

The development of township enterprises in rural Fujian since the early 1980s

Abstract

This paper explores the reasons for rapid development of township enterprises in Fujian province, China, since the early 1980s. After examining recent major reforms in ownership and management systems, the paper reveals the main difficulties and problems confronted by the township enterprises. It then discusses the prospects and trends of development of township enterprises in the near future.

Introduction

The rapid growth of township enterprises (TES)¹ has been a distinct feature of rural development in China. For centuries Chinese farmers had to rely on limited cultivated land to make a living. With rapid population growth and an increase of rural surplus labourers in the 1950s and 1960s, farmers had no alternatives but to go into non-agricultural sectors while remaining in rural areas.²

In the past decade or so, TES experienced fast growth and became the most rapidly developing economic sector in China. This

¹ In terms of ownership and management, township enterprises are classified into the following four categories: township-run enterprises, village-run enterprises, enterprises run jointly by farm households and individually-run enterprises.

² Since an urban-rural separation policy was implemented by the government, the surplus labourers had little opportunity to enter urban areas for employment.

paper takes Fujian province as an example to show the development features, the problems and the prospects of TES in rural areas.

Reasons for rapid development of TES in Fujian

Although TES emerged in Fujian in the 1960s, they experienced fast growth only during the past 15 years of economic reform. The output value of the 34 000 TES in rural Fujian in 1978³ was only 920 million *yuan*. In 1985, however, it reached 7.02 billion *yuan*. During the Seventh Five-Year Plan period (1986-1990), the average annual growth rate of TES' total output value in Fujian was 28.2 per cent while that of their industrial output value reached 29.9 per cent. Their exports experienced the most remarkable progress, with an annual growth rate of 72.3 per cent (Gao, 1994: 11).

The output value of TES accounts for about one third of the total output value of the province. In 1994, the output value of TES reached 155.3 billion *yuan*, an increase of 47 per cent over the previous year.⁴ There were 64 TES whose annual output value exceeded 100 million *yuan* each that year while only three in 1990. In many rural areas, TES have been playing a key role in local socio-economic development. In the 333 richest towns, with an annual social output value of more than 100 million *yuan* each, TES generated about 81 per cent of the total output value in 1993.

In 1994, the total tax paid by TES amounted to 4.3 billion *yuan*, an increase of 30 per cent over the previous year. The establishment of TES has created many employment opportunities, people working in TES occupied 55 per cent of the total labour force in the rural areas. Export-oriented TES have been developing very fast and have played a very important role in the expansion of the province's exports. TES' export value

³ They were formerly called 'enterprises run by communes and production brigades'.

⁴ *Fujian Qiao Bao*, February 5, 1995.

rose from 9.4 billion *yuan* in 1992 to 28.2 billion *yuan* in 1994.⁵

The main reasons for the rapid development of TES are as follows:

A. Diversification of production

In the past, most of the TES concentrated on processing of agricultural products and local raw materials. Now while maintaining the production of their traditional products, they are also engaged in a wide variety of production and services. Nearly all counties still produce their traditional famous products, e.g. garments and suitcases in Jinjiang, tea in Anxi, porcelain in Dehua, stone-carving in Hui'an, rain gear in Nan'an, cement in Longyan, weaving in Changle. However, farmers in many counties have also strived to go into other fields and developed new products for both domestic and foreign markets. Putian county was originally famous for its footwear, food products and handicrafts. Now it has managed to export large quantity of plastic, metal and electronic products, machinery and garments. By making the best use of its close relations with Hong Kong and Southeast Asia, Shishi collects information and samples from overseas markets and develops many new products for export. In addition to its traditional textiles, it is also exporting large quantity of down-padded garments, handicrafts and electronic products.

Although agricultural products are still the main raw materials for TES in light industry,⁶ those with non-agricultural products as their production inputs are developing much faster. For village-run enterprises engaged in light industry, the growth rate of production with agricultural products as its raw materials was 73.4 per cent in 1992 while that of production with non-agricultural products as

its raw materials reached 89 per cent.⁷ In some rural areas, farmers are even engaging in heavy industry. The production of upstream products, especially industrial raw materials, was originally a rather weak economic sector in rural Fujian. In recent years, however, it saw a rapid growth. Four iron and steel factories have been or are being built in Jinjiang district in south Fujian, with an annual production capacity of one million tons. The annual output value of the Copper Electrorefining Factory in Changle county will reach 120 million *yuan* after it goes into operation. This shows that the farmers rely less on locally available raw materials and there has been a significant change from 'selling what we can produce' to 'selling what the market needs'. TES' production has hence been greatly diversified according to the needs of the market.

B. Important role of foreign investment

Due to the encouragement of governments at different levels and improvement of the investment environment, more and more overseas business people have been coming to set up joint ventures in the rural areas. Overseas capital occupies about one-third of the total investment in TES each year. By the end of 1992, 1,127 TES with foreign investment had gone into operation, while only 312 at the end of 1989. The total export value of these enterprises reached 6.1 billion *yuan* in 1992 (only 642 million *yuan* in 1989), occupying 64.4 percent of the total TES' export of the province. In 1994, 880 new TES with foreign investment were approved, with a total contracted foreign capital of US\$ 1.1 billion, making a total of 5,200. The total overseas capital actually invested in TES amounted to US\$ 2.5 billion by the end of 1994.⁸

For example, the township government of Jiangkou allocated a large amount of capital for the construction of infrastructure such as supply of water and electricity, road and telecommunication. Due to the great improvement of investment environment, 131 TES

⁵ *Fujian Qiaobao*, February 5, 1995.

⁶ The output value of TES in light industry with agricultural products as their raw materials amounted to 71.3 percent of the total industrial output value in 1990 (*Fujian Jingji Nianjian*, 1991: 129).

⁷ *Fujian Jingji Nianjian*, 1993: 138.

⁸ *Fujian Qiaobao*, February 5, 1995.

with foreign investment had gone into operation by the end of 1993. Their output value accounted for 67 per cent of the total TES' output value in the town. Their electronic watches occupied more than half of the market in Hong Kong.⁹ The development of export-oriented TES with foreign investment greatly contributed to the rapid growth of local economy and increase of people's income. Putian county's foreign-funded TES concentrates on the production of footwear which is very competitive in the world market. In terms of output value, five big footwear companies in Putian were among the top 10 TES in Fujian in 1992. Xiefeng Footwear Co. of Putian with its annual output value of more than 300 million *yuan* has been ranked first for years. Jinjiang county is most famous for its large-scale introduction of overseas capital in developing TES. By the end of 1990, 277 TES with foreign investment had been approved, which occupied 81.5 per cent of the total foreign investment projects in the county. In 1990, the export value of foreign-funded TES reached US\$ 64.33 million, accounting for 87 per cent of the county's total export earning.¹⁰

C. Technological progress and improvement of productivity

Great achievements have been made in raising the technological level of TES. In the past five years, more than one hundred new products were developed each year. Many of them have come up to the quality standards of imported products of the same types but are sold at much cheaper prices. In 1992, 154 new products were listed in the Provincial Development Programme for New Products, 15 items reached the world level and 33 were on the national advanced level. The output value of the new products topped 200 million *yuan*. In 1994, there were 3,307 key technological renovation projects in TES, with a total investment of 3 billion *yuan*. The average productivity in real output value was 3,972

yuan per labourer in 1992, 47 per cent higher than the previous year. In 1994, the contribution rate of science and technology in the growth of TES' total output value rose to more than 30 per cent.¹¹

Technological progress resulted mainly from the introduction of high-tech both from abroad and at home. Chidian Textile Machinery Factory in Jinjiang, which originally could only produce spare parts, introduced advanced WTHPN disc knitting machines from Austria and redesigned its own new model with the merits of higher productivity, easy handling and cheaper price. In 1992, 25 units were sold with a total output value of five million *yuan*, including tax payment and a net profit of 1.1 million *yuan*. As a result of cooperation with domestic research institutions and universities, some TES have been able to develop many new products. With the assistance of technicians from research institutions, Tiling Telecommunication Equipments Factory in Quanzhou developed new programme-controlled telecommunication equipments, which have won acclaims from Fujian Oil Refinery and other users. In 1992, 25 units were sold with a total output value of five million *yuan* and profit of 1.1 million *yuan*. The fire-extinguishing chemical and refractory coating, developed by Huaqiang Refractory Coating Factory in Jinjiang, won gold-medals in international new technologies exhibitions, and have been used in shipbuilding and iron and steel industries. The superb brake liquid of Rongzhong Oil-chemical Factory in Nan'an county is also one of the famous products developed and produced by TES.

The competitiveness of TE products has greatly increased because of the improvement in product structure, quality, packing and prompt delivery. Therefore, it contributes to the rapid expansion of exports. At present, there are about 500 TES with annual export earnings of more than one million US dollars each. The main exports which scored high growth rates are textiles, footwear, machinery, light industrial products and mineral

⁹ *Nongcun Fazhan Luntan*, 1994, 4: 9.

¹⁰ *Fujian Jingji Nianjian*, 1991: 129.

¹¹ *Fujian Qiaobao*, February 5, 1995.

products. Of course, overseas investors have also played an important role in raising TES' technological level and improving the competitiveness of products.

D. Human resource development

The Bureau of Township Enterprises Administration in the provincial government and the governments at the district and county levels have been paying special attention to the training of TES' managers. Managers of the key TES are required to take courses on management, foreign trade and economic reform.

Other forms of continuing education are also developing in the rural areas. Local governments cooperate with schools of different kinds in running training classes, corresponding education and professional training in such areas as quality control, marketing, accounting and hygienics. Sparetime schooling greatly enriches the knowledge of TES' workers. At present, more than 200 well-trained people are working in 38 quality inspection stations with the task of helping TES improve their product quality. In 1994, 4,100 people received professional training in 52 training classes in Jinjiang. The number of skilled workers graduating from high schools or vocational schools in Jinjiang rose from 22 thousand in 1993 to 50 thousand in 1994.

Reform in ownership and management systems

In the past, the majority of TES were collectively owned and under the administration of village or township governments. However, in recent years individual household ownership and household cooperative ownership¹² has become more and more popular. They account for about 28 per cent and 15 per cent respectively in terms of output value and

¹² Some are in the form of share-holding cooperative enterprises while others in the form of partnership.

¹³ *Fujian Jingji Nianjian*, 1993: 140.

about 36 per cent and 15 per cent respectively in terms of employment.¹³

In addition to the establishment of farmers' share-holding cooperative enterprises,¹⁴ there is a trend of changing township- and village-run collective enterprises to share-holding cooperative enterprises. In the past, villagers were only nominal owners of those collective enterprises and did not benefit directly from the distribution of the enterprises' earnings. Therefore, they did not care about the operation or management, and hence the enterprises generally lacked democratic management and effective supervision. In order to improve management and increase productivity, many collective enterprises made an inventory of all properties, evaluated all assets and converted them to stocks. According to the original contributions, the stocks were shared among the owners. The original investment made by the collective was converted to 'collective shares' and some shares were issued to employees and other farmers to raise capital. Thus the interests of the shareholders, managing personnel and employees are closely linked with the economic results of the enterprises.¹⁵

The share-holding cooperative system first appeared at Chendai town, Jinjiang county where the farmers pooled their capital and labour force to establish share-holding companies in their villages and nearby marketing towns. Their experience spread rapidly all over Fujian afterwards. In 1993 there were more than seventy thousand share-holding cooperative enterprises with a total annual output value of about 20 billion *yuan*. In the more developed coastal areas, share-holding

¹⁴ They are economic entities established and run independently by a certain number of farmers according to their own agreements or articles of association.

¹⁵ In most cases, most of the shareholders are employees themselves and part of the profit should be allocated for employees' welfare and awards fund, and 'public accumulation' which belongs to all the employees as a collective. Important decisions are usually made collectively.

cooperative enterprises accounted for more than 90 per cent of the total TES.¹⁶

Most of the newly established share-holding cooperative enterprises are in the industrial sector. Farmers in Putian invested more than 100 million *yuan* in about 800 share-holding cooperative enterprises, whose total output value was about 200 million *yuan* in 1992. In Dongshan county, 95.8 per cent of the 68 million *yuan* invested in setting up new factories was raised by farmers themselves. In Yongxi village, Qingzhou town, more than 1,000 farmers have become shareholders of local enterprises. In the fixed assets of the 24 industrial enterprises in the village, farmers' shares occupied more than one-third of the total share capital.¹⁷

It can be expected that the shareholding cooperative enterprises will gradually become the main form of ownership and management of TES in the rural areas because of its following advantages:

- It can contribute to the separation of government administration from enterprise management. The share-holding system provides an effective means of transferring a government-run enterprise to a civilian-run enterprise. This makes the enterprise free from direct government interference, and allows it to become a genuine independent entity. It is one of the most important measures to promote enterprise reforms and long-term development.
- It can provide long-term capital for the expansion of enterprises, and ease the fund shortage that all enterprises are currently suffering from. At the same time, a huge amount of private deposits could be channeled into capital investment.
- It can further increase the flow of capital across industries and geographical areas, and rationalize the allocation of economic resources.
- It is also conducive to democratic management, mobilization of employees' en-

thusiasm and expansion of production scale.

In recent years, co-ordination among TES was also taken into consideration by the TES' managers. A chamber of commerce has been established in Chendai town with a standing committee consisting of more than 100 representatives from local TES. It serves as a bridge connecting the local government and enterprises. On the one hand, it serves as one of the channels of passing on the government policies to the enterprises and making known to the government the voices of the TES. On the other hand, it is also a liaison organ in helping its members to participate in international trade fairs, providing market information and establishing cooperative funds for helping its members which run into difficulties and need loans.

Problems

Though TES in rural Fujian experienced rapid development in the past decade or so, they still encounter various difficulties and problems.

Unbalanced development between different regions and between economic sectors

Due to different resources endowment and natural conditions, the development of TES in Fujian is by no means balanced. The annual output value of TES in some counties has long been more than 100 million *yuan* while many other counties, most of which are located in the mountainous areas, still lag far behind. Among the 333 more prosperous towns and villages, each with an annual output value of more than 100 million *yuan*, 207 are situated in the coastal areas.¹⁸ Although the more developed towns and villages only occupy

¹⁸ In 1992, the shares of TES of the eastern and southern coastal areas in the provincial total were 71.4 per cent in output value, 76 per cent in industrial output value, 64.4 per cent in export earnings and 72.8 per cent in net profits.

¹⁶ *Nongcun Fazhan Luntan*, 1994, 3: 32.

¹⁷ *Fujian Jingji Nianjian*, 1993: 138.

35 per cent of the provincial total in number, the output value and export earnings of their TES accounted for 77 per cent and 83 per cent of the provincial totals respectively in 1993.¹⁹ While TES in Fujian are mostly labour-intensive enterprises with local resources as their main production inputs, the TES in coastal areas have already entered the stage of developing more technology-intensive production. They have become more export-oriented and created more backward and forward linkages between different economic sectors. In sharp contrast, many TES in the mountainous areas of the north and west still rely heavily on local raw materials and obsolete equipments.

The industrial structure of TES is still not rational. The output value of TES in industry made up 68.1 per cent of the total TES' output value, which was followed by commerce and catering trade (10.1 percent) and transportation (8.5 percent) in 1992. In the industrial sector, the first two important subsectors are sewing and construction materials and other nonmetallic manufacturing both in terms of employment and output value. The growth rate of light industry was much higher than those of heavy industry and the total output value of TES as a whole.

Compared with the development of industry, the service sector still lags behind. According to the investigation done in the eastern and southern coastal areas in 1992, the ratio of the three economic sectors (i.e. agriculture, industry and service) was 5:76:19 in terms of output value. Even in Jinjiang, where the rural TES have been relatively developed, the share of the service sector was only 11.8 per cent in 1994. This shows that the service sector still does not suit the needs of the industrial development in the rural areas.

Unfavourable position in obtaining resources

Since China's economy has been basically a planned one and a market mechanism is not mature yet, the rural TES, which have to rely mainly on the market in obtaining resources,

are often in an unfavourable position in competing with state-owned enterprises. Especially during the periods of economic retrenchment, TES were often the first to suffer from the structural reorganization of industry. Since the state-owned enterprises used to complain that many TES often resorted to illegal means to obtain raw materials and capital, in 1990 the government declared a tilted policy in favour of big state-owned enterprises in terms of supplies of raw materials and capital, which certainly brought difficulties to the development of TES.²⁰ Due to the difficulty in obtaining bank loans, TES had to rely mainly on farmers' personal savings, collective funds of villages or towns, and capital from other regions and abroad. Some TES could no longer run at full production capacity because of shortage of fund, energy resources and raw materials. For example, the short supply of raw materials from heavy and chemical industries resulted in the decline of the proportion of heavy industry in TES' total industrial output value from 36.5 per cent in 1989 to 28.7 per cent in 1990.²¹ This situation will certainly have a negative impact on the long-term stable development of TES.

Lack of managerial skills, shortage of technicians, low quality of labour force and instability of product quality

Generally speaking, TES in the rural areas usually face the problems of poor management, insufficient technicians and low quality of labour force. According to the investigation done in the eastern and southern coastal areas in 1992, 63 per cent of the employees had only received junior middle school education, technicians only accounted for 1.9 per cent of the total employees. Many TE managers complained that the low quality of labour force was one of the main obstacles of improving quality of products. They can only follow the trends of market demand and imi-

¹⁹ *Nongcun Fazhan Luntan*, 1994, 3: 8. *Fujian Qiaobao*, January 1, 1995.

²⁰ *Zhongguo Jingji Xinwen*, May 14, 1990, 4.

²¹ *Fujian Jingji Nianjian*, 1991: 129.

tate overseas products instead of designing their own new products.

Due to the shortage of funds and talents, especially in the mountainous areas, many TES are still using outdated equipment characterized by high consumption of raw materials and energy, and low quality of products. They were not so glaring at a time when the market was in short supply. However, these problems became conspicuous when the economy was overheated. As a sluggish market appeared, competition became so tense that even without any administrative means by the state, they could be forced to go bankrupt under the pressure. Although entrepreneurship of the managers of the younger generation is much stronger compared with their predecessors, they still lack the knowledge of modern management both in production and marketing which has become more and more important because they now confront the challenge of a highly competitive global market as integration with the outside world proceeds.

The problems in changing the old ownership and management systems

In converting the original TES of collective ownership to share-holding cooperative enterprises, the assets valuation is arbitrary because of a lack of professional standards and relevant data for valuation. For example, it is very difficult to trace the original contribution to the existing assets after long years of operation, which tends to cause losses of collective assets. In order to free investors' minds of apprehensions, some TES set the principle of voluntary participation and free withdrawal. As a result, when the enterprises run into difficulties, many farmers withdraw their capital, which inevitably brings more difficulties to the enterprises. The distribution of profits is often a problem for some TES. Theoretically speaking, consideration must be given to both the development of the enterprises and the gains of investors. However, some enterprises distribute all of their net profits and fail to make necessary accumulation for further expansion

of their production. This will also do harm to the upgrading of their products.

Despite efforts to separate economic management from local government, the changes in some places have been largely superficial in regards to the aim of separating economic management from the exercise of political power. It hinders mobilization of enthusiasm of managerial personnel and farmers in the enterprises and also poses an obstacle for enterprises to go further into the market. With the change in ownership and management systems, the problems in social security systems (employment system, health care system, etc.) remain to be solved.

The prospects

The development of TES in Fujian has recently entered a new period of establishing development zones. In the past, TES used to scatter in the vast rural areas. However, there is a general trend of establishing township industrial zones (TIZs) in rural Fujian. At present there are already about one thousand TIZs with more than 3.3 hectares each. Jinjiang county took the lead in establishing TIZs and has established 164 TIZs with more than 2000 standard factory buildings. At present Quanzhou is most active in developing TIZs, about 400 TIZs have been or will be established with a total land area of 2,000 hectares. Fuzhou has established 96 TIZs with a total land area of 4,000 hectares and a total investment of 4.3 billion *yuan*.²² Nanping district in north Fujian is establishing 50 TIZs near market towns, each with a land area of more than 7 hectares. Recently, porcelains factories and wood products factories have been set up in the zones. It is expected that half of the TIZs in Nanping will be able to generate an output value of more than 100 million *yuan* each by 1997.²³

There are several merits in establishing TIZs:

²² *Fujian Qiaobao*, January 22, 1995.

²³ *Xiamen Ribao*, January 20, 1995.

- It contributes to more rational allocation of resources and environmental protection, for example, making the best use of land, especially wasteland so as to protect cultivated land. It is also conducive to co-ordination in developing infrastructure such as water, electricity, road and telecommunication. Shishi locates all printing and dyeing mills in Dabao Industrial Zone so as to unify measures to tackle the problem of environmental pollution. Due to the better allocation of various resources, the output-input ratio is generally higher in the TIZs. According to the investigation done in Licheng, Quanzhou, the investment of each *yuan* in TIZs, on an average, can generate 4.68 *yuan* of output value and 0.28 *yuan* of tax paid to the state.
- It contributes to the up-grading of TES. Fu'an in east Fujian is famous for its electrical machinery and appliances. However, most of the products were originally made with simple and crude equipments in shabby cottages or workshops. In 1993, the TES Bureau of the county decided to establish the East Fujian Electrical Machinery Industrial Zone on a piece of wasteland of 20 hectares. By the end of 1994, there had already been 64 TES with a total output value of more than 200 million *yuan*. More than 20 new and advanced products have been developed. Hongshan town on the suburbs of the Fuzhou established Hongshan Science Park in 1988 and 80 new projects have been developed so far.
- It contributes to the introduction of foreign capital and the development of outward-looking industries. Gushan town in the suburbs of Fuzhou established the Fuxing Investment Zone in 1991 and 134 foreign investment projects have been approved with a total investment of US\$ 380 million. By the end of 1994, about 100 TES with foreign investment had gone into operation. In Anhai Town, more than 150 foreign-funded TES have been set up in TIZs with a total land area of 200 hectares.
- It will contribute to the development of new towns and small cities in the rural areas. Due to the establishment of TIZs, the service sector in these areas has been greatly promoted and new towns and small cities are gradually coming into being. At the same time, they are also integral parts of nearby cities because of their close economic linkages with the surrounding areas. This trend has become evident in Jinjiang district in southern Fujian.

Another trend of development is the rapid expansion of scale of businesses. In the past, TES were generally engaged in small-scale, single-product production. However, there is now a trend of establishing large-sized comprehensive enterprises, not only producing a variety of products but also engaging in businesses in different economic sectors. At present, there are about 1,000 large-sized TES, with an annual output value of more than 10 million *yuan* each while there were only 700 in 1993.²⁴

As a result, township business groups have become a new form of management and are developing rapidly. By the end of 1993, 94 TE groups had been approved by the government and are running businesses in different regions and economic sectors. In 1994, 58 TE groups were organized, making the total of 152.²⁵ The organization of TE groups can contribute to the expansion of production, establishment of new projects, expansion of market occupation, strengthening of competitiveness, and the introduction of more capital and new technology. They are also actively cooperating with overseas business people in introducing foreign advanced technologies, developing high-tech agriculture. For example, the Liming Group of Fujian has established 15 joint ventures with foreign capital, attracted villagers' share capital, expanded export and even set up enterprises abroad. In 1992, the output value of TES of the group reached 140 million *yuan* and the

²⁴ *Fujian Qiaobao*, February 5, 1995.

²⁵ *Fujian Qiaobao*, February 5, 1995.

total export value topped to 35 million *yuan*.
It can be expected that TES in Fujian will
experience further development both in
number and scale of businesses.

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