

# **National Industrialization And Rural Democratization**

## ***The Evolution in China***

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### **I. The framework of the research on relationship between national industrialization and rural democratization**

By using empirical facts for reference, this paper attempts to establish a model of causality between national industrialization and rural democratization to explain that under the influences of traditional social structure and cultural characteristics, how rural democratization can be promoted and developed in China.

Four variables including conditional variable, causal variable (independent variable), intermediate variable and consequent variable (induced variable) are taken into consideration in this theoretical model.

#### **(1) Conditional variable**

Conditional variable is understood as development level of industries especially the second industry in China in a specific period. It is the primary and basic condition of development of industrialization.

#### **(2) Independent variable**

It includes two important factors concerned with industrialization as follows:

##### *a) Road to national industrialization*

It is understood as the types of industrialization guided by state, industrialization simultaneously guided by state and nongovernmental forces and industrialization guided by nongovernmental forces in chronological sequence. With regard to industrialization guided by state, the state (the government) itself is not only a unique force to push industrialization forward but also a direct investor to fund industrial enterprises. The money for investment comes from tax revenues of the first industry when the second industry is still undeveloped, while it comes from tax revenues of the first and the second industries while the second industry grows up. On the other hand, industrialization guided by nongovernmental forces is pushed forward due to profit-making ambitions of natural persons or corporations but not inner motive forces of industrialization itself. As business entities can make higher economic benefits and profit margins, they prefer doing investment in the second industry to doing investment in the first one. Nongovernmental investment depends on self-accumulation and capital-circulation of investors but not tax revenues.

### *b) Sources of public finance*

In order to keep governmental agencies and social management functioning, safeguard public security and national security and develop social and welfare service, the state must set up public finance system and levy taxes on industries. In China, taxpayers are mainly business units in three industries. In specific, when the second or the third industry is undeveloped, taxpayers are the peasants almost; when the second industry is dominant in industrial structure, it becomes the mainstay of public finance.

### **(3) Intermediate variable**

Here it mainly refers to necessity of state control of rural areas and control patterns. The necessity is decided by several intentions. The first is consolidation and stability of political power. The government has no other means but exerts direct control of rural affairs and restricts behaviors of rural masses so as to bear out that administrative rights are being exercised by it itself. At the same time, it has to keep social order in rural areas stable and provide public products necessary for rural masses in order to prove the rights legitimate. The second is economic sources. When industrialization guided by state is greatly reliant on agricultural tax revenues and public finance is dependent on peasants, the government definitely pays close attention to rural areas and exerts very strict control. But if both industrialization and finance are or either of the two is rarely dependent on rural areas, then the control would be moderate. The third is economic expenditures. If most of public products can be provided in a self-sufficient manner in rural areas and the state does not bear the responsibility of capital input, the government may exercise of rights to control rural areas. But if huge amount of governmental investment in rural areas is demanded, it may partially give up the control so as to evade obligations.

### **(4) Consequent variable**

Consequent variable is defined as level of rural democratization in this paper, which can be judged by two indexes. The first is election of village cadres. If the election is conducted with administrative instructions or the cadres are appointed by authorities, we take it as centralization of power. But if it is conducted in a democratic manner, we regard it as democracy. The second is decision on public affairs. It includes three types, which in specific are the decision made by village cadres who are appointed by authorities or abide by the willingness of authorities, the decision made by village cadres in an arbitrary manner and the decision made by villagers in a manner of “participating in and discussing state affairs”. We take the three as centralization of power, quasi democracy and democracy respectively.

## II. Model of causality between national industrialization and rural democratization

By gathering materials concerned and reviewing empirical facts that have happened since 1950s, the paper proposed the model of causality between national industrialization and rural democratization. (Figure 1):

**Figure 1**

| Period                                      | 1950s ~ early in 1980s                        | mid of 1980s ~ end of 1990s                                     | since 2000                             |
|---|---|---|--|
| Road to industrialization                   | guided by state                               | simultaneously guided by state and nongovernmental forces       | guided by nongovernmental forces       |
| Sources of investment in industry           | Tax revenues levied by state from agriculture | governmental finance and accumulation of nongovernmental forces | accumulation of nongovernmental forces |
| Sources of finance                          | agriculture                                   | agriculture and industry  | industry                               |
| Necessity of state control over rural areas | high  | medium  | low                                    |
| Cost on state control over rural areas      | low   | medium  | high                                   |
| Degree of rural democratization             | low   | medium  | high                                   |

The model is explained as follows:

### **The first stage (1950s ~ early in 1980s):**

In order to make the dreams of “building country with industry” and “the rising of the Chinese nation” come true, China chose a road to industrialization guided by state. The state pushed industry forward by practicing the economic planning known as “with industry as the main body and with agriculture as the basis”, and also behaved itself as a direct investor to set up industrial enterprises. As there were just a few industrial enterprises at the time and their abilities to accumulate funds and pay taxes were rather low, most of investment funds and public finance came from agricultural tax revenues. Great dependence on rural economy but few obligations of input

resulted in very strict state control. Collective ownership, unification of government functions and enterprise management and election to village cadres who were appointed by the higher authority or with the instructions of the higher level were put into practice so that they could meet the convenience of state control. The state exerted control of farming and infrastructure construction and took away taxes and grains, and rural masses were even required to have a day off to village cadres if they wanted to pay a visit to their relatives. At the time, rural areas were in a state of centralization of power, which resulted in low initiative of production and sag of rural economy.

**The second stage (mid of 1980s ~ end of 1990s):**

In order to deal with the “insufficiency of initiative and innovation” caused by planned economy and public ownership, China began to do economic reforms in 1978. Reform on contracting system in rural areas basically came to an end early in 1980s, and reform on economic system was launched in urban areas on the whole in 1984. At this stage, industrialization was guided by state and nongovernmental forces simultaneously. As time went on, the state gradually got rid of planned economy and withdrew itself from direct investment, and therefore the proportion of nongovernmental investment that was regarded as economic sectors “outside planned economy system” became higher and higher. At the time, public finance still had to depend on rural areas partially, although the state had eased off its financial pressure caused by industrial investment and reduced its dependence on rural areas. At the beginning of the reform in particular, in order to realize development of economic sectors “outside the system” and create favorable conditions for their further development, the government took measures to tap the sources of public finance within business entities “inside the system”. With regard to the control over rural areas, the government abolished the practice of the People’s Communes and the egalitarian practice of “everyone taking food from the same pot” and soon afterwards gave peasants the rights to manage production and make profits in order to motivate their initiatives. However, as it could not levy taxes on rural collectives any longer, the government had no other means but “extorted” money from peasants, which resulted in peasant resistance against government control. In addition, owing to inefficient agricultural production managed by peasants, a meager income of peasants and a high cost on product trading conducted by single peasant family in the free market, they could hardly (were not willing to) bear the responsibility of paying taxes. All these led to a kind of vicious circle: the resistance caused necessity of strict state control over rural areas---the necessity caused enlargement of government staffs at the grass-roots level---the enlargement caused heavier tax burdens on peasants---and the heavier burdens led to more intense resistance. Thus we have discovered that this

stage is the period of time that the relationship between grass-roots authorities and peasants was in a tense state. At the moment, there were two completely different opinions to deal with the situation: One was to continue and strengthen state control over rural areas including the appointment to village cadres and the decision on rural affairs, and the other was to find out new solutions to rural issues especially the issue of intense relationship between rural cadres and rural masses. One of the solutions was known as the promotion of self-government of villagers. As the first one was not effective in practice and meanwhile the central budget as well as the budgets at provincial and city levels were not as dependent on rural areas as before, the attempts to elect villagers' committee and carry out the system of villagers' self-government began in 1990s.

### **The third stage (since 2000)**

At the stage, industrialization was basically guided by nongovernmental forces. China thus became a "world factory". Not only did industrial development rarely depend on rural fund accumulation any longer, but also most of public finance (especially the finance above the city level) came from tax revenues levied on the second and the third industries. As a result, the necessity of state control over rural areas decreased. On the other hand, the intense relationship between rural cadres and rural masses emerged in 1980s and the instability of social order made rural areas become "the regions full of disputes and troubles" and resulted in an augment of the costs on state control and state management. Rapid development of industries and urban areas steeply enlarged disparities between urban and rural areas, and so there was a voice known as that "truly, peasants are going through hardships; truly, rural areas are in a state of poverty and truly, agriculture is facing crisis". At the time, the government could only have two choices: One was to innovate original systems to "revitalize rural areas" and the other was to practice transfer payment towards rural areas. As transfer payment existed interest barriers, system innovation thus became the first choice. In the prerequisite of less dependence on agricultural tax revenues, the government wished that peasants themselves could settle problems and wanted decrease the costs on management and the amount of transfer payment by means of practicing democracy and self-government. Rural democracy in China has entered into a new stage since 2000. Not only did the rate of democratic election to villagers' committee gradually go up, but also the level of villagers' and their representatives' involvement into public affairs had a notable increase.

### **III. Summary**

By having reviewed empirical facts, this paper holds that there exists the notable causality between national industrialization and rural

democratization in China. When industry was undeveloped, the government definitely took measures to strictly control rural areas due to its dependence on the areas. Along with constant improvements in the level of industrialization, the state early or late reduced its dependence on rural areas in the fields of investment funds and public finance. As the industrialization caused poverties in rural areas and the voice of peasants to eliminate disparities between urban and rural areas became louder and louder, the state determined to promote rural democratization in by means of low cost and low price at last.