‘Rich Brothers’ and ‘Poor Cousins’: the political economy of post-reform rural disparity in a Chinese township

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Rural reforms have resulted in great uneven development in rural China. The gap between the rich and the poor has been widened due to the diversity in the conditions for production and social life in the countryside. This paper probes into an interesting yet complex question: what causes the great economic divergences among villages that are geographically so close sharing similar physical settings and natural endowment? Answering this question is beyond the scope of a sole economic analysis. Using the case of Dayingjie Township, Yunnan Province, the paper develops an answer based on the political economy approach. It argues that human capital and social networking play important roles in the economic take off of a rich village in the Dayingjie context. As the gap between rich and poor communities widens, localism and weak distribution power at the township level become apparent, indicating a combination of both economic and political dimensions in deepening the gap. Finally, extreme concentration of resources leads to the rise of a group of a new rural elite who holds both political and economic leverage. They influence local politics toward profit hunting in favour of the wealthy clan in a rich village. This further leads to an ever-widening gap between the rich and poor. The Dayingjie case presents important insights in understanding inter-village disparity in rural China. Whether this story is generalizable in China is still too early to tell, but, by investigating one particular geographic area, this article attempts to direct attention to the political economy of inter-village disparity in China and to stimulate more discussion in the future.

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Introduction

Invited by the Yuxi Municipal Government, Yunnan Province in southwest China, a rural research in the Dayingjie Township (zheng) was undertaken in 2000. This township is under the auspice of the Hongta District of Yuxi Municipality. It is different from other rural communities in Yunnan because of its profitable rural industry and proximity to Zhoucheng, the primary city in Yuxi where the famous Hongta Cigarette Factory is located. Contrary to common belief, there is a great income disparity among villages in this rich township. Over 90% of the township wealth comes from a single village community. The remaining communities are still desperately poor. It is rather amazing to realize that even in such a small township with a population of 42,000, the 'trickling down effect' is not in place. How can villages that are geographically so close together become economically so far apart? What are the mechanisms in causing the disparity? To answer these questions, we carried out in-depth research and a household survey. Some interesting discoveries gradually emerged. It all began with an incident we encountered in Dayingjie.

A day after we arrived, a group of furious villagers dashed into the office of the Dayingjie Township Government, asking for arbitration over a land dispute. As we walked in, we found the villagers arguing with two officials while squatting on the floor and smoking water pipes. A young farmer in his 20s seemed to be the group’s leader. The purpose of their argument was unclear to us. Later, someone explained that they were rural idle loafers from Guojing, a poor village committee under the township. They were lodging a complaint against their village head. Why did they hate the local cadres so much and act so fiercely? Aren’t contemporary Chinese farmers seen as obedient? The brutality of local officials, rather than farmers’ furious action, is reported from time to time. What had made these farmers in a remote village come together to fight for their interests? The scene flashed back to 1993.

In 1993, several villagers in Guojing learned that the city government was to build a road that might involve requisition of a piece of land in their village. They immediately came up with an idea to earn quick money in the hope of getting as rich as Dayingjie, a nearby village in the same township. They suggested the village committee build a simple building structure on that piece of land, so that more compensation could be negotiated later on. They also tried to convince the

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2 A comprehensive questionnaire was designed for the household survey. Six topics are included in the questionnaire. They are: (1) basic household information, such as family size and annual income; (2) farming activities, such as the area of land distributed to the family, what crops they grow, why they choose these crops, and how much income they can generate from these crops; (3) off-farm activities, such as the number of people engaging in off farming activity and how much they can earn from it, and how did they get the off-farm job; (4) household attitude towards local elections, such as what kind of village head do they want to support, and whether they are satisfied with the current local leadership; (5) community culture, such as clan relations and village life; and (6) future perspective, such as what are their own plans for the development of their villages. The questionnaire was conducted in 100 rural families in ten village committees under the auspice of the Dayingjie Township.

3 The name 'Dayingjie' is shared by the township and one of the village committees under its auspice. Local people call the township 'Dayingjie Township' and the village committee 'Dayingjie Village Committee'. In Chinese, 'Dayingjie' means 'Big Camp Street', reflecting the historical roots of the township as a military settlement during ancient times.
committee cadres to contract this project to them. They asked for a ‘full contract’, hoping the village would not only contract the project to them, but also let them source building materials. The village committee did not agree to do so in view of possible corruption, and finally decided to turn down their request and rely on collective efforts to build the intended structure. From then on, the farmers began to developing resentment toward the village leader and were waiting for vindictive opportunities.

In 1994, the village committee decided to transform a sandy land parcel of 20 mu into an arable paddy field, and contracted this project to an outsider who then paid the village Y15,000 per mu. This decision triggered the land dispute mentioned earlier. In 1996, the land price soared up to Y72,000 per mu. According to current township policy, a project involving up to Y150,000 should be contracted through public tender. The same farmers therefore accused the village leader of corruption on the basis that he had contracted the project not only at a much lower price, but also behind closed doors.

While the settlement outcome is of less significance, some empirical implications are noteworthy here. Just like urban areas, rural China has quickly become a contested terrain to which various interests try to gain access in search of rapid gain. According to a township official, ‘the grassroots in rural society are transforming, and rural government’s power has been weakened as a result of land reform. Though still relying on land for food, farmers increasingly have intended to earn quick money from their land, especially when they see their neighbours get rich’. In China, reports are frequently heard about the dull life of ‘landless’ peasants at the urban fringe of cities. They lost their farmland because of government requisition, but still enjoy the once-for-all compensation, unaware of the dismal future. Common in rural China is that farmland was used (or leased) to build enterprises. In this process, some people get rich while others remain poor.

‘Land’, as an asset for making profit, becomes a ‘key’ for these successes or failures. Disparities may occur due to the differences in land use methods and their corresponding efficiencies. In some villages of the Dayingjie Township, farmers are rich and revere their village heads. In other villages, peasants are poor and detest their leaders. There are places where rural industry has never taken root, and places where rural enterprises fail or succeed. In some regions, farmers’ financial burdens constitute almost 50% of the gross income; while in others, rural households enjoy various welfare services. A sense of injustice sometimes prevailed among peasants. The poor and underdeveloped regions are demoralized, while the better-off ones tend to pursue their own interests, unwilling to share the wealth with poorer communities.

This paper highlights the major characteristics and causes of the inter-village disparity in a remote yet prosperous township in China. It attempts to answer ‘why does rural industry take root and succeed in some villages but fail in others, given the similarity in physical setting, natural endowment and adopted policies?’ and ‘what are the underlying mechanisms that lead to the disparities among these villages?’. The paper is divided into four parts. Following this introduction, Part Two addresses the major characteristics of the political economy in rural China in order to pinpoint the development background of Dayingjie Township. Details of rural
disparity and causes in this township are examined next. Concluding remarks will highlight my major arguments in this paper.

The political economy of rural disparities in China: a development background of Dayingjie Township

Regional disparity in China has been under constant scholarly scrutiny since the 1980s. Most studies concern either the 'inefficiency' of Mao's policies to balance regional development in the pre-reform era or the 'inevitability' of the uneven development strategies in the post-reform period aimed at promoting a 'common prosperity' through a trickling down effect. Some research addresses the problems caused by the increasing gaps between rich and poor areas in terms of economic inequality. Such research focuses primarily on the disparity at inter- or intra-provincial level or between urban and rural areas. Research findings seem to conclude that urban or rural disparity is a result of geographical differentials or state-initiated lopsided policies, such as the sectoral economic development policy, regional development policy, fiscal reform, and growth of rural non-farm activities.

Though effective to illustrate the major reasons of disparity at a macro level, these findings cannot be used to explain the discrepancy among villages, since they fail to answer questions 'why are villages geographically so close economically so far apart?' and 'why do villages that adopt similar policies experience a great gap of wealth inequality?'.

Very little research has been devoted to such questions. Knight and Li made a pioneering contribution. They studied seven villages of different townships in

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7 See, for example, Clifton W. Pannell and Laurence Ma, China: The Geography of Development and Modernization (New York: John Wiley, 1983).


Hebei Province using a survey of 1,000 households and concluded that in addition to the natural resource endowment, the major cause of differential in village development is non-farm income sources, in particular, migration and village industry, as well as the cumulative processes they bring. For example, according to them, village industrialization depends on the accumulation of local skills through a process of learning-by-doing and on the reinvestment of profit that may lead to success or failure of rural industry. It is clear that their explanations only focus on one side of the coin by stressing the economic reason, while ignoring others, such as politics and institutions that may prove to be at least equally fundamental to rural discrepancy. Knight and Li cannot provide a satisfactory answer to the questions stated above.

Obviously, when addressing these questions, most current studies on regional disparity seem to suggest that the success of a particular region relies on some forms of ‘physical capital’ that are either resource-related or policy-related. In some cases, rural areas may benefit from abundant resources or strategic location that is essentially tangible ‘physical capitals’. In other cases, areas without decent natural endowments also become rich due to preferential policies granted to them. In the case of Dayingjie, the rich village’s success is neither resource- nor policy-oriented, but is more associated with ‘social networking’ which serves to give some gifted villagers access to crucial benefits that are not otherwise available. These villagers are persons with special skills, such as craftsmen or those skillful in social networking and guanxi. This kind of social networking is indispensable to the economic take-off of a village without abundant physical capital. The story of Dayingjie also reveals that strong localism and weak redistribution power of township government greatly contribute to village disparity. In this sense, to explore rural disparities in China has to go beyond the economic dimension. A political economy approach that emphasizes the interaction of politics with economics to explain the emergence of village disparities is therefore adopted in this paper.

The changing political economy of rural disparity in China

Rural China has undergone three phases of development since the late 1950s: communization from 1957 to 1978; the implementation of the Household Responsibility System (HRS) from 1979 to 1984; and the rise of entrepreneurial rural communities from 1985 to date. Each phase saw major policy change, profound to the transformation of rural political economy.


14 Chen, *The Political Economy of Rural Development in China*. He makes it clear that guanxi politics refers to interpersonal connections and relations. Often, it involves behind-the-scene deals and transaction. The sources of guanxi include but are not limited to kinship, social and cultural ties, exchange relationships, and political connections.

15 Ibid.
The first phase is part of the 27 years of Mao’s era. This period saw three basic features critical to the formation of pre-reform Chinese political economy. First, the use of a ‘market element’ was condemned to rip out ‘black market trading’ and ‘exploitative relations’ that contradicted the egalitarian principle of socialism. This ultra-leftist policy was embodied and intensified through the collectivization movement and communization in rural areas. The mobilization of rural masses transformed and reformed 500 million individual peasants who were then denied ‘individuality’ of each household and relied solely on ‘collective allocation of resources and distribution of daily necessities’ for their very livelihoods. Second, collectivization and communication negated private property rights. This not only deprived individual households of their rights but also discouraged peasants’ incentive for production. Lastly, like their urban counterparts, rural communities were under centralized governance through a vertical patriarchal system. At the most grassroots level were production team leaders appointed by local cadres at the next higher level. These team leaders served as a bridge between peasants and the state agencies.

Unlike pre-reform urban China where regional disparity emerged as a problem if judged by the doctrine of socialist egalitarianism, rural China during the commune period was regarded as a society with little scope for rural differentiation to occur. The absence of a market and the state monopoly in imposing high procurement quotas and low procurement prices made ‘becoming better off’ an impossible notion, even in villages where land resource was rich and abundant.

For the second phase of rural development, the Household Responsibility System (HRS) proved to be a milestone in the reform of agricultural production. The HRS was designed to promote both ‘individuality and incentive’. It has swept away the role of old rural institutions in determining the fate of individual households and provided farming groups with more opportunities to interact with each other and the outside world. The establishment of social networking thus became possible. However, the HRS did not lead to a significant rural disparity, though it enabled rural households to dispose of residual income. Gifted farmers could not outperform other farmers if farming remained as a low profitability sector.

The most important factor in facilitating transformation in political economy proved to be the rural industry, which experienced unprecedented growth during the third phase of rural development. First, the market element is further emphasized by the growth of rural enterprises that are granted more autonomy in their production and management mainly based on market regulation. The collection of up-to-date and accurate market information is thus a key to the success of a rural industry. Second, the development of rural industry is also accompanied by the emergence of a multi-ownership system. Third, a rural industrial boom leads to

16 Ibid.
the rise of entrepreneurs and a process of power redistribution. Profit remittance of rural enterprises becomes the most remarkable extra-budgetary source for rural governments. Differences in levels of rural industrialization lead to the differences in profit remittance, which in turn result in variations in local government resources and in the strength and effectiveness of local governments. Furthermore, the rise of new entrepreneurial groups in rural China and the transformation of administrative elites to economic-managerial leaders mark a shift in village authority. Economic success brings gifted entrepreneurial political credit, and thus merges the economic advantage and political power to exert more influences over local political economy. This tendency is reinforced by village elections because farmers tend to elect those who control local economic resources and who can make them better off. However, the emerging market rural economy in politically authoritarian China has laws and property rights that are not well articulated. Economic success may thus be guaranteed by interpersonal bonds or relationships that offer mutual benefits for parties involved. These bonds or relationships are crucial to initiate and sustain economic success, making guanxi politics an alternative way of social networking in China. Given this subtle context in post-reform rural China, rural disparity becomes inevitable.

**Rural disparity in Dayingjie Township, Yunnan Province**

**Dayingjie Township: an introduction**

(1) Administration. Dayingjie Township (DT) (zheng) is located in the central part of Yunnan Province, 90 kilometres from Kunming, the provincial capital. It is one of the ten townships in the Hongta District of Yuxi Municipality (see Figure 1). Zhoucheng, the primary urban centre where Yuxi City Government is located, lies six kilometres from DT. The present boundaries and administrative status of the township were established in 1987. Today, it covers 126 km² with a population of more than 42,000. As shown by Figure 1, there are three levels of grassroots rural administrative hierarchy in the township, each with a built-in party organization. At the top of the hierarchy sits the Dayingjie Township Government (DTG) and its size is roughly the same as that of the People’s Commune in Mao’s era. The township government is the lowest rural administration unit where all government officials are appointed by higher-level authority and earn salaries from the govern-

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Figure 1. Dayingjie Township in the administrative hierarchy.

ment budgets. It is also the lowest level to be granted fiscal independence by the Bank of China in 1991. Immediately below the DTG are ten Village Committees (VC) that govern ten administrative villages respectively. Among these ten administrative villages, seven are on flat land, two are in the mountains, and one sits between these two topographic areas. The former seven villages are almost identical in terms of physical setting and natural endowment and are geographically close to each other. The size of each committee is equivalent to that of a production brigade in the commune system. Strictly speaking, these ten VCs are not government agencies. Most committee leaders are natives elected by eligible villagers and do not earn a government salary with the exception of three persons: the Party Secretary, the Committee Head and the Clerk. These ten VCs are further divided into 106 Village Groups (VG). Each group is either a small natural village or part of a large natural village, a level that is not identified as an official tier of government administration. The size of a village group is roughly the same as that of a production team in the commune system. Group head is usually elected by local villagers every three years and his/her work is paid for by the corresponding village committee at the next highest level. The administrative system of the
Dayingjie Township represents a hierarchy formed by both state agencies and non-state structure.

(2) Economy. The Dayingjie Township is regarded as a rich township that is obligated to pay a sizable revenue remittance to the Hongta District. The township possesses some of the most productive land in China. Traditional farming sustained a modest and self-reliant agrarian livelihood until the 1980s, when the problems of surplus labour and low farm income became acute. To explore solutions, the township adopted the path of rural industrialization under the leadership of several gutsy entrepreneurs, who wisely took advantage of their relationship with Hongta Cigarette Company, one of the most profitable enterprise giants in China, to start the production of cigarette filters in the township. Since then, many other profitable village industries have taken off. Industrial production, including construction, is the dominant sector in the township economy, representing 80% of the total output value and employing about 34% of the labour force. The township’s factories currently range from the highly profitable or the barely surviving, and their products include: cigarette filters, furniture, aluminium foil, solar panels, automobile parts, cast iron, cement and brick. However, except for tobacco, none process agricultural products.

The success of rural industry since the 1990s makes the Dayingjie Township outperform other rural area in Yunnan through rapid development of its economy and the significant improvement in the well being of its people. In 1999, the annual average income per capita in the township reached 4,000 yuan and tops the rest of Hongta District. In rich villages, peasants earn roughly 10,000 yuan per year, an enviable income, even compared to the workers in Kunming. Rural industry contributes significantly to this achievement. The total revenue of the township in 1999 was 2.64 billion yuan, of which 95% came from rural industry, a 2.5-fold increase since 1990. The growth of wealth enables the rural government to find investment outlets. New roads, housing and public facilities spring up, bringing sharp contrast to the diminishing agricultural land and the eroding symbols of Dayingjie’s heritage. Per capita arable land is limited; most farming families are only able to contract tiny plots of land. To make matters worse, the small area is sometimes made up of several scattered garden-sized plots. To most farmers, agricultural land only provides self-sufficiency at a subsistence level. Farmers willing to enrich themselves must rely on other income sources.

Disparity among villages: rich brothers and poor cousins

The richness of DT does not mean wealth has been evenly distributed across the township. On the contrary, one can observe the most striking rural disparity here. Among its ten VCs, Dayingjie Village Committee (DVC), one of seven administrative villages located on flat land, is remarkably outpacing other committees in terms of socio-economic development and welfare provisions. In 1999, with a population of 5,900 (14% of the township’s total), DVC contributed more than 73% of the township revenue. DVC has no obvious advantages in terms of physical conditions compared to the other six village committees with similar setting and
natural endowment. It has a land area of 2.7 square kilometres, with its villagers distributed over nine village groups within its own administrative boundary. Most of these villagers are rich peasants performing non-farm work and only taking ‘hobby farming’. The wealth of DVC hardly reaches beyond its boundary, so there is a remarkable disparity with its surrounding villages, creating what we call ‘rich brothers’ (rich villages within the administrative boundary of DVC) and ‘poor cousins’ (poor villages within the administrative boundaries of other village committees) in Dayingjie Township.

(1) Rich brothers. The nine village groups of the DVC are the richest in the township family. They enjoy an annual per capita income of more than 6,000 yuan, the unofficial figure being much higher. Only 0.2% of the total income comes from agriculture. Prior to the 1990s, DVC was not different from other village committees, with a modest and self-reliant agrarian livelihood sustained by traditional farming. Successful development of rural industry made DVC outperform its neighbouring villages. It owns the highly profitable factories producing cigarette filters, furniture, aluminium foil, solar panels and more. The explosive success has greatly improved living standards and supported a unique social welfare system, earning it the reputation as a model village. All villagers are now living in subsidized spacious houses and enjoying welfare services, such as pensions, healthcare, free childcare, free rice and vegetables, free education from nursery to primary school, subsidized utilities, and so forth. The disabled, childless and infirm are all taken care of by the village committee. Each labourer has been allocated a job either working in the committee’s factories or working for the DVC’s community service, such as the landscaping team. All arable land has been consolidated by the committee and is managed corporately by employing hired farm labourers. Local villagers cannot be identified as ‘full time farmers’ any more. They do not grow crops that are very time-consuming and labour-intensive to grow. The collective delivers free chemical fertilizer and pesticide to each household and even pays agricultural tax for them. So, local tenant farmers spend very little time growing crops. Wealth leads to relative social stability in DVC. Farmers are proud of their villages and pay great respect to local cadres who have brought them out of poverty.

(2) Poor cousins. The 100 village groups of the other nine village committees are the poor cousins in the township compared to the rich brothers in DVC. Occupying almost 98% of the township land and 86% of the total population, these villages together only contributed 27% of the total township income in 1999. In particular, villages of two remote minority committees in the hills only support a farming livelihood at subsistence level and experience little improvement in housing, healthcare and education. These villages are those places idealized in traditional Chinese landscapes: self-sufficient and idyllic. Rural industry has never taken root. Poverty is not so unexpected in these areas, given the mountainous topography that limits cultivated land, and the lack of any good means of modern transport. However, ‘cousins’ located on flat land with close proximity to DVC are also in desperate poverty. With less than 2,000 yuan per capita net income, a majority of poor village
committees are in deficit due to failure of rural industrial development. Some committees have a debt of more than 100 million yuan. In these places, community assets, such as factories and village office buildings, have been seized by creditor banks. A majority of farmers live in dilapidating houses and rely on pitiful income from farming to make ends meet, though some may get rich working as skilful craftsmen, businessmen or workers if they are fortunate enough to find supplementary jobs elsewhere.

Poor village committees do not assign jobs to villagers; neither do they provide free welfare. So, there are many rural idlers in these communities particularly during the off-season, causing severe social problems. Murder, robbery, illicit gambling and drugs are not unheard of. In 1997, a group of agitated farmers bombed a road in one village committee that failed to keep promises to farmers who contributed arable land to build a factory without being compensated. Similar conflicts often arise because of interest confrontations relating to land disputes. Farmland is essential to the livelihood of peasants. Nevertheless, they are willing to give it up for, according to their own words, ‘getting as rich as those in DVC’. For whatever reasons, their collectives failed to meet this hope. A direct consequence is the surge of mistrust towards local cadres and lawlessness in the countryside.

Mechanisms leading to the disparity between ‘rich brothers’ and ‘poor cousins’

The development of village disparity in Dayingjie can be divided into three phases:
• early stage: emergence;
• median stage: growth;
• late stage: deepening.

(1) Emergence: how the ‘rich brothers’ took off in the early 1990s with no significant advantages? Human capital and social networking through guanxi are two important factors contributing to the economic take off of DVC. Three gutsy entrepreneurs have been given credits for the initial success of industrial development. They wisely established close guanxi with the fast growing Hongta Cigarette Company, the most profitable Chinese state-owned enterprise located in Zhoucheng. The three persons who started up the connection building are Mr Ren, Mr He and Mr Yang and all were born in 1953. They grew up together in the same village and were thus accustomed to a collective life that gives the highest priority to interpersonal connections and devotion to their own origin. In 1970, Ren joined the Dayingjie Brigade Construction Team and was elected team leader nine years later. Ren then invited his two good friends, He and Yang, to join the team. Ren himself is a craftsman, but good at social networking, while He was capable of building a marketing network and Yang is a skilful lacquer worker. Through their hard work of building a new factory for the Hongta Cigarette Company, the construction team earned the trust of the big enterprise giant, and the latter soon

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25 Even though it is hard to obtain any concrete evidence to show how these people have established tangible and intangible relations with Hongta Company, their stories are widely known in the local community. All interviewees we met told us a similar story.
moved its cigarette filter factory to DVC. Since then many other profitable village industries have taken off. In this exchange relationship between Ren’s alliance and the Hongta Cigarette Factory, close collaborative relationships offer crucial mutual benefits. For Ren’s group, the guanxi is not only an engine creating much needed financial capital but also an essential source of information regarding markets and production technology. Most importantly, the cigarette factory itself is a marketplace for local industries of DVC because it is the largest and most trustworthy buyer of products of DVC’s manufacturers. For the cigarette factory, reliable deliveries of low cost products have to be ensured.

Owing to their contribution to the local economy, Ren, He and Yang were elected as important local cadres and admired by thousands of villagers. With the accumulation of economic wealth and political influence, Ren began to build his own economic empire and became the ‘king’ of the community. After the former president of the Hongta Company was purged because of alleged corruption, Ren has kept a low profile.26

The great success story of the rich brothers inspired its neighbouring cousins. They felt a sense of injustice and envy as ideas of equality are still persistent at the bottom of peasants’ hearts.27 The poor and underdeveloped villages also planned to use agricultural land to build factories that could lay golden eggs overnight. Cement factories, quarries, steel and iron refineries sprang up in every village but all failed to produce the expected outcome. Some half-built factories were left empty as loans or markets were nowhere to be found. Village leaders, though full of hope and energy, are still peasant, paternalistic and, to a large extent, short-sighted. The success of DVC’s industry depends on the patron–clients relations between the DVC and the Hongta Company. The latter builds up all the marketing networks for the former, who needs not worry about its future as long as the Hongta Company remains prosperous.

(2) Growth: gap expands between the rich brothers and poor cousins. During this phase, strong localism and weak redistribution power of the township government have worked together to fuel the growing gap.

Strong localism. The accumulation of wealth in DVC led to the surge of strong economic and political localism.28 First, DVC has formed a ‘dukedom economy’,29
unwilling to share wealth with other poor neighbours. From our interviews, villagers of DVC strongly support their leaders’ effort to transform the village economy, but the overwhelming majority object to sharing the wealth with other poor villages. Local cadres also show similar tendencies, because they are locally elected native people who are inclined to favour local interests. This is particularly true in villages like Dayingjie where clan culture creates a sense of identity and social cohesion. Village enterprises are also reluctant to recruit from nearby poor villages. Instead, they prefer hiring migrant workers from other provinces, such as Sichuan and Guizhou. When asked why, local leaders were not able to give a convincing reason and only accused these poor cousins of being lazy. In fact, the greed of a rich village is in some way understandable. In the new policy environment, rural wealth stemmed from rural industries competing with other communities in the market. To maintain success, rich villages have to keep a watchful eye on other villages that may otherwise overtake their competitive advantages.

From a political perspective, DVC has become a ‘local empire’ that is gradually independent of township government. Because tax payment of DVC enterprises is the most significant revenue source of the township government, Ren has a lot of say in local politics. Even the township party secretary has to be circumspect in the presence of Ren. Many people told us that if someone wants to retain his/her job, s/he has to be very careful to keep a good relationship with Ren in one way or another. Ren, as the president of the local village conglomerate and party secretary of DVC, won the title of national peasant entrepreneur in 1999. Though also serving as a deputy to the Provincial People’s Congress and the deputy party secretary of the township, he is by no means showing any sign of speaking for the interest of the whole township.

Weak redistribution power of the township government is a result of current local fiscal policies. The 1994 fiscal reform has articulated the expenditure responsibilities and budgetary sources of the central and provincial government, but left finance at lower levels untouched. Rural finance in Dayingjie today still exhibits continuity with the situation prior to 1994. In 1991, the Bank of China granted fiscal independence to DT. The township has formally set up its own budget and off-budget sources of revenue ever since. Many other Chinese townships have not been granted such a privilege. Major budgetary revenues consist of some minor local taxes, such as the agricultural tax, the agricultural special products tax and the animal slaughter tax, and two major shared taxes (with higher level governments), including the personal income tax and the value-added tax (VAT) of enterprises. Among these items, the VAT, is most significantly contributed by all enterprises located in the administrative boundary of the township. Clearly, the profitable enterprises of DVC are the major source of VAT. Unfortunately, 75% of VAT must be remitted to the central government. This means the township government only retains a small amount of budgetary revenue. In terms of township extra-budgetary revenue, it often comprises taxes such as agricultural surtax, rural education surtax and surcharges for public services. However, the Dayingjie Township Government does not levy agricultural and education surtaxes in order to lift burdens on farmers, and therefore cannot rely on extra-budgetary revenue to boost its cash income. So
how about self-raised funds? Another source to be considered consists of fees levied by public institutions, rental income from collective assets, profit and other remittances from township collective enterprises, and the 'unified levy' on villagers. In Dayingjie, collective enterprises owned by township government all suffer deficit and are thus not required to remit profit. Unified levy has not been collected since the 1980s. Self-raised funds are insignificant when compared to budgetary revenues. To sum up, shared taxes make up the largest part (95% according to local cadres) of the total revenue income, while local taxes and fees are insignificant. So, the distribution power of the township government is largely restricted in view of the limited financial resource it controls.

Another factor attributed to the weak distribution power is the current revenue sharing system with the Hongta District Government. According to this system, the DT's 1993 revenue is taken as fixed base revenue. For a particular year, remittance is determined as a percentage of any increase in the township revenue of that year over the 1993 base revenue. However, if the township's revenue of a particular year is below the base revenue, district government is to transfer money to the township to ensure that the latter's annual revenue is at least equal to the 1993 base revenue. This has never happened. Though the revenue division system has been used since 1993, the remittance rate is not fixed but determined periodically through bargaining between the district and the township government. The remittance rate was set at 50% in 1993, which means the township had to remit 50% of the increase of annual revenue over the base revenue to higher-level governments. The rate was changed to 25% in 1999, and then was increased to 45% in 2000. Clearly, Dayingjie, as a rich township, is subject to a high revenue-sharing burden under the fiscal contract with the district government, while the transfer from the upper level is zero. In 1999, almost 10% of the total budgetary revenue was remitted to higher-level authorities. This further works to disadvantage the redistribution power at township level. Local transfer across the township is trivial compared to the sizable remittance to higher-level governments. Villages under DT jurisdiction have to live on their own.

Village committees have substantial responsibilities though they have no independent fiscal powers. Through interviews with village leaders, it was found that responsibilities such as salary to village cadres, social welfare for the aged and the sick, primary education, maintenance of hydro-electric facilities, and even road construction all fall under village responsibility. Income sources available to villages vary widely due to the differences in control over resources. Almost all revenues for village investment and welfare have to come from local taxes on rural families, the rent of land or other collective assets, and the profit remittance of village collective enterprises. The resources controlled by DVC are astonishing, with at least a fixed capital asset of 700 million yuan and circulating capital totalling up to 300 million yuan, mostly from profit remittance of local industries. DVC thus relies less on income levied on rural households for its revenue. For other poor committees, villages rely on miscellaneous sources to supplement service provisions. Their income comes more from levies on rural households and production. So their abilities to spend on public goods and services are limited. The farmers' burden is much greater compared to their neighbouring rich brothers.
The Dayingjie case seems to suggest that the de-collectivization and decentralization has not been accompanied by proper resource redistribution among rural society, even though they have empowered rural administration. Township government is supposed to fill this vacuum, but its ability to do so depends on whether it can access economic resources. In Dayingjie, where rich village controls local financial resources, the township government’s role is weak in re-distributing wealth to poor villages. This has fuelled the disenchantment of those most disadvantaged.

(3) Deepening: gap enhanced between the rich brothers and poor cousins. Extreme concentration of resources and the resulting new politics further work to advantage rich villages and enhance such villages’ positions. DVC is financing the township government, and its leaders are the new rural township elites, wealthy and occupying key township government positions. The concentration of resources means DVC has to find new outlets of investment. Unfortunately these outlets are exclusively confined to villages within the community boundary due to strong localism.

Extreme concentration of resources in DVC complicates the picture of local politics. Most significantly, rich clans and kinship control village affairs and resources. In Dayingjie, we saw many old clan temples, dilapidated and abandoned, testifying the once flourishing clan culture in village affairs. A big surname used to own a clan temple for ancestral worship of villagers from the same genealogical background. Seniors in a patriarchal system determined village affairs. Clan politics were somehow suppressed during the commune era when government power took over. To date, clan culture has a new face. The principle governing social status has shifted from those based on patriarchal position or political power to one based on access to economic resources. Rich clan and kinship have power to concentrate both political credits and economic resources for their own sake.

Mr Ren, as the head of DVC, is also the party secretary of the committee and the chairman of the board of the local village conglomerate. He extends his power, acting as the deputy secretary of the township party branch. Yang and He also hold key positions in the village committee. As local cadres and entrepreneurs, Ren, Yang and He are three important persons in local kin-based firms. While Ren monopolizes overall economic power, Yang and He are general managers of the two most profitable collective enterprises. Their relatives, in turn, act as key persons in other profitable firms and a local television station owned by DVC. The kin-based firms of Ren, He and Yang control more than 2 billion yuan annual industrial output in DVC. The empire has become a significant vehicle for capital accumulation in the township. To ‘privatize’ collective enterprises is another way to concentrate resources in the hands of a few in DVC. A host of small collective factories were transferred to individuals under certain arrangement. Large firms,

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30 While Ren acts as the chairman of the board of rural industry, He and Yang are the general managers of the Cigarette Tip Plant and the Chinese Cypress Paper Plant respectively, the two most profitable factories. The manager of the Alumnus Products Plant, Mr Chen Baogui, is a close relative of Yang. The manager of the Alumnus Foil Plant and the Yu Spring Distillery is the former brother-in-law of Ren. The head of the Tile Plant is another brother-in-law of Ren. The director of Huixi Park is the brother of He.
while still collective assets, had their ownership structures changed into a share holding system. It is not uncommon that owners of enterprises give free shares to powerful cadres in exchange for any favour and a certain percentage of shares of some firms are in fact distributed among several cadres. During our interviews with local villagers, we were told more than once that Ren’s kin-based property value records multiple increases after collective firms are privatized.

The kin-based nature of resource concentration results in further obstacles for distributing wealth to poor neighbours because of a constant attempt to secure private advantage. The political consequence of this is the loss of control by the township government over DVC. A weak linkage between the state and the rich village thus results. One example is particularly penetrating. Ren and his alliances had a plan to transform DVC’s arable land, which is the most productive in the region, into a huge lake in order to create more tourist attractions. This plan negates the municipal land use plan and also seemingly contradicts the national policy of protecting arable land. Despite strong disapproval from the municipal planning department, DVC started to build the lake soon after this research project came to an end.

The extreme wealth of DVC also tends to become the object of considerable envy of its poor cousins who are desperately trying to enrich themselves. However, not all peasants can get rich due to lack of education, technical skills, guanxi, capital and knowledge. In one poor village committee, the former party secretary murdered his political opponent in order to secure his own position in the leadership. Government officials in poor villages are by no means as rich as Ren, but they are often among the wealthiest in the villages. Ren himself is also a wealthy public figure targeted by various groups. His wife and nephew were once kidnapped for several million in ransom. Luckily, they both escaped.

Conclusions

Rural reforms have resulted in great uneven development in rural China. The gap between the rich and the poor has been widened due to the diversity in the production conditions and social life in the countryside. In this paper, we have probed into an interesting yet complex question: what causes the great economic divergences among villages sharing a similar physical setting and natural endowment. Answering this question is beyond the scope of sole economic analysis. Using the case of Dayingjie Township, we have developed an analytical framework based on the political economy approach (Figure 2). It is found that human capital and social networking play important roles in the economic take-off of rich villages in Dayingjie. As the gap between rich and poor communities widens, localism and weak redistribution power at township level became apparent, indicating a combination of both economic and political dimensions in deepening the gap. Finally, extreme concentration of resources leads to the rise of a group of new rural elite which holds both political and economic leverage and influences local politics in favour of a wealthy clan in rich villages. This further leads to an ever-widening gap between the rich and the poor.

The Dayingjie case shows that peasants and rural resources cannot move freely
between villages largely due to institutional inadequacies, such as the weak re-distributive role of the township government. Village members have rights of access to local resources and receive priority in industrial employment, while precluding outsiders from sharing the wealth. Institutional inadequacies also deny the free flow of rural capital, making the village itself both the main source and destination of investment, and alienating the few rich places from the majority of the population. The poor and underdeveloped villages are demoralized, while the rich and developed ones have developed a tendency toward localism. Moreover, the use of arable land for purposes other than agriculture consolidates a particular mindset that a higher return is only possible by transferring land to other uses, in particular, industry. The poor farmers then follow and leave behind many ecological nightmares, while the rich peasants continue to disregard agricultural land loss and ignore long-term rural development strategy.

Dayingjie is atypical in many regards and the mechanisms at work here are unlikely to apply universally. However, the findings reveal the underlying factors leading to rural disparity in Dayingjie’s villages that are similar in ‘physical capital’. It is therefore suggested that institutional reform be considered in this township, including jurisdictional change and the restructuring of local public finance, in order to see a better future for the farming community. Whether this is only unique to Dayingjie Township has to be determined through further case studies. Suffice it to say rural China is vast and diverse in nature. Rural policies and mechanisms also vary with time and place. Factors leading to township disparity may not be the same. Notwithstanding these facts, the Dayingjie Township can provide a vivid picture of true life in a remote rural area in China.