Grey and Black: The Hidden Economy of Rural China*

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All over Guangdong Province, once the sun goes down, people are on the move.

A hidden economy of very substantial size exists in the Chinese countryside, lying beyond the reaches of state plans and official statistics. At its outermost margins, this hidden economy includes black-marketing and criminal activities. But most of the hidden economy has tended to occupy a considerable "grey" zone of semi-legality: though illegal on paper, it has been important to the rural economy's smooth functioning and, therefore, has been openly tolerated by the authorities. At the same time, however, government policy has shifted over the years, depending upon the leaders' priorities of the moment. During radical periods like the early 1970s, many of the peasantry's undertakings became ideologically unacceptable and were forced underground; the grey zone was narrowed. Since the re-emergence of Deng Xiaoping, however, with China's economic development now receiving top priority, many of these same activities have been allowed to resurface—and the grey economy permitted to expand.

Our discussion in this article will span this decade-long shift of government policy. We shall examine, in turn, agricultural production; the marketing of farm produce; the sales of village-factory products; the procurement of needed goods; and peasant labor outside the villages. For each of these major spheres of economic activity, we shall describe those activities which the government considers perfectly legal, those which normally occupy the "grey" sector of the economic spectrum, and those which edge off into the "black." Through this examination, we

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hope to bring new light to bear on some of the policy dilemmas currently faced by the Chinese government.

Our analysis is based on Chinese documentation and the accounts of emigrants who left China from the mid-1970s through the early 1980s. During three visits to Hong Kong—in 1975–76, 1978, and 1982—we had an opportunity to interview two dozen emigrants from Chen Village, Guangdong Province.\(^1\) Interviews were also conducted with emigrants from close to a dozen other Guangdong villages; and peasants from three of these villages were able to give us detailed accounts of hidden economies in their own communities. Most of the examples in this article come from Chen Village and these three other communities. By the standards of Guangdong Province,\(^2\) Chen Village stood slightly above average in prosperity in the 1970s, as did Wei Pond, the second village. Ling Hollow, the third, was rather poorer; and Lee Family Village, the fourth, was a destitute mountain hamlet struggling to maintain subsistence living standards.

Agricultural Production and Sales Quotas

After the failure of the Great Leap Forward, China’s leaders realized the peasants had to be given a material stake in the productivity of the collective sector. Accordingly, in 1961–62, relatively small production cooperatives were established, composed of some ten to fifty neighboring families. Called “production teams,” they have possessed a fair degree of independent authority. The peasant households collectively have owned the land, elected their own team leaders and shared in the harvest proceeds, with each team member paid according to the value of the labor he or she has contributed. But, because the teams are cooperatives, the peasants have known that their standard of living depends largely upon the overall team income. As a consequence, team members sometimes have conspired as a group to hide a part of their team’s production from the state.

Peasants are reacting to a system of production quotas which the state plan annually sets for the major grains and commercial crops. Provinces divide quotas among counties, which in turn apportion quotas among

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\(^1\) Our methodology is described in Anita Chan, Richard Madsen and Jonathan Unger, *Chen Village: The Recent History of a Peasant Community in Mao’s China* (Berkeley: University of California Press, forthcoming). We would like to thank Professor Madsen for his permission to use, in this paper, material from our joint project.

\(^2\) Our estimates are based upon data from William Parish and Martin Whyte’s sample of 63 Guangdong villages, acquired through interviewing in Hong Kong. See their *Village and Family in Contemporary China* (Chicago and London: University of Chicago Press, 1978), p. 53.
communes. Each winter, at a conference at the commune seat (the local market town) team quotas are hammered out for the following year. These annual quotas have obliged teams to concentrate on providing the cities with stable supplies of basic foodstuffs and industrial raw materials at fixed low prices. Such quota procurements have constituted a considerable part of rural production: as of the mid-1970s, for example, the quotas in Chen Village comprised about a third of a team’s rice-yields, plus a sizeable share of a team’s peanut and sugar-cane crops. Except in years of crop failure, a team had to meet such quotas before it could distribute any basic foodstuffs to its own members.³

The low price offered for quota-grain generally has been resented by peasants. What has irked them even more, however, has been their inability to keep more grain for home consumption. The problem has been especially acute in poor areas. After selling quota-rice to the state, peasants sometimes found they had to buy back grain on the black market at double or triple the price. In these poorer villages, the peasants understandably have tried to sell as little of their grain as possible to the state. Throughout the 1970s, residents of Ling Hollow and Lee Family Village—the two poorer communities in our small sample—consistently hid as much as they could from the eyes of officials. They kept secret the locations of some of their mountain fields, reported good grain as having been spoiled, handed in wet grain in the place of dry, and laboriously falsified their account books.

The government itself complained in 1980 that it was common for teams not to report the new lands they opened up—but villages never failed to report the loss of land to new roads, reservoirs, or buildings. Thus, in China as a whole, “the reported amount of cultivated land currently is diminishing year by year.” Beijing estimates that a great many teams conceal as much as twenty per cent or more of their land.⁴

All of these various types of cheating must, of course, be done collectively, and with the connivance of Party members and village leaders. In Lee Family Village, the poorest of the four villages, it was reported:

Our team secretly distributed a hundred kilos of rice to each of us before the team handed in anything to the government. The team heads gave us a lot of instructions, very detailed, to cover up the discrepancies . . . . If we were ever questioned by higher-level cadres coming down, we were to say that we only had 15 kilos per month on the average. The big charts up at the team office showing

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³ A Guangdong team could retain quota-grain only when the average team member would otherwise have been left with less than the peasants’ guaranteed grain cushion of 15 kilograms (33 pounds) of grain per month.
⁴ Guangming Ribao (Beijing), March 20, 1980, p. 2.
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the grain rations of each family were for outsiders only. . . . The team kept two separate account books, one real, one false.

Needless to say, this "hidden" grain is not included in the Chinese government's data on national agricultural production. To this extent, scholars probably have underestimated total grain production and per capita levels of consumption in China.

It seems from interviews that grain concealments of this type have been more common in small isolated hamlets than in large village settlements composed of several production teams, partly because rival teams may not trust each other to keep secrets. A more important reason, however, is that most large settlements are in the better-off delta and plains areas, and can therefore produce enough to retain a grain cushion even after their quota deliveries. Since such villages do not desperately need to hold back grain, the upper administrative levels scrutinize their books much more carefully. In the poorest districts, the officials must take into account the peasantry's plight and seem to look the other way even when the teams engage in fairly clumsy machinations. People in Ling Hollow and Lee Family Village felt secure in regularly committing transgressions that members of a more prosperous community like Chen Village would not even have contemplated attempting.

Throughout the 1970s, in fact, there does not seem to have been a single case of a Chen Village team hiding any of its grain output. The concerns of these teams instead revolved around efforts to resist the urgings from higher-level officials to sell more of the teams' above-quota grain to the state. When these more prosperous teams very occasionally did try to bend government regulations, it involved attempts to diversify their agriculture secretly away from grain production and into crops like vegetables or peanuts which fetch better prices. The Chen peasants considered these incursions on the team's grain fields as merely making good business sense, whereas the state used to denounce such practices as "capitalist roading." The local Party officials had to try to control the agricultural production teams in these occasional games of hide-and-seek.

Since 1979, under the liberalization program of Deng Xiaoping's administration, some teams, especially in poorer districts, have been allowed—or even been pushed by the government—to parcel out the fields among their constituent households and to hand over to the families all major responsibilities for production.5 By the close of 1981,  

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5 While in some villages the peasants were happy to go along with this program, in others there was strong opposition. Two interviewees report that government officials in
some thirty per cent of China's teams had gone that route. As all production teams must still provide quota-grain to the state every year, each household is now responsible to the team for fulfilling quotas on the fields they have been allotted. Chinese newspapers complain that some of these families are stubbornly attempting to evade the quota sales.\textsuperscript{6} The government, in trying to combine economic liberalization with its old system of crop quotas, finds itself in a serious dilemma.

**Marketing Farm Produce**

The government has faced much the same dilemma in its rural marketing policies as it has in its policies toward agricultural production—how to exert economic controls without alienating peasants and team cadres or dampening their incentives to produce. As will be seen, the mixed success the government has achieved in this regard has again been at the price of a very large hidden economy.

In a system borrowed wholesale from the Soviet Union, all rural products have been divided by the state into three categories: (1) Class I commodities, where sales are completely controlled by the state. In the 1970s, these included grain and vegetable oil in most rural districts. Class I commodities may not legally circulate in the free market. (2) Class II commodities, where the state sets delivery quotas, but where the product legally can be sold in the free market once the quotas have been fulfilled. This category usually has included the peasants' privately raised pigs and poultry\textsuperscript{7} and certain collective subsidiary crops like sugar-cane. (3) Class III commodities, which are not subject to any quotas and can enter the open market freely. In most districts, these include vegetables and handicrafts.

The state's purchasing depots try to compete against China's 33,000 commune-town peasant markets for Class III commodities and above-quota products in Class II. Since the prices the state is willing to offer normally have been lower than the free-market prices, it has had to resort to alternative means to keep its terms competitive. For instance,

\textsuperscript{6} *Nanfang Ribao* (Canton), January 4, 1982, p. 4.

\textsuperscript{7} Throughout the 1970s, for example, in Chen Village's marketing district each family annually was required to sell to the state not only one private pig but also two chickens, one goose, and a kilo of eggs. In 1980, Guangdong province abolished the poultry quotas, but the quota on hog sales remained intact. Through imposing such a quota, the government consistently has obliged peasant households to participate in private production—for any household which had not privately raised a pig would have to buy one from a neighbor in order to sell it at a loss to the state.
petrochemical fertilizer is in short supply in China. Most of it is rationed to production teams as part of their annual plans; and a team usually has not been able to go out and legally buy extra amounts, even when it had the cash on hand. To induce teams to sell more of their surplus products to the state, therefore, the government has dangled fertilizer coupons as bait. (Note that this fertilizer is not free: it still has to be paid for at normal prices.) Similarly, for each extra duck a peasant sells to the state, he receives cash plus a fertilizer coupon. A peasant must always decide: does he prefer the extra money from the free market, or does he have greater need for a bag of fertilizer for his private plot? The government finds this to be a very advantageous arrangement. It can buy foodstuffs more cheaply simply by wielding its discretionary powers in the allocation of needed supplies.

Even in 1976, when private enterprise was relatively restricted, nearly a quarter of all the products (measured by value) taken in by the state’s purchasing depots came from the peasants’ private sidelines. But the peasants, both then and now, have opted to sell more of their produce on the free market. In their attempts to do so, however, they have faced numerous restrictions. The state usually has tried to keep private sales local and small-scale, so that any production beyond what a rural market could absorb would have to end up in the state’s commune-town purchasing depots. To assure this, the specialty products of an area normally have not been permitted to be sold across county boundaries by either teams or households. Moreover, until very recently, to prevent the peasants from flocking into the suburban free markets, where food sells at higher prices, only those teams and peasants who resided within a metropolitan county were allowed to sell any produce there.

Peasants resorted to both legal and illegal means to get around these various restrictions. As a legal stratagem, they could bring their produce to huge unregulated free markets on the main roads just outside the metropolitan boundaries. Since urban markets regularly faced shortages in the 1970s, urban residents used to travel out to such markets on their days off to stock up on meats and vegetables. The more enterprising peasants would also circulate within their own county, buying in one market town one day and then re-selling their purchases the next day at higher prices in another market. In the early 1970s, market days were synchronized in a number of counties in order to curtail such “bourgeois” small-scale profiteering.

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More illicitly, some peasants would smuggle produce across county lines or try to sell Class I commodities privately. These illegal activities have been more common in the poorer districts. There, as we saw earlier, peasants cannot easily make ends meet if they always adhere to regulations. Our respondent from Lee Family Village recalled one example from the 1970s:

Up in the hill country, livestock sells for less. So people from our village would climb even further up into the back country, buy things like chickens and cows, and sell them in the richer districts or even in Canton. This kind of thing isn’t easy. During the day there’d be Market Control Corps personnel guarding the paths out of the hilly regions. So we’d do our bargaining for the animals during the day and secretly bring them out at night. It was risky, because the terrain is rugged and the back paths slippery. All over Guangdong province, once the sun goes down, people are on the move.

Lee Family Village sometimes even engaged collectively in such smuggling and black marketing. The village’s main marketable product is timber from the surrounding hills. To conserve the forests, the amount that legally can be felled is regulated by the state.

But the peasants didn’t care. They just sawed them into short logs, bundled them up, and tried selling them far away in places not near any hills, where people would buy wood at high prices. So at night we’d cycle out secretly to these places with the wood on our bikes, to escape being caught by the people in charge of forestry. We usually went in groups. All the labor power from each family would be mobilized, including the team cadres and even the village heads.

In the poorer regions, higher officials frequently turned a blind eye to even these large-scale violations. They similarly tolerated the black-marketing of grain. One of our interviewees frequented a large market town at an intersection between a rich district and a poor district, where black-market grain was sold openly. In the relatively prosperous district surrounding Chen Village, the peasantry engaged in far less illegal activity: they felt less need to, and had been allowed fewer opportunities to do so. Again, a “grey” activity in poorer regions was dangerously “black” in a better-off district.

Even in the more prosperous districts, however, chronic shortages in consumer goods and the restrictions on private long-distance trade gave rise to small-scale smuggling and profiteering. A 1979 government radio broadcast complained:

Commodities produced in distant localities are sold at local fairs for big profits. Instead of selling self-produced commodities or commodities consigned to them for sale at local fairs, some people buy commodities from traveling merchants from other provinces or localities or from illegal local peddlars and sell them for profit at the local fairs . . . . Sunflower seeds bought at 0.50–0.60 yuan per catty from Jilin and Heilongjiang provinces are being sold at local fairs in Liaoning
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province at 1.3 yuan per catty. Yet no action has been taken against this speculating and profiteering. Market management departments have shown an indifferent attitude toward these activities. Leading organs have made no arrests.9

The very existence of the free markets has always bothered the more radical wing of the Party, which used to argue that the free markets inevitably became "sprouts" for this type of trafficking. Before Mao died, political editorials in the mass media sometimes referred to the peasant markets as "capitalist free markets" and "tails of capitalism." Hence, when radicals had more of a hand in national policies in the early and mid-1970s, fewer types of commodities were allowed to be bought and sold at the markets. At two of the villages in our sample, moreover, peasants and teams were forbidden to sell at all outside their own local market town. In some places, according to press reports, free markets were closed entirely. The results were disastrous.

In much of China, the several years before Mao's death witnessed agricultural stagnation. The radical campaigns of the early and mid-1970s to reduce the size of private plots, together with the restrictions placed on the free markets, simply worsened the shortage of foodstuffs. Black markets flourished and prices spiralled. "It is not possible to stop [private] trading," a rural official was quoted as saying in 1979. "We did ban it a few years back, but that only drove it underground and gave the green light to capitalist practices. A black market came into being and piglets were being sold at twice the price over those sold in the open market."10 In Chen Village's district, the price of black-marketed vegetable oil rose from about 1.50 yuan per catty at the beginning of the decade to 5.00 yuan by late 1977. Black-marketed rice—always sold discreetly in this district, through private introductions—almost doubled in price between 1974 and late 1977, rising from 20 yuan to 35 yuan per 100 catties (50 kilos). Those who suffered the most from this black-market price-spiral were the impoverished villages short of grain and oil.

The post-Mao Party took steps to reverse these trends. Beginning in 1977–78, the regrowth of free markets was officially encouraged. Even grain and other erstwhile Class I produce can now be bought and sold legally in these markets. Moreover, the state quotas on grain in 1978 purposely left more grain than usual in the peasants' hands. For the first time in years, privately-traded grain-prices declined—according to the government's estimates, by some 20 per cent nationwide between mid-

1978 and mid-1979. The state also eased its restrictions on the transport of agricultural produce and permitted peasant free markets inside the cities. The proponents of the Four Modernizations clearly had decided that “if you can’t lick ‘em, join ‘em.” Market activities which until now had been “black” were being redubbed as “white”—or winked at as “grey.”

Even so, this liberalization in marketing policies ironically has increased the scope of “black” economic activities. Allowing expansions in the “grey” zone, for one thing, has provided far more room for the machinations of private operators. Activities which the government would have considered “grey” if engaged in by a team or by a peasant dealing in his own produce, are still considered “black” if carried out by full-time entrepreneurs. In the free markets, such “profiteers” are now buying up vast quantities of produce and organizing their transport to distant markets. This illicit traffic has become large-scale enough to cut noticeably into the state purchasing-depots’ business.

So too, have the illegal transactions of production teams. With better marketing opportunities, many of the suburban teams have been tempted to ignore their Class II quotas and illegally sell their produce at high prices in the urban free markets. At least in part because a rising proportion of such produce has been diverted from the cheaper state-channels into the free markets, the cost of foodstuffs in the cities has been edging upward again. To help control inflation and redirect more produce back into state channels, the government recently—with apparent reluctance—took steps to reverse the trend toward more liberal market policies. The State Council issued regulations (1) prohibiting teams from selling Class II commodities in the cities; (2) requiring state factories to buy agricultural products only through higher levels of the state marketing system; and (3) establishing price-control commissions to police all markets. The government remains engaged in its tug-of-war with the hidden economy—a contest it has never entirely won.

Village Factories, Middlemen, and Procurement Officers

Even in the early and mid-1970s, it was legal for most village-owned factories to operate entirely in the market economy. They held the right

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12 Nanfang Ribao, January 9, 1982, p. 3, and January 10, 1982, p. 1. An investigation this year of a suburban commune of Canton discovered that half of the production teams secretly were selling in the free market most of the vegetables from their “responsibility fields.” Nanfang Ribao, January 15, 1982, p. 2.
to sign contracts with other enterprises or to sell their goods piecemeal to other collectives or individual peasants. Very often, such village factories ran into difficulties finding enough customers to stay in business, and many resorted to the services of self-employed middlemen. Our interviewee from Ling Hollow, who served as accountant in the early 1970s for his brigade’s new tile-works, explains how sales were made:

In the streets near our county supply-and-sales headquarters you could find middlemen who make a living on commissions. The state bought tiles but the price was low, so we preferred the middlemen. These people have a lot of connections, a sweet tongue and know how to socialize . . . . Some were officially licensed by the county to do such work . . . . [Yet] most operated illegally, and the state tried to catch and prosecute them—to make them give up their money, confess, and reform . . . . [But] they [usually] got away with it. Since both the sellers and buyers were breaking the law [as accomplices], they didn’t dare turn the middlemen in to the authorities. Factories like ours really needed them to promote sales in unfamiliar territory. In fact, a factory like ours often had to plead with them to take our goods—had to wine and dine them . . . . This kind of middleman does very well in China. [But] they need a lot of money for bribes and entertainment, exactly like in Hong Kong.\(^\text{14}\)

Middlemen look for opportunities to expand their operations into any crevices not filled by government organs. The interviewee from Ling Hollow offers an example:

If your tractor breaks down and local state maintenance people can’t handle it, one of these middlemen might show up and say, hey, I can get this fixed for you right away for a measly 500 yuan [which is more than a peasant earns in a year]. Then he’d bring in a mechanic from Canton or somewhere and get the job done.

Middlemen also help procure capital goods and spare parts. Tractors, water pumps, and even nails, normally are in short supply and are rationed. Local units in desperate need for items but caught waiting in a long queue have had to go through unofficial channels of supply. Through a middleman, a village may pay extra on the black market or barter goods with other production units.

More often, however, village leaders will handle such transactions directly, trading upon their relative immunity from prosecution, their control over village resources, and, most importantly, their political contacts. Especially in this latter respect, the command economies of China and Russia are similar. Blat—the Russian practice of using personal “pull” and favors-trading to obtain commodities and services\(^\text{15}\)—has its counterpart in the Chinese custom of guanxi (“connec-

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\(^{14}\) These passages were culled from three different interviews with the same respondent. Two of these interviews were conducted by Christine Wong, who graciously gave us access to her transcripts.

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tions”). This informal procurement of scarce materials is so complex and
time-consuming that village leaders cannot handle all such transactions
by themselves. Just as in Russia, where blat gives rise to the salaried
tolkach (“pusher”) who wangles and horsetrades to get supplies for his
unit, so too in China a unit’s need for connections has spawned the
“procurement officer.” For the past decade-and-a-half, Chen Village
brigade and every one of its production teams have all employed their
own procurement officers.

In the 1970s, the people who were often best-placed to establish
guanxi—and were therefore used as the village’s procurement officers—
were urban youths who had been “sent down” to settle in the country-
side. One pertinent example was a young man in Chen Village whose
father worked at the county capital’s railway freightyard devising
delivery schedules. Playing upon his father’s position, the son was able to
build a guanxi network of considerable value:

I went to the county resources bureau for nails. I knew the people there. They’re
friends of my father. When they want to have things transported they go to my
father, and when my father wants something, he goes to them. When I was
young he used to take me around with him to tea-houses, and so I got to know
his friends. So when I see them, they’d say, “Eh, this is so-and-so’s son!” Then I’d
go right ahead and ask them, “Eh, you have any nails? Now, come on.” It’s based
purely on these social relationships.

To be most effective, the procurement officer has to establish good
guanxi with a very broad range of agencies; family connections alone will
not always suffice. A successful procurement officer, like the Russian
tolkach, has to be outgoing, entrepreneurial, pushy, an insistent bargain-
er, a sweet-talker when necessary, not too highly principled, a pragmatist
who gets things done and is willing at times to take risks.\(^6\) For someone
with such attributes, it can be an enjoyable job: a procurement officer
(lke a Western business executive) often finds it pays to mix pleasure
with business. He must know how to get a valued supplier into an
accommodating mood during an expensive lunch or dinner—typically,
at his own unit’s expense. One Chen Village peasant, who had been sent
out simply to buy a cow, spent a few days’ worth of wages on dinner with
a middleman. But it did not matter to village officials: so long as a

\(^6\) Berliner observes that in Soviet industry it is precisely the tolkach, the supplies
purchaser, who develops the wheeler-dealer style and outlook of the classical entrepreneur
of the capitalist world. Notably, our interviewee, two years after arriving penniless in Hong
Kong as an immigrant, was already prospering in that acutely capitalist city as a middleman
in deals between merchants and subcontractors. He attributes his rapid success to his
entrepreneurial experiences as a procurement officer in China.
procurement officer gets the needed materials, they are willing to pay the price.

Because good procurement officers are invaluable to brigades and production teams, the brigade and team leaders tend, too, to grant them other types of special privileges. Our interviewee was paid as much as the strongest and hardest-working peasant in his team; and, every time he went on a procurement mission, he enjoyed a subsidy of an extra half-day’s income. When not on errands, he was supposed to work in the fields; but he normally came late to work and took off for afternoon naps. The other team members dared not complain too vehemently, however, since they had to rely on him to secure the building materials for any new homes:

I’d file a false report at the county resources department claiming the production team desperately needed, say, cement. Best of all was to declare that the team needed more storage houses for the state’s grain, or needed cement for building concrete drying yards for the grain. Actually our team had enough storage space, etc. But through my guanxi I’d get the material to build private residences. Without resorting to these illegal means there was no way to build a private house in the village. Materials were simply so scarce.

For important transactions, a village needs more than a well-connect ed and clever procurement officer: it frequently must also bargain from a position of strength—using whatever scarce resources it possesses. Chen Village held two good cards in its hand. At its own discretion, the village could sell timber from its reforested hillsides to other villages or county factories; and timber has been in short supply in Guangdong Province. The bricks from the village kilns were similarly at the village’s disposal; and bricks, too, have been desperately in demand in Chen Village’s county. A former Chen Village resident explains:

Units without their own brick sources will send someone to Chen Village to negotiate. Selling bricks to whomever the brigade wants offers the brigade a certain power. It can get stuff otherwise unobtainable. The brigade may not even sell the bricks, but instead engage in a fair exchange (gongping jiaoyi) with a unit which has something Chen Village needs. It might even involve a three-way exchange—giving our bricks to a village that produces something that a factory somewhere needs, some factory with a product that Chen Village needs. These deals and sales can be very complicated, much more so than just that.

Often there was no bartering at all; Chen Village simply sold its bricks as a “favor”:

We can use most of our bricks in our own village. Why let other villages have them when we need lots of bricks ourselves? . . . . But the village production head and village Party secretary let their friends buy our bricks. After all, these friends are fellow cadres whom they meet at meetings at the commune market town. If we let them buy bricks they’ll be appreciative, and that type of guanxi will prove helpful to our village in the future.
Such local *guanxi* networks sometimes are useful in creating a chain of intricate trade-offs that can reach extraordinary lengths. They are facilitated by the existence of “grey-economy” trade centers—the teahouses. The latter were frequented by the leisured gentry before the Communists came to power. The government kept many of them open, and their best customers became procurement officers, cadres, and middlemen in search of deals. In fact, different Canton teahouses are known to specialize in deals for different categories of products.

A Chen Village procurement officer visited these teahouses in the early 1970s, when the village needed a large motor that was not available through official allocation channels. The brigade-level procurement officer—the son of a former Canton businessman—had learned that his best source of supply was a Shanghai factory. This factory illicitly had shifted part of its production into warehouses, so as to be able to sell or barter motors discreetly. The procurement officer first had to find someone in his own province to whom the Shanghai factory owed a favor—be it a provincial official or some Guangdong factory’s procurement officer. He then had to determine if any units or persons who were already in Chen Village’s debt had a product needed by the procurement officer or official he was wooing. If not, he had to set up the appropriate intermediate barterers through the teahouses. Finally, with his letter of introduction to the Shanghai factory in hand, he travelled the thousand miles to Shanghai to negotiate the actual transaction.

These types of informal tradeoffs are illegal, but have always been tolerated to some extent by the government. In fact, Chen Village’s procurement officer needed—and received—a travel permit to go to Shanghai. Officials have realized that, without these informal “grey” deals, production in China would be hampered by the rigidities of the official allocation systems. As personnel at one factory in Shenyang complained in 1978:

> We can get only about 25% of the cement we need and have to obtain the rest by ourselves. How must we obtain it? By bartering or by buying cement of inferior quality at high cost.\(^{17}\)

The government also knows, however, that the shortage of materials in the pipelines of the planned economy has been worsened by the very fact that each unit needs to barter and to hoard materials for a rainy day. But periodic government campaigns to raid industrial warehouses to

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reduce the hoarding have had little effect. Once again, in the late 1970s, the government decided that “if you can’t lick ’em, join ’em.” If the bartering is necessary, let it be done openly—with greater convenience, less expense, less need to hoard and less chance for corruption. To cite one example:

Supply departments in Jilin city have taken measures to regulate supplies that have accumulated in warehouses by calling a comprehensive supply exchange meeting. At the meeting, a total of 2,610 contracts were signed involving ¥25.18 million [about US$13 million]. 308 units in the city participated.¹⁸

Nevertheless, back-door trade-offs and guanxi networks remain de rigueur for most enterprises—and particularly necessary for village factories. Rural collectives, in fact, were excluded from Jilin city’s “comprehensive supply exchange meeting.” It is doubtful that the teahouses of Jilin are any less crowded. Indeed, Chinese publications report that the scale of illegal “backdoor deals” expanded greatly in the early 1980s.¹⁹ Loosening up the economy and giving rural collectives and even individual peasants a freer hand to set up small manufacturing enterprises has led, for one thing, to a more frantic scramble for raw materials and for markets for the goods.²⁰ With little experience or time to develop guanxi networks of their own, many of these new small factories have hired middlemen from the outside to be their procurement officers and sales managers.²¹ These middlemen have wanted the credentials that come with such posts as a protective cover for their own separate speculative deals. At the same time, a great many procurement officers and cadres, taking advantage of the opportunities provided by economic liberalization, are using their guanxi to profit from their own private deals.²² The distinctions between middlemen and procurement officers, and between collective entrepreneurship and private hustling, are becoming increasingly clouded.

Alongside these developments—and even more worrying to the authorities—has been the rapid rise in the incidence of bribe-taking and graft during the past half-decade. In the mid-1970s, interviewees reported only a small amount of personal corruption evident in the illicit transactions among units; more recently, interviewees and the official

¹⁹ See, for example, Minzhu Yu Fazhi (Democracy and the Legal System) [a government publication], no. 1 (January 1981), pp. 7–8.
²⁰ Nanfang Ribao, January 9, 1982, p. 3.
²¹ Minzhu Yu Fazhi, no. 7 (July 1981), pp. 29, 30–2.
Chinese media have spoken despairingly of pervasive corruption. All of the strategems that had always been employed in the "grey" sector of the economy—not only the bloated entertainment budgets, but also the unwritten deals, the fixing of books, the concealment of warehoused goods—are now providing fertile ground for outright embezzlement and bribery by cadres and procurement officers alike.

Why so much more corruption today than in past decades? A large part of the answer lies outside the purview of this paper—namely, in the cynical mood among a sizeable share of the cadres, which has its roots in the turbulent politics of the 1970s. A smaller part of the answer lies in the new government programs to improve work incentives. Collective factories are now allowed to retain more of their profits for distribution to their workers. One unintended consequence has been that, so long as factory cadres and procurement officers can secure profitable deals and get needed supplies, many workers are now willing to connive actively in their schemes, and even look the other way when those who pull off a good deal skim a bit of cream from the top.

From Chinese press reports, it seems that a vicious circle has ensued. As more and more of these illicit activities occur, the more extended become the conspiracies linking the leadership and workforce of a factory, the more massive becomes the corruption, and the more protection it enjoys from interlocking guanxi networks of Party, industrial and commercial organs. Mutual backscratching is becoming a national preoccupation.

In 1981, the State Council promulgated a set of regulations aimed at curbing the abuses: procurement officers no longer legally could claim "entertainment" expenses or receive special "bonuses"; companies would no longer be allowed to get away with accepting kickbacks; etc. The regulations did not seem to have had the desired effects, however,

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24 See, for example, Chan, et al., Chen Village, chap. 10.
25 See, for example, Nanfang Ribao, February 27, 1982, p. 2.
26 Beijing Daily (September 29, 1981) explained: "At the moment, when the 'art of guanxi' is all the rage, if one wants to make things go smoothly one has to rely on exchanging guanxi and buying and selling guanxi . . . . To give consideration to or to try to build guanxi, some people . . . . plead for mercy for and give unprincipled protection to those who violate . . . . state laws, with the result that the violators . . . have not received deserved education and punishment. This 'art of guanxi' is continuing to spread unchecked . . . not only among the ordinary enterprises, but also among [government] offices and organizations and even some Party organs." (For a more complete translation see FBIS-CHI, October 16, 1981, p. R1.)
and this year the Party leadership has had to launch a major Anti-Corruption Campaign, aimed at both urban and rural areas. As part of this drive, a special Anti-Corruption Investigatory Office was instituted in Guangdong and made responsible to only the very highest levels of the Party, so as to circumvent the protective powers of guanxi networks.

"Grey" and "Black" Labor

The final major way in which the countryside has entered the hidden economy is through itinerant work and "black labor" (hei gong). Like the other aspects of the hidden economy that we have touched upon, much of this activity used to be discouraged by the state even when legal; some of this labor is distinctly illegal but has been tolerated by authorities; and certain types of "black labor" are considered criminal. Whatever its particular legal standing, most of this activity fills the cracks and crevices that are difficult for the planned economy to cover effectively.

Perhaps the most obvious examples are the itinerant rural craftsmen and peddlars—the menders of pots and pans, knife-grinders, barbers, candy-vendors, and other peddlars. To get enough business, they must circulate among a large number of villages. But, since the Party has not wanted free-floating operators, the itinerants are all required to belong to an agricultural production team in their native village. From their earnings every month they must pay a fixed sum to their team in return for their food rations and certificates authorizing their travels.

Even so, the individualistic and profit-seeking nature of the itinerants' trade ran afoul of Party ideology. During the more radical periods, itinerant trade was forbidden in some rural districts, and in others the range of permissible services was reduced. As one example, during and after the Cultural Revolution of 1966–68, Chen Village's carpenters were confined to the village and became fulltime brigade employees. But the new system did not entirely satisfy either the carpenters or the private needs of peasants: "So after work they still carried out their own side-line work. If a carpenter makes a table for you and you give him some money, who's to know?"

While frowning on private labor, the government was more tolerant during the 1970s when the work was collectively organized. Brigades and production teams, for example, sometimes sent out squads of peasants—entirely legally—to work for other collectives or factories. In order that these squads not disrupt agricultural production, the government strongly preferred that they operate only during slack seasons. Very often, however, a successful squad would continue its operations
year-round, without the government's knowledge. One of our interviewees from Chen Village had belonged to such a squad. It sought out construction work in the county towns in the mid- to late-1970s and, by working furiously and putting in overtime, each squad member earned 100 yuan a month.28 (By comparison, the average urban factory-worker received only about 50 yuan a month, and the Chen Village peasant earned less than 30 yuan working in the collective fields.) But in an arrangement similar to that of the itinerant peddlars, each squad member had to contribute 50 yuan a month to his own production team's coffers.

Such work outside the village occasionally could edge over into the "black" zone. An interviewee from one of Guangdong's mountainous counties offers an example from the early 1970s:

A mine was opened but there weren't enough workers, so the mine recruited groups of peasants from the countryside in order to meet its quota. The workers recruited this way weren't state-paid; in fact, they weren't even reported by the mine. This kind of thing is referred to as an "underground factory" even when it's at a state enterprise, and the labor employed this way is called "black labor." Those peasant-workers drew their grain rations from their own production teams. But sometimes, to encourage them to work harder, the mine also provided them with extra grain rations that the mine had procured illegally.

This type of illicit hiring may have had little or nothing to do with corruption. As with some of the blat that we have observed, supervisory cadres simply have to cut corners and enter into illegal activity to fulfill their own responsibilities effectively. But in many other cases, of course, corruption and private greed do enter into such hiring practices. The very illegality of thehirings practically invites criminal abuse. Radio broadcasts from Yanan provide this portrait of labor racketeering:

[T]here was not only an illegal surge of rural population into the city of Yanan and its suburbs over the past few years; there are also speculators and black contractors.29

When erecting a factory building, the [Yanan] papermill's Party branch used an illegal contract labor force and protected and supported illegal foremen who embezzled state funds [i.e., took a slice of the contract as a personal profit]. The head of the mill Party branch and another branch member took bribes and used their powers to serve the capitalist activities of these illegal foremen . . . . Some leading cadres in the city's Communications Administrative Center regularly took bribes and supported and protected illegal contract labor and illegal transport [crews].30

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28 A labor squad sent out by a North China team, whose members earned up to 200 yuan a month transporting goods for local factories, is described in Jack Chen, A Year in Upper Felicity (London: Harrap, 1973), pp. 270–2.
Black labor contracting, like the other sectors of the hidden economy, seems to have increased noticeably in recent years. For one thing, the decentralization of farming has given peasants more freedom to arrange their own work schedules. Furthermore, in the urban areas, more companies see advantages in using black labor to shave construction costs, now that increased corporate profits mean larger wage bonuses. Alongside this (as the above quote suggests), more cadres see ways of obtaining graft through such deals.

The Government’s Quandry

What can be done? Certainly, the government knows that it must distinguish clearly between outright corruption and the various types of hidden maneuvers which have helped villagers sustain their livelihoods. As we have seen in the examples from the early and mid-1970s, the village factories often engaged in grey-economy barter and in illicit favors-trading, because without these practices they could not get needed parts. The team cadres and peasants of poor districts hid fields and concealed grain (often with the tacit forebearance of local authorities) to avoid ruinous crop-quotas. Peasants everywhere sought to circumvent cropping and marketing regulations which depressed village living-standards. In the face of government restraints on labor mobility, members of free-lance labor squads were gainfully employed in construction work. We observed repeatedly, in short, that what inspired many of the activities in the grey and even black sectors of the rural economy were sets of government restrictions that villagers considered onerous, arbitrary, or injurious to local economic development.

Articles in Chinese publications today recognize the validity of the peasantry’s past complaints. But, despite all the economic reforms of recent years, most of the earlier reasons for the peasantry’s circumvention of government regulations remain. Government policies, as always, are beset by serious contradictions. Take, for example, the area of agricultural pricing. Though the government’s purchase prices today are higher than in earlier decades, they are still lower than free-market prices. The imposition of quotas persists. The countryside, as a result of such policies, remains trapped in noticeably adverse terms of trade with the cities. 31 It is not surprising that, when economic liberalization gave

31 See, for example, Nongye Jingji (Agricultural Economics), no. 10 (1981), p. 54: “The pricing of agricultural products is unreasonable, especially when compared to manufactured products. For a long time, the prices of agricultural products have been depressed, while those of manufactured goods have been kept high. . . . There is too big a gap between the procurement and selling prices of Class I agricultural produce. . . . about which the peasants have a lot of complaints.”
the peasants more room to maneuver, their hidden-economy activities in both agricultural production and rural marketing increased significantly. The government could, of course, rectify this situation by altering its agricultural pricing policies; but Party leaders, faced with the heavy financial demands of the Four Modernizations, do not seem eager to eliminate what is, in effect, agriculture’s subsidization of industrial development. They have preferred, thus far, to settle for the unsatisfactory situation of past decades: strict government regulations that are applied erratically and that only partially hamper the operations of a grey economy. Similarly, the government does not quite know how best to handle the bottlenecks in commercial distribution. Despite the recent relaxations which allow major firms somewhat greater freedom to buy and sell goods on their own, a large proportion of the supplies that are needed in the villages and by urban industry continues to be allocated all too awkwardly through state channels. Hoarding and back-door trades consequently remain essential to villages and industrial units alike. But Party leaders seem reluctant to loosen much further the state’s controls over the allocation of resources. First of all, this power is essential to command-economy planning. But there may be another, equally cogent reason why some leaders seem hesitant further to liberalize trade: they have seen that greater tolerance for a free market has already—as the more radical elements predicted—opened the floodgates to “spontaneous capitalist tendencies” and an upsurge of speculation and profiteering. They can observe that expanding the grey sector in commerce has provided more opportunities for black-economy abuses and corruption. Perhaps most worrying of all, the Party’s own cadres are implicated in much of this widening corruption. Chinese journals express concern that the Party’s reputation and legitimacy are being seriously eroded.

The top leaders understandably have been reluctant to loosen government restraints on economic transactions any further, until the spreading rot is brought under control. Accordingly, they recently have turned their attention away from economic reform and toward a political rectification campaign reminiscent of earlier decades. Whether this new Anti-Corruption Campaign will effectively stanch the abuses of cadres who have weathered so many previous campaigns remains to be seen, however. Interviews suggest that, by the mid-to-late-1970s, many rural cadres had already become inured to such movements: they knew from past experience that they could rebound and survive as cadres, so long as they retained guanxi.\(^{32}\)

\(^{32}\) See Chan, et al., *Chen Village*, chaps. 9 and 10.
The Hidden Economy of Rural China

Uncertain as to how to deal with the various sectors of the hidden economy, the Party's leaders this year are testing weak new economic nostrums and falling back reluctantly on Draconian, out-of-date political remedies. They are in a quandry. Caught within contradictions inherent to their own economic priorities and political mechanisms, they continue to grope, ineffectually, for ways to reconcile government control and economic liberalization.

Hong Kong, March 1982