again, was to make Xinji the foremost trade centre for fur and leather goods in all of China and a noted hub in the entire world market as well.

*The Decision to Make Fur and Leather a “Pillar” of the Local Economy*

It was a strategic decision when, in 1992, Xinji authorities (with backing from their Hebei provincial superiors) resolved to put the resources of the municipality into an all-out effort to establish what they hoped would become a nationally famous trade centre for fur and leather goods in their small city. It was not a decision that many had necessarily long seen coming. For as late as the summer of 1990, after a bad couple of years during which an over-saturated market and intense competition had driven fur and leather product prices down, threatening to put some small producers and traders out of business, officials close to the trade in Xinji said that it was “hard to predict what the future would hold for fur and leather.”<sup>4</sup> Fur and leather production and trade was regarded as an historically important speciality in Xinji, one that could be traced back at least to the Ming dynasty, and that had flourished in the late 19th century. But during the Mao period, Xinji’s outstanding successes had come in heavier industrial sectors such as chemicals and machinery, and most of these profitable plants were operated as local state-run enterprises (*difang guoying qiye*).<sup>5</sup> In the whole local state-run sector of the economy as of 1986, there were only two fur and leather enterprises in operation, employing just 1,255 persons. They produced only 8.3 per cent of the total value of output of the state-run sector, and they accounted for just 15 per cent of all municipality-run enterprise profits. In the most important local industrial sector, the municipality-run sector, then, fur and leather could not compare with, say, Xinji’s valuable chemical plants, which, at that time, employed some 4,848 workers and turned in 41.9 per cent of total value of output and 53.3 per cent of profits.<sup>6</sup> Seen in this light, fur and leather hardly seemed positioned to become, within the

4. Interview with Zhang Xichang, Tianjiashuang Village Head, Chengxi Administrative District, Xinji, 23 July 1990.

5. See our extensive discussion of these enterprises in Blecher and Shue, *Tethered Deer*, chs. 4 and 5.

6. *Xinji shi zhi (Xinji City Gazetteer)* (Beijing: Zhongguo shuji chubanshe, 1996), pp. 200–201.

space of just a few years, one of the designated pillar industries in the local economy.

But focusing on the municipality-run sector tended to obscure a larger reality that was emerging through the 1980s. For starting in the very early years of the decade, and despite the market setbacks that apparently loomed so large in local minds during the difficult years of 1989–90, the fur and leather industry in Xinji had embarked upon what was to become a prolonged period of recovery and growth in the town- and village-run sector and most particularly in the rural private (*geti*) sector. By 1985 there were already 11,800 people employed in town, village and private fur and leather enterprises throughout Xinji.<sup>7</sup> And by 1986, with a total of 1,573 enterprises listed in operation, fur and leather stood second only to food and catering in the number of rural enterprises in Xinji. With an output value of 80.7 million *yuan* that year, nearly double the value of output of the next largest sector (construction), fur and leather was already the leading rural industry in Xinji under the early policies of rural liberalization and structural economic reform. Even more significantly, perhaps, it actually managed to surpass the output of Xinji's prized local state-run chemical plants, which stood at just 76.9 million *yuan* that year.<sup>8</sup>

As the reforms of the 1980s continued and Xinji's local state-run heavy industrial sector began to falter, the trends in growth, output and profits for fur and leather kept moving steadily upward (see Table 1). By 1991, the value of output for rural fur and leather enterprises had risen to well over 200 million *yuan*. While the town- and village-run enterprises in the trade were managing to hold their own on this upward trajectory, it was clearly the small, private enterprises that were giving it its greatest dynamism. Seen in this context, then, it is not so surprising that local state officials, around 1991, were to fix on fur and leather as an industry deserving of more concerted emphasis.

In 1992, therefore, the year of Deng Xiaoping's southern tour and the accompanying swing in central policy towards developing the private sector, schemes for setting up a most ambitious centre for the fur and leather trade in Xinji began to gel. In 1991, Mayor Bian Qunyou convened a number of preliminary meetings and forums to discuss the strengths and weaknesses of the local fur and leather trade. Several shortcomings were highlighted.<sup>9</sup> First, it was argued that the tiny scale of most of these enterprises made it difficult for them to afford new equipment or to introduce the superior techniques necessary to raise quality and move the sector upmarket. Secondly, it was felt that their geographic dispersal in townships all over the municipality made business too inconvenient for suppliers and consumers. Xinji would, according to this line of thinking, be able to compete better if it had a large and appealing central marketplace to attract more customers, more contracts

7. Wang Dengpu (ed.), *Xinji pimao zhi* (*Gazetteer of Xinji Fur and Leather*) (Beijing: Zhongguo shuji chubanshe, 1996), p. 233.

8. *Xinji City Gazetteer*, pp. 200, 233.

9. *Gazetteer of Xinji Fur and Leather*, p. 92.

**Table 1: Number of Enterprises, Output Value and Profit in the Xinji Township and Village Fur and Leather Sector, 1978–1994**

Year	Number of enterprises							Gross output value							Gross profits					Fur and Leather output value as % of town	Fur and Leather profits as % of village and profits		
	of which:			of which:				of which:			of which:				of which:								
	Collective	Township	Village	Private sector	Co-operative	Individual	vidual	Total	sector	Collective Township	Village	sector	Co-operative	Individual	Total	sector	Collective Township	Village	sector			Co-operative	Individual
	Total	sector	ship	Village	Private sector	Co-operative	Individual	Total	sector	Collective Township	Village	sector	Co-operative	Individual	Total	sector	Collective Township	Village	sector			Co-operative	Individual
1978	19	20	6	14	-	-	-	1,700,000	1,700,000	700,000	1,000,000	-	-	-	250,000	250,000	100,000	150,000	-	-	-	3.4	6.8
1979	22	22	6	16	-	-	-	2,310,000	2,310,000	1,650,000	660,000	-	-	-	340,000	340,000	230,000	110,000	-	-	-	4.5	8.5
1980	95	95	6	89	-	-	-	4,150,000	4,150,000	1,780,000	2,370,000	-	-	-	590,000	590,000	250,000	340,000	-	-	-	1.1	1.9
1981	72	72	8	64	-	-	-	4,740,000	4,740,000	1,470,000	3,270,000	-	-	-	660,000	660,000	200,000	460,000	-	-	-	8.9	9.1
1982	76	76	12	64	-	-	-	6,390,000	6,390,000	2,310,000	4,080,000	-	-	-	870,000	870,000	280,000	590,000	-	-	-	11.2	10.9
1983	41	41	10	31	-	-	-	6,500,000	6,500,000	2,430,000	4,070,000	-	-	-	870,000	870,000	290,000	580,000	-	-	-	10.7	8.9
1984	2,351	51	11	40	1,150	204	946	43,480,000	17,540,000	6,190,000	11,350,000	12,970,000	3,890,000	9,080,000	6,340,000	2,200,000	770,000	1,430,000	2,070,000	680,000	1,390,000	31.2	11.5
1985	2,855	107	22	85	1,374	187	1,187	76,510,000	33,990,000	11,360,000	22,630,000	21,260,000	10,330,000	10,930,000	9,600,000	4,140,000	1,360,000	2,780,000	2,730,000	1,320,000	1,410,000	33.9	15.7
1986	3,004	142	23	119	1,431	234	1,197	115,510,000	43,910,000	10,000,000	33,910,000	35,800,000	16,380,000	19,420,000	13,870,000	5,170,000	1,100,000	4,070,000	4,350,000	1,970,000	2,380,000	22.5	15.1
1987	4,160	142	18	124	2,009	309	1,700	170,250,000	58,830,000	12,140,000	46,690,000	55,710,000	21,920,000	33,790,000	19,990,000	6,170,000	1,270,000	4,900,000	6,910,000	2,690,000	4,220,000	22.4	33.5
1988	2,689	129	16	113	2,560	-	-	141,300,000	67,730,000	15,220,000	52,510,000	73,570,000	-	-	16,270,000	7,440,000	1,670,000	5,770,000	8,830,000	-	-	19.6	18.3
1989	5,614	108	17	91	2,753	233	2,520	272,360,000	76,180,000	21,110,000	55,070,000	98,090,000	34,410,000	63,680,000	30,640,000	8,380,000	2,320,000	6,060,000	11,130,000	4,120,000	7,010,000	21.7	23.1
1990	4,766	70	17	53	2,348	244	2,104	365,070,000	72,970,000	21,760,000	51,210,000	146,050,000	55,640,000	90,410,000	44,780,000	7,360,000	1,980,000	5,380,000	18,710,000	6,960,000	11,750,000	20.3	28.7
1991	4,010	74	16	58	1,968	134	1,784	372,250,000	94,530,000	27,440,000	67,090,000	138,860,000	48,170,000	90,690,000	43,790,000	9,550,000	2,440,000	7,110,000	17,120,000	5,730,000	11,390,000	18.8	27.6
1992	1,931	92	15	77	1,839	-	-	302,630,000	118,440,000	31,930,000	86,510,000	184,190,000	-	-	33,800,000	11,880,000	2,710,000	9,170,000	21,920,000	-	-	18.5	25.4
1993	2,347	93	20	73	2,254	-	-	379,620,000	149,470,000	53,460,000	96,010,000	230,150,000	-	-	43,570,000	14,580,000	4,590,000	9,990,000	28,990,000	-	-	16	23.3

Source

Wang Dengpu (ed.), *Xinji pimao zhi (Gazetteer of Xinji Fur and Leather)* (Beijing: Zhongguo shuji chubanshe, 1996), p. 33. Some totals from the original table have been changed to correct for minor errors due to typography or rounding.

and more investment from around the country and abroad. And thirdly, the lack of a geographical centre for the Xinji fur and leather trade was seen as inhibiting the circulation of business information and of technical knowledge, thus hampering the development of local enterprises and firms. Both better competition and more efficient mutual support and assistance among firms would come, it was thought, with the establishment of a fixed leather goods trade centre in central Xinji city.

The intent to create such a trade centre was therefore decreed as policy by the municipal government and Party committee in early 1992. Mayor Bian, in a speech hailing the decision, referred to the planning of the FLTC as the second “high tide” of commercial development in Xinji. The first had come in 1986 with the development of the consumer convenience shopping centre known as Hebei No. 1 Market.<sup>10</sup> That project, which had taken an investment of 7 million *yuan*, had seemed quite visionary and vast only a few years ago. The new FLTC, however, was to be conceived and built on another scale entirely; and it would require, before it was finished, an investment of more than 800 million *yuan*.

#### *Creating and Promoting Incentives for Investment*

Xinji officials used the full array of financial and administrative resources under their control to fashion incentives that would persuade private entrepreneurs to take out hefty business expansion loans to invest in the new trade centre project.<sup>11</sup> The local state guaranteed to larger enterprise investors, who were planning to put up impressive buildings inside the FLTC, full ownership, use, rental and sales rights over whatever buildings they constructed. While all facilities were required to fit within the specifications of a general plan for the FLTC as a whole, individual designs for company buildings were to be discussed and worked out with a staff of architects employed by the Xinji Urban Construction Bureau. Investors were given great flexibility in stipulating their company’s specific needs for office space, sales showrooms, workshops and so on.

Entrepreneurs who would commit to build company buildings in the FLTC were promised that they would be treated as preferred customers at the local banks. They were permitted to borrow up to 70 per cent of their planned total building costs; they were encouraged to apply also for additional liquid capital loans if needed, to ensure that their ongoing business operations would not suffer while waiting for their buildings to go up. State-owned, collectively-owned and privately-owned enterprises were all to be given equal treatment at the offices of the Construction Bank, and the interest rates charged were to be the same for all. Building loans were made as equity mortgages, eliminating the need for borrowers to produce guarantors.

Tax breaks and other incentives and assurances were also part of the

10. *Ibid.* p. 95. On the Hebei No. 1 Market, see Blecher and Shue, *Tethered Deer*, ch. 6.

11. *Gazetteer of Xinji Fur and Leather*, p. 96.

package for larger investors. Taxes on new investment property were deferred. Applicable land use and urban services taxes were reduced by 50 per cent. A five-year holiday was granted on payment of the real estate tax. "First time" exemptions were offered to businesses that would, upon moving into the FLTC, become liable for the sales tax. A 500 *yuan* discount on telephone installation and services and reduced rates for overseas phone calls from the FLTC were promised. Actual building costs, municipal authorities guaranteed, would be pegged to the lowest rates available in the market. Very low rents were offered as well to entrepreneurs wishing to let rental space within the complex. For every 50,000 *yuan* invested, an entrepreneur's family would receive the standard allowance for one person to be classified as *nong zhuan fei*, a former rural resident who could now officially be registered as a resident in the urban district.<sup>12</sup> Grain, oil and cotton subsidies would be allotted to these new city residents, so that rural businesspeople could live and work full-time at the trade centre and settle their families in the urban district. Preferential treatment would also go to FLTC families in placing their children in city schools and child care centres. For merchants from outside Xinji, special additional incentives intended to help them settle their families on preferential terms in the urban district were to be worked out on a case-by-case basis.

A similar set of incentives was offered to smaller entrepreneurs simply interested in carrying on business within the FLTC. They were granted a business tax holiday for three to five years. They were encouraged to set up operations for an experimental period at first, and to negotiate to stay on later if they wished. They were given assurances that they would be free to diversify their business services at will once they entered the FLTC – for example, by engaging in both production and sales, or in both wholesale and retail sales. They were promised that there would be no government price-setting on their goods in trade. These smaller entrepreneurs were also to be given help in arranging temporary urban household registration and in getting their children into urban schools and nurseries. They were also assured of special help if needed in getting access to all the services that were to be supplied within the trade centre, including financial services, post and telecommunications services, lodging, transportation and storage, clinics, nurseries, and utility access. They were even guaranteed loading and unloading space for their trucks, convenient parking, access to various commercial inspection services, immunity from random levies of taxes and fines by any bureau or other authority within Xinji, and entitlement to free inoculations against epidemics when these were being dispensed to people in the FLTC.

In short, municipal government officials put together a comprehensive, highly detailed incentive package to encourage nervous potential in-

12 This particular incentive mirrored practices that had emerged in some of China's larger cities at that time and which began turning urban citizenship into a commodity. For a full discussion of these practices, see Dorothy Solinger, *Contesting Citizenship in Urban China* (Berkeley: University of California Press, 1999), pp. 89–91.



vestors to overcome their hesitations, forego other possible opportunities and take the plunge. In doing so, local state authorities co-ordinated the activities of all the different offices within Xinji affecting the FLTC, from the Finance and Tax Office to Education and from the Construction Bank to the Telephone Company. The municipal government's interest in attracting investors and businesspeople to the new trade centre was then advertised on local television, and word was spread also through the fur and leather trade organizations and relevant trade publications.

### *Building the Market*

*Preliminary planning.* By June of 1992, with some of the necessary higher-level approvals still pending, the municipal government and Party committee announced the formation of an interim Trade Centre Construction Directorate (*Shangye cheng jianshe zhihuibu*), headed by the deputy mayor. It was to serve as the plenipotentiary leading organ for the initial phases of raising the capital from banks and investors, finalizing the design to meet urban planning specifications, and overseeing construction to meet the target date for the grand opening. The Directorate included representatives from some 17 different government agencies, an indication of the broad sweep and high level of co-ordination this project demanded.

*Acquiring the land.* A trade centre on the scale envisaged required the acquisition and development of 1,200 *mu* of land. It would have to be in a prime location close to central Xinji city, with its well-developed transportation infrastructure and commercial and political institutions. Provincial land authorities would have to give their blessing if such a large piece of valuable land were to be converted to commercial use in Xinji. Furthermore, the village governments and the individual farmers whose land was to be acquired would have to agree to terms if the land transfer were to take place.<sup>13</sup>

After Xinji officials obtained approvals from the Hebei provincial planning and land authorities, negotiations were opened between the Xinji Land Bureau<sup>14</sup> and the four affected village governments of Angucheng township. Planners had identified a parcel of land with

13. In the end, Angucheng Township would have to give up 2.7% of its cultivated land; one of the four affected villages in Angucheng would have to part with about 20% of its total land; and some of the farmers whose land was taken over would need to sacrifice almost all their real property to the sale. In 1989 Angucheng ranked first among Xinji townships in agricultural income and third in industrial income. On the one hand, this meant that the community could afford to lose some of its collectively-owned land; but on the other, Angucheng's comparative affluence would drive up the price that the Xinji city government would have to pay to buy it. For that same reason, though, the four village governments and their residents were anxious to make a deal. (Both villagers and Xinji City officials spoke and thought in terms of "buying" and "selling" the land even though, under the terms of China's land law, what was being transferred was the right to lease the land rather than outright ownership of it.)

14. Characteristic of the Chinese state's approach to regulation, this is the same organ charged with land use regulation in the municipality.

several key advantages. It flanked the major roadway on the northern edge of downtown Xinji, the direction that city planners thought best for urban expansion. Moreover, much of the land was of unusually low quality for agriculture since large sections of it had been heavily excavated for brickmaking. Permissions to convert relatively unproductive land to commercial use would be easier to obtain.

The municipality's land bureau began by applying its own formula for land valuation based on productivity, offering an average of 10,000 *yuan* per *mu*. The affected village governments, in turn, consulted with farmers' representatives chosen by each "team" (*shengchandu*).<sup>15</sup> They were not unwilling to let go of the land, having calculated that after the sale they would still retain enough farmland – about one *mu* per person – to guarantee their own needs for foodgrain. Thus they began to bargain, relying on the land's prime location, on the government's high hopes for its project, and ultimately on their right to refuse to sell if a fair price could not be negotiated.<sup>16</sup> In the event, a price of 20,000 *yuan* per *mu* was agreed upon – double the government's original offer.

The total price at which the land was sold off to investors was considerably higher than that for which the government acquired it. The differential was probably defensible, however. For, at the time of resale a surcharge of 80 per cent of the base purchase price on each parcel of land had to be remitted by the Xinji government to the provincial land authorities, raising the municipality's real costs considerably. At the time of resale, also, another 60 per cent surcharge was tacked on as a land transfer fee. This was used not just to cover the administrative and legal costs of the sale, but also, seemingly, to compensate the municipal government for the fact that it could not re-sell every inch of the land it acquired, since the project, once built, would include wide boulevards, many small streets, ample parking, and many other public facilities. Xinji officials explicitly claimed that they had not tried to make a profit on the buying and re-selling of the land, and what rough calculations can be done suggest that it is most likely they did not.<sup>17</sup> Their basic approach was developmental, not entrepreneurial.

*Planning and constructing the trade centre.* By 1996 some 13 sq km of new urban development had been completed.<sup>18</sup> The FLTC alone – the actual industrial and commercial zone – occupied just 0.8 sq km. How-

15. This term, left over from commune days that had now gone for more than 15 years, was still in use by village officials.

16. As representatives of the village committee told us, "The collective could threaten not to sell. It's collective, not state property." Interview, 4 June 1999.

17. Total revenues from land sales were something over 80 million *yuan*, including the fees. Overall, 800,000 sq m. of floor space were built, which means that the buyers paid the government an average of 100 *yuan* per sq m. for the land. Average construction costs in the FLTC, including land, were 1,037 *yuan* per sq m. In other words, buyers were paying only around 10% of construction costs for this prime real estate, which, to say the least, is not exorbitant.

18. Another five sq km. had been completed by 1999. The revised target then was 28.5 sq km. by 2010.

ever, it was just one part of a much larger Xinji urban development project known colloquially as the “New City” (Xincheng) or, more formally and fancifully, as the “Golden City” (Jincheng). Located to the north of the pre-existing city centre (which subsequently came to be called the “Old City”), Xinji’s Golden City project was a massive urban development scheme that was planned eventually to occupy 17 sq km, making it larger than Xinji’s entire original city area of the early 1980s. Planned as an integrated community – Xinji’s version of “the new urbanism” – the Golden City included commercial areas, a school,<sup>19</sup> a hospital, a large parade ground, a seven-storey hotel, row after row of new apartments, police stations and several new government office blocks. The FLTC, however, was conceptualized as forming the commercial heart of the new Golden City.

In addition to being part of a carefully planned urban expansion, the FLTC itself was also closely planned. Apart from the land use permits, authorizations for construction of such a large industrial and commercial project had to be sought from the Ministry of Domestic Trade in Beijing as well as from the State Planning Commission. Xinji’s FLTC was eventually designated one of only ten “primary projects” approved in the state plan for the whole country in 1992–93.<sup>20</sup> The Xinji Urban Planning and Construction Bureau, with a staff of 32 designers and architects, formed the hub of the planning process. It worked closely with the Hebei Province Light Industry Design Institute as well as with a team of Swedish government urban planning consultants to refine its plans and designs. It planned the overall project, planned for roadway and utility access, and developed the designs for each of the buildings. Its draft plan was then vetted by the Hebei province construction and land bureaus, which looked into all aspects of the project and suggested revisions. The revised plan had then to be approved by the Xinji People’s Representative Assembly, after which it went back up to the province, and then to the centre for final approval.

It is obvious from its design that the project had its origins in state planning. The trade centre was laid out with much deliberate calculation (Map 1). Each of the quadrants has a slightly different layout and different sorts of buildings, accommodating a variety of functions, institutions and enterprises.<sup>21</sup> Such specialized and segmented commercial geography conforms with what Urban Planning and Construction Bureau officials represented as “the preferred Chinese form of marketing,” in which outlets and firms in the same line of business like to group themselves in close proximity in order to create a larger base for

19. The school was planned to help attract and please ambitious parents – prospective FLTC investors. Student–faculty ratios were unusually low, per-pupil costs high and modern equipment such as computers emphasized.

20. Interview, 31 May 1999.

21. The south-west quadrant contains a large open leather goods market as well as the police and quality control stations; the south-east has small shops and restaurants; the north-east, a large open market specializing in accessories (such as buttons, zippers, fasteners, and sewing tools and equipment) as well as the Golden City Hotel; and the north-west quadrant is home to administrative offices, the school and the hospital.



attracting customers.<sup>22</sup> Such a layout certainly promotes inter-firm competition even as it facilitates market regulation and surveillance.

To formulate their plan of the number and mix of buildings the staff of the Bureau had to know the kinds and numbers of firms that would be investing in the FLTC. To this end, they consulted with would-be investors, then re-thought and refined their early plans. In the end the Bureau offered ten kinds of buildings for sale, though buyers were able to stipulate minor modifications to the interior layout. Construction was overseen by the Trade Centre Construction Directorate. For the buildings that were to be subdivided into small units, the Bureau hired construction companies; the largest investors, who were putting up multi-storey buildings to serve as their new corporate management, manufacturing and sales headquarters, however, were permitted to hire their own contractors. The Directorate handled all the administrative, financial and legal work associated with the construction and sales contracts, co-ordinated the

22. Interview, 3 June 1999.

work of the construction companies with the electricity and water utilities, arranged all the construction permits, and oversaw construction quality and scheduling. It built the project one quadrant at a time starting in 1993. By 1997 construction was more or less complete, though a few new buildings were still being filled in during the summer of 1999.

### *Dealing with Pollution: The Tannery Zones*

If the leather trade were to become a pillar of the local economy, local tanning operations would be expanding rapidly, and something was going to have to be done to restrict the environmental damage caused by the toxic chemical contents of their liquid and solid wastes. In early 1994, soon after ground had been broken for the trade centre, municipal authorities turned their attention to the pollution issue. At that time, there were over 2,000 tanneries in Xinji, most of them tiny family courtyard operations using outmoded traditional techniques and primitive equipment.<sup>23</sup> Scattered over some 18 townships and 20 villages, these enterprises employed a total of about 11,000 people. The waste they produced blocked drainage pipes and ditches, fouled the air, and frequently led to quarrels and disputes among residents. By far the most serious concern was the rising level of chromium in the underground water in these villages, which was so high that within three to five years the water would be unsafe to drink.<sup>24</sup> In June 1994, the State Council promulgated a decision (No. 125) forbidding the construction of any new small chemical, paper or tanning factories that could cause pollution, and specifying measures to enforce the clean-up of existing polluters. The new central regulations gave Xinji officials the incentive and the leverage needed to take the entire question of local tannery development and clean-up in hand.

After seeking scientific and technical advice from many quarters,<sup>25</sup> they decided not to attempt a clean-up on an enterprise-by-enterprise basis but, instead, to devise an overall solution embracing all the municipality's tanneries in a comprehensive redevelopment plan. Special zones for tanning would be set up, with modern equipment and pollution-control devices, and every tanning enterprise in the municipality would be required to move its operations into one of these zones within just a few years.<sup>26</sup> In 1995 plans for three large zones were drawn up,<sup>27</sup> each divided into different sub-sections for the tanneries, for pollution control labs and water purification equipment, for raw hides marketplaces, and for zone management office buildings. Small tannery entrepreneurs were to join together into investment groups (*jituan*), pooling their money in order to buy into these new, state-planned facilities. Heat, electricity and water

23. See the discussion in *Gazetteer of Xinji Fur and Leather*, pp. 152 ff.

24. See the December 1995 speech by Vice Mayor Liu Jiliang reprinted in *ibid.* p. 155.

25. See the discussion in Han Jian, Feng Cunhui and Ma Zhigang (eds.), *Pidu yingcai (Geniuses of the Leather Capital)* (Xinji: Xinji shi wenhua tiyu ju, pige shangcheng guanweihui, 1998), p. 13.

26. And in 1996 the State Council issued another decree permitting the closure of seriously polluting small industries in 15 categories including tanning. *Ibid.* p. 12.

27. They ranged in size from 200 to 500 *mu*.

would all be supplied on a unified basis to large, new, diversified work areas where modern tanning vats, dryers, and rolling, pressing and trimming equipment would be arrayed according to industry standards. Better equipment and more modern techniques would enable Xinji tanners to raise the quality of their products, it was argued. Meanwhile, effluent management and water purification would be handled in a co-ordinated manner, with environmental protection technicians installed in laboratories on the premises to do the necessary water monitoring and testing. The vision was to create three state-of-the-art “garden-like” facilities – clean, orderly, well-lit and well-landscaped sites for both living and working. With a combination of incentives to tannery entrepreneurs to purchase the new technology and threats to close down their enterprises quickly if they did not do so, this vision was brought into being with startling, almost martial, efficiency. A number of the affected tannery operators who did not want to move opposed the plan. But local state leaders insisted that the zoning project move forward.<sup>28</sup>

Streets and roads had to be built, electrical, heat and water lines laid, large workshops containing giant rotating vats and new office buildings constructed, laboratories outfitted, and water purification plants installed.<sup>29</sup> Although deliberately much less in evidence to the casual visitor to Xinji than the gleaming downtown FLTC itself, the tannery zoning scheme actually matched the trade centre in both scale and vision. Total investment in the tannery zones ran into hundreds of millions of *yuan*, and some of the necessary funding came through state investment channels. But every tannery operator in Xinji was required by the local state to raise money to invest as well, at levels municipal authorities determined they ought to be able to bear.<sup>30</sup>

The whole enforced pollution control and zoning aspect of the fur and leather project was essential if Xinji's leaders were going to manage to deflect higher-level criticisms of their plans to expand the local tanning industry. It was also necessary to allay the concerns of would-be investors in the FLTC as well as the fears of citizens concerned about their water. The tannery scheme was executed by the local developmental state extraordinarily rapidly, however, almost in the manner of an all-out campaign, and with the same kind of macro-planning ambitiousness, micro-regulatory attentiveness and authoritarian zeal that have come to be associated with several of Xinji's state-led projects over the years going back to the end of the Mao period.<sup>31</sup>

28. Interview, 3 June 1999. The first zone started operations in 1995 and the last zone was completed in 1998.

29. Total plant capacity was to purify 3,500 tons of waste water per day. *Pidu yingcai*, p. 14.

30. *Ibid.* p. 14. All new tanneries commencing operations in Xinji in the future were to be required to locate within the boundaries of these special zones as well.

31. Compare the 1978 water conservation project and the 1986 building of the Hebei No. 1 Market, described in Blecher and Shue, *Tethered Deer*, pp. 174–76 and 135–140 respectively.

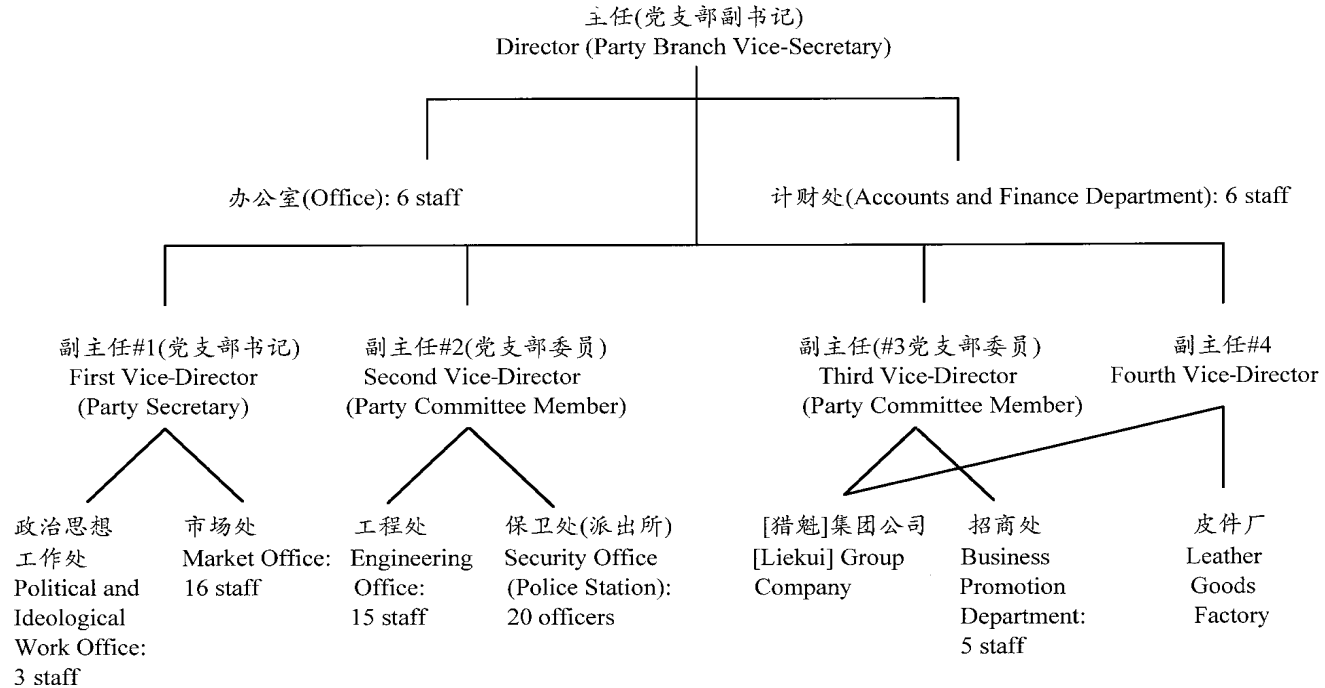
*Administering and Developing the Trade Centre*

With the investors mobilized, and the tannery zones and the FLTC partially erected, Xinji officials next turned their attention to administering and developing the new trade centre. Although the FLTC was comprised almost entirely of private enterprises, it was no free market. Enterprises were subjected to close government supervision concerning fraudulent labelling, quality control, product and contract guarantees, environmental protection, and labour relations. Some of Xinji's new capitalists, especially the owners of larger firms producing at the upper end of the market, pointedly welcomed all this local state regulation as a way to promote Xinji's reputation for reliability and quality. This aided them, they believed, in competitively bidding for business against firms from other, less assiduously regulated localities. The smaller firms – those that could not afford cutting-edge technologies or employ the most highly skilled workers – may have seen the local state's regulatory obsession as something more to be endured than to be welcomed. Yet, in return for their steady compliance with locally set regulations and standards, such small firms could also expect various kinds of assistance from the Xinji government in trade promotion, enterprise development, and provision of infrastructure and utilities.

*The Supervision Commission.* All this developmental administration required the creation of a potent new local state institution. In October 1995, the Trade Centre Construction Directorate gave way to the FLTCSC. This self-described horizontally-oriented (*kuai*) organization was designed in part to co-ordinate the work of various vertical (*tiao*) institutions that had functions to carry out inside the FLTC, such as the Public Security Bureau and the Tax Bureau. As of 1999, the FLTCSC employed a staff of 60, and had joint supervision, along with the various vertical organs involved, of another 100 personnel who received their basic pay from their home units and additional pay supplements from the FLTCSC. The FLTCSC's organization and basic functions are adumbrated in Figure 1, but this schematic rendering hardly captures the ubiquity of the Commission's influence, or the central role it assumed in leading, shaping and in some ways dominating the private sector enterprises under its purview.

*Taxation.* The FLTCSC and the Xinji Tax Bureau worked together to collect taxes from enterprises operating in the FLTC. Large enterprises paid a value added tax assessed on the basis of their earnings reports. Small enterprises paid business taxes based on gross sales figures arrived at through a process of consultation involving the FLTCSC, the Tax Bureau, the Industrial and Commercial Management Bureau, and the enterprises themselves. Tax collection was carried out monthly. Tax matters thus gave the FLTCSC and its co-ordinate

Figure 1: Organizational Chart of the Xinji Fur and Leather Trade Centre Supervision Commission



派出机构 Seconded organs: 工商分局 Industry and Commerce Management Bureau Subbureau (20 staff); 国税分局 National Tax Bureau Branch (7 staff); 地税分局 Local Tax Bureau Branch (7 staff); Police Station; 技术监督分局 Technical Supervision Bureau Branch (20 staff).



### The Functions of the Departments of the FLTCSC

Director	Responsible for managing overall work of the management committee, and is in charge of the Office and the Accounts and Finance Department
First Vice-Director	Responsible for the work of the Party standing committee and political ideology, and for market management work
Second Vice-Director	Responsible for engineering and security work
Third Vice-Director	Responsible for the work of the [Liekui] Group Company and the Business Promotion Department
Fourth Vice-Director	Responsible for the work of the [Liekui] Group Company and the Leather Goods Factory
Office	Responsible for daily organization affairs work
Accounts and Finance Office	Responsible for financial statistics and financial management work
Engineering Office	Responsible for engineering programmes, construction site management, electrical office, construction quality, municipal government construction facilities protection, environmental sanitation, land use and other such work
Political Work Office	Party member management and ideological thought work
Business Promotion Office	Creates the conditions for attracting businesspeople, both from home and abroad
Security Office	Daily ideological work, security guarding, and investigation of security cases
Market Office	Dealing with violations of construction regulations, collection of taxes and customs, checking for fraud, legal and other such work

bureaus a good deal of work and many headaches. The tax authority carried with it as well, however, no small amount of leverage over the individual firms that made up the FLTC.

*Regulation.* The Supervision Commission's Security Office worked with the Public Security Bureau to provide police services and to carry out what it termed "ordinary ideological work" within the FLTC. The Commission's Engineering Office monitored environmental protection and land use compliance. Its Market Office was constantly on the lookout for substandard and fraudulent goods being peddled in the trade centre. Legitimate merchants working in the trade centre were required to have an up-to-date production permit, a quality standard permit and a business licence, and the Office continually screened traders for forged permits. It established a Product Quality Inspection Station, a [Poor] Product Quality Reporting Station, and a fake products display case, and banned the use of mixed leathers (*zapi*) in a single product. The Supervision Commission placed great store in the use of trademarks by firms operating within the FLTC, and it strove continuously to help the largest firms establish trademarks that would become famous and prestigious.<sup>32</sup> The Supervision Commission was also active in regulating the market in labour – both skilled and unskilled – within the FLTC. Together with the Xinji Labour and Personnel Department, it established a Labour and Human Resource Market (*Laowu rencai shichang*) to oversee labour contracts. Workers coming from outside Xinji were required to register with the Labour Market, which was not really a market at all but was charged with assuring that contracts offered by private entrepreneurs met all the terms of the National Labour Law. Labour Market officials also arranged for workers' compensation and disability insurance, and undertook dispute arbitration.

*Infrastructure development.* The Supervision Commission was responsible for the development and maintenance of a wide range of physical and social infrastructure for the FLTC, including industrial and commercial buildings, utilities, hotels and restaurants, car parks, housing, and public parks. FLTCSC assistance in the construction of places of business, it is important to reiterate, did not involve investing in the businesses themselves. It identified entrepreneurs willing to buy property in the trade centre. It put up buildings for them and sold off the properties. The Commission derived a large part of its own operating funds from fees it collected for helping to establish enterprises in privately owned premises. It also collected rents on market stalls it let to smaller traders not in a position to buy their own shops and warehouses, as well as a monthly administrative fee of 12 *yuan* per square metre from enterprises operating in the trade centre.<sup>33</sup> Finally, it charged a service fee – the exact

32. The FLTCSC assisted three Xinji companies – one of which was the first leather concern in the country to do so – in getting the approval of the National Technical Supervision Department for ISO-9000 certification, which permitted their products direct entry into the international market.

33. The size of this fee was set or at least approved by higher-level state authorities.

amount set by local state authorities – from a collectively owned joint enterprise it supervised, the Liekui Leather Goods Company (of which more below).

*Business promotion, market development and enterprise co-ordination.*

We changed the past practice of letting enterprises develop of their own accord. Instead of letting the water run here and there on its own (*zixing qishi, renshui ziliu*), we have relied on providing guidance and service, and top to bottom planning of enterprise development, so that the trade centre grows along the path to excellence. [Thus,] we have supported the strongest and the most superior firms, so that the trade centre will develop in the direction of more large- and medium-sized “backbone” firms.<sup>34</sup>

Beyond carrying out routine local state functions like taxation, regulation and infrastructure development, the FLTCSC was actively involved in advertising and promoting the FLTC and the individual enterprises within it. The Commission threw itself into the effort to find new investors and customers for its trade centre and its fledgling firms. It attempted, further, to engineer what it regarded as the desired rate of firm expansion and an overall “rationalization” of the distribution of types of firms operating in the FLTC. In pursuit of these goals, it promoted technological development and product upgrading.

A few examples will illustrate the range of the FLTCSC’s activities. It put 11.5 million *yuan* into advertising campaigns on Central Television in 1996 and 1997. It organized over 100 FLTC enterprises to establish direct sales outlets in Beijing, Chongqing, Xinjiang, Henan, Shandong and Changchun. It sent over 60 people to the Beijing Fashion Institute for two-year, specialized vocational training.<sup>35</sup> It assisted several of the larger FLTC enterprises to develop their own web sites.<sup>36</sup> It enticed some leading national leather producers to open shops in the FLTC, which promoted sales and also stimulated local producers to match these firms’ level of design and quality. It facilitated the development of joint ventures with Italian and Korean tanning and garment companies. Finally, it organized some 20 firms to send representatives on two different business trips to Russia, staging an exhibition of Xinji sheepskin clothing at the largest wholesale leather goods fair in Moscow.

In almost all of this work, the Supervision Commission emphasized the development of the largest, most advanced and most profitable firms, with which it worked most closely. It went so far as to organize them into the FLTC Chamber of Commerce (*shanghui*). Founded in 1997, the Chamber had by 1999 embraced 57 of the biggest firms (out of the 1,200 in the FLTC). It focused on controlling wage competition, helping firms retain skilled workers who were in high demand, and co-ordinating the purchase of raw materials. With the rapid development of the market,

34. *Zhongguo Xinji pige shangcheng 1998 nian gongzuo zongjie (1998 Summary of the Work of the Xinji, China Fur and Leather Market)*.

35. It had previously sent students there for short courses.

36. See [business2/ximan/cpjs.htm](http://business2/ximan/cpjs.htm); [www.bamailong.com.cn](http://www.bamailong.com.cn); and [www.sjzgcc.org.cn](http://www.sjzgcc.org.cn)

labour shortages developed in the latter half of the 1990s, and wages rose steeply as a result. Skilled cutters, seamstresses and other apparel workers took advantage of the high demand for their services by jumping from one FLTC firm to another, rapidly bidding up the price of their labour. Supervision Commission Director Feng, in conversation with us and with one of the FLTC's largest entrepreneurs, did not hesitate to explain just how the Chamber of Commerce's member firms had colluded, at that time, to depress wages.<sup>37</sup>

The Supervision Commission had a clear vision of the FLTC as a high-end producer that would be a dominant player in the national market and would soon reach a level of quality and style that would allow it to compete with the best in the international market. It endeavoured to shape competition among Xinji enterprises to meet this goal, one that was shared by at least some of the larger local entrepreneurs. After describing how Xinji's main competitors – Haining (Zhejiang), Dongguan (Guangzhou) and Tongerbao (Liaoning) – were serving the lower end of the market, one leading FLTC businesswoman explained:

If I compete on price, I will lose out. Here in Xinji, we compete on quality and design. The Xinji government encourages this, by maintaining high quality standards, by its frequent inspections for quality and fraud, by insisting that firms above a certain size have a brand name, and by getting international trademark regulation for firms that export. The Xinji government ... runs the business association, organizes the market, convenes market research conferences, provides information, convenes an annual market fair, and generally works hard at trade promotion by helping us make connections and attract business. So basically we don't have to find customers; the government does it for us.<sup>38</sup>

Xinji's largest clothing manufacturer said something quite similar:

The Supervision Commission takes care of everything for me. It sets wages, arranges raw materials purchases, assures quality production, and helps us make all manner of connections in the national and international markets.<sup>39</sup>

*Entrepreneur?* In addition to its many functions as a local government agency intensely involved in the promotion of the FLTC and the private enterprises operating within it, was the Supervision Commission also itself in business? Figure 1 indicates that it was responsible for a Leather Goods Factory and for the Liekui [Fur and Leather] Enterprise Group. At first, this seemed firm evidence of at least some direct local state entrepreneurialism in the leather trade. However, as Director Feng put it, "Liekui is not an enterprise, and there is no Liekui Factory." Liekui, rather, was a group (*jituan*) consisting of more than ten of Xinji's better collectively owned fur and leather enterprises, including the Leather Goods Factory mentioned in Figure 1 and a Trading Company. The group was put together in order to help these firms survive in the new era of

37. Interview, 1 June 1999 afternoon.

38. *Ibid.*

39. Interview, 1 June 1999 morning.

heavy competition from the private sector. To put Liekui in perspective, in 1998 its gross sales (actually, the gross sales of the firms that comprised it) were 130 million *yuan*, compared with 150 million *yuan* for Ximan – Xinji’s largest private producer – and 2,600 million *yuan* for the FLTC firms taken together. Liekui was the only significant non-private enterprise in the FLTC. Each of the enterprises operating under its flag was “self-managing” (*zizhu jingying*), and responsible for its own profits and losses (*zishou zizhi*). The Liekui Group existed, and the Supervision Commission administered it, for the purpose of improving and promoting their products. The Commission set quality standards for output by all enterprises in the group, and then put the Liekui label on their products. The group sold the collectively-owned factories’ output, representing itself to customers as the company responsible. The Supervision Commission could give Liekui Group products preferential representation to customers, Mr Feng said – which it could not do with those of the various private firms – since Liekui was the Supervision Commission’s own protégé.<sup>40</sup>

The Supervision Commission did not divert any of its own funds into investment in Liekui, however, and the Liekui Group as such was not a profit-making venture. The Commission, rather, participated in the administration of the affairs of Liekui, for which it drew a fee used to pay the salaries of the personnel involved and various other expenses. Thus, Mr Feng said, he himself did not qualify for the title “manager” (*jingli*). He offered as evidence the fact that he couldn’t even say exactly how many workers there were in Liekui, and didn’t know any other such important managerial and financial details – “for that you’d have to ask the managers of each of the collective enterprises that comprise the Liekui Group.”<sup>41</sup>

### *The State, Entrepreneurship and Development*

Even if the Liekui Group did not represent FLTCSC entrepreneurialism, our conversations and investigations did reveal that certain other government agencies were, in fact, making direct investments in the FLTC and in surrounding enterprises. The Urban Planning and Construction Bureau, for example, had invested directly in several enterprises, including a housing project and a leather goods outlet. The Bureau also held a sizeable share in the Golden City Hotel, as did the FLTCSC. More such examples, fitting the model not of the developmental but of the entrepreneurial state, could very probably be found in Xinji today. In a booming little city like Xinji, at a time when official policy and practice explicitly encouraged government agencies to set up their own enterprises so as to solve their surplus labour problems and supplement their incomes, it would be naïve to suppose that local officials did not sometimes act on the impulse to enrich both their bureaus and themselves. Simple ambition aside, surely local state officials sense that they cannot

40. Interview, 11 June 1999.

41. *Ibid.*

lead effectively or even be taken seriously by the wealthy business elites they have created unless they themselves find a way to get access to more resources. In today's China, local state actors must compete for authority with other rising social forces in a newly materialistic culture. When municipal officials take important business prospects out to dinner these days, they had better not arrive at the restaurant in banged-up jalopies and cheap shoes. If for no other reason than to be able to maintain face and credibility, municipal-level officials must get their hands on more disposable capital. And, of course, this is not by any means the only reason they may desire to count their own bureaus and themselves among the new group of capitalist investors.

Nevertheless, the overriding logic we were able to find at work in the economic activities of Xinji's local state leaders remained developmental rather than entrepreneurial. This was certainly the case with respect to the local state's involvement in the planning and creation of the FLTC, the major economic undertaking of the decade. The entire FLTC project, it is worth underscoring, was undertaken to promote the business of a host of large, medium and small private firms in which neither the Xinji government as a whole nor any of its bureaus had a direct financial stake.

Indeed, the very development of the FLTC carried with it important implications for what are likely to be the patterns of change in Xinji's evolving class structure. For at the project's heart was a new corps of capitalists, large and small, whom the Xinji government had not only nurtured but, in important senses, had conjured up. Wu Xiumei, CEO of the Bamailong Leather Company, a leading company in the complex, told us that initially she was hesitant about expanding her then still-small business when plans for the FLTC were announced. In the end she decided to go ahead with a major expansion of her firm only after repeated urging and assurances from local officials and offers of large loans on most favourable terms from the local banks.<sup>42</sup> It was, by her own account, local state officials who pressed her out of the category of a small businessperson and into her new role as a leading capitalist entrepreneur. Likewise, at the lower end of the entrepreneurial scale, some of the farmers from Angucheng village who set up their own small leather goods businesses inside the FLTC once it was built were able to do so only because they had received windfall profits from selling their land to the government for the project. The local state's hand in literally creating both a new petty bourgeoisie and a new haute bourgeoisie in Xinji was apparent. But Xinji officials refrained for the most part from turning local state offices and bureaus into venture capitalist enterprises bent on dominating the market by themselves. In a pattern very different from the nomenklatura privatization that has had such vexing consequences in the former Soviet Union and also in some parts of China, in Xinji the nomenklatura have worked to create better conditions for the development of a new bourgeoisie, with which they co-operate closely, but from which they nevertheless remain distinct.

42. Interview, 1 June 1999 afternoon.

*Concluding Reflections on Competitive Markets and Developmental State Dominion*

Far and away the most significant alteration in Xinji's local political economy during the 1990s was the spectacular emergence of private sector enterprise, especially in the fur and leather trade. Equally notable throughout the decade, however, were the ways in which the institutions and practices of local state-led development were forcefully applied and deliberately adapted to the emergence of this vibrant new sector. The rise of private industry and commerce in Xinji has by no means implied or entailed a transition towards a lower profile or a *laissez-faire* posture on the part of the local state. If such a reduced role for the state was an expectation associated with the rapid development of private enterprise, that expectation is certainly not borne out by what can be discerned about the dynamics of change in a small city like Xinji. What Xinji's experience exemplifies, instead, is a highly conscious effort on the part of municipal leaders to renew, rework and redeploy long-standing local habits and techniques of state planning and social mobilization to come to grips with the challenges of private sector development, to maximize its local potential for growth and to assume firm leadership over its pace and trajectory.

Municipality officials instigated and were intensely involved at every step of the way in the grand plan to push Xinji to the national, and even the international, fore in the fur and leather trade. In typical developmental state fashion, they made the leather industry into a winning sector in large part by picking it to win. They showered resources and attention on the research and planning for its development, consulting with numerous experts, some invited in from abroad. They intervened with higher-level authorities to get funding and to clear the way politically and legally for the FLTC project. They bargained with local farmers to buy their land, and secured the permissions necessary within China's putatively stringent regime of land use regulation to convert it to industrial and commercial purposes. They planned, executed and enforced a comprehensive pollution control component to the project. They grappled with the urban planning requirements and underwrote the initial architectural designs for the trade centre. They worked under pressure of time to co-ordinate the activities of banks, utilities, construction teams and municipal offices of all kinds. They convened countless meetings, broke ground, gave public speeches and authorized the design and building of public monuments to mark their achievement.

When local developmental states like Xinji municipality make their decisions about which direction to take, and mobilize resources on such a scale, all in their orbit stand to be either privileged or constrained by the consequences. By using their power to pick winners, local state planners de facto picked losers as well, at least in relative terms and at least in the short run. The municipality's formerly favoured chemical and machine building plants were accorded much lower priority, for example, while official attention was lavished on fur and leather instead. The human,

technical, financial and material resources mobilized to build the FLTC were effectively diverted from other possible infrastructure projects – projects that might have aided farmers or consumers rather than entrepreneurs. Townships and villages all over the municipality and their residents were affected as well. How welcome a development could it have been when so many of these townships' homegrown private profit-earning enterprises had to move into central Xinji to set up in the Golden City? These promising enterprises, after all, must have figured as key elements in the various townships' own local tax bases and in their plans for solving local surplus labour problems. And those smaller private firms that did move their operations into the FLTC had to cope with the Xinji government's explicit bias in favour of developing the larger, more modernized firms. Smaller firms now clearly run the risk of being relegated to a subordinate tier – one that must settle for short-term production contracts, fluctuating returns and lower profit margins as it provides the trade centre's higher profile enterprises with the services and inputs they need both flexibly and at low cost.

Even for those who are picked to win, the risks can be heavy and the realistic choices heavily constrained by state action. By putting so much of the authority and the energy of the local state behind this one grand gamble on a trade centre, local officials effectively swept many small private entrepreneurs on to a higher plane of risk and debt, even as they swept aside many others who were unwilling or unable to buy in and who were thereby consigned to carry on their businesses from the newly-demarcated periphery, outside the FLTC.<sup>43</sup> Individual and group participation in such projects may ostensibly be voluntary and the way smoothed by some attractive tax breaks and incentives, but the essence of such local state-planned development schemes can be quite coercive. Wu Xiumei may indeed have hesitated to take on so much debt at so early a phase in her company's development. But what alternative did she face if she had stayed outside the local authorities' pet trade centre project? If the trade centre succeeds in drawing enough business into Xinji, Wu and others like her will have the local state to thank for conceiving the project and carrying it out. If the costly project should fail, however, large-firm investors like Wu could be turned into victims of sorts – failed creatures precisely of the local state's high capacity to channel development and structure opportunity.

In some respects, strong local developmental states like the one in Xinji now enjoy greater capacities to govern their economies and even to spur social transformation than they have ever had. The activities of Xinji's FLTCSC as the 1990s came to a close, for example, extended far beyond those of even the most powerful horizontal institutions of state-led development employed during the Mao period or the 1980s. The level of resources with which the FLTCSC works, the complexity and ambit of its co-ordinative roles and its manifest ability to shape the fates of the

43. Similar problems of local developmental statism are explored by Unger and Chan, "Inheritors of the boom."



enterprises with which it deals all far outstrip today the local state developmental capacities of Xinji's past. Indeed, the intense involvement of the Supervision Commission itself in the market and in marketing – particularly in advertising and in other ways drumming up business on behalf of local private capitalists – though not entirely new,<sup>44</sup> represents such a vault in the level of resources deployed and the general complexity of operations undertaken as to constitute a qualitative change in local state developmental capabilities. Such multi-functional, market-oriented local state institutions as the FLTCSC will bear watching as part of the shift from the sort of local developmental state socialism practised in Xinji in the recent past to the sort of local state-led developmental capitalism which looks most likely, now, to be its proximate future.

No longer the subordinate and skeletal assemblages of peasant Party cadres in somewhat isolated and, primarily, internally-oriented communities that they once were, some of China's local states – at least in rapidly growing and urbanizing places like Xinji – have turned themselves into muscular, assertive forces to be reckoned with. The size of the economies over which local state leaders preside, and the complexity of the societies over which they exercise authority, are many times greater than they were just two decades ago. Yet if, within its own narrow context, the Xinji municipal government may appear to be something of a behemoth with the capacity and the discretion to make plans, allocate resources, pick winners and losers, and even alter the class structure of the community, from the perspective of national or international political economy, local developmental states like the one in Xinji must also be seen as propelled to action by forces well beyond their own control. The high-stakes competitions that now take place among different Chinese localities to attract attention and lure investment demand fast action and inspire dramatic gestures – gestures like those embodied in the gaudy architectural designs and the intensely publicized, quick-tempo execution of Xinji's modernistic trade centre. Xinji government leaders are impelled by this atmosphere of rivalry to think and plan on just such an ambitiously grandiose scale lest they be left behind and crushed by the competition.<sup>45</sup>

If Xinji's trade centre loses out in the ongoing rivalry with other Chinese producers of fur and leather goods, the municipal leadership, along with the rest of the municipality's population, will surely suffer. If the trade centre succeeds, however, it is Xinji's competitor cities and counties in Guangdong, Liaoning and Zhejiang who will feel the pinch. In China today, the consequences of decisions made well or badly by ambitious local state officials are felt not only at home, but may also

44. Small examples of such activity from the 1970s and 1980s can be found in Blecher and Shue, *Tethered Deer*, pp. 183–88 and *passim*.

45. See Unger and Chan, "Inheritors of the boom," pp. 69–70 for a report on another similarly "grandiose" project undertaken, in this case to attract tourism, by one of the local developmental states they have studied in Guangdong. "The glory of a high profile accomplishment," they write, "seems more important to the project's creators than the project's bottom line."

affect the life chances of real people living far off in other struggling localities, and even in other cities around the world. Far-reaching changes in the underlying structure of China's economy and society have caused fresh forms of power to become concentrated in these much better endowed and newly reconfigured local states. The reach of these assertive local states – competing against each other now in better integrated markets to reshape economy and society – has been extended.