Illicit Entrepreneurship in Socialist China

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History Outside of the Archives

According to historical orthodoxy, China’s “economic miracle” began in December 1978, when Deng Xiaoping pushed through liberalizing reforms that unleashed the nation’s latent entrepreneurial energies. After enduring decades of socialist stagnation, Chinese citizens were given space to produce, transact, and innovate. Sensing that change was finally possible, economic actors pushed the boundaries of what was permissible (Kelliher 1992; Knight and Song 1999). The process of reform was thus initiated by the state, but soon developed its own societal momentum. It was this momentum which would drive subsequent market-oriented reforms and generate four consecutive decades of unprecedented growth. Or so the story goes.

This narrative, while compelling, de-historicizes China’s economic development and fails to engage with the factors that drove the nation’s initial transition from a socialist to a market-oriented economy. According to social scientists, prior to Reform and Opening Up the Chinese state presided over a “cellular economy” with highly atomized production and exchange (Donnthorne 1972). At all levels of economic administration—the commune, the city, the province—administrative units were instructed to practice “self-reliance,” with the vast majority of economic transactions occurring within units rather than between them. Central planners aimed to atomize the national economy. Labor markets were abolished. Commercial markets were disbanded. And barriers to mobility and exchange, such as a household registration system, were erected between the cities and the countryside. The whole of the nation was carved into autarkic units that structured all economic activity until Deng Xiaoping’s call for structural reforms in December 1978. As the sociologist Marty Whyte put it, “in terms of the movement of people, goods, and services, China in 1978 was a less integrated economy than in 1949” (Whyte 2014: 26).

We are thus presented with something of a paradox: if the socialist economy were truly atomized as late as 1978, how is it that Chinese society, virtually overnight, was transformed into an engine of dynamic and sustained growth? Or to put it another way, if the socialist state did succeed in dominating the economic lives of its citizens for nearly three decades, from whence came China’s entrepreneurial impulse?

In this paper I will argue that there is an alternative explanation for China’s rise that resolves the tension between historical understandings of the pre- and post-reform economies. The modern Chinese economy did not spring
into existence in 1978, but rather, was the culmination of a gradual, bottom-up transformation of society. Long before China’s Reform and Opening Up, there existed a dynamic realm of activity beneath the veneer of China’s formal socialist economy. Across society innumerable entrepreneurs—from the farmer who bought and sold ration coupons, to the engineer who worked part-time in an underground factory, to the state official who helped domestic smugglers circulate goods throughout the economy—identified opportunities to profit from inefficiencies in the planned economy and, more generally, made things work. In the absence of “good institutions,” they formed adaptive networks that subsumed the ordinary functions of markets (ex. coordination, information aggregation, risk sharing, lending) and enabled the productive assemblage of capital, labor, and knowledge in an otherwise stultifying system. As these networks spread and grew they fundamentally altered the way the macro-economy functioned and thus paved the way for subsequent structural reforms. In other words, the Chinese economy led the state, not the other way around.

To explore the untold history of illicit entrepreneurship under Chinese socialism (a realm of activity that the CCP has deemed too “sensitive” for foreign and domestic scholars to research in official archives), I realized that we must seek unconventional sources through unconventional methods. Over three years of multi-sited fieldwork, I networked with communities of document merchants, from whom I procured tens of thousands of pages of materials related to underground capitalism in socialist China. While these documents include a number of high-level directives, white papers, and statistical reports, the majority are from grassroots sources, produced by county-level government agencies in the course of their everyday duties. Formerly housed in state or Party archives, these documents eventually found their way into private collections and secondhand document markets. Many escaped state control during the “great cleansing” of archives in the 1980’s, when archivists were instructed to reduce their holdings and turn decommissioned documents over to paper pulpers to recycle them. Somewhere along this chain of custody, someone decided to sell the documents to merchants who stored them in their homes, sold at flea markets, and circulated them within personal networks. And now, some of these materials have been added to my growing archive.

In the following sections, I will draw upon these unconventional sources to paint a radically different portrait of socialist economic practice in pre-reform China. As we will see, the socialist economy was far more integrated and
networked than previous scholarship suggests. Through the deep-reading of unconventional sources, I will demonstrate how entrepreneurial individuals were able to circumvent state control of the economy through the creation of illicit networks of exchange. I will then go on to explore some macro-structures of illicit activity in a single county of China, showing that illicit networks stretched across large regions of space and involved the transmission of significant quantities of goods. I hope that these findings will collectively demonstrate that socialist actors frequently engaged in acts of “productive subversion”—i.e. practices which subverted state-control of their economic lives but ultimately contributed to the development and growth of the economy—and through such acts, they reshaped the operative logic of the socialist economy.

Illicit Entrepreneurship

As a previous generation of scholars have shown, China’s formal socialist economy was built upon a regime of extraction that drew surplus from the rural countryside and used it to fuel urban industrialization. Beginning in the 1950’s, China’s “urban-rural continuum” (Skinner 1977) was cleaved in two. A household registration system divided society into the agricultural (rural) and the industrial (urban) sectors, and systems of formal rationing deterred unsanctioned movement between the two. Rural production was rapidly collectivized, and through collectives agricultural surplus was extracted from the countryside. This surplus was then transferred to urban areas where it was used to finance the building of factories and purchase of industrial machinery (Perkins 1966; Lardy 1983). Across society personal consumption was suppressed to accelerate national accumulation. All ordinary citizens were made to sacrifice for the cause of state-directed development.

However, socialist citizens were never fully complicit with the state’s domination of the economy. Across society, people society sought opportunities to circumvent formal institutions and improve their material conditions of life. Farmers commonly abandoned agricultural production to find illicit jobs in cities. Former merchants continued engaging in unlicensed commercial activities. Businessmen established underground enterprises and produced goods for sale on black markets.

Take for example the case of Mr. Huang, a retired factory worker from Jiangsu, who ran an underground tobacco smuggling network. Mr. Huang
began engaging in illicit commerce during the Great Leap Forward, as a means of providing for his family of nine. After entering into a partnership with Mr. Wang, a friend who had just been released from labor camp, Mr. Huang began buying bolts of cloth from rural production brigades, and the two men transported them to neighboring Anhui for resale (a province that suffered from severe cotton shortages). However, cloth was difficult to transport and the margins were relatively small, so in the following year, the men switched to a lighter, more profitable item: cigarettes. With the help of friends, relatives, and commissioned workers, Huang and Wang smuggled boxes of cigarettes through inspection stations and into more than a dozen towns and cities. As the investigator of the case later described, “Wherever their were cigarettes, Mr. Huang and his partner traveled there to buy them up, and wherever the supplies were tight, you would find the two illegally reselling them.” As Mr. Huang continued to scale-up the volume of his activities, he established direct relations with tobacco-producing communes, and convinced their leaders to sell him bulk orders of raw tobacco leaves (at well above state-fixed prices). With these lines of supply secured, Huang then struck a deal with a factory boss in Shanghai, who not only agreed to process the tobacco and roll it into cigarettes, but to introduce Huang to a local official who could provide him with industrial coupons for the legitimate repurchase of said items. Finally, Mr. Huang colluded with two state-employees to pack cartons of cigarettes in gunnysacks and transport them by rail waterway and rail for resale in other regions of China.¹

In my analysis of unconventional historical materials, I found that cases like that of Mr. Huang were not unusual in socialist China. At all levels of society people engaged in acts of illicit entrepreneurship and reshaped how the socialist economy functioned. In the follow sections, I will draw upon these materials to explore the roles that illicit entrepreneurship played in two specific realms of activity: the trading of ration coupons and the contracting of labor. While these were by no means the only types of illicit activity, the two examples serve to illustrate how “productive subversion” become both pervasive and networked. Most importantly will see how in the absence of competitive markets, entrepreneurs wove webs of illicit production and exchange that facilitated the movement of capital, goods, and knowledge.

¹. 镇江市《290号案件》1964年1月17日.
Trading Ration Coupons

Shortly after the founding of the People’s Republic of China in 1949, the Chinese Communist Party (CCP) enacted systems of formal rationing to control prices, restrict the movement of citizens, and “limit the commodity economy.” In 1953 a nationwide monopoly over the purchase and marketing of grain was unrolled, which required all citizens to buy grain from and sell grain to state agencies. In the following two years, the monopoly was expanded to encompass other strategic commodities such as cotton, coal, and edible oils. By the end of the Great Leap Forward in 1961, more than 150 categories of goods—not only basic commodities but also consumer products such as bicycles, watches, and sewing machines—were ‘decommoditized’ (i.e. excluded from market-exchange) and incorporated into systems formal rationing. These systems would remain in full-effect throughout the Maoist era and would continue to exist in reduced form until as late as 1993.

Formal rationing was administered through the printing and distribution of ration coupons, a type of ‘priceless securities’ (无价证券), which theoretically possessed no value and could not be legally bought, sold, or traded. In the Chinese socialist economy, coupons represented entitlements to purchase a certain amount of a specific good at a state-fixed price. When a socialist consumer went to a state-run shop, they needed to come with both coupons and money in hand. Without a ration coupon, the consumer was not entitled to make a purchase. And without the requisite amount of money, the entitlement could not be exercised. Moreover, most coupons could only be redeemed within a specified administrative area. In theory this meant that citizens were tied to their places of employment and registration; those who could not obtain local ration coupons could not purchase essential items like food and clothing.

3. There were however notable exceptions. “Military Use” (军用) coupons enabled service members to procure goods at discounted rates. “Subsidy” (补助) coupons did the same but could be used by any member of the public. “Negotiated Price” (议价) coupons enabled the purchase of a good within a variable range of prices (the range was still controlled by the state). And “Disaster Relief” (救灾) coupons could be used by the victims of earthquakes and floods for free provisioning of goods.
4. Ration coupons were printed and distributed at least three administrative levels: local, provincial, and national. Local coupons could be redeemed only within a given county, or only at a specific institution. Provincial coupons could be redeemed anywhere within a given province. And national coupons were redeemable across the entire national
However, much to the vexation of the socialist state, from the even the earliest implementation of formal rationing, coupons were “spontaneously marketized” in networks of private exchange. Across society people had to exchange coupons in order to address the maldistribution of goods in the economy. Rural families with large numbers of children, for example, received proportionally fewer rations and were thus perennially underfed. So too were many urban households that supported extended relatives or had additional members (non-local hukou holders) living with them. For these and other reasons, people swapped or sold ration coupons within their networks of friends and neighbors. Such activities were generally tolerated, so long as they remained sufficiently small-scale and localized. As an informant explained, “At that time everyone bought or sold ration coupons. For families that had extras, they were too valuable not to sell. But most people didn’t dare sell them in markets. They sold only those they knew and trusted.”

As another informant recounted, “After I began working, my family always had a few grain coupons left over each month. After two years of saving them, we sold them off to neighbors whose families didn’t have enough to eat. With the money I bought my grandmother a pair of shoes, my little brother a set of clothes, and myself a pair of pants. That was the first piece of new clothing I had owned in years.”

Beyond these everyday subversions, ration coupons were also bought, sold, and recirculated on a much larger scale by networks of differentiated specialists. One type of specialist were ration coupon traders who traveled around buying up coupons from individual households or workers’ cooperatives. To disguise their activities from the state, these traders would often pose as itinerant sugar merchants or sometimes as beggars, and would keep their stashes of coupons well-hidden. For example, one team of traders that bought ration coupons from visitors to a local farmers’ market hid their cache of coupons inside of metal containers suspended by cords over the bottom of a public latrine. Eventually, traders either swapped the coupons they pur-

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5. Interview with Former Urban Worker, Shenyang, Liaoning: November 18th, 2017.
7. Though state prosecutors claimed that coupon traders were disguising themselves as beggars and merchants, it is equally possible that the said individuals were in fact beggars and merchants who were trading ration coupons on the side. See 浙江省政府志编纂委员会编. 浙江省政府志下. 2014, 738.
8. Case No. 859, 淳安县市管会《1972 年的违章案件登记表》
chased with traders from other regions, exchanged them for commodities, or resold them to a second type of specialist, wholesale brokers.9

Wholesale brokers were individuals who procured large quantities of coupons used them to engage in spatial and temporal arbitrage. In addition to buying in bulk from traders, some brokers also colluded with government institutions to acquire ration coupons directly from the source. For example, brokers sometimes commissioned the employees of state grain stations to collect national and provincial-level coupons (i.e. those with the broadest area of redemption), replace them with local coupons, and resell them to brokers at a premium.10 After building up sufficient inventories, brokers made inquiries through their personal networks, often via telegrams or written letters, to identify where and when coupons would fetch the highest prices. Most of the time, this simply involved moving coupons from one city to another within their specified area of redemption (i.e. provincial-level coupons circulated within a given province, while prefectural-level were moved within the boundaries of a prefecture). However, sometimes brokers also made speculative bets on the future value of coupons by hoarding them and waiting for periods of increased demand (e.g. the winter months when consumer demand pushed up the price of food in black markets).

To recirculate coupons from areas of lower to higher value, brokers devised strategies to smuggle them across administrative boundaries. Some wrapped bundles of coupons in protective plastic and, armed with little more than a shoulder-pole and a lantern, secreted them between cities by the dark of night. Others moved coupons by day, hiding them amongst other types of goods; for example, one broker-smuggler was discovered with a cart-full of cabbages that had been individually hollowed out and stuffed full of grain coupons.11 Some brokers also mailed coupons to through the post by hiding them in the secret compartments of shipping container,12 or directly colluded with officials at the postal office to illegally ship and receive large quantities of coupons by mail.13 Finally, brokers also commissioned ordinary people to

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9. Coupon-swapping generally occurred between two regions that had a high volume of illicit traffic flowing between them. For example, coupon traders in Wenzhou might swap coupons with traders from Shanghai to resell coupons to Wenzhou merchants and businessmen who wished to travel to Shanghai to engage in illicit business.

10. Interview with Former Grain Station Employee, Cixi, Zhejiang, 2016.07.20.


12. Case No. 929, 淳安县市管会《1972年的违章案件登记表》

13. Case No. 817, 淳安县市管会《1972年的违章案件登记表》
hide bundles of ration coupons inside of sacks of flour or sugar and smuggle them across county-lines when visiting friends or relatives.\textsuperscript{14}

Once in their place of resale, most ration coupons were distributed by a third class of specialists, coupon runners. Runners were generally young men who were well-connected within a given local community. The received bundles of coupons from wholesale brokers, often on credit, and peddled them off to innumerable individual buyers. Sometimes runners also resold coupons in larger numbers to the managers of factories that employed illicit rural labor, or to “black guesthouses,” which maintained stocks of coupons for guests engaging in unsanctioned business and travel.\textsuperscript{15} The following excerpt from the self-confession of one ration coupon runner perfectly illustrates the dynamics of how such activities were carried out:

“I began trading ‘priceless securities’ in April of 1963. At first I couldn’t earn any money [buying and selling ration coupons] on my own. But then I connected with a man from Hankou, by the name of Qin. At that time the river inspection station leading to Hankou was loosely managed. So I was able to spin a tale [to get him allowed through], and escort him to Pingzheng Bridge to make the deal. I didn’t have any capital at that time, so he ‘kicked the ball’ to me (i.e. gave product on credit), giving me 600 jin worth of grain coupons. I took the coupons and sold them off to Hong Zhiyuan, Second Brother, Two-Tongue, Water Dog, Old He and some other friends. By buying coupons at 0.58 yuan per jin and selling at 0.60, I earned my first profit of 12 yuan.

The following month I received a guest from Heilongjiang, a broker by the name of Old Wang. Three friends and I met him at a park where we made the exchange. He gave us 400 jin of grain coupons to sell. Two months later he returned again, and we ‘kicked’ another 500 jin in coupons. But then the rumors [about our activities] spread too widely, so we asked him to leave town.

\textsuperscript{14} This practice (not dissimilar to later practice of commissioning travelers to bring back foreign goods from Hong Kong) was particularly difficult to suppress, as smugglers could be anyone, and the sheer volume of authorized travelers overwhelmed the state’s capacity for inspections. Case No. 48, Chun’An City, Zhejiang, 淳安市管会《1967-1968违章案件登记》December 1967.

\textsuperscript{15} Case No. 146, Chun’An City, Zhejiang, 淳安市管会《1967-1968违章案件登记》July 1968.
Fifteen days later he was back, and he wanted me and my friends to help sell another 500 jin in coupons. So we went out to ‘kick’ again. How could we know that the Public Security Bureau was waiting to catch us?“

Collectively, the activities of coupon traders, brokers, and runners created an intersubjective basis of valuation for ration coupons. At every point of exchange within illicit networks, entrepreneurs generated revenue from the transnational spread (i.e. the difference between the purchase and sale prices of their coupons). Therefore, in order to achieve profit, they had to accurately estimate the price which a future customer (who might also be another intermediary actor within the network) would willing to pay, as well as the degree of political and financial risk that their activities would incur. Brokers, for example, needed to assess the risk of colluding with state actors (any of whom might report them to the relevant authorities), as well as the risk of shipments of coupons being seized while in transit across administrative borders. Similarly, when dealing with runners on credit, brokers had to assess the probability that runners would abscond with their coupons or would be apprehended in the course of making their sales. All of these variables entered into calculations of acceptable margins, and these decisions ultimately shaped the final exchange-value of coupons. The so-called “priceless securities” were thus assigned value at every stage of their transmission through illicit networks.

**Contracting Informal Labor**

As part of China’s ‘socialist transformation’, the allocation of labor was also brought state control. To more effectively direct rural production and extract resources from the countryside, the CCP collectivized rural society. Between 1952 and 1954, rural families were organized into “mutual aid teams” and “elementary agricultural cooperatives,” entities that pooled together individual resources and labor and coordinated them through unified management. Then in 1958, when Mao unveiled his Utopian scheme to “Leap Forward,” rural labor was further centralized, with China’s 750,000 collective farms being forcibly reorganized into 24,000 People’s Communes. The rural population was thus rooted to the land and locked into low-income agricultural production. In contrast, urban workers (especially state employees) occupied

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16. 镇江市工商行政管理局 “第 233 号案件” 江苏省镇江市 1964 年 4 月。
a privileged position in society, commanding higher wages and an array of social benefits (known colloquially as “iron rice bowls”). For this reason, formal urban employment was strictly controlled by the Labor Bureau, which set wages and exercised a virtual monopoly over the allocation of jobs. As Whyte (1988: 14) argued, of all the features of the Maoist planned economy, the allocation of labor was “by far the furthest from the market mechanism.”

Socialist citizens, particularly agricultural laborers, railed against the apparent inequity of this system and many subverted it by turning to informal labor markets. Like the trading of ration coupons, illicit contract labor occurred on both micro and macro scales. At the micro-scale local artisans hired-out their services to people within the community, or even went from village to village marketing their skills. Itinerant doctors, for example, traveled the countryside, their leather bags filled with plasters, poultices, and medical herbs.17 Traveling dentists, who made their presence known with portable gongs, took plaster molds of people’s mouths and created dentures for missing teeth.18 Urban engineers and skilled technicians, who were employed in their regular jobs throughout the week, sometimes hired themselves out on weekends to underground factories (and so earned the namesake of “Sunday Engineers”). There were even a handful of photographers who traveled around with camera, film, and developing fluid (very valuable items in Maoist China), taking pictures for paying clients.19 As one villager in northern China recounted, “The carpenters and masons were the most fortunate of all of us. Those tradesmen had skills that everyone needed. They would go around and do things for all of their friends and neighbors, who gave them cigarettes and alcohol and other valuable things in return. At that time, if you needed to build a kang (a heated bed) or a kitchen stove, then you had to befriend a mason and pay them a month’s wages.”20

At a more macro-scale, large groups of rural laborers, often numbering the dozens, were recruited from the countryside to work for urban enterprises. As the Chinese socialist state extracted rural surplus and channeled it into the development of urban industry, new factories and workshops continued to spring up in cities and compete for the limited quantity of resources in

state networks. However, because of government restrictions on urban employment and rigidly enforced wages controls, enterprises were often unable to expand their formal workforce in-step with rising production demands. Many therefore opted to circumvent the planned system by hiring teams of ‘underground contract laborers’ (地下包工队) managed by “black contractors” (黑包头).

Black contractors were informal market-makers who helped match latent rural labor with unserviced demand. In the absence of formal labor markets, contractors assembled teams of workers (oftentimes people from their native village) through networks of personal relations, and then negotiated informal contracts with employers on their behalf. Most contracts involved routine types of manual labor over fixed periods. Food processing facilities, for instance, hired additional hands following the harvest to help offload trucks of fresh produce. However, there were also contracts for specialized jobs which required specific knowledge and skills. For example, in 1977 the Changtan Commune in Hubei Province hired the services of a black contractor from Zhejiang to dig an underground tunnel to a reservoir. The contractor hired an engineer to plan the project and team of 37 laborers to carry out the dangerous work. For three months of labor, the team was paid over 27,000 yuan in wages (i.e. 243 RMB per person per month). When the project was successfully completed ahead of schedule, the contractor was rewarded with gifts of fine cloth and wrist watches.\(^{21}\)

In addition to recruiting workers and negotiating contracts, black contractors facilitated the flow of labor across administrative boundaries. One way contractors did so was by acquiring the necessary documentation for work and travel. While some contractors received documents through administrative channels, bribing officials to recognize workers and approve jobs, most turned to black-market actors such as illicit artisans who hand-carved replicas of official seals.\(^{22}\) For instance, one contractor who managed a team of more 70 workers from Henan, Hubei, and Anhui, commissioned the forgery of a prefecture-government seal, which he then used to establish a formal construction workers’ collective and generate contracts for construction work for state-owned enterprises.\(^{23}\) Another way contractors helped mobilize labor

\(^{21}\) 钟祥市工商行政管理局编《钟祥市工商行政管理志》1998, 209 页。
\(^{22}\) 胡承运和黄石市工商行政管理志编纂委员会《黄石市工商行政管理志 1949-1985》第77 页。
\(^{23}\) 胡承运和黄石市工商行政管理志编纂委员会《黄石市工商行政管理志 1949-1985》第77 页。
was by securing food and shelter for their teams of workers. Labor contractors frequently networked with ration coupon brokers, purchasing large quantities of grain and cloth rations, which they resold to their laborers (oftentimes at a small profit). Similarly, contractors negotiated with the owners of underground guesthouses and private dwellings to house workers for the duration of their contracts. For all of their services, contractors typically charged a ten to twenty percent “management fee” on team earnings, while the rest of the funds were distributed among laborers as wages.

In addition to those dealing in construction and factory work, there were also contract labor teams that specialized in logistics. In the socialist economy where “long-distance trade” (长途贩运) was severely restricted, teams of what were essentially domestic smugglers helped circulate goods across administrative boundaries. For example, in one case Ms. Jiao, the boss of an “underground transportation team” (地下运输队), created a web of logistical networks that stretched from Henan, to Jiangsu, to Shandong, Hebei, and Sichuan (a combined area roughly twice the size of Texas). With a team of 86 Henanese workers Ms. Jiao helped both licit and illicit enterprises ship goods to and from other regions of China. To do so, Ms. Jiao doled out bribes to various transportation officials, including bicycles, wood, foodstuffs, and watches, in order to allow her team to move shipments of goods past inspection stations. The venture proved so successful that Ms. Jiao’s underground team grew and divided into three regional unit, all under her command. As government officials reported, domestic smugglers were actively “bribing officials, buying the loyalty of state employees, and forging identification papers” to extend their trade networks and recirculate goods in the economy.

For many urban enterprises, the advantages of hiring informal rural labor often outweighed the risks. First, as a result of the state’s policy of transferring rural surplus to the cities, rural wages were artificially deflated. Rural workers could often be hired at lower costs than their urban counterparts (especially when social benefits were taken into account) and still earn incomes well in excess of those of agricultural laborers. Second, informal labor offered a degree of flexibility that formal labor could not. In an environment of systemic scarcity, factories managers needed to adjust production according to

24. 河南省新乡市工商行政管理局编《河南省新乡市工商行政管理志 1506-1985》1986, 246 页。
25. 河南省新乡市工商行政管理局编《河南省新乡市工商行政管理志 1506-1985》1986, 240 页。
actual (rather than projected or planned) acquisition of materials. By hiring temporary informal laborers in times of plenty, and reducing the workforce in periods of dearth, managers could run their enterprises more efficiently and generate greater profits. Third, and perhaps most importantly, the incentives of informal laborers were well-aligned with the immediate economic interests of the enterprise. Informal labor contracts were negotiated on the basis of the perceived risk and reward of a given entrepreneurial opportunity.

Despite the efforts of the state to arrest black contractors and break up underground labor networks, these networks continued to grow and reallocate labor in the socialist economy. In 1973 a single county under the administration of Wuhan expelled 3334 non-local workers.\(^{26}\) Between 1973 and 1975, Lingquan County, Guangxi, captured and expelled more than 7,500 “wild horse” (i.e. illicitly contracted) workers.\(^{27}\) In 1975 an investigation in Huangshi, Hubei uncovered 148 underground labor teams operating in the city, which collectively employed 6478 non-local workers.\(^{28}\) In 1978 in Jingmen County, Hubei, the Department of Industry and Commerce “cleaned up” 221 contract labor teams, returned 3288 local residents to agricultural production, and forcibly repatriated 1989 “floating people” to their places of origin.\(^{29}\) Indeed, the intractability of contract labor networks eventually led some governments to simply formalize them. After a series unsuccessful campaigns to disband underground labor organizations, in October 1976 the municipal Bureau of Industry and Commerce in Huangshi, Hubei opted to “clean up and register the teams”; in total some 225 contract labor teams employing over ten thousand workers were formally registered in the city, including 83 transportation teams, 108 construction teams, and 34 odd-job teams.\(^{30}\)

\(^{26}\) 新洲县志编纂委员会《新洲县志》p. 520.
\(^{27}\) 廖江《灵川县志》1997, 540 页。
\(^{28}\) 胡承运和黄石市工商行政管理志编纂委员会《黄石市工商行政管理志 1949-1985》第 77 页。
\(^{29}\) 荆门市工商行政管理志编纂委员会编《荆门市工商行政管理志 1954-2007》2011, p. 205。
\(^{30}\) 胡承运和黄石市工商行政管理志编纂委员会《黄石市工商行政管理志 1949-1985》第 77 页。
Macro-Economic Analysis

Two years ago, while visiting a flea market in the city of Yiwu, I came across a couple of interesting documents related to the illicit economy in socialist China. The documents were registers of individual cases of prosecuted capitalists from the nearby county of Chun’an. When I inquired of the seller, “Do you have any similar materials for sale?”, he told me that the registers were part of a much larger set of materials that he had previously purchased from archivist and had stored back home. The following week I purchased the seller’s entire collection, which included thousands of individual cases of illicit economic activity from a single county, spanning nearly two decades. In the following sections I will draw upon this exceptionally complete collection of documents to explore the macro-structure of illicit activity in socialist era Chun’an, a lake county in the heart of Zhejiang.

Modern Chun’an County, one of the thirteen administrations of present-day Hangzhou Prefecture, was formed in 1958, as part of the PRC’s first major hydroelectric engineering project, the Xin’an River Dam. Once a place of mountain valleys and ancient market-towns, Old Chun’an and the adjacent county of Suian were partially inundated by the newly formed Lake of a Thousand Islands. The two counties were merged to form a new county, Chun’an, which included a population of roughly 450,000 residents and encompassed the total area of the man-made lake. The area of Chun’an enjoyed a long history of commerce and entrepreneurship. Situated at the crossroads of traditional trade networks, Chun’an was a hub that connected the more affluent cities of Hangzhou to the east, Jinhua to the south, and Huangshan to the North. Prior to the building of the dam, 1,600 registered companies based in Old Chun’an circulated teas, oils, wood, paper, bamboo, and other important commodities throughout the region. And, as we will see, even after the creation of the lake and the socialist transformation of the national economy in the late 1950’s, the people of Chun’an continued to practice widespread commerce.

To explore the macro-structure of illicit economic activity in Chun’an during China’s socialist era, I have manually compiled a dataset based on information contained within the aforementioned collection of historical materials. The database consists of 2158 individual “speculation and profi-
teering” cases that were prosecuted by Chun’an County’s Bureau of Industry and Commerce (工商行政管理局) and the Office of Attacking Speculation and Profiteering (打击投机倒把办公室) between the years of 1964 and 1983. Each case involves one or more individuals who were accused of various types of economic crimes such as buying and selling ration coupons (贩卖票证), carrying out long-distance commerce (长途贩运), or engaging in underground production (地下生产). By rendering cases into sets of quantitative data and viewing this data at a distance, we are able to detect patterns in the illicit economy that we would otherwise be unable to observe through deep-readings of individual cases.

The database is a structured as a relational database, with different types of data spread across four different tables that are all “related” to one another through unique case IDs. The first table provides information for every “speculation and profiteering case” (投机倒把案件), including the case date, the nature of the prosecuted activity, whether or not the case involved collusive networks, and the total value of goods and currency seized as a result of the related investigation. The second table concerns the individuals that were the subjects of each case and includes basic demographic information such as gender, age, class background, and household registration status. The third table contains information about the type, quantity, and value of goods seized in each case. And finally, the fourth table describes illicit network connections between different administrative regions.

It is important to note that these cases are not perfectly representative of Chun’an’s illicit economy as a whole, but are rather recorded instances of failure. The most successful entrepreneurs were those who were never apprehended by state agencies, ergo people for whom no such written record exists. Moreover, even where “economic crimes” were formally prosecuted, it was always in the interest of an arrested individual to conceal as much as possible; the less was uncovered, the lighter their sentence and fines. Therefore, the source materials do not reflect the full scope of illicit activities that took place. However, despite these intrinsic limitations, the dataset represents the most detailed and comprehensive collection of longitudinal data on illicit economic activity currently available. While it may be impossible to estimate the exact size or scale of China’s illicit economy based on this dataset, as we will see in the following section, the data at least demonstrates that

Optical Character Recognition tools, the entire database was entered into digital forms by hand and rechecked for errors.
illicit activities were pervasive, wide-ranging, and involved large quantities of goods.

**Preliminary Data Analysis**

First, the dataset enables us to explore some of the basic demographics of illicit entrepreneurship. For example, the data tells us that prosecuted entrepreneurs were generally quite young, with a mean age of 34. This makes good sense given that many types of illicit economic activities involved physically demanding tasks such as smuggling goods across borders by hand. We also find that the majority of entrepreneurs were rural citizens. If we analyze the composition of prosecuted individual based on their reported class background (Table 1), we find that 91.35 percent had rural residency. Again, this follows reason, as disprivileged rural citizens were most strongly incentivized to seek out income-generating opportunities in the informal sector. Finally, we learn that the overwhelming majority (96 percent) of prosecuted entrepreneurs were male. While this skewed ratio indicates that there were far more men operating in the illicit economy than women, it also reflects the fact that female entrepreneurs were more difficult to prosecute.\(^{34}\)

<table>
<thead>
<tr>
<th>Class Status</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor Peasant (貧農)</td>
<td>656</td>
<td>70.09</td>
</tr>
<tr>
<td>Middle Peasant (中農)</td>
<td>177</td>
<td>18.91</td>
</tr>
<tr>
<td>Rich Peasant (富農)</td>
<td>6</td>
<td>0.64</td>
</tr>
<tr>
<td>Landlord (地主)</td>
<td>16</td>
<td>1.71</td>
</tr>
<tr>
<td>Commoners (平民)</td>
<td>81</td>
<td>8.65</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>936</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Beyond the demographic features of entrepreneurs, the dataset also reveals something about the scale of illicit economic activities. Figure 1 presents

\(^{34}\) As one former inspection officer said in an interview, “Women would often smuggle illicit goods by hiding them within their undergarments. Even if we knew this to be the case, we couldn’t do anything about it, as the male officers were not allowed to do full body searches on women. It was only [in the early 1980’s] that our office finally hired a couple of women officers to carry out these searches.” From Interview with Former DaBan Officer, Cixi, Zhejiang, 2017.08.28.
the distribution of cases by total value, where value is defined as the calculated value of all goods and money seized in a given case (based on state list prices). As we can see the data-set has a long right tail, with half of the data points falling to the right of the median value of 53 RMB (represented by the dotted line). There are also a number of outlying cases (4 percent of total) that have values in excess of 1000 RMB and are not represented in the figure. If we further divide cases into “networked” cases (those that reportedly involved networks of three or more individuals or larger state institutions) and those that did not, we find that the calculated value of the former (median $= 100.14$ RMB, trimmed mean $= 222.13$ RMB) was roughly twice that of the latter (median $= 46.20$ RMB, trimmed mean $= 100.89$ RMB).

Figure 1: Distribution of Cases by Value (RMB)

Because values were calculated using the state-mandated prices rather than the market prices of goods, they exhibit a strong downwards bias. For
goods that could be licitly traded in markets, market prices were generally 30 percent or higher than the state list prices. The black-market prices of the same goods were even higher still (often twice as high as state list prices). But more importantly than these discrepancies, certain types of goods, such as grain and ration coupons, were wholly excluded from value calculations. Take for example, Case No. 0014, which involved the arrest of a traveling coupon trader and the seizure of a total of 47.9 chi of cloth ration coupons and 30.22 RMB in cash. The calculated value of the goods in the case was 30.22 RMB, based on the official fiction that “priceless securities” such as cloth rations were valueless. However, at the time, cloth rations commanded a purchasing price of around 0.5 RMB per chi illicit. Therefore the actual total value of the case was closer to 55 RMB, or 55 percent greater than the reported value.

To put these values in perspective, we can compare them with the figures for annual consumption per capita presented in Figure 2. As we can see, throughout the socialist period (1949-1978) rural consumption grew at a particularly slow rate, never exceeding 150 RMB per capita for the entire era. The median case which involved the seizure of 53 RMB of goods represented at least four months of income for a rural worker and more than two months of income for an urban citizen. If we attempt to estimate the market value of seized goods (which conservatively was at least 50 percent higher than the official stated value), then we can conclude that the goods in each case represented at least half a year’s income for rural workers and a quarter of a year’s income for urban residents.

The dataset also provides insight into the spatial scope of illicit economic activities. Figure 3 visualizes the spatial distribution of network connections aggregated to the prefectural level. Interestingly, the greatest density of connections to and from Chun’an are not with other counties in Hangzhou Prefecture (visualized on the map in lime green), but with the adjacent prefecture of Jinhua (visualized in yellow). Similarly, at a larger scale, the macro-spatial configuration of networks in no way conforms to provincial boundaries. As we can see in the magnified area of Figure 3, the cluster of network connections around Hangzhou prefecture transitions smoothly into the adjacent provinces of Anhui and Jiangxi and even extends as far as Hubei and Jiangsu. There are also a number of more distal connections with prefectures outside of this core cluster, stretching to places as far away as Sichuan

and Heilongjiang. It appears that illicit networks were not overly constrained by administrative boundaries.

What then determined the spatial configuration of illicit networks? A clue is provided by a handful of cases that mention how goods were transported across administrative boundaries. While distal connections depended upon rail transport, within the core cluster, goods were often moved by shoulder-pole and by boat. This suggests that the physical landscape might have been a primary determinant of the spatial scope of networks. Indeed, upon further investigation, we find that the network configuration maps onto the network of rivers that form the Yangzi River drainage basin. If we compare Figure 3 with the map presented in Figure 4, we can see that Chun’an’s core cluster of illicit networks corresponds closely to William Skinner’s (1978)
classic delineation of the Lower Yangzi physiographical macroregion. From this evidence, we might reasonably conclude that illicit economic activity was shaped more by topographic features rather than administrative boundaries.
Figure 4: William Skinner’s Physiographic Macroregions

Conclusion: A Networked Economy

In this exploration of socialist economic practice through unconventional sources, we find that China’s pre-reform economy was not as atomized as previous scholarly accounts suggest. While systems of formal rationing, household registration, and allocated employment were explicitly designed to divide and control society, socialist entrepreneurs devised an array of strategies to circumvent these formal institutions and engage in acts of “productive subversion.” Over time, entrepreneurs wove webs of interpersonal relations with other actors in the economy that enabled them to increase the scale and scope of their activities. In the absence of competitive markets, these adaptive networks created critical linkages between units of the fragmented formal economy.

As analysis of a dataset of prosecuted capitalist activities reveals, illicit economic activity had scale. The mean entrepreneur prosecuted by state agencies was not a farmer selling a few handicrafts and agricultural products in informal markets; rather, it was specialized trader who bought and sold quantities of goods whose value represented months of wages for the mean worker. Moreover, illicit activities did not just occur between towns and their immediate surrounding villages; they were carried out across large macro-regions, similar to those that defined the pre-modern Chinese economy.

While the CCP branded illicit networks as a fundamental threat socialism—accusing them of enabling tax evasion, lowering the quality of goods and services, and disordering the planned distribution of labor and resources—the available evidence suggests that these networks also played highly productive roles in China’s economic development. Ration coupon networks recirculated purchasing entitlements within the socialist economy, better matching resources with the people who valued them most. Coupon networks also created an inter-subjective basis of value for coupons, transforming them into a money-like medium of exchange. Underground labor networks created channels for the flow of skills and knowledge in the socialist economy that brought together different domains of knowledge and productive capabilities. At the same time, labor networks helped resolve some of the under-utilization of rural labor, by enabling agricultural workers to identify more productive and profitable forms of employments.

Collectively, illicit networks increased interconnectivity in the socialist economy and created a small, yet fertile space for innovation. Within these networks entrepreneurs created productive assemblages of labor, capital, and
knowledge that mitigated some of inefficiencies in planned systems. More importantly though, they enabled the forging of economic relationships and accumulation of entrepreneurial experience prior to China’s structural reforms. When Reform and Opening Up did finally arrive in December 1978, networks of socialist entrepreneurs were already well positioned to take off.
References


versity Press.


