

Possession, operation, and governance as three conceptual dimensions of town and township enterprises: An analysis going back to the classical social sciences (Part II)

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Abstract

Through a review of the representative sociological studies on the ownership of town and township enterprises, this article uses the three classical theoretical concepts of possession, operation, and governance to analyze the formative and the operational mechanisms of town and township enterprises. In terms of possession, these enterprises comprise different elements of public, common, and private ownership. In terms of operation, they utilize land contracts, enterprise contracts, and the financial responsibility system in the institutional context of the two-track regime. In terms of governance, they fuse different mechanisms of institutions, knowledge, and other dimensions together and free up traditional familial, kinship linkage, and customary resources for practical reform and creativity. As they occupy a key position in the social process of multiple elements and moments, town and township enterprises not only provide opportunities for institutional innovation, but they also embody the institutional spirit of the reform period, which combines tradition, regime, and new market mechanisms. Enterprises also foster an enriched process of social development. This framework, which goes back to classical social science theories, may stimulate

reflection on other phenomena of organizational and institutional change that are associated with social and economic reform.

Keywords

Town and township enterprises, ownership, possession, operation, governance

Governance

Our use of the concept 'governance' indicates that we cannot comprehend business organization as a purely self-sufficient system. On the contrary, governance is embedded in the whole social structure and state system environment, especially in a kind of non-standardized and non-stereotyped transforming status, and its possession and operational relationships are, to a large extent, influenced by the system, ideology, and social customs. The embeddedness of governance, which is the third important dimension of enterprise organization research, is our initial concept for analysis. According to Polanyi, 'the human economy is embedded in institutions, both economic and non-economic. It is essential to include non-economic institutions. Religion and government may have the same effects as monetary system and tools and machinery that reduces labor intensity' (Polanyi, 1971, quoted by Liu, 1999: 75). Starting with the changes in economic history, North (1992: 34, 48) pointed out that 'in order to analyze an economic organization, the transaction cost theory and the state theory should be applied together' and 'if there isn't an explicit theory on ideology, or the theory of sociology of knowledge in a broader sense, then our ability to interpret current resource allocation or historical changes will be greatly insufficient'. Demsetz's (1999) analysis on possession also established 'the social responsibility of the enterprise economy' and 'morality in the property rights system' as key issues in this area. Therefore, 'governance' as used here has far exceeded the so-called legal person and rights paradigm of corporate governance; instead, it includes traditional resources such as state institutions and their policy movement and knowledge power, the governing technology of their structures and clanship, and the mores behind these in research on enterprise behaviors.

The three orientations of governance

Regime governance

Regime is a regulated form of governance defined by the will and law of the state concerning the state's political, economic, and ideological performance. According to Montesquieu (1993), regime implies the principle of general spirit; namely, both constitutional and authoritarian governments are totalities. No economic behavior, rule, or enterprise activity can escape the overall regime environment. As Polanyi once wrote, the so-called individual economic system can be elaborated only when

it is analyzed from the perspective of totality and within the context of historical process and social background correlated with the whole regime.¹ Following his discussion of economic history (Polanyi, 1971), Polanyi pointed out that it is through the dual influences of government intervention and market liberalism that land, labor, and money become commercialized. On the one hand, land, labor, and money are far from being commodities as they are managed and allocated by non-economic institutions; on the other hand, under the influence of the free market concept, factory owners deem these entities to be fictitious commodities, bring industrial operation into the conceptualized market to expand equivalent transactions, and strengthen society's self-protection through market self-regulating. Therefore, the so-called 'self-regulating market' is not self-sufficient; rather, it is market 'disembedding', which is formed through industrial production, government intervention, and market liberalism. The formation process of a self-regulating market is influenced by regime factors; furthermore, market self-protection can only be realized when regime factors function as its adversary.

Polanyi's investigation actually uncovered a kind of dialectical relationship; namely, in reacting to the state regime it is necessary for organizational activity to acquire the advantages of the regime's resources as well as maintain independence by constructing opposition to the regime. It is essentially a kind of embedding relationship. However, the embedding relationship is not a subsidiary relationship. Polanyi's investigation into economic history had its prerequisite in the fact that the constitutional regime in 20th century Britain still allowed space for individual possession and industrial operations as well as opportunities for spreading free market ideology. Relatively speaking, Szenlenyl et al. (2010: 53) fully developed Polanyi's reallocation theory, stating that 'in fact, it may be most precise to depict China in Polanyi's terms like this: in a social formation and structure like China, a local state socialist society can be integrated by the central government reallocation hierarchy and all kinds of provincial and intra-provincial markets'. This description by Szenlenyl et al. concerned the regime situation of China in the 1980s. However, even in the previously most typical, most solidified socialist regime in China the reallocation regime took up the dominant position and the second economy may have existed overtly or covertly in different forms, as in the 'accumulated double circulation' in which 'the more dominant departments are comprised of [sic] large-scale enterprises integrated by a central planning system while in the meantime, a private department with considerable scale occupies a subordinate position, which is comprised of [sic] smaller enterprises integrated by the market' (Szenlenyl et al., 2010: 50). This kind of situation can be seen in Eastern European countries and in other countries with similar regimes.

Theoretically speaking, there is no essential difference between Polanyi and Szenlenyl, as both researchers emphasized that people should not be infatuated with the myth of the dominant regime. In countries dominated by a free regime, the equal exchange principle in the market is, in fact, embedded in complex political and economic systems; and in countries dominated by a planning system, there are huge second economy departments and consumption markets and even a reallocation regime cannot exist for long without the complementary and coordinating

functions of the consumption market (Szenlenyl and Manchin, 2010: 194–219). Furthermore, Polanyi's and Szenlenyl's research studies also indicated that no system can exist independently, be it a market system, an enterprise organization, or a huge state system, all of which need to be embedded in other systems for their existence. However, this kind of embedding process is dynamic. As Polanyi (1971) revealed, the relationship between market system and state regime is one of both 'embeddedness' and 'disembedding'. Not only does the formation process of the market system need efficient allocation by the state as a non-economic element, it may also autonomously generate protective reactions in society and maintain its system's existence through social movements. Similarly, in a socialist regime, besides normal bureaucratic governance, the state needs to initiate all kinds of institutional movements² to manipulate and regulate the various social elements.

Xueguang Zhou (2012: 105) pointed out, in a paper discussing movement-oriented governing mechanisms, that the 'normal mechanism and movement-oriented mechanism are two contradictory as well as complementary governing mechanisms. The movement-oriented governing mechanism can be realized only after the consequent organizational failure of the normal mechanism'. The starting point of this analysis is relevant to Polanyi's statement, the only difference being that the initiator of the movement is the state. As for the process of regime governance, the existence of an 'embedding relationship' does not just hinder the previously sensibly designed gigantic bureaucratic system from effective operation (the ranking system and labor division structure would likely lead to difficulty in information flow); in addition, regional differences force the regime to remain flexible, which in turn intensifies the suspicions and loss of control between upper and lower levels (Zhou, 2011). Therefore, movement-oriented governance is a 'disembedding' process by which the political effect of the state will and the influence of ideology are intensified by breaking up the responsibility system within the bureaucracy, which is infused with fidelity, trust, and shielding between the upper and lower ranks. As Zhou (2012: 108) pointed out, the mobilizing mechanism in political movements 'needs to be realized by unconventional and urgent mobilization to break up the current organizational structure'. The difference between movement-oriented governance and bureaucratic governance lies in the fact that the former needs to seize sufficient arbitrary power to manipulate ideology, and even the state machinery, by means of dictatorship to transform various administrative issues into political issues, fully mobilize local political resources (Zhou, 2009), and even expand the scope of political mobilization to all common people since, as Rosenau (2001: 5) pointed out, 'governance is a regulation system that can only take effect when it is accepted by most people'.

In brief, governance regime, although characterized by overall structure, cannot be comprehended as structure alone. From the perspective of the governance regime operation mechanism, the formation of any regime involves 'embedding'. It cannot exist in isolation from a free market or reallocation economic system; on the contrary, it can exist only by mutual embedding with other systems. Similarly, there is embeddedness between the upper and lower ranks or the central and local

governments; thus, self-protective reactions and flexible governing space that is not part of the governing regime are formed (Zhou, 2011). However, any dominant regime would face the difficulty of structural invalidation because of embeddedness and thus might periodically adopt a more comprehensive and drastic, movement-oriented governance style in order to ‘disembed’ the original embedding relation and strengthen the regime power and effectiveness. In this sense, governance regime has never been a fossilized structure and ranking relationship; rather, it is a changing and dynamic mechanism.

Knowledge governance

The proposal of the concept of embeddedness means that the governance of any unitary regime is not self-sufficient; it needs to evolve in a dynamic process between ‘embedding’ and ‘disembedding’, by which a multiple governance regime is formed. Besides, the self-insufficiency of regime governance shows that it depends on mandatory institutions or institutional norms as well a whole set of processes, technology, and knowledge to work effectively. In other words, both conventional governance and movement-oriented governance need to apply knowledge and technology that can be internalized to reach consent and to realize the efficiency of governance ideologically.

In *The Protestant Ethic and the Spirit of Capitalism* (Weber, 2010), what Weber emphasized was not that the doctrines and ethical structures of a particular religion are more consistent with a trusting relationship in market transactions, but rather that only in a Protestant society, in which individuals experience divine ordeals while remaining secluded from the secular world and its moral trials, can the upright morals cultivated within Protestant sects, and tied to volunteer religious belief, be transferred into credit in public economic activities. In other words, in the history of the American economy, the credit relationship in business was not formed by the market system, but by disciplined self-governance within the sect of the typical bourgeoisie to test fully the individual’s credit value and ‘obtain legalized private and public life’ and irreplaceable business opportunities. ‘Only Puritans’ life manner can legalize the economic “individual” promotion of the spirit of modern capitalism and endow it with glory’ (Weber, 2010: 140).

Weber’s study on Protestant sects provided a very interesting subject; namely, the legalization resource of regime governance generated not by the system correction of a regime, but by the governing process of another domain (religion as a social domain). The latter process usually evolves through some more intrinsic and profound ethical requirements, such as knowledge value and faith encouragement, and thus may be trusted more easily than worldly economic activities and succeed. Similarly, Foucault (2010: 79) reviewed the evolution of modern governance in the Western world since the 17th century and pointed out that ‘from the perspective of governance, the thing that matters is not law. . .the tool for governing is no more the law, but a series of tactics’. ‘Governmentality’ became an important concept in Foucault’s research on governance.

Foucault (2010: 84) reviewed the ideas of scholars from Machiavelli onwards, especially concerning mercantilism, and pointed out that state governance formerly emphasized territorial governing, which later developed into an overall governance structure that included ‘governing both people and affairs’, and therefore established three basic governing patterns ‘with each pattern related to a special science or subject: the art of self-governance, related to ethics; the art of proper governing of family, related to economy (housekeeping); and the science of governing state, related to politics’. In this sense, the modern regime has combined governing people and business and established a governing system that combines fortune, resources, means of living, customs, conventions, behaviors, ways of thinking, and even events such as famines, epidemic diseases, and deaths, thus combining private and public life into a single, ‘public unity’ domain. Foucault (2010: 84) pointed out that ‘with the emergence of Mercantilism, we saw for the first time the development of state *savoir* [‘knowledge’] that can be applied as a kind of governing method’. This kind of *savoir* effectively includes soul governance (ethical governance), housekeeping governance (economic governance), and public governance (political governance within a kind of knowledge structure) forming an overall governance mode driven by the state and society that are interwoven together. In the meantime, knowledge is different from system; as a governing tactic, it not only provides an ideological tool with legality for the governors, but also renders discourse and expression space with subjectivity for the governed side and thus forms a delicate power controlling and revolting relationship in the governance regime (Foucault, 1980).³

For example, Guo and Sun’s (2002) study on ‘grievance’ revealed a kind of governing mechanism with which to remold common people’s state concepts by using knowledge and technology. In the Land Reform Movement, the misery of farmers’ daily lives was inspired by ‘grievance’ to construct knowledge about patterns and the revolutionary discourse of class categorization and to reconstruct the relationship between farmers and their environment, especially the relationship between farmers and the state. In reality, it was a process of molding farmers as the subjects of discourse. In other words, only through such a process of being educated can the relevant abstract ideologies be transferred into farmers’ intrinsic subjective consciousness and be connected to the more majestic concept of state, and the political will of the state be implemented through effective self-governance by the peasants.

Mores governance

In the theoretical problems of governance, there is a delicate tension between the discussions of Polanyi and Foucault. Although Polanyi emphasized the overall regime environment, he believed that where an embedding relationship exists no regime would be impenetrable; on the contrary, this would construct tensions of opposition with the regime. Foucault emphasized that the knowledge and technology production in governance would permeate every corner of a society and incorporate all elements into a permeable knowledge and power system. However, the proposal of these two theories was aimed at the typical regime

formed in Western societies; for the Chinese society in transition a different independent, self-protective system from the dominant system would never emerge, nor would a structural pattern of knowledge develop that might assemble and organize all social elements. The ‘China experiences’, in the sense of governing, are immature and changeable, a situation that has allowed non-systematic or informal systematic elements to exist, and even in the initial stages of social transition these elements will play an important role because of ‘system shortage’.

As seen in the history of Western societies, the capitalist regime experienced ups and downs during its formation process. In *On the Spirit of Laws*, Montesquieu (1993: 19–29) proposed a creative idea: if we explore the basic law within the law, namely ‘the inexorable relationship originating from the properties of things’, then we should investigate not only the properties of a form of government, which is the systematic structure of a regime, but also its basis, namely people’s emotional tendencies that propel the form of government towards change. In other words, it is an appropriate governing regime as well as its corresponding emotional basis that forms the social order. In this sense, the education that is aimed at cultivating such an emotional basis should be considered the law that citizens need and accept initially. The emotional basis in the latter sense of governing that was put forward by Montesquieu is the commonly mentioned concept of ‘mores’ or socialists’ ‘mores’. Tocqueville’s evaluations of American democracy and the French Revolution were based on the principle of whether the formal structure of the new government matched with mores.

Especially during times of drastic social change, a state regime can hardly determine citizens’ emotional structures; on the contrary, getting rid of the emotional structure and transforming the system will cause cultural uneasiness throughout the whole society. Durkheim’s (2001, 2003) description of anomic suicide demonstrated that the capital expansion in nineteenth-century Europe rapidly eliminated the moral and emotional basis of the whole society, and the traditional occupational group could not generate social linkage and offer protection any more. However, the tension between regime and mores has challenged the theory of system determinism. Regimes always try to control mores by manipulating the conventional power of the bureaucratic system, the arbitrary power of political movements, and even knowledge power, and to strengthen the state’s will by ‘transforming social traditions’. However, mores takes root more easily in religion and customs, kinship, and local knowledge, motivates the vigor of history, maintains all kinds of intermingled and complex elements in a social movement, and forms the systematic spirit in a real sense.

In the interaction between regime governance and mores governance, socialists tend to use the terms ‘flexible’, ‘informal system’, and ‘quasi-formal process’ to describe the actions of basic-level government or society that deviate from a formal discourse system or formal system arrangement in solving problems. But this kind of argument may ignore not only the institutional pivot (for example, stern religious rituals, sacrifice rituals, and local and clan regulations), but also the so-called logic chain that dominates the governing structure hidden in culture (Duara, 1988).

In reality, the humanistic and geographic ecology, religious beliefs, family structures, and even cultural and historical legacies of a region will influence the path of regime governance and the method of social organization. Thus, the formation of this kind of governing practice and its operational process cannot be analyzed solely using the conceptual tools within the category of institutionalism; rather, it should be explored in terms of its original structural logic and by investigating its transformation form during interactions with the regime. It should not be avoided by applying specious concepts.⁴

The space or gap that actually exists between regime and mores can cause delicate confrontations among various governing levels or dimensions. The customs, cultures, or systems of mores can be used as ‘weapons of the weak’ to resist system intrusion, as Scott (2007) pointed out, by applying micro-technologies and the hidden networks applied by various kinds of local culture—as when farmers become involved in defensive guerrilla and attrition warfare, for example. According to the situation of system movement and knowledge transformation, the logic of mores can also be applied to transform system arrangements in the regime. For example, some township enterprises possessed by the collective nominally are, in fact, dominated by clan networks; also, some judicial mediation operates according to both mores and reason as well as the ‘flexibility’ phenomenon in sociological research. All of these phenomena are conventional conversions of regime governing according to the acceptability principle approved by mores. Mores has also provided the lowest levels of local government with system space and coping mechanisms that allow for adjustment, transfer, and change; thus, governments have developed the ability to solve practical problems according to local conditions and enlarged the scope of regime governing at the basic level (Zhou, 2011).

The three-dimensional governing mechanisms of regime, knowledge, and mores have extended the governing logic in different directions, and their interactions have formed multiple and compound governing structures. They can not only redefine possession and operation in economic activities, but also form different scales and criteria that dominate economic activities in different regions and cultures, and under different historical conditions. Various patterns of township enterprises emerged in the course of their development and the origin of the divergence lies not only in the different combination modes of different possession relationships and different contract/agent relationships in operation, but also in the differences in governing relationships revealed in different aspects of governing. We will study this point in the next section.

Experience investigation: multi-directional governing relations of township enterprises

The two-track governing regime

From the perspective of regime, township enterprises would not have flourished without the policy of opening-up and reform; the necessary structural conditions

for township enterprises to flourish might not exist without the ‘two-track regime’ developed in the regime reform during the 1980s. The principle of the two-track regime is ‘protecting the storage regime and cultivating the incremental regime’. The ‘storage regime’ from the 1970s to the 1980s means the redistribution system of the planned economy. Especially for those public enterprises belonging to administrative stratification and urban communities, reconstructing the regime governing structure based on the unit system was a necessary measure to get rid of the chaos of the Cultural Revolution and enable production and normal life to recover. The ‘incremental regime’ means that, with the support of the household contract responsibility system, and by cultivating the non-systematic productive energy outside the incremental regime of the planned economy, the free flow of resources will be accelerated, the regime bottleneck and the normative function of the unit system will be relieved, and the elementary market system will gradually be formed. The economists of China always regard this kind of incremental reform as the foundation of the success of gradual reform in China (Fan, 1993, 1994; Lin et al., 1994; Naughton, 1994) and believe that in rural areas of China the household contract responsibility system is implemented on the premise of the two-track regime. For example, the national government has continued to purchase grain by a two-track system of prices rather than by a ‘land reform’ movement to provoke changes in the collective production system in rural areas and reach ‘Pareto Optimality’ of the whole (Jun Zhang, 2006: 97; Hu, 1992).

However, from the perspective of reform strategies, the purpose of the two-track regime is to establish a kind of relationship that allows the incremental and storage regimes to provoke one another: on the one hand, cultivate and develop the incremental regime outside the original regime and avoid systematic risks, resulting from the incremental regime deviating from its path of dependent logic, by protecting the storage regime and preventing the incremental regime from expanding too fast; on the other hand, generate structural power for change through the accumulations of the incremental regime and provoke the sensitive reactions of the original regime to push forward the gradual transformation of the social structure (Qu, 2012). Therefore, from the perspective of regime governance, under the logic of the two-track regime, the ‘embedding relationship’ is established between storage regime and incremental regime, as Polanyi recommended; in the meantime, ideologically, the market exchange relationship hidden beneath the redistribution regime that Szentenyi mentioned reappears, obtaining explicit legitimacy. The two-track system results in a construction of economic separation and also provides systematic security for the effective combination of storage and incremental regimes. On the one hand, as the foundation of the planned economy, the state-owned economy still implements prescriptive prices, concentrated allocation of resources, and a graded wage system by the administrative regime; on the other hand, the emerging non-state-owned economy begins to explore the market operating mechanism from the aspects of production, marketing, pricing, and wages, especially in the expanding progression from agricultural to industrial accumulation, and from agro-products to light industrial products, as the advantages of the non-state-owned economy become evident.

Real historical events show that neither end of the two-track system is irrelevant to the other. In fact, during the initial stages of industrialization in rural areas, with simple and crude manual workshops, the township enterprises challenged the 'shortage economy' by forming a pattern of 'encircling the cities from the rural areas' with elementary production. Afterwards, taking advantage of the 'decentralization and profit sharing' of contract system reform in the state-owned enterprises, and the insufficient principal-agent relationship between state-owned enterprises and their subordinate collective enterprises, the township enterprises conducted extensive private transactions with state-owned enterprises. They practiced the following procedures: first, taking advantage of the two-track pricing system, the township enterprises obtained productive materials on a large scale at the prescriptive price and provided partial profits in the form of commissions; second, utilizing the opportunity of state-owned fixed assets loss, township enterprises purchased machinery, equipment, and production processes at low prices and accelerated the competitiveness of their technology. In addition, township enterprises offered high payments according to wage market standards and drew a large quantity of engineering and management talent from state-owned enterprises. Furthermore, in related production areas, township enterprises provided outsourcing services to state-owned enterprises by processing primary products. In many regions, township enterprises even adopted more direct methods involving secret equity and joint participation with the 'secondary property rights units' (collective enterprises) of the state-owned enterprises and thus could engage in market operations by acting as parasites of the state-owned enterprises (Qu et al., 2009).

It can be stated that the two-track system in the regime governance provided advantages for the comprehensive development of township enterprises. In the process of their development the township enterprises lost systematic resources without a storage regime and the embedding relationship between the storage regime and the incremental regime. The regime resources were not allocated by the redistribution system; however, the various strategies and measures that could be operated flexibly in the incremental reform, and the ideas and thoughts that were not bounded by the storage regime, provided immense space for township enterprises to utilize storage regime resources to the fullest extent and transform the resources controlled by the regime into a free flow of resources.

From this perspective, the relationship networking associated with the 'relationship property rights' and the 'relation contract' mentioned by Liu (2006) in Study 5 is not limited to the region of the township enterprise; on the contrary, it extends far beyond this geographic region in the 'towns and villages' sense. Here, it is a paradox that the foundation for the existence and effective operation of relationship property rights or relation contract does not lie in the seemingly de-systematic characteristics of the relationship. Quite the reverse, only when the social relations operated by township enterprises are tightly bound within the regime, and when the solidarity with the regime of different categories and ranks is expanded, can their exclusiveness be expanded. In fact, only when township enterprises and

entrepreneurs establish political relationships with local, cross-regional, and even central governments can they experience the advantages of systematic embeddedness; only when they establish shielding relationships with higher ranking state-owned enterprises for production, equipment, technological processing, product marketing, profit sharing, and capital operation can they establish their own irreplaceable exclusiveness by expanding their businesses and seeking opportunities to transform management rights into ownership. The analysis in Liu's Study 3 on the system transformation of township enterprises is also based on the angle of regime governance.

In the governing logic of the 'two-track system', incremental reform accepted more protection. This was because the flexible governing and closeness to the outside world of township enterprises, as well as their public or covert transaction relationships with the external system, especially state-owned enterprises, could not be blamed under the grand political umbrella of the 'family-contract system for production'. In this historical context, the contract system served as the most prominent basis for legitimacy in the social and economic movement; even within the storage regime contracting reform was growing. At the same time, the 'two-track system' also provided a systematic foundation for local administrative departments to protect the township enterprises. As a legal pilot project of reform, township enterprises were not governed or controlled like units in a unit system by a unified regime; rather, they were like small, independent kingdoms protected by local governments and were not easily influenced by other systematic elements, such as the Party and other groups, labor unions, youth leagues, and the Women's Federation.

It needs to be further specified that local protection has more profound origins in regime governance from the perspective of the adjustment and changes in the relationship between the fiscal system of central and local governments. In the mid-1980s, in order to break the systematic bottleneck of administration in economic interventions, the central government began to regulate regional economies indirectly with a package of economic policies in finance, revenue, and banking and they enlarged the free power of local governments in economic management and operation. This was 'fiscal responsibility system' reform. In essence, 'responsibility' is 'contracting'. The fiscal responsibility system is a contract system in which the central government gathers financial revenue from provincial governments based on a fixed basic number. The amount within the basic number was allocated between the central and provincial governments according to a certain ratio; the amount exceeding the basic number was mostly allocated to provincial governments. Each province had different ratios for the central and provincial governments, and the difference was decided by negotiation between the two.⁵ This kind of 'fixed rent' financial system had been undergoing partial adjustments until 1994. The nearly 10 years' implementation of the fiscal responsibility system coincided with the rise and fall of township enterprises.

In the fiscal responsibility system, the central government only makes demands on local governments in economic aggregate and fiscal revenue, and the product

tax is the main tax. Thus, regardless of the benefit, as long as the enterprises are in operation, the tax can be calculated based on output value or added value. If we say that the initial motive for local governments in developing township enterprises was to tackle unemployment, increase farmers' income, or improve the collective's welfare (Byrd and Lin, 1990), then in the 'fixed rent' financial system, the local governments' purpose in borrowing and obtaining funds to start multiple township enterprises, was to increase local financial revenue by a wide margin (Oi, 1992). Therefore, in rural areas of China, even in some remote areas with low levels of industrialization, bustling factories and smokestacks can be seen in every village.⁶ Therefore, from the perspective of the governing regime, the two-track system provided systematic protection for township enterprises to choose their developmental pathways and non-systematic markets to operate freely; meanwhile, the contract system encouraged local governments to take action regarding the regime. The development and fate of township enterprises also experienced ups and downs with changes in regime governance and finally declined with the introduction of the 'tax distribution system' reform in the mid-1990s.⁷

The contracting discourse

The above analysis on regime governance illustrates that the development of township enterprises depends not only on grassroots initiatives, but also, to a greater extent, on the regime's initiatives. Fundamentally, the concept of regime initiative does not mean merely local governments' encouragement, as provided by the land contract system, but also that the developmental path of township enterprises follows the basic path of the 1980s reform in China. It can easily be concluded that the household contract responsibility system that flourished in China's rural areas in the late 1970s, the contract system reform of People's Commune enterprises, and the factory director- (manager-) contracted responsibility system in management resulted from the power delegation of state-owned enterprises, the financial contracting system from the central to local governments,⁸ and even the implementation of the strategy of special economic zones, all of these policies having one similarity: contracting. The reform tide from the upper to the lower layers of Chinese society was led by the discourse of contracting.

In summary, the political significance of contracting reform was very evident. The political significance of the two-track regime is manifested in the following judgment: the reforming target cannot be achieved effectively by depending on the conventional governance of the regime in stock, only by expanding the stock can the restraint of the regime in stock be broken away, thus highlighting the direction of regime reform. Only by the government 'crossing the river stone by stone', first by 'emancipating the mind' and then by engaging in bold exploration, can a new direction of political governance gradually be found. Only by putting aside the issue of whether to adopt the capitalist or the socialist path, and instead judging which developmental path will be more effective, can the political legitimacy of reforming the regime be established. Xiaoping Deng (1993: 164) once said, 'The

reform and opening up in China was initiated in the economic domain, first in the rural areas. . .the success of rural reform gradually increased our confidence, and we made use of our rural experiences in implementing comprehensive economic system reform in urban areas'. As for whether or not the household contract responsibility system in rural areas should be changed, Xiaoping Deng (1993: 371) said it should not be changed because 'if we change it, people will say we changed our policy, and we might lose more than we gain'.⁹

In this sense, contracting system reform seems to be a political movement that connotes a new state governing idea, and the experiment first implemented in the rural or rural industrial domain constituted a prelude to regime reform. However, the path of this political movement abided by the principle of two-track regime. Unlike previous political movements that mobilized people to participate comprehensively via the one-way will of an individual or central regime through arbitrary power (Zhou, 2012), this political movement started from the edge rather than the center and from outside rather than inside the regime, establishing a gradual transforming sequence between breakthrough and balance, activation and reaction. To be specific, it extended the successful experiences of production-related contracting in rural areas to the industrializing reform of township enterprises, extended the contracting system reform of rural industry to that of state-owned enterprises, and further extended the reform to the administrative system (the financial contracting system changed the unidirectional governing relationship between the central and local governments); in addition, the movement set aside some land for implementing another regime in special economic zones to advance the reforming will.¹⁰ At each key point of contracting system reform, the incremental section would initiate system innovation from outside the regime and provoke drastic stimulation of the corresponding regime in stock while obtaining resources, depending on the corresponding regime, and acquiring competitiveness through marketization.

Although the reform of the contracting system advanced step by step, a gradual reform compared with the statistics of the twice-as-rapid expansion of township enterprises, the policy advancing process of the reform resembled a political movement. With the promulgation and implementation of Document Number 1 and Document Number 4 of the Central Government in 1984, township enterprises flourished in China, including family run enterprises, family-group run enterprises, and rural collective enterprises. In 1984, the number of township enterprises increased from 1,346,400 the previous year to 6,065,200. In May 1984, in Zhejiang province, the farmers raised 140 million *yuan* and set up more than 20,000 township enterprises. In 1992, encouraged by Xiaoping Deng's talk in the south, the economic volume, production scale, and economic benefits of township enterprises grew rapidly. The operating income of township enterprises in 1992 increased 48.82% compared with that of 1991, the fixed assets increased 28.11%, the circulating assets increased 29.27%, and tax income increased 44.39%. In 1993, the situation was even more prosperous, with operating income, the fixed assets, the circulating assets and tax income increasing 82.88%, 57.66%, 84.08%, and 74.88%, respectively (Shang and Liu, 2001). The developing edge of township

enterprises was evidently not a spontaneous trail of economic development; rather, it was a momentum-gathering movement in which it was said that in many regions 'factories of different scales sprang up like mushrooms' and 'wiped out the villages without factories' (Yang, 2011). With the flourishing of township enterprises all over China characterized by the independent, cooperative, or collective operation of multi-forms, multi-levels, multi-types, and multi-channels, the possession relationship became extremely complicated, unclear, and disordered.¹¹ Activated by the reforming tide, all the contractors, village collectives, and local governments chose to relinquish ownership and to emphasize operation strongly so as to expand their markets rapidly.

In fact, inside the governing structure of township enterprises, the relation between possession and operation took on the characteristic of two-track regime. The whole discourse system established by the contracting system took the complex ownership of township enterprises with the state, collectives, families, or individuals as stock. Without analyzing or discussing their complex ownership, the enterprises spared no effort in expanding business and operating space. Similarly, local governments also stuck to the principle of 'no disputing' and took only economic performance as the sole standard for legitimacy.¹² In this sense, 'contracting' and 'operation' of contracting operation belong to one discourse category: contracting means setting aside all discussions associated with ownership and releasing ownership to an operating unit within a particular period, blurring property relations, clarifying operating relations, and finally taking 'economic performance' as the foremost principle for assessing efficiency. Whether 'making a production contract', 'being responsible for one's task', or 'operating independently with responsibility for one's own profits and losses', township enterprises all focus primarily on operators and take economic performance as the mechanism for leading the reforming discourse. 'Contracting' established the knowledge basis for the governing mechanism in 1980s China.¹³ The 'family-contract system for production' and the 'family-contract system for tasks' of the household contract responsibility system meant setting aside collective ownership of land and making each peasant household the operating subject. 'After handing in the earnings to the state and to the collective, the rest will belong to themselves' (Wu and Huang, 2008).¹⁴ The contracting system reform in the rural system provided discourse for the implementation of the contract and responsibility system of township enterprises and also foreshadowed the 'collective property problem' during system transformation (as shown in Study 3). In regard to procedure technology, Study 5 discussed in detail the binding mechanism of the contracting system. The binding responsibility for directors (managers) was initially 'a clean cut' by which contractors were only required to hand in a certain amount of profits, without other duties. Only by the later 1980s did they gradually adopt the 'process binding' method and set regulations for employment methods, payment systems, and assets disposition.

In the first 10 years of the reform, 'contracting' was the logical criterion of regime reform in all domains. 'Contracting' meant asking people to operate equipment that did not belong to them and wait for the economic performance of the

operation. In this kind of delegating relation, there is no clear client. From the subsequent historical process, the client seems to have been redefined on the basis of the efficiency of operation, which foreshadowed the covert transfer of ownership later, as shown in Studies 3 and 5. As contracting shifted the social focus from ownership to operating rights, encouraged and protected by the fiscal decentralization of the local government, the contractors and local government were largely liberated from all kinds of systematic binding. They utilized all means and resources and resorted to every conceivable means to achieve their goals.

In the meantime, contracting can also set aside the ‘residual right’ and ‘right of recourse’ in the possession relationship for later disposition. The phenomenon of ‘no initial contract’ in Study 3 was common in the contracting system reform; it was determined by the specific inner logic of the contracting system. In Study 5, in describing the contracting system in South Jiangsu province, Liu pointed out a common characteristic of the categories, namely, that ‘the government did not specify the products and production method, nor did the consumers of the products. These important aspects were decided independently by the factory directors’ (Liu, 2006: 21–22). It can be stated that, being protected by the two-track governing regime, contracting rapidly created opportunities for township enterprises and local governments to utilize power freely as well as opportunities for resource flow and free competition. The town or village governments would modify the contracts unilaterally, change the items, and require the contractors to agree to the modification; however, the two sides had strong tacit agreements on enterprise operation and would always reach a common view in pursuing economic performance. In the development of township enterprises, the phenomenon of administrative contracting was more widespread, and local governments raced to establish township enterprises as if engaged in a ‘political championship contest’.¹⁵ The principle based on effect, efficiency, and results has undoubtedly created the governing principle centered on the legitimacy of economic performance since the beginning of the reform (see Yang and Zhao, 2013).

Rejuvenating the household and clan

In investigating the possession, operation, and governance of township enterprises, the influence of mores should be taken into consideration. Although the investigation of regime governance and its knowledge form would reveal the structural condition, systematic environment, operation mechanism and people’s paradigms of the whole society, it cannot replace the influence of diverse geographic, cultural, and local knowledge in different areas. Fei, in his research on rural industry, made categorical comparisons in *Yunnan Three Villages* to make up for the single line narration of *Peasant Life in China*, with the intention of verifying the ‘assumption that the different structures of social development in rural areas are brought about by different degrees of influence of urban areas’ in Chinese society (Fei, 2004: 111). Therefore, the research of structure and mechanism cannot be refined to general regulation. Here, the element applied for comparison was the condition of

generating social structure as well as the structure itself; by studying how the condition generates structure, how the structure moves and operates, and then by studying communities with both different and similar conditions, after comparison and induction, the different categories and modes were worked out (Fei and Zhang, 2005: 7; Yang, 2010: 105–112). Fei's viewpoint indicates that diversity means the structure itself, and the existence of various categories and modes basically reveals the social structure. The diversity is not obvious from the institutional perspective as its unique feature lies in the sense of mores and even public feeling.

Township enterprises essentially possess the characteristic of localization. However, the theoretical significance of localization is never reflected in their local experiences; rather, it has a comprehensive value for the transformation of civilization (Gan, 1994). The 'rural economy mixed with both rural and industrial elements' constructed by township enterprises remains an inheritance of the rural industry tradition mentioned in Fei's *Jiangcun Economy*, which, in fact, challenges the integrated production mode of the so-called 'modern industrial society'. Both the practice of household industry and township enterprises, however, should have the space to hold traditional social resources so as not to be squeezed by either the authority system or capital compulsion and to merge all kinds of informal systematic elements needed for their existence and innovation. Thus, the opening-up and reform and the first implemented household contract responsibility system, together with the two-track system in regime governance have provided opportunities for the rejuvenation of traditional social resources. The highlighting of households as economic units in the contracting system was, in fact, an amendment to previous revolutionary theories. Here, instead of stating that households were 'liberated', we would rather believe that Chinese modern revolutionary history was included again in the social foundation of historical tradition: the basis of rural society was no longer the People's Commune system that belonged to the state or state collectives, or the cooperative economy that was implemented by compulsory power; it became a combination of administrative villages (in some areas, administrative villages overlap with natural villages) and families or family groups.

The policy effect of the 'family-contract system for tasks' and 'dividing farmland to household' influenced agricultural production as well as the social restructuring of rural organizations. The development of reforming stock in rural areas of China was manifested in the rapid economic growth and also the rejuvenation of clanship and village organizations. On the one hand, although production contracting was implemented based on nuclear families as economic units, with the emergence of agricultural product transactions and industrial production the network of diffusing families became more evident and the clan rejuvenation became an essential path to connect social and economic relations and the media for production, transaction, and fund raising. Subsequently, the traditional festivals, rituals, regulations of the clan, and even folk religions were reborn and rejuvenated, and the order of ethics and faiths in rural areas was reestablished.¹⁶ On the other hand, as the volume of collective economy was increased and a folk social order was formed,

local elites emerged in large numbers in villages and towns. The elite groups in the administrative and economic domains began to undertake more functions in community life in rural areas, and thus the old elites were replaced by the new ones (Nee and Su, 1996).

The process of clan rejuvenation and village restructure was instigated, in which township enterprises functioned as important pivots. Nan Lin's (1995) research on Daqiu Village illustrates that in the process of local elites turning from farmers into workers, the rise of local markets in rural areas and the regional feature of township enterprise colonies transformed the power structure of governing in rural areas into networks, of which clan kinship of the clan formed the initial resource for construction. In Chinese society, family or family organization holds first place in the mores governing mechanism; however, the constructing function of the family or family organization in modern society is different from its traditional function. After decades of transformation brought about by the socialist system, the family or family organization must take the path of dependence to fully merge with the collective system and exert the function of social restructuring in specific and changing situations. Therefore, in the cultural environment of different regions and systems, the elements of family systems that provoke utilization are different. The matching of different family system elements and industrialized, marketized, and capitalized conditions have constituted different modes of township enterprises.

Yi Zhou's (2006: 225–227) case study of Huaxi Village described two interesting examples of the continuing importance of kinship clans in Chinese society since the reform. The first example was an announcement by Renbao Wu, secretary of the village Party Committee, to the villagers assembly in 2003: 'I, Renbao Wu, own 51% of the total property of our village, and the remaining 49% will be allotted to the subordinate eight companies of our village' (in the eight companies, Wu's immediate family members and collateral relatives held key positions in the management system and shareholding structure). The second example is that at the re-election of the village Party Committee in the same year, 76-year-old Wu handed his supreme power over Huaxi Village of 42 years to his fourth son, the 39-year-old Xie'en Wu; in addition to this appointment, Renbao Wu's first son held the post of Executive Secretary, his second son, son-in-law, grandson-in-law, and nephew's wife held Deputy Secretaryships, and the members of the Wu family took up 15 of the total 26 positions on the Party Committee team. These two examples show that after about two decades of marketization reform, the economic power of the village became centralized in one family economically, and a family power succession mechanism was formed politically. Although the outside world was sensitive to these two occurrences, everything went smoothly within the village, as the re-election of the Party Committee was conducted by villagers through secret ballot, which accorded with legal procedure.

Yi Zhou did not pass judgment on Wu's dealings from a political viewpoint. By tracing the historical process of the formation of clan authority in detail, Zhou pointed out that the legal transition from 'power' to 'might' was caused by the fact

that 'the legal authority endowed by the state was changed to traditional authority'. The implementation of reform and opening-up and the household contract system rejuvenated the traditional authority of clanship and allowed it to reclaim its historical starting point. In summary, the authority of clanship and the authority of regime were formed through interactions under different historical conditions: politically, Renbao Wu always persisted in 'being consistent with the higher authorities' during his 42 years of governance, established political partnerships with leaders at all levels of government from central to local, and obtained much political repute and political identity; in the collective, he 'kept pace with his subordinates and villagers' by employing well-being sharing methods, such as the benefit allocation of the collective enterprises, and land releasing and symbolic cultural constructions, such as rights equality within the collective. By doing so, he acquired the utmost political protection as well as the utmost collective acknowledgement. In the meantime, his charismatic authority was established in daily country life: Stories about him were on every villager's lips. It was said that, after other villagers moved to new houses, he still lived in his old house, that on hearing that one villager's son had died, he allowed the villager to adopt his own fourth son, and that he took in all villagers who had left the village for various reasons and shared collective benefits with them without any disparity. In rights equality, filial piety, and caring, to which traditional ethics attach the greatest importance, Renbao Wu constructed his image of 'villagers' father' and 'head of the clan' by this daily conduct. This shows that as soon as the reform of the two-track regime created opportunities for village self-governance, the accumulated mores would blend regime governance and mores governance with different dimensions respectively, equate clans with collectives, and establish patriarchy within the village as a system.¹⁷

The research on Wu's case illustrates that, in investigating the development, operation, and evolutionary mechanism of township enterprises and their influences on society and collectives from the perspective of governance, researchers may find that the family and its corresponding conventions serve the essential function of pivot within the allowable limits of the regime governance. Furthermore, under appropriate systematic or mores conditions, they will become leading mechanisms in enterprise organization and local society. What kinds of suitable conditions will generate such changes? We should notice the specific significance of possession and operation relationships in different regions as well as the different ways that customs and mores are embedded in regime, especially the socially evolving forms of families or clan relationships.

In discussing the different characteristics of 'Wenzhou Mode' and 'South Jiangsu Mode', Fei (1999: 456) humorously wrote, 'The historical tradition of South Jiangsu is that agriculture complements industry in that men do farm work and women are engaged in spinning and weaving; the historical tradition of Wenzhou is that craftsmen engaged in stone carving, bamboo weaving, cotton fluffing, barrel hooping, sewing, hair cutting and cooking as well as selling loads of goods, traveled around many places to earn money, and finally returned to

their homeland to settle down'. Fei's discussion illuminates the fact that, in the process of reindustrialization in rural areas of China in the 1980s, the ways of combining traditional resources and enterprise governance regime were different in different regions. In investigating different modes of township enterprise, starting with the field system, traditional industrial forms, forms of marriage, population flow, and commodity types of circulation, we can determine the characteristics of the whole structure through category analysis. Fei (1999: 456) wrote afterwards,

Based on the two different old traditions, commune and brigade industry, township industry later emerged in South Jiangsu, while household industry and specific processing markets sprang up in South Zhejiang. In South Jiangsu, industry was developed through agriculture and its sideline, with the expansion of industry nourishing agriculture, while in South Zhejiang, industry was developed through business trading, with the growth of industry enlarging business.

In summary, the difference between the two modes reflects the fact that in South Jiangsu, the developmental environment of township enterprises should resolve the contradiction between industry and agriculture, while in South Zhejiang, the contradiction needs to be resolved through governance.

First, there were great differences between the field systems of the two regions. According to Fei, the per capita cultivated land is abundant in Jiangsu province, which is the most advanced region in paddy growth and sericulture, with a strong advantage in agriculture. Thus, the traditional social structure is rooted in land, with agriculture in the leading place and industry nourishing agriculture. In Zhejiang province, the per capita cultivated land is less than half a mu (0.0667 hectares) in Wenzhou, and thus Wenzhou people do not want to be confined to land from ancient times. Thus, a social structure characterized by frequent population flow was formed and Wenzhou people traveled around for different trades.¹⁸

By thinking about the contrast between South Jiangsu and Wenzhou, we can see that in the two social structures family relations are also different. South Jiangsu families are attached to farmland, and thus the social solidarity of a local community can easily be established through kinship networks. The combination of blood relationship and geo-relationship has integrated family, collective, and local administration, with strong characteristics of collectivity and common ownership. Under different regimes, family, collective, and local administration have been combined with, and restricted by, each other and have become the leading mechanisms, one after another. For example, during the time covered by Fei's *Jiangcun Economy*, the family played a leading social role in the industrialization process; during the time of cooperative transformation, the characteristic of collective economy was evident. Whenever the forcing function of the overall regime was intensified, administrative leadership became a decisive mechanism. The case of Huaxi Village illustrates that, when the decentralization system leaves some space, administrative authority can be transformed to patriarchy.

The traditional family structure in South Zhejiang is entirely different from that in South Jiangsu. According to Fei (1999: 456), 'The marriage of these craftsmen and tradesmen leading wandering lives in other places and rural women engaged in farm work at home is a combination of handicraft, business and agriculture'. The family structure is not unstable; it is mobile and dispersive as family members are often separated. The dominant industrial form tends towards individual economy, which is suitable for the production organizing method of employment. In the initial stages of the development of township enterprises, many enterprises and large households with a large number of employees emerged. However, in commodity circulation and population flow, for the purposes of support and protection, the advantages of the clan system and family relationships have been utilized to form a huge kinship network and a pan-clan cultural system not restricted by region (Zhang, 2008: 77–81). In the rural areas of Wenzhou, people take advantage of traditional conventions such as ancestral halls, family trees, regulations, and clan discipline. With its function of mobilizing, organizing, and coordinating social resources, the Wenzhou clan is more effective in uniting society than are clans in North Zhejiang and South Jiangsu (Zhou, 1998). Therefore, given the fact that nearly one century's rural industrialization in South Jiangsu has always remained in the areas divided by agriculture, and continues to solidify its original social structure, we can say that the industrialization of Wenzhou has followed the path of an expanding business network in China and to every corner of the world. As soon as clanship exists in one place, the commodities are transported there. Moreover, this kind of kinship has strong solidarity, closeness, and exclusiveness, and tends not to depend on governance regime and be influenced by policy-directed movements.

Given the high amount of systematization in South Jiangsu, there has always been a strong tendency towards upward social flow. In this region, people attach great importance to becoming a government official. The regime's resources, administrative powers of arrangement, organization, and coordination are all relatively centralized, and thus the governing regime renders much support and protection to the local society. For local elites, especially those township entrepreneurs created by the reforming policy, the way to acquire social recognition and resources depends on economics as well as politics. Most elites obtain political roles as National People's Congress members or members of the Chinese People's Political Consultative Conference. In this sense, the deep influence and control of local governments over township enterprises have natural legality; thus, it is not difficult to comprehend the popular phenomenon of 'government serving as manufacturer' as well as the overlapping of the administrative structures of the township governments and the management structures of the township enterprises in Study 5. It is also not difficult to understand that the family-originated or private enterprises mentioned in Study 4 sought self-protection under the guise of 'collective enterprises' (wearing red caps). In summary, these phenomena were not decided by unclear ownership, but rather by many elements of regime governing and mores governing blending together.

Relatively speaking, as Wenzhou district relies more heavily on family and clan networks than is the case in South Jiangsu, the horizontal flow trend is more evident.¹⁹ The transactional activities of Wenzhou enterprises, such as production, marketing, circulation, and fund raising, are usually covert and are conducted in the grey areas of the so-called 'informal system'. We found that Wenzhou clanship is extremely solid and flexible; it can exist in a family business as well as extend out to a huge pan-clan network. All transactions, trust, capital flow, debit, and credit circulate smoothly through this network, and thus an interdependent and supporting social protective system is well-established. The popular 'Rotating Savings and Credit Association', the 'Money Meeting', and other, similar, organizations in Wenzhou and their members all abide by strict association regulations and moral rules and maintain credibility. These associations provide members with support and opportunities for information sharing and capital turnover and also help them avoid operating risks (Xiang Zhang, 2006; Yang, 2007). The pattern of common ownership is not entirely regional; its style is somewhat similar to that of the 'Protestant sect' discussed by Weber as well as the old-style, historical Chinese private banks and merchant groups. However, the large number of family businesses embedded in clanship networks in Wenzhou would not ignore the regime; the phenomenon of 'wearing red caps' is common there, with totally different mechanisms and characteristics from South Jiangsu. The local 'family business operation attached to collective'²⁰ means that the family businesses can choose to be attached to collective enterprises by paying some charges and doing business in the name of the collective economy. The individual or family businesses are still under independent management and self-financed, and attachment to collectives is merely a self-protection strategy used nominally for legality without any essential linkage to the collective or regime.

Another implication of the family business operation attached to collective is that during the Republic of China period, a 'Putting-out System' (a term that historians of economics use) emerged in the workshop handicraft industry (Fang, 1935; Wu, 1936). This system commonly existed during the rural industrialization of modern China. Its production mode was that, along with running their own workshops, the merchant employers provided raw materials, money, or equipment to family craftsmen (small producers), who processed products and received their pay in objects or salary. By applying this mode, the Putting-out System controlled the production process, but not by means of ownership and it did not establish a complete production chain through capitalization or try to expand the enterprise on an unlimited scale. On the contrary, the system discomposed or dispersed large-scale operations into individual families while preserving the natural structure of the rural community and traditional lifestyle of villagers. In this process, the merchant employer regulated the circulation process as well as the production process and undertook all the organization, management, and market risks in production and marketing. After the reform and opening-up policy were adopted, the family business operation attached to collective that was common in Wenzhou possessed the features of this production system.

In Wenzhou, 'family business operation attached to collective' means that the production or operation activities of families or family groups engaged in industry or business, and attached to enterprises with legal person status through letters of introduction, work certificates, and enterprise bank accounts, are guided and managed by those enterprises (Huang, 1988). A family business operation attached to collective is able not only to organize cooperative economic organizations based on each village as a regional community, but also to establish specialized cooperative economic organizations based on industry. In ownership, the organizations resemble the common cooperative economy; in operation, they use the double-management mode, adhering to the logic of the household production system in property rights and identity freedom. Their main purpose is to establish a mutually protective relationship between family businesses and enterprise organizations without altering the foundation of the household organization structure, such that the enterprises will not need to expand production by increasing their own scale, and the family industrial economy will not go bankrupt by facing market risks directly.

The structural characteristics of the Putting-out System and the similar family business operation attached to collective show that, on the one hand, during the process of industrialization, unlike in a typical capitalist society, the basic structure of social life in China does not undergo drastic changes because of the mandatory role of capital and market flow; on the other hand, the production process is decomposed to family units through order processing, families not being entirely employed and organized by capital and thus able to preserve their production and living pace within a lifestyle that is both industrial and agricultural. Furthermore, their payments are not in the form of salaries, as their investment in production is very small without any risk of labor force marketization in the employment system. Here, it is noteworthy that when a family industry is scattered in layout, as the agent and guarantee for production and marketing, the merchant employers' trust is established by preserving the family structure and the corresponding clanship. This kind of blended industrial mode has violated the 'Involutionary Theory' assumption (Zhou, 2006b) and has also provided informal systematic resources for the subsequent joint stock cooperative system and joint stock reform (Zhang, 2005). During the process of international market expansion since the 1990s, this kind of operation mode has provided the prototype for externalizing economic entities such as the 'agent export' and the 'piggyback export', i.e. a Putting-out System relationship between a processing enterprise and its parent company (Lin, 2005).

As a matter of fact, different governance regimes have influences in various directions for the possession and operation relations. For example, in the possession relation, the phenomenon of multiple overlapping possession rights may easily occur in South Jiangsu, while in the allocation of possession relations in South Zhejiang, a clanship or pan-clan network may more easily occur. In operation relations, the township enterprises of South Jiangsu may be more easily dominated by the local government. By obtaining bank loans with government credit,

businesses can occupy land resources in the community for free or at low cost. In this way, an operation layout based on regime resources to complement the urban economy is formed. In addition, the powerful intervention of the government also provides favorable conditions for expanding enterprise scale and upgrading industrial structure. The township enterprises of Wenzhou have had non-agricultural characteristics from the beginning, with family workshops everywhere engaged in small commodities processing and production in the forms of partnership, cooperation, or mock share cooperative systems. They expand with the help of a huge market and capital network while implementing closed governance within the enterprises. In reality, by investigating enterprise transformation with the purpose of marketization and corporatization since the 1990s, we see that, because of complicated possession relations in South Jiangsu, the township enterprises are strongly influenced by the regime and situations of being ‘controlled by insiders’ or of ‘black case work’ are very common. Some regime-based entrepreneurs reintegrate surplus resources into the bases of enterprise transformation and accumulate capital rapidly, and thus larger-scale enterprises and entrepreneur classes with more centralized resources are generated. Activities in the Wenzhou region are more transparent because of competitive bidding or changing previously ‘attached-to-collective’ businesses back to private businesses.²¹ During the process, the chambers of commerce and associations organized by local entrepreneurs, as well as hidden underground associations, have had important influences on resource integration and conversion in system transformation.

Extended analysis: retrospection on historical traditions

The comparison and analysis of the above-mentioned two modes cannot list all the structural categories of township enterprises; however, we proposed an explanation frame and logic chain for reference. In reality, in order to investigate the differences between South Jiangsu and South Zhejiang in mores governance, it is necessary to explore certain aspects of economic history and the history of ideas further. The complementary relations in ownership, operation, and governance of township enterprises have profound historical origins. For example, in terms of land system, in the rural society of China since the late Qing Dynasty, besides the common tenancy relationship, the ‘clan field’ system was formed by clanship and the ‘local barns’ ensured basic relief and security as well as the underpricing of the local society.²² Although this form of public organization diminished gradually after the patriarchal clan system was abolished in 1949, its basic ideas and systematic inheritance may still exist in the operational activities of agricultural cooperation, commune, and brigade enterprises, or have become traditional resources in the socio-economic operation of township enterprises, towns, and villages. In fact, the collective members’ pursuit of enterprise benefits (the ‘implicit contract’ as mentioned in Study 3) and the clanship tendency emerged in possession and operation at the same time and should be explored within the traditional organizational structure of Chinese society.

Another example is the division of the ‘foundational land rights’ and ‘surface land rights’ in permanent tenancy since the Ming and Qing Dynasties. Generally speaking, the landlords possess foundational land rights, which are land ownership, and farmers possess surface land rights, which are the land operation and management rights and also the land transaction and circulation rights based on land use rights. The situation of ‘one field with two owners’²³ established a type of extremely complicated multiple ownership and its rights relationship. Furthermore, with the operation strategy of ‘starting from agriculture, complemented by business, managing both agriculture and business’ adopted by some landlords since the middle of the Ming Dynasty (Fu, 2007), the possession and operation relationships became even more complicated. In fact, this kind of land system directly influenced farmers’ comprehension of land income disposition and the business income disposition attached to land, i.e. the farmers tended to seek surface land rights rather than residual rights in the foundational land rights sense. The logic is very similar to what was mentioned in Study 3 in that the collective members seek residual rights for the benefit of township enterprises: in many places, farmers attach more importance to residues equal to land income among the total benefits of township enterprises, and release the other residues. These theoretically significant assumptions show that although township enterprises came into being very late, their combination of possession, operation, and governance relationships might have left abundant historical impressions on people’s customs and minds. Once provoked by a certain regime or environmental elements, these traditional elements might be rejuvenated and penetrate into practical reality and system creation. Here, we should note that, as mentioned above, the traditional land system experienced the structural transformation of the abolishing-the-patriarchal-clan-system movement and collectivization, and thus a new systematic point based on cooperative, commune, and brigade enterprises was formed. In this sense, the structure of township enterprises is, in fact, a brand-new organizational form and operation mechanism; it is a combination of traditional systematic and cultural resources, the legacy of collective movements and new systematic space provided by the policies of reform and opening-up.

The investigation of the history of ideas is as important as the investigation of economic history. The cultivation of mores in a local society is closely related to its specified ideological and cultural traditions. For example, in South Jiangsu, since the Ming Dynasty, Cheng-Zhu Neo-Confucianism has been consistent with pragmatism and the academic Donglin School on the rise, maintaining the principles that ‘academic studies, agriculture, handcrafting and business are the basic undertakings of people’ and that ‘taking care of businessmen and common people will not hinder development and will benefit the country and the people’.²⁴ More important in the history of ideas is the Wu Branch of the Qian-Jia School represented by Dong Hui and his followers. Hui adhered to the basic principle that one should understand thoroughly the classics for practical use, and emphasized that understanding the changes from ancient to modern times and the meaning of the classics exists in textual interpretation and only through textual interpretation can

scholars ‘fully understand the classics’. Second, the purpose of fully understanding the classics was practical application. Hui agreed with Gu Yanwu’s assertion that ‘the popularity of stereotyped writing caused Confucian classics to be discarded, and the publication of *The Interpretation of the Four Books* and the *Five Classics* killed the soul of the classics’ and upheld the principle of applying classics in governmental affairs (Pi, 2004); subsequently the atmosphere of studying for application was established. Although in this paper we cannot investigate the history of this region’s ideas in detail, we can infer the Sinological tradition of teaching knowledge and techniques, and of practical application, understanding changes from ancient to modern times, doing scholarly research by exploring natural properties, emphasizing what is essential to the people while acting as an official, and sticking to a path that is both different from and consistent with that of the regime. There have been many families of scholars and prominent families who followed distinctive paths in scholarly research, business operation, and financing, but they never diverged from the regime. On the contrary, they sought better ways of doing things through governmental affairs. In terms of basic ideas and strategies, South Jiangsu, since the reform and opening-up, has followed this path, running socioeconomic affairs according to their own ideas while gathering resources, seeking protection depending on regime policies, and working to realize partial or total regime transformation. In combining learning and application, we can discern the regime spirit within agriculture, handcrafting, and exquisite management in this region.

The ideas and culture of the Wenzhou region have been influenced by the Yongjia School. In contrast with Cheng-Zhu Neo-Confucianism and the Lu-Wang School of Mind, which originated from the mind–body perspective, the Yongjia School advocated the practical principle that an ideal method cannot be separated from a definite thing, and principles ‘of opening up knowledge of the issues of things and accomplishing the undertakings of men...proceeding from reality, and carrying out one’s ideas after speech’ (Huang, 1986). One of the representatives of the Yongjia School, Shi Ye, called Confucianism ‘the truth of combining mind and matter’ and believed that ethics and pragmatism can co-exist. The purpose of learning is to be concerned about political affairs, and the essence of Confucianism is that, although pragmatism can develop ethics, people should not apply ethics to hinder pragmatism. Chen Liang even proposed a radical view: ‘The success of our cause means the existence of ethics’ (Zhou, 1992: 93). Shi Ye’s pragmatism regarded industry and commerce as core elements of society and challenged the traditional policy of stressing agriculture and restraining commerce.²⁵ In addition, by establishing the principle of ‘investigating and utilizing the principles of all matters’, Zhou (1992) treated money as the key to ‘opening up knowledge of the issues of things and accomplishing the undertakings of men’ and maintained that commerce and industry should be encouraged and commerce and currency circulation supported with state power. His thoughts greatly resembled those of Guanzi, a master of legalism during the Spring and Autumn Periods of Chinese history. Compared with orthodox Neo-Confucianism, the basic views of

the Yongjia School were somewhat deviant; however, they agreed with the local customs and practices. The Wenzhou region has a unique cultural and geographic layout: being located in a remote corner of southeast China and arable land being scarce, agriculture was not the foundation of the local economy, and the Wenzhou economy was not restricted by a unified national regime. By emphasizing the success of business affairs and currency circulation, the Yongjia School tended to weaken the restrictive effects of the bureaucratic governing regime and establish equal relations in commercial circulation. In the meantime, the clans of this region did not abide by the ethical codes of traditional Neo-Confucianism; on the contrary, by combining with practical economy, they generated a network with pan-clan and personalized, extravert, and mobile characteristics. Such utilitarian ideas in the operation, circulation, and anti-bureaucratic social governing structure had important influences on the organizational form and operation mechanisms of the region's township enterprises.

The above investigation of the mores of the two regions from the perspectives of economic and intellectual history does not constitute a demonstration in the strict sense. Our assumptions and attempts aim to illustrate that institutional analysis alone is insufficient for understanding any organization and its systematic structure and operation. A system is always embedded in specific customs and people's ideas. Do local customs or people accept the regime? On what basis do customs and people choose it? Why does the regime get accepted and take root in one region, get refused in another place, and become a new regime in a third location after some changes have been made? Scholars need to address seriously these questions.

Final discussion

Today, we have to face the reality that the number of township enterprises that once experienced the tides of reform has diminished and they are no longer part of people's daily lives. However, outdated social phenomena do not necessarily die when their numbers decrease nor are visible social phenomena always alive when their physical existence continues. For social science researchers, this is the nature of history.

As we survey township enterprises today, their unique vitality lies in the fact that, as a social phenomenon with local features, they remain theoretically significant for the overall situation. Their overall significance has two implications. First, township enterprises themselves are social phenomena of the overall situation. In terms of possession, these enterprises are characterized by different elements of public, common, and private ownership as well as transformations between the various types of ownership. In terms of operation, they utilize land contracts, enterprise contracts, and the financial responsibility system in the institutional system of the two-track regime and concentrate the strengths of individuals, collectives, and administrative departments to apply and accumulate all kinds of resources for market operations. In terms of governance, they merge the governing mechanisms of regime, knowledge, and mores and liberate traditional resources such as the

family, clanship, and customs and they even absorb nourishment from the history of systems and ideas to initiate reform and innovation in actual practice. It can be stated that township enterprises, as the intersection of multiple elements and links in society, provide abundant opportunities for systematic innovation in reforming practices and reflect the core ideas of the first 10 years of reform and opening-up.

The overall significance of township enterprises is evident in another characteristic; their inherent theoretical value is not merely self-explanatory. The links in the concepts, categories, and analyses of possession, operation, and governance of township enterprises are also useful for analyzing and explaining the structure and operating mechanisms of state-owned enterprises, government departments, or folk associations of the same period. Moreover, as there is no unifying principle or structure among township enterprises, the relations in possession, operation, and governance engage in a process of dynamic combination, adjustment, and transformation and present multivariate forms for different regional cultures. By investigating the three dimensions above, we have extended the explanatory chain of this phenomenon in theoretical analysis. The introduction of each element will provide abundant room for the theoretical imagination. In this sense, township enterprises serve as a treasure trove for academic research as the elements of both Western and Chinese, traditional and modern, orthodox and deviant, central regime and local society all blend together to shed light on the transition to modern Chinese society.

More importantly, instead of describing the creative practices of township enterprises as a process of system generation and construction, we could say the practices represent the systematic spirit of the ages. The source of township enterprises' strength is not a unified regime, system, or idea; rather, it is a combination of historical legacy, traditional resources, local strategies, current regime, foreign systems, and bold efforts and innovations. Despite its rapid decline since the 1990s, the township enterprise will not yield to any system hegemony or tradition, nor be enslaved by any regime or Western system; it embodies the spirit of the time of reform in a real sense.

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Notes

1. Actually, in Polanyi's theoretical structure, reciprocity, re-allocation, and equal exchange are the three dimensions in economic integration. Their method of correlation is different according to different regime structures (Polanyi, 1971).

2. Feng (2011) maintains that the meaning of 'state movement' is broad, including all activities initiated and organized by all levels of state and government departments to complete specific political, economic, or other tasks.
3. See also Foucault's 2010 lecture series, 'Governmentality', translated by Xiaoli Zhao, unpublished.
4. In this sense, Yinque Chen's research on the history of customs has established an extraordinary example. In his research on Wei and Jin dynastic society, Chen did not focus narrowly on institutions and ideas or look for one-dimensional social history patterns; instead, he took as his starting point the universal and logical nodes of various social and cultural elements so as to discuss the whole network from some key points. In his research on the 'Tianshi Sect of Taoism', he studied the elements that constituted the customs at that time, discarded the popular explanations and preconceived ideas that were approved for systems, ideas, and practical political operations, and drew the following amazing conclusion: 'The scholar-bureaucrats of the East Jin and West Jin, and the Northern and Southern Dynasties behaved following the doctrines of the Duke of Zhou and Confucius (for example, the stern taboo of avoiding mentioning one's ancestors), and expressed their views in accordance with Laozi and Zhuangzi's principles. Their thoughts on metaphysics, Confucianism, arts and history were handed down to later ages, and their descendants adored the spectacular scenes of the dynasties. However, by investigating in detail, one can find that the key element that enabled the aristocratic families to take shelter and pursue settlement and admonish their families was, in fact, using crooked strategies to bewilder people. Historians cannot ignore the fact that most of the palace coups originated from the Tianshi Sect of Taoism. This is lamentable! The beliefs of the Tianshi Sect of Taoism originated in the coastal areas and might have been affected by other countries' (Chen, 1992: 189).
5. Economists call this financial system 'financial federalism' (Qian and Roland, 1998; Qian and Weingast, 1997). For the influence of fiscal decentralization on the actions of local governments, see Yanlong Zhang (2006).
6. News report from: <http://news.sina.com.cn/c/287792.html>, 'An investigation on the industrial zone of Tongzha Town, Hanshan County of Anhui Province', 'each village was bustling with factory smoke' to 'intensive industrial zones'. The report stated that 'at the end of the 1980s and early 1990s, with instructions to "wipe out the villages without factories"', Tongzha Town started many township enterprises. Except for the original 20 township enterprises, in a short time its 14 subordinate administrative villages started 39 factories, including annular kiln factories, grain and oil processing factories, limekiln factories, stone mines and compound fertilizer factories. However, by the mid-1990s, all the factories except for a few grain and oil processing factories had stopped production and closed their doors. As a result, a large area of farmland was destroyed and the villages ran up heavy debts of from thousands to tens of thousands of *yuan*'.
7. Because the tax distribution system established the financial system in which the central and local governments shared the value-added taxes on industrial enterprises, which are turnover taxes and imposed according to receipts tax and sales tax amounts, local governments' enthusiasm for starting enterprises was attacked harshly and township enterprises began to decline rapidly (Zhou, 2006b).
8. The financial contracting system began to take shape in the 1980s. The central government and 15 provinces implemented the financial system of 'dividing the income and expenditure ranges according to ranks of governments', which was improved and

- extended until 1985 as the financial system of ‘dividing tax categories, verifying income and expenditure according to levels of government’.
9. In January 1983, the central government published *Some Issues Concerning Current Rural Economic Policy*, which pointed out that since the Third Plenary Session of the 11th Central Committee there had been great changes in the rural areas of China. The furthest-reaching influence was the widespread implementation of the agricultural production responsibility system. This system was created by Chinese farmers under the leadership of the Communist Party of China and constituted a new development in the agricultural cooperation theory of Marxist practices in China. In the same month, Xiaoping Deng told leaders of the State Development Planning Commission, the State Economic Commission, and various agricultural departments, ‘I approve of implementing the agricultural production responsibility system in rural areas. We haven’t liberated much. We can do so much work in agriculture, but we haven’t even gotten started’.
 10. Xiaokai Yang believed that the special economic zone is, in fact, an imitation of the export processing zones and free trading zones of Taiwan and other capitalist countries (Yang, 2011).
 11. Muzhen Dai (Oi, 1989) pointed out that in the process of market transformation, ‘the upward flow of information by the farmers was not the endeavor of farmers from lower to upper levels of society; rather, it was regulated by the state government and thus was like turning a valve on or off’.
 12. Xiaoping Deng (1993: 374) said, in his talk in the South at the beginning of 1992, ‘No disputing is one of my inventions. We don’t dispute because we need to gain time for endeavor. Once we dispute, we make things complicated and achieve nothing. So, let’s not dispute, just try boldly. We should do this in the reform in rural areas, and also in urban areas’.
 13. Li (2009) pointed out in describing research on Xiaogang Village, a typical case of contracting system reform, that ‘the story of Xiaogang’ acted as both booster and bridge in transforming the basic discourse structure of the state. The typical creation process was also the discourse constructing process of the state governing regime. As the symbol of state governing, the symbolic significance of Xiaogang Village in the social transformation of China has exceeded the event itself. It signifies the remolding of governing discourse and image in the process of promoting the household contract responsibility system. By transforming farmers’ survival ethics into a governing symbol, the state accomplished the essential transformation of discourse logic at the turning point of regime replacement. The significance of the momentary highlighting of survival ethics was that, on the one hand, the farmers as producers manifesting the state created stable and sustainable fiscal income for the state, and, on the other hand, the success of rural reform further laid a solid foundation for the legitimacy of advancing market transformation.
 14. Jinglian Wu pointed out that, by the beginning of 1983, the production teams involved in the family-contract system for production and family-contract system for tasks reached 90% of the total and thus became the new system by which farmers could establish their household farms on contracted collective land in rural areas of China (see Wu and Huang, 2008).
 15. The administrative contracting of township enterprises was once very serious. Many towns and villages failed to conduct full evaluation and verification, starting projects

- blindly in order to complete tasks or just for the sake of their reputations. Many towns and villages obtained projects and funds by utilizing administrative power with great effort; however, ultimately these projects remained unfinished and a burden for local governments, leading to the hidden problem of a large amount of debt for them (Li, 2009).
16. See Wang's (1997) research on three villages in South Fujian province.
 17. See Yi Zhou (2006: 237–275), who provides wonderful specific experience materials and process analysis.
 18. Some scholars believe that the development of Wenzhou can be summarized with three 'M's: mass initiatives, mobility, and markets (Liu, 1992).
 19. The relation between clanship culture, household economy, and private enterprises is discussed in Shi et al. (2004).
 20. The lawfulness of the family business operation attached to collective mode has aroused great disputation in the past. See Luo (2002).
 21. Jianjun Zhang (2005) analyzed the system transformation process and the different mechanisms used in the two regions from the perspectives of fiscal restraint, supervisory restraint, and information restraint.
 22. See Pan's (2000) records about land reform in South Jiangsu. Influenced by revolutionary ideology, this paper reflected the important characteristics of the rural land system before land reform.
 23. According to Fu (1944), the situation of 'one field with three owners' may even still exist.
 24. During the Qianlong period, the Ziyang Academy of Suzhou proposed the idea of seeking for pragmatism after academic studies, and pursuing water conservancy, farm-land cultivation, military power, penalties for criminals, and preparation for natural disasters. At the beginning of the Guangxu period, the Nanjing Academy of Jiangyin advocated 'studying Confucian classics and Chinese ancient learning to complement the inefficiency of current techniques', added practical subjects, such as astronomy, mathematics, geography, and history, and created a totally different atmosphere from imperial examinations (Jiang, 2006).
 25. For example, Shi Ye said that 'transactions are to benefit all people', that businessmen are 'the foundation of governments at all levels', and that 'rich people nurture the common people for and provide taxes to the emperor. Although they become rich through commerce, their hard work pays off' (Ye, 1977).

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