

**CHINESE PEASANT ENTREPRENEURS:
AN EXAMINATION OF TOWNSHIP AND VILLAGE
ENTERPRISES IN RURAL CHINA**

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ABSTRACT

One of the greatest achievements in China's economic reform is the development of rural township and village enterprises (TVEs). Their importance in the national economy can be seen from the fact that by the end of 1993, TVEs accounted for nearly one third of the agricultural labour force, and one fifth of the total labour force nationwide.

Despite some research attention being given to Chinese TVEs, the peasant entrepreneurs, owners and /or managers of these enterprises have remained largely unknown in the West. Who are they? Where are they from? What are their unique characteristics which distinguish them from both managers in the state-owned Chinese enterprises (SOEs) and small business owners /entrepreneurs in the West? What environmental factors contribute to the shaping of these characteristics? What are the problems faced by them and the possible solutions? This paper addresses these questions.

INTRODUCTION

Throughout the Western world, there has been a trend in recent years for the development of rural enterprises (Townroe, 1991; Curran and Storey, 1993). In China, since the late 1970s, the development of rural entrepreneurship has been closely associated with the emergence and development of rural township and village enterprises (TVEs). This paper examines the characteristics of Chinese peasant entrepreneurship as well as the environment in which it has been shaped. It starts with a brief review of the history and growth of TVEs. Then it gives a definition of peasant entrepreneurs and discusses their characteristics.

TOWN AND VILLAGE ENTERPRISES (TVEs)

One of the most significant achievements in China's economic reform is the emergence and development of TVEs. "Appearing out of nowhere", as Deng Xiaoping was reported saying in 1987 (Li, 1993), TVEs have become an important force in China's national economy. By the end of 1993, TVEs are reported to have contributed two thirds of the total value of rural social products, and one third of the total value of national industrial production. The labour employed by TVEs accounted for nearly one third in the agricultural sector, and for one fifth of the total labour force nationwide. From 1979 to 1991, while China's total societal production grew at an average rate of 10.4 percent, the total output from TVEs achieved a yearly average increase of 27.5 percent, more than twice the rate of the former (Li, 1993). Table 1 summarises the development of TVEs between 1978 to 1993.

The term "township and village enterprises" (TVEs) first appeared in 1984 in a government document which announced the breakup of the people's communes and a

name change for the former "commune and brigade enterprises" to TVEs, thereby signalling formal government recognition of the individual and joint capital rural enterprises that succeeded the commune and brigade industries. This recognition was a hard-won. For a long period before it was received, TVEs were regarded as 'illegal' and 'non-standardised'. Under the centrally-planned economy, only those enterprises within the state plan system were regarded as 'legal' and previous efforts to put TVEs under such control had failed. It should be noted that it is not that TVEs chose to stay outside of the state planning system but the state would not take them in. This 'illegal' status has later turned out to be the greatest advantage of TVEs distinguishing them from the state-owned enterprises. As a consequence TVEs were market oriented from the outset. This market orientation is characterised by the resultant firms:

- being guided by the market instead of the state plan,
- having a clear relationship between ownership and property right,
- obtaining all production factors (capital, raw materials, technology, personnel, etc.) from the market,
- using independent distribution and supply channels,
- being responsible solely for profits and losses,
- having complete business autonomy with little government interference,
- adopting flexible management.

In short, whereas the state-owned enterprises are planning units under the corresponding state bureaux, TVEs are independent business entities that are accustomed to the rule of the market. It is in such a freer business environment that a new generation of peasant entrepreneurs has grown up.

PEASANT ENTREPRENEURS

The great achievement of TVEs in the past 17 years has been attributed mainly to the Chinese peasant entrepreneurs. It is due to their "talented craftsmanship and skilful

management" (*the People's Daily*, 1987) that TVEs have achieved their success. But who are they? Before a definition is given of the peasant entrepreneur, it is necessary to make it clear who a peasant is in China. "Peasant", according to *Collins Gem English Dictionary*, refers to "a farmer or farm worker of a low social class". The definition given by *Oxford Advanced Learner's Dictionary* is: "countryman working on the land, either for wages or on a very small firm which he either rents or owns." In China, peasants refer to people who live in the rural areas and work on the land, which is assigned to them but officially owned by the State. Until very recently, China has practised probably the strictest domicile registration system controlling the movement of population. Peasants are generally not allowed to have residence in cities and it is not easy to change identity. A peasant and his siblings were born as peasants and remain so unless he / she:

- gains admission to a polytechnic or university,
- joins the army and holds the rank of platoon leader, or above,
- is employed by a state-owned enterprise.

Ironically, the Communist revolution originated in the rural areas and relied on peasant support for its final success - the founding of the People's Republic. The party has stressed on countless occasions that its intention is to raise the political, social and economic status of peasants. However, the fate of peasants has not changed dramatically during the past forty some years. Peasants are still regarded in China as a lower social class. Unlike city dwellers, who are looked after by the State, peasants in rural regions basically have to look after themselves. There is virtually no state-run social welfare system in existence, no health care, no pension, no guaranteed employment and no social benefits, for example.

A peasant entrepreneur thus can be defined as someone who has his /her root in rural area, (for example, being a peasant working on the land previously), and is now a manager in a TVE engaged in non-agricultural business operation. The background of peasant entrepreneurs can be classified into the following categories:

- leaders of former commune and production brigade (which are equivalent to today's town and village), who have close contacts with outside environment, local government agencies, banks and SOEs;
- 'ableman' or craftsman: people with certain special skills, such as a blacksmith. Those form the core team for the development of a TVE;
- 'specialised household', they may started in non-agricultural side production, which later evolves into a small family business;
- ex-servicemen, who gained their training and built up connections in the army which may be crucial in business;
- 'home-returning' educated youths, young people with middle school education, who have little difficulty accepting knowledge and learning new things.

To become a successful peasant entrepreneur from a peasant, it is necessary to have a combination of the following factors:

- a certain level of education,
- the ability to organise and lead,
- close clan or family ties in the village
- good source for information, capital, supply and a market.

THE CHARACTERISTICS OF PEASANT ENTREPRENEURS

In 1992 and 1994 the Ministry of Agriculture organised two nationwide competitions for identification of top peasant entrepreneurs. Four criteria were used to determine the eligibility, namely:

- to be a managing director or chairman of board in a TVE,
- to have hold the current post for at least three years,
- that the major economic and technological indices of the enterprise placed it as the best within its sector,
- that the entrepreneur has a good moral character, respect of the masses*, and excellent management performance.

(* *The masses* here refers to fellow employees in the enterprise and fellow citizens in the village).

In 1994 the honour list included 1,000 "Chinese Peasant Entrepreneurs", among them 100 were ranked as "Excellent Peasant Entrepreneurs", and the top 10 were conferred with the title of "Meritorious Entrepreneurs of Chinese TVEs".

It is difficult, if not possible, to generalise the characteristics of Chinese peasant entrepreneurs because a) there is no published study in this subject; b) it is notoriously difficult to conduct empirical research in China (Shenkar, 1994); c) even if data is available, it is still a huge challenge to interpret it in a Western framework. Nevertheless, some common characteristics of peasant entrepreneurs can be summarised from the reports on the ten Meritorious Entrepreneurs:

- Founder of the enterprise,
- Being the party member,
- Strong belief in the cause,
- Total commitment and hard working,
- Determination and self-achievement,
- Strong sense of responsibility,
- Ability to identify and grasp opportunities
- Flexibility,
- Ability to learn and improve oneself,
- Leadership.

These entrepreneurial attributes produce a sharp contrast to the stereo type of Chinese peasants, which traditionally are regarded as being:

1. benighted, impoverished and lowly, short-sighted and conservative;
2. simple and honest, bearing hardship, thrift and industrious.

While the characteristics in the second group are admirable for any entrepreneur, the first group can hardly be linked with any entrepreneurial behaviour. Compared with city dwellers, Chinese peasants are, perhaps, influenced more by the traditional culture but less by Western values. However, traditional Chinese culture belittles the importance of commerce in society and does not seem to nurture entrepreneurship as the link between Chinese cultural values, mainly Confucian values, and entrepreneurial attributes, was found to be very tenuous (Kirby and Fan, 1995).

If traditional culture does not contribute to the peasant entrepreneurship, other environment factors must be responsible. Table 2 provides an interesting comparison between peasant entrepreneurs and managers in SOEs. Peasant entrepreneurs compare favourably in almost all aspects except education: they are market-oriented, motivated by achieving business success, enjoy high autonomy and take high initiative. The fundamental difference lies in the fact that peasant entrepreneurs are the masters of their TVEs while managers in SOEs, so-called state cadres, are still fettered by the bureaux. The entrepreneurship has been able to play a full role in TVEs but has been largely smothered and disappeared in SOEs, under the command economy.

PROBLEMS AND CHALLENGE

In spite of the great achievement during the past fifteen years, TVEs are still facing a number of problems, particularly in the ever changing environment. Some problems are universal to rural enterprises in the developing countries, for example, the remoteness of rural areas, the lack of infrastructure, the low level of education, and the lack of qualified technical and managerial personnel, etc; other are unique to the Chinese context. Political instability and volatile government policies towards TVEs

have always been big concerns. As the market-oriented economic system gradually takes shape, TVEs will confront competition, mainly from the freed or freer SOEs. There exist big gaps between TVEs and SOEs in terms of size, technology, capital and personnel. The dominant position of SOEs in the market place will not be changed in the short term. Competition also comes from rapid-growing private and foreign-funded enterprises. At the same time, certain competitive advantages and preferential policies (e.g. tax and credit) enjoyed by TVEs in the early years have either disappeared or been abolished. Every year sees several tens of thousands TVEs going out of business, but ten times more new ventures appear in the market (Li, 1993).

The biggest challenge faced by peasant entrepreneurs is to improve themselves as one of the ten Meritorious Entrepreneurs has recognised (Lu, 1994). Peasant entrepreneurs should not be content with their achievements, and have to shake off the yoke of the traditional "petty peasant values" (that is, the first group characteristics mentioned above). As most peasant entrepreneurs only have limited formal education, their existing knowledge and skills become increasingly inadequate in the competitive marketplace. Thus there is an urgent need for them to learn about modern production and management techniques.

CONCLUSION

The development of TVEs have resulted in a new generation of Chinese peasant entrepreneurs. They possess some outstanding characteristics which distinguish them from either traditional peasants or managers in the state-owned enterprises. It is under the leadership of these peasant entrepreneurs that TVEs have made great achievements. Two changes may eventually change the nature of peasant

entrepreneurs. First, with the deepening economic and social reforms, China began to change the domicile registration system. Peasant entrepreneurs are now allowed to enter cities, to invest and set up businesses. Eventually they may give up their root in the rural areas completely. Second, in many regions where successful TVEs and industrial development have transformed former rural villages into new towns or 'urban areas', the demarcation between countryside and city has become blurred. So managers in these TVEs may be termed only entrepreneurs not "peasant" entrepreneurs.

Whatever, TVEs are an important sector of the modern Chinese economy and an important "seedbed" for the new breed of entrepreneurs which is emerging in the People's Republic. As such, they are worthy of considerably more attention than has been paid to them to date by either Western or Chinese scholars. While it is still not easy to conduct research, particularly for Western researchers, the results of this study suggest that not only Chinese peasant entrepreneurs worthy of further more detailed investigation, but that such research could lead to a reformulation of the Western concepts of entrepreneurship and small business development, especially in rural areas.

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	Unit	1978	1993	Growth (%)
<u>Number of TVEs</u>	1,000	1,524	2,321	1,520
<u>Number of employee</u>	1,000	28,266	112,780	400
Percentage of total rural labour	%	7.0	20.4	
Percentage of total national labour	%	9.2	27.8	
<u>Total value of output</u>	million Yuan	49,310	2,902,260	5,890
Percentage of total value of rural output	%	24.3	66.0	
Percentage of total value of national output	%	7.2	32.1	
<u>Total value of export</u>	million Yuan	n.a.	235,000	
<u>Total pretax profit</u>	million Yuan	11,100	282,900	2,570
Tax paid to the state	million Yuan	2,200	105,900	4,810
Percentage of total state tax revenue	%	4.2	20.3	
<u>Total value of fixed assets</u>	million Yuan	22,960	643,900	2,800
<u>Total value of wages</u>	million Yuan	8,670	234,400	2,970

Table 1 The development of TVEs between 1978 - 1993.

Source: *The Statistical Summary of Chinese TVEs 1994*.

	Peasant Entrepreneur	Manager in state-owned enterprises
Identity	Peasant living in rural area	City dweller
Status	Manager, owner-manager	State cadre
Motivation	Survival in the early days, business success	Moving up the hierarchy
Background	Town and village leader, craftsman, ex-serviceman, etc.	Engineer (38 %), manager (35 %), party official (24 %)*
Education	Generally Lower	Higher, 77 % with higher education*
Business orientation	Market-oriented,	Production or sales oriented
Autonomy	High	Still limited
Risk taking	Medium to high	Low
Initiative	High	Little
Management style	Paternalistic, by instinct	Bureaucratic, by rules
Organisational structure	Informal, family link	Formal and hierarchical
Decision making	Quick	Slow
Entrepreneurship	Play a role	Penned

Table 2 The Comparison between Peasant Entrepreneurs and Managers in SOEs

* See SSCE.