Doing Business in Rural China
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The Liangshan Economic Setting
and Private Entrepreneurs

Until the 1960s, there were few industrial companies and no Nuosu entrepreneurs in Liangshan. Except for opium production and trade in the first half of the 20th century, the economy was based on a subsistence (Ch: zizu zigei) model. In the 1940s, the social anthropologist Lin Yaohua carried out fieldwork in Liangshan and reached the conclusion that the Yi “are not interested in business dealings” (1961: 92). There were no predominantly Nuosu markets in the core areas of Liangshan; instead, goods were exchanged among individuals. Under the protection of Yi leaders, Han traders engaged in commerce, bringing in goods from outside and taking Yi wares back to Han areas. Contrary to depictions in Chinese films, no slave market existed in the area (see Long 1988: 86ff.).

Lin concluded that traditional Yi commercial thought had four characteristic features: one, placing a high value on meeting ethical and social obligations and a lower value on making a profit; two, ranking agriculture above trade in importance; three, sharing and distributing goods through an egalitarian system; and four, juxtaposing frugality, abstention, and food storage against feasting at festivals and on ritual occasions (Lin Yaohua 1961: 92).

Nuosu subsistence was based on farming and herding, and intensive cultivation and slash-and-burn methods predominated. The hilly terrain only permitted the cultivation of grains like corn, buckwheat, and oats, in addition to potatoes. Because only simple cultivation tools were employed and chemical fertilizer was unknown, the harvest yields were low, and there was little interest in expanding agricultural production. The independent craft and trade system was not well developed, and for the most part the economy was geared toward self-sufficiency.

Private industry and private trading existed only marginally (for exam-
ple, in salt). Clothing was manufactured on a household basis for family use only. A division of labor between agriculture, craft, and trade was largely absent, and the trading system that had formed in the peripheral areas of Liangshan was limited to trade in everyday goods (Wang Luping 1992). However, there did exist a division of labor by class. As a rule, Black Nuosu (Nuoho) did not participate in cultivation; this was the task of Quho and the lower castes. While livestock rearing was also the domain of the lower castes, breeding livestock was Nuoho’s work. But, as argued above—and this point needs to be emphasized—Quho were not slaves by any standard.

In the first half of the twentieth century, opium cultivation and trade generated increasing cash incomes and formed the most important branch of the Liangshan economy. In the eighteenth century, opium had reached the Liangshan area from Yunnan. Cultivation had been widespread

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MAP 3. Liangshan Yi Autonomous Prefecture
since the end of the nineteenth century, but opium became an important cash crop mainly after it was forbidden by the Chinese authorities in 1906. Its economic significance also expanded in the Liangshan area, which at that time was almost completely outside the control of the Chinese authorities.

Opium developed into the single most important commodity for barter with the Han. In the Nuosu areas, it even became a type of currency. However, the income from opium cultivation and trading was not invested in production but used primarily to purchase modern weapons. The interest in purchasing weapons for clan fights, to defend Nuosu against the Chinese army, and, later, by the nationalists stimulated the opium industry and probably also led to more slave-raiding (Hill 2001), as serflike labor was needed for opium cultivation. About 80 percent of the Nuosu households in Liangshan grew Papaver somniferum, from which opium is derived, and a commodity economy emerged because the production was aimed at the market. A monetary economy developed in place of barter trading, with silver bars as the means of payment, and opium trading brought a certain degree of prosperity for some Nuosu. However, in the 1950s, the new Chinese government forbade both opium cultivation and its trade.

Forced changes in the social system and integration into larger economic frameworks (state industrialization programs and collectivization of agriculture) brought with them economic reorganizations, but the backwardness of the agricultural sector handicapped the exchange between urban and rural areas. New local state enterprises established in the late 1950s by Han authorities required raw materials from state-owned companies outside the Liangshan area. For the most part, jobs in state enterprises were reserved for Han immigrants. The Great Leap Forward (1958–1960) and the political campaigns of the 1960s and 1970s destroyed large sections of the forests, the local agricultural structure, and organic geographic features of the region. The structure of the economy also changed partially as economic reforms began in the early 1980s. Most of the state- and collective-owned companies were closed down and the private sector gradually became the decisive economic force (Li Xingxing 2000; Lin Yaohua 1961: 93ff.).

However, “traditional economic thought” has remained very strong in the core agricultural areas of the Nuosu. Economic behavior continues to be primarily influenced by kinship, social obligations, moral norms, rituals, small-scale production, and the subsistence economy. A local functionary in Jinyang County described the current economic thought of many Nuosu: “With a small amount of wealth I am satisfied; without wealth I am satisfied; half hungry and half full I am also satisfied.” Due to this widely held atti-
tude, the Nuosu also have a saying: “Rather a hard life than hard work; rather inconvenience than too much drudgery.”

The evaluation of such thinking as “backward” and the Nuosu as an “uneconomic” people is out of place. Behind such negative assessments lie typical concepts of economics and modernization oriented toward the official state Weltanschauung. Sahlins has contradicted such perceptions, arguing against “business-like interpretations” of simple economies by demonstrating that such economies were not “economies of shortage,” but, rather, “affluent” societies which were “easily satisfied either by producing much or desiring little” (Sahlins 1974: 1ff.) The Nuosu sentiment that they had lived a good though modest life before the mid-1950s appears to confirm Sahlins’s view.

Contrary to Han beliefs, Nuosu social structure was not based on a systematic exploitation of the lower castes for labor, particularly because the dominant stratum had slight interest in growing surplus produce. That stratum’s modest degree of material wealth was described by the Nuosu scholar Mgebbu Lunzy: “In Europe the dominant and powerful strata had built for themselves magnificent palaces and splendid villas and lived a life of luxury. In Liangshan, by comparison, even the wealthiest of our upper stratum lived under relatively shabby and primitive conditions. This is probably related to traditional concepts of society.”

**Liangshan Prefecture**

In the early 1950s, China’s political leaders (including Mao himself) considered setting up an autonomous Yi region at the provincial level that would have included all areas inhabited by Nuosu. Part of the reason for not doing so was that the area was not contiguous and, furthermore, the Nuosu, due to their fragmentation along clan lines, pursued particularistic interests and did not pull together as a group. Today, many Nuosu regret this because the formation of an administrative unit at the provincial level would have meant a larger cash flow from the central government for their economic and social development, and would also have included areas of other non-Nuosu Yi in Yunnan and Guizhou.

A Yi autonomous prefecture was founded in 1952, with Zhaojue as its capital. The boundaries of the prefecture were revised a number of times over the years and in 1979, Xichang District, which was for the most part populated by Han, was integrated into Liangshan Prefecture. The administrative authorities and a section of the larger companies were transferred
to the new capital city of Xichang. From then on, the Nuosu no longer constituted the majority of the population in the prefecture, and the new capital was almost exclusively populated by Han. The authorities responsible for the reorganization justified it on the grounds that the effects of economic growth in Xichang would spill over into the remaining counties of the prefecture, creating rapid development in these areas. The reality was that the counties mostly populated by Nuosu remained poor.

Panzhihua, nowadays a large steel-producing city near the Yunnan border, originally belonged to Xichang and Yi Yanbian Autonomous County. It was removed from the Yi territories after iron ore was discovered there. A large steel combine was founded in Panzhihua; however, the jobs created by the combine were not filled by local Yi or local Han, but by Han recruited from outside. When Panzhihua became a city, two counties, Yanbian and Miyi, were taken out of the Liangshan autonomous territory and incorporated into the new city (see map 3). Although the combine represented the largest state investment in Nuosu areas, it brought no benefits to the Nuosu. Rights and considerations of autonomy played no role during the separation of Panzhihua.

After the provincial capital of Chengdu, Panzhihua has the second highest per capita GDP in Sichuan but, because it is not a part of Liangshan Prefecture, the taxes and income generated in Panzhihua cannot be used for the good of the Liangshan autonomous area. At the same time, the nine “minzu townships” (Ch: minzu xiang) of the Yi in Panzhihua are without exception “poverty townships.”

Nevertheless, this modern city was, and continues to be, a magnet for Yi from the surrounding areas. Thousands settled at the edge of the city and hoped that they would be able to profit from the Panzhihua’s prosperity. Han residents complained about their growing numbers because Yi migrants allegedly disturbed the public order. During the period 1997–1999, Yi were taken out of the city by force and abandoned in the countryside. Not a few are thought to have frozen or starved to death as a result.

Ebian and Mabian Counties were likewise separated from Liangshan Prefecture in 1984 and put under the authority of Leshan (Han) Prefecture. The higher echelons of the provincial and central authorities argued that the distance from Xichang, the prefectural capital (200–250 km) was too large and was making administration and development too complicated. Moreover, there have been several attempts by Han officials in recent years to separate Xichang from Liangshan Prefecture or to completely break up the prefecture. For example, in 1998, 38 members of the prefectoral People’s
Consultative Conference made a motion to split the administrative territory into three parts, in all of which Han would constitute the majority. According to this motion, the more economically developed counties would have been incorporated into Xichang city and Huili Prefecture, and the eight poorest counties would have formed a truncated autonomous prefecture with Zhaojue as its capital. In 1999, delegates from Sichuan placed this motion before the National People’s Congress in Beijing; however, last-minute interventions by outraged Yi defeated the draft resolution (Hou 2001: 127–28).

**ECONOMIC DEVELOPMENT**

As already mentioned in the introduction, economic conditions in Liangshan have made the development of the private sector and entrepreneurship essential for reducing poverty and unemployment. Hope exists among the prefectural leadership as well as among the population that economic and social problems will be solved by means of the development of the private sector. A majority of the private entrepreneurs we interviewed agreed fully (Yi: 60.5%, Han: 42.9%) or partially (Yi: 53.1%, Han: 52.4%) that the private sector was the most important sector for economic development in Liangshan. Not a single Han, and only four Nuosu entrepreneurs disagreed with this opinion.

Since the proportion of state and collective firms to private enterprises is continually decreasing, the private sector has become the central economic factor for development in Liangshan Prefecture. According to official statistics, by the end of 2000, only 964 (5.5%) of the 17,472 registered industrial companies were still state- or collective-owned (Liangshan tongji nianjian 2001: 68–69). These were mostly older firms that were significant outside the region or even nationally, or companies that provided basic local services such as electricity or waterworks. Of these, 627 (65.7%) were, however, concentrated in counties with a more than 60 percent Han population. Of the private enterprises listed in the Statistical Yearbook 2001, 794 private and 15,560 individually owned companies (78% and 76.3% of the respective total numbers) were likewise to be found in Han dominated counties. As in the rest of China, the tertiary sector in Liangshan Prefecture is also overwhelmingly in the hands of the private sector (84.4% non-state-owned) (Liangshan tongji nianjian 2001: 192–93).

As I mentioned above, the private sector in China is divided into the two spheres—individual businesses and private businesses with more than
seven employees. The individual business sector plays an important role in our study for two reasons: one, in most of the counties we examined, the sector consisting of larger companies is relatively small and the border between larger individual and small private firms usually fluid, and, two, larger entrepreneurs often emerge from the individual sector, where they first gain experience and accumulate capital.

In the first half of 1999 in Liangshan Prefecture, the individual sector consisted of 54,169 businesses, with 77,689 employees, and the private sector had 888 businesses and 16,231 employees. Thus, by the end of 1998, a significant portion of the population was already working in the private sector.

One feature of the private sector not evident from tables 2.1 and 2.2 is that many enterprises have more than one investor. In 1999, the 888 private businesses—primarily agriculture, forestry, and animal husbandry (4.65 investors per enterprise), the service sector (3.0 investors), and construction (2.86 investors)—had 2,185 investors (2.46 per enterprise). Two years later, statistics revealed that 2,976 individuals (2.98 per enterprise) invested in transport (5.9 investors per enterprise), construction (4.63 investors), and trade/catering (3.2 investors). Such businesses may have multiple investors because the peasants engaged in them lack the necessary funding and thus share the financial burden and risk with persons of the same clan or village.
Two years later, by the first half of 2001, the number of individual businesses had decreased by 24.6 percent and the number of employees by 7.3 percent. The decrease was strongest in construction (-59%), followed by transportation (-43%), manufacturing (-23%), and trade (-21.7%). Concurrently, the number of employees in trade increased (+17.2%), but decreased significantly in services (-41.4%). In the larger, private sector, the number of enterprises increased by 2001 (+12.3%) while the number of employees decreased slightly (-1.3%). Among the larger-scale private businesses, the number of mining businesses decreased slightly over the two years and manufacturing increased significantly (+27.8%), although the number of employees in manufacturing decreased (-7.4%).

Increase or decrease in numbers of businesses is strongly linked both to policy changes—new state regulations concerning industrial or traffic safety (affecting construction and transportation companies) or forest protection, as well as local policies (for promoting or curbing different types of businesses)—and to regional or global economic conditions. For instance, in the late 1990s, during the Asian financial crisis (“Asian Crisis”), the currencies of a number of Asian economies collapsed due to international speculation and domestic corruption, and businesses that depended on export, such as mining, were affected even in Liangshan. Furthermore, in 1999, a

<table>
<thead>
<tr>
<th>Sector</th>
<th>Businesses</th>
<th>Employees</th>
<th>Businesses</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, etc.</td>
<td>20</td>
<td>455</td>
<td>41</td>
<td>531</td>
</tr>
<tr>
<td>Construction</td>
<td>28</td>
<td>808</td>
<td>43</td>
<td>890</td>
</tr>
<tr>
<td>Mining</td>
<td>181</td>
<td>4,871</td>
<td>167</td>
<td>4,322</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>176</td>
<td>4,690</td>
<td>225</td>
<td>4,341</td>
</tr>
<tr>
<td>Service</td>
<td>33</td>
<td>510</td>
<td>41</td>
<td>827</td>
</tr>
<tr>
<td>Transportation</td>
<td>5</td>
<td>100</td>
<td>8</td>
<td>261</td>
</tr>
<tr>
<td>Trade, food service</td>
<td>428</td>
<td>4,604</td>
<td>441</td>
<td>4,503</td>
</tr>
<tr>
<td>Other</td>
<td>17</td>
<td>193</td>
<td>31</td>
<td>338</td>
</tr>
<tr>
<td>Total</td>
<td>888</td>
<td>16,231</td>
<td>997</td>
<td>16,013</td>
</tr>
</tbody>
</table>

Source: Bureau for the Administration of Industry and Commerce of Liangshan Prefecture.
cholera epidemic in some counties affected catering businesses, and flood disasters in the same year affected other types of businesses.

In 2001, 53.5 percent of the businesses and 60.2 percent of the employees in the individual sector and 18.5 percent of the businesses and 26.5 percent of the employees in the private sector were located in “urban” areas. Increasing numbers of entrepreneurs base themselves in urban areas with the goal of expanding their entrepreneurial activities. The slight increase in urban private economic activities in recent years may be a result of this phenomenon, which is fueled by better access to markets and, to some extent, to raw materials, better marketing prospects, and less binding bureaucratic controls. This is particularly true for Xichang, the prefectural capital.

The development of Liangshan, although much slower than in other parts of China, supports Yujiro Hayami’s theory concerning East Asian rural entrepreneurs, according to which a productive upswing in agriculture (for example, as developed in the course of rural reforms and restructuring) creates entrepreneurs who make use of new agricultural potential in the industrial sphere (for example, firms that process agricultural products). In this way, the agricultural sector becomes linked to modern industry and urban markets (Hayami and Kawagoe 1993).

The development of industrial production potential in rural areas of Liangshan Prefecture depends upon traditional bonds within those communities (clan and/or village), which help keep costs to a minimum. At the same time, rural industrialization concentrates increases in incomes in the countryside; as a result, migration from the countryside to urban zones and the resulting urban poverty is restricted to a tolerable level.

Rural entrepreneurs also link the rural private sector to urban areas. In Liangshan as in other parts of China, the transition from a planned economy to one based on market structures has fostered new opportunities for entrepreneurs not only in the market, but also in the spheres located between the market and those parts of the planned economy that continue to exist. Such links connect the market and the bureaucracy, and likewise private and state sectors.

Most of the private companies are small-scale individual enterprises in industry and crafts, transport, construction, catering (restaurants, hostels, etc.), trade, and other service industries (repair, computer services, entertainment). Private rural industries in particular have become the pillars of the industry, and larger companies are slowly but steadily emerging.

The proportion of businesses belonging to people of Yi ethnicity is small, particularly in the larger private sector. Table 2.3 summarizes data on mem-
bers of ethnic minorities in Liangshan (almost entirely Yi) who were engaged in the private sector (individual and private economy) in 1999 (no data were available for other years).

In some cases the local authorities were not able to differentiate between the private and the individual sector. Including groups such as Tibetans, ethnic minorities in Liangshan Prefecture made up 47.1 percent of the population in 2001; 9.2 percent (5,091) of the private businesses were owned by ethnic minorities, and they constituted 8.7 percent (8,165) of employees in those businesses in 1999. The figures in table 2.3 reveal that Yi-owned firms constitute only a tiny portion of the private sector. In larger businesses such as mining and manufacturing, their share was below 5 percent. Yi owned a significant percentage only in smaller lines of business such as trade and catering, or in services that did not need much professional knowledge and investment.

Further, the private sector is concentrated in more developed areas of Liangshan Prefecture, such as the cities of Xichang and Dechang and in counties that are primarily inhabited by Han, such as Huili and Huidong. As we shall demonstrate below, the reasons for this are not only historical but also strongly related to such factors as education, access to capital and credit,

<table>
<thead>
<tr>
<th>Sector</th>
<th>Businesses</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, etc.</td>
<td>1 (2.4%)</td>
<td>1 (0.2%)</td>
</tr>
<tr>
<td>Construction</td>
<td>1 (0.9%)</td>
<td>100 (8.9%)</td>
</tr>
<tr>
<td>Mining</td>
<td>7 (2.4%)</td>
<td>120 (2.3%)</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>204 (4.3%)</td>
<td>370 (3.4%)</td>
</tr>
<tr>
<td>Service</td>
<td>1,044 (12.5%)</td>
<td>2,528 (9.7%)</td>
</tr>
<tr>
<td>Transportation</td>
<td>575 (5.4%)</td>
<td>785 (7.2%)</td>
</tr>
<tr>
<td>Trade, food service</td>
<td>3,259 (10.7%)</td>
<td>4,261 (11.1%)</td>
</tr>
<tr>
<td>Total entrepreneurs</td>
<td>55,057 (100%)</td>
<td>93,920 (100%)</td>
</tr>
<tr>
<td>Total ethnic minorities</td>
<td>5,091 (9.2%)</td>
<td>8,165 (8.7%)</td>
</tr>
</tbody>
</table>

Source: Bureau for the Administration of Industry and Commerce of Liangshan Prefecture.

Note: Ethnic minority entrepreneurs are primarily Yi, but include a few members of other ethnic groups such as Tibetans.

*Individual and private businesses (with eight or more employees).
the existence of a beneficial infrastructure, and specific patterns of official support. As we see from table 2.4, the differences in income between Han and Yi areas are considerable.

Table 2.4 suggests that in general, areas with a Han majority are economically better off than those with a Nuosu majority. This could be interpreted as a sign of economic segregation along ethnic lines but, in fact, access to railways, highways, and urban markets; the topography; and natural as opposed to cash economies all play a significant role in explaining why Yi areas have lagged in development. The Tibetan Autonomous County of
Muli, for example, does not suffer from the abject poverty and starvation of parts of Zhaojue and Butuo but it is so unconnected to the cash economy that people’s cash incomes are low even though they have enough to eat. The development gap between Yi and Han areas has increased in spite of, or even because of, political reform.

Although they have received considerable financial support from the center of Liangshan Prefecture, Yi core counties are still classified as “poor” or “extremely poor.” The government is not solely responsible for this, because some of these areas are remote regions of refuge into which Yi people have withdrawn in recent centuries. But it is clear that, since the founding of the People’s Republic, there has been no development policy that is suited to these areas. Political reform has visibly diminished state control, but this has not benefited these counties. According to local reports, the national and provincial governments have not given enough credit, subsidies, foreign exchange, and materials to many Yi counties in Liangshan. In the next chapter I explore some of the forces that determine the development of the private sector by comparing data from different counties.